World Food Security And International Organisations: The Case Of International Grain Reserves

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Abstract

The seemingly insurmountable commercial and political difficulties in establishing order in the international grain trade have plagued policy-makers throughout history. The suspension of international agreement on the rules of orderly marketing in the late 1960's and early 1970's, has resulted in extreme price and supply volatility. Many national and international initiatives have been instituted in an attempt to minimise the damaging effects of extreme price and supply fluctuationa.The purpose of this thesis is to assess the nature of grain as an internationally traded commodity, and the effectiveness of national and international options which have been adopted in order to achieve these dual objectives. The study shows that the biological nature of the commodity has precluded reliable production estimates and has demanded exceptionality in the treatment of grain in the context of more general economic planning. The major grain exporters, the United States, Canada, Australia, Argentina and the European Union have attempted to protect their domestic producer, consumer and corporate interests as well as their international markets through a host of national and international policies.

I will specifically examine in detail a particular proposal for the establishment of international grain reserves tabled by the United States through the FAO at the World Food Conference of 1974. The politics and technical questions relating to that proposal will be discussed and new information will be revealed as to the nature of the negotiations and the cause of the breakdown of the negotiations when agreement seemed near. A synthesis of new material regarding the grain reserve negotiations and private interviews conducted by principals to the negotiatiions will reveal that the negotiations were not abandoned as a result of technical barriers, but rather to serve the political and market imperatives of some exporters.

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To:

Steven and Mark

My mother Katherine Sage

and in loving memory of

Nona Rybas

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Chapter 1

Introduction

In February 1996, the *Financial Times* reported that growth in demand was affecting prices of what people eat, "especially for those in countries exposed to the free market". Prices for foodstuffs, it reported, had been soaring for many months, and some grades of wheat had risen in price by over 70% in a few months. Because United States and EU policies were curbed at reducing output and stocks, the result was that their farmers could not respond quickly to the "sudden tilt" in the supply/demand balance.

Prices thus "rose relentlessly to coax evey bushel of wheat out of storage." World wheat stocks, it was claimed, amounted to less than fifty days, a level that was regarded as a crisis in earlier times. The EU's 30 million tonne of stocks of grain, "a mountain, scattered through hundreds of warehouses," *The Independent* declared, had dwindled to a "foothill". Indeed, world wheat stocks fell in the spring of 1996 to the lowest level in 25 years, a level that triggered a world food crisis and an attempt by the international community to assure food security not only for the Developed West but for those Developing Countries that were dangerously "exposed to the free market."[1.1]

In the late 1960's and early 1970's, the postwar grain trade regime broke down, especially after the suspension in 1968 of the economic provisions of the International Wheat Agreement. This suspension was followed two years later by the decision by the United States, the major exporter and dominant actor in the international grain trade, to relinquish its role as stockholder of the last resort with respect to both commercial and concessional transactions. Following the suspension of the Agreement and the American refusal to act as the stockholder of the last resort, a period of extreme price and supply volatility ensued. Shortage of supply and rapidly escalating prices were characteristic of the 1970's while the 1980's were dominated by burdensome surpluses, "mountains of grain", low prices, and ever-increasing government subsidy to producers. This thesis focusses upon those decades beginning with

[1.1] *Financial Times*, 11 Feb. 1996; and *The Independent*, 12 Feb. 1996.

the attempt to come to terms with instability through an international commodity agreement in the 1970's and through a blend of free market policies and increasing domestic subsidisation in the 1980's. The thesis will end before the conclusion of the Uruguay Round in the 1990's and the formation of the World Trade Organisation, but the legacy of the earlier experience endures and, as the *Financial Times* suggested in February 1996, the past has echoes in the present.

This thesis brings forward new information relating to international food security which once again is attracting urgent attention. Previously unpublished and, to a significant extent, unobtainable documents have been presented here. This includes a complete collection of documents relating to the negotiations for the establishment of an international grain reserve under the auspices of the International Wheat Council and UNCTAD. These documents were released to the author for the purpose of this study after having been closed following the abandonment of the negotiations in February 1979. This collection includes all notes and documents produced by the International Committee (International Wheat Council) and later the Preparatory Committee (IWC) from 1974–1978. It also includes the UNCTAD conference papers which served as a basis for the negotiations in 1978 and 1979. In addition, having obtained security clearance, I was given access to closed, secret files relating to commercial wheat transactions and international negotiations from 1960–1985 by the Canadian Department of External Affairs which has provided the basis for the analysis of political and negotiating behaviour. Comprehensive archival research was conducted at the FAO, the U.S. National Archives and the International Food Policy Research Institute in Washington. Finally, a highly significant collection of documents assembled by the late American researcher Berton Hennignson became available to me. These provided unique and crucial information on U.S. policy in the 1930's and 1940's, when, as in other areas, U.S. influence was paramount and growing. This collection also provides a comprehensive view of the debate regarding the exceptionality of agriculture in the context of post-war economic planning. All such documentary evidence was supplemented by a wide range of interview material including the former U.S. Secretary of Agriculture, Robert Bergland and Under Secretary, Dale Hathaway.

This thesis will specifically examine in detail a particular proposal for the establishment of an international grain reserve. This proposal was put forward by the United States through the FAO at the World Food Conference in Rome in 1974. The background, the politics, and the character of that proposal will be examined. The reasons for its appearance, the long debate surrounding its merits, and the failure to realise its promise are the central topics of this thesis. To understand that debate it is necessary to consider the salient aspects of the international grain trade. To that end, the thesis will begin with a consideration of the nature of the commodity. Grain is thinly-traded; that is, most of the world's grain is produced for sale locally. Nevertheless, the proportion of the world's grain that is traded greatly influences the price of the commodity. Grain's biological characteristics are also significant. Pests or droughts can have drastic effects upon crops and, of course, upon prices. Finally, demand tends to be inelastic unlike other commodities such as tobacco or cocoa which can be substituted or abandoned. Typically, demand for grain remains relatively constant.

This thesis does not propose to make a significant contribution to regime theory. It should be noted, however, that prior to 1970, the literature on regimes tended generally to accept the existence of an international food regime. Since that time, in the case of food, the apparent presence of articulatory mechanisms and a hegemonic actor, the United States, seems to accord with the work of Krasner's widely-accepted summary definition of a regime as something upon which preferences, values, norms and expectations converge.[1.2] Nevertheless, it is wise to record Young's caveat that "regimes are human artifacts," that convergence of expectations, particularly in the case of new or perhaps even revised institutional arrangements "will often be slow in coming," and that regimes cannot be seen merely as an array of formal elements.[1.3] It is precisely the human and informal elements which become manifest as domestic pressures, that have made food regimes less effective in the last decades of the twentieth century. This thesis will argue that developing nations are the

[1.2]See Stephen Krasner, ed., *International Regimes* (Ithaca: Cornell Univ. Press, 1983), p.2; also R.O. Keohane, *International Institutions and State Power* (Boulder: Westview, 1989), ch.4.

[1.3]O.R. Young, *International Cooperation: Building Regimes for Natural Resources and the Environment*, (Ithaca: Cornell Univ. Press, 1989), pp.82–83.

least well-served — even in the midst of an extended international food crisis. This thesis will support Krasner's argument that there have been and are "fundamental differences in the international regime preferences of the North and the South."[1.4] In fact, the evidence presented in the following chapters suggests that the "international food regime" has been a regime which was constantly renegotiated. Institutional articulation has often been weakened by protracted pauses in the process of negotiation, and hegemonic actors often fall prey to human and domestic pressures.

In this thesis, the instability of grain production and the uncertainties of the international grain trade are central. It is this uncertainty that has provided the impetus and the rationale for the numerous national and international policies and programmes that have been developed in an attempt to stabilise the international grain trade. Following the discussion of the nature of the commodity and an overview over the complex network of government actors, transnational corporations and international organisations that comprise the international food system which occur in chapters two and three, the thesis examines the role of national actors, notably the major grain traders. There are five exporting national actors, although the term is somewhat confusing since one of the five major exporters is the EU. In examining the United States, Canada, Argentina, Australia, and the E.U., one sees that there are four major influences: producer interests; consumer interests; commercial interests; and national security or foreign policy objectives.

In each country, the influence of these factors will be seen to have changed over time. Changes in government policy will be assessed in terms of what the publicly-expressed goals of the government are with the establishment of each new policy and what domestic and foreign policy interests are reflected in the policy formulation. These policy developments will be seen in light of the prevailing political, social and economic climate in which they occurred. These policy developments which reflect the state of domestic and international markets will be assessed in terms of how effective they were in achieving their stated objectives. The role of importing nations will be presented only in terms of how their policies

[1.4] Stephen Krasner, *Structural Conflict: The Third World Against Global Liberalism*, (Berkely: Univ. of California Press, 1985), p.271.

have affected the domestic policies of the exporting nations in these chapters on national actors.

The United States, the subject of chapter 4, has been the hegemonic actor throughout the past century. Its significance merits a separate chapter. Moreover, its influence derives not only from its dominant role as an exporter but also from its dominance in other economic and security areas. Nevertheless, other actors have played imporant roles as well. It was Argentina that undermined a wheat agreement of the 1930's, and Canada produced wheat in sufficient quality and quantity to influence markets profoundly at certain points. Indeed, for much of the century the American–Canadian duopoly seemed dominant within the wheat export trade.

Chapter six discusses how Canada and the United States were central to the creation of International Wheat Agreements between the 1930's and the 1960's. It will be seen that the stabilisation policies of member nations and the effects of these policies on the international trade in wheat are absolutely crucial. The failure of national policies alone to control satisfactorily the problems inherent in the intenational grain trade resulted in an almost continual search for cooperation and, at some points, cartelisation. The fact that there are few large exporters of grain and that grain can be stockpiled has meant that international commodity agreements are a greater possibility than with other commodities. A recent study of international commodity agreements by Marcelo Raffaelli points out that there are three types of agreements: buffer stock schemes; trade quota schemes; and purchase contract schemes. All have existed or attempts to create them have existed in the case of wheat. Raffaelli notes: "Some were successful, or at least managed to survive, for relatively long periods. Others were not so lucky." He further argues that "While it is highly probably that such failure cannot be attributed to any one single cause, it seems worth while to find out what happened in the different cases, and why?" That is the purpose of the major chapter of this thesis, chapter 7, which studies the attempt to create a buffer stock scheme in the 1970's, at a time when international commodity agreements were thought possible and, in the view of many both in the North and the South, beneficial. In fact, a central theme of the thesis is the paradigmatic shift that took place as the spirit of deregulation, privatisation, and free markets which infected so much of national politics in the western democracies in the 1980's. Although the intellectual and economic assumptions of the 1970's atrophied, their strength was real in their time. As Raffaelli argues, the study of such attempts is importance, "after all, it is never too late to learn from the lessons of the past."[1.5]

Indeed, it is not, especially when an extraordinary range of materials on the process of decision–making becomes available. Chapter seven examined in considerable detail how the major grain exporting countries responded to the world food crisis of the early 1970's and how close these countries came to establishing an international grain reserve system. The evidence will suggest that the technical possibility of the establishment of such a system was not in doubt. And yet no such system came into existence. Why it did not becomes clear in the documents that form the original contribution which this thesis makes. The International Wheat Council, the central negotiating body, made available its complete documentation on the negotiations. They provide an extraordinary insight into the character of the grain trade and the grain traders. Moreover, the Canadian Department of Foreign Affairs, another central actor, opened its files on the negotiations. These have been supplemented by documentation from the FAO and from the National Archives of the United States. The methodologies employed by the negotiating teams are clearly seen. So too are the precise nature of the areas of agreement at the adjournment of the negotiations. In Raffaelli's terms, these documents, combined with numerous interviews with participants in the negotiations, provide a remarkable opportunity "to find out what happened, and why." Whether there are lessons from this past, is a subject best left to the conclusion.

Let us begin with an overview of the actors within the system.

[1.5] Marcelo Raffaelli, *The Rise and Demise of Commodity Agreements* (Cambridge, England: Woodhead, 1995), p.1.

Chapter 2

The International Food Regime: An Overview

2.1. Introduction

This chapter is intended to provide an overview of the complex network of governmental actors, transnational corporations and international organisations that comprise the international food system. This review will identify the main actors involved, their mandates and their relationship to the other agencies and factors involved. It will also provide a brief description of the membership, internal structure, budget and decision-making procedures of these agencies and describe the political and economic conditions that led to the creation of the agency. This overview will be presented within the context of regime theory. As my broader project will focus on the politics of grain reserves, I will concentrate upon those institutions/actors that are most relevant for that study.

The concept of international regimes has been used, particularly since the mid-1970's to analyse characteristics of the international system. One of the leading scholars in the area, Stephen Krasner, defines regimes as "sets of implicit or explicit principles, norms, rules and decision-making procedures around which actors' expectations converge in a given area of international relations."[2.1] Regimes as generally understood represent more than agreements or temporary arrangements, and in certain areas, where anarchic tendencies seem paramount, one must agree that regime theory may be inapplicable. Keohane argues, however, that "together the concepts of cooperation and international regimes help us to clarify what we want to explain: how do patterns of rule-guided policy co-ordination emerge, maintain themselves and decay in world politics?"[2.2]

[2.1] Stephen Krasner, ed., **International Regimes** (Ithaca and London, Cornell University Press, 1983), p.2

[2.2] Robert Keohane, **After Hegemony** (Princeton, Princeton University Press, 1984) p.51

Some have suggested that the anarchic character of contemporary international grain trade precludes the application of regime theory. Although a definable international regime existed in the post-war period, this regime was derived from the norms and principles of the hegemonic power, the United States. That hegemony ended but "institutions, principles and norms have persisted" albeit in weakened form. Hopkins and Puchala speak of a current international food regime of which wheat constitutes "a special sub-regime". The international food regime, they argue, is a "functionally specific regime" that more or less conditions diverse policies and activity. Food trade, food for aid and international financing for rural development and agricultural research, for example, are all affected by the principles and norms of the international food regime... Several organizations shape and spread regime norms and rules, and many rules are explicit and codified. Formal organizations include two specialized agencies of the United Nations, the Food and Agriculture Organization (FAO) and the World Food Program (WFP). Both legislate rules and enforce procedures. Other bodies, such as the International Wheat Council (IWC), the International Fund for Agricultural Development, and the Consultative Group on International Agricultural Research, also help to manage the world food system and uphold the norms of the regime.[2.3].

In addition to the role of international organisations a number of transnational organisations such as corporations, banks, social and cultural organisations play a significant role and are often overlooked as actors in the shaping of functionally specific regimes. Susan Strange makes the argument that concentration on international organisations and on the politics of international economic relations has overshadowed important transnational relations.[2.4] Strange's argument has some weight in the case of agriculture for the importance in the critical wheat trade of major transnational corporations has been widely

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[2.3] Donald J. Puchala and Raymond F. Hopkins, "International regimes: lessons from inductive analysis," in Krasner, **International Regimes**, pp.74–5

[2.4] Susan Strange, **States and Markets: An Introduction to International Political Economy** (London, Pinter Publishing, 1988), p.21. Strange is critical of regime theory generally but especially so of the American scholarship in the area. She criticised it for tending to take the way things are managed as a given without asking what the underlying reasons for the prevalence of these norms, principles, and institutions.

recognized, and they have been seen to have determined norms and principles. No discussion of the international agriculture regime can take place without an understanding of the international grain trading companies. We begin, then, with the informal and move to the formal agencies that comprise the elements of the international agricultural regime.

2.2. International Grain Trading Companies

The international grain trading companies, while informal and secretive in their structure, nevertheless they represent the single most pervasive influence in the international grain trade. The present day major grain trading transnational corporations which began as merchant houses in the 19th Century currently control 85 to 90% of U.S. grain exports; 80% of Argentina's wheat exports', 90% of Australia's sourgum exports; 90% of Canada's rapeseed exports and 90% of wheat and corn exported from the E.C. These companies are Cargill, Continental Grain, Louis Dreyfus, Bunge, Andu and Co., and Mitsui/Cook. Together, these companies account for over 60% of the world's grain traffic, including food aid shipments.[2.5] The success of these giants in acquiring and maintaining such pervasive market control is rooted in their takeover in the nineteenth and early twentieth centuries of grain trade related institutions and infrastructure including railways, storage facilitates, banks and financial institutions, shipping and insurance companies.

In recent years, the process of acquisition and integration has been accompanied by diversification as the major thrust of their corporate strategies. Diversification, Susanna Davies argues, serves three basic purposes: it spreads risks which arise from fluctuations in earnings in grain trading; it provides a way to invest profits productively with a relatively low level of fixed assets and labour costs; and, finally, it enables the corporations to become increasingly integrated into related businesses."[2.6] The diversification and integration was also carried into the decision making process of regulating bodies in what researcher Oscar Billey Madinson refers to as the attainment of 'controlled instability'. He suggests that

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[2.5] A.V. Krebs, **The Corporate Reapers: The Book of Agribusiness** (Washington, Essential Books, 1992) p.303

[2.6] Susanna Davies, "The Grain Trading Companies" in Nick Butler, **The International Grain Trade: Problems and Prospects** (London, The Royal Institute of International Affairs,), 1986, pp.94–5 the grain traders seek as much control as possible over networks of professional and trade organisations. They establish numerous links between individual company employees and government agencies, with the branches of banks and railroads, and ensure heavy corporate representation on regulatory boards.[2.7] Today, a handful of large traders dominate the membership of commodity exchanges worldwide. As private companies, the grain traders are not required to publish financial reports or disclose holdings or spheres of influence; therefore, available quantitative data has always been incomplete. In the aftermath of the so called Great Grain Robbery of 1972, the companies were the subject of considerable public debate and government investigations, and yet there has been little rigorous analysis on the precise influence of the companies on the international grain trade.[2.8] Significantly, however, the attempted examination of the practices of the companies "brought into question the validity of traditional studies of the trade which have tended towards country-by-country analyses (importers and exporters), and which have focused attention (solely) on the state rather than on the private sector as executors of undue market influence."[2.9] The implicit assumption has been that the traders operate according to free trade principles with a significant number of independent traders simply responding to market imperatives.

This scenario would require the market to be seen, in Susanna Davies' words, as "a highly competitive forum in which supply and demand considerations determine prices, track flows and market performance." Davies argues that although the public sector's interference with the free market has been amply studied and documented, in the case of grain the role of the private sector as a source of market imperfection remains obscure. Some who have studied the private sector have sometimes tended to emphasise conspiracy. Such interpretations, which were especially common in the 1970s during the world food crisis, are debatable. Nevertheless, Dan Morgan's comment that "it is difficult to understand how

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[2.7] George Anthon, "Big Grain Exporters Shrouded in Secrecy", (**The Des Moines Register**, June 15, 1975)

[2.8] Susanna Davies, "The Grain Trading Companies", in Nick Butler, **The International Grain Trade: Problems and Prospects** pp.94–95.

[2.9] Susanna Davies ibid. p.95

the international grain companies could have slipped through history as inconspicuously as they have" still possesses considerable truth.[2.10]

2.2.1. Principles, Rules and Norms:

Although the five giant trading companies are highly competitive among themselves, they have adopted certain codes of conduct that have served them well individually and collectively. The most important of these may be secrecy which is embodied in their monopoly on information. The internal structure facilitates their secretiveness and enhances their control. Morgan characterizes them as being "private, centralized oligopolies that do not publish financial statements."[2.11] The extent to which the companies have succeeded in maintaining secrecy was evident in 1975 when the American Senate Subcommittee on Multinational Corporations began investigating the companies' impact upon foreign policy. No library in the country seemed to have information about them. Senator Frank Church declaimed: "No one knows how they operate, what their profits are, what they pay in taxes and what effect they have on foreign policy."[2.12]

The five major international grain companies have used their vast power to make it difficult for new companies entering the field and have forced state trading corporations such as the Canadian Wheat Board to work within the principles and norms of the existing regime. They have kept the market closed and tight through the manipulation of the transportation and distribution systems. They can, in Morgan's view, move their operations and capital freely around the world and form alliances only as developments demand it. They are non-ideological, non-nationalistic, and uniquely lacking in national identity.

2.2.2. Political Influence and Economic Power:

The political importance of the international grain companies lies most particularly in their ability to manipulate the grain market. The "Great Grain Robbery" of 1972 provides a

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[2.10] Susanna Davies, *ibid.*, p.95; and Dan Morgan, **Merchants of Grain** (New York: Penguin, 1980), p.13.

[2.11] Morgan, 19; and Davies, "The Grain Trading Companies", p.93

[2.12] "USSR and Grain", Senate Subcommittee on Multinational Corporations Report (April 1976).

dramatic example of the power of multinationals to undermine domestic economic and political programs and produce serious conflicts between states.[2.13] In 1972 the grain companies secretly purchased 433 million bushels of Canadian and American grain. The damaging effects of the purchases could have been minimized had the American carryover stocks not been depleted, but in 1972 world grain production lagged and trade increased dramatically. Wheat prices tripled between 1972 and 1974 and international leaders declared that a "world food crisis" had begun. The great grain robbery resulted in a significant increase in the trade of agricultural products and in the profits of grain trading giants.

Since the mid-1970's the grain companies have increasingly become the subject of debates and some investigation that has revealed their scope and activities. It is clear that these companies must be included in any system of international wheat management, but it is equally apparent that their transnational character and private ownership make them difficult to monitor and influence. Their significance remains undeniable and is present throughout the century.

2.3. The World Food Agencies in Rome

The grain companies' monopoly was challenged in the early part of the twentieth century. The depression of the 1930s had a dramatic effect on the companies and the planning of postwar agencies. Memories of the crisis in the world grain trade in the 1930's — the dust-bowls, the hunger, and the disastrous decline of world agricultural trade and nutritional standards — lingered and led many to see a major role for international agencies in the world food system. The regime envisaged by visionaries such as MacDougall of Australia and Boyd Orr of Britain was one where food agencies would parallel the Bretton Woods economic agencies. These agencies took form, but their functions were more limited than

[2.13] "The great grain robbery" is the focus of Morgan's **Merchants of Grain**. See also Richard Cooper, "Economic Interdependence and Foreign Policy in the Seventies", **World Politics**, 24 (Jan. 1972), pp.159–81; and David Blake and Robert Walters, **The Politics of Global Economic Relations** (New Jersey, 1983).

their founders had hoped. Nevertheless, the agencies formed then and later are fundamental actors within the international food regime. Foremost among these is the Food and Agriculture Organisation (FAO).

2.3.1. FAO:

The FAO was one of the varied responses to the needs of postwar reconstruction. The FAO, Douglas Williams notes, "had a reconstruction role in that it was in part an attempt, through international cooperation, to remedy the general food shortages of the post-war years".[2.14] But it was more. Its founding director-general, John Boyd Orr, tied its origins to the interwar efforts to create a world food organisation. The American president, Franklin Roosevelt, identified "freedom from hunger" as one of the fundamental freedoms, and it was he who inspired the Hot Springs Conference of 1943 that led to the creation of the FAO in 1945. Boyd Orr envisaged the FAO as the principal institution within a new international food regime. It was to be, he said, "an international organisation with the power to buy, hold, and sell important agricultural commodities entering world trade, and to set maximum and minimum prices for these commodities in the international market."[2.15] Boyd Orr's vision remained unfulfilled, and his tenure as director-general of FAO ended in 1949. At the same time, the FAO turned its efforts towards the creation of international commodity clearing houses. These proposals were also unacceptable to the nation states that were FAO members. Nevertheless, the concept of world food security enunciated by Roosevelt and proposed by Boyd Orr has continued to have influence upon the FAO.

The FAO was an agency where third world influence was felt early even though the agency itself was so much a product of American postwar policy. In 1956 B.R. Sen of India became director-general of FAO and power in the organisation shifted in the next decade towards the Third World. This occurred even though Western nations provided most of the operating funds. Ross Talbot describes the FAO as "a type of flexible steel triangle of power." Its governing structure "depicts a hierarchical policy-making process

[2.14] Douglas Williams, **The Specialised Agencies and the United Nations** (London, Hurst and Co., 1987) p.3

[2.15] Quoted in Ross Talbot, **The Four World Food Agencies in Rome** (Ames, Iowa, Iowa State University Press, 1990), p.18

that culminates in the biennial conference to which every member-state is authorised to send a delegate."[2.16] Even though the grand scheme of Boyd Orr and his successors was not realised, the FAO has become a massive and controversial agency, the UN's largest specialised agency. The Director-General has become central to the definition of this agency which now has almost 7000 employees. The previous Director-General Edward Saouma argued for the FAO's importance in the international agricultural regime because of its role in accumulating information and carrying out research. It also, he claims, provides an essential forum for state-actors, particularly consuming nations, and carries out a technical assistance programme that has become quite extensive. All of these programmes have been affected by the cutback in American funding for the FAO, a cutback that reflected widespread criticism of Saouma and the organisation. Between the biennial conferences, authority is vested legally in a 49 member council.[2.17] In 1986 there were 158 nations who were members (the USSR was a significant exception). The FAO has contributed important informational resources and has carried out important technical programmes which have definitely had an impact on agricultural improvement in the third world. It has failed, however, to "manage" international agricultural trade and aid and has created much antagonism towards it which surely has lessened its effectiveness. Its budget has increased substantially over the past twenty-five years, particularly in the 1970's when the food issue was paramount on the international agenda. In the 1980's however, the increase fell behind the rate of inflation. Moreover, the FAO has been a target of the American policy of reduced contributions; indeed, it is deliberately funded by the Americans at 75% of their assessment.[2.18]

The FAO has not played the role its founders had hoped for, but it remains significant nevertheless in agriculture, fisheries and forestry, mainly in strengthening existing national programmes. The current intractability of international agriculture problems suggest to some that, with reform, its future potential is great. This enhancement of its role is more

[2.16] Ibid., pp.10–26.
[2.17] **The United Nations Yearbook 1986**, (United Nations, New York, 1990).
[2.18] Paul Taylor, "The United Nations System under Stress: financial pressures and their consequences," **Review of International Studies**, 17 (Cambridge, Mass., Cambridge University Press,1991), p.371.

likely if there are "managed" approaches to international agricultural trade disputes. The FAO, might then, exercise its great but unrealised potential as the largest UN agency within a regime currently marked by disorder. Over the years the FAO has lost ground to other agencies, some its direct offspring.

2.3.2. The International Fund for Agricultural Development

The International Fund for Agricultural Development (IFAD), also located in Rome, was created in 1987 to finance agricultural development projects in the poorest nations and has particular responsibility in improving food production systems. Intellectually, it reflected a growing consensus at the time that "food aid" was less important and even possibly damaging to food security for poorest nations than was the creation of effective production systems.[2.19] IFAD receives about half its funding from OECD nations and half from OPEC: "the extent to which it could tap these new funds was in fact the main justification for its creation'.[2.20] Voting weight reflects the funding and the governing council membership is divided into three categories: OPEC, OECD and developing countries. It has an executive board chaired by the president which gives leadership. It provides financing at highly concessional terms (mostly 1% per annum, a 50 year maturity period and a 10 year grace period.) In its first five years of operation (1978-1983), IFAD spent $2.1 billion.

It has a small staff of about 150 and, according to Ross Talbot, IFAD, is "admired by nearly all those who constitute the world food network".[2.21] Similarly , Almagir and Arora in a recent major study of food security for the poorest nations point out that "the participatory approach of IFAD's projects has facilitated many aspects of poverty alleviation'. They find its development of a "low-cost, self-sustained and interactive research" model based upon the client-oriented research and client-demand an approach that should be followed in other agencies. Indeed, its influence can be seen in the revision of aid programmes in many Western nations that occurred in the 1980's.[2.22] Whatever the success of IFAD

[2.19] See Raymond Hopkins, "Reform in the International Food Aid Regime: the role of consensual knowledge", **International Organization**, 46 (Cambridge, Mass., MIT Press, Winter 1992), p.237.

[2.20] Williams, **The Specialised Agencies**, p.43

[2.21] Talbot, **The Four Food Agencies**, p.99

[2.22] Mohiuddin Alamgir and Poonam Arora, **Providing Food Security for All**, (New York, New York University Press,1991), p.140

in the field or its beneficial influence on national governments, its life has been marked by weak commitments by those national governments which brought it into being. Contributions to IFAD are voluntary not assessed, and not surprisingly, recession, the absence of a food crisis, and the weakening of OPEC in the 1980's have had a real effect upon it. The international political balance that created it has shifted and it currently rests upon weak financial foundations no matter how effective it may be.

2.3.3. The World Food Council:

The World Food Council (WFC), unlike the FAO, is not an international agency. It was created at the World Food Conference in Rome in November 1974 when the food crisis seemed to demand new institutions to supplement those created in the post-war period. The Council was the Conference's creation and it was to follow up on the commitments made and work done at that conference. Created by the UN General Assembly, the Council was charged with the responsibility of reviewing major food policy and problems, of recommending to national governments and other agencies possible remedial action, and with the coordination of regional bodies.[2.23] There are 36 members of the WFC who meet annually to attempt to fulfil these purposes. Recommendations are made to nation states and to the UN but even a strong supporter is forced to admit that these annual meetings "have tended to repeat the conclusions of the Conference with little evident impact on the actions of government or international agencies".[2.24] The Council's relationship to and with the FAO is not well-defined and sometimes difficult and its staff (150) is very small. Douglas Williams in his study of the specialized agencies omits mention of it.

The Food Council's role has been less because the agricultural regime that seemed to be taking form in the mid-1970's was stillborn. At the time there were hopes that the Council would give effective leadership in the formation and direction of a world food reserve system that had been demanded by the Group of 77 developing nations at the Conference and, for

[2.23] Ibid., pp.76–77

[2.24] Edwin Martin, **Conference Diplomacy, A Case Study: The World Food Conference, Rome 1974** (Washington, D.C., 1979), pp.52–53.

Table 2.1. IFAD: 10 years at a glance, 1978–1987

Operational Activities (SDR* millions)	78	79	80	81	82	83	84	85	86	87	78–87
Loan Approvals											
—Number of projects	8	21	27	30	25	24	25	16	20	25	221
—Amount of loans	76.1	259.0	292.8	301.3	291.1	248.0	192.8	118.8	118.1	169.6	1067.4
—Disbursements		2.0	35.1	56.9	85.0	132.0	191.2	200.4	191.1	171.0	1064.6
Regular Program											
—Number of projects	8	21	27	30	25	24	25	16	16	20	212
—Amount of loans	76.1	259.0	292.8	301.3	291.1	248.0	192.8	118.8	87.5	120.9	1988.1
—Disbursements		2.0	35.1	56.9	85.0	132.0	191.2	200.4	190.9	170.0	1063.4
Special Programs for Sub-Saharan Africa											
—Number of projects									5	6	11
—Amount of loans									30.6	48.7	79.3
—Disbursements									0.2	1.0	1.2
Highly Concessional Loans											
—Number of projects	6	17	20	18	13	14	18	11	10	17	144
—Amount of loans	55.9	221.7	192.3	216.9	131.3	150.7	148.5	81.4	64.1	113.8	1376.3
—Disbursements		1.8	30.3	42.7	58.6	87.5	124.3	144.9	130.44	120.8	741.0
Intermediate Loans											
—Number of projects	2	4	5	11	10	8	4	3	8	6	61
—Amount of loans	20.2	37.3	67.5	77.1	138.2	82.0	22.8	25.8	39.9	43.1	553.7
—Disbursements		0.2	5.0	12.6	23.1	30.0	59.1	46.5	49.1	35.6	261.3
Ordinary Loans											
—Number of projects	0	0	2	1	2	2	3	2	2	2	16
—Amount of loans	0.0	0.0	33.1	7.4	21.6	15.4	21.5	11.7	14.1	12.8	137.4
—Disbursements		0.0	0.1	1.6	3.3	14.4	7.8	9.0	11.6	14.6	62.3
Technical Assistance Grants											
—Number of grants		18	40	29	32	33	25	23	23	38	261
—Amounts		4.3	10.1	18.2	15.2	16.2	13.0	10.5	6.8	10.5	104.8
Total IFAD Loan and Grant Operations	76.1	263.3	302.9	319.5	306.3	264.2	205.7	129.3	124.9	180.1	2172.2
—Cofinancing of which: (US$ million)	144.5	491.1	400.6	430.1	433.8	573.0	332.0	289.6	126.0	212.2	3432.7
—Multilateral	123.6	341.9	324.0	409.9	408.4	416.5	298.7	259.3	103.2	177.6	2863.1
—Bilateral	20.9	149.2	76.6	20.1	25.4	156.5	31.5	30.3	21.4	34.1	566.1
—Non Government Organisations	0.0	0.0	0.0	0.0	0.0	0.0	1.8	0.0	1.4	0.4	3.6
No. of Effective Projects under Implementation	1	9	32	61	82	113	143	143	148	153	
No. of Projects in Pipeline	NA	NA	NA	97	98	88	86	80	83	78	
No. of Approved Projects Initiated by IFAD	0	7	17	17	13	14	14	12	16	21	132

Source: Modified from IFAD, *Annual Report 1987*, (Rome, 1988), p.19

* Standard Drawing Rights (international reserve currency). Over this 10-year period one SR has equalled %1.17 (U.S.)

Table 2.2. IFAD: 10 years at a glance, 1978–1987 (continued)

Members's Contributions (US$ million)											
Contributions to Regular Resources (end of period)	**592.6**	**870.8**	**966.8**	**935.5**	**1308.8**	**1560.7**	**1763.8**	**1952.9**	**2106.3**	**2517.4**	**2517.4**
Contributions to Special Program (end of period)									**57.2**	**167.6**	**167.6**
Income (US$ million)											
Income from Investments	**16.8**	**39.4**	**64.2**	**60.4**	**63.8**	**65.2**	**65.2**	**66.0**	**68.9**	**70.0**	**579.9**
Income from Loans		**0.0**	**0.3**	**1.1**	**2.7**	**5.0**	**8.4**	**12.7**	**18.0**	**25.0**	**74.2**
General Reserve (US$ million)											
(End of period)			**10.0**	**15.0**	**25.0**	**35.0**	**45.0**	**50.0**	**55.0**	**60.0**	
Usable Resources (SDR* million)											
(End of period)	**473.0**	**693.0**	**820.0**	**878.0**	**1164.0**	**1540.0**	**1805.0**	**1893.0**	**2018.0**	**2267.0**	
Membership and Admin.											
Member Countries (at end of period)	**125**	**125**	**135**	**136**	**139**	**139**	**139**	**139**	**142**	**142**	
Recipient Countries (at end of period)	**8**	**25**	**44**	**60**	**68**	**77**	**84**	**87**	**89**	**89**	
Professional Staff (at end of period)	**49**	**66**	**67**	**74**	**74**	**74**	**80**	**80**	**84**	**84**	
Operating Expenses (US$ million)	**5.2**	**10.2**	**12.7**	**15.3**	**16.6**	**18.6**	**18.7**	**20.7**	**25.3**	**33.6**	**176.7**

Source: Modified from IFAD, *Annual Report 1987*, (Rome, 1988), p.19

* **Standard Drawing Rights (international reserve currency). Over this 10-year period one SR has equalled %1.17 (U.S.)**

quite different political reasons, by the United States, the hegemon in this area.[2.25] The Council has regularly restated its commitment to this concept. The Council's resolutions, Talbot argues, have been only "minimally fulfilled", the International Fund for Agricultural Development being the major exception. For this failure, he blames the "intransigence of both developing and industrial nations, particularly the latter'.[2.26] The future of the World Food Council was long thought uncertain and is now destined to be incorporated as a department of the FAO.

[2.25] **See Thomas Weiss and Robert Jordan, The Global Food Conference and Global Problem Solving (New York, 1976).**

[2.26] **Talbot, Four Food Agencies, pp.72–74.**

2.3.4. The World Food Programme:

The World Food Programme (WFP) is a joint UN/FAO Programme which, like the FAO itself, sprang from the initiative of an American president, on this occasion President Kennedy in 1961. Its purpose, then, was to dispense food aid at a time when the United States in particular had large agricultural surpluses. It has maintained that purpose although criticism of "food aid" apart from emergency relief has weakened confidence in some aspects of its original purposes. It began in 1963 with less than $100 million to employ for emergency relief and development projects. From such modest beginnings, the WFP, according to Hopkins, has "dramatically increased its regime role". It now transfers approximately $1 billion annually and is second only to the World Bank as a multilateral assistance agency. In Hopkins' view, prominent among the factors that brought the changes in "regime role and norms" was the rapid decline in U.S. food aid resulting in the creation of a more multilateral regime.[2.27] The WFP with a large staff of 13500 has often had a difficult relationship with its parent, the FAO. It is usually thought to be better administered, and the publicity surrounding its emergency relief work has also undoubtedly given it a higher priority. Indeed, its importance as the provider of first resort to the poor has become its most important activity.

The World Food Programme governing body reviews its policies annually and the Executive Director participates in consultative group meetings led by the World Bank. It has tried to advance information sharing among donor nations and tried to identify areas where emergency relief might be required. For example, it passes information about wheat shortages to the International Wheat Council which in turn informs possible donor nations.[2.28] In the case of sub-Saharan Africa, it works in cooperation with the FAO and its "Early Warning System".

The World Food Programme has a high profile, is generally respected, and has expanded its scope in recent years. In any consolidation or expansion of UN-related food agencies, the WFP seems likely to enhance its position.

[2.27] Raymond Hopkins, "Reform in the international food aid regime: the role of consensual knowledge", **International Organisation**, 46 (Winter 1992), p.230.

[2.28] Interview with William de Maria, International Wheat Council, London, March 3, 1992.

2.3.5. Conclusion: The Food Agencies and the Food Regime

The UN food agencies represent a significant part of the international food regime. The norms and principles that have shaped that regime originally reflected the hegemonic position of the United States which from the 1940's to the 1960's was the dominant food exporter and food aid donor. Since the foundation of the World Food Programme in 1963 and, more particularly, the World Food Conference of 1974 the United States hegemony has been supplanted by multilateralism and a marked drop in American food aid. Other actors, notably the European Community, have more important roles, and there has been a lack of attention to agriculture in international institutions generally. For example an Academic Council on the United Nations System's assessment of the UN system barely mentions the food agencies and there is no sustained discussion, much less analysis, of their work.[2.29] This inattention has occurred even though agriculture itself assumed enormous importance in international fora such as the GATT discussions, and agriculture remained "the main sticking point" preventing a global trade agreement under the Uruguay Round.[2.30]Given that the past shapes the formation of new regimes and that the FAO and the WFP are the most significant international food-related agencies and that, in previous periods of turbulence (for example, the 1970's), both North and South made aborted attempts to use these existing agencies to create the institutions and norms for a new regime, is there a possibility that these agencies might have greater pre-eminence?

The FAO has a reputation for possessing a bloated and arrogant bureaucracy and was a major target of the Kassebaum Amendment which withheld U.S. funds pending reforms in the agency.[2.31] Talbot, a major student of the agencies, finds that rivalries and organisational dysfunction make it unlikely that the four agencies could join together in the effective fashion that would advance the interests of each.[2.32] Nevertheless, he recognises that a repetition of the 1970's food crisis, could turn international attention towards these

[2.29] Johan Kaufmann and Nico Schrijver, **Changing Global Needs: Expanding Roles for the United Nations System** (Academic Council on the United Nations System, Lynne Rienner Publishers, Boulder Co., 1990).

[2.30] **New York Times**, Feb. 25, 1992.

[2.31] See Taylor, "The United Nations System under Stress," pp 375–376.

[2.32] See Talbot, **The Four Food Agencies**, chs. 6–7.

agencies, and they could in turn play a fundamental part in creating a new international regime. Given recent events in China and Eastern Europe this would not be an impossible occurrance. One must not underestimate the capacity of the agencies to change. Donald Puchala, not a great admirer of the food agency bureaucracy, points out that "Over time, there has... been notable evolution in United Nations' food policies characterised by a broadening of the range of concern, increasing conceptual sophistication and the continual assignment of new tasks to international organisations". The UN's attention now is focused mainly on rural development and backwardness, low agricultural productivity and malnutrition. These concerns have supplanted earlier concentration on multilateral trade and food aid. Adaptation has occurred; new tasks will arise; and the food agencies, however flawed, will continue to respond.[2.33]

2.3.6. The United Nations Conference on Trade and Development

The failure of the food agencies to broaden their scope and to advance the interests of developing countries particularly has led to the creation of other bodies that form a part of the international institutional framework of the food regime. One of these institutions is the United Nations Conference on Trade and Development (UNCTAD).

The international economic institutions set up at the end of World War II under American leadership were designed to promote free trade and economic growth, particularly in the Western developed economies. There was, however, little recognition of the importance of economic development or the importance and difficulty of trade in the poorer nations. The structuralist perspective of Raul Prebisch served as the ideological magnet to the collective movement of developing nations which led to the convening of the Conference of the Problems of Developing Countries in Cairo in July 1962.[2.34] Attended by 36 African, Asian and Latin American countries, the Cairo conference issued a declaration calling for an

[2.33]Donald Puchala, "The Road to Rome: The Production and Distribution of Food", in Paul Taylor and A.J.R. Groom, eds., **Global Issues in the United Nations' Framework**, (London, The Macmillan Press Ltd., 1989), p.184. On the possibilities of a new crisis similar to that of the 1970s, see Stephen Lewis, "Food for thought in a world of constant change," **Financial Times**, Feb. 1996. Lewis points out that China may require enormous imports. It now has the "financial resources to be a permanent net importer."

[2.34]Robert A. Isaak, *International Political Economy: Managing World Economic Change*, (New Jersey, Princeton-Hall International Inc., p.49

international conference on "all vital questions relating to international trade, primary commodity trade and economic relations between developing and developed countries" within the framework of the UN.[2.35]

While socialist countries readily supported the initiative, the Western powers had objections to new UN agencies in the area of trade and development.[2.36] UNCTAD I in 1965 was hailed by developing countries as the beginning of a new era of international cooperation in the field of trade development. UNCTAD's mandate as then expressed had four broad objectives:

1. To promote international trade and economic development of developing countries.
2. To promote trade and economic cooperation, particularly between countries at different stages of economic development, between developing countries and between countries with different economic and social systems.
3. To formulate principles and policies on international trade and development and to facilitate the restructuring and adaptation of these principles and rules and the international institutions concerned.
4. To promote a more equitable international economic order, a larger voice for developing countries in decision-making, and a development dimension and consensus in institutions and policies.[2.37]

In fact, UNCTAD and the developing nations who were its supporters had relatively little impact on the growth and development of the world economy in the first decade of UNCTAD's existence. Nevertheless, institutionalization took place. At the first session, the important Trade and Development Board and three permanent committees were set up. The committees were to deal with commodities, manufacture and financing related to trade. Other ad hoc working groups took form as did sessional committees. This in time

[2.35] History of UNCTAD, 1964–1984, (New York, United Nations, 1985), p.10

[2.36] See Gautam Sen, with a note by Marc Williams, "UNCTAD and International Economic Reform", in Taylor and Groom, **Global Issues**, p.246.

[2.37] **History of Unctad**, p.12

led to the negotiating conferences, the primary activity of UNCTAD. Convened every three to four years, the UNCTAD conferences remain major events in the trade and development dialogue but must be viewed as part of a broader dialogue. In the case of agriculture which, until recently, has been excluded from the GATT, UNCTAD offered a forum where such issues as agricultural commodity trade could be raised and was a forum where third world nations had an influence that they lacked in the Bretton Woods institutions. The Conferences should be briefly summarised:

UNCTAD I (1965) resulted in the establishment of UNCTAD as a permanent institution and the emergence of the Group of 77 as a unified force of developing countries.

UNCTAD II (1968) at New Delhi continued the emphasis on third world exports. The problem of food in landlocked countries gained particular attention.

UNCTAD III (1972) at Santiago dealt with the economic implications of the Suez Canal and, more importantly, the developing countries succeeded in getting the industrialised nations to accept a Generalised System of Preferences for ten years, eliminating tariffs on manufactured and semi-manufactured goods exported by the developing countries.[2.38] The GSP brought only limited success for developing countries and, paradoxically, seemed to result in an enhanced future role for the GATT.

UNCTAD IV at Nairobi set target dates for an Integrated Program for Commodities (IPC). In the planning stages since 1914, the IPC sought to better the terms of trade for those countries that depend on the export of primary commodities. A $6 million Common Fund was established to secure a more orderly, long-term perspective on international trade in primary commodities. It was not until June 1980 that the treaty establishing the fund was actually ratified, and the fund itself took form only in 1989 as the Common Fund for Commodities.[2.39] This conference was a highpoint in UNCTAD's history coming as it did when talk of a New International Economic order was common and OPEC seemed a precedent for others.

[2.38] Isaak. *International Political Economy*, p.93

[2.39] Kaufmann and Schrijver, **Changing Global Needs**, pp.47–47.

UNCTAD V (1979) continued the push for global negotiations but world economic problems in the later 1970's lessened its achievements.

UNCTAD VI (1983) took place in the late stages of the greatest recession of the post-war period. According to Kaufmann and Schrijver, it was "unanimously evaluated as a failure".[2.40] It focused on export earnings of developing countries and technology transfers.

UNCTAD VII (1987) concentrated on international financial and banking services. Agriculture was not a concern, for it had moved over to the forum of the GATT. This move was an indication of Third World recognition that the GATT was the more significant forum and that, perhaps, UNCTAD's importance lay in the past.

UNCTAD VIII (1991) was secondary to the 1990 General Assembly on International Cooperation for Development which gave rise to several conferences dealing with North South issues in a global context, a recent example of which was the UN Conference on Environment and Development. In a sense we are returning to basics since the developing countries argued in the early 1960's that UNCTAD should be an organ of the General Assembly rather than an agency of the Economic and Social Council as was proposed by the Western nations. Its role has been disputed from the beginning, in that UNCTAD focused attention on commodity pricing, and it has had an impact on the international food regime, although in recent years agriculture has been a secondary concern. UNCTAD's future has become even less certain with the creation of the WTO.

2.4. The International Monetary System

The international monetary system created at the Bretton Woods Conference of 1944 consists of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) or the World Bank. They were formed with the intention of restoring, preserving and creating a liberal international trading system. The system was designed to prevent a recurrence of the protectionist policies of the interwar period and to

[2.40] ibid. p.29. See also Taylor and Groom, **Global Issues**, p.252

preserve the equilibrium that derived from Anglo-American hegemony.[2.41] While both institutions are formally specialised agencies within the United Nations system, in reality, both organisations conduct their day-to-day business answerable only to their Boards of Governors. Their position is "semi-autonomous", and this relative autonomy has freed them from the political influence of the General Assembly although some would say that the influence of the wealthy powers, particularly the United States has been much too great.[2.42]

2.4.1. The International Monetary Fund

The Bretton Woods system has been largely dominated by the stabilisation directive of the IMF articles, and is described by Robert Isaak as a "system of macroeconomic management and microeconomic liberalism".[2.43] The Fund's importance, of course, goes far beyond agricultural questions, but beginning in the 1960's the Fund has paid some attention to the needs of developing countries and has, in its program, sought to impose direction upon agricultural transformation. Among the initiatives are the Compensatory Finance Facility (1963) which provides access to the Fund's resources without the usual restrictions, and The Buffer Stock Financing Facility (1969) which was established to support the UNCTAD proposal for a common fund. It was to provide resources for members to contribute to international commodity agreements in order to alleviate balance of payments problems. The Extended Facility (1974) was designed to give LDC's long term balance of payments assistance, particularly by extending repayment periods.[2.44] There can be no doubt that third world influence upon the bank has increased as has that of other nations, but the major controversy surrounding its work remains the "conditionality" of its financing, a policy which is identified with the influence of western members especially the United States. In establishing conditions, the IMF has created specific norms for national agricultural policies

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[2.41] Isaak, **International Political Economy**, p.44

[2.42] A blatant example of their disregard for other aspects of the UN system came when the Bank and the IMF noted the General Assembly's declarations regarding lending to South Africa and Portugal but refused to obey those directions. See Williams, **The Specialised Agencies**, p.160.

[2.43] Isaak, **International Political Economy**, pp.46–47.

[2.44] Stephen Krasner, **Structural Conflict: The Third World Against Global Liberalism**, (Berkeley, University of California Press, 1985), ch.6.

in third world nations. This influence is far greater than the specific programmes that have responded to third world calls for global reform.[2.45]

2.4.2. World Bank

The World Bank's early focus was upon providing loans to war damaged European countries. With the adoption of the Marshall Plan in 1947, the World Bank shifted its priorities from reconstruction to development. Its loans were targeted for specific projects designed to build up the infrastructure of developing countries. Its day to day operation is managed by an Executive Board of which five members are appointed by the five most powerful members and the rest are elected. The president, who has always been an American, is responsible for staffing. World Bank headquarters are in Washington, and membership in the Bank is contingent on membership in the IMF.

From a food security point of view, one of the most important initiatives of the Bank was the International Development Association (IDA). Established in 1960, the IDA was to provide loans to developing countries on a more liberal basis than normal IBRD loans. This program, lauded by nearly all developing countries at the time, provided some liquidity to poor nations. Its work in this area, however, fell victim to ideological and economic pressures in the 1980's, and its level of replenishment was cut from $416 billion to $9 billion.

In assessing the effectiveness of the World Bank Group in development terms, the role of Robert McNamara (1968–1981) cannot be overlooked. Upon assuming office, McNamara "shifted the bank's priorities away from stressing the modern sector of developing countries (usually cities) toward alleviating absolute poverty through direct action at the rural level".[2.46] His "basic human needs" orientation greatly increased both the scope and amount of the bank's resources which flowed to the poor and agricultural development. Much research was also directed towards this area.

[2.45] The structure of the IMF has created much of the controversy. It is comprised of two bodies, the Board of Governors and the Executive Board. The Board of Governors consists of one governor for each nation with voting power. Upon joining the IMF a country is assigned a quota based upon the volume of its international trade and its subscription. The Executive Board is made up of members appointed by the five largest donors and some members elected by particular groups. The overall result naturally gives more weight to national wealth and poorer nations feel discriminated against. Its annual budget at the time of publication was about $6 billion. Williams, **The Specialised Agencies**, p.164

[2.46] Isaak, **International Political Economy**, p.200.

Despite these initiatives and "despite the continual process of political, institutional and financial adaptation", the international monetary system has, even in the judgement of many advocates, done less than it had hoped to improve the overall condition of the poorest developing nations.[2.47] It has affected the international food regime, but less than one would have expected. The IMF Food Facility, an offshoot of the Compensatory Financing Facility, has been little used. During 1981–1987 only seven countries used it to a maximum of SDR 401 million. Only two of the least developed countries drew upon it all! The more recent Compensatory and Contingency Financing Facility (1988) has also been little used. The record, Almagir and Arora argue in their study of food security for the poor, is a weak one. That judgement seems correct, given that its focus remains on those countries which adhere to IMF-supported adjustment programmes.[2.48]

2.4.3. The General Agreement on Tariffs and Trade

The General Agreement on Tariffs and Trade (GATT) was a voluntary commercial treaty that came to represent the third pillar of U.S. economic hegemony after World War II. Conceived at the Bretton Woods Conference (1944), the GATT was thought to be an essential complement of the monetary institutions that had been created.[2.49] The multinational organisation grew to monitor 90% of world trade in merchandise and has worked to reduce tariffs in industrial countries by more than 40% during its existence.[2.50]

The origins of GATT date back to the Crash of 1929 and the subsequent depression. At this time nearly 45% of world trade was concentrated in the United States and although American exports made up 20% of world trade it represented a mere 6% of the GNP. The relative self sufficiency of the American economy was further entrenched by the enactment of the Smoot-Hawley Tariff in 1930 which expanded protection to cover an additional nine hundred items.[2.51]

[2.47] Robert Keohane and Joseph Nye, **Power and Interdependence**, second edition (New York, 1989), p.81.

[2.48] Almagir and Arora, **Providing Food Security for All**, p.173

[2.49] See United Nations Monetary and Financial Conference, Bretton Woods, July 1944. **Proceedings and Documents** (Washington, 1948).

[2.50] Isaak, **International Political Economy**, p.82

[2.51] ibid.

This act led to a chain reaction of import restrictions. By 1933 the volume of world trade in manufactured goods had declined by 40%. This "beggar thy neighbour" approach to the foreign economic policies left strong memories.[2.52] It was in response to these restrictive trade practices that the Reciprocal Trade Agreements Act was passed in 1934. Designed to promote trade agreements which included a reciprocal restriction of tariffs, this principle later came to be known as the "Most Favoured Nation" principle, a cornerstone of the GATT.

The architects of the postwar international trade system, determined to avoid the events of the 1930's, adopted the liberal vision of Cordell Hull and others who promoted the use of economic surplus to establish a commercial order based on free trade. This ideal, set down in the Havana Charter (1948), served as a basis for the establishment of a comprehensive International Trade Organisation; the negotiation of a multilateral agreement to reduce tariffs; and a mechanism to deal with the obligations relating to tariff reductions.[2.53] In the end the plans for an International Trade Organisation were aborted due to the withdrawal of American support, and the GATT encompassed the second and third directions. For our purposes, it is important to note that during these negotiations the U.S. insisted on special treatment for agriculture, largely to protect farm income. The GATT concentrated on manufacturers and agriculture was left out.[2.54]

2.4.4. Structure

The GATT was not intended to be an organisation but rather a series of conferences at which multilateral decisions are taken by the contracting parties to reduce tariffs. These rounds of multilateral trade negotiations took place at Geneva (1947); Annecy (1949);

[2.52] For example, Clair Wilcox wrote in **A Charter for World Trade**: "Intensive economic nationalism marked... the decade. Exports were forced; imports were curtailed. All weapons of commercial warfare were brought into play; currencies were depreciated, exports were subsidised, tariffs raised, exchanges controlled, quotas imposed, and discrimination practised through preferential systems and barter deals. Each nation sought to sell much and buy little." Quoted in David Blake and Robert Walters, **The Politics of Global Economic Relations**, (Englewood Cliffs, New Jersey, 1983). See also Richard Pomfret, **Unequal Trade**, (Oxford, 1988), ch.3.

[2.53] John Jackson, **Restructuring the GATT System** (London, Royal Institute of International Affairs, 1990), p.12.

[2.54] Theodore Cohn, **The International Politics of Agricultural Trade** (Vancouver, Univesity of British Columbia Press, 1990) p.51.

