

Dumping Food Aid: Trade or Aid?

(subsidized) Food Aid in kind: what is in it for the WTO

April 2005

Food trade and nutrition coalition



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Preface

"Food Aid is a necessary evil; it should only be given for short periods to overcome disasters".

The Ugandan member of the Food Trade and Nutrition coalition issued this statement on World Food Day, 2004. Reference was made to the situation in Northern Uganda where people have lived for 18 years in refugee camps dependent on food aid, without learning and without the possibility of developing their own country and lives: a lost generation. Food aid has led to a structural dependency for the country and its people, keeping both in poverty.

After years of hunger in the world, and knowing that more than enough food and feed, including live stock, is produced to feed the whole planet, food aid is still increasing hand in hand with poverty. Today 840 million poor people die from hunger and malnutrition. This number is increasing, while 1,3 billion people in rich countries suffer from overweight and obesity.

If this is a vicious circle, this controversy should end. It can be addressed by analyzing local food production in relation to long term dependency on food aid.

In this paper an unconventional relationship is drawn between humanitarian food aid, subsidized surpluses in donor countries, and trade.

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Wemos

1. Introduction

The latest UN "Hunger Report" preparing for the Conference on the Millennium Development Goals (MDGs) in September 2005 shows 800 million victims of starvation in 2000, whereas by 2004 it had risen to 840 million. The first MDG target of halving hunger and malnutrition by 2015 already shows a negative trend....unless we make serious efforts.

The MDGs are not standing alone. They are backed up by the Universal Declaration on Human Rights and the International Covenant on Economic, Social and Cultural Rights. In this sense the *Right to Adequate Food* is a universal human right as agreed upon in the United Nations (UN) Universal Declaration on Human Rights. These rights are non-discriminatory, meaning that they are valid *for all* people. Governments have an obligation to *respect, to protect, to promote and fulfill* these rights progressively.

On average 56% of the labour force in developing countries is engaged in farming¹. At the same time 80% of those suffering from hunger and malnutrition live in rural areas, paradoxically in the very place where food is supposed to be produced. Only 20% live in the towns and cities. A specific target group analysis shows that, at 50%, small farmer families represent the largest group among those suffering hunger and malnutrition. The situation is similar for undernourished children of whom 25% live in urban areas and 75% in small farming or landless families. In addition hunger, malnutrition and poverty disproportionately affect women. The number of women living below the poverty line has increased by 50% since the 1970s, against 30% of men.² The latest estimates of the Food and Agriculture Organization of the United Nations (FAO) are alarming. Instead of halving hunger and poverty by 2015 (UN *Millennium Development Goals*), a further increase in the number of undernourished people is seen.³ These data show that the most vulnerable groups live in the rural areas. According to the World Food Programme (WFP) and Food Aid Convention (FAC) objectives food aid should specifically address these groups.

In the Doha Development Round, taking place under World Trade Organization (WTO) negotiations since 2001, developing countries stress the need for food security, livelihood security and rural development in the so-called Development Box. A closer look at rural development in rural economies in relation to trade liberalization is needed, specifically when it comes to the dumping of food and the dumping effects of food aid in kind.

It has become clear that the dumping of subsidized food aid under the World Food Programme, and enhanced by the Food Aid Convention,⁴ has the same effects as the dumping on world markets of below cost price products.

¹ FAO (2001): "Mobilising resources to fight hunger". CFS: 2001/Inf 7, Rome, page 8.

² FAO press statement No. 98/17: FAO announces theme for World Food Day 1998: "Women feed the world".

³ FAO (2003): "The State of Food Security in the World", Rome, 2003: Between 1995-1997 and 1999-2001 the number of undernourished persons increased by 18 million".

⁴ FAC (Food Aid Convention) was established in 1967 under the auspices of the International Grains Council to improve the predictability of food aid flows. There are 23 signatories, including the EU and the 15 member states, Argentina, Australia, Canada, Japan, Norway, Switzerland and the USA.

A clear link is visible between the WTO export subsidies that are soon to be eliminated, and subsidized food aid in kind when this food aid comes from subsidized surpluses grown in rich donor countries.

2. Food aid and dumping of food aid: development visions

Food Aid under the World Food Programme (WFP) and the Food Aid Convention (FAC) is divided into three types:

Emergency food aid is the major focus (60%). It distributes food for free in times of disaster and extreme food "insecurity".

