

# Food aid or hidden dumping?

## Separating wheat from chaff

In a world prone to natural and human disasters, where 850 million people still suffer from hunger, food aid can sometimes be a crucial lifeline. However, food aid has also been used for less noble aims, including to dump surplus production and promote donor country exports. This type of food aid hurts poor farmers and distorts international trade. Strong disciplines against abuse of food aid must be agreed as part of the Doha Round negotiations at the World Trade Organisation.

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## Summary

While more than 850 million people suffer chronic malnutrition, many food aid resources are wasted due to inefficiencies, policy obstacles, and poor targeting. Actually, food aid is often not provided at the right time, the right place, or in sufficient quantities. And donor response consistently falls short of emergency appeals by the World Food Program (WFP).

Oxfam believes that food aid can, sometimes, be essential to humanitarian response. However, for many development and humanitarian needs, food aid is not an appropriate or efficient tool. Even in most emergencies, in-kind food aid often fails to improve access to food due to delays in delivery, as well as mismatches between recipient needs and the commodities donated.

## Why is food aid a trade issue?

Agricultural exporting countries have called for new disciplines on food aid as part of the Doha Round negotiations at the World Trade Organisation (WTO), in light of evidence that the USA sometimes uses food aid to dump agricultural surpluses and to attempt to create new markets for its exports. Indeed, food aid has the potential both to reduce domestic production of food, damaging the livelihoods of poor farmers, and to displace exports from other countries into the recipient country.

This paper shows that current practices, especially those of the USA, create substantial adverse side-effects in trade that damage the livelihoods of poor farmers and stymie their economic opportunities to develop.

- Damage to local production in recipient countries: in 2002/2003 food aid donors over-reacted to a projected 600,000 metric tonne food deficit in Malawi, causing a severe decline in cereal prices and hurting local producers.
- Displacement of exports: in 2000, Guyanese rice exports to Jamaica were displaced by US food aid which suddenly doubled following a bumper crop in the USA.
- Food aid is used to dispose of surpluses: in-kind food aid peaked in 1999-2000 when there were large surpluses and low prices for cereals. This depressed prices for poor farmers around the world.
- Food aid is sometimes used to capture new markets: US legislation for Title I food aid programs states that priority is given to export of US agricultural commodities to those developing countries which have demonstrated the potential to become commercial markets. This is a major, and unfair, subsidy to exporters of the donor country.
- In-kind food aid is used instead of cash: 90 per cent of all food aid is provided in commodities rather than cash. This can destroy or damage local markets that poor farmers depend on.
- Monetization of in-kind food aid: increasing volumes of food aid provided for development projects is sold straight onto local markets to generate cash. This displaces local farmers' produce and slashes their income by reducing prices.

As the world's largest donor of food aid, the USA has a special responsibility to ensure the quality of its food aid program and to minimize any trade distortions. The USA is the only donor making major use of concessional sales (rather than grants) for food aid; it is the only food aid donor to distribute a large proportion of its food aid bilaterally; and it requires virtually all food aid contributions to be in the form of US commodities.

## Strong disciplines are needed

The Doha Development Round offers a unique chance to create more economic opportunities for developing countries and poor farmers by eliminating agricultural dumping, protecting vulnerable farm sectors in developing countries, providing new market opportunities, and implementing the Marrakesh Decision (see below). New disciplines on food aid are an important part of the overall reform needed.

Unfortunately, the debate so far at the WTO has made little progress. The current text, from the August 2004 framework agreement, is sufficiently ambiguous that it would add nothing to current disciplines on food aid.

As members start negotiating the modalities of the final agreement on agriculture in the run-up to the December Ministerial in Hong Kong, it is now crucial that strong disciplines on food aid are incorporated to ensure it stops destroying poor people's livelihoods.

## Recommendations

1. Food aid is provided exclusively in grant form.
2. Food aid should not be linked, either explicitly or implicitly, to commercial transactions or services of the donor country.
3. The use of in-kind food aid should be limited to situations of acute local food shortage and/or non-functioning local food markets, where regional purchase is not possible. In other situations, food aid should be provided in cash form, to purchase food locally or regionally.
4. Monetization of food aid should be limited and replaced with cash donations, to avoid displacement of local production or commercial imports.
5. Food aid should only be provided in response to calls from national governments, specialized United Nations agencies, other relevant regional or inter-governmental agencies, non-governmental humanitarian organizations, and private charitable bodies.
6. All food aid transactions must be notified in a timely manner to the Food and Agriculture Organization of the United Nations (FAO) and WTO.

### **In addition, the new Agreement on Agriculture should:**

7. Eliminate all other surplus disposal instruments, such as export subsidies and subsidized export credits.
8. Implement the Marrakesh Decision on Net Food-Importing Countries by:
  - a) putting into place multilateral financing mechanisms to facilitate commercial

purchases in the event of higher prices for staple foods due to reforms linked with the Doha Round or other market trends; and  
b) increasing amounts of development aid to relieve food supply constraints and develop efficient local production of staple foods in net food-importing developing countries (NFIDCs).

9. Curb the subsidized production of food surpluses through adequate disciplines on domestic support.
10. Increase funding levels for development assistance, particularly for agricultural development.

# 1. Introduction

*'I harvest my rice usually two times per year, but it depends on rain because my land is rain-fed. Last year I sold my rice at Rp 2,600–Rp 2,700 [approx. \$0.25] per kg. This year, however, its price was only Rp 1,500–1,700 [\$0.15] per kg due to the flooding of rice from the social safety net programme to the local market... Some people said that rice came from the US.'*

— Wagino, 42, farmer and father of four children, Boyolali Regency, Central Java Province, Indonesia, June 2001<sup>1</sup>

*'Meaningful and immediate increases in food aid now could mean the difference between survival and financial disaster for rice mills in this region.'*

— Thomas Ferrara of Greenville, Mississippi, USA, Chairman of the Rice Millers' Association, July 2001<sup>2</sup>

Food aid has emerged as a controversial topic in trade negotiations at the World Trade Organisation (WTO). Members of the US Congress have made impassioned calls to 'save food aid', claiming it is under attack at the WTO, while representatives of other countries assert that US food aid is often used to disguise export subsidies and should be restricted in some cases.

Under the mandate of the Doha Agreement, new rules for agricultural trade are currently under negotiation, with the goal of reducing agricultural dumping and fostering economic development in poor countries. A key goal of the negotiations is to eliminate all forms of export subsidies used by agricultural exporters. The European Union has agreed to eliminate export subsidies as part of these negotiations, requesting that other countries dismantle their own subsidies in tandem. The USA has few export subsidies as defined by the WTO. Instead, it hides its export subsidies from WTO scrutiny by embedding them in programs such as export credits and food aid. For instance, the 2002 US Farm Bill provided for \$7.7 bn in export credits and commercial food aid.<sup>3</sup>

Agricultural exporting countries have called for new disciplines on food aid as part of the Doha Round, in light of evidence that the USA sometimes uses food aid to dump agricultural surpluses and to attempt to create new markets for its exports.

There have been clear examples of abuse of food aid by the USA in recent years. An egregious example was its massive food aid shipments to Russia in the 1990s, which corresponded with low commodity prices and bumper harvests in the USA. In this instance there were obvious links between the existence of large surpluses in the USA and greater volumes of food aid. The purpose of food aid should be to help those in need but, as discussed

throughout this paper, a large part of food aid programs is not driven by need.

As the world's largest food aid provider, supplying about half of all food aid, the USA has a special responsibility not to misuse this humanitarian tool for commercial aims. And yet it is the most problematic actor among food aid players. At the WTO, the USA has emerged as the primary opponent of new food aid disciplines, defending the status quo and successfully maneuvering to remove language from the July 2004 WTO framework agreement prohibiting surplus disposal via food aid. Because the USA is the largest donor of food aid, this paper largely focuses on the US food aid program. However, other food aid donors (for example, Canada) can benefit from reform and would be subject to new disciplines at the WTO.