Torquay (1950–1); and Geneva (1956). The talks became longer and more significant as the names indicate: the Dillon round (1960–2); the Kennedy Round (1964); the Tokyo Round (1973–9); and the Uruguay Round (1986–1995). By the time of the Uruguay Round, the exclusion of agriculture had become impossible, not least because third world nations and some others believed that GATT had helped manufacturing and Western urban interests.

The GATT originated with 23 members but grew to include over 100 states. At the annual Session of Contracting Parties, decisions are generally taken by consensus rather than by vote. When voting was used, it was on the basis of one vote per member rather than the weighted voting system of the IMF.[2.55]

2.5. The International Wheat Council

The International Wheat Council (IWC) was established by the International Wheat Agreement (1949). The Agreement represented the response of the international community to the need to stabilise wheat prices after the build-up of surpluses and the subsequent collapse of prices during the depression. The stated objective of the Agreement was "to adjust the supply of wheat to effective world demand and eliminate the abnormal surpluses which have been depressing the wheat market, and to bring about a rise and stabilisation of prices".[2.56]

The stated purpose reflects the fact that the IWC was established to address the needs of the major producers, Canada and the United States. The IWC has maintained its office in London since 1949, but it has been largely the "forgotten" organisation in the international food system. It currently has a skeleton staff of 23, including the executive director and five economic analysts. Its budget, which has been affected by pressures similar to other international organisations, is only 9 million pounds annually which is contributed by member states. Although the first wheat agreement failed to achieve price stability, it did initiate the important principle that both exporting and importing countries should participate in such agreements bound by rights and obligations.[2.57]

[2.55] Isaak, **International Political Economy**, p.84.

[2.56] International Wheat Council, "International Wheat Agreements: A Historical and Critical Background", EX974/5)/2/ August 14, 1974, p.3.

[2.57] Cohn, **The international Politics**, and private interview with Chief Economist William de Maria, p.68.

Present membership includes sixty states, including all major wheat exporters and a lesser percentage of importers. The Council meets for the purpose of administering the Agreements and the related World Trade Convention and Food Aid Convention. Its day-to-day tasks involve the collection and dissemination of data relating to wheat production, sales, and stockpile levels worldwide. The voting system within the council is weighted (assessed by financial contributions); however, the total number of exporters' votes must equal the total number of importers' votes.[2.58]

The executive Committee is made up of six exporting members and six importing members elected annually. This committee works under the general direction of the council in fulfilling its functions. A second twelve member committee has been established to review and report continuously on market conditions. The International Wheat Council has sought to revive the International Wheat Agreement that collapsed in 1967. Since then two weaker conventions have replaced the agreement. It too is an organisation whose potential is unrealised but which might play a large role if a stabilisation and security system is developed.

2.6. National Governments

The national governments of the major agricultural exporters Argentina, Australia, Canada, the E.C. and the United States operate export policies designed to maintain producers' financial viability and to maximise their presence in international markets. Although these governments have similar objectives, their policies vary considerably, favouring either free market approaches or national monopolies. Despite these structural differences in their approach to international marketing, notably in the case of grain, these governments face the dual pressures of reconciling domestic and international pressures.

The importance of national governments in the international food regime can best be understood from a detailed study of their policy development, particularly in the case of the United States and the E.C. The decline of American pre-eminence in the international

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[2.58] **International Wheat Agreement, 1986, incorporating the Wheat Trade Convention and the Food Aid Convention.**

food regime and the ensuing role of the U.S. and national states in the transformation of the regime will be the subject of a chapter in my thesis.

2.6.1. Conclusion:

Robert Keohane has written: 'By investigating the evolution of the norms and rules of a regime over time, we can use the concept of international regime both to explore continuity and to investigate change in the world political economy'.[2.59] The postwar international food regime gained stability through American hegemony, particularly in an area such as wheat where the willingness of Canada and the United States to maintain reserves guaranteed supply and price stability. As we have seen above, that regime did not survive the 1960's. Although many of the institutions and actors that are part of the regime remain, such as the UN food agencies, the International Wheat Council, and the grain companies, the period since the 1960's has been marked by discord. With the increasing tendency of the United States to act unilaterally on agricultural issues, other nations sought redress through diplomatic channels and sought to enhance other agencies.[2.60] After the world food crisis of the early 1970's the UN food agencies have turned their attention primarily "toward enhancing the well-being of rural populations in the world's poorer countries."[2.61] They have been much less concerned with world trading arrangements than was originally expected or than they would have hoped. Their record is mixed although Puchala rightly points out that the scope of their activities has grown and they did manage to have agriculture assume a higher priority. Moreover, "with their emphasis on rural development, and particularly with their growing concern for equity in the countryside, UN food and agricultural policies are presently in accord with accumulated wisdom concerning the most promising pathways to development".[2.62]

Nevertheless, the possibilities for rural development have been very much affected by the competition, disorder, and instability of the international trading regime in agriculture.

[2.59] Robert Keohane, **After Hegemony: Cooperation and Discord in the World Political Economy**, (Princeton, 1984), p.64.

[2.60] Cohn, p.64. Speaking of grain, Cohn writes: "When the duopoly broke down in the late 1960's, no other group or organisation assumed its functions of controlling or stabilizing prices."

[2.61] Puchala, "The Road to Rome", p.179.

[2.62] ibid., pp.200–201.

Agriculture was excluded from the GATT rounds, largely at the behest of the United States and domestic political considerations in the United States and in other countries. The result is that rules that existed have weakened and new rules have not been formulated. In the 1970's agriculture came to the foreground of the international agenda because of the food crisis. What Keohane says generally about the post-1971 period can be applied to agriculture in particular: "Yet even when neither power nor positional motivations are present, and when all participants would benefit in the aggregate from liberal trade, discord tends to predominate over harmony as the initial result of independent action".[2.63] In 1980 Hopkins and Puchala took issue with Helge Ole Bergensen who had pointed out the conflictual character of the global food regime during the 1970's. They claimed that "in the current global food regime, ... Bergensen is correct to observe an increase in conflict. We are equally correct to note in the same period an increase in collaboration and in cooperation".[2.64]

Hopkins and Puchala were correct to point to the efforts at cooperation, and in 1980 it was far from certain that the cooperation would not bear fruit. But Bergesen was more prophetic: the regime transformation away from conflict did not occur, even if it remains as necessary as ever.

[2.63] Keohane, **After Hegemony**, p.59.

[2.64] Hopkins and Puchala, "The Failure of Regime Transformation: A reply", **International Organisation**, 34 (Spring 1980), p.305; and Helge Bergeson, "A New Food Regime: Necessary but Impossible", **International Organisation**, ibid., pp.285–392.

Chapter 3

The Nature of Grain as an Internationally Traded Commodity

3.1. Introduction

> "Man's persistent fixation with the food problem attests to its importance and complexity. However, unfulfilled past prophecies of widespread calamity, together with recent agricultural advances, suggests the possibility that ongoing predictions of food scarcity in the underdeveloped countries are illusory. Obviously the consequences of concluding wrongly that future needs will be met as part of the normal course of events are immense. On the other hand, man's capacity for directing events is greater than at any time in history".[3.1]

Within months of this prediction, the world was stunned by the sudden spectre of food shortages worldwide and wildly escalating prices of all food products following the massive secret sales of grain to the Soviet Union. The example of the "Great Grain Robbery" in 1972 is the most dramatic example in recent history of the instability of the international grain trade.

This chapter will examine the nature of grain as an internationally traded commodity. This examination will identify the destabilizing characteristics of the grain trade which have resulted in grain being the subject of almost continual dispute, negotiation and attempted cartelization since the mid-1800's.

Central to the examination of the international grain trade is, of course, the question of balancing production levels with consumption demands. The data presented suggest that there have been few moments in history when an effective balance of production and consumption has been attained.

The difficulty in establishing and maintaining optimal levels of production relates to the very structure of the international grain trade. Global production of wheat, coarse grains

[3.1] Leroy Blakeslee; Earl O Heady; Charles F. World Food Productions, Demand and Trade, (Iowa State University Press, Iowa 1973), p.3.

and rice are approximately 1.89 billion metric tons per annum, yet, only 220 million metric tons or 12% is traded on the international market.[3.2] This "thinly traded" quality of the international grain trade is a significant contributing factor in the instability of the market. The sensitivity of the international grain trade derives, in part, from the fact that it is this relatively small amount of grain that reaches the international market, and particularly, the level of surplus stocks that determines the international price of grain. Although a great number of grains are traded on the international market, this study will focus primarily on wheat, which has historically been the "key" to the international grain trade and on "coarse grains" (maize, barley, rye, oats, millet and sorghum) which have in recent years played a growing role in the international feed market.

Although the trade usually struggles under the burden of costly surplus stocks, cycles of grain shortages date back to the 1920's and before. It is the very possibility of a grain shortage – usually resulting from unusual market activity or yield fluctuations that requires continuous scrutiny of the levels of surplus stocks. While high stock levels have a depressing effect on grain prices, low stocks can jeopardise security of supply. Thus, the management of surplus stocks has been one of the central challenges facing exporting nations throughout history.

The perceived need for surplus management is accentuated by the highly political status of grain as one of the world's key staple commodities. In exploring the interrelatedness of the fields of economics and politics, Quincy Wright recognised that "resources may be used to influence a group by either offering or withholding economic advantage."[3.3] As illustrated in the case of the embargo of grain shipments to the Soviet Union following the invasion of Afghanistan, grain has, for many exporting nations, been an important instrument of foreign policy.[3.4] These political considerations will be dealt with in more detail in Chapters 4 and 5.

[3.2] Michael McGary and Andrew Schmitz, eds. **The World Grain Trade: Grain Marketing, Institutions and Policies** (London: Pinter Publications, 1982), p.vi

[3.3] Quincy Wright, "The Study of international Relations". (New York: Appleton - Central Crofts, 1955) p.239. in David A. Baldwin, *Economic Statecraft.* (Princeton: Princeton University Press, 1985) p.3.

[3.4] Robert L. Paarlberg, *Food Trade and Foreign Policy: India, the Soviet Union and the United States.* (Ithaca, N.Y. Cornell University Press, 1985) p.100

In a broader sense grain generally receives special status among both exporting and importing nations. This special status not only reflects the importance of grain to the economies of exporters and importers but also the fact that although the risk is very low, the possibility of grain shortages is very real.[3.5] Thus, in order to regulate production levels as well as to pursue domestic or international political objections, governments have employed often contradictory policies and initiatives. These interventions in the grain trade have had the effect of disturbing production levels and prices in a highly sensitive market. For example, export subsidies are used to promote exports while tariffs or quotas are used to restrict trade. Production levels can be increased through price supports or decreased through acreage reduction programs.[3.6] Food aid shipments have also been used to dispose of surplus stocks and, as in the case of the United States in the 1950's and 1960's, to expand the market.[3.7]

Various combinations of government programs have been implemented in order to maximize market shares, maintain farm incomes and at times to achieve foreign policy objectives. Political initiatives, both national and international, that have impacted on the international grain trade will be examined in Chapters 4 and 5 respectively. They have been introduced in this chapter only to the extent that they reflect the nature of the commodity.

As many of the general characteristics of the grain trade are common to all major exporting nations the United States is often used to illustrate a point. As the dominant exporter of grain in this century, its advancements have most dramatically affected the evolution of the commodity and the market.

In addition to the interventions of international organisations and national governments, there is, as we saw in chapter 2, virtually no aspect of the grain trade that is not influenced by the interventions of the international grain trade trading companies. Although the role

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[3.5] McGary and Schmitz, **The World Grain Trade: Grain Marketing, Institutions and Policies,** p.xi.

[3.6] Andrew Schmitz, Alex F. McCalla, Donald O. Mitchell and Colin Carter, "Grain Export Cartels". (Cambridge, Mass. Ballinger Publishing Co., 1981) p.23

[3.7] Dan Morgan, "Merchants of Grain" (New York, Penguin, 1979) pp.140-150. Public Law 480 passed by U.S. Congress in 1954 was advertised as an aid problem. It was in fact a perfect tool for disposing of surplus grain by converting millions of rice eaters worldwide to wheat. "Few questioned the profound economic and political implications of such a new matrix of dependency of the United States." (Morgan p.144) of these private grain traders will be an ongoing theme throughout this study, this chapter must include an overview of the role of the companies in the international grain market and how, through their operations, they have influenced the nature of the commodity.

3.2. Grain Production – General Characteristics

Grain hroughout history has claimed a prominence shared by few other commodities. Vitally important to human welfare, grain has also played an important role in the global trading system since the mid 1800's. Grains comprise the single most important contribution to human consumption. They contain a major fraction of human requirements for protein, carbohydrates, fat, minerals and vitamins (except vitamin C).[3.8] Grain can thrive in a remarkable range of climate conditions. Maize, for example can be grown from 50.N latitude to 40.S latitude and from below sea level to elevations of 12,000 ft. It can be grown in sub-tropical areas of Florida to the semi-arid plains of the Soviet Union. It thrives in parts of North Africa with an annual rainfall of less than 10 inches as well as in India where rainfall can exceed 200 inches.[3.9]

Wheat, however remains the most tolerant and widely produced grain in the world. It is adaptable to an extremely wide range of climate conditions although variations in climate will affect the grade of wheat produced – particularly in terms of its protein content. The hot, dry North American Prairies constitutes a large portion of the most fertile land base for wheat production in the world. They are especially conducive to the production of premium duram wheats. Europe, with its cooler, moister climate produces a lower protein soft wheat.

Geographical location and climate also affect the choice between spring and winter wheats. Winter wheats, which are planted in September or October and harvested in July, have the advantage of higher yields. The disadvantage of winter wheat is the danger of "winterkill" which can destroy the crop if the winter is particularly harsh without sufficient snow cover. Spring wheat is planted in the early spring and harvested in September. The

[3.8] D. Gayle Johnson and Robert L. Gustafson, **Grain Yields and the American Food Supply: An Analysis of Yield Changes and Possibilities**, (Chicago, University of Chicago Press, 1982) p.6

[3.9] Atkin... 1992... p.35

advantage of spring wheat is that with the hot, dry summer weather, it is able to develop a very high protein content. It can also be grown in climates too severe for winter wheat.[3.10] Yet, despite the fact that grains can be grown in most regions of the world, there are very few areas where serious food shortages or outright famine do not exist in living memory. Western Europe, for example, faced food shortages as recently as 1947.[3.11]

Historically, agriculture has played a unique role in the economic development of most nations. Agriculture, and particularly grain, has become a heavily regulated industry and commodity with extensive government intervention in both the input and output markets. These government interventions which take place almost daily, take into consideration the unique characteristics of grain as an internationally traded commodity. Unlike manufacturing processes, agricultural production is dependent on biological processes which, by their very nature are dynamic and therefore unpredictable. Weather variables which include precipitation, temperature, humidity and wind speed can have significant short term effects on crop yields.[3.12] The unpredictability of weather patterns alone precludes any reliable predictions regarding crop yields. Infestations can also suddenly and radically alter yield expectations.

Yet, whatever the uncertainties and however widespread the regions where grain can be grown, a review of the development of the international grain trade indicates that there has actually been a rather specific pattern in the evolution of the major grain producing, consuming and trading nations since the mid-1800's.

An historical perspective offers many significant insights into the problems associated with the modern grain trade.

An examination of the history of the growth in the production of wheat and coarse grains requires an examination of the four major inputs into agricultural production – land, labour, non-land capital and intermediate inputs. Non-land capital includes durable farm equipment and non-residential structures. Intermediate inputs include energy, fertilizers,

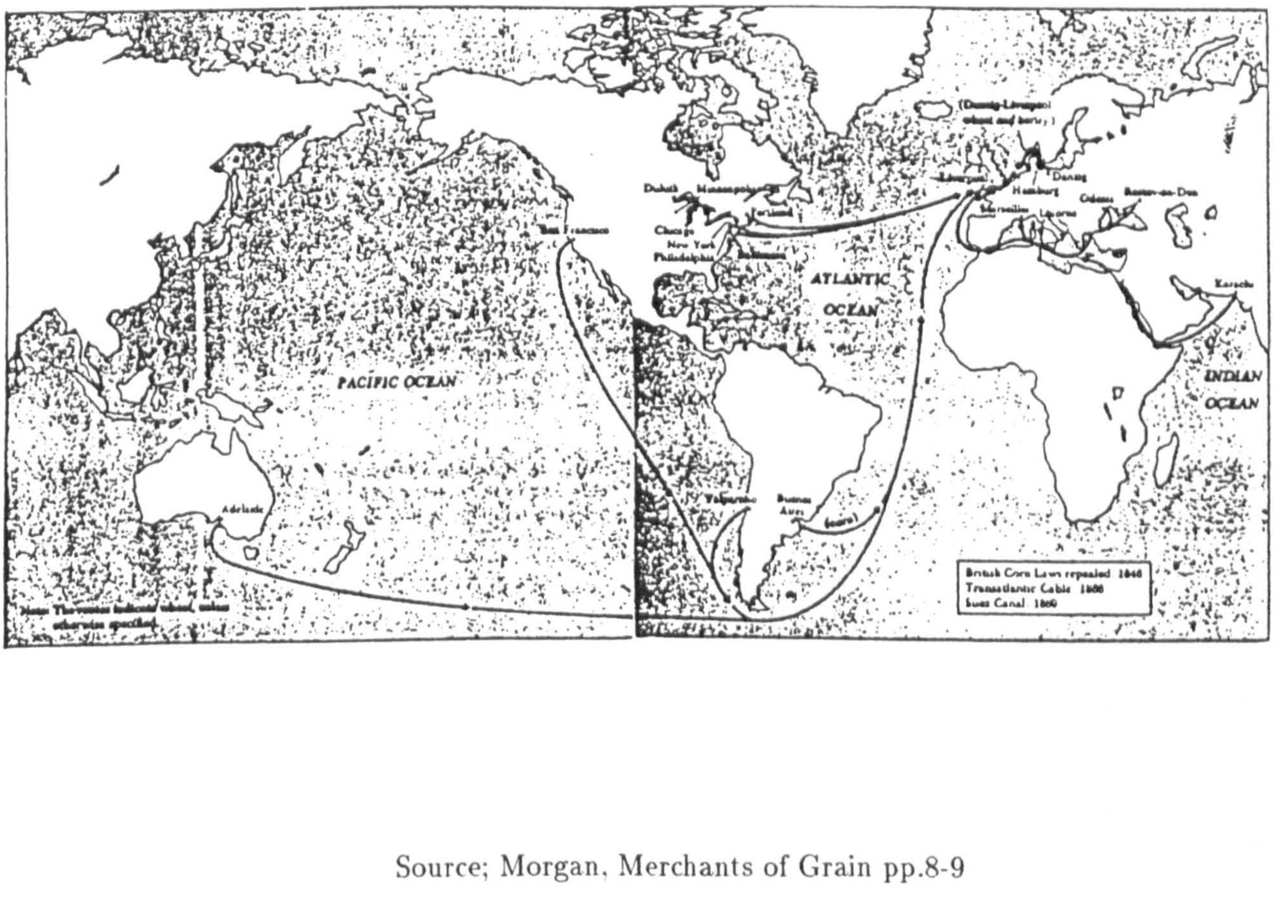
[3.10] ibid. p.36

[3.11] Ibid., p.3 and Morgan, pp.35-36.

[3.12] Johnson... 1962... p.16

pesticides, herbicides, seed, and other various inputs.[3.13] Despite the obvious yield enhancing benefits of these inputs, it is important to note that effective demand and adequate price levels must exist before a producer will risk his investment on new techniques, alternate crops or new instruments.[3.14] Thus, once invented, the degree of success of implementation of a technological innovation will depend on the demand side of the market.[3.15]

Figure 3.1. Major World Grain Routes 1880



Source; Morgan, Merchants of Grain pp.8-9

[3.13] Susan M. Capalbo and John M. Antle, eds. **Agricultural Productivity – Measurement and Explanation**

[3.14] Marilyn Chou, David P. Harmon Jr., Herman Kahn and Sylvan H. Wittiver, **World Food Prospects and Agricultural Potential** (New York, Praeger Publishers, 1977) p.16

[3.15] J.R. Hicks, **The Theory of Wages** (New York, St. Martin's Press, 1963) Hicks also concludes that "although some technological change is clearly the result of independent scientific discovery, most of the theoretical and empirical research has been devoted to the explanation of technological change in response to relative price changes."

3.3. Historical Background

As figure 3.1 illustrates, Great Britain was the "key" to the establishment of the international wheat market throughout the 1800's, particularly following the repeal of the Corn Laws in 1846. In his recent study *The International Grain Trade*, Michael Atkin described the subsequent creation of the British import market as "large and important enough to make an impact on trade flows as dramatic as that of Ancient Rome."[3.16] In 1843, through considerable political pressure, Imperial Preference had been formalized giving a great advantage to Canadian producers and millers in the British market. This coveted position, however, ended with the repeal of the Corn Laws.[3.17]

Other producers, notably Northern Germany and Russia began to assume a major place in the British market, but it was American producers who were the main beneficiaries of the new, open British market.[3.18] This period of rapid market expansion was erratic for all major exporters. The variability of the British imports from the major exporters is evident in Table 3.1.[3.19]

As Table 3.1 indicates, the "New World" countries of Canada, Australia, Argentina and the United States had vast expanses of prairies, which were ideal for growing wheat were brought under cultivation in the last decades of the nineteenth century. The producers moved forward in sequence between 1870 and 1888 the United States cropland expanded by 230%. In the following 10 years however expansion settled in at less than 10%.[3.20] This rather abrupt saturation of land available at the turn of the century signalled the end of an era in which increased food production was based on land expansion in the United States.[3.21]

[3.16] Atkin... 1992. p.16

[3.17] Duncan Alexander MacGibbon; "The Canadian Grain Trade" (Toronto, The MacMillan Co. of Canada, 1932) p.12. With the repeal of the Corn Laws in 1846 Canadian exports to Britain fell from 802,240 bushels in 1847 to 260,480 bushels in 1848 and down to 203,208 bushels in 1849.

[3.18] Ibid... The American advantage came from the judgement that it was cheaper to ship grain by the Erie Canal to New York than down the St. Lawrence to Montreal.

[3.19] D.O. Mitchell, "A World Grains and Soybeans Model" Commodity Studies and Projections Dividers, Economic and Research Staff. The World Bank, Washington, 1985. Imports from Russia, for example, dropped from an average of 51 thousand tonnes in the period 1828-1832, to an average of 2 thousand tonnes in the next five year period. In then climbed back to 46 million tonnes in the period 1838-1842.

[3.20] Leroy L. Blakeslee, Earl O. Keady, Charles F. Framenghan, "World Food Production, Demand and Trade", (Ames, Iowa, Iowa State University Press, 1983) p.7

[3.21] Vernon W. Ruttan and Yujrro Hayami, "Induces Technical Change" in Capalbo and Antle, 1988. p.247

Table 3.1. Sources of UK wheat imports, 1829–1914 (five year annual averages; thousands tonnes

	Russia	Prussia	Germany	Canada	USA	Argentina	India	Australia
1828–32	51	71	0	15	3	0	0	0
1833–37	2	25	0	5	0	0	0	0
1838–42	46	163	0	5	5	0	0	0
1843–47	56	112	0	10	25	0	0	0
1848–52	142	137	0	5	41	0	0	0
1853–57	132	152	0	15	147	0	0	0
1858–62	229	0	290	76	371	0	0	0
1863–67	411	0	325	46	229	0	0	0
1868–72	640	0	229	112	544	0	0	0
1873–77	457	0	188	168	1087	0	127	71
1878–82	340	0	152	173	1753	0	224	137
1883–87	406	0	91	127	1300	15	518	152
1888–92	823	0	86	107	1087	112	528	112
1893–97	833	0	41	168	1524	391	234	102
1898–02	229	0	36	335	1920	472	305	193
1903–04	1107	0	0	396	640	996	1107	356
1905–09	772	0	0	645	919	1179	726	432
1910–14	696	0	0	1072	1138	711	945	640

Source: Michael Atkin. *The International Grain Trade*, Second Edition (Cambridge, Woodhead Publishing Ltd., 1995). p.17

Nevertheless, the United States had emerged from this phase as the leading grain exporter and in 1848, Chicago was established as the main grain market in the world.[3.22] The other major exporters, Canada, Australia and Argentina followed the exhaustion of American land cultivation with rapid expansion of their own production and exports.

3.4. Infrastructure

The infrastructure necessary for the functioning of an international market in grain was built in the late 1800's. A network of canals and railroads quickly connected the producing areas with the main ports were constructed. This land-based infrastructure expansion was accompanied by the transformation of the shipping industry as modern steel, steam powered vessels replaced wooden sailing ships. This dramatically reduced the cost of freight.[3.23] In addition the transatlantic telegraph cable laid in 1866 made the rapid transmission of information including stock levels and prices possible.[3.24]

[3.22] Atkin... 1992.p.19

[3.23] D.B. Grigg, **The Agricultural Systems of the World**, (London, Cambridge University Press, 1974) p.655.

[3.24] Atkin... p.19

The internalization of the grain trade also spawned the emergence of the international grain trading companies. It brought about the establishment of the futures markets in Chicago in 1848, and in Liverpool in 1883. These markets have played a vital role in the world's grain trade since then. Futures markets grew out of spot markets in which a contractual obligation is established between two parties to buy and sell specified goods at an agreed price. These markets became popular instruments of the grain merchants in the late 1800's as a means of combating price volatility. Merchants were exposed to considerable risk in buying grain at a certain price, covering the cost of transportation and selling it again at a profit. The more volatile the prices, the greater the risk. The contractual obligations of the futures markets were intended to reduce substantially the risk to the grain traders. Futures markets also provided a public source of grain prices, an important piece of information for pruducers as well as exporters. In the many ways, the main features of the present day grain trade were established in the dynamic period of growth 1847-1900.

The period 1900-1919 was marked by erratic levels of production in all major producing nations. As Figure 3.3 suggests, total world production grew at a relatively stable rate; however individual producing nations experienced a considerable degree of instability in production levels and prices.[3.25] The unpredictability and uncertainty in the market was exacerbated by the outbreak or World War I. Supplies were tight, particularly since East European trade to Britain was cut off. Canada, Australia and the United States were under pressure to meet this sudden increase in demand. Production soared, particularly in the United States, as did the price of wheat. Figure 3.2 shows this to be the highest price years in history. The size of the price fluctuations were remarkable – well over 50% in a single season. Producers, also adversely affected by the volatility of the market were beginning to organize into what would become very influential co-operatives and unions by the mid-1930's.

The crisis of the 1920's and 1930's provides a classic illustration of the unpredictability of the international grain trade with the simultaneous collapse of both supply and demand. In terms of supply, the problems in large part stemmed from the unprecedentedly large

[3.25] price data is found in figure 3.2

	Argentina	Australia	Canada	U.S.A.	Total
1899	101,670	40,051	56,806	655,140	853,667
1900	74,736	48,355	55,556	599,327	777,975
1901	56,365	38,581	38,589	762,542	946,077
1902	103,764	12,383	97,040	686,960	900,147
1903	129,669	74,149	81,718	663,114	948,650
1904	150,759	54,528	72,238	555,565	833,090
1905	134,923	68,527	107,585	706,030	1,017,065
1906	155,977	66,433	136,246	740,533	1,099,189
1907	192,500	44,644	93,219	628,758	959,121
1908	156,161	62,574	112,436	642,721	973,892
1909	131,028	90,426	166,743	683,947	1,072,144
1910	145,983	95,129	132,094	625,488	998,694
1911	166,192	71,650	230,934	618,176	1,086,952
1912	187,393	91,969	224,173	730,024	1,233,559
1913	104,720	103,360	231,706	751,115	1,190,901
1914	169,168	24,875	161,268	897,502	1,252,813
1915	169,021	179,052	393,562	1,008,652	1,750,287
1916	80,101	152,413	262,791	634,564	1,129,869
1917	219,470	114,751	233,763	619,793	1,187,777
1918	171,593	75,655	189,083	904,152	1,340,483
1919	214,142	45,966	193,272	952,103	1,405,483
1920	156,124	145,873	263,195	843,305	1,408,497
1921	191,031	129,081	300,857	818,981	1,439,950
1922	195,844	109,460	399,808	846,649	1,551,761
1923	247,800	125,002	474,214	759,492	1,606,508
1924	191,141	164,575	262,093	841,615	1,459,424
1925	191,141	114,493	395,473	668,699	1,369,806
1926	230,089	160,754	407,157	832,245	1,630,245
1927	282,302	118,205	479,689	875,088	7,755,284
1928	349,065	159,688	566,735	914,404	1,989,892
1929	162,591	126,876	303,532	824,198	1,417,197
1930	232,294	213,591	420,679	886,552	1,753,116
1931	219,691	190,626	321,324	941,558	1,673,199
1932	240,892	213,922	443,056	756,333	1,654,203
1933	286,123	177,325	281,898	552,221	1,297,567
1934	240,671	133,380	275,872	526,060	1,175,983
1935	141,463	144,219	281,934	628,227	1,195,843
1936	249,931	151,384	219,213	629,880	1,250,408
1937	207,602	187,246	180,228	873,914	1,448,990
1938	379,158	155,389	360,015	919,913	1,814,475
1939	130,734	210,505	520,622	741,210	1,603,071
1940	299,461	82,232	540,206	814,646	1,736,545
1941	238,356	166,706	314,820	941,970	1,661,852
1942	235,160	155,720	556,704	969,381	1,916,965
1943	249,857	109,717	284,470	843,813	1,487,857
1944	150,098	52,874	416,637	1,060,111	1,679,720
1945	150,116	142,419	318,525	1,107,623	1,718,683
1946	206,304	117,264	413,728	1,152,118	1,889,414
1947	238,800	220,117	341,749	1,358,911	2,159,577
1948	191,000	190,699	386,325	1,294,911	2,062,935
1949	189,017	218,221	371,389	1,098,415	1,877,042
1950	212,967	184,244	461,685	1,019,389	1,878,285
1951	77,162	159,725	552,662	980,810	1,770,359
1952	277,909	195,208	687,916	1,298,957	2,459,990

carryover stock (over 300 million bushel) in 1929. Given the collapse in demand due to the economic recession, the American Department of Agriculture, the Canadian Wheat Pool and the private grain traders were called upon to advise producers what strategy would best minimize the crisis. They erroneously decided that prices would rise considerably the following year. The failure of these forecasts inevitably led to disaster for almost all who were concerned directly or indirectly with wheat.[3.26] The collapse of the wheat market had far reaching economic and political consequences. Not only were producers in many cases forced to leave their farms, but delinquencies on their debts and taxes weakened country banks, insurance companies and the whole credit structure.[3.27] Producers emerged from this crisis as a determined political force and the effectiveness of the powerful farm lobby is a legacy of these years.

The crisis in the wheat sector led policy makers in the early 1930's to attempt to negotiate an agreement designed to regulate the international grain trade. Davis suggests that it was the first time in at least a century when "there have been such far reaching effects on the part of many countries to modify the operation to economic prices for general public welfare.[3.28] The results of these negotiations were acreage reduction programs and reduced world production.[3.29] Chapter 5 will describe these and subsequent international negotiations to regulate the grain trade.

These international attempts to regulate the grain trade were undertaken in conjunction with a variety of national programs, such as price supports, which have also remained a constant feature of agricultural policy. Chapter 4 will provide a detailed examination of the effectiveness of farm lobby groups in influencing national policies.

[3.26] **Joseph S. Davis, An Agricultural Policy 1926-1938, (Food Research Institute, Stanford University, 1939). p.190**

[3.27] **Ibid... p.190**

[3.28] **Ibid... p.192**

[3.29] **Figure 3.3 American production was at an all time low in 1934 at 526,010 thousand bushels. Note: 36.74371 bushels equals one metric tonne for wheat.**

3.5. Productivity

Due to the constraints on the amount of land that was available as well as the increased cost of land after 1900, further increases in production would be the result of higher yields. It is this growth in productivity that is often cited a one of the major factors that contributed to the substantial economic growth of the postwar agricultural sector.[3.30] This shift marked the beginning of the transition from a resource-based to a science-based system of agriculture.[3.31]

Given this transition, we must consider the distinction between production and productivity. Productivity is viewed by Capalbo and Vo in terms of the efficiency with which inputs are transformed into useful output.[3.32] This transition to a more efficient system dramatically altered the nature of the commodity as well as the market.

3.6. Technological Change

In the post World War II period, increased productivity was biased toward increased mechanization as well as the intensive use of chemicals, energy and capital. Such technological change is described by Antle and Capalbo as being "changes in the production process that came about from the application of scientific knowledge."[3.33] These changes might involve using existing resources to attain higher levels of output. Alternatively, changes in input quality can involve the introduction of new processes of inputs.[3.34] These would include chemical inputs, new seed varieties and machinery.

Much of the technology employed in the late 1940's and early 1950's was actually developed in the 1930's. It awaited a period of effective demand to provide the incentive for its adoption. This "Second American Agricultural Revolution", as described by Chou, is

[3.30] Susan M. Capalbo and Trang T. Vo, "Review of the Evidence on Agricultural Productivity and Aggregate Technology" in Capalbo and Antle, p.96

[3.31] Ruttan and Hayami... p.247

[3.32] Capalbo and Vo... p.97

[3.33] Antle and Capalbo... p.33

[3.34] Ibid.

notable for the "explosion of yields" that accompany the increased productivity of both land and labour in this period.[3.35]

Labour productivity was increased though improved farming techniques and the use of gasoline and diesel oil in fuelled machinery. The productivity of the land improved through the use of chemical inputs as well as increased information on plant development. Thus, Chou concludes that "The Second Agricultural Revolution was brought on by conditions similar to those preceding the First Agricultural Revolution: A backlog of little used technological innovations, higher demand for farm products and a shortage of farm labour."[3.36] The capital and chemical intensive technology adopted by major grain producers in the post-war period were largely designed to increase efficiency through reducing the labour requirement. A substantial change did take place not only in the quantity but also quality of farm labour. Family labour was substituted with higher output hired labour. Higher output per labour hour was also enhanced by the increased use of fertilizer and machinery.[3.37]

In real terms, the growth rates for land structure were nearly non-existent in the post-war era. There was, however, a dramatic increase in the use of agricultural chemicals in the 1950's and 1960's.[3.38] The use of all of these chemical enhancements including fertilizes, lime, insecticides and herbicides has allowed producers to intensify their farming practices. In terms of input costs, equipment and energy showed substantial increases through this period; however, the prices of chemicals remained fairly constant.

As table 3.3 indicates, there is a high degree of variability of both inputs and outputs in the periods of 1950-60, 1960-70 and 1970-82. Such variability would reflect broader international market (price and supply) considerations.

Table 3.4 also emphasises the variability of the rates of growth of output from 1970-82 which again inflicts changing international market considerations.

[3.35] Chou, Harmon, Kahn and Wittiver... 1977.p.16 Chou dates the 'First Agricultural Revolution" at the end of the 16th century in Western Europe when new crops, particularly fodder and root crops made fencing the fields technically and economically more beneficial... p.14

[3.36] Chou, Harmon, Kahm and Wittiver... p.17

[3.37] Capalbo and Vo... pp.112-114

[3.38] D. Pimental. "Food Production and the Energy Crisis." Science 182(1973) pp.443-449, Chou, Harmon, Kahn and Wittiver. p.17. The use of fertilisers (nitrogen, phosphorous and potassium) in 1975 was 8 times its 1950 level. Insecticides and herbicides showed a much larger rate of growth 20 times it's 1950 level by 1975.

Figure 3.2. Average Annual Rates of Growth of Total Revenue, Aggregate Real Output, Total Cost, and Aggregate Real Input

Period	Revenue (current dollars)		Output (constant dollars)		Cost (current dollars)		Input (constant dollars)	
1950-60	0.74		1.66		2.22		0.14	
1960-70	2.44		0.84		5.26		0.05	
1970-82	8.89	(7.73)	2.60	(1.45)	11.28	(9.41)	0.34	(0.13)
1950-82	4.33	(4.01)	1.76	(1.33)	6.57	(5.97)	0.17	(0.09)

Note: Growth rates in parentheses are the average annual rates of growth over the given period using 1983 as the last year
Sources: Capalbo and Vo, p.102

Figure 3.3. Average Annual Rates of Growth of Total Revenue, Aggregate Real Output, Total Cost, and Aggregate Real Input

Period	Livestock	Crops	All Outputs
1950-60	1.34	1.91	1.66
1960-70	1.16	0.56	0.84
1970-82	0.84	3.72	2.60
(83)	(0.94)	(1.78)	(1.45)
1950-82	1.10	2.17	1.76
(83)	(1.13)	(1.45)	(1.33)

Note: Growth rates in parentheses are the average annual rates of growth over the given period using 1983 as the last year
Sources: Capalbo and Vo, p.103

3.7. Plant Breeding and Biotechnology

Seeds differ from other inputs in significant ways. As a living thing seeds are subject to genetic and other transformations including death. Seeds are bred to maximize favourable characteristics such as high yielding ability, high response to mechanized cultivation methods, resistance to disease and pests, and resistance to adverse environmental factors.

Historically, seed development was conducted by independent government agencies, but in recent years it has become more commercial in nature and management. The importance of seed production in the development of agricultural crops cannot be overemphasized.[3.39] The ability of seeds to remain viable from one crop year to another has been essential to the survival of mankind. As agriculture has modernized, producers have come to rely on the commercial market for their seed supplies. This has been particularly true since the advent of the hybrid varieties of wheat, maize and rice that led to the Green revolution. In 1955

[3.39] Walter P. Feistritzer, **Cereal Seed Technology; A Manual of Cereal Seed Production, Quality Control and Distribution**, (Rome, Plant Production and protection Distribution, F.A.O., 1075)p.25

Dr. Norman Borlaug crossed Nordic 10 Brevor with Mexican wheat producing semi-dwarf varieties which produced yields up to three times that of conventional seed.[3.40]

Thus, just as strong demand and backlog of accumulated technology triggered the agricultural revolution in America, similar motivating forces were behind the "Green revolution". The increasing populations of Asia and Africa provided the motivation for increasing production through the new high-yielding varieties (H.Y.V.'s). In India millions of people would have experienced high levels of hunger and starvation in the 1966 and 1967 droughts had not large imports of cereal not been available. The world adjusted to the use of these seeds with remarkable speed. Between 1965-66 and 1974-75 acreage under H.Y.V.'s in non-communist nations increased from 50,000 hectares to approx. 41 million hectares.[3.41] Biotechnology will continue to play an important role now in food production, as scientists develop genetically improved disease resistant crops, crops that are resistant to herbicides; as well as new varieties of drought and salt resistant cereals.[3.42]

At present, there are two major ongoing debates continue regarding the H.Y.V.'s. The first debate focuses on the technical aspects of H.Y.V.'s, and the question of whether these modern and peehaps more unpredictable high-yielding varieties of grains have contributed to the increased variations in annual production yields.[3.43]

Figure 3.6 illustrates that there had been a high degree of variability in the growth rates of all inputs between 1950 and 1982 which again could be interpreted as market driven.

If the desired objective of implementing technological change is a reduction in the cost of production and an increase in profits, this approach cannot bbe considered entirely satisfactory. Given the instability of commodity prices and input costs (particularly energy),

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[3.40] Chou, Harmon, Kahn and Wittiver... p.19

[3.41] Ibid... p.20 India was the leader with 61.7% of wheat planted with H.Y.V.'s.

[3.42] Martin Gibbs and Carla Carlson, Crop Productivity - **Research Imperatives Revisited**. An International Conference held at Harbour Springs Michigan Oct. 13-18, 1985 and Airlie Virginia, Dec. 11-13, 1985 also see "Saline Agriculture - Salt Tolerant Plants for Developing Countries" Report of a Panel of the Board on Science and Technology for International Development, Office of International Affairs, National Research Council, National Academy Press, Washington D.C. 1990. This is an excellent source for the study of salinity/irrigation and salt tolerant plants with special emphasis on developing world needs and application.

[3.43] Michael H. Arnold and Roger B. Austin, "Plant Breeding and Yield Stability" p.127. Jock R. Anderson and Peter B.R. Hasell, Variability in Grain Yields: Implications for Agricultural Research and Policy in Developing Countries. International Food Policy Research Institute (Baltimore, John Hopkins University Press, 1989)

Table 3.2. Rates of Growth of Inputs, 1950–1982

Period	Hired labour	Family labour	Equip-ment	Animal capital	Struct-ures &land	Fertil-isers	Pest-icides	Energy	Other materials	All inputs
1950–60	-3.02	-4.07	0.74	1.59	0.38	5.91	4.77.	3.27	2.23	0.14
1960–70	-2.24	-3.78	2.71	-0.22	0.00	7.60	10.81	2.72	0.60	0.05
1970–82	0.84	-1.70	2.56	-0.13	0.07	2.08	3.22	-0.75	0.84	0.34
(83)	(1.08)	(-1.86)	(1.96)	(-0.26)	(0.00)	(0.75)	(1.31)	(-1.14)	(0.47)	(0.13)
1950–82	-1.32	-3.09	2.04	0.38	0.10	5.01	6.07	1.58	1.20	0.17
(83)	(-0.70)	(-3.11)	(1.89)	(0.31)	(0.06)	(4.39)	(5.23)	(1.36)	(1.04)	(0.09)

Note: Growth rates in parentheses are the average annual rates of growth over the given period using 1983 as the last year

Sources: Capalbo and Vo, p.17

this new capital intensive approach to agricultural production has left the producer increasingly vulnerable and has necessitated ever increasing levels of government intervention. The general conclusion of scholars is that "the improved varieties remain the most effective means of increasing yield and reducing the risk of crop failure". They stress, however that breeding strategies should include considerations relating to yield stability and input requirements.[3.44] The "Green Revolution" and this subsequent scientific discovery fundamentally has altered the nature of grain as a commodity as well as the nature of the market including changes in yields, input costs and trade flows.

The second debate relates to the ongoing concerns about a population "explosion" and the ability of producing nations to meet the challenge. The United Nations has recently warned that the world faces "four decades of the fastest growth in human numbers in all history." It is expected that the present world population of 5.4 billion will double to 10 billion by the year 2050. They are calling for another 'Green revolution" but note that it will be much harder this time. Soil degradation, lack of water and urban advances have all contributed to reduction in crop yields.[3.45] There is the added concern that the institutional and infrastructure problems that inhibited the fulfilment of the potential of the "Green Revolution" remain today.[3.46]

[3.44] Ibid... p.132

[3.45] **New York Times**, Paul Lewis, May 10, 1992, *Food Production and the Birth Rate are in a New Race*

[3.46] Chou, Harmon, Kahn and Wittiver... p.21

3.8. Productivity - Summary

"The ability of U.S. farmers to more than double farm output from 1917 to 1968 on about the same land area with about 33% as much labour – indicates the magnitude of increased use of land substitutes on American farms."[3.47]

The increased productivity of American agriculture as a result of this technological revolution has been remarkable. All major exporters have provided ever increasing support for agricultural (export) production.

The European Community in 1988 spent a staggering 65% of it's total budget on agriculture and fisheries support.[3.48]

This vast expenditure on agricultural price supports attests to the inability of producers to balance production levels with effective demand. The result of this imbalance has been the accumulation of surplus accompanied by their distorting affect on market prices.

3.9. Surplus Stocks and Prices

Reflecting on the world wheat problem, Joseph Davis wrote:

> "The world wheat problem is one of persisting surplus. More wheat has been produced, is currently available, and is being produced than wheat markets will absorb except at prices unremunerative to large groups of wheat farms and ruinous to many of them. The existence of the surplus is reflected in wheat prices that not only appear extremely low, but are unprecedentedly low run relation to prices of commodities in general. The surplus is evidenced by abnormally heavy stocks of wheat; and by a continuing excess of supplies above ordinary wheat requirements, either for the world as a whole or for the international market."[3.49]

This passage, written in 1932, could have been written through much of the Twentieth Century. The price depressing effect of surplus stocks has, with only intermittent interruptions, been a continuous problem for producers and policy makers since the 1930's.

[3.47] *ibid.*, p.17

[3.48] Source: The Community Budget; The facts and Figures (1989 figures). **The Economist World Atlas and Almanac**, (Milan, New Interlitho, 1991) p.159

[3.49] Passages (pp.437-442) from an extended study "The World Wheat Problem", **Wheat Studies** July 1932, VIII, 409-444 in Joseph S. Davis.

Volatility of prices seems to have been curbed through the 1950's and 1960's when the United States and Canada maintained internal stock levels sufficient to absorb at least partially internal production and consumption fluctuations, thus, precluding the necessity of shifting the fluctuations to the international market. These stocks had a stabilizing effect on the international market in that it created the possibility for policy-makers to react quickly to developments in the international market.[3.50] Proponents of a free functioning, deregulated market would argue that "fluctuations in price are signals sent to producers and consumers, encouraging them to adjust their behaviour to fit changing market circumstances."[3.51] The data shows, however, that in both developing and developed countries production levels are quite inelastic regardless of price.[3.52]

Given the relatively inelastic production responsiveness of grain – in the short term, and the thinly traded quality of the market, "a small change in global grain supplies results in a disproportionately large effect on world prices."[3.53] Although there are many input variables that can affect the price of grain, the simple relationship between stocks and prices is very useful in understanding price movements and is commonly used to determine the price of grain and to forecast commodity prices. This stock-consumption ratio is an easy way of measuring the balance of supply and demand.

In general terms, this balance can be seen as a close, inverse relationship. When stocks are high, prices are low and when stocks are low, prices rise. The importance of this relationship must be stressed. These stock and price variations not only reflect market functions, but also government policy. These issues will be addressed in greater detail in Chapter 4.

[3.50] J.C. Bloom, Stabilisation of the International Grain Market: A Study into the causes of the instability of the international grain market, together with an evaluation of research carried out on the possibilities of stabilizing this market, (Rotterdam, Royal Dutch Grain and Feed Trade Association, 1982p.22) and for a more detailed description of the management of the international grain trade in the 1950's and 1960's by the duopoly of Canada and the United States, see Ted Cohn, *The International Politics of Agricultural Trade: Canadian-American Relations in a Global Agricultural Context* pp.33-39

[3.51] Atkin... p.82

[3.52] International food Policy Research Institute Report, Washington 1991, "Food Data Evaluation Projects... p.11

[3.53] Chou, Harmon, Kahn and Wittiver... p.184

3.10. Summary and Conclusion

The history of the development of grain as a major force on the international commodity market is marked by extraordinary periods of growth as well as devastating periods of stagnation. This variability reflects the nature of the commodity as well as the economic and political environment in which it has developed.

The growth in the sheer size of the export market since the late 1800's is the result of tremendous expansion of cultivated acreage as well as the development of technologies which enhance production levels. Although these techniques were successful in greatly increasing crop yields, both producers and policy makers have been less successful in balancing production levels with effective demand. As a result, the history of the grain trade is a history of overproduction and oppressive surplus stocks interspersed with sudden periods of shortages. This pattern of unpredictability reflects the dynamic nature of the commodity.

Production output can be radically affected by changes in weather, or sudden infestations. Crop yields will also be affected by the use and cost of the many inputs used in the modern agricultural processes. The availability and cost of fertilizers, pesticides, herbicides and energy, for example, will also affect production levels.

Political considerations are also a major factor in determining grain production levels. Since the 1930's grain has been the subject of almost constant international negotiation (as will be discussed in Chapter 5), these negotiations, not surprisingly, have largely focused on price stabilisation schemes and security of supply. The national schemes, which have also been a constant feature of agriculture policy among the major exporters since the 1930's, largely attempted to protect domestic producers and consumers from world prices.

On a national level, billions of dollars have been spent to increase market share and stabilise farm income. Neither objective has been fulfilled, since despite the billions of dollars spent on export subsidies by the U.S. and E.C., market share has changed very little since 1985.[3.54]

[3.54] **Canadian Wheat Board Annual Report 1990/95, p.5**

Since 1991 international prices have remained highly unstable, reflecting increasingly unstable production as well as the increasing reluctance of major exporters to hold stocks.[3.55] Under these circumstances it will be difficult to anticipate price changes. The uncertainty that has characterised the international grain trade since its inception seems bound to continue.

[3.55] Leonardo A. Paulino, "Cereal Supply, Demand, Trade and Stocks in Agriculture Price Policy for Developing Countries", in Mellor and Ahmed... p.25. See also, "Short Fall in the Grain Fields", **New York Times**, 19 Nov. 1995.

Chapter 4

National Agricultural Policies: Part I, The United States

4.1. Introduction

The history of grain production and the international grain trade is one marked by periods of extraordinary growth as well as some periods of devastating stagnation. This variability, as detailed in Chapter 3, reflects the nature of the commodity as well as the uncertain political and economic environment in which it has developed. It is this inherent variability that has provided the rationale for the countless national and international policies and programs which have been developed throughout this century in an attempt to manage this vital sector of the economy. Policies adopted in order to resolve problems in the agricultural sector have fundamentally influenced the social structure, the economy and foreign relations of many nations. They have also been a significant factor in the shaping of international grain trade and food aid patterns.

The international grain trade is characterised as an oligopoly — that is, an industry which is largely dominated by a few large sellers. They are Argentina, Australia, Canada, The United States of America (U.S.A.) and the European Community (E.C.). Despite the wide variance in the production schemes, political systems and institutional structures of these major sellers, a combination of natural advantages and policy decisions has resulted in the creation and evolution of this oligopoly.[4.1] The purpose of this chapter is to examine persistent problems in the production and marketing of grain and the policy options which have been adopted in order to address these problems by the United States, the catalyst and the major actor in the international grain trade. This examination will particularly focus on United States national agricultural policies, which have most significantly affected

[4.1] Brian T. Oleson, Ph.D. Thesis "Price Determination And Market Share Formation In The International Wheat Market" (Minneapolis, University of Minnesota, 1979) p.1.

international trade and aid flows as well as international agreements or initiatives. Before discussing the United States in detail, some general background is essential.

The four leading exporting countries have succeeded in maintaining their market positions for most of the twentieth century. Although Argentina, Australia, Canada and the United States have witnessed significant structural change within their domestic economies and in their markets for grain, their position as the leading exporters has been surprisingly continuous. The four share an important characteristic: they are able to produce grain considerably in excess of domestic demand. While other nations may produce more, they may be unable to meet even the basic requirements of their domestic markets. The former Soviet Union has historically provided such an example. The European Community is the trading bloc which has emerged in recent decades as a significant exporter — one that has had a profound impact on world grain trading relationships. Although some countries within the community, such as Britain, remain net agricultural importers, the Community as a whole has become the second-ranked grain exporter worldwide. Taken together these five exporters have accounted for over one-third of world wheat production and more than 90% of world wheat trade since the 1960's.[4.2]

These five (and, previously four) have at times sought to take advantage of their oligopolistic trading position, but, in more recent years, their relationship has been marked by a rigorous competition for market share.[4.3] Just as the national agricultural policies of these exporters have fundamentally influenced the nature of the international grain trade, so have these exporters been required to develop national policies to meet the demands of changing international market conditions. Although the policies which the major exporters

[4.2] *Wheat Support Policies and Export Practice in Five Major Expnorting Countries.* International Wheat Council, Secretariat Paper #16, London, May. 1988. Also, Gilmore, "Although less than 15% of total global production in grains is actually traded, this amount has a far reaching economic and social impact worldwide. National marketing systems play a determining role in linking global productions and consumptions. In the process, 15% translate into more than 220 million metric tonnes per annum and represents approx value of $35b." Richard Gilmore, **A Poor Harvest, The Clash of Policies and Interests in the Grain Trade.** (New York, London, Longman), p.201

[4.3] Andrew Smith, Alex F. McCalla, Donald O. Mitchell and Colin Carter. *Grain Export Cartels* (Cambridge, Mass., Ballinger Publishing Company, 1981) p.p.23-54 see also Alex F. Mc Calla and Timothy E. Josling, *Agricultural Policies and World Markets* (Macmillan Publishing Company, N.Y., 1985) p.123, p.133.

have adopted have similar objectives, they vary considerably in the form which they have taken.[4.4] In the case of each exporter they have also varied considerably over time.

It is interesting to note that although many countries, including the United States, struggled to establish an "energy policy" in 1978 and 1979, comprehensive agricultural policies have been in existence since the early 1930's.[4.5] It was the collapse of the agricultural sector in 1929 that illuminated not only the variability of agricultural production and prices but also the ripple effect throughout the economy of distress in the agricultural sector.[4.6] Then, as now, the importance of agriculture, and particularly wheat, to the economies of the major exporters and their resolve to support the sector cannot be overstated. From these early beginnings, agricultural support policies have remained a constant feature of economic planning.

The deadlock in the recent Uruguay Round of the General Agreement of Tariffs and Trade over agricultural issues provided an illustration of the importance of agriculture and grain to the world trading system, and to the national governments that control the system. Despite the successful negotiation of critical areas including textiles, intellectual property, services and dispute settlement, agriculture remained the one exception for a considerable period. Governments had refused to allow their national agricultural policies to be subject to negotiation or arbitration within a multilateral framework. Moreover, the major exporters had, until recently, made little effort to modify their domestic programs to make them more consistent with the GATT rules for trade in agricultural products.[4.7]

[4.4] International Wheat Council. Secretariat Paper #16

[4.5] Nick Butler, *The International Grain Trade: Problems and Prospects* (London, Croom Helm for the Royal Institute of International Affairs, 1986), Although less than 15% of total global grain production is actually traded on the international market, this amount has a far-reaching economic and social impact worldwide. National marketing and production policies play a determining role in linking global production and consumption.

[4.6] *World Agriculture and International Trade* An International Survey: Report by a Study Group of Members of the Royal Institute of International Affairs (London, Oxford University Press, 1932) and Paul de Hevesy *World Wheat Planning and Economic Planning in General* (Oxford University Press, London, 1940).

[4.7] D. Gayle Johnson. *Agricultural policy and Trade: Adjusting Domestic Programs in an International Framework.* Trilateral Commission Report Nov. 17 1984 and "Grotesque" A Survey of Agriculture, The Gimondst, Dec. 12, 1992. This assessment of national agricultural policies indicates that the trade barriers in some agricultural commodities have risen ten-fold while support for manufactured goods has fallen by three-quarters since the late 1920's.

