



Food aid: What role for the WTO?

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Introduction

The U.S. history of using food aid as a surplus disposal mechanism and vehicle to promote future export sales has drawn the World Trade Organization into the international debate about food aid. Moreover, the European Union argues that in exchange for giving up its use of export subsidies in the Doha trade round, other countries should also have to discipline their export support programs. Aspects of U.S. food aid, according to the EU, should properly be counted as export support not aid. U.S. food aid programs engage in practices that are highly controversial from a development and trade perspective.¹²⁹ These practices pose problems for rival exporting interests in the world of international trade. More seriously, they create problems for local producers in some of the world's poorest countries. According to the United Nations Food and Agriculture Organization (FAO), poor countries need to both increase domestic production and their capacity to pay for food imports, if they are to provide adequate calories for their populations.

The two main problems with U.S. food aid programs from a trade perspective are: sales of food aid, often supported by export credits at less than commercial interest rates and the increasing prevalence of monetization of project food aid (the sale of food aid on open markets in recipient countries to generate funds for development projects).

Food aid and the Uruguay Round

Food aid is mentioned in Article 10 of the Uruguay Round Agreement on Agriculture. The language is timid. The injunctions ask that countries respect the FAO's Consultative Subcommittee on Surplus Disposals and its principles and make food aid "to the extent possible" available in grant form. But neither recommendation has had an impact on WTO members' food aid practices.

Food aid was also integral to the Marrakech Ministerial Decision on Net-Food-Importing Developing Countries (NFIDCs) and least developed countries (LDCs). This was a decision taken to sweeten the Uruguay Round package for Africa in particular, the world's poorest continent and the only continent that was predicted to lose out under the liberalization of agriculture put in place by the Uruguay Round agreements. The Marrakech Decision was an acknowledgement by WTO members that implementation of the Agreement on Agriculture (AoA) could hurt food security,

particularly in LDCs and NFIDCs. This was because implementation of the AoA was widely expected to decrease the supply of food available to poor countries on concessional terms (through food aid or export subsidies), thereby increasing the cost of food imports. The Marrakech Decision committed WTO members to provide financial assistance if LDCs or NFIDCs faced problems paying for food imports and to ensure donors' food aid commitments under the Food Aid Convention were adequate.

By the end of 1997, FAO concluded, "The food security situation in both the LDCs and the NFIDCs remains precarious..."¹³⁰ The cost of food imports for food insecure countries rose dramatically in 1995 and 1996 and stayed higher than pre-Uruguay Round levels even when grain prices fell again. Yet the International Monetary Fund argued that liberalization under the Uruguay agreements was not responsible for the food deficit facing LDCs and NFIDCs and therefore recommended to the WTO

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Committee on Agriculture that WTO members need take no action to implement the Marrakech Ministerial Decision. WTO members concurred, over the protests of the LDCs and NFIDCs, who continue to fight for the implementation of the Marrakech Decision.

Proposals for Reform

The two main voices in the food aid debate are the European Union and the United States. Their proposals are reviewed in more detail below. Other proposals include submissions from Mongolia, Switzerland and Canada.

The EU Proposal

During the negotiations on the WTO AoA in 2004, the EU championed food aid reforms as part of its attempt to balance the EU commitment to eliminate agricultural export subsidies with reforms to other countries' various means of supporting agricultural exports. The EU food aid proposal calls for all food aid to be cash-based (rather than in the form of in-kind donations of food) and untied from requirements to source commodities in the donor country. The EU favors partial untying, which encourages the purchase of food from markets in the region where the food aid is needed, although it need not preclude purchases from the donor's market where appropriate.

The proposal, if accepted, would have enormous implications for U.S. food aid. By law, 75 percent of U.S. food aid must be in the form of food grown in the U.S. (i.e., in-kind), some of which is sold with export credits and most of which is donated. The U.S. government and a number of recipients of U.S. food aid actively oppose the EU proposal to narrow the definition of food aid.

The EU proposal is not likely to find support; the AoA negotiations are not the place to force such a dramatic change in what is, after all, a mostly bilateral aid program which accounts for less than two percent of all internationally traded food. But the EU proposal does reflect current thinking among many food aid practitioners, who would prefer to work with untied cash resources rather than in-kind commodity donations, so as

to have the most flexible, cost-effective and appropriate food in each emergency as need arises. The proposal would not preclude using the cash to buy food in a donor country, but would put more pressure on food aid agencies to justify that choice, which in many cases is a cumbersome and expensive option.

Current EU practice is not the best advertisement for a cash-based system. EU food aid donations have dropped with their shift to a cash-based, partially untied system (partial untying means the food should be bought in or near the recipient region, not just on the open world market). The cash—and therefore food—has been slower to disburse than some of the in-kind aid coming from the U.S. Nonetheless, while implementation is as important as getting the policy right, the evidence shows that making food aid more responsive to the needs of recipient countries is vital. Good food aid is targeted (which argues against the U.S. practice of using it for general budgetary support at a national level) and it is flexible. Tying food aid to in-kind donations from the donor instead of allowing a choice is bad policy. Such practices lead to unnecessary waste and fuel attacks on food aid as a whole, at a time when food aid resources are severely overstretched.