The challenge for negotiators at the WTO is to ensure that members cannot hide export subsidies in food aid programs. At the same time, new rules must not impede the distribution of legitimate food aid designed to assist people in need. This type of aid is critical to meeting humanitarian needs, especially in emergencies.

Existing WTO rules and other institutions provide little oversight or regulation of food aid. Effective disciplines in the Doha Round agreement on agriculture are needed, as are better management and monitoring of food aid by organizations other than the WTO.

## Food aid overview

During short-term crises or emergencies, food aid is provided to meet the needs of hungry people who are unable to feed themselves and their families. This is what most people think of when they hear the words 'food aid'.

However, food aid is also provided in non-emergency situations, in connection with a variety of development challenges. For example, as much as one-third of all food aid is used to assist developing countries with balance-of-payments transfers. Large amounts of food aid are also provided for development projects, education programs, and other longer-term programmatic activities in developing countries. A large proportion of food aid is not distributed to needy people, but is instead sold on commercial markets, and the cash is used by governments or NGOs for funding development projects or for other purposes.

Clarifying the differences between the various types of food aid is useful in understanding the impacts they have. There are three major types of food aid: program, project, and emergency.

**Program food aid** is a contribution of food produced in a rich country to the government of a recipient country. Virtually all program food aid is 'monetized', i.e. sold on recipient country markets to generate cash. Most US program food aid is sold to recipient countries through concessional financing or export credit guarantees.

The USA is nearly the only country that sells 'food aid' to recipient countries; other donors give it in grant form. The USA is likewise the only donor country to make significant use of export credits in connection with food aid; this essentially means extending loans to countries to buy food aid. Reductions in export credits are squarely on the table at the WTO agriculture negotiations as they are considered export subsidies.

**Project food aid** is donated to support specific activities and projects, and is often related to promoting agricultural or economic development, nutrition, and food security. These projects are typically administered by NGOs or the World Food Program (WFP), although some recipient governments also administer project food aid. Examples of project food aid include food for work, school feeding, and mother-child nutrition centers.

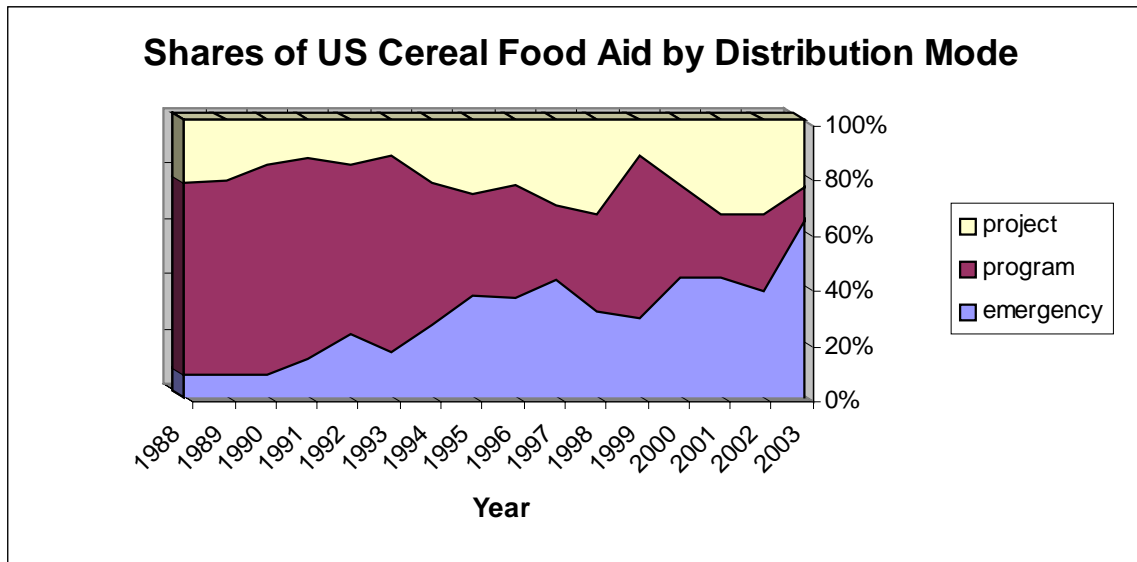
**Emergency food aid** is distributed for free to the food-insecure in times of crisis, such as war or famine. Most commonly, emergency food aid is administered by the WFP or by NGOs, or by both in co-operation. Emergency food aid consists of the distribution of general food rations and selective feeding programmes to nutritionally vulnerable groups.

In practice, there is some overlap between these different types of food aid. Emergency food aid activities in protracted crises can resemble project food aid activities. Most government-to-government food aid is program food aid, although some of it is project food aid.

For decades, government-to-government program food aid made up the bulk of food aid distribution. This meant that most food aid was not 'targeted' to meet the needs of specific vulnerable populations, since program food aid is monetized to generate cash. However, program food aid has declined in recent years. In cereal foods, it accounted for 58 per cent of the total from all donors between 1988 and 1991, but its share fell to 19 per cent from 2000 to 2003. Emergency food aid grew from 18 per cent of global flows in the 1988-1991 period to 57 per cent in 2000-2003. Project food aid remained relatively stable, at about 25 per cent through both these periods.



Figure 1



## 2. Food aid, hunger, and poverty reduction

More than 850 million people suffer from chronic hunger. Reducing by half the proportion of people suffering from hunger by 2015 is a key target for the Millennium Development Goals (MDGs). The right to food is enshrined in numerous international instruments, including the *Universal Declaration on Human Rights*, the *International Covenant on Economic, Social and Cultural Rights*, and many others.<sup>4</sup> However, the world's farmers produce more than enough food to fulfill the minimum caloric needs of humanity. According to the Food and Agriculture Organization of the United Nations (FAO), in 2001 the total global food supply amounted to 2,800 calories and 76 grams of protein per person per day – plenty to nourish the world's population and remove chronic hunger.<sup>5</sup>

Yet fulfilling the right to food is not as simple as redistributing food from countries producing surpluses to countries in deficit. In crisis conditions, such as during wars or following natural disasters, in-kind food aid can be an essential tool. But too often food aid is not provided at the right time, at the right place, or in sufficient quantities. Despite great need, global food aid flows actually declined during the 1990s from a peak of 17m tonnes in 1993 to 11m tonnes in 2001. In most years, donors fail to fulfil the World Food Program's emergency appeals for assistance, providing an average of 85 per cent of requested food aid.<sup>6</sup>

This does not mean that a major increase in in-kind food aid from abroad is the solution. Different situations call for different types of aid, and in many instances where food aid is desirable, cash donations are better than in-kind donations, as they allow food aid to be purchased locally and delivered more quickly and cheaply. It is therefore crucial to evaluate what type of food aid is needed, along with the appropriate timing and duration of its delivery.

For example, in the case of the recent tsunami which devastated the coasts of Indonesia, Sri Lanka, and other countries in South-East Asia, the nature of the crisis has been such that donations in cash are more appropriate than shipping in-kind food aid from afar (see Box 1).

**Box 1: Send cash not carbohydrates: tsunami disaster response in Indonesia and Sri Lanka**

Following the tsunami that struck coastal regions in South-East Asia in December 2004, the World Food Program announced that 2 million people were in need of emergency food aid, most of them in Indonesia and Sri Lanka. The WFP has designed a food basket that includes rice and vegetable oil complemented with either pulses or fish, depending on local customs. Rice, the main staple food in South-East Asia, represents around 80 per cent of the food aid required. The USA has pledged to ship 30,000 tonnes of in-kind food aid, despite the fact that there is plenty of food available in the region. What is really needed is money to purchase and distribute stocks that are available locally to those in need.

Access to food through markets has been quickly restored in many of the affected areas — often in a matter of weeks. In Sri Lanka, major damage occurred mainly on the coast; there was minimal damage to inland transport and market infrastructure, and cereal production areas were left intact. Although in Indonesia the damage was more severe, local markets are already recovering, and rice production appears to be getting back on track.