The compromises that were finally reached did not address the structural problems of the system. The drive for the liberalisation of trade practice in the agricultural sector has faced many hurdles not experienced by industrial trade. Although industrial trade items (i.e. automobile, textile, steel etc.) have experienced ups and downs in the drive for trade liberalisation, the final objective has been rarely called into question.[4.8] "Agriculture, on the other hand, has remained outside the international legal order throughout this century and before"[4.9]

The exceptionality of agriculture is a theme which will be developed in more detail in the following discussion. It will be found that to a large extent the issues which plague agricultural policy makers today are rooted in the past. The export policies of the leading five have been shaped primarily by domestic political and economic circumstances, and an understanding of those forces is essential to any analysis of the international grain trade.

To understand better these forces, I propose to introduce an analytical framework for each individual exporter, in this chapter for the United States, in the following chapter, the other exporters. In each country there are competing interests that shape agricultural policies and, accordingly, have an impact upon the grain trade. The policies of the major exporters will be treated chronologically and analytically within each historical period. The chronological limits of the study of each exporter will be approximately 1920–1990, although in each case certain periods will be emphasised and, in the case of the European Community, the discussion will focus on that more recent period. For each exporter, the following objectives will be examined:

1. producer income and price stability

2. production management

3. socio-political factors

4. foreign policy and national security considerations

[4.8] Jean-Marc Lucq, "Agricultural Impediments to Global Free Trade." *Terra Nova*, Volume 1, Number 3, Spring (North) Autumn (South) 1992, p.42.

[4.9] *ibid.*, also see Berton E. Henningson Jr. "The Wealth of Nations and the Poverty of Producers: The Conflict Between Free Trade and the New Deal Farm Program", *Agricultural History*, Volume 61, Number 1, Winter 1987.

5. the role of commercial interests

Again, in the case of each exporter, the weighting of these factors will be seen to have changed over time. The major questions to be asked for each exporter for each period are:

1. What are the goals of governments as these goals are publicly expressed?

2. What domestic and foreign policy interests do these policies reflect?

3. How does agricultural policy making fit into the broader context of overall economic planning and how is agricultural policy making affected by national economic policies?

This information which will be relevant market data presented for each exporter and will be analysed in light of the exporter's trade, economic and social policies.

The changes in the position and the policies of the exporters from the 1930's to the 1980's will be individually analysed. In doing so, reference will be made to the various moments in history when the major exporters attempted to supplement their national policies with some forms of international cooperation. These initiatives included the successive International Wheat Agreements, the Food Aid Conventions and the proposal in 1974 to establish international grain reserves. Although these efforts will be detailed in Chapter 6 and 7 respectively, it is important to note the state of the international grain market, the political and social climate, and the effectiveness of national policies to resolve problems in the agricultural sector when these initiatives were brought forward.

Because the United States domestic and foreign economic policies have been, arguably, the most significant factor in understanding the evolution of the international grain trade, the United States will be considered first and in more detail than will be the case with the others.

4.2. The United States of America

4.2.1. Introduction

Throughout the twentieth century, the United States has been the dominant actor within the international grain trade. Although it has not always been the largest producer or exporter it has most often possessed or potentially possessed the significant surplus resources which have a fundamental impact on grain pricing.[4.10] This last fact largely explains the great significance of American national policies.

Although the United States possesses a considerable natural comparative advantage in the production of grain, it has, to a large extent, been the impact of its national grain policies which have supported and encouraged the expansion of grain production and thus ensured America's place in the international grain market. From investment in the early technological and chemical innovations which have been described in Chapter 3,[4.11] to the market expansion programs of the 1940's and 1950's,[4.12] the presence and influence of the American Government in agriculture has been pervasive. Government intervention has grown to the point where it became the single largest influence on the production and marketing of grain.[4.13]

The budgetary implications of this intervention have become staggering. In a comprehensive analysis of the conflict in the U.S.–E.C. agricultural trade relations in the 1980's, Ronald Libby estimated that:

> "Recent government farm spending worldwide has averaged between $200 billion and $300 billion annually. The E.C. alone is responsible for more than $90 billion with the United States accounting for about $70 billion and the Third World countries roughly $60 billion."[4.14]

The foreign policy implications of American agricultural policy have most obviously and most recently been seen in its trade relationship with the E.C.; nevertheless, as Richard Fraenkel suggests, despite America's unique position in the world food economy, the implications of America's agricultural policy for U.S. foreign policy have scarcely begun to be

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4.10 "Carryover Stocks of Old Wheat in the Four Major Exporting Countries (1922–1946). and *World Wheat Statistics* "End-Year Carryover: Exporting Countries" International Wheat Council, 1962, p.46.

4.11 Susan M. Capalbo and Trang T. Vg "Review of the Evidence on Agricultural Productivity and Aggregate Technology" in Susan M. Capalbo and John M. Antele, eds. *Agricultural Productivity — Measurement and Explanation* (Washington, Resources for the Future: 1988) p.96–98.

4.12 Dan Morgan, *Merchants of Grain* (New York, Penguin Books, 1986), p.144–150

4.13 Joseph Halow, *U.S. Grain: The Political Commodity* (London, University of America Press, 1989), p.vii

4.14 Ronald T. Libby, *Protecting Markets: U.S. Policy and the World Grain Trade* (Cornell University Press, Ithaca N.Y., 1992) p.4; also see William P. Avery, ed. *World Agriculture and the GATT* (Boulder, Colorado, Lynne Reiner Publishers, 1993) p.2.

investigated.[4.15] A review of the often contradictory policies which have governed American grain production and marketing will illustrate the numerous ways in which they have not only affected America's external relations, but also how these policies affected foreign agricultural development. Analysts worldwide identify many serious problems in the agricultural policies of the United States. Despite the damaging consequences of these policies, successive administrations have remained inflexible in dealing with this issue.[4.16]

4.2.2. Background

The role which agriculture has played in the social structure, economy and polity of the United States has changed markedly throughout this century. Although the percentage of the gross national product which agriculture represents has declined steadily and remarkably, the American agricultural interests have maintained considerable influence in Washington.[4.17] This apparent paradox of increased farm subsidies and power in light of declining economic output and rural depopulation is generally seen as one of the more unfathomable aspects of the present agricultural crisis.[4.18] This point does, however, highlight the fact that the role of the American grain farmer in American political economy has attracted a good deal of historical and even theoretical interest. Indeed, one of the major theoretical interpretations of American development, the so called "frontier thesis", emphasises the impact of the agricultural frontier on American political and economic thought and practice. The great farm movements identified with the Progressive Party and the other midwest political movements had a decisive impact on the American political system in the first half of the twentieth century.

Grain production was central to the lives of the early settlers. The unpredictability of grain production and the resultant price variability, apparent in the early 1900's, was

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[4.15] Richard M. Fraenkel, Ron F. Hadwiger and William P. Browne, *The Role of U.S. Agriculture in Foreign Policy* (New York, Praeger Publishers, 1979) p.1 and also see, Robert Paarlberg *Food Trade and Foreign Policy*: India, the Soviet Union and the United States (Ithaca, N.Y. Cornell University Press, 1985).

[4.16] William P. Avery, *World Agriculture and the GATT* (London, Lynne Reiner Publishers, 1993)

[4.17] Nick Butler, *The International Grain Trade: Problems and Prospects* (London, Croom Helm, for The Royal Institute of International Affairs, 1986), p.17. Over 30 Senators and almost 200 Congressmen out of a total of 435 still come from what are generally considered "farm states". In the electoral college that elects the President, over 35% of representatives come from "farm states". These figures have changed little over the past 50 years.

[4.18] "Grotesque" A survey of Agriculture *The Economist* Dec. 12, 1992.

exacerbated by the outbreak of World War I. Due to increases in effective demand that accompanied the war effort, production soared as did the price of wheat.[4.19] The collapse in price in the aftermath of World War I prompted producers to begin to organise into the cooperatives and unions which would become very influential by the mid 1930's[4.20] It is from these humble, early beginnings that the agricultural lobby in the United States has evolved into the highly organised, well-funded enterprise that it is today.[4.21]

By the late 1920's, the problems inherent in the production and marketing of grain had become a major political concern. To a large extent the basic underlying issue behind many of these problems was production management. We shall see that many of the comprehensive set of policies established in the following decade were designed to attempt to manage production levels, or to offset the adverse effects of production variability.

4.2.3. The Crisis of the 1930's

The tremendous cropland expansion of the late 1800's coupled with technological and chemical advances in the early 1900's led to sharp increases in production levels which became problematic after 1925 when per capita consumption began to level off and even decline domestically and in importing countries[4.22] due to reduced purchasing power. Exceptionally large crops in both 1928 and 1929 exacerbated the growing surplus crisis as did the continual acreage and crop expansion of some producers, clearly in violation of the laws of supply and demand.[4.23]

The crisis deepened, and in late 1929 the agricultural sector collapsed providing a classic illustration of the unpredictability of the international grain trade with the simultaneous collapse of both supply and demand. This crisis followed nearly a decade marked by overproduction and prices that had become too volatile for producers to absorb.

[4.19] Atkin, p.80

[4.20] Joseph Davies, *An Agricultural Policy, 1926–1938* (Stanford University, Food Research Institute, 1939), p.190.

[4.21] Alex McCalla. Private interview May 3, 1993, Rome. Dr. McCalla describes the agricultural lobby as having "incredible savvy about the political process, second only to the defence industry in its lobbying effectiveness!"

[4.22] Don F. Hadwinger, *Federal Wheat Commodity Programs*, (Ames, Iowa, Iowa State University Press, 1970) p.107.

[4.23] *ibid.*, p.108

The uncertainty of production and price levels in the early 1900's had become critical by the late 1920's. The farm lobby that emerged from this crisis was increasingly unified and aggressive.[4.24] It was at this time that a very broad trend began in American agricultural policy-making that was more or less maintained until World War II. This period was in general terms characterised by producer organisation and government intervention designed to regulate or manage production in order to stabilise prices and production. These policies were seen as a means of restoring and maintaining the rural social structure which had been devastated by the "Dust Bowl" of the early 1930's.

The first proposals, the McNary-Haugher Plan (1924), presented to Congress a plan for selling farm products for domestic consumption at a regulated price and exports at world prices.[4.25] This plan was vetoed by Congress, as was a second proposal which called for the use of debentures for importers to offset the cost of tariffs. A third plan (1925) provided for government price guarantees at the cost of production plus a fair profit. This Bill failed to survive the Depression — as did President Herbert Hoover, who was hesitant to embrace such government intervention.[4.26]

A new era in economic planning and agricultural policy-making began with the election of the Democrat Franklin D. Roosevelt in 1933. The Roosevelt administration was elected with large mandates in four consecutive Presidential elections. Roosevelt's platform in 1932 promised radical action to reinvigorate the American economy. The "New Deal", as Roosevelt's program was called, promised a much greater degree of government intervention in an attempt to cure the high level of unemployment and the collapse of the American agricultural sector that had marked the depression. Roosevelt appointed the farm leader and economist Henry Wallace as his secretary of agriculture. Originally a Republican, Wallace was angered by the unwillingness or inability of Republican Presidents Coolidge and Hoover to support a Congressional proposal for a two-price system for the marketing of grain. In his view this would have increased the level of "parity", of farm worker income with

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[4.24] Davies, p.193
[4.25] Arthur Schlesinger, *The Coming of The New Deal* (Boston, Little Brown, 1959), ch.1
[4.26] *ibid.*

urban wages.[4.27] It was with Roosevelt's endorsement that Wallace presented a plan which would become the basis for the Agricultural Adjustment Act (AAA) of 1933. This Act, which would remain the cornerstone of America's agricultural policy until the mid 1980's, was designed primarily to bring farm income into better balance with urban incomes. This act and subsequent amending acts set the pattern for future state involvement in the United States.[4.28]

Within this framework, provision was made to compensate producers for taking acreage out of production. This was an important precedent for the United States, and later for other producers. Controlling production seemed to Wallace a more effective method to prevent the accumulation of surpluses or the need to "dump" them abroad, an action which he believed could undermine international markets in agricultural products.[4.29]

Secretary Wallace viewed the collapse of the agricultural sector as having been the result of a number of dislocations both domestic and international. The impact of the depression had been enormous and it would leave a legacy. American farmers could not forget the "worst economic, social and political wrenching in their history. Realised net income of farm operations in 1932 was less than one-third of what it had been in 1929."[4.30] What is significant for our purposes is the impact of this memory on the future response of governmentand the direction of American policy.

In addressing what he considered to be weaknesses in the domestic support structure, Secretary Wallace initiated a number of proposals. Although the AAA supported market prices of agricultural commodities through a loan program, acreage adjustments, export supports and import restrictions, Wallace and his supporters considered these inadequate to deal with all contingencies.[4.31]

[4.27] John Blum, ed., *The Price of Vision: The Diary of Henry A. Wallace 1942–1946*, (Boston, Houghton Mifflin, 1973) p.9, 11

[4.28] *ibid.*; and Paul de Hevesy, *World Wheat Planning and Economic Planning in General* (London, Oxford University Press, 1940) p.2, and Berton Henningson Jr. "The Wealth of Nations and the Poverty of Producers: The Conflict Between Free Trade and the New Deal Farm Program", *Agricultural History*, V.61, No.1 (Winter 1987). pp.25–29. Also see Richard Gilmore, *A Poor Harvest* (Longman, N.Y.) p.181.

[4.29] John Blum, p.17.

[4.30] *History of Agricultural Prices Support and Adjustment Programs*, p.1. Farm prices had also fallen by more than fifty percent during the time, while the cost of goods and services had declined by only thirty-five percent.

[4.31] John Blum, p.18 and Henningson, *Wealth of Nations*, p.78.

Critics of the AAA, however, charged that the influence of the act was already too pervasive, that it was protectionist and that it meant that high cost, inefficient producers would be protected. Moreover, the act was held to have placed emphasis upon an aggressive search for export markets as a means to achieve prosperity in the agricultural sector. Other critics who favoured free trading practices argued that the act maintained artificially high prices that caused food prices to rise which in turn required higher wage demands in the industrial sector.[4.32]

Despite the critics' arguments, Wallace proceeded to establish the Commodity Credit Corporation (CCC) in 1933 which remains the primary source of funding agricultural adjustment payments. Other initiatives undertaken at this time included the Federal Surplus Commodities Corporation (1933) and the Federal Surplus Relief Corporation (1933) which were both intended to assist in the distribution abroad of surplus stocks in conjunction with special aid projects of the USDA and the Federal Emergency Relief Administration.[4.33]

Another important component of the overall plan was the Domestic Allotment Plan (1933) in which producers were contracted to limit wheat average in exchange for proportionate compensation.[4.34] The Jones-Costigan Act (1934) greatly increased the authority of the Secretary of Agriculture in making support payments and the first amendment of the AAA in 1935 empowered the President to impose quotas when they interfered with adjustment programs.[4.35].

In summary, the objectives of all of these programs were to increase producer income, production and to manage grain surpluses, and to enhance the general wellbeing of rural America. In terms of the socio-political factors which influenced the Roosevelt administration to adopt such comprehensive measures to support the agricultural sector, one must consider that in 1933 agriculture and rural America purchased approximately 40% of

[4.32] Henningson, *Wealth of Nations*, p.71–6.

[4.33] *History*, p.5. The CCC provided a special type of operating credit: "If the market price for the commodity is above the (annually set) base rate the farmer can repay the loan with interest and sell the commodity on the open market; if it is below, the farmer can forfeit the commodity to the CCC in full payment of the loan."

[4.34] Acreage was reduced by 15% in 1934 and an additional 10% in 1935. The droughts of 1933 and 1934 made more drastic action — such as the proposal to pay farmers to plough up their fields unnecessary. This plan had the dual purpose of increasing farm income while restricting production *History*, p.6.

[4.35] *ibid.*, p.10

all goods in the United States. The administration could argue that the program would stimulate demand and thus help to end the depression.[4.36] It is also important to note that President Hoover's failure to take effective action between 1930 and 1933 created widespread hardship and unrest in agricultural areas and contributed substantially to the Republican defeat in 1932.[4.37] Secretary Wallace believed that providing an immediate stimulus to farm purchasing power was an integral part of the overall recovery plan.[4.38] The plan was surprisingly effective in achieving its stated goals. Producer income rose by 50% in 1935 over 1932 levels.[4.39]

Agrarian leaders warmly welcomed the legislation and in turn gave their initial support to the international initiative of the New Deal. This included the Reciprocal Trade Agreement Act and the International Wheat Agreement. In late 1933 the International Wheat Agreement (IWA) was signed. This agreement, was significant in that it provided the international component of Wallace's agricultural stabilisation plan. The recognition that the agricultural depression was a worldwide phenomenon[4.40] prompted 22 of the major exporting and importing countries to agree to acreage reduction programs, export quotas and price provisions. This agreement had all the essential features of a commodity management regime, but it failed after less than a year. Bumper crops in Argentina caused that country to break its export quota.[4.41]

The significance of this impulse to seek an international solution to grain price and supply variability to supplement the national stabilisation schemes is extremely important. Surplus management was clearly regarded as an international as well as a national issue.

[4.36] History, p.7 and Paul de Hevesy, p.5.

[4.37] Berton, E. Henningson Jr. "Unites States Agricultural Trade and Development Policy During World War II: The Role of the Office of Foreign Agricultural Relations" PhD Thesis, University of Arkansas, 1981, p.26.

[4.38] Arthur Schlesinger, *The Coming of the New Deal* (Boston, Little Brown, 1959) Ch.1

[4.39] *History*, p.9

[4.40] Joseph S. Davies, "International Factor in the Agricultural Depression" Address before the Institute of International Relations, Riverside, California, Dec. 14, 1931. *Proceedings* (Los Angeles, University of Southern California, 1932) VIII, p.159–63 in Joseph S. Davies *On Agricultural Policy, 1926–1938* (Food Research Institute, Stanford University, 1939), p.173–79

[4.41] Raymond F. Hopkins and Donald J. Puchala *Global Food Interdependency: Challenge to American Foreign Policy* (New York, Columbia University Press, 1980), p.52

As the unpredictability of production levels continued into 1938, negotiations for a new agreement resumed but were adjourned due to the outbreak of World War II.

The Reciprocal Trade Agreement Act (RTA), which had been presented as an emergency measure, was based upon a firm ideological commitment to the freeing of international trade and thus, export promotion on the part of Secretary of State Cordell Hull.[4.42] The RTA was seen by Hull, Roosevelt and many within the Administration as an effective means of restoring world commerce.[4.43] Given the trade surplus in the aftermath of World War II, reciprocity was also seen to provide a convenient instrument to establish U.S. hegemony.[4.44] The initial support in the agricultural community which this program enjoyed was quickly lost as the trade agreements began to reduce tariffs on agricultural imports. Farm organisations began to strongly voice their opposition to the RTA as early as 1935 and 1936.[4.45] Instead of a country by country approach to trade negotiations, the Office of Foreign Agricultural Relations (OFAR) regarded international commodity agreements as a more realistic method for expanding farm exports in a manner which would not conflict with the domestic price support program."[4.46]

The global nature of the Depression suggested to Wheeler and others in OFAR that the United States could not alone restore world commerce in agricultural trade. Furthermore, they concluded that "since agricultural price support programs and their accompanying trade restrictions appeared to be a permanent fact of life around the world, the road back to freer trade could only be taken through international cooperation.[4.47]

[4.42] Henningson, *Wealth of Nations* see also, Robert A. Isaak. *International Political Economy: Managing World Economic Change*

[4.43] Henningson, *United States Agricultural Trade and Development Policy*, p.36. Also Alfred Edward Eckes Jr. "Bretton Woods: America's New Deal for an Open World," (PhD. Thesis, University of Texas, Austin, 1969)

[4.44] Robert A. Isaak, *International Political Economy: Managing World Economic Change* (New Jersey, Prentice Hall International Inc., 1992), p.82. This act provided a significant precedent for GATT rules in that its tenets provided the basics for the "most favoured nation" (MFN) principle.

[4.45] James Bellamy Beddow, "Economic Nationalisation or Internationalism: Upper Midwestern Response to New Deal tariff Policy 1934–1940" (PhD dissertation, Oklahoma State University, 1969) p.66.

[4.46] Henningson, *Wealth of Nations* ... p.84. Between 1937 and 1941 OFAR had represented the Department of Agriculture in negotiations for international agreements to stabilise the supplies and process of sugar, wheat, cotton and coffee — exports which were susceptible to wide price fluctuations when excess stocks accumulated.

[4.47] Henningson, United States Agricultural Trade and Development Policy, p.38

Simultaneously, the United States Chamber of Commerce became a vocal opponent of the Roosevelt Administration's agricultural policies, arguing that the subsidisation and control aspects represented expensive forms of interference with the market.[4.48] The lines were drawn for a debate that has continued in American economic and political fora to this day.

4.2.4. Post World War II Planning

The outbreak of war and resulting temporary shortages eliminated the need for domestic support programs as all efforts were geared to increasing production for the war effort. Figure 4.1. illustrates the dramatic increase in U.S. production in the post war period.

Figure 4.1. Net Trade in Wheat, Course Grain and Rice, Pre-War, 1948–52, 1969–71 and 1978/79. (in million metric tons).

Country and Region	1934–38	1948–52	1969–71	1978/79
North America	5	23	54	104
United States			(39)	(86)
Canada			(15)	(18)
Western Europe	−24	−22	−22	−14
EEC			(−17)	(−5)
Other			(−5)	(−9)
East Europe & USSR	5	–	−3	−24
Asia, Africa, Latin America	3	−6	−32	−70
Japan			(−14)	(−23)
China			(−3)	(−12)
Australia and New Zealand	3	3	11	11

Sources:. Figures for 1934–38 and 1948–52, Lester Brown with Erik Eckholm, *By Bread Alone* (New York: Praeger, 1974), p.61, tables 5–2; for 1969–71, Central Intelligence Agency, Directorate of Intelligence, Office of Political Research, *Potential Implications of Trends in World Population, Food Production and Climate*, ORP-401, August 1974, Appendix I, table 4; for 1978, USDA, *World Agricultural Situation*, WAS-18, December 1978, p.38, figures represent forecasts

The debates and arguments of the 1930s subsided in the early 1940s yet the Office of Foreign Agricultural Relations continued to plan for the agricultural trade problems which they expected would recur in the post-war years. Acknowledging the permanence of domestic

[4.48]Direct government payments peaked at 35% of net cash income in 1939. It dropped to 30% in 1940 and 13% in 1941, *History*... p.15.

price support programs[4.49] and wishing to avoid self-defeating trade wars, OFAR again suggested international commodity agreements as an alternative approach to liberalising agricultural trade. The details of these negotiations will be presented in Chapter 6; however, for our present purpose the goals of such an initiative are noteworthy. OFAR claimed that such an agreement would serve as a means to

> distribute equitably among exporting nations the available market, to establish prices fair to the exporter and importer alike, to seek to regulate reserve stocks and to seek such production controls in exporting nations as will adjust world supply to effective demand.[4.50]

In wartime, Henry Wallace continued to argue that agricultural commodities were susceptible to wide production and price fluctuations which made management of the trade on both a national and international level essential. OFAR's arguments met with strong objections from Hull and his supporters who believed, with some justification, that the domestic price and income supports and the international commodity agreements weakened the American policy of lowering international trade barriers and reducing protectionist domestic policies.[4.51] The trade expansion rationale of the free-trade lobby; however, did not hold up well in historical perspective. The Great Depression had shown that in times of international crisis it is impossible for anyone to find new markets.

In a debate which almost came to be characterised as a battle of wills between the State Department and the Office of Foreign Agricultural Relations, USDA, the question of exceptionality of agriculture in the post-war commercial policy of reducing trade barriers was established - on economic grounds. "They argued that agriculture, which had led the nation into the depression suffered not so much from the loss of foreign markets to absorb surpluses, as from a structural inability to control price and production."[4.52]

[4.49] Memo to Members of Subcommittee E on Agriculture Policy of the Committee on Trade Barriers. From Schwenger, Jan. 10, 1945. Re: Back-up statements to defend OFAR formulated clauses for exclusion in a draft convention on relaxation of trade barriers, p.3.

[4.50] Report of the Director of the Office of Foreign Agricultural Relations. United States Department of Agriculture (1941), p.5. In 1940 Henry Wallace became Vice President, an acknowledgement of the success of his agricultural program.

[4.51] Henningson, *Wealth of Nations*, p.48

[4.52] The comprehensive analysis of this debate is substantiated by OFAR documents including; Foreign Trade, Sept. 28 1944 'Problems of Agriculture's Position Relative to a Proposed International Convention Relaxing Trade Barriers'. Letter to Ralph Taylor from Leslie Wheeler August 25 1945 'Post-war trade

In the end, those advocating a free trade policy acknowledged the political and economic basis for not fully exposing agriculture to fluctuating market conditions. The USDA argument had prevailed. It was accepted that the principle of supply and demand functioned imperfectly when applied to agriculture. The physical constraints alone such as climate, infestations, soil and capital costs prevent producers from rapidly responding to changing market conditions.[4.53] Moreover, the turn-around time for crops is roughly four and one half years.[4.54] In a free-trade system, the inability to rapidly shift production in response to declining demand will inevitably lead to prices depressing surpluses.[4.55]

A second free-trade principle, that of competitive advantage, would suggest that market prices competition should determine the most efficient allocation of resources. When applied to commodities such as agriculture, or perhaps energy, it was argued that the societal costs of unmanaged price fluctuations should be taken into consideration.

T. Robert Schwenger, the OFAR's chief economist, addressed this issue in 1944, arguing that "price fluctuations should only be tolerated within a range that is acceptable to the general level of national economic activity. Drastic slumps or increase in key commodities can hurt the entire economy." Schwenger stresses: "the necessity for applying special measures of government intervention to important sectors of an essentially free-enterprise economy in order that other sectors may continue to function effectively."[4.56]
It was within this context that OFAR pursued the objectives of reducing extreme price fluctuations through the creation of international commodity agreements to complement the stabilization feature of national programs.

This goal created irreconcilable differences between Wallace and the OFAR, on the one hand, and the State Department and Cordell Hull on the other hand. Wallace's general

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agreements and USDA's Commitment to Protect Interests of Agriculture'; and Memo to Subcommittee E from Schwenger Re: Agenda to examine 'existing and prospective agricultural prices and income support systems in the United State and other important countries.

[4.53] D. Gayle Johnson, and Robert L. Gustafson, *Grain Fields and the American Food Supply: An Analysis of Field Changes and Possibilities.* (Chicago, University of Chicago Press, 1962) p. 6.

[4.54] Berton Henningson, *Wealth of Nations*

[4.55] *ibid.*

[4.56] Robert B Schwenger. "World Agricultural Policies and the Expansion of Trade" *Journal of Farm Economics*, 27 Feb. 1945, p. 86.

views were too far 'left' and he was not asked to be Vice President in 1944, but the agricultural interests continued to express his viewpoint. The State Department lost Cordell Hull in 1944 and Roosevelt died, but its criticism of agricultural exceptionality persisted.

The State Department, through its spokesman Clair Wilcox, argued that "The wisdom of our agricultural policy is not here in question... but the fact that it in inconsistent with our belief in private enterprise and with our efforts to restore a freer trading system should be clear"[4.57] The contradictions and debate persisted; Ted Cohn reflected on this apparent contradiction in American economic policy-making four decades later: As one of the guiding forces in the agricultural trading agencies, the United States has often followed policies in agriculture that diverges rather widely from its trade policies in other areas.[4.58]

Upon Roosevelt's death, Harry Truman (Democrat) assumed the Presidency in 1945. In general terms, he continued the broad outlines of Roosevelt's policies and was sympathetic to the agricultural interests of the mid-west. As a senator, he had supported the Agricultural Adjustment Act of 1938 and argued for fair prices for farmers. His policies remained interventionist as with Roosevelt, although the Cold War soon became his major preoccupation, one which had a major effect on his domestic and foreign economic policies.[4.59] The Cold war injected national security concerns into trade questions. This could be seen early in the European Recovery Plan, the so-called Marshall Plan, which, in the case of agriculture, coincided with a subtle yet unmistakeable shift in American agricultural policy. [4.60] The national security/strategic component in the decision making process was much enhanced in the post World War II era. This as a general theme in American agricultural policy-making was evident until the early 1980's.[4.61]

The unprecedented scale and scope of the Marshall Plan, and the timely fashion in which it was delivered were of lasting significance. The aid package, although predominantly

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[4.57] Clair Wilcox, *A Charter for World Trade*, (New York; The Macmillan Company, 1949) pp.19-20

[4.58] Theodore H. Cohn, "The Changing Role of the United States" in William P. Avery ed. *World Agriculture and the GATT* (Boulder, Colorado, Lynne Reiner Publications, 1993) p.17

[4.59] David McCullough, *Truman*, (New York, Simon and Schuster, 1992) part four.

[4.60] See Theodore H. Cohn "The Changing Role of the United States in the Global Agricultural Trade Regime" in William P. Avery, *World Agriculture* p.22-23

[4.61] David H. Baldwin, *Economic Statecraft*, (New Jersey, Princeton University Press, 1985) pp.319-335. This concept is developed in general economic terms relating to international aid issues, not explicitly food aid.

American, was also open to the participants of other "American" or like-minded states.[4.62] Despite the fact that the recovery program was theoretically offered to Communist states as well, the plan quickly became an anti-Communist instrument of the West.[4.63] The aid program proved useful in allowing the American government to address concerns regarding "containment" of Communist states, as well as the "containment" of Communist elements in Western Europe. Through this program, aid could be simultaneously apolitical in motive, political in result and more subtle than the food aid policy proposed by American Secretary of State Dean Acheson, which involved extending food aid selectively.

The Marshall Plan is regarded as having established a precedent for long term regular American foreign assistance. David Baldwin, examining this supposition in some detail, notes that the success of the program, even in terms of its secondary intention of promoting European integration as well as gaining European support for restrictions on trade with Communist countries may have been crisis specific. He also questions the popular belief that American policy-makers erroneously assumed that a similar plan would be equally effective in dealing with Third World Countries.[4.64] Although there were undoubtedly some elements of the plan that were incorporated into later aid programs, aid to Third World countries differed dramatically in terms of size, and range of the assistance. Nevertheless the Marshall Plan was a precedent. Aid, surplus management and trade policy coincided in a fateful way.[4.65]

4.2.5. Surpluses, Market Expansion and Aid

The end of wartime grain shortages placed the United States in a situation of postwar surplus. The Truman Administration attacked the problem on several fronts.

[4.62] Bothwell, Drummond, English. p.71. It was in this context that the underlying motivations of the plan became apparent. Not only did it serve the purpose of reducing grain surpluses, but it was also considered an anti-Communism program.

[4.63] Charles S. Maier, "The politics of Productivity" in Peter J. Katzenstein, ed. *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States.* (Madison, The University of Wisconsin Press, 1984) pp.40-41

[4.64] David Baldwin, p.320. See also, Robert O. Keohane, *After Hegemony; Cooperation and Discord in the World Political Economy.* (New Jersey, Princeton University Press, 1984) p.128. Keohane notes the increased sphere of influence on "paternal leadership". Klaus Knorr, *The Power of Nations: The Political Economy of International Relations* (Basic Books, N.Y., 1975)) argues that the United States enjoyed such paternal leadership as a result of the Marshall Plan.

[4.65] *ibid.*

Following the Truman victory in the Presidential election of 1948, the growing surplus problems led to renewed interest in an International Wheat Agreement. A 1949 Act modernised the parity formula to include paid hired labour, and set up loans to cooperatives to construct storage facilities. In that same year, the United States, Canada, Australia, France as well as 37 wheat importing countries were signatories to the new International Wheat Agreement in a renewed effort to stabilise the overseas wheat trade. This agreement, which included pricing provisions (that is, a band of acceptable price variations with established floor and ceiling prices), was considered an important supplement to the Agricultural Act of 1940. The agreement also contained export quotas. Despite the many problems that continued to plague the international grain trade, particularly regarding surplus management, it is important to note that the price range established in 1949 was maintained until the breakdown of the IWA in 1969.

Secondly, while the United States led the way in advocating the liberalisation of trade through tariff reductions, a process that created the General Agreement on Tarrifs and Trade (GATT), it also "used its international political muscle to obtain a waiver of most of its GATT obligations with respect to agriculture." [4.66] Agriculture remained largely exempt from later GATT rounds. Thirdly, it moved to control production and quell farm discontent.

The "Brannan Plan" (1949) named after newly appointed Agricultural Secretary Charles F. Brannan was the most comprehensive and innovative set or proposals to address agricultural problems since the 1930's. This plan featured:

1. Use of income standard, based on a ten year moving average beginning with the years 1938-47 rather than parity as a basis for compiling price support levels for farm products.

2. Restrictions of supports to large-scale farms to what an efficient family farm unit could produce.

[4.66] William P. Avery. "Agriculture and Free Trade" in William P. Avery, ed. *World Agriculture and the GATT*, (Boulder, Colorado, Lynne Reinner Publishers, 1933.), p.2. The exemption of agriculture from the GATT was regarded as a "stunning victory" for American agrarian interests.

3. Requirement of compliance with approved conservation practices in order to receive benefits.

4. Production controls on all crops in the form of acreage reductions and market quotas. [4.67]

Farm groups strongly supported these, and the other features of the comprehensive plan. Their twofold task involved informing producers of the details of the plan and, secondly, to lobby congress to support the plan. The Iowa Farmer Union went so far as to establish "a corn-belt beach head in Congress for the Brannan Plan"[4.68] But it met strong congressional opposition because of its expense and its "socialist" tone. The result was the continuation of existing programs with their inherent tendency to create surpluses. In fact, in 1948–1949-6% of U.S. agricultural exports were financed through food-aid programs. Policy makers sought new markets on concessional terms in such areas as Japan and Taiwan where American grain had no previous market.

Unlike the reconstruction and development incentive which was certainly inherent in the Marshall Plan, the program of concessional market expansion was primarily developed as a surplus disposal scheme; however, as in the Marshall Plan, a new era of economic dependency was established.[4.69]

The Korean War in June 1950 brought temporary relief to the problems of surplus production. In fact, Secretary Brannan was compelled to invoke the National Security provision of the AAA to ensure the maintenance of high levels of production.[4.70] However, such production created surpluses that ballooned by 1952 and led to renewed calls for solutions.

[4.67] "What New Farm Plan Means" *Business Week* April 16, 1949 p.25.

[4.68] *The Farmers's Union's Voice* "America Need's The Brannan Plan" Special Edition, February, 1950. p.1. Charles Brannan has since been criticised as having "backed away from his "plan" almost before it was even really born — right after Allen Klein of the Farm Bureau let out the first blast against it. They "traded" it for the "police action" in Korea." F.W. Sotwer, President, U.S. Farmers Association and Editor *U.S. Farm News* personal letter to Randy Henningson, 10 Sept. 1973

[4.69] Dan Morgan, p.144. General Douglas MacArthur began to import wheat into Japan in 1946 and orchestrated a massive exposure to this "occidental" delicacy. In Taiwan President Chaing Kai-Shek assisted the U.S. program by declaring that "wheat eating is patriotic".

[4.70] Robert Bothwell, Ian Drummond and John English, Canada Since 1945: Power, Politics and Provincialism (Toronto, University of Toronto Press, 1981, Revised Edition, 1989) pp.122-125

Table 4.1. The Changing Pattern of World Grain Exports

Region	1934–38	1948–52	1960	1966	1973	1975
North America	5	23	39	59	88	94
Latin America	9	1	0	5	−4	−3
Western Europe	−24	−22	−25	−27	−21	−17
Eastern Europe & U.S.S.R.	5	–	0	−4	−27	−25
Africa	1	0	−2	−7	−4	−10
Asia	2	−6	−17	−34	−39	−47
Australia & New Zealand	3	3	6	8	7	8

Source. Lester Brown, *The Politics and Responsibility of the North American Breadbasket*, World Watch Paper No.2, World Watch Institute October, 1975, as quoted by Raymond Hopkins and Donald Puchala, *The Global Political Economy of Food*, p.11.

As Figure 4.2 illustrates, is there tremendous rate of production growth in North America and the concurrent growth in the world trade of grain. In the 1930's Western Europe was the only importing region. Asia became a net importer in the wake of World War II and the Korean War. By 1975 it was the largest grain importing region worldwide. By 1960 Africa had lost its food self-sufficiency, and it was later joined by Latin America in 1973. Figure 4.2 also notes the first stages of the Western Europe transition from that of the largest importer of grain to its present position as second ranked exporter.[4.71] The movement of Eastern Europe to where it has come to rely heavily on Western imports in also noteworthy.[4.72]

By the time the Democrats left office in 1953, the Republicans under Dwight David Eisenhower inherited a massive "farm problem" caused by surplus production. A full review of farm support programs was undertaken in an attempt to reduce government involvement. Not only could Secretary Benson not get rid of the programs, but the establishment of the Soil Bank by the A.A.A. (1956) again, substantially increased federal spending.[4.73] This

[4.71] A study (1983) notes the relatively constant import requirements in Western Europe while export sales steadily climbed. *The Globe and Mail* January 25, 1983.

[4.72] Nick Butler, *The International Grain Trade*, p.53–71. Although the collectivisation process of the Soviet agricultural sector in the 1930's severely damaged its productivity levels, the Soviet Union continued to export grain not only as a source of revenue but also to exert political influence, p.53.

[4.73] *ibid.*, The Soil Bank together with other price supports cost the federal government $5 billion in 1959. It is estimated that the Eisenhower administration lost over $12 billion from 1953–1955 through the purchasing and storing of agricultural products program designed to reduce acreage levels had little effect on production levels and was discontinued in 1958.[4.74]

Another policy was the Payment-in-Kind (PIK) subsidy in 1956. Under this program producers would be reimbursed in grain the difference between domestic and world prices. This program helped to move grain stocks into the export market and raised farm income.[4.75]

Growing fiscal problems relating to agricultural support payments combined with ever growing surplus stocks caused the government to embrace P.L. 480 as the "linchpin" of the U.S. strategy to use food aid as a means of surplus disposal. As the program evolved, the funds generated by the program were used to help off-set the cost of other support programs.[4.76] In 1958 it became known as "Food for Peace" when Senator Hubert Humphrey expanded the market development component of the plan and argued that supplying countries with food was a great way of checking communist aggression.[4.77]

The election of Democratic President John F. Kennedy in 1960 brought about changes in orientation, if not in substance regarding agricultural policy making. His "new frontier" echoed Roosevelt's "new deal" and Kennedy promised to "get America moving again" after the Post-War period. This period was a unique period of growth and prosperity in the United States. It was one in which U.S. political and economic hegemony was being established throughout the world, and was also a period overshadowed by a preoccupation with the threat of Communism.

The unique circumstances in the world food system at the end of World War II had allowed the United States to take the lead in establishing an international system which effectively regulated the production, distribution and consumption of grain in virtually every country of the world.[4.78] Analysts suggest that the period 1949–1965 must be understood

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[4.74] *History* ..., By 1957 over 21.4 million acres were held in this "bank". The last of the land in the reserve was not released until 1972.

[4.75] Joseph Halow, *U.S. Grain: The Political Commodity* (London, University Press of America, 1989), p.15

[4.76] Richard Gilmore, *A Poor Harvest*, p.85 also see Raymond Hopkins and Donald Puchala, p.77

[4.77] Richard Gilmore, p.85 and Raymond Hopkins and Donald Puchala, p.79. Hubert Humphrey, testimony before the Senate Committee on Agriculture and Forestry, 16 July 1953 in Raymond Hopkins "Reform in the International Food Aid Regime; The Role of Consensual Knowledge" in International Organisation, #46, 1, Winter 1992., p.2.

[4.78] Donald J. Puchala and Raymond F. Hopkins, "International Regimes: Lessons from Inductive Analysis" in Stephen D. Krasner ec. *International Regimes* (Ithaca, New York, Cornell University Press, 1983) in terms of a distinct system or regime which is set apart from the period that proceeded or followed it, by a clearly defined set of rules and norms of behaviour.[4.79] The most important features of this new regime include the growth of North America as the major supplier of grains to the world market, the development and distribution of more productive farming practices and the creation of international food organisations.[4.80]

Many of the principles and norms of the food regime of this period were "codified" in the charters and conventions of the newly founded international food agencies and the international agreements are of particular importance, notably the Food and Agriculture Organisations of the United Nations (F.A.O.) the International Wheat Agreement and the Food Aid Convention.[4.81] Although the norms of the regime were clearly biased in favour of the developed grain trading countries, most participants in the regime were regarded as receiving at least some benefit from participation in the regime.[4.82]

The increased production capacity, particularly in North America gave rise to the very large surplus stocks which were simultaneously a source of concern as well as a source of power for American and to a lesser extent, Canadian policy makers. The relative price stability that existed in the 1950s and early 1960s can be accounted for in large part by the willingness of the U.S. and Canada to accumulate reserves in times of market surplus and release them on both commercial and concessional terms in times of tight markets.[4.83] Although Canada was the largest commercial exporter from the 1920s to the 1950s, the United States has consistently had potentially larger volumes of wheat available for export since World War II.[4.84] Canadian volume dominance has, at least to a large extent been

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p.76. A comprehensive framework for the analysis of the international relations of food has been put forward by Hopkins and Puchala in The Global Political Economy of Food (Special Issue) *International Organisation* 32 (Summer 1978) p.581–616.

[4.79] *ibid.*; also see Andrew Fenton Cooper "Agricultural Relations Between Western Nations: Canadian Approaches." in Irene Sage Knell and John R. English eds. *Canadian Agriculture in a Global Context: Opportunities and Obligations* (Waterloo, Ontario, University of Waterloo Press, 1986) pp.69–70.

[4.80] *ibid.*

[4.81] Donald Puchala and Raymond Hopkins in Krasner *International Regimes* p.76

[4.82] *ibid.* The basis for this assessment is in contrasting the post-war regime with former colonial structures.

[4.83] Donald Puchala and Raymond Hopkins, in Krasner, p.79.

[4.84] Alex F. McCalla, "A Duopoly Model of World Wheat Pricing" in *Journal of Farm Economics* 48(3) August 1966, p.719. In this widely cited study, McCalla explores the finer points of the complementary trade relationship of Canada and the U.S. Details of this study will be elaborated upon in Chapter 5.

a function of U.S. policy.[4.85] U.S. policy makers similarly diverted responsibility vis-à-vis domestic and foreign policy interest groups by allowing Canada to take a lead in price setting prior to 1964.[4.86]

This duopoly arrangement assured the United States that Canada would set prices within an acceptable range.[4.87] The IWA (1949) and subsequent agreements also contributed to the price stability of the 1950s and 1960s.[4.88] Conversely, it has been argued that the agreements were successful only because "the two most important nations, the United States and Canada were willing to build up stocks and restructure production either directly or indirectly, to prevent prices from declining below the minimum specified by the agreements."[4.89]

Although this "duopoly" functioned effectively in relation to pricing until 1965, increasing marketing disputes highlighted the tenuous nature of the relationship.[4.90] A major area of trade dispute between Canada and the United States was with regard to trade with Communist countries. The Economic Cooperation Act of 1948, the more explicit Export Control Act of 1949, and finally the Trade Agreements Extension Act of 1951 dramatically restricted trade with the Soviet Bloc. Agriculture was included in the ban.[4.91] "If the trade figures for the fourth quarters of 1947 and 1952 are compared, the dollar value of agricultural exports to the bloc dropped by more than 99%."[4.92] Canada seized the opportunity by moving strongly into both the Soviet and Chinese markets.

The apparent cooperation disappeared. Severe price competition evident in 1965 led to the breakdown in 1967 of the Wheat Trade Convention of the International Grains

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[4.85] *ibid.*

[4.86] *ibid.*

[4.87] *ibid.*

[4.88] *ibid.*

[4.89] Brian T. Olsen, pp.7–8

[4.90] *ibid.*

[4.91] Trudy Huskamp Peterson, "Sales, Surpluses and The Soviets: A Study in Political Economy" in Richard M. Fraenkel, Ron. F. Hadwinger and William P. Browne, eds. *The Role of U.S. Agriculture in Foreign Policy* (New York, Praeger Publishers, 1979) p.56–57

[4.92] *ibid.*, The figure excluded East Germany. In 1947 U.S. agricultural exports to the bloc totalled 114,061,000 and in 1952 they totalled 319,000 a reduction of 99.7%. Exports shipped through the U.N. Relief and Rehabilitation Administration (UNRRA) have been excluded in both cases.

Arrangement.[4.93] The implications of the breakdown of these agreements were profound, but would not be fully appreciated until 1972.

Throughout the period 1963-68, Lyndon Johnson's Democratic administration pursued policies that were inherently inflationary. By fighting the war in Vietnam while developing costly new domestic programs, Johnson placed enormous strains upon the American economy resulting in a balance of payments deficit.[4.94]

The election of Republican Richard M. Nixon in 1968 brought about substantive changes in domestic and foreign policy formulation. Domestically, Nixon tried to cut back on the welfare policies of the Democratic years with only limited success. Internationally, the Nixon administration was marked by aggressive policies in international trade which included a willingness to link trade with politics.[4.95] The United States moved toward a more unilateral approach to its foreign relations. A decisive move in the new orientation of the administration was the decision in 1971 to suspend the U.S. dollar's official convertibility into either gold or foreign currencies.[4.96] The resultant devalued dollar helped to open up foreign markets to U.S. grain.[4.97] In terms of the food regime, the 1970 Agricultural Adjustment Act reflected the strong market orientation of Secretary of Agriculture Clifford Hardin. In an intensive review of existing farm programs, Hardin was determined to expand American export markets. Grain shipments through the PL480 "Food for Peace" program were extended.[4.98] The volume of the American surplus disposal caused concern to other exporting nations.[4.99] This plan was continued however, and supplemented by a further reduction of acreage in Canada and the United States, reducing reserve stocks to their lowest level since 1952.[4.100]

[4.93]Brian Oleson. p.8. also see Andrew Cooper. p.70. The fact that the major exports, particularly the United States allowed the IWA, one of the "pillars" of orderly grain marketing was a clear indication of the breakdown of the food regime.

[4.94]John Odell, *U.S. International Monetary Policy* (New Jersey, Princeton University Press, 1982) p.163-4

[4.95]ibid.

[4.96]Robert Isaac. p.52. In putting together the best presentation possible for his "New Economic Policy" Nixon simultaneously imposed a temporary surcharge of 10% on dutiable imports and frose domestic prices and wages for 90 days.

[4.97]John Odell. p.165-168.

[4.98]History

[4.99]*The Globe and Mail* May 6, 1970.

[4.100]*ibid.*

These actions and the deteriorating trade relations between the U.S. and the other major exporters were predictable consequences of the "New Economic Policy" which guided the Nixon Administration. In this plan, a very high priority was given to problems in the grain sector.[4.101] The United States was committed to seek policies worldwide that would expand its grain markets. It also sounded warnings about rising competition with the European Community and Japan. It was recognised that optimising agricultural exports could have a favourable effect on the balance of payments which were becoming increasingly problematic. The result, therefore, was that U.S. agriculture did become increasingly dependent on world markets.[4.102]

In February, 1971, the United Nations convened a World Food Conference in order to negotiate a new grains agreement. Participants attempted to establish some basis for a system of orderly marketing in grain, but for the first time in over twenty years there was "no pledge agreement among exporters and importers on floor and ceiling prices, or on the quantities of wheat importers might buy from the main exporter."[4.103] Differences between Canadian and American demands were reported to be the major cause of the breakdown of the negotiations.[4.104] The duopoly had broken down and the stage was set for the coming crisis.

4.2.6. The World Food Crisis

In keeping with Richard Nixon's desire to improve relations with the Soviet Union and China, on June 19, 1971 a White House spokesman announced that the President had "decided to terminate the need to obtain Department of Commerce permission for the export of wheat, flour and other grains to China, Eastern Europe and the Soviet Union".

[4.101] "United States International Economic Policy In an Interdependent World" Report to the President submitted by the Commission on International Trade and Investment Policy, July 1971, Washington D.C., p.141.

[4.102] *ibid.*, p.53, also see Theodore Cohn in William Avery, p.25. During the 1970s the United States also became more aware of its comparative advantage in agriculture and more dependent on agricultural trade. Farm output increased 54% between 1950 and 1975, and exports almost quadrupled.

[4.103] *Ottawa Journal* February 18, 1971.

[4.104] *ibid.*

He also eliminated the requirement that at least 50% of the grain sold to these countries be carried on American ships.[4.105]

The grain companies contracted substantial sales of feedgrains to the Soviet Union without government interference or approval for the first time since 1963. Further sales were encouraged through concessionary credit arrangements through the CCC, and a long-term agreement for $750 million in grain over a three year period. Capitalising on these new incentives, the Soviet Union continued its "secret" purchases.[4.106] Substantial purchases were also made in Canada, and given the poor crops in Argentina and Australia, there was very little wheat on the international market.[4.107]

Had policy adjustments been made quickly, the effects of these sales could have been minimised. The Nixon administration, however, was very slow to react. Not only were export subsidies maintained despite the rapidly rising prices, but acreage reductions were maintained despite the tightening of the market.[4.108] In summary, the Nixon Administration succeeded in stabilising the Russian food economy while destabilising its own.[4.109] The world wheat trade was rapidly transformed from a buyers' to a sellers' market. The problem was not really the Soviet sales, but rather the fact that reserve stocks had been depleted beyond a safe level and the government failed to respond to the new realities of the world food situation.[4.110]

Agricultural policy in the mid 1970's was a strange coalition of Secretary of State Henry Kissinger and his foreign policy objectives, Earl Butz, Secretary of Agriculture and his farm interests and the Treasury. Policy making became an exercise in crisis management. Nothing in its previous experience had prepared the economic policy community to anticipate

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[4.105] "Trade with the People's Republic of China", Presidential Announcement of June 10, 1971 in the Weekly Computation of Presidential Documents, June 14, 1971, p.891, and I.M. Destler "United States Food Policy" in Raymond Hopkins and Donald Puchala, *Global Political Economy of Food*, p.46.

[4.106] Destler, p.46–47. In June 1971 the Soviet Union quietly contracted with the Continental Grain Company to supply them 4 million tons (149 million bushels) of wheat as well as 4.5 million tons (197 bushels) of corn. During the next month an additional 7.8 million tons (286 bushels) of wheat from Continental and five other grain companies. They also purchased about 2 million tons of feedgrains and 1 million tons of soybeans.

[4.107] *ibid.*and Dan Morgan, p.207–212.

[4.108] Dan Morgan, p.215–214.

[4.109] Destler, p.48

[4.110] *ibid.*

the importance of agricultural issues.[4.111] In the words of I.M. Destler, the economic community was "paying the price for years of neglect of agricultural issues — it was simply not alert to its stakes in reasonable grain stocks as a foundation for stable food prices.[4.112]

By the beginning of 1973, the cost of this neglect had already become apparent in the rapidly escalating food price inflation. The consumer price index for food (based on 1967=100) grew from 114.9 in 1970 to 141.4 in 1973, despite price controls on food.[4.113] The Agriculture and Consumer Protection Act of 1973 was passed to deal with this crisis. It emphasised the need to increase production in order to "respond to ever-growing worldwide demand for food and fibre" and to hold down price increases. Secretary Earl Butz proclaimed that this legislation represented "an historic turning point in the philosophy of farm programs in the United States."[4.114] Despite these late measures taken, retail food prices increased by 20% in eight months. The food price inflation was a policy crisis and major political embarrassment, in a significant election year.[4.115] The Nixon Administration, at first ecstatic over the disappearance of the large surplus stocks and the end of government agricultural support expenditure, soon had to defend vigorously its inflationary policies.[4.116]

Mounting domestic inflationary pressures led President Nixon to make one of the most serious miscalculations of his presidency. On June 27, 1973 the government announced a total embargo on soybean exports. Unlike other embargoes which generally have foreign policy objectives, the soybean embargo was initiated in order to control skyrocketing domestic soybean prices.[4.117] This action, while short-lived, had very serious consequences

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[4.111] Philip H. Tresize, *Rebuilding Grain Reserves, Toward an International System* (Washington: The Brookings Institute, 1976), p.50

[4.112] I.M. Destler, p.49 and *History*, p.29.

[4.113] *History*, p.29

[4.114] Quoted in *History*, p.29. Also see Lowell D. Hill "The United States: Grain Marketing, Institutions and Policies" in Michael J. McGarry and Andrew Schmitz, eds. *The World Grain Trade: Grain Marketing, Institutions and Policies* (Westview Press, Boulder Colorado, 1992) p.398.

[4.115] Joseph Hallow, *U.S. Grain: The Political Commodity* (London, University Press of America, 1989) p.V

[4.116] *ibid.*

[4.117] Richard Gilmore, p.147 and see also David A. Baldwin, *Economic Statecraft* (New Jesey, Princeton University Press, 1985), p.41, Baldwin categorises embargoes as a form of economic statecraft involving negative sanctions.

in terms of U.S. trade relations. It represented a major setback in contemporary U.S.-Japanese relations,[4.118] and U.S relations with Western Europe were also severely damaged. The embargo left a legacy of distrust regarding American reliability as a supplier of essential goods.[4.119]

The instability of the world grain markets from 1972–74 proved to be damaging to many constituencies, but it was a very profitable time for the major grain trading companies. Cargill's earnings alone rose from $19.4 million (after taxes) in 1971 to $150 million in 1972.[4.120] The price increases for agricultural exports were also having a very positive effect on the balance of payments. "In 1974 they rose sharply and entirely covered the petroleum deficit as well as the cost of agricultural imports. In 1977 and 1978 trade deficits of $40 billion and $47 billion were offset by agricultural trade surpluses of $10 and $13 billion respectively."[4.121]

4.2.7. Food Aid and the World Food Conference: 1974

One of the primary casualties of the world food crisis was the aid community and the Third World. The drain of foreign exchange from the quadrupling of oil prices, left few resources for grain purchases, particularly at inflated prices.[4.122] As this situation worsened, the main donor nations responded to the tight market conditions by cutting back on food aid and other assistance programs. In the United States alone, the food aid program which had financed 33% of agricultural exports in 1957, dropped to 13% in 1972 and 4% in 1974.[4.123]

This world crisis provided the United States with an opportunity to improve its foreign relations. Thus, in an attempt to pick up the pieces of shattered domestic and foreign policies, Henry Kissinger convened the World Food Conference in November 1974.[4.124] The

[4.118] Richard Gilmore, p.149–50. Japan relies on the United States for 92% of its considerable requirement of soybean imports, see also Dan Morgan, p.217–18.