The WTO is not set-up to make decisions on what constitutes a humanitarian emergency, or to judge whether one kind of development program is better than another according to development objectives. Nonetheless, there is a coincidence of interests between sound trade rules and best food aid practice because the most trade-distorting food aid is also the least effective aid intervention. The EU approach is unnecessarily restrictive. A more modest approach should include: a clear statement of principles for good food aid, a rule to stop sales of food by the U.S. government being counted as food aid and some guidelines to improve oversight of monetization.

The U.S. Proposal

On October 5, 2005, the United States presented a detailed proposal for food aid rules as part of the new Agreement on Agriculture now under negotiation in

the Doha Round.¹³¹ Unfortunately, the U.S. proposal sidesteps the real issues and invents a few that confuse the debate.

The U.S. proposal does not include an end to the sale of food aid (food aid not in grant form). The U.S. proposal says nothing about the monetization of food aid, although open monetization in particular (when an agency sells food aid in local recipient markets without targeting) tends to show trade-displacing effects. The U.S. proposal suggests the UN Food and Agriculture's Consultative Subcommittee on Surplus Disposal as the best arbiter of appropriate non-emergency food aid, yet the committee has more or less ceased to function in the past decade or so. The Mongolian government proposed reforms to the subcommittee that would at least have addressed the weaknesses of the committee; the U.S. proposal did not even go that far.

The U.S. proposal puts food aid in three categories: emergency food aid; food aid to NFIDCs and LDCs; and, the rest. The categorization makes no sense. None of the literature looks at food aid in this way. The implication is that NFIDCs and LDCs—76 countries in total—are too poor to have local producers and commercial importers with an interest in their local and national markets. There is a presumption that displacement of local farmers cannot take place, which is contradicted by empirical evidence. The evidence is perhaps even more convincing on the displacement of commercial importers.¹³² Even in emergencies, displacement can and does take place. Obviously that displacement may be warranted by the immediate need of people facing famine. However, many emergencies drag on for years—think of the Sudan or Ethiopia. In these cases, while meeting immediate needs must remain the first priority, clearly it is not good enough to rely on the label “emergency” to discount the long-term damage that inappropriate food aid might cause. For many NFIDCs and LDCs, protecting local producers from dumped competition is essential because production needs to be stimulated not depressed. Good food aid can realize this objective; bad food aid will not.

FAO's test for food aid

Earlier in 2005, the FAO published a briefing that proposed a filter to determine which food aid transactions raise trade concerns, based on answers to three questions.¹³³ The filter provides a possible basis for the categorization of food aid by the WTO.

The questions are:

1. To what degree does the food aid increase overall consumption? (In other words, is it just displacing food purchases, or is it providing food to people too poor to buy what they need?).
2. To what degree is food aid tied? (Must it be sourced in the donor's market? Are there restrictions on who must ship the food and where it must be processed?).
3. Is the food aid really needed by the recipient country? (In FAO's language, is it meeting a legitimate aid need?).

Recommendations for food aid and the WTO

Canada's June 18 proposal on food aid suggests an interesting approach for the WTO: Create a “safe-box” to protect food aid that is unquestionably essential for saving lives and then see how to handle the remainder with appropriate WTO disciplines. The Canadian list proposed treating as non-trade-distorting food aid that is:

1. Demand-driven and based on a needs assessment carried out by the World Food Program and other relevant United Nations food aid agencies in cooperation with the recipient member.
2. Granted on the basis of pledges and commitments to, or in response to appeals from, specialized United Nations agencies, other relevant regional or international intergovernmental agencies, or the International Red Cross and Red Crescent movement.
3. Distributed directly to targeted beneficiaries.
4. Provided exclusively in fully grant form.
5. Completely untied from requirements of where or from whom food provided as aid is purchased.

6. Not linked to market development objectives of donor members.
7. Not tied directly or indirectly, to commercial exports of agricultural products or of other goods and services to recipient countries.
8. Not re-exported, except where it is an integral part of a food aid transaction initiated by a specialized United Nations agency.

IATP proposes the following additional measures for food aid that does not meet the “safe-box” criteria:

9. Phase out all sales of food aid by donor governments.
10. Require all food aid that fails to meet the above criteria be reported to the WTO and FAO jointly to ensure the food aid is well-targeted and causes minimum disruption in local and regional markets.
11. Implement the Marrakech Decision for Least Developed and Net Food-Importing Developing Countries. WTO members are responsible for providing readily accessible financing to assist LDCs and NFIDCs facing higher import bills, whether because of more volatile world commodity prices or because

of the decline in the availability of food sold at concessional prices in the world market. Note assistance is to be provided as finance, not in-kind food aid.

More generally, governments must:

- ▶ Immediately restart negotiations to reform the Food Aid Convention.¹³⁴ Such reforms should establish strong and enforceable multilateral guidelines with appropriate monitoring and enforcement mechanisms. Recipient countries must be given full rights to join the negotiations for a new Food Aid Convention and to be full members of the convention once it is established. All food aid, whether bilateral or multilateral, should be bound by the best practices set out in the new Food Aid Convention.
- ▶ Strengthen WTO rules to protect agriculture in developing countries from the persistent dumping of commodities at prices below the cost of production, including inappropriate food aid.¹³⁵ Recent G-20 and G-33 proposals to allow border measures to be used against imports of commodities that have been subsidized would be one way to make this goal more concrete.

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