Both Indonesia and Sri Lanka are anticipating bumper rice crops. In February and March 2005, the rice harvest began in both countries. For both, the harvest will constitute the main agricultural season, which usually yields two-thirds of annual production. Bumper crops, in addition to carry-over stocks from previous seasons, will be sufficient to feed the population. In addition, both countries produce and export vegetable oil.

Should provision of additional in-kind food be necessary, this could easily be sourced from Thailand or India, both of which will have the capacity to export more than 10m tonnes of cereals in 2005. Both of these countries themselves suffered damage from the tsunami, and would benefit from the sale of commodities.

Cash transfers would also be less expensive than distributing in-kind food donations shipped in from outside the region. Nearly half of the WFP's tsunami relief budget of \$210m has been allocated to pay for shipping and storage. Further purchases of food outside the region will delay delivery and result in competition with the local rice trade at harvest-time.

*Source: 'Food Aid: An Appropriate Response to the Tsunami?' Oxfam Briefing Note 2005, forthcoming.*

In non-emergency situations, shipping in-kind food aid across the world to meet development needs is usually not an ideal — or even a good — strategy for promoting development or for fighting hunger. Careful assessment of the root causes of hunger is necessary before resorting to food aid. In most cases, poverty or lack of income generation is the underlying cause of chronic hunger. Providing food aid is not likely to help those affected over the long term, without also providing support for improving livelihoods. Likewise, at a country level, providing food aid to resolve immediate balance-of-payment problems is a short-term solution to a broader issue.

The challenge for governments, NGOs, and international institutions is therefore to make available sufficient food aid when food aid is the appropriate tool, and to rely on other development tools when food aid is not the sustainable solution to the challenge.

Unfortunately, a long-term interest in sustainable development is not always the driving force behind food aid allocations. Often, food aid reflects the availability of surpluses, the desire of exporters to expand markets, and the involvement of special interests seeking benefits from food aid programs. This paper discusses these issues with reference to US food aid.

## US food aid programs

Criticisms have been levelled at US food aid programs, in connection with issues of efficiency, effectiveness, and targeting. As mentioned above, the USA is the largest donor currently utilizing program food aid. While the use of this type of food aid has declined in recent years, it saw large spikes during the 1990s, when the USA made large shipments to Russia. The USA also retains the ability to use program food aid to dispose of surpluses in the future.

The USA is also the only major donor to sell food aid to developing countries, rather than providing it exclusively in grant form. The USA is also the only major donor to disburse a large proportion of its food aid on a bilateral basis, rather than channeling it through international organizations such as the World Food Program. Although the USA provides the majority of the WFP's resources, its donations are almost entirely in-kind rather than in cash. Other countries provide cash which the WFP can use to source and distribute food commodities close to where they are needed.

The US approach to food aid involves an 'alphabet soup' of programs and acronyms. Overall, food aid is administered by two agencies, the US Department of Agriculture (USDA) and the US Agency for International Development (USAID). There are several mechanisms and authorizations for food aid.

**Public Law 480 (PL 480)** was enacted in 1954 with three 'titles', each facilitating different kinds of food aid:

- Title I provides 'program' food aid to recipient governments. Most Title I food aid is provided in the form of concessional sales, rather than in grant form. Title I is administered by the USDA, and has a strong emphasis on expanding US export markets. All Title I food aid is monetized (i.e. sold on local markets). For fiscal year 2003, the largest

recipients of Title I food aid were Indonesia, Jordan, the Philippines, and Uzbekistan.

- Title II is administered by USAID, and provides for the donation of US agricultural commodities to meet emergency and non-emergency food aid needs. NGOs, the WFP, and governments are eligible for Title II food aid. As much as 70 per cent of non-emergency project food aid is monetized by NGOs or recipient governments to fund development projects.
- Title III is administered by USAID, and provides for donations of US agricultural commodities to the world's poorest countries. Title III food aid has not been utilized recently.

**Section 416(b).** This program, authorized in permanent law and administered by the USDA, provides for the donation overseas of agricultural commodities held as surplus stocks. This component of food aid is most variable, because it is entirely dependent on the availability of surplus inventories. In 2003, the program was allocated about \$149m (\$110m for distribution by private voluntary organizations and US government agencies, and \$49m for distribution via the WFP).

**Food for Progress** is administered by the USDA and provides commodities to support countries that have made commitments to 'expand free enterprise' in their agricultural sectors. The commodities can either be donated or sold on concessional terms. This program was funded with approximately \$158m in 2003.

**The Bill Emerson Humanitarian Trust** is primarily a reserve of up to 4m tonnes of wheat, corn, sorghum, and rice that can be used to help fulfill PL 480 food aid commitments to developing countries, to meet emergency needs or when US domestic supplies are short. The Bush Administration recently tapped the trust to meet food aid needs in Africa and Iraq.

**McGovern-Dole International Food for Education and Child Nutrition Program** provides commodities and financial and technical assistance to carry out pre-school and school food-for-education programs and maternal, infant, and child nutrition programs. NGOs, cooperatives, the WFP, and foreign governments are all eligible organizations for carrying out these activities. The USDA administers this program.

The US food aid system creates opportunities for a variety of private interests to skim off benefits in the procurement, packaging, transportation, and distribution of commodities. Many inefficiencies result from the US insistence on sending commodities for food aid. For example, the US government requests bids for sales of surplus agricultural commodities from a limited list of pre-qualified US-based agribusiness companies, and arranges the transportation of these commodities from the USA to recipient

countries on US-flagged ships. The bidding process results in purchase and transportation expenses that are substantially higher than market costs.

US shipping companies are major beneficiaries of food aid programs: US law mandates that 75 per cent of all food aid transport be handled by shipping companies carrying the US flag. In 2002, \$261 million - over one-third of total US food aid program costs - was allocated to US shipping companies. The share of international cargo, other than US food aid, carried by US-flagged ships has been declining and now accounts for less than 3 per cent of US import and export tonnage.

A select group of US cereals traders also benefits from these tidy arrangements for food aid. In March and April 2003, the 'competitive' acquisition process resulted in contracts for grain purchases in excess of \$28m. This was shared among just four companies: Cargill, Louis Dreyfus, ADM/Farmland, and Kalama Export Company. According to the US Government Accountability Office, only 18 US companies were qualified to bid for food aid contracts even when volumes of food aid shipments were at their peak between 1991 and 1994.

#### **Box 2: Canada's food aid: reform incomplete**

Canada is the world's second largest food aid donor after the USA in terms of per capita donations. Its food aid policy is also the world's second most restrictive, requiring 90 per cent of the budget be spent on the purchase and shipment of Canadian commodities. Only the USA, where virtually all food aid is tied to US purchases, is more restrictive.

As in the USA, Canadian food aid policy dates from the early 1950s and grew out of a desire to clear markets of surpluses. Commodity surpluses in Canada are now rarely large, because agricultural commodities sell, even if prices are low. Yet the legacy of decades past remains bound up in Canada's food aid rules.

Canadian food aid is less trade-distorting than that of the USA because very little of it is monetized; all of it is provided in the form of grants from the government's operating budget. In 2003, for example, Canada provided 70 per cent of its food aid as project aid, flowing through the WFP and Canadian NGOs. Thirty per cent went as emergency aid, and none as program food aid. Canada has not contributed any monetized food aid since 2000.

Yet the 90 per cent rule makes for some perverse results in addressing hunger. Much of the available funding for food aid is spent on expensive transportation that feeds no-one. Of the \$165m budgeted for 2005, \$66m (40 per cent) will be spent not on food, but on shipping. In August 2004, for example, the price of local wheat in Nazaret, Ethiopia was C\$248 per tonne. The price in Montreal was virtually the same: C\$253 per tonne. But to deliver Canadian wheat to Nazaret cost an additional C\$172 for each tonne.

Due largely to the inefficiencies of tied aid, Canada has reduced its food aid budget substantially over the years, spending aid money instead to fund nutrition programs. Under the 1967 Food Aid Convention, Canada promised to provide 420,000 tonnes annually, about 12 per cent of the total pledged by all donors, although its share usually exceeded that level. By 2000, Canada's shipments fell

to 30 per cent below its commitment. And its volumes of food aid have yet to regain pre-2000 levels.