[4.119] *ibid.*

[4.120] Dan Morgan, p.219

[4.121] Raymond Hopkins and Donald Puchala, *Global Food Interdependence*, p.37.

[4.122] I.M. Destler. p.57

[4.123] ibid. Food aid shipments were also increasingly politically motivated. In 1974 South Vietnam and Cambodia received 69% of U.S. food aid shipments. Department of State Bulletin, May 6, 1974

[4.124] Henry Kissinger, *Years of Upheaval* Especially chapters XXI – XXV. Also Private Interview, Charles Weitz, F.A.O. Representative to the United Nations. The decision to convene the World Food Conference was unilaterally taken by Henry Kissinger. Earl Butz alone was "notified" prior to the official announcement.

World Food Conference perhaps served the short-term goal of focusing world attention on the food security issue; however, little substantive progress was made in furthering the expressed goals. In fact, the growing commercial orientation of agriculture policy since 1974 led to a deterioration of food security in developing nations.

The World Food Conference did, however, lead to the creation of the World Food Council and to negotiations for the creation of an international grain reserve under the auspices of the International Wheat Council.[4.125] The grain issue proposal which was perceived to be central to the problem of world food security, will be examined in detail in Chapter 7.

The World Food Conference had provided an opportunity to institute needed reform in the world food regime, even if the political will was inadequate to carry it through. There were fundamental differences of opinion even within the American delegation regarding the desirability of commodity agreements versus a free market approach to the marketing of grain.[4.126]

The resignation of Richard Nixon in 1974 and the short tenure in office of President Gerald Ford (1974–76) represented a very turbulent period in American history. Grain prices remained strong through this period and farm exports helped to alleviate problems in other sectors of the economy. Agriculture was one of the few areas that continued to have a positive trade balance[4.127]

The election of Democrat Jimmy Carter (1976–80) brought about several significant innovations in both domestic and international agricultural policies. Secretary of Agriculture Robert Bergland came to office with a long history of concern for producer incomes, as well as a long standing commitment to the idea of grain reserves.[4.128] The Food and Agriculture Act (1977) provided Secretary Bergland with the opportunity to implement a system of farmer–owned grain reserves to temper price fluctuations of grain. The issues of producer's

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[4.125] Donald Puchala and Raymond Hopkins in Stephen Krasner. p.82–83. The conference identified three major defects in the world food system. (1) Inadequate food reserves to assure reasonable stability in markets and security for consumers. (2) Use of food aid that reflected low priority for the food problems of less developed countries. (3) inadequate and inappropriate investment flows with respect to food production in food deficit areas.

[4.126] Raymond Hopkins and Donald Puchala, *Global Food Interdependence* p147–148

[4.127] Theodore Cohn, in Avery. p.26

[4.128] Robert Bergland, private interview, August, 1992, Washington. As a member of the U.S. congress in the 1960's Bergland advocated the establishment of U.S. farmer–owned reserves.

income security had become complicated by the price instability inherent in greater reliance on the export market.[4.129] The reserve program was to be administered by the Secretary of Agriculture, a strong advocate of government intervention in agriculture.[4.130] In a very detailed study of the U.S. farmer-owned grain reserve policy, Jerry Sharples notes this shift in policy away from price supports and towards supply management. He concludes that this approach was more effective in achieving their objectives than other policy options might have been. A critical factor in this conclusion relates to favourable international market conditions.[4.131]

Despite the apparent success of the reserve program, the Emergency Assistance Act of 1978 was enacted in response to continued problems of low farm income. As prices strengthened in the 1978–80 period, the administration judged further stabilization measures unnecessary.[4.132]

The Soviet invasion of Afghanistan in December 1979 brought about a surprising policy departure for the Carter Administration. On January 4, 1980, President Carter declared an embargo on shipments of grain to the Soviet Union.[4.133] The unilateral way in which this was taken prompted a "parallel congressional initiative" in an amendment to the AAA (1981) that stipulated that producers would be reimbursed "at 100% of parity in the event that grain exports be interrupted for foreign policy reasons"[4.134] This amendment was admittedly imposed in order to make selective grain embargoes too expensive ever to be contemplated again.[4.135]

[4.129] History... p.31. although exports were growing, increased production had a depressing effect on prices, see also Stephen Krasner in Peter Katzenstein. p.66.

[4.130] Robert Bergland, private interview

[4.131] Jerry A. Sharples. "An evaluation of U.S. GRAIN Reserve Policy, 1977–80". USDA Economic research Services, Agricultural Economic Report #481, Washington, March, 1982. and Jerry A. Sharples, "An Examination of U.S. Wheat Policy Since 1977 with emphasis on the Farmer Owned Reserve", Track Policy Branch. International Economics Division, Economics and Statistics Service USDA, November 1980.

[4.132] History... p.36. The wheat reserves were held at between the limits of 300–700 million bushels. In 1978 the reserves were expanded to include 550 million bushels of feed grains.

[4.133] Robert Paarlberg, *Food Trade and Foreign Policy* p.132. Carter had never considered using food trade sanctions against another country, not even in the 15th month of the Iran hostage taking incident. Also, Robert Bergland, private interview, regarding the unilateral nature of the decision.

[4.134] ibid. p.133

[4.135] ibid.

The election of Republican Ronald Reagan (1980–1988) brought about a dramatic difference in approach to domestic and international economic policy. There were, however, marked similarities, especially in the unilateralism that had marked both the Kennedy and Nixon administrations. Nevertheless, the Reagan years were marked by dramatic tax cuts in the early years and a willingness to use monetary policy (i.e. higher interest rates to stifle inflation while simultaneously running large budgetary deficits)[4.136] to realise his objectives. His policies remain controversial. The budgetary deficits were created in large part by a remarkable increase in defence expenditures and, after 1984, a large increase in agricultural spending.[4.137] Reagan's trade policy was marked by an emphasis on the free market and by a willingness to compete aggressively when American markets were threatened. These apparently contradictory objectives were particularly problematic in the area of agricultural subsidies. As one analyst observes, the greatest expansion of agricultural subsidies came under the Reagan administration which "was elected with the explicit promise to reduce government interference."[4.138]

Upon taking office President Reagan moved quickly to terminate the Soviet grain embargo. This, occurred against the advice of newly designated Secretary of State, Alexander Haig.[4.139] The declining commercial grain exports heightened concern for domestic producer interests, thus curtailing the likelihood of agricultural trade policy being employed to further foreign policy objectives.[4.140].Secretary of Agriculture John Block in 1980 encountered a farm community faced with deepening economic distress.[4.141] The inflated grain prices of the 1970's and the expectation that tight market conditions would continue to entice producers to invest heavily in land and equipment. Much of this expansion was carried out at a period of record high interest rates in the United States. This overcapitalisation combined with declining market conditions led to many bankruptcies in the farm community.

[4.136] Miles Kahler, "The International Political Economy", *Foreign Affairs* (Fall 1990) p.150.

[4.137] ibid

[4.138] Robert B. Hawkins, Jr. President, Institute for Contemporary Studies, San Francisco, April 1989 in James Bovard, *The Farm Fiasco* (San Francisco, Institute for Contemporary Studies Press, 1991)

[4.139] Robert Paarlberg. p.11. Haig was subsequently denied any special authority over U.S. food policy. p.12

[4.140] *ibid.*

[4.141] *ibid.*

Agricultural surpluses in the early 1980s were again actually affecting major exporters, particularly the United States, which was experiencing the effects of the emergence of the European Community as a formidable competitor.[4.142] The United States' share of global wheat exports fell from 45% in 1980/81 to 29.6% in 1985/86.[4.143]
The Reagan administration attempted to halt this decline by challenging the legitimacy of E.C. agricultural policies in the GATT. The United States attempted to use the Tokyo Round's Subsidy Code in order to challenge the E.C.'s agricultural subsidy practices, however a 1983 ruling of the GATT panel failed to resolve the issue.[4.144]

Although the U.S. continued to press for policy reform through the Uruguay round of the GATT negotiations, it was frustrated by its diminished ability to use this forum to achieve its desired objective.[4.145] This situation will be considered in more detail in Chapter 6.

The deepening distress of United States producers in the context of the world agricultural crisis required the government to increase agricultural price supports. In 1983, a new Payment-In-Kind (PIK) program was implemented, designed to reduce production and improve farm income by supplementing farmers' income with grain from government reserves. The effectiveness of this plan was undermined both by particularly high yields in 1983 and increasing international competition.[4.146]

In 1982–83, grain sales to the Soviet Union fell, despite the promotional efforts of President Reagan. The long-term structural adjustments of the grain embargo continued to hurt American producers.[4.147] Farm income, heavily dependent on the export market, dropped by 40% in 1981–82.[4.148] High interest rates reduced trade volume, as did the decline in general purchasing power in what was generally considered a world recession.[4.149]

[4.142] Theodore Cohn, in Avery, p.29

[4.143] *ibid.*, This loss in trade reflected several unfavourable conditions in the domestic economy including the rising value of the U.S. dollar, high domestic support levels and shrinking technological advantages.

[4.144] Theodore Cohn, in Avery, p.30

[4.145] Theodore Cohn, in Avery, p.36

[4.146] Alex F. McCalla and Timothy Josling, *Agricultural Policies and World Markets* (New York, Macmillan Publishing Company, 1985), p.70–71. See also Nick Butler, p.20.

[4.147] Robert Paarlberg, p.136-139

[4.148] *ibid.* High interest rates also hurt U.S. exports.

[4.149] *ibid.*

The E.C. capitalised on this general downturn by investing heavily in the promotion of grain exports. By the early 1980s the Community had developed a great variety of trade instruments including special blended credit programs. "By 1989 the full scope of the complete E.C. wheat trade policy was clear: it would include targeted marketing with selected refund offers, flexible commercial and concessionary credit, credit guarantees, multi-annual supply agreements and an active storage system."[4.150]

The United States responded to this increasingly aggressive grain export policy of the E.C. by establishing the Export Enhancement Program in May, 1985.[4.151] Victims of the U.S.-E.C. agricultural battle include the group of 14 other grain producing countries known as the Cairns Group which joined together in an attempt to minimise the damaging effects of this dispute. Ronald Libby assesses this plan as a retaliatory measure designed to increase the financial burden of the E.C.'s Common Agricultural Policy (CAP) to a level that was politically unacceptable, thus exacerbating political tensions within the E.C.[4.152]

The stage was set for an unparalleled level of government intervention and spending in the grain sector. Government payments constituted an increasing share of farm income. In 1980, total government payments averaged 18% of total cash receipts; in 1986, government payments grew to 18.6% of cash receipts; and in 1987 they declined to 12.1%.[4.153] Although these figures indicate a certain level of support for producers, it has been insufficient to halt the spread of bankruptcies among producers.

In addition a shift took place in the allocation of government payments in which a remarkably larger proportion of payments was being paid to the large grain trading companies. In addressing this issue Joseph Halow noted that the U.S. public was quite used to large government payments to producers; it is not, however, comfortable with the payment of billions of dollars to these companies while the farm community is experiencing severe

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[4.150] Peter W. Philips, *Wheat, Europe and the GATT* (Pinter Publishers, 1990), p.2

[4.151] Theodore Cohn, in Avery, p.30

[4.152] Ronald T. Libby, Protecting Markets: *U.S. Policy and the World Grain Trade*, p.1. The British were particularly seen as resenting the growing burden of financing agricultural exports for the benefit of the main producing states, France and Germany.

[4.153] Michael J. McGarry and Andrew Schmitz, p.401

distress.[4.154] The issue of the continuing privatisation of the international grain trade became increasingly significant.

Despite the growing conflicts among the major grain producers, there were areas that continued to be of mutual concern. As the United States commitment to "liberalisation" in agriculture increased in response to E.C. competition, its contribution to stability declined.[4.155] Such was the situation as the Cold War ended in the late 1980's.

4.3. Summary and Conclusions

This chapter, a review of the national agricultural policies of the United States, is the first of a two part analysis of the national policies of the major grain exporters. In undertaking this review, a number of themes have emerged, which, taken together, explain some of the complexities of the United States agricultural policy making.

The United States has, throughout this century been the dominant force in the international grain trade. A combination of its natural comparative advantage and a long history of price support legislation has resulted in levels of U.S. grain production which were often in excess of effective demand. The surplus stocks which have resulted from these high levels of production have given the United States considerable leverage vis/'avis its foreign policy objectives particularly since the 1940's, they have also been responsible for considerable domestic dislocation and debate. This chapter has considered the broad spectrum of U.S. agricultural policies with particular emphasis on how these policies have had an impact upon the development of the international grain market.

Surplus grain stocks, as we have seen, have represented a costly and seemingly unresolveable problem for policy makers since the 1930's. A legacy of the collapse of the agricultural sector in the depression was the emergence of a politically powerful farm lobby which has demanded, and received protection from the vacillations of world grain prices since then. This protection was first legislated in the mid 1930's, in a comprehensive set of legislation that emphasised supply management, acreage management, income supplement and

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[4.154] **Joseph Halow, p.20**
[4.155] **Theodore Cohn, p.36**

infrastructural development. These acts formed the basis for future United States national policies. Given the limited success of these policies to manage surplus production, producers compelled U.S. policy makers to seek new export markets.

Increased participation in export markets led to an international initiative which was considered an integral part of the overall strategy. The proposal to establish an International Wheat Agreement to coordinate the policies of the major exporters and to regulate the international market. Although the International Wheat Agreement (1933) lasted only one year before the market quota provisions were violated, it set an important precedent for later agreements.

The domestic support structure, on the other hand, remained a constant feature of U.S. policy after the 1930's. There are compelling reasons for this unparalleled sectoral support. Politically, the farm lobby maintained sufficient congressional, senatorial and electoral college voting strength to ensure that its voice would be heard in Washington. In economic terms, the debate regarding whether protection of the sector, or trade liberalisation would optimise the functioning of the agricultural sector is a debate that continues to this day. Many of the debates regarding agriculture policy making in the United States are also central to the policy-making process of the other major exporters. Similarly, U.S. policies have had an enormous impact on their national policies and the development of the international grain market.

Chapter 5

National Agricultural Policies: Part Two, Canada, Australia, Argentina and the European Community

5.1. Introduction

Agricultural policy has, historically remained an exception to overall economic planning and its interests are often seen to be at odds with industrial interests. It will be found that, to a large extent, the issues which plague agricultural policy makers today are rooted in the past and that the export policies of the major grain traders have been shaped primarily by domestic political and economic circumstances. Since the domestic and foreign economic policies of the United States have been, arguably, the most significant factor in the evolution of the international grain trade, it has been considered separately and in greater detail in Chapter 4.

In discussing the national agricultural policies of major grain exporters apart from the United States, one should begin with those countries which historically have played the most significant role. The development of the grain industry in Canada, Australia and Argentina grew out of a much more comprehensive national plan involving land settlement, immigration and general economic development than did the American industry. In each case, a massive government commitment was made to the industry in order to achieve broader political and economic objectives. Given that together with the United States, Canada played a significant role in the development of the international grain trade, a more detailed history of the growth of the sector will be presented then in the case of the othe exporters. In the case of the European Community, it was the 'maintenance' of its rural society that motivated early government involvement in the agricultural sector; however, more recent policy developments also reflect strong political-strategic considerations. The policies reflect, to a greater or lesser degree, the ongoing importance of the grain sector to the economy and polity of these countries. Many of the programs which have been in effect since the 1930's have operated with varying degrees of success since that time. The effectiveness of the system can be related to the close linkage between supply on the world market and its effect on the level of co-operation and conflict among producers.[5.1] In this context, the collaborative efforts of the Canadian – American duopoly, and the International Wheat Agreement provided a period of relative stability and effectiveness to the grain trade between 1949-1967. By contrast, the fierce competition of the 1980's, complicated by the burgeoning force of the Europe Community, resulted in the emergence of a far more complex and less structured trading regime.[5.2] The "subsidy war" between the U.S. and E.C. led to a cooperative response by the other exporters and the establishment of the "Cairns group".

The purpose of this chapter is to examine the persistent problems in the production and marketing of grain in Canada, Australia, Argentina and the European Community and the policy options adopted by governments to manage this important sector of the economy. The Chapter will focus particularly on the policies which have most significantly affected international trade and aid flows as well as international agreements or initiatives. As in Chapter IV the chronological limits of the study for each exporter will be approximately 1920-1990, although in each case certain periods will be emphasised. For each exporter the following policy objectives will be examined.

1. producer income and price stability
2. production management
3. socio-political factors
4. foreign policy and national security considerations
5. the role of commercial interests

In the case of each exporter, these considerations will be seen to have changed over time.

[5.1] Theodore H. Cohn, *The International Politics of Agricultural Trade: Canadian – American relations in a Global Agricultural Context*, (University of British Columbia press, Vancouver, 1990) pp.180-81

[5.2] Alex McCalla, "A Duopoly Model of World Wheat Pricing" in *Journal of Farm Economics* 48 (3) August 1966, p.719

5.2. Canada

5.2.1. Summary of Events Before 1930

Canadian agricultural policy has been central to the political economy of nation-building. Wheat became central both in policy terms and as Canada's leading export at the beginning of the twentieth century. Indeed, wheat farming on the Canadian prairies was Canada's most important economic activity and central to the political debates in Canada in the first three decades of the century. That wheat had such significance was a product of deliberate government policy. Vernon C. Fowke, the major analyst of the development of the Western Canadian "wheat economy," pointed out that agriculture had not been British North America's most significant economic activity. Agriculture, he wrote, was "not indigenous to Canada: it was established and expanded only under conditions of extreme and prolonged difficulty."[5.3] After Canadian Confederation, the government adopted the so-called National Policy which stressed higher levels of immigration, the building of a transcontinental railway, and the opening of the Canadian West. In achieving these aims, the federal government seized upon the agricultural possibilities of the west and,especially, on wheat farming.

Land settlement could only come about with the establishment of a transportation system to facilitate migration. After 1900, however, through "a favourable conjuncture of circumstances"[5.4] Canada was deemed to possess the 'last great West' and immigrants poured into the Canadian West, and wheat became the staple driving Canadian economic growth. Although some recent economic histories have cast some doubt about staple explanations for Canadian economic growth, none deny the enormous significance of wheat in the economy of Canada between 1900 and 1930.[5.5]

[5.3] Vernon C. Fowke, *Canadian Agricultural Policy:The Historical Pattern* (Toronto: University of Toronto Press, 1947), p.270.

[5.4] In the years 1885–1910 the railways built a network of branch lines that facilitated land settlement and served as a gathering system for shipments of grain to the lakehead and methods of loading bulk grain were adopted from the U.S.

[5.5] Fowke, 277-8. Other major studies of the development of the Canadian wheat economy include Fowke's *The National Policy and the Grain Economy* (Toronto: University of Toronto Press, 1957); Duncan MacGibbon, *The Canadian Grain Trade* (Toronto:Macmillan, 1932); and in two works by former civil servant Charles Wilson, *Grain Marketing in Canada* (Winnipeg: Canadian International Grains Institute, 1979); and *A Century of Canadian Grain: Government Policy to 1951* (Saskatoon, Saskatchewan: Western Producer

Between 1901 and 1921 the area of wheat production in the prairie provinces grew from 2,495,000 acres to 19,389,000 acres, and problems of wheat marketing, transportation, and producer income became significant to political life on the prairies and, to a large extent, in national politics as well.

Canadian patterns mirrored those of the United States, although there were significant differences that developed. In both countries wheat farming was concentrated in the western states on what had formerly been the frontier. Wheat farming populations were more diverse in background than was the case with the older populations in the east. The railways were fundamental to the growth of the wheat economy and were soon the targets of producers who resented their monopoly. This marked the beginnings of what was to become a more general regionalised discontent based on grain producers being required to pay fixed, often inflated rates for agricultural inputs while their output was left to the fluctuations of the world market. In Canada and the United States, the wheat farmers depended on export markets and grew increasingly resentful of the protection of domestic manufactured goods. Their support for free trade was evident in national elections in Canada as in the United States. Notwithstanding this support for free trade on the international level, Canadian and American farmers were attracted to collective or, more accurately, cooperative solutions to their dilemma. As time passed, the Canadian response to the problems of wheat marketing, production, and transportation diverged significantly from that of the United States, and those differences are worth noting.

Canada established its reputation for high quality wheat in the 1870s and since that time Canada Western Hard Red Spring Wheat has been a standard for marketing excellence. By the late 1890s the market appeal of this wheat had led to rapid settlement of the Canadian West, and wheat became the main impetus to the region's growth. Most Canadian scholars argue that the framework of development of the West was "essentially mercantilist in form."

Prairie Books, 1978). On the more recent period, see Grace Skogstaad, *The Politics of Agricultural Policy-Making in Canada* (Toronto: University of Toronto Press, 1987); and Andrew Schmitz and W.H. Furtan, "Canada:Grain Marketing, Institutions, and Policies," in Michael McGarry and Andrew Schmitz, eds., *The World Grain Trade:Grain Marketing, Institutions, and Policies* (Boulder,Col.: Westview, 1992),343- 90. On the staple interpretation and its difficulties, see R. Bothwell, Ian Drummond, and John English, *Canada 1900-1945* (Toronto: University of Toronto Press, 1987).

The Canadian federal government insisted on monopoly in transportation and looked upon the West as a frontier that would provide opportunities for investment and, ultimately, a market for the manufactured goods of the protected Eastern Canadian industries.[5.6] The policy must be judged as an enormous success. In 1901 the total value of investment in farms was $231 million; in 1911 the figure stood at $1,789 million and in 1921 $3,256 million. Simultaneously, investment in land as a percentage of total investment declined, an indication that a more diverse economy was being created.[5.7] There were problems however. The protest of Western Canada against the Canadian Pacific Railway (CPR) monopoly resulted in, first, the establishment of the so-called "Crow's Nest Pass" rate structure in 1898, which gave lower rates to grain and for manufactured goods moving west in exchange for a subsidy to a branch line the CPR was building. The Liberal Laurier government first elected in 1896 gained much support in the west and sought to respond to their complaints, first by supporting other western railways and, secondly, by signing a reciprocity trade agreement with the United States in 1911. The Laurier Liberals, who were strongly supported on the prairies, lost the election of 1911 on that issue. In the war years, markets for Canadian wheat grew as never before since Britain was cut off from continental sources and the prairie farmers took advantage of this opportunity. When these markets collapsed in the aftermath of war, the prairies witnessed an unprecedented political revolt. In the general election of 1921, the Progressive Party swept most of the agrarian seats in the Canadian west as the western farmer rebelled against the postwar protectionist policy of the Conservative government in Ottawa. The Progressive Party grew out of the western cooperative movement that had emerged in the first decade of the century. This movement was marked by the development of farmer-owned grain elevators, cooperative merchandising, and cooperative marketing. In the war years, the chaos of transportation and marketing led the Borden government to create a board of grain supervisors whose purpose was "to regulate and control in an intelligent and reasonable way the price at which wheat shall be

[5.6] See Frederick Anderson, "Some Political Aspects of the Grain Growers' Movement, 1915–1935," unpublished M.A. thesis (University of Saskatchewan, 1949), p.9.

[5.7] R.W. Murchie, *Agricultural Progress on the Prairie Frontier* (Toronto: Macmillan, 1936), 67–70; Anderson, "Political Aspects", pp.10–1.

sold, and the methods of dealing therein, and the transportation thereof; ... "[5.8] A Canadian Wheat Board was formed in 1919 which maintained the notion of pooled marketing of wheat on the basis of an initial payment and later distribution of profits, a policy which had first developed in Australia. It was a compulsory board in wartime and the compulsory nature survived a few months after the war. Soon, however, constitutional limitations as well as grain trader interests and provincial government pressure led the Liberal government elected in 1921 to abandon the compulsory aspect. By the end of 1923 the Wheat Board was dead, and disappointed producers turned towards farmer-operated pools as an alternative.[5.9]

In fact, postwar events had worked to the great advantage of the Canadian farmer, to the point that by the later 1920s Canada was being referred to as "the breadbasket of the world". Canada's 1928 wheat crop of 367,000,000 bushels was the largest ever, and Canada's share of the world wheat trade in that year was approximately 42%. In that year Canada exported 407,000,000 bushels of wheat; its nearest competitor, Argentina, exported only 182,000,000 bushels. Russia, which had been the major exporter of wheat in the world between 1909 and 1914, could now not meet its own domestic needs. Canada was the major beneficiary of these changes in international circumstances. Between 1923 and 1928 Canada exported, on average, 297,500,000 bushels. The United States was in second place with an average of only 174,000,000 bushels. So buoyant was the Canadian grain trade that, in the words of Duncan MacGibbon writing in 1932, "the possibility of a difficulty in finding a market for all the wheat that Canada would be able to grow and export never seriously entered into current calculations."[5.10] The 1920s brought unprecedented prosperity to the Canadian prairies, and wheat was the preeminent Canadian staple, an export commodity which created prosperity throughout the nation.

[5.8] Quoted in Wilson, *A Century of Canadian Grain*, p.95.

[5.9] Wilson, *A Century of Canadian Grain*, 180–1. See also, Wilson, *Grain Marketing in Canada*, for the influence of these early models on later Canadian practice. See also, Fowke, *Canadian Agricultural Policy*, 247ff.

[5.10] Duncan MacGibbon, *The Canadian Grain Trade* (Toronto, Macmillan, 1932), pp.418–9.

5.2.2. The Depression

The collapse, however, came quickly with the world depression of the 1930s. Suddenly, the marketing, financing,and transportation systems that had moved towards lessened government involvement during the good years of the 1920s seemed woefully inadequate. The major problem for Canada was not initially lack of production but rather changes in the economic policies in Europe which led to protectionist legislation and reduced imports of Canadian grain. The situation was further complicated by the development of an extensive futures market in grain at the turn of the century in Winnipeg. It had been at times a force for stability, but in the late 1920s, many houses that took part in the speculative fever that gripped the grain market in 1928 went bankrupt. Income for Canadian wheat farmers dropped from almost $450 million in 1928 to less than $100 million in 1931. The effect on the Canadian West and the wheat farmer was devastating.[5.11]

The national policy had created a strong agricultural base in Canada but, paradoxically, other aspects of the "national policy" worked against the interests of agriculturalists and they resented it. A major area of dispute was the protective tariff. With the depression, the national policy and national agricultural policy became a shambles, unable to deal with the turbulent international market. The Canadian government turned to international fora to solve its dilemma. Beginning in 1931, Canada joined with other wheat exporting nations to discuss possible acreage limitations and export quotas. Prime Minister Bennett turned initially to the British Empire Commonwealth. At the Ottawa Imperial Conference of 1932, Bennett managed to secure a preference for Canadian wheat in imperial markets. Although this preference had minimal economic impact, it did bring new British markets for lower quality Canadian wheat.[5.12] The negotiations for an International Wheat Agreement did not proceed quickly but by August 1933 an agreement was reached:

[5.11] *Report of the Royal Commission on Price Spreads*, (Ottawa: King's Printer, 1935),pp.274–5. There was an earlier commission that dealt directly with trading in grain futures. See also, Wilson, *A Century of Canadian Grain*, p.237ff

[5.12] See Wilson, *A Century of Canadian Grain*, pp.344–6; and, especially, H.B. Huff, "Marketing of Canadian Wheat: An Economic analysis with Projections," unpublished Ph.D. thesis (Ann Arbor: Michigan State University, 1969), pp.8–10. On the conferences, see also Ian Drummond, *Imperial Economic Policy, 1917–1939: Studies in Expansion and Protection* (Toronto:University of Toronto Press, 1974) pp.145–289.

> The wheat importing countries being desirous of cooperating with the wheat exporting countries in order to establish a balance between the production and consumption of wheat by the orderly marketing of the excessive stocks overhanging the market and to bring about a rise and stabilization of prices at a level remunerative to the farmer and in accordance with the principles approved by the Economic Commission of the Monetary and Economic Conference

This agreement was a forerunner to later attempts to solve national problems through international agreements between importers and exporters of wheat. Its significance for Canada was the recognition that the Canadian pre-eminence in the wheat trade of the 1920s was an aberration. The problem of the 1930s was simply survival.[5.13]

Although the 1920s had been kind to the Canadian wheat producer, the producer recalled that when the wartime monopoly wheat board was abandoned, prices dropped. In the depression, the collapse of trade led not only to pressure upon the government to secure international agreements which would assure market share and lessen exporter competition but also to the establishment of the Canadian Wheat Board (CWB) in 1935. The Board had no physical facilities and,initially, producer sales were on a voluntary basis. Farmers received a "pooled price" for their wheat, with an initial payment based on grade minus certain fixed costs. The formation of the CWB was a recognition that in the depression, as in wartime, the futures mechanism of the existing grain exchanges were ineffective in regulating supply and maintaining income.

The Liberal government of Mackenzie King elected in 1935 criticized the Wheat Board's stockpiling practices, but was unable to keep its election promise to restore a free marketing system. A Royal Commission recommended temporary continuation of the CWB in 1938, but the government remained committed to disposal of the inherited wheat surplus and restoration of the wheat marketing system and, eventually, of the wheat pools.[5.14] But

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[5.13] High Commissioner to Secretary of State for External Affairs, August 21, 1933 in *Documents on Canadian External Relations 1931-1935* (Ottawa: Government of Canada, 1973), pp.568–9. This section covers the diplomatic negotiations in considerable detail.)

[5.14] *Report of the Royal Grain Inquiry Commission (Turgeon Commission)* (Ottawa: King's Printer, 1938). The pools grew out of the cooperative movements of early 1900s and were producer–owned. By the 1930s, however, these pools had themselves become large organisations and were often disappointing to farm interests.

in 1938, world surplus conditions returned and restoration of earlier conditions seemed impossible. With the outbreak of war in 1939, it became inconceivable.

5.2.3. World War II

The Canadian government recalled well how World War I had both closed off certain markets for Canadian grain and ensured others. The initial response of the government was to ensure that the British continued to buy Canadian grain at prices that were satisfactory to the producer. Given the wartime circumstances, such a condition was obtained fairly easily in 1940. Canadian surpluses at the outbreak of war were huge: 300 million bushels in 1939. Despite the surplus, the outbreak of war led producers to sow a record crop in 1940. Thus, in World War II as in World War I, state intervention and control of marketing coincided with prosperity for producers. This time in the aftermath of the depression, the experience was even more meaningful.

During World War II, the CWB role became compulsory for Canadian wheat farmers. In terms of the producers, a price pooling system was created whereby there would be a guaranteed minimum price, a uniform price for all producers subject to certain transportation and quality considerations, and a uniform price throughout the crop year.[5.15] The initial price was established by the federal government prior to planting, and that price was the one which applied to all grain delivered to the CWB during the crop year. During the war, the Canadian government in effect financed purchases because the British were unable to provide hard currency. Canada accumulated large inconvertible sterling balances and much of the remainder of the Canadian wheat purchases was financed by a Canadian cash grant and by a loan to Britain. Again as in World War I, particular wartime circumstances created unusual prosperity for the Canadian grain farmers. Political pressures on the government lessened, but the return of peace meant that the traditional problems of maintaining market share, of surpluses, and of regional differences within Canada would return.

[5.15] See Brian Oleson, "Price Determination and Market Share Formulation in the International Wheat Market," unpublished Ph.D. thesis (University of Minnesota, 1979),p.59.

5.2.4. Post World War II

The decision of the Canadian government to use long term bulk contracts for the sale of wheat to Britain and, when possible to other countries, was successful in wartime and the Canadian government hoped that such practices could continue in the postwar period. The advantages of such contracts was that they provided security for producers and transportation companies alike . The disadvantages, however, appeared when prices rose and Canadian farmers resented selling wheat at prices below market level. Conversely, a fall in prices created problems in British-Canadian relations. The British Wheat Agreement of 1946 gave four years of security to Canadian wheat farmers, but, during the course of the agreement, Canadian farmers received less revenue than they would have if free market forces had prevailed. Nevertheless, when the agreement approached its end, Canada was willing to turn to a broader agreement as was Britain. As a result, Canada took a leading role in the negotiation of the International Wheat Agreement of 1949, which was signed by forty-two countries and was to endure for four years.[5.16]

The Liberal government of Louis St. Laurent complemented the international agreement with a series of national support programmes. The major technique used was the provision of better financing arrangements. The Canadian Farms Loans Board, which had been created in 1929, provided loans for the purchase of land, equipment, and other similar needs. The Farm Improvements Loans Act of 1944 was even more effective in that it guaranteed bank loans to farmers. Between 1945 and 1952, banks lent over $350 million to Canadian farmers, over three-quarters to the prairie farmers and almost one-third to Saskatchewan. Assessing government policy in the mid-1950s, Canada's leading economic historians wrote that their study of "some of the basic problems of western agriculture reveals a heavy reliance on governmental support to strengthen the farmers' position in the economy." While co-operative organizations and group action on the Canadian prairies had

[5.16]The original Anglo–Canadian Wheat deal had resulted in a massive subsidy for the British. The Canadians had agreed to sell their wheat to Britain at $2. per bushel, but by Christmas 1947 the price had risen to $3.16. As a result the cost to Canada of this long term contract was $365 million. See Bruce Muirhead, *The Development of Postwar Canadian Trade Policy: The Failure of the Anglo–European Option* (Montreal: Queen's University Press, 1992) 17. W.G. Easterbrook and Hugh Aitken, *Canadian Economic History* (Toronto: Macmillan, 1956),p.503.

played their part, the centrality of government and of the "aggressive political tactics" of farm groups could not be denied. Such tactics had, they concluded, "done much to improve the farmers' bargaining position in the boom years and to ensure that agricultural welfare would not be overlooked as the nation became increasingly industrialized."[5.17]

The nation was, in fact, becoming increasingly industrialized, and the rapid economic growth which occurred in central Canada during the post-war period meant that those interests had a stronger voice in Ottawa. National output rose a remarkable 64 percent between 1944 and 1957, but the increase in export volumes was only 6%. Investment outlays and domestic consumption fuelled the growth, and the influence of the agricultural exporter was inevitably lessened.[5.18]

In the federal cabinet, Agriculture Minister James G. Gardiner was increasingly isolated, unable to make the case for his Western agricultural constituency. Although the Canadian government had been a strong supporter of the move towards European integration, the evidence that such integration would be accompanied by and was,perhaps, even dependent upon protectionist agricultural policies shocked Canadians. Although the British held back from the Treaty of Brussels, the original six common market members had taken fully 30 percent of Canadian wheat exports in 1956.[5.19] The threat from Europe was parallelled by a challenge from the United States where PL 480 made wheat available on concessional terms. Traditional and potential Canadian markets were threatened, and disputes over PL 480 troubled Canadian-American relations after 1953. In the general election of 1957, western agricultural constituencies joined with other areas to defeat the government and to elect the Conservative John Diefenbaker, Canada's first prime minister from Saskatchewan and a committed supporter of grain interests.

[5.17] Easterbrook and Aitken., 513. For a critical view of the Canadian government's handling of the wheat agreement, especially of its willingness to place the interests of the wheat farmer second to its desire for multilateral approaches and conciliation of American interests, see Donald Creighton, *The Forked Road: Canada 1939–1957* (Toronto:McClelland and Stewart, 1976), p.127.

[5.18] See Bothwell,Drummond and English, *Canada Since 1945*, pp.20–1; and Robert Bothwell and John English, "Canadian Trade Policy in the Age of American Dominance and British Decline, 1943–47," *Canadian Review of American Studies*, 8 (Spring 1977), p.62ff.

[5.19] See Muirhead, *The Development of Postwar Canadian Trade Policy*, pp.30–2; and Walton Anderson, *Canadian Wheat in Relation to the World's Food Production and Distribution* (Saskatoon, Sask.: Modern Press, 1964), 55–8.

Diefenbaker knew that Canada's share in world wheat exports had declined from about 37% in the period 1924-28 to about 25% in 1959-61. At the same time, he knew that the United States had virtually tripled its share to become the world's largest exporter. In the whole period, of 472 million additional bushels traded, the United States accounted for 414 million of the increase.[5.20] Diefenbaker was determined that Canadian wheat farmers, so many of them his supporters and so many of them from his native province, would receive their due from the new Conservative government. He embarked on an ambitious program to develop new markets and to bring stability to western agriculture. His plan included:

1. Trade promotion. Diefenbaker and his Minister of Agriculture, Alvin Hamilton, actively sought out new markets in areas where American foreign policy closed such markets to Americans. The most notable of these markets were the Soviet Union and the People's Republic of China. By the end of the 1960s,these markets were Canada's best.

2. Agricultural support programmes. The Diefenbaker government embarked upon a programme of active support for Western Canadian infrastructure. Rail lines and port facilities were improved; drainage systems were supported, and agricultural improvements were subsidised. Wheat became a more important component of Canadian aid programmes.

3. Stabilisation. Diefenbaker remembered the depression in Saskatchewan and was determined that its effects would never again be felt. He therefore introduced unprecedented insurance schemes for Canadian agriculturists. The Crop Insurance Act of 1959 meant that the federal government would pay 50 percent of premiums in participating provinces. It also provided insurance against major disasters. The Agricultural Stabilization Act of 1958 provided price support for Canadian farmers. The Agricultural Rehabilitation and Development Act offered further support, and,finally, the Crow's Nest Pass Rates for the transport of grain from the prairies

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[5.20] Compiled from ***World Wheat Statistics***. See also, ***Canadian Wheat in Relation to the World's Food Production and Distribution***, p.51ff.

to the ports were maintained. These rates became a subsidy for grain producers amounting to hundreds of millions of dollars.[5.21]

In the end, the most important action of the Conservative government was the sale of wheat to China, which became Canada's most reliable market. Canada's exports of wheat during 1961–2 were the third highest in history, and the payments made to farmers for that wheat were the highest ever. The legacy was strong support for the Conservative Party among Western wheat farmers, support which endured until the 1990s.

As the Diefenbaker government crumbled in 1962-3, the allegiance of Western farmers endured. The new Pearson government and the Trudeau government which followed it were interventionist in their orientation and during the 1960s and 1970s a flood of new legislation and initiatives dealing with Western Canadian agriculture occurred. Despite this activity, the place of agriculture in Canadian economic and political life was in serious decline. In 1956, Canada had 9.3 million urban dwellers and 6.8 million rural. Ten years later, the urban population had increased to 12.6 million, but the rural population remained stagnant. In fact, the 2.6 million Canadians who lived on farms in 1956 were reduced to only 1.9 million a decade later. On the prairies where agriculture had long been the economic staple, the percentage of economic activity accounted for by agriculture declined to less than 20 percent. These changes had a profound impact on Canada's self-perception and, of course, on Canadian agricultural policy.[5.22]

The Pearson government emphasised international approaches and took an active part in the negotiation of the International Wheat Agreement of 1968. However, domestic pressures led the Trudeau government, which was elected in 1968, to give more attention to domestic agriculture. There was an ambivalence to Canadian actions because of the Canadian criticism of the protectionism of others, notably the European Community and the

[5.21] *Western Canadian Agriculture to 1990* (Calgary: Canadian West Foundation, 1980), pp.20–3. For fuller accounts of Diefenbaker's policies, see his autobiography, *One Canada: Memoirs of the Right Honourable John G. Diefenbaker. The Tumultuous Years 1962–1967* (Toronto: Macmillan, 1977), p.256. Also, Patrick Kyba, *Alvin: A Biography of the Honourable Alvin Hamilton, P.C.* (Regina, Sask: Canadian Plains Research Center, 1989), especially chapter 5.

[5.22] J.L. Granatstein, *Canada 1957–1967: The Years of Uncertainty and Innovation* (Toronto: McClelland and Stewart, 1986), pp.2–3,11. A good brief survey of agricultural policies prior to 1972 is found in T.K. Warley, *Agriculture in an Interdependent World: U.S. and Canadian Perspectives* (Montreal and Washington: C.D. Howe Research Institute and National Planning Association, 1977), pp.1–14.

United States. In assessing various national grain policies in 1969, the Food and Agriculture Organisation noted that "The Canadian Government has recognized the vulnerability of the agricultural industry to variations in income and has endeavoured to shield agricultural producers from the most severe of the price fluctuations which characterise the industry."[5.23]

Because Canada had found markets for grain and because the price had been solid during the 1960s, these protections had cost the Canadian government very little. Similarly, the relative prosperity of the wheat farmer meant that government-supported loans were almost always repaid. The Trudeau government sought to improve its position with Western farmers by strengthening the support system. Thus, in February 1969, the Canada Grains Council was established with the aim of strengthening Canadian marketing, research, and production of grain and grain products. Concurrently, the Trudeau government pursued broader foreign policy aims through a large commitment of food aid. Indeed, Canada's share of food aid under the Food Aid Convention of 1969 was 11%, far above the small amounts of the 1950s. The difference between Canadian and American policies becomes clear when one examines how sales were made. Between 1961-2 and 1968–9, 73.2% of Canadian wheat and flour exports were sold on normal commercial terms, 22% was sold with government credit, and only 4.6% was food aid. In the case of the United States, 65 per cent of American wheat exports were under PL 480 or other aid programs, and American wheat export subsidies averaged 54 cents per bushel.[5.24] The United States,however, was unhappy with the commercial success of Canada, and Canada was worried by the United States decision in the later 1960s to seek export markets for wheat more aggressively. Both countries had worked hard to coordinate their policies, to maintain grain prices, and to preserve a stable international trading environment. In the surplus conditions of the 1960s, however, this coordination was considerably strained and eventually ended. Believing that surplus

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[5.23] Food and Agriculture Organisation, *National Grain Policies* (Rome: FAO,1969), p.84. See also, Warley, *Agriculture in an Interdependent World*, pp.10–14; and for a comprehensive study of the overall evolution of Canadian agriculture *Western Canadian Agriculture to 1990* (Calgary, Alta.: Canadian West Foundation Special Task Force Report,1980).

[5.24] *Ibid.*, pp.91–3. Also, Theodore Cohn, *The International Politics of Agricultural Trade: Canadian American Relations in a Global Agricultural Context* (Vancouver: University of British Columbia Press, p.36ff.

production was at the root of the problem, the Canadian government in 1970 introduced "Lower Inventory for Tomorrow" through which it paid farmers to remove 22 million acres from production.[5.25]

The timing was bad. World production and demand were moving away from the surplus condition of the 1960s to a situation of scarcity. To use Susan Strange's metaphor, the Canadian government which had played its agricultural hand well for most of the country's life, played it badly.[5.26] So did others, notably the United States which grossly overestimated surpluses and contracted a large portion of its production to the Soviet Union. The Canadian government had developed policies prior to the 1970s which were expensive and inefficient in the altered conditions of the 1970s. Confronted by new market conditions, weak in western Canadian support, and worried about the impact of higher food prices on central Canadian cities, the Trudeau government responded with several major studies of Canadian agriculture, new stabilization programmes, and an aggressive export policy. The prestigious Canadian-American Committee chose 1972 as the year during and after which major policy departures were made in Canada. The Canadian government, the Committee reported, adopted a "more 'hands-on' policy for Canadian agriculture,...[because] Canadian governments decided that the public at large must share with farmers the risks of agricultural production and future output expansion in an era that seems bound to be characterized by considerable instability in producers' returns and in their costs." As a result, "an expanded public commitment to enhancing stability in farming has become the dominant theme of Canadian agricultural policy."[5.27] This commitment to a comprehensive set of public price and income stabilization policies contrasted strongly with the new American commitment to the effectiveness of market forces. These policies were framed in a way that sought to insulate Canada from the effects of an expansive American policy, one that

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[5.25] Theodore Cohn, *Canadian Food Aid: Domestic and Foreign Policy Implications* (Denver: University of Denver School of International Studies,1979), p.26.

[5.26] Susan Strange, *States and Markets: An Introduction to International Political Economy* (London: Pinter, 198), p.79.

[5.27] T.K. Warley, *Agriculture in an Interdependent World: U.S. and Canadian Perspectives*, p.17. See also, Cohn, *International Politics of Agricultural Trade*, p.39ff. A good popular survey of Canadian agriculture during this period is Barry Wilson, *Beyond the Harvest: Canadian Grain at the Crossroads* (Saskatoon, Sask: Western Producer Prairie Books, 1981), especially ch.14.

was framed with little regard for Canadian interests.[5.28] The most important of the new programs for the Canadian grain farmer was the Western Grain Stabilization Act of 1976, which provided a strong program of income stabilization. Skogstaad notes that the tripling of Canadian government support for farmers between the late 1950s and the late 1970s reflected a broader trend of state intervention in Canada, as in the case of Medicare and the Canada Pension Plan.[5.29] Nevertheless, this approach and the chaotic market conditions of the 1970s had a profound effect upon Canadian agriculture and on Canadian national policies.

Canadian agricultural production rose from 2.6 billion in 1969 to 6.1 billion in 1975, and agriculture as a percentage of total GDP rose from 1.2 to 2.2 per cent. In 1981–2, it reached its peak of 3 per cent. But between these peaks were many valleys, and after 1980, the real price of Canadian wheat dropped from almost ten dollars in 1973–4 to less than four dollars in 1983 (1981 dollars). The high prices and government price supports had encouraged grain farmers to expand their investment greatly. The level of prairie farm indebtedness doubled between 1971 and 1978, but the return on that investment never came as a lower price of grain and increased international competition created a severe recession in the 1980s. Moreover, high Canadian interest rates led to numerous bankruptcies on the Canadian prairies. As a result, the Canadian government stabilization programs and producer support schemes, which had been very inexpensive in earlier periods, suddenly became a major burden for the federal and provincial governments. By 1985, most farm income in the prairie region came from direct government payments, which in 1987 reached a total of over four billion dollars or about $31,000 per prairie farm.[5.30]

[5.28] Don Paarlberg, "On Sleeping with an Elephant" McLean Memorial Lecture, University of Guelph, Oct. 1977.

[5.29] Grace Skogstaad, *The Politics of Agricultural Policy-Making in Canada* (Toronto: University of Toronto Press, 1987), pp.16–18; pp.41–61.

[5.30] This information is drawn from the 1981 and 1991 Censuses of Agriculture (Ottawa:Statistics Canada); and from M. Fulton, K.A. Rosaasen, and A. Schmitz, *Canadian Agriculture Policy and Prairie Agriculture* (Ottawa: Economic Council of Canada,1989); and Andrew Schmitz and W.H. Furtan, "Canada:Grain Marketing, Institutions, and Policies," in Michael McGarry and Andrew Schmitz, eds., *The World Grain Trade: Grain Marketing, Institutions, and Policies* (Boulder and London: Westview and Pinter,1992), pp.344–92.

Canadian national policies in the 1970s responded to unexpected market conditions, to the breakdown of previous coordination between the United States and Canada with respect to surplus management, to political demands from the grain farmers, and, not least, to perceived opportunities for the expansion of markets for Canadian grain. The United States was challenging traditional Canadian markets: the so-called great grain robbery of the early 1970s and the subsequent world food crisis occurred when the United States, overanxious to secure Soviet markets where Canada had long dominated, contracted massive sales, seriusly overestimating surplus levels. Moreover, the European Community, whose members had been major customers for Canadian wheat in the postwar period, now was becoming an exporter because of its production-oriented protectionist agricultural policies. The result was new policy responses to changing market needs which in fact did little to create an enduring framework for Canadian agriculture.

Clearly, there have many difficulties, but a thorough analysis of the world wheat trade gives Canada fairly good marks. It points to the stability of Canada's share of the wheat trade-approximately 18 to 22 per cent-and argues that the Canadian programs are, on the whole, "relatively efficient in that they affect the distribution of income without causing a major misallocation of resources"[5.31] That can be said of few others.

5.3. Australian National Policies

Australia, like Canada, is a settler country and a product of British imperial history. Its settlers brought with them British agriculture and consumption patterns, and not surprisingly, the earliest settlers tried with mixed success to grow wheat. Australian settlers initially found that wheat was difficult to grow in comparison with maize. Nevertheless, traditions persisted,and by the mid-nineteenth century, Australia was a major wheat producer. Unlike Canada, it did not yet produce a surplus which it could export. In the last

[5.31] Schmitz and Furtan, "Canada", pp.388–9. For a comparative study and assessment of approaches, see Andrew F. Cooper and Richard Higgott, "Australian and Canadian Approaches to the Cairns Group: Two-Level Games and the Political Economy of Adjustment," in William Avery, ed., *World Agriculture and the GATT* (Boulder and London:Lynne Rienner, 1993) pp.121–42. For some criticism of the inflexibility of Canadian marketing, see Tom Sewell, *The World Grain Trade* (New York and London: Woodhead-Faulkner, 1992), pp.138–140.

part of the nineteenth century, however, this situation changed and South Australian wheat became highly prized in Britain, so prized that the high transport costs were justified. In the 1870s the British market consumed over half of South Australian production. By the end of the century it seemed that declining yields, a result of the cultivation of marginal lands, meant that the Australian wheat industry would not match the great success of the American and Canadian prairies.[5.32]

After 1896, this situation changed as new varieties of wheat, the more extensive use of fallowing and fertilizers, the growth of immigration, and the expansion of wheat farming made Australia a major exporting nation. In this development, government played a significant role, more so than in Canada or the United States. The Western Australian government gave direct assistance to wheat growing through the Agricultural Bank and, after a drought in 1914, through the Industries Assistance Act and the Industries Assistance Board. There was other support through research institutions and, as in Canada, through government control of wheat quality. Although Western Australia was certainly the most active state, other states assisted through support of agricultural societies and the provision of emergency relief. Moreover, support for railway building was a form of indirect support for wheat exporters.

The congruence of international circumstances, the success of Australian governmental policies, and the improved agricultural techniques made Australian wheat production a very important part of the Australian economy and of the international wheat trade. Between 1909 and 1914, Australia exported 61 per cent of its production and accounted for 8 per cent of the total world market. In the period 1924-29, it exported 69 per cent of its market and accounted for 12 per cent of the world market. In both cases, it was the fourth largest exporter and did not have the ability to influence market conditions and prices as did Canada and the United States, the two major exporters.[5.33] The Australians, therefore, did not have the incentive to maintain reserve stocks as the major exporters often did.

[5.32] This discussion follows that of Edgars Dunsdorf, *The Australian Wheat-Growing Industry 1788–1948* (Melbourne: The University Press, 1956).

[5.33] *Ibid*, chapter V; and *The Wheat Situation 1931* (London: Imperial Economic Committee, 1932), pp.58–9.

Australia's cooperative tradition led the states to establish legal foundations for cooperative marketing of grain prior to World War I although Australian farmers, like North American farmers, dealt with private grain merchants whom they often resented. With the outbreak of war in 1914, the Australian government was a pioneer in the centralization and government control of the marketing of grain. It established the Australian Wheat Board which acquired the grain crop, fixed the price, and paid advances to farmers upon delivery of the crop. This Australian model was later copied by the Canadians and, in essence, is the forerunner of the Wheat Boards through which both countries market their wheat.[5.34]

The demands of the British market were met by the Board and, of course, by Australian farmers. Production rose from 9.6 million bushels in 1914 to 12.4 million bushels in 1915, of which 4.1 came from New South Wales, 3.6 million from Victoria, 2.8 million from South Australia, and 1.7 from the Western Australia.[5.35] There were problems, and the war's end brought an end to government marketing. In the postwar period, however, voluntary groups, notably the cooperative institutions, moved forward along with the grain merchants to fill the void. In several states, notably Queensland, the compulsory pools remained important, but in others declined in importance. The leading student of the Australian wheat trade emphasises the political weakness of the wheat farmer as the major factor in the decline of cooperatives during the interwar period:

> "[The Australian wheat farmer] was not mature enough to help himself. As in other countries, the Australian farmers' co-operative movement was not supported by the political parties. The Nationalist Party which later became the United Australia Party, supported the open market principle. The same attitude was taken by the Country Party. The Labour Party supported compulsory pools. Thus all parties regarded the voluntary co-operative movement as an obstacle to the implementation of their own favourite scheme."[5.36]

[5.34]Richard Higgott, Brian Fisher, Julian Alston, and Andrew Schmits, "Australia:Grain Marketing, Institutions, and Policies," in McGarry and Schmits, eds., *The World Grain Trade*, pp.304–7. The grain board was actually created in 1915, but prior to 1914 the grain producing states had passed a series of wheat acquisition acts which led directly to the creation of the federal government's wheat board. See Dunsdorf, *The Australian Wheat-Growing Industry*, p.227.

[5.35]Dunsdorf, *The Australian Wheat-Growing Industry*, p.531.

[5.36]*Ibid.* p.234.

These problems were dwarfed by the devastation caused by the depression. Wheat became a major topic for debate in the Australian parliament, and a serious burden upon the Australian treasury. The initial response of the government to depression was to urge greater production and to restore the Australian Wheat Board. In addition, the Wheat Marketing Bill provided a guarantee to growers and subsidised rail freight and some other expenses. The plan died in the Australian Senate, partly because of the extraordinary costs that the plan would entail because of the rapid slide in the price of wheat. A Wheat Bounty Act was finally passed in 1931, but the principle of a bounty was rejected by the new government in 1932. For the balance of the depression years, Australian production fell, and the state supported wheat farmers with eclectic measures of support,including direct payments. The Australian government worked with the other major wheat producers to save the situation through an international agreement but there was much criticism within Australia of the negotiations which, some argued, hurt Australia in its hope of expanding markets in Southeast Asia. It also played a role with Canada in Imperial economic discussions relating to wheat. Nevertheless, the Australian position at the end of the depression was considerably worse in relative terms than was the position of the Canadians and the Americans.[5.37]

The Australian Wheat Board was established in September 1939 and regained those powers which it possessed during World War 1. Farmers received price guarantees, but Australia because of its geographical position could not take advantage of the demands of the British market as Canada and the United States could. Acreage devoted to wheat production fell, further hurting the producers.

5.3.1. Post World War II

After the war, the compulsory aspect of wheat marketing was maintained, and the influence of wheat farmers was strong in the later 1940s. The Australian Wheat Board paralleled the Canadian Board, but it did allow more room for private merchants. Like Canada, Australia supported the wartime discussions for an international wheat agreement. Both shared a

[5.37] Dunsdorf, *The Australian Wheat-Growing Industry*, ch.vi; and Paul de Hevesy, *World Wheat Planning and Economic Planning* (London: Oxford University Press, 1940), appendix 7.

common interest, for, as Nick Butler has pointed out, "the Canadians and Australians with strongly export orientated industries have long favoured attempts to set floor prices, and to limit the risks of competitive subsidies by a division of the market between them". In 1949, Australia agreed to the International Wheat Agreement which,for four years, meant that it had a quota of 80,000,000 bushels for each crop year. This amount was about half the Canadian quota and about 40 per cent of the American quota.[5.38]

In the postwar period, Australia was increasingly marginalised in the wheat trade and agriculture became much less important within Australia. Agriculture has fallen from about 24 per cent of GDP in 1949-50 to less than 4 per cent in 1988–9.[5.39] Moreover, Australian wheat yields have remained consistently lower than those of its major competitors, including Argentina. Although Australia has often had high export volumes, the pattern has been erratic and farmer income has been exceedingly variable. The Australian government moved energetically to support its farmers and to develop new markets. The latter became particularly important after Britain entered the European Community thus depriving Australia of its major traditional market. Australia did manage to diversify its trade by finding new markets in Asia (notably Japan and China), the USSR, Egypt, and the Middle East more generally. Indeed, in 1982-3 Egypt took 21.1 per cent of Australian exports, the largest percentage of any country.[5.40]

Despite its declining percentage of GDP, agriculture has remained important to Australian national policy because of its large contribution to foreign exchange reserves, an important consideration in a country that had an increasing propensity to import. The Australian government in the postwar period has emphasised stabilisation policies and farm incomes. Prior to 1969-70, the grain grower had a virtually free choice in planning what wheat he/she would produce. In that year, however, a system of quotas on deliveries of

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[5.38] The best description of the 1949 agreement and the meaning of its terms for all participants is found in Wilson, *A Century of Canadian Grain*, pp.978–1016. Nick Butler, *The International Grain Trade:Problems and Prospects* (London & Sydney: Croom Helm for the Royal Institute of International Affairs, 1986), pp.82–83.

[5.39] Higgott et al., "Australia", p.281. These figures are also taken from *World Wheat Statistics* (London:International Wheat Council, 1991), passim.

[5.40] Statistics are given in Higgott et al., "Australia", p.299.

wheat from growers to the Wheat Board was introduced. The Wheat Industry Stabilization Plan is revised every five years and guarantees price up to a certain level of production of export wheat. Originally, this price was linked to home consumption prices, but this linkage was broken in the late 1960s and later formulas were more complicated. Since that time, the Australian government has sought to reduce its support for agriculture (and, more generally, for other sectors of the economy).In the later 1980s, the Australian government conducted major studies of the grain industry. In 1988 a Royal Commission into Grain Handling, Storage and Transport reported and concluded that "For the most part, the current system of grain distribution does not meet the criteria of economic efficiency, cost effectiveness and integration,..."[5.41] Furthermore, the Industries Assistance Commission, the earliest supporter of the Australian wheat farmer, declared that more efficiency should be introduced to the marketing and handling of wheat.[5.42]

By the mid 1980s Australia was joining with Canada and other "middle power" wheat producers to challenge the policies of the European Community, which displaced Australia as the third largest exporter in the early 1980s, and displaced Canada as second exporter by the mid 1980s, and the United States. Increasingly, the Australian government recognised that domestic support for agricultural exports was too expensive to maintain, and the government expressed its intention of drastically reducing support for Australian agriculture. It was a recognition of how much Australia had changed and also an indication of the new challenges that the international wheat trade presented.

5.4. Argentina

No country, it might be argued, has faced the challenges of the twentieth century so badly as has Argentina. An indication, both of the Argentinian sense of humour and of the nature of Argentinian government, was given by an Argentinian academic who was interviewed for this chapter. When asked about Argentinian national policies in the area of grain, a professor at

[5.41] *Royal Commission into Grain Storage, Handling and Transport* 1988 (a) 3. Also, *Wheat Support Policies and Export Practices in Five Major Exporting Countries*(London: International Wheat Council,May 1988); and *National Grain Policies* (Rome: Food and Agricultural Organisation, 1969), pp.215–24.

[5.42] Higgott et al., "Australia", p.309.

the University of Buenos Aires said: "There are no national policies in Argentina."[5.43] Of course, there have been national policies, but these policies have been much less successful than those of the other grain producers in the twentieth century.

Argentina began the twentieth century with a rapidly-growing economy based upon a manufacturing sector and an internationally competitive agricultural economy. The fertility of the Pampas was legendary and at least equal to the best soil of the great plains of the United States. Moreover, fully 65 per cent of Argentina's 279 million hectares of land was suitable for either crop agriculture or livestock, a figure far in excess of Canada or the United States. Despite these natural advantages, Argentina was increasingly marginalised in the international wheat trade. It remains one of the five major exporters, but its relative position has declined greatly and much of its rich land lies fallow.[5.44]

The problem has been politics. Politics in Argentina may be viewed, since the 1930s at least, as having been dominated by a battle between the rural landed classes and the urban workers.[5.45] Whereas the settling of the Canadian and American plains caused grain farmers in those areas often to protest against discrimination against them and to argue for better terms, the political systems in North America did give the farm communities considerable weight and governments responded to their pleas. In Argentina, the immigrants who crowded into the barrios of Buenos Aires and other cities at the turn of the century resented the wealth of the landed class and used their political strength to support the economic interests of urban Argentina, specifically its manufacturing sector. As a result, a major portion of the profits from grain production was channelled to the cities rather than to reinvestment. Indirect and direct taxes on the grain sector were used to fund industrialisation and to keep the price of foodstuffs artificially low. Moreover, investment in infrastructure which would support the grain sector in such areas as bulk handling,

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[5.43] Interview with Dr. Monica Hurst, October 4, 1993.

[5.44] This information is drawn from Richard Lacroix, Michael McGarry, Matthew McMahon, and Lowell D.Hill, "Argentina: Grain Marketing, Institutions, and Policies", in McGarry and Schmitz, *The World Grain Trade*, 4–106; P.P. Egoroff, "Argentina's Agricultural Exports During World War II," *War-Peace Pamphlets*, Food Research Institute, Stanford University,November 1945; Lucio G. Reca, *Argentina: Country Case Study of Agricultural Prices and Subsidies* . (Washington: The World Bank,1980); and *National Grain Policies*, 1969, pp.112–18.

[5.45] Lacroix et al., *Ibid.* p.22.

research, storage, and rail facilities was not made. Over-valuation of the currency was yet another factor that made exporting difficult for Argentinian farmers. It is not so much that Argentina did not have national policies as that it had economic policies which worked to the disadvantage of the grain farmer.[5.46]

Moreover, Argentina became increasingly disadvantaged economically relative to the other major grain-exporting nations in the post-war period. Although it had been one of the ten wealthiest countries in the world in the first three decades of the century, its relative decline was rapid in the remainder of the century. Its gross national product in 1989 was only U.S.$ 2160 per capita whereas Canada was $19020 per capita and Australia $14440 per capita.[5.47] Although agriculture accounted for most of Argentina's export trade, the Argentinian economy in the post-war period was noted for its highly protectionist character. With the industrial sector and social services obtaining most of the state subsidies, there was little left for agriculture. Thus, as the international wheat agreement broke down, an agreement which had tried to impose negotiated rules in order to stabilize trading patterns, supply, and producers' incomes, the Argentinian government found itself unable to compete as other countries adopted vigorous export and production subsidy policies. Ironically, Argentina itself had contributed to the breakdown of these negotiated rules by carrying out independent policies and, in the view of others, by failing to conform to the spirit of the agreements. At times, its refusal to conform to broader agreements benefited the country, as in the case of Argentina's refusal to join the boycott of the Soviet Union in the wake of the Afghanistan invasion. But the benefits were short-lived.

Of the policy instruments available to government, most have operated in a negative fashion where grain is concerned. A World Bank study has shown that the effect of direct and indirect price intervention between 1960 and 1985 was to make the price of grain half of what it would have been without these particular trade, exchange rate and pricing policies.[5.48] There is a national grain board which was originally modelled on the wheat

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[5.46] Lacroix et al., "Argentina," pp.22–3.

[5.47] *1992 Britannica Book of the Year* (Chicago: Encyclopedia Britannica 1992), pp.544, 546, and 568.

[5.48] Adolfo C. Sturzenegger, *Trade,Exchange Rate, and Agricultural Pricing Policies in Argentina* (Washington,D.C.: World Bank, 1990). The effect was highest in 1974–5 when wheat prices soared but the effect was negative in every year during the 1960–85 period.

boards of Canada and Australia. Like those boards, its purpose has changed over time, but it is currently used to:

1. Regulate the grain trade;
2. Control the movement of grain through reporting requirements and set grain grading standards;
3. Ensure domestic supplies of wheat and prevent monopolization of the wheat market;
4. Ensure export supplies;
5. Stabilise prices;
6. Provide certain subsidies to particular regions;and
7. Promote more scientific agriculture.[5.49]

The Board has carried out its functions poorly. The fullest study of Argentinian wheat policy concludes that "Since its beginnings in the 1950s, the board has been either a direct arm of the government ... or a weak autonomous institution subject to political manipulation." It has served as a trader and a trade regulator and has been required to serve both producer and consumer. As a result, "these conflicting functions have made it impossible for the grain board to carry out any policies consistently, other than the unstated policy of diverting revenues from the grain sub-sector to the industrial and urban economy."[5.50] There is a price support system and a fertilizer distribution system, but the board plays no role in marketing which is dominated by the five large multinational grain companies and by other private organizations. The multinational companies have a great advantage because of the currency instability in Argentina. Indeed, it has been suggested that many Argentinian sales are made with no profit margin because of the opportunities to use changes in the Argentinian exchange rate to the companies' advantage.[5.51] The Menem government drastically altered traditional Argentinian policies after 1990. For the purposes of this thesis, however, the burden of the past is most significant. It prevented Argentina from playing their part in the grain trade which its rich soil and talented farmers suggested it could play.

[5.49] Lacroix et al., "Argentina," p.28.

[5.50] *Ibid.*, p.28. Also, *National Grain Policies 1969*, pp.112–16.

[5.51] Lacroix et al. make this point based upon interviews with officials of grain companies. See "Argentina," p.39.

Argentina was disadvantaged because of internal policies and economic conditions which make the economic environment for wheat producers much less favourable. A study of producer subsidy equivalents carried out by the U.S. Department of Agriculture suggests that these equivalents amounted between 1982 and 1986 to 36.5% for the U.S., 30.4% for Canada, 7.7% for Australia, and an incredible -54% for Argentina.[5.52] Argentina, so much poorer than its major competitors, cannot compete if those competitors create unfavourable international markets through their own national policies which subsidise their own producers. Thus, like Canada and Australia, Argentina has begun to work with others to create a more favourable international environment.

5.5. European Community

> "The trinity of grain, flour and bread is to be found everywhere in the history of Europe. It was the major preoccupation of towns, states, merchants and ordinary people for whom life meant "eating one's daily bread" "[5.53]

Although this statement was made in reference to the period between the fifteenth and eighteenth centuries, it could be equally applicable today. The commitment of European governments to support their agricultural sector dates back to around 1880. The stimulus at that time was the challenge of dealing with cheap grain imports from America. The Industrial Revolution was slow to influence European agriculture and it therefore remained backward.[5.54] Agricultural trade was modest and largely intra-European, and perhaps most importantly, the "latent strength of agricultural production in the United States had not yet made its impact on Europe"[5.55]

The repeal of the British Corn Laws in 1846 was, as we have seen in the case of Canada, a milestone in the short period of "free trade" which was given impetus by the teachings of

[5.52] U.S. Dept. of Agriculture, "Estimates of Producer and Consumer Subsidy Equivalents," *Government Intervention in Agriculture, 1982–1986* (Washington,D.C.: USDA, 1988)

[5.53] Fernand Braudel (1981), p.143 in Peter W.B. Phillips, *Wheat, Europe and the GATT* (London, Pinter Publishers; 1990, p.1)

[5.54] Michael Tracy, *Western Europe, 1880–1988* Third Edition (N.Y., Harvester Wheatsheaf, 1989) p.5. The exception to this was England where improved farm methods were adopted to improve production for the benefit of urban workers

[5.55] *Ibid.* p.15

Adam Smith. From 1879–1884 American imports doubled, causing a significant drop in the price of European grain. By 1890 this crisis had been exacerbated by imports from Russia, Canada, India and Australia, and further price reductions. After the turn of the century, conditions in North America and Europe improved and remained strong until World War I. Germany spearheaded the revival of protection for agriculture, drawing on Friedrich List's school of nationalist economics, with its stress on economic development through protection and the desirability of linking politics and economic activity.[5.56] The new tariffs, such as the Méline Tariff of 1892, increased protection for industry and agriculture and remained in effect until the First World War. Public support for these measures rested in the widespread belief in the virtues of rural life and the societal disadvantages of industrialisation.[5.57] This argument was reinforced by the obvious risks involved and excessive dependence on imports and in areas where protection was adopted it succeeded in restraining the fall in prices — although it did not stop it.[5.58]

5.5.1. The 1930's

The 1929 slump in the U.S. quickly spread to other countries. The Hawley-Smoot tariff in the U.S. set off a chain of "beggar-thy-neighbour" tariff increases. Wheat production was increased in order to achieve greater self-sufficiency and to relieve balance of payments pressures. Again, the protected countries in Continental Europe curbed the price decline. In 1932 new duties in accordance with the Ottowa Agreement brought wheat and other products within its scope, so far as the British Commonwealth was concerned.[5.59]

The European response was to legislate more regulation. Domestic markets were to be organised and imports and exports regulated. The response of European governments was typical of the rest of the world. The answer was higher tariffs. Tariff levels on food at least doubled in most European countries between 1927 and 1931. These measures, however, were not enough to keep domestic levels at prices which would satisfy producers.[5.60]

[5.56] *Ibid.* p.20, also see William C. Olsen and A.J.R. Groom, *International Relations Then and Now* (London, Harper Collins Publishers, 1991), p.27

[5.57] Michael Tracy, *Western Europe: 1880–1988*, p.23

[5.58] *Ibid.* p.26

[5.59] *Ibid.* p.123

[5.60] Michael Atkin, *The International Grain Trade* (second ed., Cambridge: Woodhead, 1995), p.22.

In 1936 regulation in France was taken one step further with the creation of the Office National Interprofessional du Blé with a mandate to fix wheat prices and ensure that they were observed. In Germany, the National Socialist government clearly set goals for its agricultural sector: fair prices for producers and national self-sufficiency. An extensive system of regulation of agricultural production and markets was established.[5.61]

With the outbreak of the Second World War, the maximisation of production was the priority. Despite these efforts, when hostilities ceased, supplies were very low and the productive capacity of agriculture was inadequate to meet immediate needs. The situation in Europe at war's end was dreadful. In his history of Europe after 1945, Walter Laqueur writes:

> The specter of famine appeared all over Europe. During the early stages of war farming had prospered, but later on, with the loss of manpower and the lack of machinery, fertilizers, and seed, harvests were severely reduced and there were heavy losses in livestock; the situation deteriorated further as the result of a severe drought in 1945. Excluding the Soviet Union, the harvest of cereal crops on the continent fell from 59 million in 1939 to 31 million in 1945. In France the drop was worst, and the memory was sharpest. Rationing was in force everywhere, and observers estimated that 10000000 Europeans were consuming 1500 calories per day or less.[5.62]

With the assistance of the Marshall Plan in 1948, recovery was rapid. By 1949 a new International Wheat Agreement had been negotiated, and a comprehensive new agricultural plan was formulated to achieve the much more ambitious agricultural goals of post-war Europe.

5.5.2. The Common Agricultural Policy

It has often been said that the Common Agricultural Policy is the glue that holds together the European Community. To understand why the glue is so strong one must reflect on the history of agriculture in Western Europe since the 1920s. As indicated above, only recently has Europe been a net exporter of grains, but European agriculture's importance has been a major element of national policies of Western European countries since 1945. The reasons

[5.61] *Ibid.* p.129

[5.62] Walter Laqueur, ***Europe in Our Times: A History 1945-1992*** (New York: Viking, 1992), p.6.

are not difficult to fathom. In his major study of European reconstruction, Alan S. Milward has written "Without discussion or argument there was one matter on which all national reconstruction plans were in agreement, the maximization of agricultural production."[5.63] The memories of the 1920's and 1930's remained strong in European memory. There was, after 1945, a world food shortage and food had to be bought with scarce dollars. Of course, memories of wartime food deprivation were strong. Countries like Britain and Switzerland that had adopted liberal policies towards agriculture had suffered during the war and after. Therefore, in Milward's words, "Any sacrifice of agricultural output on the altar of international efficiency now appeared as strategically dangerous and politically disastrous." There would be no sacrifice; indeed, there would be a conscious attempt to obtain more food security than had existed in the 1930s.[5.64]

The Common Agricultural Policy (CAP) was designed to achieve the objectives of producer income support, promotion of technical efficiency and the efficiency of resource use, price stability and food security as established by the Treaty of Rome (1959). The CAP thus became the instrument of "modernisation" or "industrialisation" of farming.[5.65] In a larger sense, the economic benefits of the CAP only offers a partial explanation for the plan. While acknowledging the economic benefits of integration by the founder of the E.C., "political unity among the nation states of Western Europe was their larger goal."[5.66] Given the threat of Communist expansion during the 1950s, political interaction amongst the Western European democratic nations was encouraged by the U.S. The Americans had doubts about CAP but they had fears about Communism and political disintegration which overcame these doubts.

As production of the more efficient farms continued to rise, supply tended to exceed effective demand. The tendency for oversupply to drive prices down was offset by the

[5.63] Alan Milward, *The Reconstruction of Western Europe 1945–51* (Berkeley and Los Angeles:University of California Press, 1984), p.435.

[5.64] *Ibid.*

[5.65] I.R. Bowden, *Agriculture under the Common Agricultural Policy* (Manchester University Press, U.K., 1985) p.xi. Industrial farming is characterised by specialisation both on individual farms and whole farming regions, a farm structure of fewer and larger units and systems that rapidly apply technological, biological and chemical innovations.

[5.66] *Ibid*

implementation of guarantees which provided producers with price supports under a variety of schemes.[5.67] Producers were thus encouraged to continue increasing production; however, as governments became increasingly involved, the cost of support rose.[5.68] Part of the problem was success. Laqueur describes what he terms the "surge" of European agriculture which transformed country life all over the continent by the 1960's. The statistics are impressive:

> The number of tractors in use had been fairly negligible before 1945 except in the Soviet Union and Britain; between 1950 and 1962 it increased from 350,000 to 2.6 million in the Common Market countries alone. The use of fertilizers grew by over 85% between the 1930's and 1959, and as a result of these and other improvements, productivity in agriculture doubled in France and West Germany between the early fifties and the middle sixties; a shrinking labour force produced far more food than in the prewar years.

In fact, it produced as much as Western Europe could consume by the 1960's, and France became the granary of the Common Market. It is small wonder that a political problem arose with the traditional suppliers, of grain to Europe.

By the 1960s the problems in the system had become apparent to all, but, the worst effects of the surplus market conditions were absorbed by the stock-holding and pricing policies of the Canadian-American duopoly. It is important to emphasise that in the early 1960's, Europe was still in the second rank among grain traders.

In 1967, the CAP came into full force. The Americans were troubled, but they did not see the CAP as the protectionist policy that it would become. Moreover, the Americans hoped that the Kennedy Round of the GATT would lead to a general liberalisation of trade including the problem of the CAP. In fact, during these negotiations, the Europeans did propose what became known as the "montant de soutien" which would have frozen support at current levels. The Americans (and others) hoping for better rejected this offer. As Atkin writes, "In retrospect, and particularly in the context of the difficulties posed by agricultural trade issues in the GATT Uruguay Round, nearly 30 years later, it is easy to

[5.67] Michael Tracy, *Western Europe 1880–1988*, p.237
[5.68] *Ibid.*

see that the E.C.'s offer should have been grabbed with both hands, but the opportunity was lost."[5.69]

By 1970, the stabilising effects of the duopoly as well as the Intenational Wheat Agreement (IWA) had ended. The tight market conditions of the mid-1970s proved to be very prosperous for all grain exporters, however, as surplus conditions again began to appear in the late 1970s relations with the other exporters, especially the United States, became increasingly strained. U.S. determination to pressure the E.C. to alter its policies was moderated by the agricultural shortages of the mid 1970s.[5.70] By the end of the decade, relations had seriously deteriorated.

The crisis in global agricultural trading relations of the 1980s was a result, primarily, of the decline in U.S. hegemony and the emergence of the E.C., a formidable competitor.[5.71] Although the CAP brought considerable benefits to its member nations[5.72] it irritated the E.C.'s partners. Australia's extreme antagonism towards Europe reflects, perhaps, the loss of its traditional British markets.[5.73] The United States responded to Europe's aggressive export policies with retaliatory policies such as the Export Enhancement Program (EEP)[5.74] and repeated appeals to the GATT to affect changes to CAP. The E.C. responded that CAP constituted an internal policy beyond GATT's jurisdiction.[5.75] The E.C. capitalised on the general downturn in the early 1980s by investing heavily in grain exports. By 1989 the full scope of the complete E.C. wheat trade policy was clear; it included targeted marketing with flexible commercial and concessionary credit, multi-annual supply agreements and a storage system.[5.76]

Throughout the 1980's it was clear that the United States and Europe had a different conception of the relationship among agriculture, trade, and rural life. Although Margaret

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[5.69] Atkin, *The International Grain Trade*, pp.25-6.

[5.70] Theodore H. Cohn, "The Changing Role of the United States" in William Avery, *World Agriculture and the GATT*, p.27

[5.71] *Ibid* p.29

[5.72] Nick Butler, *The International Grain Trade*, p.38

[5.73] *Ibid.* p.44

[5.74] Ronald T. Libby, *Protecting Markets: U.S. Policy and the World Grain Trade*, p.1

[5.75] Nick Butler, *The International Grain Trade*, p.48

[5.76] Peter W. Phillips, *Wheat, Europe and the GATT* (London, Pinter Publishers, 1990), p.2

Thatcher shared the commitment of the Reagan administration to deregulation, privatisation, and liberalisation of markets, other Europeans did not. Thus although the Dutch and the British in the 1980's tended to share what might be termed the American paradigm, they were overruled within the Community by the French and Germans. As new members entered the Community, notably Spain, these members derived great benefit from the subsidies for agricultural products in the Community. Thus, the disputes over agriculture intensified in the 1980's, especially as the heightened value of the American dollar opened many markets for European grain traders.[5.77]

The Uruguay round of the GATT was an exercise in frustration for all interested parties. The E.C. recognised that the CAP was an impediment to progress, but national governments prevented not only the elimination of CAP but also its serious revision. The details of the negotiations are beyond the scope of this chapter, however, the outcome of those negotiations will determine the future direction of agricultural relations and national policies.

5.6. Summary, Analysis and Conclusion

The instability and variability which has plagued the international grain trade throughout this century has played a major role in motivating and justifying policy intervention in this vital sector of the economy. The capital intensive nature of agricultural production makes it particularly sensitive to fluctuations in general economic conditions both nationally and internationally. Many of the policies and programs which governments have instituted may be viewed as a means of distributing the risks between the farm sector and the rest of the economy. The history of the agricultural policies of the major grain exporting countries reveals that at times the policies designed to alleviate one risk can often be seen to have created new ones.[5.78] The history of the agricultural policies of the major grain trading

[5.77]See Marcelo Raffaelli, *The Rise and Demise of Commodity Agreements*, (Cambridge: Woodhead, 1995), pp.28-29. Also Atkin, *The International Grain Trade*, pp.28-29

[5.78]Beverly Fleisher, *Agricultural Risk Management* (Boulder Colorado, Lynne Rienner Publishers, 1990) p.1

nations as described in Chapters 4 and 5 is a history of many such trade-offs among interest groups within a country, and among countries.

In the introduction to the discussion of national agricultural policies, two arguments were presented. First, the issues which plague agricultural policy makers today are largely rooted in the past. This premise particularly relates to issues involving production control and surplus management. The second is that the trade policies of the five major exporters have been shaped primarily by domestic political and economic circumstances. A third argument which could now be added is that to a large extent, the policies of Canada, Australia and Argentina have been formulated in response to policies and pressures of the United States. The premise will be examined in more detail later.

Chapters 4 and 5 have attempted to identify the major domestic, political and economic forces which have shaped the export policies of the five major exporters and to explain how these circumstances have in turn shaped the international grain trade, as well as the trade relations of these actors. For each exporter the domestic forces were different; nevertheless, there are some common patterns which can be identified. Because grain is a thinly-traded commodity and because the international grain trade is an oligopoly, the policy decisions of any major grain seller have profound effects on the other major actors and on the state of the market in general.[5.79]

This chapter has studied three countries whose relative influences have declined since 1939 because of the increasing economic and political strength of the United States and later, the E.C. Their policy decisions are seen to be increasingly reactive to the influence of American policy. The European Community has defied U.S. domination and has become a major actor within the last two decades as a result of the "domestic decision" to use agriculture as a unifying force in the community. Interestingly, this decision parallels earlier "domestic decisions" by Canada and Australia. This decision has had a profound effect on the structure of the oligopoly. In the words of one analyst "no government policy has caused more change since 1960 in any area of the world economy than the Common

[5.79]**Brian T. Olsen, Ph.D. Thesis, "Price Determination and Market Share Formulation in the International Wheat Market" (Mineapolis, University of Minnesota, 1979) p.1**

Agricultural Policy (CAP) of the E.C."[5.80] The resultant subsidy "war" interfered with the export objectives of many countries (including the main opponents) and exposed the structural weaknesses of the system as never before.[5.81]

Although it is generally considered that the "food regime" as such was created in the aftermath of World War II,[5.82] many elements of the modern trading system and the government policies that support it were set in place after the "Great Depression" in the early 1930's. The depression was a watershed in the development of the international grain trade. Regardless of the relative strength of the industry prior to 1930, the global scope of the depression devastated grain producers in all the major exporting countries.[5.83] The political decisions that were made in the aftermath of the depression to a large extent shaped the health of their economies in general, and their grain industry in particular. The United States led the way with its comprehensive Agricultural Adjustment Act (1933) while Canada and Australia adopted producer support systems that included the establishment of marketing boards to regulate supply and provide some price stability. Canada's support system was comprehensive, incorporating elements of the U.S. model. Australia's wheat industry lacked the political support and financial resources necessary to revive the sector and restore production levels. In Argentina, budgeting for the reconstruction of the economy was directed to the industrial sector at the expense of the grain and livestock producers. Argentinian agricultural policy since that time has been marked by short term policies of grasping market advantages whenever possible with apparently little regard for the long term consequences. Examples of this erratic market behaviour range from breaking the marketing and financial provisions of the International Wheat Agreement causing it to collapse in 1934 to the selling of grain to the Soviet Union during the 1980 embargo. World

[5.80] Robert E. Hudec, "Dispute Settlement in Agricultural Trade Matters: The Lessons of the GATT Experience" in *U.S. Canadian Agricultural Trade Challenges: Developing Common Approaches*, eds. Kristen Allen and Katie Macmillan (Washington D.C.: Resources for the Future, 1988), p.149

[5.81] Theodore H. Cohn, *The International Politics of Agricultural Trade: Canadian-American Relations in a Global Agricultural Context* (Vancouver, University of British Columbia Press, 1990) p.4

[5.82] Donald J. Puchala and Raymond F. Hopkins, "International Regimes: Lessons from Inductive Analyses" in Stephen D. Krasner, *International Regimes*, (Ithaca, N.Y., Cornell University Press, 1983) p.85

[5.83] In the 1920's, Canada was considered the "bread-basket" of the world, with 42% of world trade and Argentina was its closest competition. Between 1923 and 1928 the U.S. moved to second position and became the leading exporter after 1930.

War II and the immediate post war period also demanded all-out production for the war effort and to provide for European reconstruction.

A major initiative in terms of producer cooperation and market stability was the establishment of the International Wheat Agreement in 1949. This and subsequent agreements will be dealt with in detail in Chapter 6. The 1950's and 1960's represented a period of cooperation among the major grain exporters despite the heightened politicisation of the trade.[5.84] The United States was the undisputed leader in the industry in the post World War II period, however, in the absence of budgeting pressures, agricultural trade policies were restrained in the 1950's and 1960's. Emphasis was given to the political/security value of grain exports in terms of both market development and Communist containment. Concessionary policies such as PL480 provided the legislative authority to achieve these goals while reducing the surplus stocks which became increasingly troublesome during this period. This "dumping" of American surpluses on the market posed a serious problem for the other grain traders. Canada responded most decisively by moving into Communist markets which, for ideological reasons was rejected by the U.S. This initiative was significant in offsetting the expansionary policies of the U.S. and by the late 1960's, these markets were Canada's best.

Despite this success, western Canadian grain agricultural interests began to decline in the 1960's in favour of powerful manufacturing interests in Central Canada. The interventionist orientation of Prime Minister Lester Pearson and later Pierre Trudeau brought a number of stabilisation and insurance programs to assist producers who faced chronic surpluses and depressed prices. This decline was evident even within the prairies where capacity came to represent only 20% of economic activity and priority was given to the oil and petrochemical industries in the aftermath of the OPEC crises. It also stemmed from the strong influences of the Minister of Agriculture, Eugene Whelan, whose bias was in support of the agricultural interests of Central Canada, particularly the poultry and dairy sectors.[5.85]

[5.84] Theodore Cohn, *The International Politics of Agricultural Trade: Canadian-American Relations in a Global Agricultural Context* University of British Colombia Press, Vancouver, 1990), p.99

[5.85] Grace Skogstaad, *The Politics of Agriculture and Policy Making in Canada*, pp.5-9 In this comprehensive study of the regionally concentrated agricultural commodity sectors in Canada, Skogstaad builds in the thesis put forward by Faith Stevenson that intergovernmental situations and policy-making in Canada

Although the regional and indeed federal aspects of policy-making in Canada had long fuelled intergovernmental tensions, interests became particularly polarised in the 1970's.

Internationally, tensions were also rising. The U.S. concessional sales increasingly affected the pattern of commercial grain exports. The U.S. share of exports to LDCs increased from 36% in 1950-54 to 68% in 1960-64. During the same period Canada's share of exports to LDCs dropped from 23% to 6% while Australia's exports dropped from 17% to 9% and Argentina's 14% to 5%.[5.86] The outcry of these "victims of U.S. policy" led to the creation of FAO's Consultative Subcommittee on Surplus Disposal in 1954, but with little effect.

The tendency for the U.S. to take unilateral action in order to serve its general purposes, as in the case of PL480 confirms the findings of Keohane and Nye that the typical approach of the United States on socio-economic issues was to take "unilateral action to which the smaller partners tended to respond by demanding redress through diplomatic channels."[5.87]

Despite the obvious political problems that arose among the grain traders at this time, Canada and the United States maintained the "duopoly" which had shielded the market from more severe dislocations as a result of surplus accumulation.[5.88] This system, in conjunction with the economic provisions of the International Wheat Agreement managed to keep prices within the accepted price range until the breakdown of the agreement in 1967.[5.89] By 1967 the duopoly model became increasingly unsatisfactory to the U.S. Increased balance of payments problems demanded a more aggressive marketing approach and in 1967-68 it disposed of 750 m. bushels of wheat, contributing to the break of the floor prices of the

are affected significantly by the interplay of Canada's regional economies which have historically favoured the interests of Central Canada over those of the West.

[5.86] Robert Band, *Food Aid and International Agricultural Trade*, (Lexington, M.A.: Heath, 1972). p.242

[5.87] Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition* (Boston, Little Brown, 1977) p.200

[5.88] Theodore Cohn, *International Politics of Agriculture*. Although Australia and Argentina were sometimes included in the meetings, prices were set by Canada and the U.S. who controlled 60-70% of world trade. pp.668-668

[5.89] Jon McLin "Surrogate International Organisations and the Case of World Food Security 1949-1969" *International Organisation* 33-1 (winter 1979) pp.35-55 McLean has described the Canadian — American duopoly of the 1950's and 1960's as a "surrogate system" of world food security since it functioned in the absence of an international arrangement with explicit multilateral obligations and administrative responsibilities undertaken by an international secretariat."

IWA and the collapse of the agreement.[5.90] Australia and the European Community also contributed to the breakdown through aggressive market activity.[5.91]

The breakdown of the Canadian-American "duopoly" and the International Wheat Agreement constituted the end of the food regime which had provided a basic consensus for regulating market practices and price levels among major grain exporters in the postwar period. The principles and aims which guided the system were not without problems; however, in retrospect, this period proved to be certainly more stable than the periods which preceded and followed it. The end of such a regime is seen by Puchala and Hopkins to reflect "two classical political concepts – power and interest." The structure of international power had changed and with it the marketing imperatives of the grain traders — particularly the United States and the added complication, by the mid–1970's, was the growing presence of the E.C. on the export market.

Fundamental economic changes took place in the late 1970's which have led to serious problems in agricultural trade relations. Increased pressures from U.S. balance of payments deficits contributed to more aggressive American trade policy including the U.S. targeting of Canada's Communist markets. The ever growing impact of the European Community agricultural exports set the stage for the full-blown conflicts and subsidy wars that have paralysed the system throughout the 1980's.

The marginalisation of the lesser grain exporters by the policies of the U.S. and E.C. led to the establishment in 1986 of the "Cairns Group"[5.92] In their important work, *Relocating Middle Powers*, Cooper, Higgott and Nossal argue that at their "boldest" the Cairns Group was a "major force in the early phase of the Uruguay Round" and that it "helped set the agenda and provided an important middle way for progress when negotiations between the U.S. and E.C. appeared to be heading for a deadlock."[5.93]

[5.90] Theodore Cohn, *International Politics of Agricultural Trade* pp.70-72. In contrast, Canada took wheat off the market during this time in an attempt to strengthen prices.

[5.91] ibid

[5.92] The members of the "Cairns Group" are Argentina, Australia, Brasil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, The Philipines, Thailand and Uruguay.

[5.93] Andrew F. Cooper, Richard A. Higgott and Kim Richard Nossal, *Relocating Middle Powers* (Vancouver, University of British Colombia: 1991) p.82

Their argument has much strength, but it should be recalled that differences among this very diverse group soon surfaced. Some, particularly Brazil, found themselves torn between their membership in Cairns and their membership of the Food Importers Group. Canada was, however, the major problem for two major reasons. First, Canada was also protectionist in several areas of agriculture, and second Canada in the mid 1980s was engaged in the negotiation of a free trade agreement with the United States, and seemed to be driven by a need to support American initiatives.[5.94] The significance of the Cairns Group was perhaps its very creation.

As all nations, both exporting and importing, struggled to break through the impasse of the Uruguay Round negotiations, the words of Leslie Wheeler, Director of the Office of Foreign Agricultural Relations, USDA, come to mind. In reflecting on the post-depression situation, he stated that "since agricultural price support programs and their accompanying trade restrictions appeared to be a permanent fact of life around the world, the road back to free trade could only be taken through international cooperation."[5.95] The impulse to seek international cooperation through international organisations and agreements in times of crisis is a pattern which has been established throughout this century. The international agreements which were established at those moments will be the subject of Chapter 6.

[5.94]For a fuller explanation of this argument, see John English and Irene Knell, "Canadian Agriculture and World Politics" *International Perspectives* (November/December 1987), also Andrew Cooper, "Like-Minded Nations/Contrasting Diplomatic Styles: Australian and Canadian Approaches to Agricultural Trade" *Canadian Journal of Political Science* (June 1992), pp.349–79

[5.95]Berton Edmond Henningson, "United States Agricultural Trade and Development Policy During World War II: The Role of the Office of Foreign Agricultural Relations", unpublished thesis (University of Arkansas, 1981), p.38

Chapter 6

International Wheat Agreements: Origins and Fates

6.1. Introduction

International interest in the stabilisation of primary commodity prices is an age old phenomenon. Because of the nature of wheat as an internationally traded commodity and because of the nature of the market as it has evolved in the twentieth century, there have been numerous attempts to "manage" the wheat trade. The agriculture led "Great Depression" of the 1930's, and the economic planning which followed, gave rise to the concept of government intervention in the regulation of commodity markets and the recognition that a fundamental lack of symmetry existed in the way agricultural markets operated, particularly in contrast to those of manufactured goods. The difficulties in adjusting supply to variation in effective demand, revealed the limitations of self-correction in the international grain market.[6.1] Chapters 4 and 5 dealing with the national politics of the major grain exporters have detailed the numerous national adjustment programs designed to reduce the state's exposure to the negative effects of external price fluctuations. These efforts have, under certain political and economic climates and external market conditions been supplemented by attempts among the major exporters to manage the trade internationally, particularly with respect to market share and pricing arrangements. From the first wheat agreement in 1931 to the present much looser arrangement, such cooperation was perceived as a means of providing a certain degree of regulation in order to improve the functioning of the market - not to replace it.[6.2]

The unique character of agricultural production has demanded a much higher degree of government regulation than other sectors of the economy. Economic forces such as general

[6.1] Gamani Corea, "Creating a Framework to Strengthen and Stabilise International Commodity Markets." in Alan K. Henrikson ed. *Negotiating World Order: The Artisanship and Architecture of Global Diplomacy.* (Wilmington, Del: Scholarly Resources Inc., 1986) pp.167-8

[6.2] Ibid. p.169

macroeconomic conditions, exchange rate variations and monetary and fiscal policies have the effect of enhancing or restraining all international trade flows. Agricultural trade is further complicated by the vagaries of seasonal and weather influences. Second only to the unexpected changes in the economic environment caused by policy changes, weather is a major source of uncertainty in agricultural output.[6.3] The national and global impact of weather on the quality of output can be dramatic, which, taken in conjunction with the inelastic nature of aggregate demand, magnifies the variation.[6.4]

Income variability of producers as a function of weather-induced changes in yields can also be extreme. This variability (and the resultant political pressure) has remained a dominant feature of the grain trade since prior to World War II when grain prices moved freely in response to supply and demand with little direct government intervention. Prices received by producers in the United States varied from $.36 in 1932 to $2.25 in 1947 in 1932 prices. The social and political unacceptability of such extreme price and income variations and the ineffectiveness of national programmes to resolve adequately the problems led to demands for some form of international cooperation or coordination of the wheat trade.[6.5] It was, however, the nature of the market that made collaboration possible.

Several features of the international grain market contributed towards cooperation. First, there are relatively few significant exporters, and, in the early part of the century, relatively few significant importers. Secondly, the impact of reserve stocks on pricing is immense, leading to great market dislocations in times of significant surplus or shortages. The ability of one or two exporters to maintain sufficient stocks to influence the market in such a significant way has provided the impetus for all major exporters and importers to seek an agreement which could provide market stability. Thirdly, the major exporters were countries which had close political and economic relations with each other. Canada and the United States were neighbours, and Canada was linked with another major exporter,

[6.3]Robert D. Reinsil, "Government Grain Storage: Food Security and Price Stability" in Robert D. Reinsil ed. *Managing Food Security in Unregulated Markets.* (Boulder, Colorado, Westview Press, 1993). p.106. See also "The World Wheat Situation and the International Wheat Agreement" (IWC, London, 1954). p.5

[6.4]Ibid. p.107

[6.5]Maiden "International Wheat Agreements" in *International Journal of Agrarian Affairs*, Vol. 1, No. 3, (Oxford University Press, Sept. 1949) p.11

Australia, through the Commonwealth. Moreover, wheat was a component of broader political and economic relations among these countries. As national interests of the major participants came to be defined differently over time, the introduction of international organisations and agreements provided the catalysts necessary for coalition formation and the continuation of the regime.[6.6]

From the early attempts to reach agreement in the 1930's, to the more stable and lasting agreement of 1949, particular political and economic conditions existed within and among the major exporting and importing nations which have made such international agreements possible. The changing patterns of these interrelationships has largely been in response to changing international market conditions, political and economic strategies, and increasingly, domestic political pressures.[6.7] The purpose of this chapter is to review the formulation, functioning and eventual demise of the International Wheat Agreements. This review will identify the political and economic environment that resulted in the creation and continuance of the successive agreements, the mechanisms of operation, the socioeconomic factors that kept them viable, and the change in the political objectives and market conditions that led to their breakdown. This examination will be conducted within the context of the effect these agreements had on the function of the market in terms of price stability, general trade relations among the main actors and food security. Emphasis will be given to the more substantive agreements which operated from 1949–1969.

This study will revisit the ongoing debate regarding the desirability of government interference with "market forces". It will, in fact, go beyond the national debate to the international arena where the collaboration of governments in the regulation of global economic enterprises such as in the case of International Commodity Agreements (ICA's) not only expands the breadth of the debate, but raises new questions relating to the viability of a system which advocates the coexistence of co-operation and competition.

A central feature of the post-war food regime, the International Wheat Agreements exemplify the central tension which exists in international commodity trade issues: that

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[6.6] Peter Urin, *The International Organisation of Hunger* (London, Keegan Paul International, 1994) p.8

[6.7] Yamani Corea, "Creating a Framework to strengthen and Stabilise International Commodity Market" p.168

is, the conflict that arises from the seemingly incompatible objectives of free trade and the (at least partial) regulation of the commodity in order to promote price stability and availability of supply.[6.8] The history of International Wheat Agreements (IWA) traces the evolution as well as the resolution of this conflict over time, and reveals the interface of exporter and importer interests.

6.2. The Evolution of International Cooperation in Wheat

Throughout recorded history the problems of production management, distribution, marketing and pricing of wheat have concerned political leaders, from the Roman focus on bread and circuses to the modern Western leaders and their fear of agrarian and consumer protests. For our purposes the first moves toward the creation of an international regime in the area of wheat occurred at the International Economic Conference in Geneva in 1927, an impulse which reflected the desire of agricultural producers to gain a greater slice of the prosperity then prevailing.[6.9] The general economic boom of the mid to late 1920's was accompanied by a boom in agricultural production with food production increasing by 15% between 1921 and 1929. By 1929, however, it was evident that the economic boom had passed its peak. Surplus capacity was evident in manufacturing as well as in raw materials and grain. The increased interest in commodity control schemes was an indication of the growing difficulties of primary producers.[6.10]

When the depression struck, the situation worsened with the dramatic collapse in world wheat prices due to over-abundant supply and the significantly reduced purchasing power of the major importers. Informal meetings led to the first International Wheat conference in London in May 1931 at which eleven wheat exporting nations participated. The conference convened to address what was considered the abnormal market phenomenon that

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[6.8]Stephen D. Krasner, ed. *International Regimes* (Ithaca, Cornell University Press, 1983) pp.75-77 and Mark W. Zacher "International Commodity Trade regime" in *International Organisation* (Vol.41, Number 2, Spring 1989) pp.174 - 176. A recent study which largely ignores wheat but reflects generally on international commodity agreements is Marcelo Qaffaelli, *The Rise and Demise of International Commodity Agreements* (Cambridge: Woodhead, 1995).

[6.9]A,G. Kenward and A.L. Longhead *The Growth of the International Economy* 1920 - 1980 (London, George Allen Unwin, 1983) pp.200-201.

[6.10]International Wheat Council, File Ex(74/75) 2/2, Second Meeting of the Executive Committee 10 Sept. 1974 was "facing farms all over the world, that is to sell below the cost of production, limiting the purchasing power of wheat growing countries and demoralising world trade."[6.11] The conference explored various proposals in order to facilitate orderly marketing, including the implementation of export quotas. In the end, the Canadian Prime Minister, R.B. Bennett, refused to sell Canadian wheat on an export quota basis.[6.12] The following day, the United States also announced its opposition to export quotas proposing acreage reduction as an alternative. Despite objections from the Soviet Delegation that it was struggling to recover its pre-war production capacity, the motion was carried[6.13] and acreage was reduced by 15% in the first year and 10% in the second. Although the general terms of the conference were not maintained, perhaps one of the most significant outcomes of the 1931 conference was the establishment of a Clearing House of Information to assist the wheat exporting countries in exploring possibilities of expanding wheat usage.[6.14]

6.3. The International Wheat Agreement. 1933

Two years later in the deliberations of the Monetary and Economic Summit in London, on August 3, 1933, pressure to secure a more comprehensive agreement among the wheat exporters came from the United States. In what was described as a "stiffening of the United States attitude" in 1933, Canadian ambivalence toward an agreement was challenged. Under the threat of the U.S. abandonment of domestic acreage reduction and the possible dumping of surpluses on world markets (which would have been disastrous for Canada) full Canadian support for an agreement was won. Argentina and Australia also agreed to reconvene at Canada House, London, on August 21 to investigate more fully the possible options. From the onset of the depression, the global character of the grain trade and the "domino effect" of problems in the agricultural sector had become increasingly evident. Writing in 1932,

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6.11 "Multilateral Arrangements Part 3 Wheat Trade" telegram 51 Secretary of State for External Affairs to High Commissioner, Ottawa, May 14, 1931 also A.G. Kenward. p.201 and IWO File Ex (74/75) 2/2/ pp. 9 - 15

6.12 Telegram Prime Minister to High Commissioner (Ottawa, May 20, 1931) (ibid.)

6.13 Telegram 58 High Commission to Secretary of State for External Affairs, ibid.

6.14 IWC File Ex (74/75) 2/2 p.3 and Telegram 142 Advisory Office and Secretary of State for external Affairs, Geneva, May 13, 1933.

M. Giuseppe de Michels, president of the International Institute of Agriculture made this point.

> In recognising the international character of the present crisis in agriculture, it should also be recognised that the only way to its solution is that of coordinating national requirements with the requirements of the whole modern economic system which is essentially international, and that coordination of this kind is only possible on the basis of international agreements.[6.15]

Under the strong direction of the United States, and with the cooperation of wheat importing countries, who were also committed to the establishment of a balance between production and consumption through orderly marketing, an agreement was reached by August 25. All major exporters and importers were signatories to the agreement including: Germany, Austria, Belgium, Bulgaria, France, the United Kingdom of Great Britain and Northern Ireland, Greece, Hungary, the Irish Free State, Italy, Poland, Rumania, Spain, Sweden, Switzerland, the Union of Soviet Socialist Republic, Czechoslovakia, and Yugoslavia, Australia, Canada and the United States. Argentina's signature was delayed but finally arrived.[6.16]

The stated objectives of the 1933 International Wheat Agreement were "to adjust the supply of wheat to effective world demand and eliminate the abnormal surpluses which have been depressing the wheat market, and to bring about a rise and stabilisation of prices at a level remuneration of the farmers and fair to the consumers of breadstuffs".[6.17]

To this end, three features were adopted by the conference. The first was the acceptance of an export quota scheme by the United States, Canada, Argentina and Australia for the 1933/34 crop years which was based on a projected world import demand of 560M bushels or 15.2M tons. Secondly, the four major exporters accepted a 15% reduction in exports for that year, and a corresponding reduction in production acreage. Thirdly, an agreement was reached to fix the price of wheat for a period of 16 weeks, at which time importing countries would be obliged to lower their customs tariffs. In addition to these provisions, the

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[6.15] M. Giuseppe de Michels, President, International Institute of Agriculture. *World Agriculture* (London, Royal Institute of International Affairs, 1932)

[6.16] Telegram 86 office of High Commission to Secretary of State for External Affairs, London, Aug. 25, 1933 (p.569)

[6.17] IWC, File Ex (74/75) 2/2. p.3

United States and Canada agreed to share proportionally the burden of carry-over stocks and the Union of Soviet Socialist Republics agreed to limit their exports for the crop year 1933–34. Of lasting significance was the creation of the Wheat Advisory Committee, which was to continue to assess market conditions and oversee the working and application of the Agreement.[6.18]

However comprehensive and ambitious this agreement may have been for its time, it proved to be inadequate in correcting market imbalances. Far from attaining and holding the agreed basic level, the price of wheat actually fell as a result of several factors. The upward movement of tariffs which had characterised the early years of the depression continued well into the mid 1930's, inhibiting trade internationally.[6.19] Paul de Hevesy, a leading analyst at the time, critiques what he saw as "the paradox of many of the industrial states in Europe attempting to maintain and even expand their agricultural production through protective tariffs. Thus, as the price fell, less instead of more wheat was allowed to enter importing countries."[6.20] Therefore, although all major producers were under pressure to find markets for their wheat, Argentina was the first to break the agreement by overshipping its quota by one million tons due to bumper crops and inadequate storage facilities.[6.21]

In hindsight, the IWA 1933 appears to have been doomed to failure given the macroeconomic conditions of the day. It was, however, a surprisingly comprehensive undertaking for its time, adopting as it did the three essential elements of a commodity agreement, supply regulations, export controls and price provisions — however elementary.[6.22] This agreement was also significant in that it was the first one which sought to establish an effective balance of production and consumption levels by incorporating the interests of both exporters and importers. This interdependence between the consuming nations and the producing and

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[6.18] Description of the 1933 Wheat Agrement is taken from: Telegram 86 Office of High Commissioner to Secretary of State for External Affairs, London, Aug. 25, 1993 also see, IWC File E1 (74/75) 2/2 and *The Stabilisation of International Trade in Grains: An assessment of problems and possible solutions* FAO Commodity Policy Study #20 (FAO, Rome, 1970), p.16–17, and Tom Sewell, *The World Grain Trade* (London, Woodhead-Faulkner (Publishers) Ltd., 1992), p.99

[6.19] A.G. Kenward and A.L. Longhead, p.215

[6.20] Paul de Hevesy, *World Wheat Planning and Economic Planning in General*, (London, Oxford University Press, 1940), p.3

[6.21] IWC File Ex(74/75) 2/2, p.3. see also Telegram 214 Secretary of State for External Affairs to Minister in France, Ottowa, Oct.8, 1933

[6.22] IWC Files Ex(74/75) 2/2, p.4

exporting nations was reflected in the words of the French Ministry of Commerce in 1936: " ... Recovery is not possible while the buying power of the farmer remains so low, since the disposal of manufactured goods depends chiefly on the wealth of the rural masses."[6.23]

In addition to the inability of this agreement to be sustained given depressed market conditions, it was also flawed in that it was almost completely lacking in the "infrastructure" necessary in order to carry out the scope of its provisions.[6.24] The Wheat Advisory Committee, the institutional base, had little power, but was nonetheless maintained from 1935–1938 when a succession of droughts reduced the massive surpluses and interest in the negotiation of a new agreement was renewed.[6.25] The sudden rise in wheat prices in 1936–1937 was the result of an astonishing array of factors, which were political, economic and atmospheric in nature. They included the initial failure of the 1935/36 Argentina crop; four consecutive small crops in the United States and Canada, poor crops in France, Germany, Italy and S.W. Europe in general, heightened international political tension and the consequent build-up of stocks for military purposes, civil war in Spain, and the mandatory devaluation in France, Holland and Switzerland.

The suddenness of the market reversal prompted the United States to put forward a proposal to stabilise the export quantities for all major exporters. A Preparatory Committee met in London in early 1939; however, efforts to establish a workable basis for a new agreement was interrupted by the outbreak of war in September 1939.[6.26] Although the meeting of the Wheat Advisory Committee and the negotiation meetings were held in secrecy,[6.27] agreement appears to have been reached with regard to setting a world minimum price for selected reference wheat (Manitoba No. 3) and on the provision of specific export quotas for Canada (40%), Argentina (25%), the United States (18%) and Australia (17%).[6.28]

[6.23] Paul de Hevesy, p.9

[6.24] IWC File Ex(74/75), p.4

[6.25] Paul de Hevesy, p.29

[6.26] *International Journal of Agrarian Affairs*, Vol. 1 No. 3, 1949, The basis of an agreement was reached just before Hitler's troops invaded Poland in Sept. 1939.

[6.27] Paul de Hevesy, pp.21–25. Hevesy severely criticises the committee for the secrecy of its meetings and blamed it, at least in part, for the failure of the agreement.

[6.28] IWC File Ex(74/74) 2/2, p.6 and the Stabilisation of International Trade in Grains, FAO, 1970, p.16.

6.4. The War Years

Despite the suspension of the negotiations due to the war, informal preparations for a new wheat agreement continued, and in 1942 the Wheat Advisory Committee met in Washington with representatives of the four major exporters, the United States, Canada, Australia and Argentina, and one importer, the United Kingdom. This meeting concluded a Memorandum of Agreement and Draft Convention which called for the establishment of an International Wheat Council to supersede the Advisory Committee. The Agreement itself essentially provided for a future international conference to negotiate a new international wheat agreement, and initiated plans for the post-war recovery and relief programs. The Washington deliberations also expanded the scope of possible market stabilisation mechanisms to include reserve stocks, production control, export quotas and price regulation.[6.29]

The provisions accepted by this conference reflected the findings of comprehensive research conducted by the U.S. Offices of Foreign Agricultural Relations. In studying the history of commodity surpluses and the various responses which had been implemented, several conclusions were drawn:

1. As surpluses had been problematic prior to the war, they would likely persist after the war.
2. In the absence of some agreed method to absorb the surpluses, cut-throat competition would likely be resorted to which would be disastrous for all exporters.
3. Attempts to resolve these problems through national programs are unlikely to be effective.