Some form of untying is essential if Canada's food aid is not to disappear altogether. Simply untying is not the answer, since Canada is loath to spend its aid budget on subsidized US or EU commodities.

Canadian NGOs have proposed new rules for Canadian food aid that would permit the flexibility to purchase food locally. Local or regional purchase would be permitted if:

1. the needed commodity was not produced in Canada; or
2. the purchase would be more cost-effective than shipping from Canada; or
3. in cases of urgent need, delivery could be made more quickly.

Since adopting similar criteria, the EU has procured an average of 28 per cent of its food aid locally or regionally. Such local purchase flexibility is essential if food aid is to fulfill its primary intent: to feed hungry people who need assistance.

*Source: Canadian Foodgrains Bank and Oxfam Canada*

### 3. Why is food aid a trade issue?

The primary objective of the WTO agreement on agriculture is to reduce distortions in world trade in agricultural products. Trade distortions targeted for elimination at the WTO include border measures such as tariffs, domestic support for agriculture, and export-related subsidies, which confer competitive advantage on farmers who receive them.

All food aid is potentially trade-distorting, and food aid will satisfy some consumer demand whenever it is distributed. In places where people are simply too poor to purchase food, or where there is no functioning market, there is little or no market distortion as any consumption will be additional. Otherwise, food aid has the potential both to reduce domestic production of food in the recipient country, damaging the livelihoods of rural populations, and to displace exports into the recipient country market from other countries.

WTO disciplines constrain the ability of countries to adopt trade-distorting measures. However, food aid is not subject to tight disciplines under the Uruguay Round Agreement on Agriculture (AoA), and rules governing food aid are not subject to dispute settlement. The AoA sets forth only guidelines to govern the provision of food aid.

For example, WTO members are required to ensure that food aid is not directly or indirectly tied to commercial exports of agricultural products — but the disciplines do not specify what this means and do not provide for raising disputes or resolving them. Article 10.4 of the AoA refers to the need to avoid trade displacement and the need to respect the FAO's 'Principles of Surplus Disposal and Consultative Obligations' (see below). The AoA also encourages the provision of food aid primarily in grant form. Although well-intentioned, these provisions have not been enforced and have done little to curb the market displacement caused by food aid.

A major problem in preventing abuses of food aid is the weakness of specialised oversight institutions. The Consultative Subcommittee on Surplus Disposal (CSSD) is hosted by the FAO and is made up of both donor and recipient governments. While the CSSD has little real enforcement authority, it has served as a useful reporting and oversight body, as well as a forum for complaints about food aid abuses. However, reporting of food aid transactions under the CSSD has been notoriously poor in recent years. While in 1991 average reporting rates were nearly 80 per cent of transactions, by 2001 they had dropped to a record low of just 4 per cent.<sup>7</sup>

The CSSD was set up to help guide the disposal of surpluses and oversee a code of conduct created in 1954 under the auspices of the FAO. The



Principles of Surplus Disposal and Consultative Obligations set out procedures and requirements for countries engaging in concessional agricultural transactions. The goal of the Principles is to ensure that food aid does not disrupt normal agricultural production or trade, but they have no binding enforcement or dispute settlement mechanism.

In 1967, donor countries agreed on a Food Aid Convention (FAC) to enhance the capacity of the international community to respond to emergencies, by guaranteeing a predictable flow of food aid each year, irrespective of fluctuations in price or supply. The agreement has been periodically updated and revised, and was scheduled to be re-negotiated in 2002. However, negotiations on a new FAC have been put on hold pending action on food aid disciplines at the WTO. Like the CSSD, the FAC lacks a binding enforcement or dispute settlement mechanism. While both the CSSD and the FAC offer some help, neither is adequate to instigate reform or impose the discipline needed on food aid.

In the Doha Round, food aid is on the negotiating agenda as part of the discussions on export competition, along with explicit export subsidies, state trading enterprises, and export credits. The negotiating mandate calls for 'the parallel elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect by a credible end date'. The EU has the largest stake in these negotiations, with export subsidies of \$3bn in 2000. The EU has agreed to negotiate a final reduction of these subsidies in parallel with new disciplines on food aid and export credits. In the crude terms of negotiation, this represents a pretty good deal for the USA: disciplines on (but not elimination of) approximately \$1.5bn in non-emergency food aid programs, in exchange for elimination of \$3bn of European export subsidies.

In addition to US resistance to food aid disciplines, some net food-importing countries have raised concerns that reducing the use of export subsidies could lead to higher world food prices. These countries, among them Mongolia, fear that constraints on export credits and food aid might impede their ability to finance the food imports they need. The root cause of these problems has been the unwillingness of major WTO members to implement a decision taken in 1994, the Marrakesh Decision Concerning the Possible Negative Effects of the Reform Programme on Least Developed and Net Food-Importing Developing Countries.

The Marrakesh Decision calls for a recognition that increased food prices resulting from trade liberalization require additional consideration in the short-term financing of commercial imports. It asks developed country members to ensure that developing countries receive special treatment in terms of export credits, establishing sufficient food aid supplies in the early years of liberalization, assistance for requests to improve agricultural

productivity, and leniency from the IMF and World Bank when implementing liberalization and other policies.

Five issues make the case that effective rules on food aid at the WTO are needed to guard against abuses and misuse:

- damage to local production in recipient countries;
- displacement of exports;
- evidence that food aid is used to dispose of surpluses;
- evidence that food aid is used to capture new markets;
- lack of clarity as to why in-kind food aid, rather than cash, is consistently provided by the USA.

## Food aid can displace local production

The greatest concern around food aid is the possibility that it can undermine the livelihoods of poor farmers by creating disincentives for local food producers, by flooding markets and depressing prices. Substantial volumes of food aid provided over a long-term basis could discourage local production, result in increased poverty, and create long-term food insecurity due to increased dependence on food imports. Regenerating agricultural production and local markets is central to any strategy for longer-term recovery and development.<sup>8</sup>

At the local level, there are numerous cases where producers report falling prices and market displacement as a result of an influx of food aid commodities.<sup>9</sup> For instance, in 2002 and 2003 food aid donors over-reacted to a projected 600,000-tonne food deficit in Malawi, and sent close to 600,000 tonnes of food in aid. However, commercial and informal importers brought in an additional 350,000–500,000 tonnes. Malawi was flooded and had very large carry-over stocks. Maize prices dropped from \$250 per tonne to \$100 per tonne in the course of a year. Local production of maize, cassava, and rice fell markedly, and estimated losses to the Malawian economy were approximately \$15m.<sup>10</sup>

Unfortunately, economic studies are often inconclusive about the extent of disincentives for local production caused by food aid. Most studies of food aid impacts are conducted at a national or global level, using aggregated data.<sup>11</sup> This hides impacts in local markets, where price depression and displacement are more likely, especially in the fragmented markets typical of many countries receiving food aid.

In fact, there is strong historical evidence that the use of food aid tends to correlate with long-term dependence on food imports – either food aid or commercial imports. In the early 1990s, the Philippines was unable to

sustain imports of high-protein soya meal because of foreign exchange difficulties. US PL 480 food aid was used to finance the purchase of US exports. Ten years later, the Philippines was the largest market for US high-protein soybean meal, with US exporters accounting for 90 per cent of total imports. When food aid declines, it is usually replaced by commercial imports rather than by local production. But importing food rather than producing it locally has important implications for development. Reliance on commercial imports can lead to balance-of-payments problems in times of high prices, in addition to undercutting opportunities for local farmers to sell their crops. In addition, if imported food prices rise too high, food security can be jeopardized.<sup>12</sup>

## Food aid crowds other exporters out of markets

There is strong evidence that food aid displaces commercial imports in recipient countries. In markets that are relatively open, food aid imports result in the displacement of other commercial imports. Demand is therefore reduced for commercial imports.<sup>13</sup>

Some food aid programs are specifically intended to replace commercial imports, for example in order to help out countries with balance-of-payments problems. But for agricultural exporters, including many developing countries, this distortion has negative impacts. In regions with well-integrated agricultural markets, displacing commercial imports can simply transfer a balance-of-payments problem, and poverty, from one developing country to another.

In the 1990s, for example, Guyanese rice producers found an important export market in Jamaica, which grows little rice itself. Rice exports from Guyana to Jamaica grew from 7,700 tonnes in 1994 to 57,700 tonnes in 1997. However, Guyanese rice exporters found themselves facing intense competition from large volumes of US food aid rice, which began pouring into Jamaica in comparable quantities at the same time. As a result, Guyanese exporters were forced to look for other markets for their rice and many producers faced ruin.

*'PL 480 [US food aid] was meant to boost food security... It was supposed to assist in the elimination of poverty, not in creating it. And we have seen a direct effect whereby in the very process of eliminating poverty [in one place], we have poverty being created in another region.'* –

Dharankumar Seeraj, General Secretary of the Guyana Rice Producers' Association<sup>14</sup>

By displacing imports, food aid deprives agricultural exporters of market opportunities. Since many developing countries are agricultural exporters, the development aspect of this issue is significant. Regional integration between neighboring developing countries, as in the case of Guyana and

Jamaica, is an important economic goal in strengthening developing country economies and encouraging growth. However, by displacing export opportunities, food aid can impede this kind of integration.

## Ulterior motives: surplus disposal

A key concern for many WTO members is that food aid can be used as a convenient way to dispose of surpluses and to circumvent disciplines on export subsidization. There is compelling evidence that this has often been the case over the past three decades.

This is certainly clear in the case of the private sector: US agriculture industry groups often consider food aid as a means of surplus disposal and market expansion. For example, the US rice industry views food aid as a critical escape route at times when prices are low and production is abundant (see Box 3).

### **Box 3: Food aid or dumping: the case of US rice**

The USA produces only about 1.5 per cent of the world's rice, but is the fourth largest exporter. Between 50 and 60 per cent of all US rice production is exported. As domestic consumption of rice has stagnated over the past decade, US rice producers have increasingly relied on export markets to dispose of rising production yields. When those markets have not been available, the US rice industry has frequently turned to food aid programs as a buyer for surplus rice production.

From 1997/8 to 2004/5, rice exports under food aid programs have accounted for an average of 10 per cent of US rice exports. In years when prices are low, food aid represents as much as 20 per cent of rice exports.

In 2001, US government efforts to reduce food aid purchases of rice were perceived as a crisis by the US rice industry. According to one Louisiana rice producer, *'The sharp decline in rice food aid allocations has had a devastating impact on the rice industry... Many mills, especially in the south, are running at just 20 to 30 per cent of capacity.'* (Delta Farm Press, July 20, 2001)

In response to this crisis, Congressional leaders swung into action, with senators from the 16 rice-producing states urgently calling upon President Bush to provide immediate relief in the form of food aid and other export assistance programs. Ultimately, they were successful, and US food aid programs purchased more rice.

Influential commodity groups have had a big say in the composition and volumes of food aid. For example, producers of rice, soybean oil, and non-fat dry milk powder have notably used food aid as an export safety valve for surpluses. In 2003, marketing difficulties for Californian raisins produced an initiative to include raisins among food aid commodities.<sup>15</sup> Demonstrating a purposeful blindness to real humanitarian needs, the US Member of Congress for a California raisin-growing district issued a press release: *'The purchase of surplus raisins from California farmers will serve the*

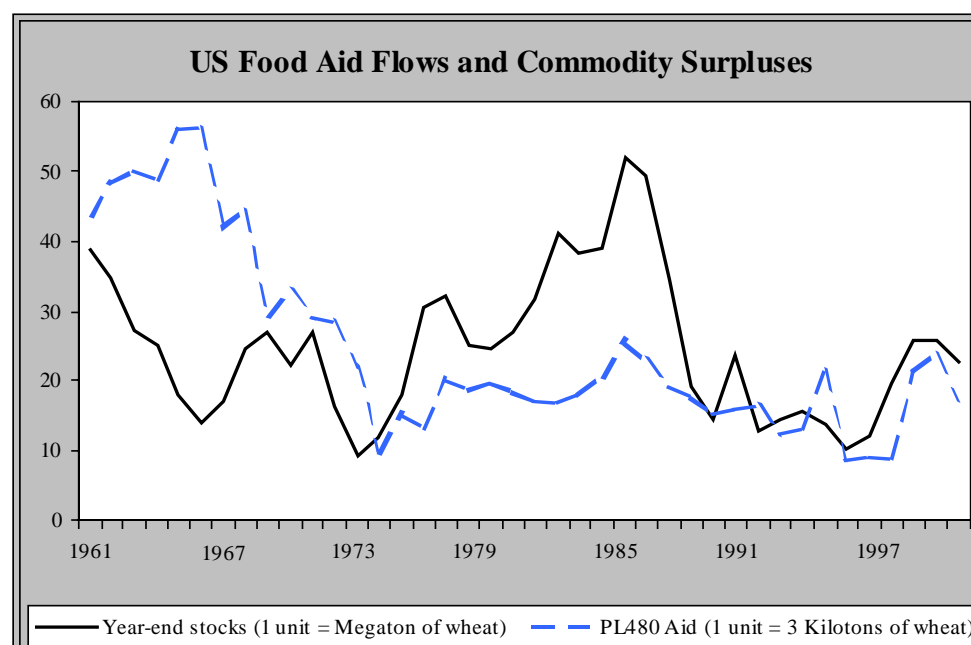
*nutritional needs of hungry people anywhere, as well as provide relief to farmers suffering from the worst agriculture economy since the Great Depression.*<sup>16</sup>

This anecdotal evidence is confirmed by a historical pattern showing that food aid flows tend to expand during times of surplus production and contract when production is tighter. However, poor countries are more likely to need assistance when production is tight, and prices higher. But that is not how food aid works.

During the economic shocks of 1973, when prices for cereals peaked at record post-war levels, many developing countries faced chronic food shortage problems. Shipments of non-emergency US food aid under the PL 480 program dropped to less than one-tenth of the levels provided in the mid-1960s. The reason? Commercial sales made surplus disposal unnecessary. Thirty years later, the pattern continues: when commodity prices were high in 1995–1997, for example, food aid accounted for 4–7 per cent of US cereals exports. When prices declined in 1999 and 2000, food aid increased to 12–20 per cent of US cereals exports.<sup>17</sup>

Another example: over the 50-year history of US food aid, there is a close positive correlation between year-end carry-over stocks of wheat and US food aid flows. When US farmers produced bumper crops of wheat, food aid donations increased in the following year.

**Figure 2**



Sources: WFP International Food Aid Organization System (INTERFAIS) Database; USDA Production, Supply, and Distribution (PSD) Database. From Barrett and Maxwell, *Food Aid After Fifty Years: Recasting Its Role*

The fact that food aid flows tend to follow surpluses reflects the fact that most food aid programs have their origins in domestic agriculture policy. US food aid programs were first formalized in the 1950s through PL 480 as a method of disposing of government-held surplus stocks. Surplus stocks accumulated as a function of price-stabilization policies in domestic agriculture, designed to support US farmers. A similar process occurred in Canada.

As European agricultural production recovered after World War II, European countries also began donating food aid. In some cases, donating food as aid was cheaper than storing it. During the Cold War, surplus disposal was harnessed as a tool in the great geopolitical rivalry between the USA and USSR, and large volumes of food aid were distributed to support friendly governments and to assist with humanitarian concerns among allied nations.