International commodity agreements which provide for orderly marketing, were seen to be the best solution to the problem.[6.30] Having reached these conclusions, considerable attention was given to the specifics in the establishment of such an agreement. The U.S. position at the discussion was clear. In order to be effective and beneficial to all concerned, an agreement should:

[6.29] IWC File Ex(74/75) 2/2, also Berton Edmond, Henningson, "United States Agricultural Trade and Development Policy During World War II: The Office of Foreign Agricultural Relations" (Ph.D. Thesis, University of Arkansas, 1981, pp.245–255)

[6.30] Leslie A. Wheeler, "International Agreements for the Control of Farm Surpluses", *Foreign Agriculture*, 6 Sept., 1942, p.324

in managing these essential commodities. At war's end, government control in the food sectors was maintained in order to deal with the enormous physical and financial challenges of feeding the populations devastated by war, particularly in Europe and Asia.[6.33]

Planning for a post war agri-food system or regime represented just one component of the comprehensive world economic restructuring which was undertaken at this time. The emergent political, economic and military pre-eminence of the United States was reflected in the leadership role which it assumed in the establishment of a new global economic system. The essence of the plan was, in the long term, to achieve a substantial multilateral liberalisation of world trade and the elimination of all forms of international trade discrimination.[6.34] Given the magnitude of distress and dislocation at the time and given the strength of the U.S. administration and the clarity of the objectives of U.S. Secretary of State Cordell Hull, planners were able to construct the framework necessary to implement the plan. The widespread belief that prospects for world peace would be enhanced through non-discriminatory trade practices also facilitated the institutional reconceptualisation of the post-war period.[6.35]

Cordell Hull's liberal vision was articulated in the Havana Charter, the set of provisions which were to form the basis of the proposed International Trade Organisation (ITO). Within the terms of the Charter, the sole exception to the general trade liberalisation objective was in the area of primary commodities. Interest in the stabilisation of primary commodities in the aftermath of the war was considerable. The special treatment of primary commodities including agriculture can, at least in part, be traced to the influence of

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[6.33] Robert G. Lewis, Deputy Administrator, Agricultural Stabilisation and Conservation Service, USDA. "Competitors and Cooperators in the Pricing of U.S. Wheats in Export Markets", paper given to the Third National Wheat Utilisation Research Conference, Kansas State University, Manhattan, Kansas, Nov.5, 1964, p.4

[6.34] Robert E. Baldwin and David A. Kay, "International Trade and International Relations" in C. Fred Bengsten and Lawrence B. Krause eds. *World Politics and International Economics* (Washington D.C., The Brookings Institute, 1975), p.13

[6.35] Ibid, p.112. Also see Robert D. Isaak, *International Political Economy: Managing World Economic Change*, (Prentice-Hall International Inc., New Jersey, 1991), p.82–83, see also Berton E. Henningson, "United States Agricultural Trade and Development Policy During World War Two: The Role of the Office of Foreign Agricultural Relations", Unpublished Ph.D. Thesis, University of Arkansas, 1981, pp.245–246.

John Maynard Keynes who, in the early 1940's, urged the creation of a common fund to "finance buffer-stock price stabilisation for a range of primary commodities"[6.36]. This special treatment of primary commodities is particularly significant given the large percentage of world trade it represented. In the years 1948, 1953 and 1958, trade in primary commodities as a percentage of world trade represented 55.5%, 51.0% and 48.2% respectively.[6.37] Thus, although the ITO failed to come into force, the exceptionality of primary commodity products and particularly agricultural products had been formalised. Again, when the General Agreement on Tariffs and Trade (GATT) took over much of the international trade function intended for the ITO, agriculture was excluded.[6.38]

6.6. Types of Agreements

Before proceeding in the discussion of International Wheat Agreements, it would be useful to differentiate the various types of commodity arrangements that emerged in the immediate post-Havana Charter period. First, the 'export quota' type of agreement used as a basis for the International Sugar Agreement involves the establishment of a negotiated price range in combination with export quotas and production controls for major exporters in order to keep prices within agreed limits. Second, the 'buffer stock' type of agreement employed in the International Tin Agreement involves absorbing supplies in times of abundance, and releasing them in times of scarcity in order to moderate price fluctuations within an agreed range. Finally, the 'multilateral contract' type of agreement, which was employed in the post-war Wheat Agreements was distinctive in several respects. It involved the negotiation of a minimum and a maximum price, a commitment on the part of importing countries to purchase 'guaranteed' quantities of their imports from member exporters within the agreed

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[6.36] Christopher P. Brown, *The Political and Social Economy of Commodity Control* pp.2–3

[6.37] International Financial Statistics, Dec. 1951 and Feb. 1960 in Joseph D. Coppoch, *International Economic Instability: The Experience after World War Two* (New York, McGraw-Hill Book Co. Inc., 1962), p.37

[6.38] This section taken from Corea, p.168. See also Christopher Brown, pp.2–4, Isaak, p.90 and Mark W. Zacher, "Trade Gaps, Analytical Gaps, Regime Analysis and International Commodity Trade Regulation" in *International Organisation*, Spring 1987, Vol.41, No.2, p.179; also A.S. Friedberg, *The United Nations Conference on Trade and Development of 1964. The Theory of the Periphery Economy of the Centre of International Political Discussions* (Rotterdam, Rotterdam University Press, 1969) p.73

price range, and an undertaking was also made on the part of exporters to provide agreed quantities of the commodity at 'range' prices.[6.39]

The commodity agreements that evolved during this time were each subject to a number of different political influences. The majority of the agreements involved the interests of producers (largely in developing nations) and consumers (largely in developed nations) and as such, were largely considered to be part of a development strategy.[6.40] The wheat agreement, on the other hand, was biased in favour of the interests of producers in wealthy developed nations, which have long enjoyed special weight in the IWO and FAO forums.[6.41] The post-war wheat agreements allowed the United States in particular, to pursue its trade liberalisation policies without sacrificing the economic interests of its producers.[6.42]

6.7. The International Wheat Agreement (IWA) 1949

As the first agreement to be successfully negotiated under the principles of the Havana Charter, the wheat agreements have remained one of the most enduring commodity arrangements despite substantial changes to its formal aspects, and despite having many of its 'teeth' extracted along the way.[6.43] In his comprehensive study, *The Political and Social Economy of Commodity Control*, Christopher P. Brown describes the wheat agreements as being the only global multilateral contract, and, as such, the one which served as a prototype for the multilateral contracts which were later proposed under UNCTAD's Integrated Program for Commodities.[6.44]

The contractual nature of the early wheat agreements in part reflected the interface of interests and influences of the major exporters and importers, particularly the United States, Canada and the United Kingdom. The obligations of the importers and exporters

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[6.39] Christopher Brown, p.3, see also IWC File Ex (74/75) 2/2. p.4

[6.40] Corea p.168 Corea regards the marginalisation of commodity agreements (other than wheat0 as a function of the dichotomy of producer versus consumer interests which emerged in the post-colonial era.

[6.41] Puchala and Hopkins in Krasner. p.76

[6.42] Henningson. p.245

[6.43] Christopher Brown. p.6

[6.44] Ibid. p.6, see also Isaak. pp.91-95 were symmetrical in that aggregate contract quantity was equal for both groups.[6.45] Alan Henrikson describes the structure of the first IWA as having 'distributed' majorities, or concurring separate majorities of exporters and importers, thus balancing conflicting interests. This symmetry was first evident in 1948 when a special session of the International Wheat Council in Washington tabled the proposed terms of agreement for a post-war International Wheat Agreement. The proposal included maximum and minimum price provisions (based on No. 1 Northern Manitoba), export quotas for the United States, Canada and Australia totalling 500m. bu. (13.6 m. tons) per year. This commitment was to apply only at the maximum price. The export commitment was to be met by a corresponding commitment of thirty-five importing countries to purchase 500 m. bu. (13.6 m. tons), with a specific quantity allocated to each country. Minimum carry-over stocks were to be maintained at a level of 25 m. tons by Australia, 70 m. tons by Canada and 170 m. bu. by the United States. In addition, in the event that prices fell below the minimum, exporters and importers were to undertake building up additional reserves until prices rose above the minimum.[6.46] Although this agreement never came into being, it formed the basis of the 1949 agreement which, due to a renewed commitment by the United States was ratified by 38 countries in April 1949. Significant omissions to the signatories were Argentina and the USSR, the former disagreeing on maximum prices, the latter on its market share.[6.47]

The objective of the agreement, as stated, was "to assure supplies of wheat in importing countries and markets for wheat to exporting countries at equitable and stable prices" and, except for a lowering of the minimum price from \$2.00 to \$1.80 per bu., the pricing provisions were maintained. A more substantive change was applied to the reserve stock formulation. Specific quantities were replaced with a more generalised requirement by exporters to "endeavour to maintain stocks of old crop wheat at the end of its crop year at

[6.45] Alan K. Henrikson, "The Global Foundations for a Diplomacy of Consensus" in Alan K. Henrikson ed., *Negotiating World Order. The Artisanship and Architecture of Global Diplomacy* (Delaware, Wilmington, Scholarly Resources Inc., 1986) p.241

[6.46] *International Wheat Agreement*, Washington 6 March 1948, Articles I - XXII

[6.47] S.C. Herdson, "International Cooperation in Wheat" Paper presented to Seminar on Wheat, University of Manitoba, Feb.25, 1970; see also, *International Journal of Agrarian Affairs*, Vol.1, No.3 (London, Oxford University Press, Sept. 1949), pp.6–7. Although delegates were disappointed at the Argentinian refusal to join the Agreement, considerably more effort was taken in attempting to bring the USSR into the agreement. The USSR refused to compromise on its demands.

levels adequate to ensure that it will fulfil its guaranteed sales under the Agreement in each subsequent crop year".[6.48] The reformulation of the reserve provisions of the IWA reflected the unwillingness of certain exporters, particularly Australia to commit to certain stock levels.

The sustained willingness of Canada and the United States to share the burden of carrying surplus stocks in the interest of market stabilisation compensated for this compromise,[6.49] In fact, the degree of Canadian–American cooperation in the wheat sector at this time was quite remarkable. The Canadian Wheat board (CWB) had established an office in Washington during the war at the U.S. Department of Agriculture, enabling the American government and the CWB to consult daily on issues relating to the Combined Food Board, the International Emergency Food Council as well as the International Wheat Agreement negotiations.[6.50] With such strong support, the IWA of 1949 got off to a good start and successfully fulfilled its mandate. Figure 6.1 indicates the effectiveness of the IWA in maintaining market shares.[6.51]

The fact that wheat was in short supply and that the maximum price throughout the term of the agreement was lower than the open market price certainly contributed to its success.[6.52] Of greater significance, however, was the willingness and ability of the two major exporters to accept a loss of income in order to protect the politically influential producers from extreme price fluctuations. The memory of war and the depression deeply affected commitment to the Agreement and both countries had sufficient storage to maintain reserves adequate to ensure price stability. At this time "classical free trade models" clearly

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[6.48] *International Wheat Agreement*, Washington, April, 1949, Article I–VII

[6.49] D.J. Puchala and R.F. Hopkins, in Krasner p.77; see also Alex F. McCalla, "A Duopoly Model of World Wheat Pricing" in *Journal of Farm Economics* 48 (3)O August 1966 p.719; and Theodore Cohn, *The International Politics of Agricultural Trade: Canadian–American relations* in *A global Agricultural context* (Vancouver, University of British Columbia Press, 1990) p.69

[6.50] Theodore Cohn. pp.58-67. The complexities of Canadian – American agricultural trade relations are explored in exhaustive detail in this study.

[6.51] IWC File Ex (74/75) 2/2. p.10

[6.52] IWC File Ex (74/75) 2/2/ p.10. During this time the average export price of the reference wheat in the open market exceeded the maximum price by amounts ranging from 19 to 51 cents.

Figure 6.1. The guaranteed and actual sales under the IWA for the first two crop years subsequent to the agreement indicate why the agreement, unlike earlier ones, held.

	August 1, 1949 – July 31, 1950	
Exporting Countries	**Guaranteed Sales**	**Actual Sales under IWA**
Australia	2199	2199
Canada	5582	5047
France	91	90
United States	6419	4424
	August 1, 1950 – July 31, 1951	
Australia	2414	2375
Canada	6031	5196
France	111	106
United States	6754	6775

Source: FAO, *Reconsideration of the Economics of the International Wheat Agrement*, Sept. 1952, p.35

did not apply.[6.53] In fact, economic factors were not paramount as strategists attempted to encompass domestic realities as well as international economic and political goals.[6.54]

Ultimately, the high priority that the U.S. administration placed on the regulation of the grain market can be attributed to the dual objectives of security of supply and price stability, and by that standard the IWA must be judged a success. For the importers, the operation of the IWA was viewed differently, and strains on the Agreement were evident by the early 1950's. The IWA 1949 remained in effect until 1953; then with modifications it was renewed for another three year interval.

The terms and structure of the agreement remained largely unchanged, but membership was less static. Total membership expanded from 43 in 1949 to 46 in 1952; however, the withdrawal of the United Kingdom in 1953 proved to be very disruptive. As the world's largest commercial importer, the absence of the U.K. from the agreement from 1953 - 1959 significantly demoralised the other participants and thus weakened the Agreement. The U.K.'s decision to withdraw from the Agreement was due to the rapidly changing market

[6.53] Alex McCalla, "Strategies in International Agricultural Marketing: Public vs Private Sectors", (Tuscon, Arizona, Paper prepared for Symposium on International Trade and Agriculture, 17-29 April 1977), see also Alex McCalla "A Duopoly Model of World Wheat Pricing" p.759

[6.54] Henningson. p.245

which in 1953 was characterised by rapidly growing surpluses and plummeting prices. Wheat was available more cheaply outside the Agreement and given the volume of the U.K.'s import requirement, it was the obvious policy choice.[6.55]

Given these market conditions, the U.K. sought greater food imports at stabilised prices through the use of long term contracts as an alternative approach to trade policy, and in 1952, the U.K. had such contracts with 31 countries covering 22 food commodities.[6.56] The British failure to join the IWA of 1953 was the result of a minimal difference in purchase price of 5 cents per ton. However, the implications of this decision were substantial in terms of general confidence in the agreement and in terms of relations among member states. The very stability and security objectives of the Agreement were undermined as other members, including Brazil, Italy and Mexico, perceiving a two-tiered market in wheat, wavered in their own ratification, thereby threatening the continuance of the agreement.[6.57] The withdrawal of the U.K. also resulted in a sharp reduction of the guaranteed quantities pledged under the Agreement, further weakening its influence on the market. Perhaps even more disturbing was the trend to "fail to report transactions," and in 1953 only 53% of the actual trade between exporting and importing members was reported.[6.58]

Australia took the rather cynical view that "The United States and Canada can take care of the rest"[6.59] The perception that Canada and the United States should "take care of the rest" as expressed by the Australian delegate attested to the central role of the United States and Canada in the market, and, given their stock-holding policies and given their commitment to an agreement, it could be argued that they might well have performed

[6.55]This section was taken from Eric England, Agricultural Attaché, London to State Department. June 11, 1953 RG59 State Department 398. 2311/6 - 1153 (National Archives); also further explanation of U.K. position in FAO Commodity policy Study no. 3, *The Long Term Contract* (Rome; FAO, April 1953) and the Discussion in American Embassy, London to State Department. "Proposed Meeting on Wheat Agreement exporters; Background and Further Particulars" Feb. 15, 1954, RG 59 State Department 398 - 22311.2 - 1554, National Archives.

[6.56]FAO Commodity Policy Studies No. 3 *The Long Term Contract* p.1; see also J.D. Gibson, *Canada Economy in a Changing World* (Toronto, Macmillan, 1948) pp. 168-169. The U.K. voiced its reservations about the proposed IWA and its purposes for long term contracts as early as 1947.

[6.57]Foreign Service Dispatch, American Embassy, London to the Department of State, Washington, Dec. 14, 1953, 398-2311/12 - 1453 "Wheat Council Chairman, Informal Report to Exporter Members of Executive Committee

[6.58]IWC File Ex (74/75) 2.2. p.12. Guaranteed quantities were reduced from 15.3 m. tons in 1949 to 10.7 m. tons in 1954

[6.59]Foreign Services Dispatch 398 - 2311/12 - 1483 a stabilising role – even in the absence of the Agreement. Primary documents suggest, however, that the importance of the Agreement in setting and maintaining norms cannot be overestimated, particularly pertaining to relations between the United States and Canada. A memorandum by a senior U.S. official indicates how influential the agreement was in determining policy.

> "In the negotiations with the Canadians concerning sharing of the reduction in the Wheat Agreement pool resulting from non-participation of the United Kingdom [in the 1953 renewal of the agreement], the United States sought to get the Canadians to take the greater part of the reduction, inasmuch as Canada, both under the old Agreement and previously, had held most of the U.K. market and would probably continue to hold it. The Canadians, while prepared to depart somewhat from a pro-rata reduction, would not meet the U.S. position. The Department of Agriculture finally accepted the Canadian proposition but in doing so indicated that it might have to take steps to make the United States competitive with Canada in the British market, which now was outside of the Agreement. The Canadians, however, doubtlessly felt they were doing all that could be expected of them in making a concession from the pro-rata principle in sharing reductions."[6.60]

Having made the technical adjustments resulting from the U.K. withdrawal, producers again were forced to deal with problems of surpluses.

6.8. Surpluses, Power and Foreign Policy

With the immediate post-war food shortage crisis having been resolved, problems of surplus production were again being felt particularly in North America. The outbreak of the Korean war in June 1950 brought temporary relief, but an exaggerated response to this demand through production incentives resulted in burgeoning surpluses as early as 1952 and by 1954 the situation had reached critical proportions, particularly in the United States.[6.61] The maintenance of high acreage through the 1953 harvest, and a corresponding fall in export demand due to bumper crops in Europe exerted tremendous downward pressure on wheat prices and tested the holding capacity of both Canada and the U.S.[6.62]

[6.60] Memorandum, Mr. Highby to Mr. Alexandra, Dec. 2, 1953 RG 59 State Department Records, 398 - 2311/6 - 115 (National Archives), Washington.

[6.61] Robert Bothwell, Ian Drummond and John English, *Canada Since 1945* (Toronto, University of Toronto Press, 1981, Revised Edition 1989) pp. 122-125

[6.62] *The World Wheat Situation and the International Wheat Agreement* (London, IWC, 1954) p.3

The strained relations between the two were exacerbated in 1954 when the U.S. passed the Agricultural Trade Development Assistance Act (PL 480) as a means of disposing of surpluses on both a concessional and commercial basis. Canada and the other exporters, unable to even contemplate adopting such costly price support and surplus disposal measures were consequently displaced from a number of their traditional markets.[6.63]

Although the U.S. did demonstrate at least some degree of restraint to limit the backlash, the impact on the functioning of the IWA was considerable. It not only intensified the strained relations among exporters, but its also established a concessional basis for a considerable proportion of its exports, thus circumventing the quota limitations of the Agreement. In doing so, the United States undermined the ability of the Agreement to fulfil its objectives.[6.64] The degree to which PL 480, rather than more stringent production control; was used to resolve the surplus problem distorted the balance which had been established between exporters and importers, and possibly more importantly among the exporters. Growing international concern over surplus grain stock accumulation was addressed in various FAO conferences. These discussions led to the adoption of the FAO Principle of Surplus Disposal (1954) and later the establishment of the FAO Grains Group.[6.65] While acknowledging the "delicate" nature of the world market equilibria which could be disproportionately upset by marginal surpluses, the conferences made recommendations relating to national production policies, grain reserves and food aid to alleviate the problem.[6.66]

With regard to the IWA, the report stressed that the agreement provided an international institutional basis "through which national programs could be coordinated". It concluded, however, that the greatest weakness of the agreement was that it covered less than one half of the world trade in 1954, and "although it had succeeded in providing a good measure of stability to the market, this stability would be much enhanced if the proportion

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[6.63] Theodore Cohn. pp.34-38

[6.64] *A reconsideration of the Economics of the International Wheat Agreement* FAO Commodity Policy Studies No. 1. Rome, September 1952) p.1 This study concludes that the efficacy of the agreement in attaining its objectives is dependent on the degree to which participating countries succeeded in bringing a reasonably high proportion of their normal transactions within the scope of the Agreement.

[6.65] *The Stabilisation of International Trade in Grains: An Assessment of Problems and Possible Solutions* FAO Commodity Policy Studies QO (Rome, 1970)

[6.66] Gerda Blau, *Disposal of Agricultural Surpluses*, FAO Commodity Policy Studies, No.5, (FAO, Rome, June 1954) of trade covered by the agreement was increased and reported."[6.67] The proportion of trade covered by the Agreement in fact continued to decrease as trade under concessional terms increased.

6.9. The International Wheat Agreement 1956

The renewal of the IWA in 1956 was marked by the return of Argentina and the addition of Sweden. The provisions of this Agreement were unchanged from the preceding agreement except that the maximum and minimum prices were set slightly lower at $2.00 and $1.50 respectively.[6.68] Conditions both within the agreement and the market generally deteriorated during the life of this agreement. Although price levels were maintained, guaranteed quantities fell further to 8m tons in each of the three years despite the fact that the actual trade among members remained at roughly 16.4m tons annually. Recorded transactions also declined to 5.4m tons or approximately 16% of world trade.[6.69]

This progressive internal weakening of the Agreement reflected the growing dissatisfaction among members with the rigidity of the system as variations in crop yields made restrictive import quantities impractical.

6.10. The International Wheat Agreement 1959

The rigidity inherent in the IWA was addressed in the 1959 negotiations and a somewhat modified form of the multilateral contract agreement was adopted thus allowing the United Kingdom to rejoin the Agreement.[6.70] Problems of quantity guarantees and the reporting of transactions which had restricted IWA trade in the early agreements were dealt with in the broadened objectives of the IWA 1959, which was designed:

(i) to promote the expansion of the international trade in wheat and wheat-flour and to secure the freest possible flow of this trade in the interests of both exporting and importing countries;

[6.67] "Disposal of Agricultural Surpluses" Extract from the Report of the 23rd Session of the FAO Committee on Commodity Problems, Rome, 3–11 June, 1954, pp.26–32

[6.68] IWC File Ex (74/75) 2/2, p.13

[6.69] IWC File Ex (74/75) 2/2, p.13, chart.

[6.70] FAO Commodity Policy Studies #20, p.18. See also Theodore Cohn, p.68 and IWO File Ex (74/75) 2/2, p.15

(ii) to overcome the serious hardship caused to producers and consumers by burdensome surpluses and critical shortages of wheat;

(iii) to encourage the use and consumption of wheat and wheat-flour, and in particular, so as to improve health and nutrition, in countries where the possibility of increased consumption exists; and

(iv) in general to further international cooperation in connection with world wheat problems, recognising the relationship of the trade in wheat to the economic stability of markets for other agricultural products.[6.71]

The multilateral wheat contracts as they existed after 1959 abandoned the concept of guaranteed quantities in favour of having importing countries undertake to purchase from exporting members a specified percentage of its total commercial requirements at prices within the range. This undertaking was to apply throughout the price range, not only at the minimum price level. Exporters undertook to satisfy the commercial requirements of the importer and in the event that the maximum price level is reached, the percentage obligations were lifted, leaving importers free to obtain commercial requirements from any exporter.[6.72]

This dramatic departure in the modus operandi of previous agreements was specifically designed to include various categories of non-commercial transactions, that is the concessional transactions largely promoted through PL 480.[6.73] The extensive use of government assisted programs, long-term credit arrangements, barter and gifts, enabled the U.S. to alleviate the pressure of massive surplus accumulation while furthering foreign policy objectives relating to communist "containment" and generally expanding its sphere of influence.[6.74] Figure 6.2 details the changing structure of wheat exports.

This new factor, the dramatic increase in the use of special transactions, was addressed in Article 3 of the 1959 and 1962 IWA and the scope of IWA transactions was expanded to include:

(a) sales on credit or non-commercial terms through government intervention;

[6.71] As quotation in paragraph 30, IWA, 1959

[6.72] International Wheat Agreement, 1959

[6.73] "Trade Agreements Involving Wheat 1962/63 to 1965/66" International Wheat Council Secretariat Paper #7 (London, IWC, 1969), p.9

[6.74] Dan Morgan, *Merchants of Grain*, (New York, Penguin Books, 1986) p.146–147

Figure 6.2. Wheat: Structure of Exports

	49/50– 52/53	53/54– 55/56	56/57– 58/59	59/60– 61/62	62/63 62/63	63/64 63/64	64/65 64/65	65/66 65/66	66/67 66/67	67/68 67/68	68/69* 68/69*
						percentage					
Commercial exports											
Argentina	12	15	12	9	7	7	12	18	8	4	8
Australia	7	11	11	20	18	19	19	13	17	19	15
Canada	32	35	35	36	35	37	34	33	33	23	23
France	2	9	6	7	12	7	13	11	7	12	17
United States	39	10	20	21	12	22	12	18	24	23	18
Others	8	20	16	7	16	8	10	7	11	19	19
Total %	100	100	100	100	100	100	100	100	100	100	100
Total ('000 tons)	25820	22236	21600	24100	25900	4100	34600	4300	40800	36300	33735
Total Exports											
Argentina	12	13	8	6	4	5	8	13	6	3	6
Australia	7	9	8	13	12	14	13	10	14	14	12
Canada	32	29	26	23	22	27	24	25	28	18	20
France	2	8	4	5	8	5	9	88	6	9	14
United States	39	29	41	45	43	42	39	39	38	42	33
Others	8	12	13	8	11	7	7	5	8	14	15
Total %	100	100	100	100	100	100	100	100	100	100	100
Total ('000 tons)	25820	25853	31043	38097	40240	55170	50275	59460	52820	49165	43690

*Preliminary

Source: International Wheat Council, *Worls Wheat Statistics* (IWC, London) p.23

(b) sales financed by bans by the government of the exporting country and tied to the purchase of wheat;

(c) sales for the currency of the importing country, neither freely transferable nor convertible;

(d) sales under trade agreements with special payments arrangements which include clearing accounts for settling credit balances bilaterally through the exchange of goods, except where the exporting country and the importing country concerned agree that the sale shall be regarded as commercial;

(e) barter transactions other than at world prices and other than "open-end" barter, the latter being those in which the country of final destination was not named in the original barter contract;

(f) gifts of wheat or grants for the purchase of wheat; and

(g) other categories of transactions that include features introduced by the government of a country concerned which do not conform with usual commercial practices, as the International Wheat Council may prescribe.

In addition to this categorisation of special transactions, commercial transactions were also classified to include:

(a) barter at world prices and also "open-end" barter;

(b) U.S. sales under the C.C.C. credit terms;

(c) arrangements on commercial terms of credit whether under formal agreement or not; and

(d) arrangements providing for access to markets including commitments to purchase a specified quantity of wheat or flour or to maintain trade in these commodities at a stabilised level, but where trade is on normal commercial terms.

Through these amendments to the IWA 1959, the propensity to conduct transactions outside the Agreement was effectively curtailed. In fact, as Figure 6.2 indicates the volume of "special transactions" exports (as defined by the IWA) by the six major exporters rose from 14.3 m. tons in 1957/58 – 1960/61 to 19.7 m. tons in 1962/63 – 1965/66. However, as a percentage of total exports, these transactions declined from 78.9% to 70.1% in the same time period.[6.75]

6.11. The Changing Market

In addition to policy–induced changes in the international grain trade as in the emergence of concessional sales, the market experienced fundamental changes throughout this period. Exports of grain rose from an average of 40 m. tons in 1949/50 – 1953/54 to 106 m. tons in 1965/66, primarily as a result of improved farm techniques and production stimulation in North America. Markets changed as well. Europe, after recovery, receded as a major market area while Japan's requirements grew to account for 10% of world grain imports by 1966. Communist countries, once major exporters, accounted for 20% of world imports by 1966. Developing countries, perhaps influenced by PL - 480 turned increasingly to grain and by 1966 also accounted for 20% of imports.[6.76] The major exporters remained the United States, Canada, Australia and Argentina, lending stability to the market.

In redefining the terms of the IWA in 1959 to meet the altered world market, member states, but particularly the exporters, demonstrated their commitment to the continued

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[6.75] IWO File ex (74/75) 2/2 p.9. The six leading exporters Argentina, Australia, Canada, France and the U.S.. collectively accounted for over 94% of world wheat exports in 1962/63 – 1965/66 average.

[6.76] *The stabilisation of International Trade in Grains: An Assessment of Problems and Possible Solutions.* (FAO, Rome, 1970). pp.2-4 viability of the IWA. Again, despite significant market turbulence, the price range was maintained although a rise in the last year brought prices to within $2\frac{1}{2}$ cents of the maximum. Poor harvests in 1961/62 drew surplus stocks down from an average of 59 m. tons to 9.2 m. tons.[6.77] The ability of the exporters to adapt to even substantial production variation without breaking the price limits again demonstrates the strong commitment particularly of Canada and the United States in maintaining the Agreement. In assessing the effectiveness of the IWA 1959, the Council in 1962, acknowledged this producer cooperation.

> "These exporting countries have thus exercised a measure of export control and in effect have operated voluntary buffer stocks ... if it can be assumed that the major exporting countries ... will continue to incur the financial costs of such policies, it would seem unnecessary to make formal provisions for stock-holding or the control of exports through quotas."[6.78]

6.12. The International Wheat Agreement 1962

The success of the 1959 IWA and tightened market conditions were evident in the adoption of the 1962 Agreement which was essentially a continuation of the previous agreement but included an increase in the maximum price of 12.5 cents bringing it to $\$2.02\frac{1}{2}$.[6.79] the U.S.S.R. also joined the Agreement in 1962 as an exporting member. The 1960's, however, were to bring new challenges to the Agreement. Continued growth in world trade brought the many dislocations so often associated with rapid trade expansion. More problematic was the significant divergence in trade patterns which was developing between the two major exporters, the United States and Canada. As Table 6.1 reveals, the bulk of U.S. exports were being traded on a concessional basis while the bulk of Canadian exports were traded on a commercial basis.[6.80] In response to the U.S. surplus disposal program, Canada, as we have seen, moved to take advantage of markets which for ideological reasons, were closed to the U.S., notably the U.S.S.R. and Communist China, especially in 1962/63.[6.81]

[6.77] World Wheat Statistics - see also IWC File Ex (74/75) 2/2 p.17

[6.78] International Wheat Council Executive Committee Report, 1962

[6.79] The Stabilisation of International Trade in Grains, FAO, 1970, p.19

[6.80] International Wheat Council, Sectional Paper no.7. pp. 9-10

[6.81] International Wheat Council, *World Wheat Statistics* In 1962/63 Canada sold 2.9 m. tons to the U.S.S.R. and 1.8 m. tons to China. Australia also conducted siseable transactions with China.

The U.S. responded in May 1963 by suspending the Ministerial Trade Committee's quarterly Meeting on Wheat and Related Matters.[6.82] Although Canadian and American officials met in April and June 1964 to review bilateral consultation procedures, and consulted again during the Kennedy Round negotiations, the communist sales in 1962-63 marked a turning point in the successful operation of the duopoly, and by implication, the IWA. The United States, increasingly preoccupied with expanding its commercial transactions, was both less sympathetic to Canadian complaints,[6.83] and more aware of the growing problem of the European Economic Community (E.E.C.) in international cereal markets.[6.84] The ratification of the Common Agriculture Policy in January 1962, was viewed by the U.S. as having profound implications for their market position in terms of lost sales. More generally, the antagonism between the U.S. and E.E.C. came to dominate the Kennedy Round negotiations of the GATT.[6.85]

The simultaneous weakening of the Canada-U.S. duopoly and the emergence of the E.E.C. as a power in the international grain market confirmed the divergence of interests which had developed among the exporters and the adoption of a more unilateral and aggressive approach to trade policy.[6.86] Yet, despite the growing tensions among the major exporters, the sudden tightening of the market as a result of the communist sales brought them to work together again in the interest of market stability. Through daily consultations between the United States and Canada, the IWA price range was maintained, although prices came within 10 cents of the maximum.[6.87] In assessing the capability of the IWA to deal with such unusual market activity, the Agreement was credited with providing "a

[6.82] Theodore Cohn. p.65. The Ministerial Trade Committee was established in Jan. 1959 to conduct quarterly meetings of wheat experts from both countries to discuss questions relating to U.S. surplus disposal program and other trade expansion issues, and was valued as a forum in which adverse effects of national policies could be aired. p.60

[6.83] Ibid. p.65

[6.84] Frans A.M. Alting von Geusau ed. *Economic relations After the Kennedy Round* (Tilburg, The Netherlands, A.W.S. Hoff-Leyden, 1969). p.36

[6.85] Ibid. p.16

[6.86] Ibid. p.175. Discussion held at the International Colloquium on "Atlantic Relations after The Kennedy Round" Dec. 1967, concluded that the increased tension in agricultural trade relations and the actual suspension of the general committee meetings on agriculture during the round were a function of domestic policies which were distorting international trade.

[6.87] IWC File Ex (74/75) 2/2 p.18 and (Confidential Source) Letter to The Hon. Orville Freeman Secretary of Agriculture from Mitchell Sharp Minister of Finance, Jan. 8, 1964 framework within which appropriate action could be taken to deal with these problems, and it is open to doubt whether without it such orderly conditions would have prevailed."[6.88] Although consultations among the major exporters were essential to the maintenance of market stability under such conditions,[6.89] the underlying reason for the astonishing resiliency of the market was the existence of carry over blocks of 55 m tons, an amount sufficient to absorb the shock without disrupting commercial trade.[6.90] The market did tighten sufficiently that both governments felt "heavy" pressure from overseas buyers leading them to establish a committee to study the underlying problems in the wheat market. The U.S. proposed that the IWA 1962 set to expire July 31, 1965 be extended by protocol for one to two years pending the conclusion of the Kennedy Round. [6.91] Given the failure of the agricultural talks of the Kennedy Round, relations among exporters continued to deteriorate through the duration of the Agreement. Sluggish markets heightened competition as was evident in the battle for the new Chinese market as France pushed for increased subsidies in order to compete with Australia and Canada.[6.92]

French complaints received little sympathy, and generally, the E.E.C. was increasingly ostracised by the other exporters. At a meeting in Washington in Dec. 1964, Canada, Argentina and Australia met with U.S. representatives to discuss the problems of E.E.C. import levies, IWA exports to Communist countries and other issues relating to commercial sales. The U.S. admitted to having considered inviting France, but did not.[6.93] The Washington discussions, while not reaching any agreement, exposed the extent of the distress on the market.[6.94] The meetings also revealed the U.S. resolve to increase its volume

[6.88] International Wheat Council, Annual Report, 1963/64, London.

[6.89] Theodore Cohn, p.68

[6.90] IWC File (74/75) 2/2 p.18,

[6.91] (confidential source) Letter to the Hon. Orville Freeman Secretary of Agriculture, Washington from Mitchell Sharp "The Canadian - United States Wheat controversy, Jan 8, 1964, File 37-15-Wheat-Vol.1. Reply: To Hon. Mitchell Sharp, Minister of Dept. of Trade and Commerce, Ottawa From: Orville L. Freeman Jan 31, 1964. (confidential source) Telegram, Washington D.C. May 25, 1965 To external 1980 priority "International Wheat Agreement"

[6.92] (confidential source) File 37-15-Wheat-1 35/6 Telegram To: External 543 purity from: Emb. Paris "French Wheat Exports China"

[6.93] (Confidential Source) File 37-15 Wheat 35/6 To External 545 Priority From Tand C OH Oct. 29, 1964, see also Transcript of Press conference given by Mr. Mitchell Sharp, Minister of Trade and Commerce, Canadian Embassy, Washington D.C., Dec. 18, 1964.

[6.94] Ibid, Transcript

of commercial sales — regardless of price. The U.S. was no longer content with its role as residual supplier in the commercial wheat market, and given its surprisingly low share of the commercial market, their position was certainly defensible (See table 6.1). Given the concurrent rise in the balance of payments problem, this resentment became intense.[6.95] The following chart (Table 6.2) indicates how the U.S. could perceive that Canada benefited most from the IWA.

Figure 6.3. U.S. and Canadian Shares of World Wheat Exports

	1953/4	**1959/60**	bf 1962/3	**1964/5**
Commercial				
Canada	35	36	35	34
U.S.	10	21	12	12
Total Exports				
Canada	29	23	22	24
U.S.	29	45	43	39

Source: Theodore Cohn, p.70.

Canada recognised that the continuation of the agreement was very much in its interest and private Canadian documents reveal clearly that Canada hoped to maintain the essential qualities of the agreement.[6.96] Canada appealed for the maintenance of market stability to the U.S.;[6.97] however, Canadian–American relations had become increasingly strained by the Vietnam War.[6.98] Another relevant by-product of the Vietnam War was the increased pressure on the U.S. balance of payments, which in turn was reflected in a decreased commitment to multilateral initiatives and the increased disposition to adopt unilateral approaches to trade policy formulation. Aggressiveness in the pursuit of commercial objectives of U.S. grain export policy thus increased, as the balance of payments problems which began in the early 1960's became chronic by the late 1960's.[6.99]

[6.95]Theodore Cohn. pp. 65-70

[6.96]Jon McLin, "Surrogate International Organisation and the Case of World Food Security, 1948-1969"

[6.97](confidential source File 37-15-Wheat-1 Vol. Sharp to Pearson, Jan 8, 1964, (This theme was further developed in a private interview with the Honourable Mitchell Sharp, January 1994, Ottawa)

[6.98]John English, *The Worldly Years; The Biography of Lester Pearson, Vol. II, 1949-1972*, (Toronto, Knopf Canada, 1992)

[6.99]J. Edelmas Spero, *The Politics of International Economic Relations*, 3rd ed. (New York, Maitins, 1985) pp. 42-53; see also David H. Blake and Robert S. Walkers, *The Politics of Global Economic Relations*, 3rd ed. (Prentice Hall, Englewood Cliffs, N.Y., 1987) pp. 65-67 in Theodore Cohn, p.21. In addition to

The future of the IWA was dealt a decisive blow in January 1965, when USDA's chief economist John Schnitlken publicly questioned the value of the IWA to the U.S.[6.100] Although the IWA continued until March 1969, commitment to the terms and spirit of the Agreement dwindled after this period. Despite the now open dissatisfaction with the Agreement and the continued fall in prices, the U.S. ratified the agreement for one more year stating that "it was in the best interests of the U.S. to support the international price stability that the Agreement promotes ... , and that it would be good for foreign relations generally."[6.101] Although the problems with the Agreement were particularly acute in sluggish markets, the need for cooperation, particularly when the alternatives were contemplated, continued to be accepted by some analysts. One trade specialist argued that:

> "Cooperation among wheat growers, therefore, to achieve stable and satisfactory prices and a satisfactory balance between production and market demand is broader than domestic programs. If satisfactory solutions are to be found to the problems facing wheat growers, domestic programs must mesh with the pattern of international cooperation among growers in other countries as well."[6.102]

Despite the deplorable market conditions and despite the fact that the major exporters routinely broke the IWA minimum price after 1966, farmers remained extremely anxious at the prospect of a possible withdrawal from the IWA. In a very strongly worded letter from the President of the National Farmers Union to President Lyndon Johnson, the point was made:

> "International trade in wheat must not be allowed to revert to a form of economic warfare. American wheat farmers must not again be abandoned to all of the international trade problems which led to the negotiation of the present International Wheat Agreement."[6.103]

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export promotion the U.S. also restricted foreign investment and tied foreign aid in order to improve the balance of payments problems.

[6.100] *Journal of Commerce* Jan 7, 1965. These remarks were prepared for the annual convention of the National Association of Wheat Growers.

[6.101] (confidential source) File 37-15-Wheat. Vol. 2 6.2.65 – 31.8.66, Telegram from Washington D.C. Feb. 25/65, To External 612 "Speech by Secretary Freeman"

[6.102] Address made by Irwin R. Hedges, Agricultural Trade Specialist at the Annual Conventions of the National Association of Wheat Growers, Dec.15, 1968, Lincoln, Nebraska.

[6.103] Letter To: The Honourable Lyndon B. Johnson, The President of the United States, The White House, Washington D.C., Dec.22, 1966, From: Tony T. Deckart, President, National Farmers Union.

In the end, a compromise was reached. The administrative provisions of the IWA were extended for one year to July 31, 1968, while the substantive issues were left – pending the conclusion of the Kennedy Round. As no agreement was reached during the Round, an International Grains Conference was convened in Rome, 12 July 1967, which negotiated the International Grains Agreement, 1967 (IGA).

6.13. The International Grains Agreement (IGA) 1967

The negotiations for the IGA were difficult in that there was little consensus on the form the new arrangement should take, and in fact, commitment to the process was questionable.[6.104] The IGA ultimately took the form of two separate instruments linked by a common preamble. The Wheat Trade Convention, 1967 was the 'successor' to the previous agreements, and the Aid convention, 1967 which, for the first time, formally addressed the issue of food aid. A Food Aid Committee was struck composed of six contributing states and six recipient states, for the purpose of developing guidelines for and exercising supervision of the operations of the food aid programme, and more generally all non-commercial transactions.[6.105] The Wheat Trade Convention maintained the multilateral contract format, but important changes were introduced. The reference wheat in price setting was changed from No. 1 Manitoba Northern to U.S. Hard Red Winter No. 2 due to its longer growing season. A Price Review Committee was also established with power to adjust temporarily minimum and maximum prices should market conditions warrant it. Import and export commitments were maintained and guidelines for concessional transactions were introduced.[6.106] Despite the additional flexibility offered in these amendments, the spirit of cooperation among the producers was lost. The U.S.S.R. and Brazil withdrew from the IGA.[6.107]

Depressed market conditions and aggressive export policies by all major producers undermined the Arrangement from the beginning. The U.S. pressed for new, lower minimum

[6.104] (confidential source) File 37-15-Wheat/Vol. 6, Jan 1, 1968 – 8.3.68. Exporters were contemplating a separate meeting for exporters only.

[6.105] Commentary of International Wheat Agreement 1962 as it is affected by the Memorandum of Agreement, 19th May, 1967. This commentary served as a guideline during the 1967 negotiation. p.5 and Annex J.

[6.106] Ibid.

[6.107] IWC File Ex (74/75) 2/2. p.20

prices almost immediately and by January 1968 the five major exporters were selling below the IGA minimums scheduled to come into effect July 1, 1968.[6.108] Mounting surpluses continued to depress the market throughout the year, forcing exporters to continue selling below minimum prices and to resort increasingly to concessional sales to help absorb the surplus.[6.109]

Despite the problems experienced under the IGA there was "no doubt that it resulted in a very considerable degree of restraint in pricing policies and that it had provided a good deal of stability to the wheat market which would otherwise have been absent.[6.110] Although price limits were undermined after 1966, it was never by more than 10 cents, and given the external or domestic producer, and budgeting pressures, the influence of the IGA price levels is undeniable.[6.111]

By 1968 the unique circumstances that had held the International Wheat Agreements together had ended. The effects of World War II, the rise of the Cold War and even memories of the Depression had led producers — and consumers — to believe that their common interests would be served by regulation of the international grain trade. By the late 1960's, the perception of common interests had disappeared. Exporters aggressively competed for markets, as levels of production ran well beyond effective demand, and importers used the sluggish markets to their advantage, further undermining the spirit of cooperation.

American commitment to the IGA and cooperation generally was further reduced with the election of Richard M. Nixon in November 1968. This administration was marked by aggressive unilateral trade policies and an increased willingness to link wheat sales to foreign policy objectives.[6.112] The U.S. was not alone. Increased aggressiveness in the grain trade

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[6.108](confidential source) File 37.15, Wheat-1, Vol.6 "Implementation of the International Grains Arrangement — Canada, U.S.A. Meeting of Officials, Washington, Jan. 12, 1968,. This meeting presented a very pessimistic market outlook by the U.S. and revealed the extent of domestic pressure to relieve the surplus problem.

[6.109](Confidential source) File 37.15, Wheat-1, Vol.11, 1/2/69-15/3/69, Memorandum for the Minister, March 6, 1969, "International Wheat Developments".

[6.110](Confidential source) File 37.15, Wheat-1, Vol.12, 16/3/69-30/4/69 Fmi ITANDC London to Schwartsman, March 18/69, Restricted Ref: MYTEL TC/243

[6.111](confidential source) File 37.15, Wheat-1, Vol.13, 1/5/69-30/6/69, Canada-U.S.A. Joint Ministerial meeting, June 20/69 "Agricultural Matters — Grain"

[6.112]John Odell, *U.S. International Monetary Policy* (Princeton University Press, New Jersey, 1982), p.163-164 was characteristic of all major exporters of this time. Australia justified its breaking of the price minimum by citing its high freight charges and demanded concessions on its IGA minimum to offset these changes.[6.113] Canada also pursued wheat sales to the United Arab Republic on the basis of concessionary credit arrangements and continued to conduct other sales at below minimum prices. The E.E.C. publicly supported the IGA price minimum, but when coupled with its export subsidy system, the E.E.C. was able to price competitively in all markets and expanded its sales significantly at this time.[6.114] Thus, while publicly supporting cooperation in principle, each of the major exporters pursued aggressive export policies while blaming the others for undercutting prices. Industry leaders also exerted pressure on producers to eliminate the minimum price.[6.115]

In an attempt to head off an all out price war, the producers met in April 1969 in Washington to discuss possible adjustments to national policies, particularly production controls, expanded credit facilities and the lowering of price minima. In the absence of effective action following the producers' meeting, Robert McNamara, addressing the U.S. House Agricultural Committee, suggested that "pricing arrangements should never have been part of the Agreement and to meet the present situation fundamental changes in these provisions were now needed. He added that there seemed to be no way to persuade Australia to alter their procedures. France continued to undercut prices in sales to Taiwan and Canada has also been selling on concessionary terms.[6.116] Given these circumstances the U.S. suggested in June 1969 that "the best course of action was to suspend pricing provisions of IGA under Article III."[6.117] The E.E.C. and Australia strongly opposed the

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[6.113](confidential source) File 37.15, Wheat-1, Vol.12, 16/3/69–30/4/69, telegram to: External: Ottawa From Canberra; Action copy, Our tel. 355 March 14, Your tel. 374 March 18, "IGA Wheat Pricing". Claiming that an arrangement operated inequitably Australia stated that "unless this is resolved it will be difficult to work toward resolution of IGA minimum price levels."

[6.114](confidential source) File 37.15, Wheat-1, Vol.12, 16/3/69–30/4/69, Memorandum — Wheat Pricing — International Grains Arrangement. March 28/69, Confidential "Meeting of Exporters", Washington, 3–4 April, 1969.

[6.115](confidential source) File 37.15, Wheat-1, Vol.12, 16/3/69–30/4/69, Washington DC, April 17/69, Confidential to External 1358 IGA Exporter Meeting. The U.S. was perceived to be under strong pressure from wheat industry leaders to lower minimum prices.

[6.116](confidential source) File 37.15, Wheat-1, Vol.13, 1/5/69–30/6/69, From Washington May 30/69, Confidential to: External 1888 Immed. "IGA Wheat Pricing"

[6.117](confidential source) File 37.15, Wheat-1, Vol.13, 1/5/69–30/6/69 From: Industry Trade and Commerce to External 2768, June 23/69 "Meeting of Wheat Exporters Concluded Today" suspension and Australia offered to step aside to allow the U.S. market to recover. The U.S. did not consider that this offer altered conditions sufficiently to reconsider.[6.118]

In the aftermath of the U.S. declaration, all-out competition was the order of the day. Traditional markets were no longer respected and trade patterns changed.[6.119] A warning was sounded by Canadian Secretary of State for External Affairs Mitchell Sharp, in a letter to U.S. Secretary of State William Rogers, in which he stated that the situation had become acute "and I fear that we are now on the brink of a chain reaction which we will live to regret,".[6.120] Mr. Sharp's words were more prophetic than was realised at the time. Despite such concerns, surplus disposal remained the imperative of all producers and the importing states continued to reap the benefits of the sluggish market even to the point of playing one exporter off against another.[6.121] By December 1969 the U.S. ended any formal commitment to regulate the IGA,[6.122] adopting instead a fully unilateral approach to its wheat policy.

In anticipation of the formal expiration of the IGA in July 1971, the exporters conducted an assessment of the deficiencies of the IGA and concluded that three factors were paramount.

(1) The inadequacy of pricing provisions relating to new members wheat (importers ignore IGA price range).

(2) The absence of a mechanism to ensure exporters participate equitably.

(3) The absence of any provision relating to production management.

This meeting also introduced the E.E.C. proposal that coarse grains be included in any future agreement.[6.123]

[6.118] Ibid.

[6.119] (confidential source) File 37.15, Wheat-1, Vol.14, Meeting with Mr. J. McEwen, Deputy Prime Minister Australia and Canadian Minister for Trade and Industry. Argentinian protests over Canadian sales to Peru was just one example.

[6.120] (confidential source) From Ottawa to Washington, July 25, 1969. telegram #G–216 Ourtel G–217. In a private interview Jan. 1994, Mr. Sharp reflected that having lived through the depression, the proposal of unregulated markets was very disturbing. The underlying problem was the inability of producers to effectively manage production.

[6.121] (confidential source) File 37-15-Wheat-1 Vol.17 memorandum Sept. 25/69 'Wheat Policy Meeting, Brussels, Oct. 2-3" (confidential source) File 27-15-Wheat-1 Vol.17.

[6.122] Fm: Washington D.C. Dec., 12/69 To: External 4036 "IGA Renegotiation and U.S.A. Farm Policy"

[6.123] (confidential source) File 37-15-Wheat-1 Vol. 19 To: External April 4, 1970 To Washington and others Tel. # ECL-624

Although the IGA remained in existence and a negotiating conference was convened by UNCTAD in Geneva in early 1971, the IGA had clearly been unsuccessful in maintaining orderly marketing and any stabilisation that did exist had been brought about through bilateral consultations rather than the yet unused mechanisms embodied in the Convention.[6.124] The conference ultimately agreed on a three year extension of the administrative provisions of the IGA. The impasse between Canada and the U.S. on references wheat, and the more general impasse between the U.S. and other exporters rendered an agreement with pricing provisions an impossibility at the time.[6.125]

Consequently the International Wheat Agreement, 1971 which came into being in July, 1971 was very different from its predecessors. Composed of two conventions, the Wheat Trade Convention and The Food Aid Conventions, the IWA 1971 assumed a role that was largely advisory. New features included the establishment of an Advisory Sub-Committee on Market conditions whose function was to keep market conditions under constant review, and the provision for members to proceed to a more substantive agreement if desirable. The dramatic and unprecedented events of 1972/73 and 1973/74 precluded any such possibility.

A disastrous crop shortfall in the U.S.S.R. in 1972 resulted in the unexpected purchase of 17 m. tons bringing world trade levels to 67 m. tons. Total carryover stocks for the five leading exporters were drawn down to 28.8 m. tons – the lowest level in 21 years. "Prices, far from repeating their stability in the rather similar events of the mid-sixties, nearly doubled during the crop year." The following year, 1973/74, prices climbed even faster despite reduced Soviet demand and increased wheat production, and by February 1974 the export price of wheat was over $6 per bu.

External factors such as the world energy crisis, the uncertain international monetary situation and "explosive" growth in the cost of most commodities all contributed to the

[6.124](confidential source) File 37-Wheat-1-Vol.22 "Conference Summary" see also IWC File Ex (74/75) 2/2. p.22

[6.125]Ibid. Conference Summary

world-wide economic crisis.[6.126] These events, while proving disastrous for developing countries were very beneficial to grain exporters. Given the opportunity to finally be able to command prices well beyond their expectations, there was little interest in any form of regulation. Any questions relating to the IWA were deferred to the Tokyo Round of the GATT which was convened in 1973, but did not in fact begin negotiations until 1977.[6.127] Mounting concern for world food security, however, led to the convening of the World Food Conference in November 1974. The IWA was extended by protocol for one year until 1st July 1975.

The World Food Conference and the work of the IWC from 1974 - 1978 in examining options for the replacement of the lapsed economic provision of the IWA, and particularly the provision for buffer stocks, will be the subject of Chapter 7, therefore it will not be detailed here. The subsequent negotiations held under the auspices of the UNCTAD 1978-79 were ultimately suspended over differences relating to price and stock levels, and the "unwavering stand taken by the E.C. on the inclusion of coarse grains used for animal feed".[6.128] As the market softened again in the late 1970's conflict and competition among the major exporters again emerged. The growing influence of the E.C., Japan and some LDC's also greatly complicated the issues. In addition, the unwillingness of the United States and Canada to hold substantial reserves in order to stabilise prices, again made the successful completion of an agreement with price ranges an almost impossible challenge at this time.[6.129]

Following the suspension of the IWA negotiations in February 1979, Canadian officials invited representatives of the other exporters, except the E.C., to Canada to discuss the possibility of concluding an exporters' agreement. The United States was unwilling

[6.126] This section was taken from I.M. Destler "United States Foreign Policy" in Raymond Hopkins and Donald Puchala *Global Political Economy of Food*, p.44, IWC file Ex (74/75) 2/2. p.20 and A.G. Kenwood and A.L. Lougheed. p.265. World Inflation rose from 5.9% in 1971 to 9.6% in 1973 and exceeded 15% in 1974.

[6.127] A.G. Kenwood and A.I. Lougheed. pp.294-295

[6.128] Theodore Cohn. p.76

[6.129] Ibid. p.76. The emergence of new competitions led to Canadian and American demands that others contribute more substantially to stock holding.

to participate in what would essentially be considered a cartel, and the meetings were suspended.[6.130]

6.14. The International Wheat Agreement 1986

The next major meeting of ministers from the grain exporting countries was held in Whistler. British Columbia in 1986, followed by another in San Diego. "The major issue through the 1980's had become the United States–European Community subsidy war rather than an exporter's agreement.[6.131] Regardless, the International Wheat Council did conclude the International Wheat Agreement 1986, which consisted of two separate legal instruments. the Wheat Trade Convention 1986, and the Food Aid Convention, 1986. This agreement was essentially an updated version of the 1971 IWA.[6.132] It was decided that the "Council should concentrate on what it was best at – namely, market analysis, long-term forecasting and most importantly, serving as a center of information and a meeting place where those leaders whose task it is to seek to influence grain policy could do so in knowledge of each other's views and in possession of comprehensive and up-to-date information, in the hope of avoiding calamity of the kind which had occurred in the past."[6.133]

6.15. Summary, Analysis and Conclusion

An analysis of the International Wheat Agreements conducted by the FAO in 1970 concluded that finding "a solution to the difficulties facing the world grain economy – the persistent tendency towards disequilibrium between supplies and demand, the accumulation of surplus stocks and the spread of special government aids to exports – does not depend solely on the ability to design a workable commodity stabilisation scheme, important as this is. Equally, it depends on the political willingness of governments to cooperate in making a particular scheme effective."[6.134]

[6.130] Theodore Cohn. p.81

[6.131] Adrian Ewins "1979 Grain Meeting Had Similar views", *Western Producer* 5 June 1986. p.30. Maggie McNeil "Wheat Meet Finds No Solution", *Western Producer*, 26 Feb. 1987, sec. A. p.4.