## Food aid is sometimes aimed at capturing new markets

The historical record of food aid distribution certainly indicates motives other than those of addressing hunger and sustainable development. In 1992-93 and again in 1998-99, the USA made massive shipments of food aid to Russia. However, Russia is not a poor country by global standards and, by most nutritional measures, hunger was not a serious concern. The more relevant factors were falling US commodity prices, bumper crops, election-year politics, and a geopolitical interest in supporting the Russian government at the time. The USDA's Economic Research Service acknowledges that 'allocations [of food aid] to individual countries do not always correspond to levels of need'.<sup>18</sup> Even Russian recipients of US largesse understood that something was amiss:

*'If they wave [the food] in front of us, of course we'll take it. But the policy is wrong. This aid will be damaging to Russia.'* — Nikolai Bandurin, poultry farmer in Rostov, Russia, July 1999<sup>19</sup>

Moreover, the commercial purposes of some food aid programs are quite explicit. A US government website, for instance, states: *'When allocating assistance under the Title I program, priority is given to agreements that provide for the export of US agricultural commodities to those developing countries which have demonstrated the potential to become commercial markets...'*<sup>20</sup>

Supporters of US food aid loudly advertise its commercial benefits, as an opportunity to enter new markets, create new tastes for US products, and utilize preferential financing and valuable distribution networks. USAID, the primary US development agency, notes, *'Of the 50 largest customers for US agricultural goods, 43 – including Egypt, Indonesia, Korea, Taiwan, and*

*Thailand – formerly received food assistance. In short, aid leads to trade, from which Americans stand to benefit directly.*<sup>21</sup>

Although a careful analysis debunks the idea that food aid creates new markets for food aid donors, the commercial motive undermines the humanitarian purpose of food aid.<sup>22</sup>

#### **Box 4: Food aid and genetically modified (GM) food**

The USA has been accused of using food aid to push open new markets for its GM products, sometimes in the face of opposition from local governments and consumers. Since GM commodities are unwelcome in major markets such as the EU, US exporters are seeking other outlets for these products. Countries facing food shortages are vulnerable to pressure to accept GM commodities. There have even been claims by GM proponents that this technology could be the answer to chronic production problems in Africa and elsewhere.

The controversy over GM food became red-hot during the Southern African food crisis of 2002–03. More than 15 million people across seven countries faced a food deficit. The Famine Early Warning System raised alarms as early as November 2001, as a result of drought conditions in southern Zambia.

Zimbabwe's was the first government to raise concerns about the use of GM food aid and rejected a 10,000-tonne shipment of GM maize at the July 2002 World Food Summit in Rome. In August 2002, the Zambian government decided to halt food aid shipments containing GM-contaminated food and to stop distribution of existing stocks. Other countries followed suit, as they determined appropriate food security policies with regards to GM foods and food aid.

Other countries have also rejected GM food aid. In 2001, Uganda confiscated a shipment of corn-soy blend (CSB) from the USA; Bolivia, Columbia, and Ecuador independently rejected US food aid containing GM food; and in 2002 India halted the import of 23,000 tonnes of CSB originating from the USA.

In general, Oxfam believes that:

- ☛ The underlying causes of hunger and the denial of people's right to food are less to do with food production, crop yields, and related technologies (including GM) than with the inequalities of power that lie behind access to technologies and markets.
- ☛ GM crops are at present largely irrelevant to the problems of hunger and food insecurity in most developing country contexts.
- ☛ In the context of humanitarian crises, Oxfam recognizes both the rights of governments and people to choose what they eat and what they introduce into their food systems, and the humanitarian imperative to avert hunger and starvation. The urgent need for food aid can leave vulnerable people and their governments in a difficult and morally-repugnant bind. Governments and civil society groups have legitimate concerns about GM products, and have the right to informed consent on this issue.
- ☛ To avert the real prospect of human suffering and death in the short term, all parties must work to ensure access to food — in sufficient quantity, quality, and variety. In specific instances, this may require the delivery of GM food, if that is the only practical alternative. However, this should be an option of last resort.

- Measures should be taken to minimize the potential risks that GM food may present when it is utilized as an option of last resort. These alternatives might include milling GM grain on-location, or public education campaigns to raise awareness about the risks of planting GM seeds.
- The USA, the WFP, and other donor governments have the responsibility to respect rights and to take measures to ensure that recipient governments and vulnerable populations are never again pressured to accept GM food aid.

Sources: Hansch, S. et al., 'Genetically Modified Food in the Southern Africa Food Crisis of 2002–2003', Institute for the Study of International Migration, Georgetown University School of Foreign Service; and Oxfam (2002), 'Q+A on GM Food Aid', Oxfam GB, 25 October 2002

## Monetization

Conversion of food aid to cash – a process known as monetization – is a controversial aspect of food aid programs. Critics argue that it is simply a hidden form of export subsidy, since the end result is more donor commodities sold into recipient country markets. In some cases, monetization may serve additional objectives, such as stabilizing local food prices, or encouraging the development of small-scale food distribution and marketing enterprises. Usually, however, the cash itself is the main objective.

A substantial portion of non-emergency project food aid is monetized, and this trend has been increasing in recent years. In 1990, approximately 10 per cent of US food aid donations were monetized to generate cash. In 2002, the monetization rate was approximately 60 per cent, after peaking at 70 per cent in 2001.<sup>23</sup> This means that a large proportion – even a majority – of food donated as project food aid is not used as food at all, but is converted to cash. The cash may be used to finance anti-hunger projects, or to run nutrition programs, or for any number of other worthy purposes. However, the fact remains that a large part of the food that is donated as aid is simply a heavily discounted and cumbersome cash contribution.

Monetized food aid is untargeted food aid: selling food aid on markets permits little or no targeting of distribution or consumption to the most food insecure or malnourished populations. In this way, monetized food aid is the most trade-distorting form of food aid. While monetization raises concerns about the impact of food aid on trade displacement, a deeper problem lies in the low levels of funding dedicated to development and humanitarian projects.

Many NGOs, for example, recognize that monetizing project food aid is a hugely inefficient, and potentially counterproductive, way to generate funds for development projects. However, many politicians and



development agencies believe that there are few alternative means to generate funds for critical needs such as maternal and child nutrition, HIV prevention and treatment programs, and schooling for young girls. The shame of monetized food aid is that such an inefficient system is seen as necessary to acquire funds to meet human needs.

## 4. Improving food aid: carbohydrates or cash?

If all food aid contributions were made in unrestricted cash donations, there would be much less controversy around food aid. Certainly, there would be little concern about its trade-distorting impacts. If contributions were made in unrestricted cash, the WFP, governments, and NGOs could purchase food on open commercial markets and distribute it to hungry people as quickly and efficiently as possible.

Instead, as much as 90 per cent of food aid donations are made in the form of food commodities purchased from donor countries. There is little humanitarian or development justification for donating in commodities rather than in cash. Indeed, there are strong arguments to the contrary.

Firstly, cash is almost always faster. In humanitarian emergencies, where weeks or even days can mean the difference between life and death, there is no excuse for delay. And yet much food aid is tied to purchase and shipment from donor countries. It can take months from the date of a procurement order for food aid to be delivered to port. US emergency shipments experienced a median lag of nearly five months in 1999–2000, due to bureaucracy and cumbersome procurement restrictions – and, of course, the need to ship food over long distances.<sup>24</sup> By contrast, cash can be used to procure food locally or regionally, in close proximity to the places it is needed. In most cases (though not all), purchasing food closer to its intended destination reduces the time delay. Cash gives decision-makers more flexibility in addressing emergencies.

Secondly, cash is cheaper. The inefficiency of sending food over long distances, often with restrictive procurement and shipping requirements, means that funds are spent on bureaucracy, process, and shipping rather than on the food and its distribution. In fact, according to a study by the OECD, shipping food from donor countries is 33 per cent more expensive than buying it from a third-party country (usually closer to the destination) and 46 per cent more expensive than buying it locally in the destination country.<sup>25</sup>

US food aid is notably inefficient in this regard. Due to a variety of bureaucratic and procedural inefficiencies, US commodity suppliers enjoy an 11 per cent premium above commercial prices for food aid purchases. In addition, because US law requires that 75 per cent of food aid shipments use US flag-carriers, a 78 per cent premium is paid on food aid shipments. By the time food aid reaches the destination port, US taxpayers have lost more than half the value of their food aid dollar in costs, by donating food that is US-sourced and US-shipped.<sup>26</sup>

Thirdly, cash can be used to procure better, or more appropriate, food aid. Rather than limiting food aid to commodities available in donor countries, cash can be used to procure food that is more appropriate to local conditions and tastes. In the past, there have been serious mismatches between food aid donations and recipient needs. There are many anecdotal examples of food aid donations that require unfamiliar preparation or impose new burdens on recipients through introduction of exotic foods that are not well suited to local conditions. Some food aid packages can require more cooking time, for instance, requiring recipients to expend more time and energy collecting firewood. Donors should attempt to ensure that food aid supports and enhances longer-term development.

Tying food aid to the purchase of commodities creates a convergence of interests between humanitarian and development goals and the commercial interests of donor country agriculture producers, processors, distributors, and shippers. Defenders of commodity food aid argue that this coalition is necessary to create the political support required for food aid.

However, by trying to serve too many masters, food aid loses its value. Or, rather, the value of food aid is lost to the various rent-seekers who support it, but support it conditionally. Given the enormous inefficiency, added cost, and unwieldy process of food aid tied to donor commodities, policy-makers must take a hard look at reforms to assure that the critical, life-saving core mission of food aid is preserved.

A simple rule, but not an easy one to impose politically, would be to provide the vast majority of food aid in cash, to be used on local markets, regional purchase, or donor commodities as required to achieve the most cost-effective, timely, and efficient distribution of food aid.

Many countries have already begun shifting food aid donations from commodities to cash, and most donors have taken steps to decouple food aid policy from commodity surpluses. Some, like the EU, have taken steps to provide more flexibility in the use of food aid budgets, permitting more use of food aid funds to purchase commodities in local or regional markets.

## The problem of net food importing countries

In addition to US resistance to food aid disciplines some net food-importing countries have raised concerns that reducing use of export subsidies could lead to higher world food prices, thereby increasing their need for food aid and export credits to smooth the impact. According to available estimates from the World Bank, world prices for wheat might increase by 10-15 per cent over the short- to medium-term if export subsidization is effectively eliminated.<sup>27</sup> This is why some net food-

importing countries fear that new constraints on exports credits and food aid might impede their ability to finance the food imports they need.

**Box 4: The problem of net food-importing countries**

Many poor countries have become food-importers since the 1980s. While having a net deficit in food trade might not constitute a problem for more advanced economies, many poor countries are unable to finance growing food import bills due to stagnating – even declining - export revenues. Poor consumers in these countries are vulnerable to sudden increases in food prices, due to currency fluctuations or volatility in commodity prices. Since 1990, least developed countries have spent between 50 and 80 per cent of their foreign exchange to import food. For example, in 1999 Sierra Leone and Haiti spent 80.3 per cent and 62.7 per cent respectively of available export revenue (total exports minus debt service) on food imports.

Spending export revenues on food imports also compromises the ability of a country to import capital goods, which are essential to accelerate growth and achieve development.

Some developing countries depend on food aid to meet their nutrition needs. Food aid accounts for a large, though declining, share of the volume of cereal imports in sub-Saharan Africa, representing around one-fifth of the total. Although food aid can provide important assistance for net food-importing countries, it can prove to be an unreliable source of assistance. Food aid volumes fell sharply in the 1990s, from 15m tonnes in 1992/1993 to just under 9m tonnes in 1998/1999. When food aid volumes fall, the steepest cuts can come from those most reliant on it. In this case, the reduction was steepest for low-income food deficit countries, where transfers fell by 63 per cent.

*Sources: FAO. 2004. The state of agricultural commodity markets; Panos Konandreas, What modalities for an agricultural special safeguard mechanism at the WTO. ICTSD. 25 February 2005. Kevin Watkins. Northern agricultural policies and world poverty: will the Doha 'development round' make a difference? Paper presented at the Annual World Bank Conference of Development Economics 15-16 May 2003*

Dependence on food aid is not a reliable option to address problems with financing food imports over the long term. First, total food aid volumes are insufficient to meet all existing needs: donors have not consistently met targets set by the 1986 revised Food Aid Convention. Moreover, food aid is unstable, depending to a large extent on domestic political processes and budgetary constraints in donor countries. Finally, food aid volumes are quite cyclical, meaning that volumes tend to fall as prices rise. But net food-importing countries need food aid assistance most when prices are high and supplies are limited.

A key problem has been the unwillingness of major WTO members to implement a decision taken in 1994 called the Marrakesh Decision Concerning the Possible Negative Effects of the Reform Programme on Least Developed and Net-Food Importing Developing Countries, which called for a recognition that increased food prices resulting from trade liberalization required additional consideration for short-term financing of

commercial imports. The needs of net food-importing developing countries must be addressed during the Doha Round including:

- financial and technical assistance to promote more efficient production of staple foods as well as sustainable livelihoods for farmers,
- improved market access conditions for exported products,
- enough flexibility in market access and subsidy rules to protect and promote sectors that are key to rural livelihoods and the production of food staples,
- domestic as well as international instruments to help smooth shocks due to the volatility of agricultural prices.

## WTO negotiations: strong disciplines are needed

The fact that food aid has been abused in the past and could be misused in the future is a strong reason to make reforms now. And the Doha Round negotiations provide a good opportunity to promote reasonable reforms.

Unfortunately, the debate at the WTO has made little progress. Most members hesitate to criticize food aid, given that it is intended for humanitarian purposes. However, progress has also been held up because the USA has opposed many sensible measures that have already been proposed.

At this point, it is important to set the debate over the commercial use of food aid in the context of global trade in agriculture, as doing so demonstrates that this is an area where the USA could – and should – concede to stricter disciplines to avoid trade distortion.

Overall, food aid represents a small and declining share of the global cereals trade. In 2002, 8.6m tonnes of cereals food aid were donated, about 4 per cent of the total export volume of nearly 280m tonnes. Even for the USA, which is by far the largest food aid donor, food aid constitutes much less than 10 per cent of its total food exports: 5.1m tonnes in food aid in 2002, while its total cereals exports were 82m tonnes.<sup>28</sup> For Canada it is less than one per cent. The gross impact of food aid for donors – including the USA – is certainly small. But it can have significant impacts on smaller economies and on the poor farmers who rely on local markets for their livelihoods.

In 2003, Stuart Harbinson, then chair of the WTO Committee on Agriculture, proposed new disciplines on food aid to guard against trade distortions. The disciplines proposed that:

1. All food aid must be provided in grant form.
2. Emergency food aid for use in crisis situations must be provided in response to requests by UN agencies, NGOs, or government-to-government appeals. Food aid violating this condition will be considered to be export subsidization and volumes will be subject to the same regulations as apply to export subsidies.
3. In non-crisis situations, food aid must be provided in cash form for local purchases, except in cases where food aid in kind may be distributed through UN agencies or NGOs.
4. Recipients of food aid may not re-export such aid unless it is part of a triangular purchase through a UN agency.
5. Food aid donors must report the information related to each food aid disbursement, as determined by the Committee on Agriculture.

According to available information, the US government set out objections to the elimination of food aid in the form of concessional sales, to the elimination of bilateral in-kind food aid for non-emergency purposes, and to the possible use of dispute settlement proceedings for food aid transactions.

As a result, proposed food aid disciplines have been considerably weakened in the current framework for negotiations, concluded in July 2004. The reference to the goal of eliminating food aid as a 'surplus disposal' mechanism, which was present in the very first draft of the framework agreement, has been removed.

The current text is sufficiently ambiguous that it would add nothing to current disciplines on food aid. As members start negotiating the modalities of the final agreement on agriculture in the run-up to the December Ministerial in Hong Kong, it is very important that progress is achieved and that WTO members engage in a sensible debate regarding food aid, resulting in binding and effective disciplines governing its use.