[6.132] International Wheat Agreement 1986 and Rules of Procedure (London, International Wheat Council, 1986)

[6.133] Tom Sewell, *The World Grain Trade* (London, Woodhead, 1992) p.103

[6.134] *The Stabilisation of International Trade in Grains*. FAO. 1970 p.16

is. Equally, it depends on the political willingness of governments to cooperate in making a particular scheme effective."[6.134]

This statement very succinctly encapsulates both the scope of the problems in the international grain market but also the necessary ingredients for the effective management of the market; an effective plan and the political will. The volatility of the grain market in the 1930's led to the first attempts to formulate an effective plan. An increasingly comprehensive succession of proposals for an International Wheat Agreement in the 1930's and early 1940's, met with limited success due to the sluggish market, and the yet inadequate provisions to manage market extremes. Nearly 18 years of discussions and negotiations culminated in the International Wheat Agreement 1949, which was, apparently, a model commodity agreement that could withstand even substantial market fluctuations. The terms of this agreement successfully provided stability to the international grain trade in terms of price stability, and security of supply for a period of nearly twenty years. The stabilisation of price within an agreed, acceptable range was perhaps the primary function of the IWA. The agreement which originally balanced producer and consumer interests reverted to a producer dominated mechanism once the World War II crisis had abated, and as such the maintenance of acceptable price levels was of primary concern. Despite the considerable variability in production levels and import demand throughout this time, the IWA price range was maintained. This was largely due to the willingness of Canada and the United States to make the necessary adjustments to their stock levels and sacrifice short term market advantages in order to maintain market stability and the terms of the Agreement.

Central to the stabilisation as well as the security function of the Agreement was the role played by reserve stocks. Although unmanaged surpluses can have a depressing effect on the market, the availability of reserve stocks averted a crisis in 1962/63 when the Soviet Union unexpectedly made massive purchases following a crop failure. In light of very similar market activity in the unregulated market of 1972-1973 and its aftermath, it is clear that "the underlying reason for the astonishing resilience of market stability in 1963-1964 lay in the existence of carryover stocks amounting to some 55 m. tons, sufficient to absorb the shock

[6.134] *The Stabilisation of International Trade in Grains*. FAO. 1970 p.16

of a very large unexpected demand without there being any real danger that the regular importing countries would not be able to obtain their full normal requirements".[6.135] Thus, both the flow of commercial sales and concessional transactions were maintained. In terms of food security, defined as, "the stabilisation of prices of basic food stuffs, the provisions of reserves against the threat of occasional shortages and programs for maintaining or improving the per capita food consumption on poor countries", the IWA 1949-69 was also judged a success.[6.136] Price ranges were maintained, and carryover stocks were held at well over the 20% minimum safe requirement throughout this period. Large scale famines in India in 1965-1966 were also dealt with with minimal impact on price.[6.137] By contrast, the Soviet sales in 1972-1973 resulted in the world food crisis of 1973-1974, essentially a period of wildly escalating prices and scarcity of supplies – particularly for the low income developing countries. Not only was grain less available to developing countries through commercial channels, but the tight market conditions resulted in a significant drop in food aid. World totals of food aid by principal donors fell from 12,563 thousand tons in 1971/72 to 10,109 tons in 1972/73 and down to 5,651 thousand tons in 1973/74.[6.138]

The breakdown of the substantive International Wheat Agreements 1949-1969 is attributable to a number of national and international factors. The more aggressive U.S. export policy, which proved to be very damaging to trade relations and to the maintenance of the agreement, reflected the growing pressure on the U.S. federal reserves in the late 1960's, which culminated in the suspension of the U.S. dollar's official convertibility to gold or other currencies in August 1971. The U.S. was no longer willing, or able, to carry the burden of market stability largely on its own. The changing market structure as seen in the breakdown of the Canadian–American duopoly and the simultaneous rise in the presence of the E.E.C. also contributed to the breakdown. Perhaps the fundamental weakness in the IWA was its inability to maintain market buoyancy through the collective and effective

[6.135] International Wheat Council, File Ex(74/75) 2/2 p.18

[6.136] John McLin, "Surrogate International Organisation and the Case of World Food Security, 1949-1969" *International Organisation*, 33-1 (Winter 1979) pp. 33-35

[6.137] Ibid.

[6.138] *Food Outlook* (Rome: Food and Agriculture Organisation, No. 1979) in Raymond F. Hopkins and Donald J. Puchala, *Global Food Interdependence: Challenge to American Foreign Policy* (New York, Columbia University Press, 1980) p.76

management of reserve stocks. The recognition of the importance of the establishment of an international grain reserve as an integral part of any future agreement led to the proposal at the World Food Conference 1974 for the establishment of such a reserve. The grain reserve proposal and the subsequent negotiations will be the subject of Chapter 7.

Chapter 7

Case Study: Proposal for the Establishment of An International Grain Reserve, 1974–1979

7.1. Introduction

Earlier chapters have described how the production, consumption and trade patterns of the international grain market have evolved during the past century. The character of the commodity and the resultant difficulties in balancing production levels with effective demand has, over time, provoked numerous national and international initiatives designed to stabilize grain supplies and prices. The most successful period in terms of stabilization was 1949–1968 when a combination of the comprehensive International Wheat Agreement and the stockholding policies of the major grain exporters kept grain prices within acceptable levels. The degree of stability which had been achieved in the grain sector was remarkable when compared with other commodities. Prices for the major grains traded on the international market fluctuated only a few percentage points per month during the 1950's and early to mid-1960's.[7.1] By 1972, however, the situation changed completely as prices of major grains traded on the international market nearly tripled, outstripping many other commodities in the general economic turbulences of the early to mid 1970's.

The sudden rise in the price of grain and the tight market conditions culminated in the world food crisis of 1972–74. The world food crisis engaged politicians, diplomats, research institutions, task forces, commissioners and charitable foundations and within a period of three years at least a dozen new institutions were set up worldwide to analyse the problem of food security and agricultural development.[7.2]

[7.1] Alexander H. Sarvis, Philip C. Abbot and Lance Taylor, *Grain Reserves, Emergency Relief and Food Aid* Second Draft, (Washington: International Food Policy Research Institute, March, 1977)

[7.2] Nick Butler, *The International Grain Trade: Problems and Prospects* (London, The Royal Institute of International Affairs, 1986), p.1

In response to the World Food Crisis, a World Food Conference was convened in Rome in November 1974. In the Conference keynote address, Dr. Henry Kissinger, who headed the U.S. delegation, committed the U.S. to support policies which would ensure that "no child would go to bed hungry".[7.3] He called for the establishment of an international grain reserve scheme which would serve the dual purpose of stabilizing grain prices and ensuring supply in tight market conditions.

The purpose of this chapter is to review the factors which contributed to the World Food Crisis, the response of the international community at the World Food Conference and the food security and market stabilization schemes developed in the aftermath of Rome. This chapter will specifically examine the U.S. proposal for the creation of international grain reserves in the context of a new International Wheat Agreement. This examination will follow the proposal from its inception, through the examination and development of the proposal within the International Wheat Council, and through the formal negotiations for the implementation of the proposal which were held under the auspices of UNCTAD in 1978–1979.

This case study has been chosen, as it graphically illustrates the volatility inherent in a biological commodity as well as the structural weaknesses in the international grain market, especially as it has evolved since the collapse of the International Wheat Agreement (IWA) in 1967. This case study also illustrates the highly politicized nature of the international grain trade, particularly after 1971, and the implications of all of these factors on world food security.

This study has been built upon a rich documentary base and numerous interviews with individuals who participated in the negotiations. The International Wheat Council, (IWC) documents relating to the Internal and Preparatory Committees and the documents relating to the UNCTAD negotiations which have been closed since 1979 have been released for the purpose of this study. In addition, the closed documents relating to developments in the commercial market from 1963–1980 were released for this study by the Canadian Department of Foreign Affairs.

[7.3] *ibid.*

The IWC/UNCTAD grain reserve proposal will be presented and analysed with cognisance of the numerous and varied stabilisation schemes introduced in the aftermath of the Rome conference. The material will be presented chronologically and analytically within issue areas, in the period 1974–1979. Questions that arise within this analysis will include:

1. What characteristics of grain as an internationally traded commodity and what characteristics of the grain market make stabilisation schemes desirable?
2. What political and economic obstacles to a grain reserve scheme precluded the successful conclusion of the negotiations?
3. Who would benefit from a stabilization scheme and who would pay the costs?
4. What is the relationship of reserves to the commercial and concessional markets?

The world food crisis and the attempt to stabilize the market through grain reserve proposals not only reflect the unique combination of interests and circumstances of the 1970's, but also illustrate the pervasive effects of sudden reversals in the grain market and the effectiveness of policy responses as adopted.

7.2. Background

Of the factors which contributed to the sudden market reversal in the early 1970's, the breakdown and suspension of the economic provisions of the International Wheat Agreement (IWA) in 1967 and the reformulation of foreign political and economic policy in the United States were as we have seen, the most salient. The breakdown of the IWA represented the end of an era of cooperation among major exporters and importers and the removal of international restrictions on trade. As the domestic and foreign economic policies of the U.S. have been one of the most significant factors in the evaluation of the international grain trade, the heightened politicization of the trade by the Nixon Administration after 1971 and its use as an instrument of foreign policy goals vis-à-vis the Soviet Union again significantly altered the market. The decision by President Nixon in June 1971 to terminate the national barrier to the sale or transport of grain to the Soviet Union, China or Eastern Europe further opened and destabilised the market.[7.4]

The removal of national and international trade restrictions in combination with the series of shocks that rocked the grain trade between 1972 and 1979 reduced confidence in the ability of exporters to meet import requirements, and the ensuing panic buying and speculation drove world food prices to record levels. See figure 7.1.

Figure 7.1. World Food Prices

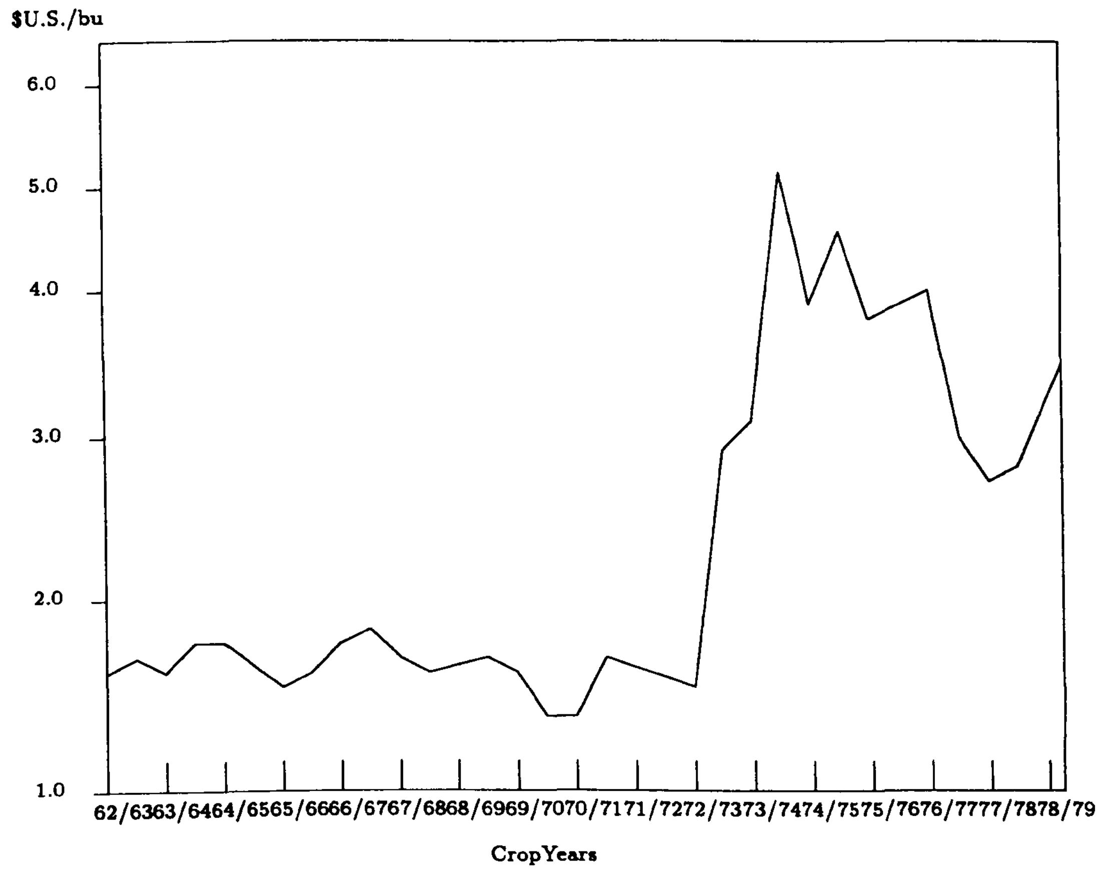

Figure 7.2. From Raymond F. Hopkins and Donald J. Puchala, *Global Food Interdependence: Challenge to American Food Policy* (Colombia University Press, N.Y., 1980), p.55.

[7.4] Truck Huskamp Pederson, "Sales, Surpluses and the Soviets: A Study in Political Economy" in Richard M. Fraenkel, Ron F. Hadwinger and William P. Browne, eds. *The Role of Agriculture in Foreign Policy* (N.J., Praeger Publishers, 1979) pp.56–57. The Economic Cooperation Act of 1948, the more explicit Export Control Act of 1949 and the Trade Agreements Extension Act of 1951 dramatically restricted trade including agriculture with communist countries.

The main factors contributing to instability in the international grain trade included:

(i) Stock reduction by the United States and other major exporters had reduced world insurance against a major downturn in world food production.[7.5]

(ii) World grain production declined in 1972–1973 as a result of unfavourable weather and average limitations in major producing countries.

(iii) The reduction in the Peruvian anchovy catch in 1972 led to increased demand for soybean meal and alternative feedgrains.

(iv) The devaluation of the U.S. dollar profoundly affected the stability of exchange rates further undermining the international economic security.

(v) Large grain purchases by the Soviet Union due to substantial crop shortfalls.[7.6]

These shocks taken together resulted in the sudden reversal of the international grain market and the ensuing world food crisis. During the period 1972–1974, grain markets experienced price and supply fluctuations unparalleled since the Great Depression. Had policy adjustments been made quickly, the damaging effects of the Soviet wheat sales could have been minimised. The Nixon Administration reacted very slowly. Not only were export subsidies maintained despite the rapidly rising prices, but acreage reductions were also maintained despite the tightening of the market.[7.7] Through the grain sales and lack of policy response, the U.S. had succeeded in stabilising the Russian food economy whilst destabilising its own.[7.8]

[7.5] I.M. Destler, "United States Food Policy, 1972–1976: Reconciling Domestic and International Objectives" in Raymond F. Hopkins and Donald J. Puchala, eds. *The Global Political Economy of Food* (Madison, University of Wisconsin Press, 1978), p.45. See also, Sanderson, "The Great Food Fumble", Brookings, Reprint No. 303 (Washington, D.C. Brookings Institute, 1975), pp.505–506 and Philip H. Tresize, *Rebuilding Grain Resources: Towards and International System* (Washington, D.C. Brookings Institution, 1976) p.1. "Wheat stocks held by the U.S. and Canada had been 100 percent of average annual domestic and export demand in 1963, before the last world food crisis. In 1972, they stood at 70 percent."

[7.6] Alexander Sarris, Phillip Abbott and Lance Taylor, pp.3–1, 3–2 and I.M. Destler, p.53. Soviet Exporthleb representatives quietly contracted the purchase of 433 million bushels of wheat, roughly half of the United States carryover stock in 1972, as well as substantial purchases from Canada. Poor crops in Australia and Argentina further reduced world stock levels.

[7.7] Dan Morgan, pp.214–215.

[7.8] I.M. Destler, p.49

The contradictions in agricultural policy formulation during the 1972–1974 crisis were perhaps in part a function of "intellectual lag" given the speed with which the international grain market and the domestic economy was reversed. It was, however, certainly also a function of the competing interests within the administration. Producer interests, championed by Secretary of Agriculture Earl Butz, had achieved their objectives — unprecedented price levels as well as high levels of export expansion.[7.9]. The foreign policy objectives had also been realised through the linkage of grain sales to the Soviet Union in the building of a new U.S.-Soviet relationship, and despite the ensuing food price inflation and other "dislocations". Earl Butz and Henry Kissinger considered the grain sales a major policy achievement.[7.10]

The successes of the farm and foreign policy communities were largely at the cost of domestic consumers, developing countries and food aid recipients. Food price inflation which had largely been ignored in the summer of 1972, exploded by December 1972, and continued throughout 1973. The U.S. wholesale price index for farm products rose from 132.5 in December 1972 to 184.5 the following August before dropping to 168.0 in December 1973.

World food prices rose from 126.3 in December 1972 to 151.5 in December 1973.[7.11] In June 1973, amid the general chaos of the economic crisis, now exacerbated by the OPEC crisis and the larger political crisis precipitated by the Watergate break-ins, the U.S. government attempted to curtail inflation with the imposition of a total embargo on soybean exports. While short-lived, this action had very serious consequences in terms of U.S. trade relations and represented a major setback in U.S.-Japanese relations,[7.12] and U.S. relations with Western Europe were also severely damaged.

The knowledge that North America could no longer fulfil its historic role as a reliable residual supplier resulted in panic buying by almost every importer. Fears of impending food

[7.9] Destler, p.49

[7.10] ibid

[7.11] *Economic Report of the President*, February 1974, pp.300–305 in Destler, p.5

[7.12] Richard Filmore, *A Poor Harvest. The Clash of Policies and Interests in the Grain Trade* (New York, Longman,), pp.147–150. Japan relies on the United States for 92% of its considerable soybean imports.

shortages persisted through the 1973–74 crop years despite production increases. Developing countries, particularly vulnerable to a supply shortage, given their habitual minimal nutritional levels, were prone to panic buying of cereals in 1973 and 1974.[7.13] In order to sustain grain imports at highly inflated prices, developing countries incurred price increases of approximately $12 billion in 1973–1975 over 1972 levels.[7.14] Among the hardest hit developing countries were those most reliant on food aid. Food aid in cereals by all principal donors fell from a total of 10.11mmt in 1972/73 to 5.651mmt in 1973–74.[7.15]

In addition to the radical reduction in the volume of food aid, the allocation of available supplies which were largely held in the U.S. reflected heightened politicization of grain. In 1972, allocations that had previously been granted to the hungriest countries were divided to serve U.S. foreign policy objectives. "In 1973, South Vietnam and South Korea also received almost half of all Title I food aid. In 1974, South Vietnam and Cambodia also received 69 percent."[7.16]

By 1974, the "crisis management" approach to economic policy pursued by most nations clearly proved inadequate. The volatility of the international grain market in 1972–74 when considered in combination with the concurrent oil crisis of 1973 placed economic issues at the top of both domestic and foreign policy agendas for political leaders world wide. In addressing a NATO summit meeting in June 1974, West German Chancellor Helmut Schmidt stated that "The most serious risks facing NATO were not military. The growing economic difficulties of its members," he said, "include dangers that cannot be exaggerated. Inflation and the necessarily following recession pose the greatest threat to the foundations of Western Society."[7.17] Writing in October 1974, U.S. Democrat Walter

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[7.13] Alexander Sarris, Philip Abbott and Lance Taylor, pp.3.3–3.4. Total imports for developing countries rose from 34.5(mmt) in 1972, to 47.0(mmt) in 1973 and 48.0(mmt) in 1974. (Source, FAO Production and Trade)

[7.14] *ibid.*p.3–4

[7.15] Alexander Sarris, Philip Abbott and Lance Taylor, p.3.4. Donald J. Puchala and Raymond F. Hopkins "International Regimes: lessons from inductive analysis" in Stephen Krasner ed. International Regimes (Ithaca, New York, Cornell University Press, 1983).

[7.16] FATUS, December 1975, pp.40–43; Daniel J. Balz, "Agricultural Report: Politics of Food Aid Presents U.S. with Policy Dilemma", *National Journal* (November 23, 1974) p.1764 and Destler p.57. Also Department of State Bulletin, May 6, 1974.

[7.17] Walter F. Mondale, "Beyond Detente: Toward International Economic Security" *Foreign Affairs* (October 1974) p.13.

Mondale noted that as industrialised nations assessed the international economic scene their "apprehension is fuelled by frustration because the problems are beyond the span of control of individual nations. With the growth in economic interdependence, the problems are inextricably linked, and only a comprehensive and systematic international effort could deal with them."[7.18]

7.3. World Food Conference 1974

It was against this political and economic backdrop that Henry Kissinger attempted to pick up the pieces of the administration's shattered domestic and foreign policies by convening a World Food Conference to be held in Rome in November 1974.[7.19]

The World Food Conference perhaps served the short term goal of focusing world attention on the food security issue, however, little substantial progress was made in furthering the expressed goals.[7.20] The conference identified the three major defects in the world food system:

(i) Inadequate food reserves to assure reasonable stability in markets and security for consumers.

(ii) Use of food aid that reflected low priority for the food problems of less developed countries.

(iii) Inadequate and inappropriate investment with respect to food production capacity in food-deficit areas.[7.21]

The World Food Conference did, however, lead to the creation of the World Food Council as well as several proposals for the creation of grain reserves. Henry Kissinger's keynote

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[7.18] *ibid.*, p.14

[7.19] Henry Kissinger, *Years of Upheaval*, especially Chapters XXI and XXV. Also private interviews with Charles Weitz, FAO Representative of the FAO to the United Nations. The decision to convene the World Food Conference was taken unilaterally by Henry Kissinger. Earl Butz alone was "notified" prior to the official announcement.

[7.20] Alexander Sarris, Philip Abbott and Lance Taylor, p.7.2

[7.21] Donald J. Puchala and Raymond F. Hopkins in Stephen D. Krasner, ed., pp.82–83, see also Alexander Sarris, Philip Abbott and Lance Taylor, p.7.2

speech to the Conference had the dramatic title "The Global Community and the Struggle against Famine". The drama was in the title, not the content, as it offered little to alleviate famine. It did, however, offer a rather general proposal for an international grain reserve, and thus gained some acclaim as a humanitarian gesture.[7.22]

The U.S. proposal had five major features in its final form, which was first presented in May 1975 at the Ministerial Council of the Organisation for Economic Cooperation and Development and later referred to the International Wheat Council.[7.23]

The proposal called for:

1. An initial reserve target of 30 million metric tonnes (mmt), which would be over and above working stocks. According to U.S. officials this amount would offset 90% of potential deviations from trend in world production of food grain.

2. The accumulation and the drawing of reserves would be based upon deviations from long-term production trends or changes in stock levels. Price would not be an indicator.

3. Shares of the reserve would be based upon trade volume, Gross National Product and variability in production.

4. The reserve system would be available only to participants. A country could not stand outside the agreement and seek to benefit from it under tight market conditions.

5. Provision would be made for appropriate exchanges of information on crop prospects and other relevant questions.[7.24]

This proposal represented a response to the demands of the Word Food crisis and also acknowledged that some form of grain reserve scheme would be central to a solution to the problem of world food security. Its weakness was that it lacked specifics; however, it served

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[7.22] I.M. Destler, p.66
[7.23] U.S. Information Service, Wireless Bulletin from Washington, September 30, 1975.
[7.24] Philip Tresize, pp.53–55.

as a starting point as member countries agreed to continue to study the proposal and work out the technical details.

7.4. International Grain Reserves: Creating the Framework

With the adjournment of the World Food Conference, the International Wheat Council secretariat set about the task of exploring and developing possible elements of a new international agreement. The "world food crisis" had renewed interest in the systematic rebuilding and coordination of cereal stock for the purpose of assuring world food security and grain price stability.[7.25]

A preliminary review of the possible alternative forms of a new agreement — or more precisely, "the major elements which either alone or in some combinations might form the basis of such an agreement", revealed four basic assumptions.

(1) The agreement must contain some provision relating to stocks.

(2) An agreement in order to be negotiable, or even credible, must contain price provisions, although they may be regarded as indicators (targets) rather than regulatory in the sense of the old agreements.

(3) Emergency aid must be taken into consideration but this does not necessarily assume that the agreement will assign *executive* responsibility to the Council.

(4) Effective consultation and management procedures must be carefully considered for all aspects of the agreement.[7.26]

Problems relating to each of these issue areas were evident from the first discussions. The committee considered that voluntary stock undertakings would only appear credible if they

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[7.25] Committee for Agriculture. *Review of Various Proposals for World Cereal Stock Levels* (Note by the Secretariat (Organisation for Economic Cooperation and Development (OECD), Restricted, Paris, 24 February, 1977, AGR (77) 6 Scale 4) p.5. For the purposes of this paper, the FAO definition of reserve stocks will be used. They are considered to be all stocks that are in excess of (a) minimum working stocks, (b) stocks which are retained for strict strategies or military purposes. "Reserve stocks include stocks which can be drawn on to meet unexpected defects in current supplies due to crop shortfalls, other contingencies, emergency food shortages in forward international commitments in case of a short crop."

[7.26] *Possible Forms of a New IWA* International Wheat Council (IWA (Prep.) 1, 18 December 1974.

were allied with other measures to form a balanced and convincing package. Regulatory price pressures would be difficult to sell to members unless supported by other substantive economic mechanisms, yet the potentially more attractive option of establishing "trigger" formulae applied to target prices may be less effective in promoting the objective of market stability.[7.27]

These components, stock provisions, price provisions and consultations or management procedures did, however, ultimately come together in 1978 as the framework for the negotiations which were held under the auspices of UNCTAD. In order to understand how this framework was erected, these elements will be presented individually as they were examined and developed within the Preparatory Committee of the International Wheat Council. In that reserve stocks would constitute a novel feature of international wheat agreements, some discussion of their main features would be useful.

7.4.1. Stock Provisions

The issue of stock provisions was the most difficult of the trinity of major components which formed the basis of the discussions. The successful negotiation of an internationally controlled buffer stock was seen to be the most desirable stock option in terms of the effectiveness and credibility of the proposed agreement. Centrally-controlled world reserves would provide greater insulation from market forces and political influence. A secondary advantage of a centrally-controlled scheme was that given the unlikelihood of simultaneous shortfalls in a number of regions a smaller reserve would be adequate to provide global security than the sum of the security needs of individual countries.[7.28]

Despite the desirability of such a scheme particularly in terms of market stabilisation, it was generally agreed within the committee that a co-ordinated system of national stockholdings would be more readily accepted by members. The question of the sovereignty of exporting countries own stocks, stored by them but owned and controlled by a buffer stock authority, would be overcome through a nationally owned stock scheme. Such a

[7.27] *ibid.*, p.2

[7.28] Outline of a New IWA International Wheat Council (IWA (prep.) 3, 4th February 1975) p.8. See also "Food Raising Policies for World Food Security", FAO consultants report (Misc. (74/75)13,19 February 1975) scheme would still require the harmonisation of national policies into some form of quasi-international plan which would require agreement on desirable stock levels, a willingness to report stocks, and a commitment to a consultative process in the event of significant changes. A nationally-held scheme would however fail to carry the powerful influence on the market of a full international buffer stock scheme.[7.29] In addition to the questions of what form a reserve stock should take, preliminary discussions of the preparatory committee considered questions surmounting the location of stocks, size and management of reserve stocks, costs and cost sharing, trigger mechanisms, and the special provisions necessary for emergency relief.

7.4.2. Location of Stocks

From the outset a strong case was made for the reserve stocks to be held in exporting countries, particularly the U.S.,[7.30] whose considerable surplus capacity, transportation and storage facilities would facilitate the maintenance of either international or nationally held stocks. Despite fears of possible domestic competition for inland transportation and loading facilities and the possibility of stock movement being hindered due to political considerations, the economic benefits of storing at least a major portion of reserve stocks in the U.S. were sufficiently compelling that the firm assurances on these points were considered necessary.

7.4.3. Reserve Size

In the determination of the optimal size of reserve stocks the Committee drew from various studies to determine the quantity of stocks that would be necessary to achieve various policy objectives.[7.31] As a starting point, in 1975 there was wide, in not universal agreement that

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[7.29] This discussion is drawn from the earliest IWC position papers: "Possible forms of a New IWA" (IWA prep.); IWC, (Misc. (74/75) 12, 22 November 1974); "Food Rescue Policies for World Food Security" (Misc. 74/75) 13, 19 February 1975); Questions on a "Voluntary" Grain Rescue System, IWC, (IWA (prep.) 6, 4 April 1975) and "Rescue Stocks", IWC, (IWA (Prep.) 5, 4 April 1975)

[7.30] "Final reserve policies for World Food Security" (Misc. (74/75) 13, 19 February 1975. Canada and Australia were also considered desirable locations.

[7.31] The five papers whose suggested methods were pre-eminently considered in the preliminary discussions included:

(i) "Grain Stocks Issues and Alternatives: A Progress Report" (Economic Research Service, United States Department of Agriculture, February 1974).

a system of reserve stocks should be examined as a major element of a new agreement. Its objective, in its broadest terms would be to act as a buffer against market disequilibrium which might arise from supply shortages and rising prices, or the converse.[7.32] Ideally, a reserve scheme would protect normal commercial trade flows, yet have cognisance of the needs of developing countries. Reserve stocks therefore should provide stability to the commercial market, without disrupting trade flows, and provide security of supply under tight market conditions. Based on historical experiences, and on the findings of most major studies consulted, a reserve stock of 30 mmt to deal with commercial contingencies, with an additional and separate 10–15 mmt reserve to provide international famine relief was considered optimal.[7.33] The exception to these findings came from the U.S. Department of Agriculture who concluded that a 10% contingency reserve programme (amounting to reserves of 20mmt) would have met all but 17mmt of world production shortfalls over a 20 year period from 1950–1969.[7.34]

7.4.4. Stock Management

Fundamental to the efficient performance of a reserve scheme are the rules and obligations of governments which undertake to hold stocks under the scheme and the arrangements for the storage of wheat held as the reserve. The primary areas of concern and discussion were:

(i) The nature of the control exercised by governments (or private interests) over the reserves.

(ii) "World Food Security: Draft Evaluation of World Cereals Stock Situation" (Preliminary Draft); (FAO Committee on Commodity Problems, document GR74/11. July 1974).

(iii) "Food Security - An International Approach" (Draft Report by Carroll G. Brumthauer, Brookings Institute, 1974).

(iv) "Food Resource Policies for World Food Security: A Consultant Study on Alternative Approaches" (FAO Expert Consultation on Cereal Stock Policies relating to World Food Security, document ESC: CSP/75/2, January 1975).

(v) "Implications of stockholding policies for international wheat track", (International Wheat Council, Seventy-first Session, documents CL71/9 and CL71/9 Add, November 1974).

[7.32] "Agenda for the Preparatory Group', IWC, 13 March 1975

[7.33] *ibid.*. See also "Reserve Stocks — Annex : Methods for determining the necessary size of reserve stocks" IWC, (IWA Prep.) 4, 3 April 1975 and (IWA Prep.) 4, App.1, 7 April, 1975

[7.34] IWC, (IWA Prep.) 4, p.7

(ii) The reporting of relevant information.

(iii) The guarantee that stocks will be utilised solely under the provisions of the scheme.

(iv) Regulations regarding the location, types of wheat stored and the condition of the wheat being held.

(v) Methods of disposal and replenishment of stocks.

The operation of stocks held for emerging relief purposes would be managed by a different set of guidelines.[7.35]

7.4.5. Costs and Cost Sharing

Given the uncertainties during the preliminary discussions, costing a reserve scheme was difficult, however, throughout the period of analysis both within the IWO and in the context of numerous independent studies, consumers were consistently regarded as being the main beneficiaries of stable market conditions.[7.36] It was generally understood, therefore, that consumers would share the costs proportionately.

7.4.6. Preparatory Meetings: Opening Positions

The initial tabling of the components considered necessary in the negotiation of a new International Wheat Agreement revealed the issue areas that required additional study and development. It also revealed the degree to which the actors, primarily the major exporters, were at odds on the major issues. Despite their differences, the meetings continued, and numerous studies and proposals were taken into consideration to advance the deliberation of these complex issues toward resolution. The European Economic Community (EEC) tabled a position paper in May 1975, reiterating its commitment to national subsidy programs. The main points of the very general paper included three elements:

(a) Strengthening of machinery for the exchange of information on market prospects and production policies;

[7.35] "Guidelines for the Management of Reserve Stocks", (IWA Prep.) 7, 23 April 1975, pp1–14.

[7.36] *ibid.* See also Alexander Sarris, Philip Abbott and Lance Taylor, pp.2–5 and "Food Reserve Policies for World Food Security" (Misc. (74/75) 13) p.2

(b) Setting up stabilisation mechanisms calculated both to stabilise the international grains market in terms of price and supply levels in a manner acceptable to importers and exporters alike, and to insulate that market from any destabilising factors that might emerge in domestic markets; and

(c) Improvement of the situation of developing countries, in particular by the reorganisation of the food aid structure.[7.37]

Perhaps most significantly, the EEC identified the grain sector as "being sufficiently important as to warrant a solution implying a high degree of international co-operation bearing on all the elements of the problem.[7.38] In conclusion, the Community affirmed its commitment to the successful negotiations of a new International Grains Agreement.[7.39]

The following September, a new U.S. proposal was tabled that provided more detailed guidelines on all aspects of the agreement under consideration. The U.S. position remained steadfast that reserves were to be nationally held; however, the size of the reserve was brought in line with other estimates to 25 mmt of wheat and 5 mmt of rice. The question of reserves for course grains was raised, and the criteria for holding reserves would include world trade in food chains, GDP, and variations in production. The U.S. proposal also introduced the notion of a quantitative (as opposed to price) trigger mechanism.[7.40] Reserve holdings would be increased when production would exceed trend levels by an agreed percentage, and triggers based on stock levels and production shortfalls would signal the need for stock withdrawals. The system was to be based on a two-tier action programme. At the "warning stages" consultations would be initiated with regard to working stocks, limitations of livestock feeding, limitation on abandonment of export restraints and a fuller

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[7.37] "Statement Made by the Representative of the EEC, 26 May 1975", Multilateral Trade Negotiations Group "Agriculture" IWO, (IWA (Prep.)) 13, 16 June 1975.

[7.38] ibid. p.6

[7.39] ibid. p.7

[7.40]

(1) "Proposal for a Two-Tier Price System" IWC, (IWA (Prep.) 8, 5 May 1995, See also "Australian Paper on Price Triggers", IWC, (IWA (Prep.) 9, 7 May 1995.

(2) "Skeleton Outline of a New Agreement", IWC (IWA (Prep.) 16, 14 August 1975.

(3) Discussions of the Preparatory Committee conducted between 20 March 1975 and September 1975 were based on the use of price triggers.

reporting on future sales and purchases. The "shortage stage" would involve decisions on the run-down of reserve stocks.[7.41] Quantitative trigger mechanisms were perceived by the U.S. as providing greater flexibility in responding to market changes than the more rigid price trigger mechanisms of the past.[7.42]

An analysis of the proposed quantitative trigger mechanisms where applied to production/stock/trade data as given in Appendix Table 1, suggests that an inappropriate response would have been made in all but one year over the period 1964 - 1974,[7.43] The U.S. proposal continued to be examined by all major exporters at the third meeting of the Preparatory Committee in October 1975. The exporters worked together to develop the criteria that could be applied to action formats that could be applied to the system of indications whether it be quantitative or price.[7.44]

Following the Third Meeting of the Preparatory Group on 29 - 30 September 1975, and with the endorsement of member states, study regarding key elements of an international reserve system continued. The task included the framing of a comprehensive definition of "working stocks" which could be applied to future discussions regarding grain reserves as well as a determination of working stock estimates in selected countries, on the basis of historical data.[7.45] The definition of working stocks in global terms may be a measure with which world food security might be measured. A second definition would view a country's total reserves to comprise a number of distinguishable elements, of which working stocks is one.[7.46] The other elements would include:

(i) stocks held on farms – available for sale.

[7.41] "International Grain Reserve: U.S. Proposals' IWC, (IWA (Sec.)21, 26 September 1975. See also "U.S. Proposal for an International Grain Reserves System (Prep. (75) WP.13) (IWA)Prep.)19, 25 September 1975.

[7.42] "The Role of Prices in A New Agreement", IWC, IWA (Prep.)14, 18 June 1975. See also "Dr. Kissinger's Address to the Special Session of the United Nations" IWC, (IWA (Prep)17, 5 September 1975.

[7.43] "The Operation of a Production Trigger Mechanism" (Comments on the U.S. proposal in document PREP (75) WP.13) IWC, (IWA (Sec.)20, 26 September 1975 pp.1 - 7. The exception was 1965 when the world wheat economy was about to enter a period of shortages and connective measures would have been useful.

[7.44] "International Grain Reserve : Trigger Action", IWC, (IWA (Sec.)22, 13 October 1975. The EEC made the suggestion that it would be useful to detail actions and procedures that would facilitate speedy response at both the "warning" and "shortage" levels.

[7.45] "Working Stocks", IWC, (IWA (Sec.)23, 23 October 1975. See also IWC (Prep.(75) 7, and "Working Stocks', IWC (IWA (Sec.)23 (Rev.1), 30 October 1975.

[7.46] "Working Stocks" IWC, (IWA (Sec.)23, 23 October 1975.

(ii) (exporters) stocks held by marketing agencies and by government agencies and considered necessary to maintain the uninterrupted flow of domestic and export commitments.

(iii) (exporters) stocks held by traders for domestic or export trade including supplies held internally or afloat but remaining the property of the exporter.

(iv) (importers) stocks held by government agencies, importers, merchants and processors in mill or other storage points.[7.47]

In concluding this study, the Committee raised the question of the relevance of focusing unnecessarily on working stocks given that the stocks held under an international agreement would be in addition to any other holdings.[7.48]

The second major area of continued examination in late 1975 was concerned with economic provisions. This complex and controversial field included discussions on: a proposed two-tier price system particularly with reference to the effects of such a system on developing countries; methods of modifying the IWA if market conditions warranted it; considerations of minimum and maximum prices in the context of a new agreement; and quantitative trigger mechanisms based on projected wheat consumption.[7.49] These consultations produced a set of options which would afford varying degrees of stringency in the economic provision of a new International Wheat Agreement. These options included:

(i) Action points for consultative remedial action to contain prices within a certain range.

[7.47] "Working Stocks" IWC, (IWA (Sec) 23 (Rev.1) 30 October 1975

[7.48] ibid. p.6

[7.49] "Proposal for a Two-Tier Price System : Possible Effects on the Position of Developing Exporting Countries" IWC, (IWA (Sec.)24, 24 October 1975; "Methods of Modifying the Cause of an International Wheat Agreement During the Period of its Validity" IWC, (IWA (Sec.)27, 11 November 1975; "Minimum and Maximum prices in a new agreement" IWC, (IWA (Sec.)28, 12 November 1975; "A Quantitative Trigger Based on Projected Wheat Consumption" IWC, (IWA (Sec) 29) 21 November 1975; "Methods of Modifying the Economic Provisions of an International Wheat Agreement During the Period of its Validity" IWC, (IWA (Sec)30, 21 November 1975; "Minimum and Maximum Prices in a World Wheat Agreement", IWC, (IWA (Sec.)31, 21 November 1975; "Second Lines of Defence in a Reserve Stocks Agreement", IWC, (IWA (Sec.)32, 21 November 1975.

(ii) Action points for remedial action, consultative and/or combined with reserve stock management to restrict prices within defined minimum and maximum limits.

(iii) Each participating exporting country would state minimum and maximum price limits they were prepared to accept within absolute limits regardless of class.

(iv) Each participating exporting country states minimum and maximum price levels for each group of wheat which they were prepared to accept as absolute limits.

(v) Fixed minimum and maximum prices, with quality differentials for most widely traded wheats, similar to the International Grains Arrangements, 1967.[7.50]

By mid December the economic provisions were presented in a "Skeleton Outline" of a new agreement which incorporated all aspects of a new agreement. The outline which was based on the documents which had been submitted to the Preparatory Group the outline attempted to clarify the possible scope of a new agreement.

The reaction of major exporters and importers to the range of options presented in the "Outline" was mixed. A tabular summary (Figure 7.2) of these reactions indicates that the position of the main actors, although somewhat modified, had not fundamentally changed. In particular, the U.S. continued to press for market stabilization through stock provision rather than price controls. Conversely, the EEC favoured an agreement based on negotiated maximum and minimum prices rather than stock or production management. Despite the expressed differences and concerns, Figure 7.2 reveals that there remained a willingness to continue the search for common ground on the substantive issues.[7.51]

[7.50] "Skeleton Outline of a New Agreement", IWC, (Iwa (Sec.)36, 11 December 1975, Appendix Table I "Options Relating to Price Provisions in a New International Agreement".

[7.51] "Summary of Comments Made by Members of the Preparatory Group on Different Aspects of a New IWA", IWC. December, 1975.

Country	General Comments (1)	Stock Provisions (2)	Price Provisions (3)	Other (4)
Argentina	Present scarcity exceptional: new IWA should provide for outlets, balance and stabilisation. Differential treatment for Dg countries. Take account of MTN. (II-16)	**Relationship with food aid**: minimum safeguards necessary for Dg exporting countries in periods of surplus (II-29). **Burden Sharing**: formula should be based on representative period (III-9(d)).	**Two Tier**: no opposed in principle but concerned about Argentina's position as an exporting country. (III-45).	—
Australia	Importance of balance in a new agreement. (II-9).	**General**: system chosen should not concentrate exclusively on high price situations. Merit in both price and stocks trigger. Have to try to reconcile these. (III-8(ii)). **Effects on Trade**: have to take account of needs of traditional buyers. Long-term trade agreements could cause difficulty. (III-22). **Working stocks**: not necessary to know what these are. (III-18).	**Price trigger**: "prices the spring of interventions by governments in wheat policies". Paper PREP(75)WP.1 explains price trigger mechanisms. (II-23).	**Coordination of national policies**: (ref. to Canadian paper WP.4) important question: Should try to improve terms of current agreement. (II-34).
Canada	Need for flexible approach covering all elements (WP.3 identifies these). Need for balance in international agreements. (II-4).	**General**: stocks system justified by concepts of world food security and defence against market disequilibrium (III-15). Balanced treatment necessary, should consider oversupply situation as well as short supply (II-8(v)). Will involve some binding obligations. (III-12). **Costs**: should be shared among all participants even if stocks are placed for convenience, near sources of supply (III-26). **Effects on trade**: could be important (III-36). **Production trigger**: too crude, would have to take account of fact that some countries pursue production policies: price trigger might be better basis. (III-8(v), 9(b)). **Size of reserve**: 30m. tons too high without safeguards (III-8(v)). **Working stocks**: Definition should include stocks held by Government agencies in exporting and importing countries alike. (III-19).	**Price trigger**: might be appropriate (III-8(v)).	**Coordination of national policies**: essential provide equitable sharing of burdens arising from adjustments made during agreement. (II-34). **Definition**: clear definitions need to be established, especially in the field of stocks (II-40). **Timing of work**: balanced examination of stock provisions will take time. (II-38).
Egypt (Arab Republic Of)		**General**: importing developing countries need preferential treatment: would need assistance if to hold stocks (III-8(i)). Food aid might have to be increased. (III-9(d)).	**Two-tier**: price of wheat too high for many developing countries. New agreement could include measures. Proposal in WP.7. Best way would be to set up fund. Food aid not involved — on different basis. Proposals would not apply to Argentina. (II-30, III-44).	**Timing of work**: studies of reserve stocks etc. take time. Perhaps start negotiations before they were completed. (II-37).

Figure VII.2. Summary of Comments Made by Members of the Preparatory Group on Different Aspects of a New IWA (Continued on next page)

Country	General Comments (1)	Stock Provisions (2)	Price Provisions (3)	Other (4)
EEC	Not accept agreement based solely on stock provisions. (II-11). Group too preoccupied with reserve system to detriment of other economic provisions. (II-10). Discussions should not be split between different fora. (II-19). MTN the forum for negotiation: reserves more a question of negotiation than technical study. (II-10).	**General**: not accept agreement based solely on stock provisions. (II-11). Reserve stocks should go beyond assurance of supplies, (III-8(iii)). **Effects on trade**: long-term agreements should take precedence over other types: difficult to establish rules in advance. (III-21). **Working stocks**: should include only wheat held against possibility of delays affecting supplies for internal use. (III-9(a)(iii)).	**General**: agreement should be based on negotiated maximum and minimum prices — perhaps with provision for automatic modification in the light of changing market conditions. (III-41). **Price trigger**: a fundamental necessity. Indicative role (not automatic) — starts consultations. Consultation leads to quantitative considerations at the decision-making stage. (III-34).	
India	Some or all economic provisions from old TWAs should be retained. Need flexibility in connection with minimum & maximum price ranges. Provisions for food aid and concessional trade desirable: provision for reserve stocks could also be useful. (II-17).	**General**: stock build-up or depletion could be disastrous if account not taken of particular situations in individual countries. (III-9(e)(ii)). Financial assistance to improve storage facilities etc., in Dg countries vital if reserve stock objectives to be met. (III-8(vii)). **Guidelines for management of stocks**: donors should not still control stocks held in Dg countries. (III-31). **Working stocks**: 10% "rule of thumb" too burdensome for India. (III-8(vii)).	**Price trigger**: a better basis than variations in production. (III-8(vii)). **Two-tier**: in the Egyptian paper (WP.7) the fund is the best approach. (III-45). Own proposals (in WP.12) under which exporting countries agree to sell a minimum proportion of their supplies to developing countries. (III-46).	**Coordination of national policies**: Dg countries in difficult position: main contribution to reserves system lies in expanding production. Firm commitment too much of a burden. (II-34(iv)).
Japan	Successive IWA's contributed to stabilisation and expansion of trade. Need for agreement effectively meet both surplus and deficit. Should ideally include rice and other food grains, include price provisions to stabilise prices and act as indicator, and should include qualitative supply assurances. Also consider separate instrument for food aid and whether desirable to include stock provisions. (II-6).	**General**: production levels not entirely satisfactory as basis for trigger. (III-8(iv)). **Effects on trade**: should consider reserve scheme in context of normal commercial trade. Position of developing countries should be dealt with separately. (III-8(iv)). **Guidelines for management of stocks**: provisions covering supply assurances to importing countries at a reasonable price.	Role of prices generally considered important (see entries in other columns)	**Coordination of national policies**: favour code of practice with members left to decide the ways of implementing it. (II-35(i))

Figure VII.2. Summary of Comments Made by Members of the Preparatory Group on Different Aspects of a New IWA (Continued on next page)

Country	General Comments (1)	Stock Provisions (2)	Price Provisions (3)	Other (4)
USA	**(a) Second PG Meeting:** Open mind on possible bases of new agreement. Willing to discuss price provisions. Agreement should rest on basis of international cooperation: should promote trade and stabilise the market. Exchange of information important. (II-14). Preparatory Group component in technical matters but some elements (e.g. trade liberalisation) more suited to MTN. (II-20). **(b) Third PG Meeting:** Aim of (stocks) system to respond to global concern over availability of adequate supplies of grain in the event of serious shortfalls in production. Remove recurring instability in world grain supplies, without involving either restraint or undue stimulation of exports. (III-7) Stocks part of IWA, not its sole basis. (III-9(ix)).	**(a) Second PG Meeting:** **General:** introduced paper showing quantitative trigger mechanism (WP.6). (II-28). **Food aid:** food aid would be safeguarded if reserves system successful. (II-28). **(b) Third PG Meeting** **General:** introduced paper containing proposals for Grain Reserves System (WP.13). Great urgency: year passed since World Food Conference (III-6). Avoid confusing reserve stocks (aim — to improve food security) with buffer stocks (aim — to regulate prices). *Not* primary purpose of scheme to bring stability. (III-33). Some obligations necessary under the scheme — linked to system of consultations. (III-14). **Financing:** individual countries bear responsibility. Burden sharing a matter for negotiation, as is assistance to developing countries (III-9(d)). **Size:** 25m. tons of wheat and 5 m. tons of rice proposed. (III-9(b)). Not so large as to remove incentive for production (III-8(ix)). guidelines might provide for building up stocks further. (III-9(e)(iii)). **Trigger:** level of production the best guide but open to other suggestions. Difficult to base trigger on price. (III-8(ix)). **Working stocks:** estimates needed so that the "reserve element" can be calculated. (III-9(a)(iii)).	**(a) Second PG Meeting** **General** willing to discuss price provisions (II-14) Price provisions have not been successful to counter instability in the past (II-14) **(b) Third PG Meeting** **General** doubt if possible to regulate prices when actual prices at which wheat is traded are not known. (III-43) **Preferential prices:** no envisage making supplies available to participants at preferential prices. (III-9(f)). **Price trigger:** very difficult to base it on price. (III-8(ix))	**(b) Second PG Meeting** **Coordination of national policies:** favour establishing guidelines Firm conditions would be difficult. (II-35(iii)) **Definitions:** accept the ones set out in paras 16–19 of CL71/9. (II-40). **Timing of work:** probably need a year (from May 75) to complete study of stocks provisions. (II-39). **(b) Third PG Meeting** **Timing:** matter of great urgency (i.e. reserve stock): year passed since World Food Conference. (III-6).

Figure VII.2. (Continued from previous page) Summary of Comments Made by Members of the Preparatory Group on Different Aspects of a New IWA (Continued on next page

Country	General Comments (1)	Stock Provisions (2)	Price Provisions (3)	Other (4)
Sweden	Favoured development of fully-fledged agreement including other provisions besides stocks. (II-8(viii)). Agreement should be flexible and pragmatic. (III-32).	General: For trigger, favour system based on prices and production factors. (II-8(viii)).		
Switzerland	Importing countries' interests lay in access to supplies and the preservation of reasonable price levels. When it was established what elements were practicable, there would be a firm basis for negotiations which could take account of MTN. (II-21).		"preservation of reasonable price levels". (II-21).	
Tunisia		General: difficult for Dg countries to participate in reserve scheme involving their holding wheat as had not the required facilities. (III-24).		
USSR	Function of group — to select from submitted proposals those elements which should be recommended to Council as basis for a new agreement. (II-15).	General: no objection to discussing reserves but should not be the sole element recommended to the Council. (II-15). Reserve provisions should be part of a new IWA but not whole basis. (III-8(vi)).		

Figure VII.2. (Continued from previous page) Summary of Comments Made by Members of the Preparatory Group on Different Aspects of a New IWA (Continued on next page)

7.4.7. 1976

Drawing on the lessons of the economic provisions of previous wheat agreements, the Preparatory Committee continued its examination of trigger mechanisms contrasting the behaviour of those based on price movements with those based on production estimates when applied to market data from the 1960's and early 1970's.[7.52] The differences in the behaviour of these two mechanisms, initially thought to reflect inadequacies in either, or both, came to be more fully appreciated as indicators that were measuring different forms of instability. The choice of trigger mechanisms would therefore largely depend on the objective of the agreement. If the agreement was to address both price and supply instability, the provisions for both types of trigger mechanisms would be desirable.[7.53]

A summary of the deliberations on price provisions and all aspects of a new agreement was presented to the Seventy Sixth (Special) Session of the full Council. The broad lines of the work of the Preparatory Group were conveyed to the full membership without attribution and with the provision that this work had been undertaken on a non-committal basis on the part of participating governments.[7.54] The Group unanimously supported the objective of bringing a new agreement with substantive economic provisions into effect as soon as possible and to move on to the stage of actual negotiations as soon as it appeared likely that the basis for a successful outcome to such negotiations existed. One group member was of the opinion that a draft text of an agreement could be forwarded to the Secretary General of the United Nations in time for an International Wheat Conference to be convened as early as the end of 1976 or the beginning of 1977. This view was perhaps overly optimistic given the task at hand, however, despite the differing views regarding the structure of a new agreement, participants consistently emphasised the need for continuing and indeed strengthening of cooperation in international wheat matters until a new agreement had been reached.[7.55]

[7.52] "Price Equivalent computations Under the International Wheat Agreement, 1962", IWC, (UWA (Sec.) 41, 11 March 1976; "The Course of Prices 1973/74 and 1975/76", IWC, (IWA (Sec.) 37, 5 January 1976; "Trigger Mechanisms — Some Further Observations", IWC, (IWA (Sec.) 38, 13 January 1976.

[7.53] "Trigger Mechanisms — Some Further Observations" IWC, (IWA (Sec.) 38, 13 January 1976.

[7.54] *ibid.*

[7.55] *ibid.*, pp.2–3.

Cooperation and study did continue through the spring of 1976, particularly on the very complex question of pricing provisions. Detailed studies tested various hypotheses against previous and projected market behaviour. As a result, a new approach to prices was developed. The term "indicative prices" was coined as a means of describing the philosophy of the new approach. In assuming an "indicative" role, prices would signal "the need for remedial action at various stages — as indicators of a changing market situation rather than objectives.".[7.56]

The re-examination of the nature and purpose of price provisions in a new agreement reflected the general dissatisfaction among major exporters with price provisions as they had been applied in previous agreements.[7.57] In particular, a more flexible pricing arrangement would allow price levels to be reached, and breached without confidence in the whole agreement being shaken — as was the case with previous agreements.[7.58]

A system of flexible remedial response would also reduce the internal preoccupation with minimum and maximum prices during negotiation.[7.59]. The other main points under consideration with regard to price provisions included the more technical areas of: reference wheat; basing points; quality differentials; ocean freight rates; and currency exchange rates.[7.60]

As the technical details of price and stock provisions were being developed, the more general objectives of a new agreement, and the rights and obligation of participants were also receiving clarification. The objectives of a new agreement, as presented in June 1976 were as follows:

[7.56] "The Indicative Price Approach"

[7.57] (confidential source) File 37.15, Wheat-1, Vol. 13, 1/5/69–30/6/69. From: Industry Trade and Commerce to Extoll 2768, June 23/69 "Meeting of Wheat Exporters Concluded Today". Pricing provisions of the IWA were suspended at this meeting. See also "The Indicative Price Approach," IWC, (IWA (Sec.) 42) 9 April 1976.

[7.58] See also "Price Equivalent Computations: Technical Issues Requiring Further Considerations in a Regulatory Price System", IWC, (IWA (Sec.)) 50, 12 July, 1976 and Prep. (75) WP.9 Paragraph 3 and 6.