## 5. Recommendations

Oxfam believes that food aid can be essential to humanitarian response. However, food aid cannot be a substitute for sustainable development, which is the best way to reduce hunger for the more than 850 million people who are still suffering from chronic malnutrition. For many development and humanitarian needs, food aid is not an appropriate or efficient tool. In particular, in-kind food aid often fails to improve access to food due to delays in delivery and monetization, and mismatches between recipient needs and the commodities donated.

Improving the livelihoods of poor rural and urban populations and fostering agricultural growth in developing countries are essential to reducing hunger. The Doha Development Round offers a unique chance to address these issues by eliminating dumping, protecting vulnerable farm sectors in developing countries, providing new market opportunities for developing countries, and implementing the Marrakesh Decision to provide compensatory financing for poor food-importing countries in case food prices rise as a result of trade liberalization.

Current disciplines under the Agreement on Agriculture have been unable to curb instances of misuse of food aid. Oversight mechanisms, such as the Food Aid Convention and the FAO's Consultative Subcommittee on Surplus Disposal have fallen into disuse, or lack operational and enforcement capacities. This is why new disciplines are called for at the WTO.

Oxfam believes that the goals of WTO disciplines on food aid should be to:

- assure – or at a minimum, not obstruct – the timely and appropriate provision of effective humanitarian assistance when needs arise;
- address the problem of commercial displacement through food aid, including displacement of local production;
- eliminate the use of food aid for commercial aims; and
- eliminate the use of food aid as a surplus disposal mechanism.

To achieve these objectives, Oxfam makes the following recommendations:

### New WTO disciplines should require:

1. Food aid is provided exclusively in grant form. Providing food aid as a concessional sale serves as an implicit export subsidy and should be considered as such in accordance with WTO regulations. In addition to

undermining the humanitarian motive of food aid, an additional major concern is that concessional sales can add to the indebtedness of developing countries. In the case of the USA, eliminating concessional sales will require the phasing out of food aid provided under Title I of PL 480, which has an explicit market development function.

2. Food aid should not be linked, either explicitly or implicitly, to commercial transactions or services of the donor country.
3. The use of in-kind food aid should be limited to situations of local food shortage and/or non-functioning local food markets, where regional purchase is not possible. In other situations, food aid should be provided in cash form, to purchase food locally or regionally.
4. Monetization of food aid should be limited and replaced with cash donations, to avoid displacement of local production or commercial imports. While it is impossible to completely eliminate negative impacts resulting from food aid, it is important to minimize them. The most effective way to do this is to target food aid. Monetized food aid is untargeted food aid.<sup>29</sup>
5. Food aid should only be provided in response to calls from national governments, specialized UN agencies, other relevant regional or inter-governmental agencies, non-governmental humanitarian organizations, and private charitable bodies.
6. All food aid transactions must be notified in a timely matter to the FAO and WTO.

**In addition, the new Agreement on Agriculture should:**

7. Eliminate all other surplus disposal instruments, such as export subsidies and subsidized export credits.
8. Implement the Marrakesh Decision on Net Food-Importing Countries by:
  - a) putting into place multilateral financing mechanisms to facilitate commercial purchases in the event of higher prices for staple foods, due to reforms linked with the Doha Round or other market trends; and
  - b) increasing amounts of development aid to relieve food supply constraints and develop efficient local production of staple foods in net food-importing developing countries.
9. Curb the subsidized production of food surpluses through adequate disciplines on domestic support.
10. Increase funding levels for development assistance, particularly for agricultural development. Many of the problems associated with food aid are really problems deriving from the paucity of funding available for humanitarian and sustainable development. Food aid is often



provided in lieu of cash for development projects, though in fact much of it is converted into cash. Sending commodities for sale on local markets has no inherent advantage over sending cash in the first place, and is an extremely inefficient mechanism for providing funds for sustainable development and economic assistance. More than half the cash value of monetized food aid can be lost in the process of procuring, shipping, and marketing it. Increasing funding levels for development assistance is a critical complement to reforming food aid and will help address the deeper causes of hunger and food insecurity.

## Notes

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- <sup>1</sup> Oxfam GB interview, Boyolali Regency, Central Java Province, June 2001.
- <sup>2</sup> Forrest Laws, 'Rice industry in crisis, President told', *Delta Farm Press*, 20 July 2001
- <sup>3</sup> Watkins, K, 'Northern agricultural policies and world poverty: will the Doha 'development round' make a difference?', paper presented at Annual Bank Conference of Development Economics (World Bank), May, 2003. see: [http://wbln0018.worldbank.org/eurvp/web.nsf/Pages/Paper+by+Watkins/\\$File/WATKINS.PDF](http://wbln0018.worldbank.org/eurvp/web.nsf/Pages/Paper+by+Watkins/$File/WATKINS.PDF).
- <sup>4</sup> A discussion on the legal and historical underpinnings of the right to food can be found on the website of the UN Special Rapporteur on the Right to Food, at: <http://www.righttofood.org/>
- <sup>5</sup> Cook, C. D. (2004) *Diet for a Dead Planet: How the Food Industry is Killing Us*, New York: New York Press
- <sup>6</sup> Webb, Patrick., "Food as Aid: trends, needs and challenges in the 21<sup>st</sup> century", World Food Program, 2004.
- <sup>7</sup> Consultative Sub-Committee on Surplus Disposal: Thirty-Ninth Report to the Committee on Commodity Problems, 64<sup>th</sup> Session, Rome, 18-21 March 2003
- <sup>8</sup> It should be noted that there are cases where food aid can actually help to stimulate local agricultural production. Under some conditions, farmers accessing food aid can reduce their need to spend money on food, which permits investments in productive capacity (such as farm tools) and allows them to access credit. In addition, food aid can improve health and reduce illness, improving labor supply — a critical factor for developing country agriculture. Food aid can also enable agricultural producers to expend limited resources on measures aimed at increasing agricultural production, such as pesticides or fertilizer. See Clay, E., in collaboration with B. Riley and I. Urey (2004) 'The Development Effectiveness of Food Aid and the Effects of its Tying Status', OECD Development Assistance Committee, 21 October 2004 (DCD/DAC/EFF(2004)9, section 99). Also: Barrett, C.B. and D.G. Maxwell (forthcoming) *Food Aid After Fifty Years: Recasting Its Role*, chapter 9; Lavy, V. (1990) 'Does Food Aid Depress Food Production? The Disincentive Dilemma in the African Context', World Bank working paper; and Abdulai, A., C.B. Barrett and J. Hoddinott (2004) 'Does Food Aid Really Have Disincentive Effects? New Evidence from Sub-Saharan Africa', Cornell University working paper, [http://www.aem.cornell.edu/faculty\\_sites/cbb2/workingpapers.htm](http://www.aem.cornell.edu/faculty_sites/cbb2/workingpapers.htm)
- <sup>9</sup> For examples, see: Thurow, T. and S. Kilman, 'Seeds of discord: US food aid sparks a cycle of dependency for farmers, recipients — Sending crops, not cash, eases American gluts, ignores local surpluses — A pitch from raisin growers', *Wall Street Journal*, 11 September 2003, on farmers in Ethiopia. Also Saunders, D., 'Food aid exposes West's uncharitable charity', *The Globe and Mail*, 15 January 2005 on rice food aid in Sri Lanka; and Oxfam GB (2001) 'The Impact of Rice Trade Liberalisation on Food Security in Indonesia'.
- <sup>10</sup> Mousseau, F. (2004) 'Roles and Alternatives to Food Aid in Southern Africa.' report to Oxfam GB.
- <sup>11</sup> Clay, E., in collaboration with B. Riley and I. Urey (2004) 'The Development Effectiveness of Food Aid and the Effects of its Tying Status', OECD Development Assistance Committee, 21 October 2004 (DCD/DAC/EFF(2004)9, sections 6 and 98).
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- <sup>29</sup> The WTO may not be an appropriate institution to develop and enforce criteria on monetization and targeting of food aid, which would require a mechanism for complaints and criticism to be debated in public. Some observers, such as Barrett and Maxwell, have recommended that a new institution be created to replace the now-expired Food Aid Convention, which could undertake activities of this kind.

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