[7.59] *ibid.*

[7.60] "Price Equivalent Computations: Technical issues requiring further consideration in a regulatory price system". IWC, (IWA (Sec.)) 50, 12 July 1976

(a) To follow international cooperation in connection with world wheat problems, recognising the relationship of the trade in wheat to the economic stability of markets for other agricultural products;

(b) To promote the expansion of the international trade in wheat and wheat flour and to secure the finest possible flow of this trade in the interests of both exporting and importing members;

(c) To contribute to a greater security in world food supplies by arrangements to maintain reserve stocks of wheat; and

(d) To contribute to the fullest extent possible to the stability of the international wheat market, in relation both to prices and the assurance of supplies, in the interests of exporting and importing members.[7.61]

The pursuit of these objectives through the establishment of a grain reserve with price provisions inevitably led both importers and exporters to seek assurance within the context of their rights and obligations as participants to the agreement. Importers were looking for assurances of supplies of maximum price levels. Exporters were concerned that the price span would provide an adequate return to efficient producers through a satisfactory minimum price level.[7.62] The reconciliation of these objectives would clearly be a formidable task. The Preparatory Committee, in July 1976, outlined the complexity of the issue:

> These price aims would in theory be best satisfied under a regulatory system, and this explains the reluctance to abandon the traditional concept despite the acknowledged technical difficulties it would present in current circumstances. Ideally, these aims require the determination of maximum and minimum prices for all wheat international traded by a formula that is clearly understood, whose essential elements can be accurately identified, without dispute or controversy, and which confers no competitive advantage on any supplier."[7.63]

7.61 "Draft Revised 'Options' Paper: Section I", IWC, IWA (Sec.) 43, 23 June 1976; "Draft Revised 'Options' Paper: Section II", IWC, IWA (Sec.) 47, 21 June 1976; "Draft Revised 'Options' Paper: Section III", IWC, IWA (Sec.) 46, 18 June 1976.

7.62 "Standstill" Paper: Suggested outline of Part III", IWC, IWA (Sec.) 49, 8 July 1976.

7.63 *ibid.*

While acknowledging that no formula would fully satisfy all of these conditions, they would seek some combination of compromises which would stand some chance of being successfully negotiated.[7.64]

In seeking such a solution the Preparatory Group moved to the next logical stage of the discussion, which was to consider the possible effects of the interaction of reserve stocks and prices on each other. Questions raised included whether the elements be included in a single convention or whether they appear as separate conventions within a comprehensive agreement. The legal and administrative implications of the various options would also require further study.[7.65]

In assessing the economic implications of integration, some difficulties arose from the fact that there were two types of provisions being applied to participants. In general the rights and obligations under the price provisions of an agreement would apply to the whole membership; however, additional provisions relating to reserves would have direct application only to the small proportion of members who undertake reserve commitments.[7.66] Despite the complications arising from these structural complexities, the integration of reserve stocks and price provisions was generally considered to be beneficial to the effective functioning of an agreement. In general, the agreement would gain in stature by being seen to be concerned with a much broader sector of the international wheat situation and its problems.

> "In particular, the major economic provisions would interact and would tend to reinforce each other. Thus, the existence of a reserve of stocks and the power to regulate the flow of supplies to the world market would represent a powerful stabilizing factor when available to supplement other measures designed to curb excessive price fluctuations. Consequently, price provisions which represented the desirable limits of price fluctuations with intermediate alerts or action points would provide and objective set of price criteria to be taken into account, *inter alia*, in reaching decisions affecting disposals or replenishment of the reserve. Furthermore, those provisions would supply

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[7.64] *ibid.*

[7.65] "Revue of Possible Elements in a New International Wheat Agreement, Draft of Part B (Integration of Reserve Stocks and Proce Provisions", IWC, IWA (Sec.) 57, 4 August 1976.

[7.66] "The Economic Implications of Integrating Reserve and Price Provisions", IWC, IWA (Sec.) 55, 30 July, 1976, p.1

the mechanisms for a trigger system whose formula relied wholly or in part on price movements."[7.67]

Thus, although there were clearly advantages to a fully-integrated reserve and price scheme, safeguards were brought forward that would minimise the risk of inappropriate remedial action being taken. Price movements alone would be insufficient to activate a trigger mechanism; however, a formula relating to both prices as well as overall stock movements would provide a more balanced trigger point. Consultations would also be invariably held before any stock actions would be activated.[7.68] The final point of deliberation regarding integration concerned the structure of the agreement. The question was whether the reserve and stock provisions should be combined within a single convention or set up in separate conventions forming part of a master agreement.[7.69]

Given the reciprocal relationship of these instruments, the adoption of the separate convention option would require a precise coordinating arrangement and a formalised role for liaison and consultation procedures. These and other technical questions were presented to the full Council membership following the third meeting of the Preparatory Group, 22–23 September, 1976.[7.70] This report revived development in all major issue areas, identified the remaining problem areas and set the timetables through to the completion of the negotiating conference.

The major problems remaining in the development of the agreement as outlined include:

1. Some experts viewed the determination of the precise nature of the rights and obligations to be undertaken by member governments as key to the negotiation of a new international wheat agreement, whatever it content. Special needs of developing member countries should be taken into account.

[7.67] **"The Economic Implications of Integrating Reserve and Price Provisions", IWC, IWA (Sec.) 55, 30 July 1976; "Review of Possible Elements in a New International Wheat Agreement — Draft of Part B, (The Integration of Reserve Stock and Price Provisions) IWC, IWA (Sec.) 57, 4 August 1976.**

[7.68] ***ibid.***, p.5

[7.69] ***ibid.***

[7.70] **"Revised Draft: Report by the Executive Secretary on the Third Meeting of the Preparatory Group (Technical)" IWC, IWC (Sec.) 64 (Rev.1) 12 November 1976. Countries represented included: Argentina, Australia, Canada, Egypt (Arab Republic Of), European Economic Community, Finland, India, Japan, Malta, Norway, Pakistan, Portugal, South Africa, Sweden, Switzerland, Union of Soviet Socialist Republics and the United States of America.**

2. The distinction hitherto made between "indicative" and "regulatory" price systems was considered misleading. They should not be considered mutually exclusive since an "agreement could be constructed including both a price range with rights and obligations, and an indicator to give the alert in determining market conditions and to provide a first line of defence of the maximum and minimum price."

3. The determination of wheat quality differentials and the computations of price equivalents proved to be one of the most intractable problems. One school of thought maintained that the old concept of fixed differentials was still workable and that the problems arising in 1967 were a function of abnormal market conditions. "Other experts questioned whether the 'normality' of any given period could be established, and suggested that the technical difficulties alone of establishing differentials might be insurmountable."[7.71]

4. Due to the complexities involved in price provisions, the secretariat and expert groups had devoted considerable attention to developing a comprehensive pricing system. The development of the "standstill" proposal provided a means of avoiding the need to calculate quality differentials and price equivalents in an agreement with maximum and minimum prices.[7.72] The setting of maximum and minimum prices was considered beyond the scope of the preparatory group, however, the "standstill" proposal appeared to be technically feasible and was therefore retained as an option.

5. The relationship among the major elements of a new wheat agreement was also a point of discussion. Reserve and price provisions could be considered an organic unity with a common membership. Participants that did not actually hold stocks would contribute to the carrying charges. Alternatively, building on the two-Convention approach of previous agreements, a three-Convention agreement might also function well. A Wheat Trade Convention (with or without price provisions) would have a broadly based membership as in the 1971 Wheat Trade Convention as

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[7.71] *ibid.*, p.3
[7.72] *ibid.*, p.4

would the Reserve Conventions. The Food Aid Conventions would be confined to a smaller membership.

6. To this point, Food Aid was considered beyond the terms of reference of the Preparatory Group. The question of its future inclusion remained unresolved.

7. Problems involving trade with non-member countries would be reduced if the few significant wheat trading nations currently outside of the agreement could be brought in.[7.73]

Having presented the problem areas as outlined, the Council concluded that the limits of profitable technical work conducted by the Preparatory Group had been reached and a summary of options and their ramifications could be finalised for submission to the negotiating conference. As the third Protocol of extension of the International Wheat Agreement 1971 was due to expire 30 June 1978, it would be necessary to conclude the negotiating conference not later than January/February 1978.[7.74]

To this end, the secretariat resumed the development of the main remaining problem areas — indication mechanisms and reserve stock provisions. Development of indicator mechanisms and their application began with the clarification that indicated that it is essentially the means of monitoring the market in numerical terms. A rise or fall in indicator value would therefore correspond with a respective tightening or easing of the market situation. The role which indicator mechanisms could play in a new International Wheat Agreement was also expanded beyond the trigger-action conceptualisation of the Preparatory

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[7.73] *ibid.*, p.7

[7.74] **This section has provided an overview of the discussions conducted between July and October 1976. For detailed discussions involving those issues, see "Working Relations Between Reserve Stocks and Wheat Trade Schemes", IWC, IWA (Sec.) 60, 12 August 1976; "Hypothetical operation of various trigger mechanisms," IWC, IWA (Sec.) 59, 13 August 1976; "Problems Associated With the Initial Build Up of Reserve Stocks", IWC, IWA (Sec.) 61, 19 August 1976; "Comparison of Rights and Obligations set out in Prep.(T) 10 and 11", IWC, IWA (Sec.) 60, 19 August 1976, "Problems Associated With the Initial Build-up of Reserve Stocks, Draft", IWC, IWA (Sec.) 63, 26 August 1976; "Draft Revised 'Options' Paper Section VI Consultation Provisions", IWC, IWA (Sec.) 54, 28 July 1976; "Draft Revised 'Options' Paper: Section V: Reporting Provisions, Miscellaneous Provisions, Administration, Final Provision", IWC, IWA (Sec.) 53, 28 July 1976; "A Review of Possible Elements in a New International Wheat Agreement: Redraft of Chapter on Reserve Provisions", IWC, IWA (Sec.) 65, 21 October 1976; "A Review of Possible Elements in a New International Wheat Agreement: Redraft of Part B of Prep.(T) 11 (The Integration of Stock and Price Provisions)", IWC, IWA (Sec.) 66, 22 October 1976.**

Group,[7.75] to provide useful reinforcement of subjective analysis regardless of the possible relationship to a reserve stock scheme. As the eventual content of a new agreement could not be predicted, various eventualities were explored.

Detailed studies served to advance both the theoretical and statistical application of quantitative and price indicators in the context of a new International Wheat Agreement. The reports of these studies, in combination with a detailed review of reserve stock provisions formed the basis of the negotiation document submitted by the International Wheat Council to the United Nations Wheat Conference, February, 1978.[7.76]

A significant political development in 1977 vis-à-vis the negotiations was the election in the United States of Democrat Jimmy Carter. The Carter Administration took a more favourable view of the negotiations than their predecessors. President Carter was a farmer prior to entering politics, and Robert Bergland, Secretary of Agriculture, had considerable experience in the development of agricultural stabilisation programmes.

7.5. United Nations Conference on Trade and Development: "United Nations Conference to Negotiate an International Agreement to Replace the International Wheat Agreement, 1971, as Extended": Part I

7.5.1. Introduction

The United Nations Wheat Conference, which convened in Geneva under the auspices of UNCTAD in February 1978, would merge many varied constituencies to negotiate a new

[7.75] "Indicative Mechanisms in Practice: Part One, Introduction: Quantitative Indicators", IWC, IWA (Sec.) 68, 13 January 1977. See also, "Reserve Stock Provisions in a New Agrement", Prep.(75) WP.8; "International Grain Reserves — Trigger Action", Prep.(75) WP 14; "International Grain Reserves — Price and Quantitative Trigger Mechanisms" Prep.(75) WP.15.

[7.76] "Indicator Mechanisms in Practice: Part I. Introduction and Quantitative indicators" IWA Secretariat, IWA (Sec.) 68, 13 January 1977; "Indicator Price Mechanisms in Practice: Part II. Price Indicators and Conclusions," IWA Secretariat, IWA (Sec.) 72, 16 May 1977; "A Revue of Possible Elements in a New International Wheat Agreement: Reserve Stock Provisions", IWA Secretariat, IWA (Sec.) 68 (Rev.) 21 January 1977; "A Review of Possible Elements in a New International Wheat Agreement: Reserve Stock Provisions", IWA Secretariat, IWA (Sec.) 69, 2 February 1977; "A Review of Possible Elements in a New International Wheat Agreement Third Redraft of Part A III of Prep.(T) 11 (Price Provisions)", IWA Secretariat, IWA (Sec.) 71, 9 February 1977.

International Wheat Agreement. The conference was open to all parties to the International Wheat Agreement, 1971, as extended, which through the IWO provided background documents as a basis for the negotiations, as well as all member states of UNCTAD.[7.77]

In addition, the newly-formed FAO based World Food Security Committee (WFSC) provided technical and statistical input to the conference,[7.78] and representatives of non-member governments and specialised agencies were present as observers.

The formal and unanimous adoption of the rules and agenda for the conference masked the undercurrents of differences within the representative groups. The U.S. expressed support for an agreement based on a reserve stock of 30mmt; full participation in cost sharing and some trigger mechanism formula encompassing both qualitative and price indicators.[7.79] Such an arrangement would serve its need for surplus stock regulations.

Canada, having instituted a comprehensive national program of marketing controls was reluctant to enter an agreement with firm minimum/maximum prices on the grounds that such an agreement was too easily broken.[7.80] Given variable production levels, Australia was reluctant to commit to a stock holding arrangement. It was, however, the EEC that most clearly defined what the lines of negotiation would be. In the words of Canadian delegates, "The EEC adopted a tactic of isolating the four exporters and pursuing a price type of arrangement with supplementary provisions that was strongly supported by the importers."[7.81] The EEC also declared that it was "not prepared to work on an international agreement on wheat alone — something had to be achieved for coarse grains."[7.82] The agreement was also weakened before the discussions even began, when on January 25 1978,

[7.77]Significant differences existed in the memberships of these two bodies. As detailed in Chapter 2, the IWC is a producer-consumer focus dominated by the major exporters with a predominantly commercial orientation. UNCTAD, which addresses trade and economic relations of developing countries, became increasingly unified with the emergence of the Group of 77 in 1965.

[7.78]The WFSC, which was established at the Rome 1974 World Food Conference, was dependent of the outcome of the UN Wheat Conference in the pursuit of its objectives of (a) supporting the establishment of national stock policies and (b) maintaining the supply/demand market situation. Alexander Sarvis, Philip Abbot and Lance Taylor, p.79.

[7.79]Confidential Source: From Geneva — To Extoll Feb. 28/78 "UN Wheat Conference Summary Report"

[7.80]*ibid.*, See also Robert Bothwell, Ian Drummond, John English, *Canada since 1945: Power, Politics and Provincialism* (University of Toronto Press, Toronto, 1989), pp.342–44.

[7.81]Fm. Geneva To Extoll Feb. 28, 1978, "UN Wheat Conference Summary Report"

[7.82]Confidential Source Fm. Was. D.C. UNTD 0985 March 10, 1978

China, a major importer, declared its intention not to participate in the discussions.[7.83] Despite the inevitable prejudices and problems, work on the substantive issues proceeded.

7.5.2. Overview

Following the first round of meetings on substantive issues, an evaluation was prepared which included an examination of the draft text prepared by the Executive Secretary of the IWC (TD/WHEAT.6/R.1) and the "summing up" of preparatory work by the conference Chairman. acknowledging the work of the Preparatory Group and the Conference committee, with particular reference to the work of the Economic Committee and the Sub-Commitee on Wheat, the chairman summarised the objectives of the Convention as follows.

(a) to assure supplies of wheat and wheat flour to importing members and markets for wheat and wheat flour to exporting members, especially to developing members;

(b) to contribute to the fullest extent possible to the stability of the international wheat market in the interests of both importing and exporting members, especially of developing members;

(c) to contribute to world food security, especially safeguarding the interests of developing members;

(d) to moderate extreme price fluctuations of wheat;

(e) to promote the expansion of international trade in wheat; and

(f) to encourage greater international cooperation in all aspects of the trade in wheat.[7.84]

It was generally agreed that the implementation of these objectives, particularly the objectives of greater stability in the world market and world food security, would be furthered by the establishment of an international stock policy resulting from the coordinated management of national reserve stocks which would be adequate to rescue excessive price

[7.83] Confidential source: Memo to file — John Dingwell, "Wheat Conference — Food Aid Conventions, Interdepartmental Meeting" Feb. 9, 1978

[7.84] "Preparation of an International Arrangement to Replace the International Wheat Agreement, 1971, as Extended: Summing up by the Chairman" UNCTAD, TD/WHEAT.6/EX.R.5, 22 March 1978, pp.1–2.

fluctuations. A major problem remained in determining the nature and definition of the range within which these fluctuation should be contained or moderated.[7.85] Despite the differences, there appeared to be agreement as to the need for members to undertake joint reserve stock actions at specified price action points and in extreme price or market situations to take corrective actions.[7.86]

In order to implement a reserve stock undertaking, members were requested to convey to the Conference the existing arrangements within their systems which would enable them to fulfil their reserve stock obligations under a new agreement. In order to fulfil the market stabilisation function, and based on past production variations, 30mmt was considered to be an optimal total size for a reserve. A range of 12–15mmt was also tabled; however, based on previous studies, such a reserve would have questionable value in terms of market stabilisation.[7.87]

With regard to reserve stock action, agreement appeared achievable if the reserve stock action based on price indicator movements followed certain lines:

(a) At the first falling, or rising, price action points, consultations within the Market Review Committee would assess the current and prospective market situation.

(b) At the second falling price action point, the question remains as to whether the accumulation of reserve stocks should be automatic of subject to agreement.

(c) At the second rising price action point, the release of stocks should give priority to the requirements of developing members, however, the question of whether stock release should be exclusively for the benefit of importing members remained unresolved.[7.88]

Measures to be taken in extreme price situations remained a contentious issue with importing countries attaching as much importance to assurances of supply as exporting countries did to the question of assurances of markets.

[7.85] *ibid.*, p.2. The U.S. maintained that "the objectives should be met through reserve stock actions and other measures affecting availability of supplies". The EEC wanted price triggers.

[7.86] *ibid.*

[7.87] *ibid.*. See also Alexander Sarris, Philip Abbott and Lance Taylor, p.7.7

[7.88] *ibid.*, p.3

On the recommendation of the Economic Committee on Wheat, the members agreed that developing countries should receive assistance from reserve stocks enabling them to fulfil their obligations under a new agreement.[7.89] Conference reports regarding the Food Aid Convention, Economic Committee on Coarse Grains and the Administrative Committee would be reviewed separately.

7.5.3. Food Aid Committee

The Food Aid Committee was established by the Executive Committee on 16 February with the objective of carrying out an international food aid programme "ensuring the availability of not less than 10mmt of wheat and other grains suitable for human consumption annually to developing countries."[7.90] The work of the Food Aid Committee proved to be the least contentious of all the committees, and by late March the Draft Food Aid Convention, 1978 was in place. The Convention to a large extent followed the structure and provisions of previous food aid conventions, and differed mainly in the size of the undertaking. The newly elected Carter Administration in the United States supported an increase in the total food aid commitment from 4mmt to 10mmt[7.91] During the final sessions of the Food Aid Committee in March, the U.S. announced its intention to double its commitment to 4.47mmt under the new FAC and also called for additional provisions for emergency relief.[7.92] The provisions of the Draft Food Aid Convention were formalised and with the exception of the allocation of the minimum annual contributions of members it proceeded without difficulties to the final draft. [7.93] The outstanding issue regarding contribution allocation was also largely resolved in the final draft Food Aid Convention as transmitted by the Food Aid Committee for its consideration. The formula agreed on was as follows:

[7.89] *ibid.*, p.3

[7.90] "Preparation of an International Agreement to Replace the International Wheat Agreement, 1971, as Extended: report of the Food Aid Committee", UNCTAD, TD/WHEAT.6/EX/R.2, 21 March 1978, p.2

[7.91] Confidential Source, "Record of Technical Meeting of Wheat Exporting Countries", Washington, February 1, 1978.

[7.92] Confidential Source, Fm. Geneva to ExtOtt, March 3, 1978, YTA G0805.

[7.93] "Preparation of an International Arrangement to Replace the International Wheat Agreement, 1971 as Extended: Draft Food Aid Convention" UNCTAD, TD/WHEAT.6/R.4, 26 October, 1978. p.8

Member	Metric Tons
Argentina	35,000
Australia	400,000
Austria*	
Canada	750,000
EEC	1,650,000
Finland	19,000
Japan	300,000
Norway	300,000
Sweden	40,000
Switzerland	32,000
US	4,470,000

* Austria reserved its commitment until the Austrian Government had taken a final decision.[7.94]

The convention also provided for the establishment of a Food Aid Committee which was to meet at least twice a year in conjunction with the statutory sessions of the IWC in order to:

(a) receive regular reports from members on the amount, content, channelling and terms of their contribution under the Convention;

(b) keep under review the purchase of grains financed by cash contributions with particular reference to the obligation in paragraph [(8)] of Article III concerning purchases of grain from developing [member] countries;

(c) examine the way in which the obligations undertaken under this conventions have been fulfilled;

(d) exchange information on a regular basis on the functioning of the food aid arrangement under this Convention, in particular where information is available, on its effects on food production in recipient countries.[7.95]

The Food Aid Committee was also to evaluate situations in which low income developing countries experience substantial feedgrain production shortfalls and make recommendations to members for increased food aid allotments.

[7.94] ibid., p.11
[7.95] *ibid.*

7.5.4. Coarse Grains

The inclusion of a separate convention on coarse grains within a new International Wheat Agreement was unforeseen during the preparatory stage of the deliberations. Although coarse grains were always considered to be an integral part of a new agreement, the issue received a new prominence at the insistence of the EEC. Meeting in Washington, the U.S. and EEC aired their differences on a bilateral basis. The EEC minister laid out his terms to United States Secretary of Agriculture Robert Bergland. Given the interdependence of wheat and coarse grains in the EEC domestic market and given the relationship of domestic prices with international prices, a separate but similar convention on coarse grains would be the only technique available for dealing with the market as a whole. A comprehensive agreement on coarse grains was to be the precondition of the participation of the EEC in a wheat arrangement.[7.96]

The EEC was, however, willing to consider a stocking arrangement as a price stabilisation technique. As the EEC was clearly resolute in its determination to institute a convention for coarse grains, the U.S. pushed strongly for improved access to the EEC coarse grains market. U.S. officials insisted that the U.S. Senate would never agree to an agreement on coarse grains in the absence of improved access to the EEC market.[7.97] Carroll Gunderlach reiterated that the EEC had "a political need for coarse grains to be included in an international stabilisation arrangement and an inability, again for political reasons, to contemplate improved access for coarse grains."[7.98]

The options open at the conclusions of this meeting included: the Fourth Extension of the Wheat Trade Convention and Food Aid Conventions which were set to expire on June 30th, 1978; to schedule additional bilateral meetings; and to reconvene the Conference as a whole. The IWA Conference chair chose the third option and established an Interim Committee to draft the text of a new international arrangement before the Conference

[7.96] Confidential Source, "Bergland/Gunderlach Discussions: IWC" Fm. Wash. DC, To Extoll ECW, UNTD0999, March 13, 1978.

[7.97] *ibid.*

[7.98] *ibid.*

would reconvene in September 1978. [7.99] Thus, although meetings regarding coarse grains were held within the context of the Conference, little substantial progress was made pending the outcome of the bilateral meetings. [7.100]

7.6. United Nations Conference on Trade and Development: "United Nations Conference to Negotiate an International Agreement to Replace the International Wheat Agreement, 1971, as Extended: Part II

The International Wheat Conference was reconvened in Geneva on 6th November 1978 in light of changing market conditions and changing negotiating positions on the part of the major actors. The Interim Committee initiated examinations relating to the production, utilisation and stocking of feedgrains as members moved slowly toward the acceptance of an agreement that would include coarse grains. Bilateral meetings also continued, as the priorities and problems of the Conference moved away from the question of reserves to the inclusion of a Coarse Grain Trade Convention. The most difficult point relating to grain reserves was the Australian insistence that it be allowed to use reserve stocks for commercial purposes. As the Australian position hardened, the U.S. Undersecretary who responded in exasperation that "perhaps there was the need for another period of low prices, and later shortages to convince some LDC's and Australia that an agreement would be in their interests."[7.101] By late September, the important remaining difficulties were price indicator levels and the question of Australian reserve utilisation.

Perhaps more potentially damaging to the negotiations was the shifting in the political will of the major exporters to conclude a successful agreement.[7.102] In this regard, the

[7.99] "Preparation of an International Arrangement to Replace the International Wheat Agreement, 1971, as Extended: Draft Resolution Submitted by the Chairman", UNCTAD, TD/WHEAT.6/L.3, 22 March 1978. The Interim Committee consisted of: Argentina, Australia, Brazil, Canada, Egypt, EEC, Finland, India, Japan, Kenya, U.S.S.R. and U.S.

[7.100] "Preparation of an International Arrangement to Replace the International Wheat Agreement, 1971, as Extended: Report of the Economic Committee of Coarse Grains", UNCTAD, TD/WHEAT.6/R.4, 22 March 1978.

[7.101] Confidential Source, "IWA Interim Committee", Fm. GVMTN To Extott, YTGR4411, July 13, 1978.

[7.102] Confidential source: "Wheat Discussions — Meeting between Canadian and American Senators", To Hon. Otto Lang, Minister Responsible for Canadian Wheat Board, from W. Miner, Coordinator, Grain

Canadian Minister of Agriculture, Eugene Whelan, expressed interest in pursuing the idea of a "wheat cartel" as raised in a meeting with U.S. Senators McGovern, Dole and Bellman. In response, Prime Minister Pierre Trudeau "wrote to Mr. Whelan instructing him not to pursue this idea since it was not in accord with government policy."[7.103]

The official statement regarding the cartel proposal was that the "Senators' proposals are intended to provide an impetus to the slow moving IWA negotiations by showing a willingness to act outside of the agreement.'[7.104] In addition to the political obstacles to an agreement, the softening of the international grain market in late 1978 also inhibited the negotiations.

Nonetheless, the conference committees and delegates continued to search for common ground to bring about a new agreement. To this end, a Draft Coarse Grain Trade Convention, and a Draft Wheat Trade Convention were tabled at the November 6 meeting.[7.105] The Draft Coarse Grain Trade Convention was very nearly a mirror image of the Draft Wheat Trade Convention and, having established the necessity of including a comprehensive plan for the treatment of coarse grains within the agreement, progress was swift.

During the course of the November meetings, agreement was reached on many of the outstanding issues relating primarily to the Economic Provisions of both the Draft Wheat Trade Convention and the Draft Coarse Grain Trade Convention. Revised documents relating to: Draft Wheat Trade Convention: Economic Provisions; a Draft Wheat Trade Convention: Administrative and Final Provisions and a Draft International Wheat Trade Convention: Chapter Three — Special Provisions Relating to Developing Members were forwarded to the Executive Committee for consideration.[7.106]

Group. In discussing the workability of a "wheat cartel" the Senators agreed that the 'four' exporters should "cooperate and manage their supplies to ensure that the market returns were at least the cost of production".

[7.103] Confidential source: "Wheat Cartel Proposal" To Under Secretary, From Commodity and Energy Policy Division, ECW-2306, October 5, 1978.

[7.104] ***ibid.***

[7.105] "Preparation of an International Agreement: Draft Coarse Grain Trade Convention", UNCTAD, TD/WHEAT.6/R.3, 26 October 1978 and "Preparation of an International Agreement: Draft Wheat Trade Convention", UNCTAD, TD/WHEAT.6/R.2.Add.1, 26 October 1978.

[7.106] "Preparation of an International Arrangement: Draft Wheat Trade Convention: Economic Provisions", UNCTAD, TD/WHEAT.6/EX/R.7, 22 November 1978; "Preparation of an International Arrangement: Draft Wheat Trade Convention: Administration and Final Provisions", UNCTAD, TD/WHEAT.6/EX/R.8/Add.1, 29 November 1978; and "Preparation of an International Arrangement:

Despite the considerable progress in the development of the various conventions, four problem areas remained: the price indicator level for stock accumulation; the Australian stock obligation relief; reserve stock levels and food aid donation levels.[7.107] On 24 November 1978, the Conference Chairman, while acknowledging the important progress that had been made, noted that further consultations were needed to reach a definitive agreement. The work of the Conference was therefore suspended and the Interim Committee recommended to consider the relevant factors with a view to the resumption of the Conference.[7.108]

The suspension of the Conference received mixed reactions. The emerging conditions of surplus world stocks had taken the urgency out of the negotiations, however, talks between Tomas Saylor, head of the U.S. negotiating team and Claude Villain, head of the EEC delegation continued. The Canadian Department of External Affairs records show that such an informal meeting took place between Mr. Saylor and Mr. Villain on December 8th 1978 at which price levels were agreed upon. On December 12th, U.S. Undersecretary Hathaway called William Miner, head of the Canadian delegation "to see if Canada could live with the informal outcome of the talks".[7.109]

7.7. United Nations Conference on Trade and Development: "United Nations Conference to Negotiate an International Agreement to Replace the International Wheat Agreement, 1971, as Extended: Part III

However positive the outcome of the informal discussions, they were both fleeting and very private. When the Conference reconvened on 22nd January, the differences remained. A significant change in the U.S. position was evident, as one Canadian delegate noted: "For the first time in more than a decade, the U.S. is strongly supporting [as opposed to simply supporting] a new wheat agreement".[7.110] The meetings progressed, and by the final week,

Draft International Wheat Trade Convention: Chapter Three — Special Provisions Relating to Developing Countries", UNCTAD, TD/WHEAT.6/EX/R.10, 28 December 1978.

[7.107] Fm. Wash. DC To Extott, ECB, UNTO4859 November 10, 1978

[7.108] "Preparation of an International Agreement: Draft Resolution submitted by the Chairman", UNCTAD, TD/WHEAT.6/L.4, 24 November 1978.

[7.109] Confidential Source: File 37–15–Wheat–Vol.31, 78-09. 01-31.1-79

[7.110] Confidential Source: "Resumed Wheat Conference: Canadian Position", January 11, 1979, File 37-15-Wheat Vol.31

a number of draft conventions were submitted to the Contact Group of the Chairman of the Conference for further consideration. These included: Draft Wheat Trade Convention: Economic Provisions, Addendum; Draft Coarse Grains Trade Convention; and the Draft World Wheat Trade Convention: Administration and Final Provisions. [7.111]

In summarising the status of the negotiations, the Conference Chairman noted that as of 8 February 1979, reserve stock commitments totalled 18 to 19 mmt, with the possibility of further build ups in the future. Despite intensive efforts to reconcile positions on price level action points, a compromise was still not achieved. A new proposal which would subject the second falling price point to transitional arrangements for the first year of operation was being explored. Another provision that required additional discussions related to the price level at which developing countries would accumulate stocks. A $10 differential remained between the proposed price and the price developing countries were willing to accept. Although the second rising price point also remained unresolved, agreement had been reached on most other substantive issues. In concluding his report, the Chairman declared that "a compromise was clearly possible, and that reconciliation of positions on stocks and price levels at various action points remained". As the conference was approaching its final stage he urged delegates to "demonstrate their political will to reach an agreement."[7.112]

7.8. The Breakdown

The UNCTAD Conference had achieved a remarkable degree of success in reaching agreement on the technical aspects of a new International Wheat Agreement. It was, however, a meeting of the Organisation for Economic Cooperation and Development (OECD) in Paris in early 1979 that led to the adjournment of the Conference. Private interviews with the U.S. Secretary of Agriculture, Robert Bergland, and the Undersecretary of Agriculture

[7.111] "Preparation of an International Arrangement: Draft Wheat Trade Convention: Economic Provisions, Addendum', UNCTAD, TD.WHEAT.6/EX/R.11/Add.1, 7 February 1979; "Preparation of an International Arrangement: Draft Coarse Grains Trade Convention", UNCTAD, TD/WHEAT.6/EX/R.13, 9 February 1979; and "Preparation of an International Arrangement: Draft World Wheat Trade Convention: Administration and Final Provisions", UNCTAD, TD/Wheat.6/EX/R.14. These draft conventions were largely complete, with only a few remaining unresolved articles.

[7.112] This summary was taken from "Preparation of an International Agreement: Draft Wheat Trade Convention: Chairman's Contact group, Status of the Negotiations. Notes by the Chairman", UNCTAD, TD/WHEAT.6/EX/R.12, 8 February 1979.

for International Affairs and Commodity Programmes (1979–81) Dale Hathaway revealed that the decision to terminate the UNCTAD conference was taken at the OECD meeting. Robert Bergland described the meetings as an attempt to reach political consensus before concluding the technical discussions. He said that he left the Paris meetings convinced that an agreement in principle had been reached. He added that he thought in the end the French had scuttled it.[7.113] Mr. Hathaway was able to be more specific about the end of the negotiations. He described an evening in which, after a long session without making much progress, delegates adjourned and agreed to meet at midnight again. The heads of the delegations convened for dinner, and at the dinner, Claude Villain, head of the EEC delegation asked Mr. Hathaway if the U.S. Administration would survive politically if no agreement was reached. Mr. Hathaway replied that it would. Mr. Villain said "Good, then you have no agreement".[7.114]

The next day, the Chairman of the UNCTAD adjourned the Conference, requested that the IWC extend the Wheat Trade Convention, 1971; requested that the Food Aid Committee extend the Food Aid Convention, 1971 in light of the work accomplished at the Conference; instructed the Secretariat of the conference, in consultation with the IWC to prepare a summary of the present status of the work of the Conference, with a view to the resumption of the negotiations and requested that the IWC, once satisfied that the necessary conditions exist for a resumption of the negotiations, recomended that the Secretary general of UNCTAD fix a date for reconvening the Conference.[7.115] The conference was not reconvened.

The failure to reconvene the conference meant that Claude Villain of France was correct that there would be no international wheat agreement. In the 1980's there were periodic attempts by some to revive the momentum of the 1970's, but circumstances were different and the enormous grain surpluses of the period together with the free market orientation of

[7.113] Private Interview: Mr. Robert Bergland, U.S. Undersecretary of Agriculture (1977–81) Washington, 19 August, 1992

[7.114] Private Interview: Mr. Dale Hathaway, Undersecretary of Agriculture for International Affairs and Commodity Programmes (1977–81), Washington, 21 August, 1992.

[7.115] "Preparation of an International Arrangement: Draft Decision submitted by the Chairman of the Conference", UNCTAD, TD/WHEAT.6/L.8, 14 February, 1979.

the American and other Western governments made the notion of an international reserve agreement impossible.

The preceding case study has illuminated several important aspects of the international wheat trade and, indeed, international political economy of the 1970's. In the case of the wheat trade, one sees immediately the fundamental shifts that occurred after the collapse of the International Wheat Agreement in 1968 and the end of the Canadian–American duopoly which, in effect, acted to maintain stability in the mmarket through the maintenance of reserve stocks. The full extent of these changes became evident only at the end of the 1970's; policymakers during that decade continued to act upon assumptions which in some cases derived from earlier periods. Nevertheless, the "shocks" of the decade, ranging from the sudden changes in United States economic policy in the early 1970's to the OPEC crisis following in 1973, and the almost simultaneous "World Food Crisis", seemingly shattered many of the bases upon which policy had been made in earlier decades. We see the influence of these events in the negotiations described above. They were also seen in domestic and international politics.

In describing this period, Daniel Yergin, the historian of the energy crisis, noted how the quadrupling of oil prices created by the Arab embargo and the exporters' surprising success in setting oil prices dramatically affected western economies and western assumptions:

> For the developed countries of the industrial West, the sudden hike in oil prices brought profound dislocations. The oil rents flooding into the treasuries of the exporters added up to a huge withdrawal of their purchasing power — what became known as the "OPEC Tax". The imposition of this "tax" sent the industrial countries into deep recession. The U.S. gross national product plunged 6% between 1973 and 1975, while unemployment doubled to 9%. Japan's GNP declined in 1974 for the first time since the end of World War II. As the Japanese worried that their economic miracle might be over, sobered students in Tokyo stopped chanting "Goddamn GNP" at demonstrations and instead found new virtue in hard work and the promise of lifetime employment. At the same time, the price increases delivered a powerful inflationary shock to economies in which inflationary forces had already taken hold. While economic growth resumed in 1976 in the industrial world, inflation had become so embedded in the fabric of the West that it came to be seen as the intractable problem of the modern age.[7.116]

[7.116] Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, and Power*, (New York, Touchstone: 1991), p.635

These seemingly fundamental changes around the negotiations for an international reserve swirled. What, then, are the most striking characteristics of the negotiations and what does each reveal?

1 The so-called developing countries played a much more significant part in the negotiations than they had in earlier or, for that matter , later periods. UNCTAD in which they had considerably more influence than in the GATT was central to the wheat reserve negotiations. It is evident throughout the negotiations that the success of the OPEC cartel deeply influenced the understanding of international political economy on the part of all of the principal actors. Moreover, the OPEC cartel and the food crisis seemed to combine to create a greater sense of interdependence. The first Secretary-General of UNCTAD, the economist Raul Prebisch, had argued at UNCTAD I and II that, over the long term developing countries' position had deteriorated relative to that of developed countries because of a long-range trend towards a deteriorating trade position for commodity producers. Developed countries could protect their primary producers through subsidies and did so, but developing countries could not. To prevent this deterioration, Prebisch saw two sets of convergent measures commodity agreements and compensatory financing, but first, he declared, must come the political decision to recognise that deterioration was harmful to all. Then came the oil and food crises. "All of a sudden," one observer recalled, "the world was full of talk of producers' cartels."[7.117]

2 Wheat was a commodity where the developed world was the major producer, and, unlike oil, sugar, cocoa and coffee, it was the developed nations that took the lead in reacting to the new understanding of the possibility of commodity agreements. In doing this, the leading producers were careful to avoid talk of cartels because at the same time they were attacking the cartelisation that was occuring in the case of oil and that was so deeply affecting their own economic systems. Furthermore, there was a sense that the developing world was changing dramatically and that

[7.117] Marcelo Raffaelli, *Rise and Demise of Commodity Agreements*, (Cambridge, England, Woodhead: 1995) the West had to cooperate rather than dominate its former dependencies. These considerations were, of course, much enhanced by the Cold War rivalries of the time. There was, too, a sense of fairness on the part of some western leaders. Prime Minister Trudeau of Canada, as we have seen, refused to countenance his agriculture minister's suggestion that there should be a grain cartel because of its implications for poorer countries. Jimmy Carter had a similar sense of international obligation that was to be lacking in future American presidents.

3 Despite these humanitarian sentiments, domestic political concerns were also significant. In these negotiations, the search for stability on the part of the major producers was strongly present, especially in the case of the North Americans. They were more insistent than the Australians, for example, and certainly more desirous of returning to earlier times than the Europeans. This attitude is hardly surprising since the Europeans had only just become a major grain exporter, and their domestic agricultural problems meant that international solutions requiring a revision of the CAP were exceedingly difficult to implement because the CAP was probably the most important glue holding the EEC together. The controversy over coarse grains, the inclusion of coarse grain in an agreement, revealed the significance of the new export thrust of European agriculture policy and to a larger extent provided an insight into future developments.

4 Finally and most importantly, it must be recognised that it was not the technical barriers that held back the creation of an international grain reserve or a new substantive International Wheat Agreement. Indeed, all of the major actors agreed in 1978 that the technical obstacles were minimal. Most also recognised the economic advantages of an efficiently operating reserve system. What led to failure were two major factors: domestic political influences, notably in the case of the EEC; and changing perceptions of international political economy or, more fundamentally, of the interdependence of continents and peoples. By the end of the 1970's, free market orientations were reasserting themselves in domestic politics and in international

the interdependence of continents and peoples. By the end of the 1970's, free market orientations were reasserting themselves in domestic politics and in international agencies. The Carter administration was in its last stages soon to be replaced by a Republican administration which distrusted international agreements, agencies, and actors. The 1970's paradigms shifted quite dramatically and international agencies administrating market allocation schemes were no longer acceptable to the Americans, the British, and many others. In the 1980's, a period of enormous surpluses and subsidies in the grain trade, many came to see that opportunities had been lost earlier, but it seemed impossible to go back to where the world had been in Geneva in 1978.

Chapter 8

Conclusion

The proposal to establish an international grain reserve represented an attempt by the international community to establish a mechanism that would provide a degree of stability to the grain market, in terms of both supply and prices in the wake of the world food crisis of the mid 1970's.The crisis had illuminated the vulnerability of consumers world-wide to the extreme volatility of the international grain market. Western consumer groups campaigned for regulations to control food price inflation; however, it was the poorest developing countries that were particularly hard hit. With food aid commitments drastically reduced and remaining allocations furthering foreign policy objectives, essential but costly, food imports exacerbated the spiralling debt load of many of the poorest developing countries.

The combination of domestic and international pressure culminated in the World Food Conference of 1974 and the subsequent negotiations in 1978-79 which sought to address the needs of those seeking stabilisation. During the course of these talks, however, ever increasing pressure was exerted by powerful constituencies within and between the major grain exporting countries whose interests would not be served by government regulation. In looking back on the negotiations those involved concur that once the talks had been adjourned, there would be no return to the bargaining table. Changes in market trends, political alliances and leadership had destroyed the foundations upon which the attempt to establish an international grain reserve had been based. The adjournment marked the end of an era of international collaboration in food security and market stabilisation and the beginning of a new era in the international grain trade characterised by cutthroat competition, unprecedented government intervention and trade wars.

The thesis has focused on the period 1920–1990 during which time the world wheat trade has suffered many convulsions and fundamental changes. Nevertheless, the nature of the commodity has remained largely constant throughout the period. In terms of the international trade in grain, the question of balancing production levels with consumption demands has been central. That there have been few moments when an effective balance has been reached reflects the sensitivity of the "thinly-traded" market. In addition, the dependence of agricultural production on weather and other biological variables precludes any reliable long-term predictions regarding crop yields. Because the removal or addition of so little grain can so greatly affect price and markets, both states and market actors have tended to treat wheat as a special case. Thus, Canada and Australia moved early to intervene with the establishment of wheat boards. In the United States, the Henningson documents clearly reveal how American agricultural policy-makers regarded wheat as a particular commodity meriting exceptional treatment. Wars and the worldwide depression heightened this perception of the exceptionality of grain in overall economic planning.

Not surprisingly, in this century, grain assumed a deliberate political status as food was often used, if not as a weapon, then as a subject of political interventions to achieve one or all three of the following objectives:

1. the expansion of agricultural production and the maintenance of domestic farm income;
2. the maximisation of international market share; and
3. the achievement of foreign policy objectives.

Political intervention by states has been shown to have been the key to the development of the grain industry on the part of the five major exporters. The grain trading companies, for their part, sought confidentiality and wherever possible, influenced the development of the industry indirectly. That the influence was enormous becomes clear as the history of the grain crisis of the 1970's has indicated. Dan Morgan's *Merchants of Grain* judged that the role of the companies had been central in the grain shortages that developed in the early 1970's. It had a great influence, especially in his suggestion that the companies may have benefitted from the instability of the trade whereas consumers, importing nations, and, usually, producing nations often paid a considerable price. More recent studies offer mixed views. Michael Atkin in his 1995 study of the intenational grain trade concluded that the competetive tension between the companies limits the influence of companies on

The period between 1920 and 1960 might best *be described as "the search for stability"*. The impact of the depression, World Wars I and II, and the Cold War made food security a goal widely shared. The first attempts at an international wheat agreement sought to obtain stability for both producing and consuming nations. After World War II as Western policymakers created the new multilateral institutions, negoiators from exporting and importing countries signed an international wheat agreement that brought more stability in terms of prices and supply to the world the grain market then had been previously known in the twentieth century. In this respect the role of the United States was central.

Despite a history marked by extraordinary vulnerability, rapid growth, sudden stagnation, and intense political disruptions, the United States emerged as the major actor, and a catalytic one in the international grain trade and, later, in food aid. The Berton Hennigson material revealed clearly that the U.S. policymakers in framing U.S. agricultural policies in the 1940's and early 1950's were committed to the notion of the exceptionality of agriculture within the emerging world trade system. Depression and war had left the sense that stability in the prices of essential commodities was desirable and that a free trade orientation can not apply in agriculture where adjustments to market changes are slow and the threat of climate changes and infestation make output management impossible. Exceptionality of agriculture became a cornerstone of the policy formulation of the five exporters who, among them accounted for, roughly, one-third of global wheat production and 90% of global trade. The importance of the United States hegemony as a stabilising force, particularly in the period 1950–1968 was considerable. In periods of extreme market fluctuations the U.S. responded to the needs of domestic producers as well as international pressures through domestic adjustment programmes and through the initiation of international planning mechanisms.

But the Americans brought instability as well. In 1968 the Intenational Wheat Agreement collapsed, and it is clear that the other exporters largely blamed the U.S. for the ensuing instability. At this time, the middle powers — Canada, Australia and Argentina — played a particularly significant role.

As was indicated above, they tried to save the International Wheat Agreement in the 1960's and acted together to resist the increasing tendency towards independent action by the United States, and the trend towards subsidisation (notably by the European Community). The middle powers adjusted to the changes in United States and European Community policies with difficulty. They developed a number of common difficulties which included; lower market share (especially for the Canadians who had at one time formed a duopoly with the Americans in maintaining reserves and thus providing stability); limited resources to provide subsidisation (especially for the Argentians who in fact used grain to subsidise the urban working class); and a sense that the rules–based regime of the postwar era was disappearing.

This set of circumstances set the stage for the discussions about the establishment of an international grain reserve in response to the most serious food crisis since postwar reconstruction. This thesis has provided considerable new information and insights about these negotiations. What we learned is that the U.S. paramountcy remained. Nevertheless, it is also clear that American interests were perceived differently at different times. Bureaucratic politics, domestic politics, and broader foreign policy objectives were all evident. The United States, more than other national actors, is subject to the competing pressures of various domestic and foreign pressures. The Kissinger initiative to convene the World Food Conference in Rome in 1974 while inconsistent with the international trade policy orientation of the Administration was clearly a quick and personal response to such competing domestic and international pressures. Private interviews done for this thesis have confirmed that U.S. Secretary of State Henry Kissinger took this initiative without the knowledge of either his staff or, most significantly, Secretary of Agriculture Earl Butz. The relevant international organisation, the FAO, was only informed after the fact that they would host the meeting that Kissinger had publicly announced.

The negotiations and their failure illuminate the character of the international grain trade while illustrating how decisive the period was for that trade. The preceding chapters reveal several salient themes:

1 The major grain exporting countries in their private discussions came to realise that an international grain reserve was technically possible and that it could contribute

to stability in grain prices and, most likely, to international food security. The IWC, United States, and Canadian documents are in accord in this respect.

2 In the case of a buffer stock arrangement, both producers and consumers at various times recognised that they would benefit from participation. Nevertheless, the competition between developed country producer interests and domestic political pressures, on the one hand, and the need for a stable and fair price for importers whether they be developed or developing countries deeply influenced the negotiations. In a recent study of the history of commodity agreements, Marcelo Raffaelli notes that "To perform well, an international stabilization scheme should have as objectives both to iron out short-term price fluctuations and to reach a long-term balance between increased supply and demand". This latter goal proved difficult as producers rushed to increase supply to take advantage of higher prices and gain market share.[8.4]

3 In the case of the United States, the aggressive search for new markets was a major source of the shortages which brought on the dramatic increase in price in 1973–74. Foreign policy interests first shaped the response that led to the World Food Conference of 1974. At a time when discussions of a new world economic order were common and when OPEC was revealing astonishing durability with extraordinary effects on the world economic system, the United States leadership, through Kissinger, responded. It will be recalled that confidence in American leadership was badly shaken not only by external forces but most notably by Watergate. It was Henry Kissinger not Earl Butz or Republican market enthusiasts who set the agenda in that time of crisis. Later, the arrival of Democrat Robert Bergland brought views on international agriculture, which echoed, in many ways, those of Henry Wallace and the New Deal when the need to achieve stability and security were deemed of great importance. Their election in 1976 gave the Americans a new impetus to push for an international buffer stock arrangement. The return of the Republican

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[8.4] Marcelo Raffaelli, *Rise and Demise of Commodity Agreements* (Cambridge, England, Woodhead: 1995), p.223.

administration in 1980 introduced a sceptical eye towards interference with the free market and towards plans to help the "South". There was, it was often said, a paradigm shift between the 1970's and 1980's.

4 The 1970's had begun with the publication of the World Bank's *Partners in Development*, commissioned by Robert McNamara, and which called for a major commitment to improve the lot of the world's developing countries. The spirit of that report and along with many others as the cold war rivalries, then at their height in the aftermath of the Vietnam war, made developing countries matter more than they had before or would in the 1980's.[8.5] The paradigm of a "global commons" was reflected in the comments of many leaders at the World Food Conference, even those leaders who were identified as conservatives. Humanitarian motives were strongly expressed and did influence the proposals put forward for an international reserve scheme. Certainly the documents reflect these motives. Recall, for example, the private comment of Canadian Prime Minister Trudeau to his agriculture minister who sought to take advantage of the wheat shortages to create a cartel that would boost prices. Such a policy, he claimed, did not reflect Canada's views.

5 The views of the European Community, as it then was, undoubtedly also reflected humanitarian sentiments. Nevertheless, the fact that France was the granary of Europe and that agricultural policy was fundamental to the unity of the Community meant that, on agricultural matters, France's voice was a loud one. In this thesis, the rise of a significant regional trading bloc is seen to have had an enormous impact on the international grain trade. The "domestic" requirements of the trading bloc transformed the international grain market. In the 1960's, the other major actors recognised the transformation that was occurring. The Americans tried in the late 1960's to insist on liberalising markets through the GATT in an attempt to prevent

[8.5] *Partners in development: Report of the Commission on Internatioanl Development*, (New York, Praeger: 1969). The report did call for buffer stock arrangements for commodities to assure stability. It had an impact on UNCTAD talks in the 1970's and numerous arrangements were made for certain commodities on which developing countries were highly dependent. A description of these can be found in Raffaelli, passim.

European subsidisation from proceeding. An offer to freeze subsidies by the Europeans was then rejected by the United States. It was, Michael Atkin observes, a fateful decision: "nearly 30 years later, it is easy to see that the E.C.'s offer should have been grabbed with both hands, but the opportunity was lost".[8.6]

6 International agencies during this period seemed to play a declining role. UNCTAD, FAO, the IWC, and various other food agencies participated to some extent in discussions and negotiations, but the states and companies remained the principal actors. A recent article commenting on UN reform refers to contemporary scholarship which points to the evolution of new forms of multilateral cooperation which "has outflanked the activities of the traditional global intergovernmental institutions because those institutions are either defective, inefficient, ineffective and largely irrelevant, or a combination of all of the above".[8.7] This process is evident in the case of wheat as the central postwar agency, the IWC, moves more towards the sidelines and becomes much less significant in multilateral cooperation in wheat.

7 Finally, the creation of the powerful E.C. with its CAP that subsidised producers heavily and the response of the United States with policies that supported its producers, made the other major producers — developed middle powers — seek to influence the process by the creation of the Cairns Group. The Cairns Group of Fair Trading Nations was formed at Cairns, Australia in 1986 in order to facilitate major reform in international agricultural trade. In a comprehensive review of the evolving role of middle powers in contemporary international relations, authors Cooper, Higgott and Nossal have examined the role and strategic importance of this diverse group, particularly in relation to the catalytic role in the Uruguay Round. Their findings indicate that the combined strength of the Cairns Group provided "a genuine alternative middle ground upon which the major actors could meet.[8.8]

[8.6] Atkins, *The International Grain Trade*, pp.25-26

[8.7] W. Andy Knight, "Beyond the UN System: Critical Perspectives on Global Governance and Multilateeal Evolution", *Global Governance* (May–Aug.1995), p.240

[8.8] Andrew F. Cooper, Richard A. Higgott and Kim Richard Nossal, *Relocating Middle Powers* p.175

This thesis has described an attempt to find a solution to the age old problem of international food security. The initiative failed because numerous conditions that had permitted stability and security in the grain trade in the immediate postwar era collapsed in the late 1960's and early 1970's. In this respect, the situation in wheat parallels what happened with the Bretton Woods system more generally. The fears of the 1970's negotiators have proven to be well-founded. In a 1995 speech after the conclusion of the Uruguay Round and the formation of the WTO, H.W. Singer raised the prospect of the "quasi-regime" in food would be unable to deal with new factors that impinge upon global food security. He worries that developing countries may become more dependent on food aid which preempts their own production while *food trade with* higher prices will result in more dependence on such aid. Moreover, the U.S. and the EU may no longer be able to raise yields; environmental degredation may prevent further use of fertilisers and pesticides; and China and the "Tigers" may need major food imports. Singer warns:

> "It is quite possible that the initial rise in food prices predicted by the models will provide incentives to step up food production in the deficit countries and counteact incentives to reduce production in the surplus countries. But this will involve long-run adjustments. These may take longer than we can afford to wait. Since we are dealing with food, Keynes' statement that 'in the long run we are all dead' may be literally true. It is as well to be prepared and to take the warning signals of the Uruguay Round seriously."[8.9]

Since the collapse of the Grain Reserve negotiations in the late 1970's, the world has limped through massive surpluses, looming shortages, huge subsidies, and general inefficiency in the area of grain. Security and stability of supply remain elusive goals. *The Economist* recently pointed to what recent decades have wrought despite freedom from hunger campaigns and commitments made to eradicate starvation:

> "The UN reckons that more than 700m people in poor countries are chronically undernourished. In 1993, 10-12m children aged under five died from malnutrition and related illnesses. They are victims not so much of food scarcity as of poverty".

The task remains large, the prospect of challenges similar to those faced a generation ago looms, and the frustrations of producers and consumers remain. Small wonder that one

[8.9] H.W. Singer, "The Future of Food Trade and Food Aid in a Liberalizing Global Economy", Paper presented at Brown Univesity at 8th Annual Hunger Research Briefing and Exchange, 1985.

of the chief negotiators, a man from a developing country working for the FAO, wept when he recalled the lost opportunity in 1979.