Programme food aid (20%) is bilateral development support to governments of developing countries, which is sold for below market prices on the local market in order to generate income for the government. This conversion of food aid into cash is called the "monetization" of food aid.

Project aid (20%) is provided to support specific activities and projects, mostly by aid and development organizations. The performance of this programme is poorly controlled.

Of all food aid 60% is food aid in kind, mainly coming from the USA, Canada, Australia, Japan, and Argentina. The remaining 40% is so-called *untied* food aid in the form of cash and comes mainly from the European Union (EU). Any food aid sold in the local markets is competing with local food production. This has the same effect as the dumping of products below cost prices on world and local markets. If, on top of that, this food aid in kind is the result of surpluses created by agricultural subsidies in the donor countries, then subsidized food aid in kind is to be considered as dumping under the WTO chapter on export subsidies and subsidized export credits.

A clear distinction can be made between food aid, food aid in kind, and the dumping of subsidized food aid in kind. Food aid will always be "a necessary evil" when it comes to food shortages due to natural disasters. But man-made disasters such as war and internal conflicts also create a need for food aid. In addition imbalances in world-wide power structures also create a second kind of man-made disaster by influencing the overall food distribution.

Rich countries dominate food production and food distribution. This power dominance should not be abused by rich economies if the original objective of the limited role of food aid is to be preserved and the dumping of food aid on local markets avoided. This stated that food aid should be the: "alleviation of poverty and hunger of the most vulnerable groups, and consistent with agricultural development in those countries". Underlying the different policies between Europe and principally, the USA, are different visions for development.

Europe started changing its food aid policies about ten years ago. The current policy departs from a development vision of empowerment and sovereignty for developing countries and their peoples. The political will is required to establish their own food security by creating a balance between trade and agricultural policies.

In order to stimulate good governance and responsibility in developing countries the EU has adopted a Food Aid Policy based on an "untied" status for food aid. This means that countries receive food aid in the form of funding, which they can use for local and/or regional food purchasing, according to their own dietary food patterns. At the same time this stimulates the local and regional food production and food markets. Thus local food production is continuously stimulated, and food aid is only a temporary measure.

The USA and other 'in kind' donating countries apparently depart from a charitable vision towards developing countries, in which food aid is seen and felt as a humanitarian deed of good will – the "warm glow" as they call it. These continuous food aid practices translate into dependency instead of independence. These policies of dependency, willingly and unwillingly, result in large shipments of food aid into developing countries over decades, long after disasters have faded.

Over the past 40 years, the good initiative of food aid is deteriorating into a political instrument. Food aid in the USA is now an integral part of the US-economy and US charity. Food aid increases when surpluses increase. This starts from agricultural subsidies under the Farm Bill, and moves to food distributors that take care of logistics, shipping companies, and finally onto development NGOs that receive food aid in kind in order to execute their development programmes. They then too become dependent on food aid for their activities. The biggest problem they see is that the food aid *programme* is monetized, or converted into cash on the local markets by recipient governments. Most US programme food aid is sold to recipient countries through concessional financing or export credit guarantees. Thus food aid could end up becoming permanent. Either as a direct consequence of the exercising of political dominance from rich countries or simply to keep the poor and vulnerable groups from starving.

But the position regarding food aid in the US had already started changing in the beginning of 2004. The U.S. Agency for International Development (USAID) official Mr. Andrew Natsios⁵ states that: "US food assistance must carefully be calibrated so as not to increase dependency, disrupt local markets or discourage local agriculture - it means that we must retain the ability to purchase food locally or regionally".

In the meantime, US WTO diplomats in Geneva heavily lobby food receiving countries, especially those with large urban populations like India, China, Indonesia and the Philippines, to accept food aid in kind as a structural support to their national budgets.

The EU concept is recognized and embraced by developing countries and civil society organizations under the definition of "food sovereignty"⁶ for nations. The national governments too accept their obligations to respect, to protect and to fulfil the human right to adequate food. On the other hand developing countries are politically vulnerable both to pressure from their urban electorate, even though this is a limited percentage of the

⁵ Andrew S. Natsios, USAID Administrator at the Kansas City Food Export Conference, April 20, 2004

⁶ Food sovereignty : the sovereignty of countries to establish and implement its own food policies in order to feed its whole population.

population, and to international pressure from rich nations and the international financial institutions.

Imbalances in supply-driven food aid separated from long-term food production policies have now existed for so long that it will take time and political will from both recipient and donor countries to reverse this downwards spiral.

But if we want a stable world with responsible governments in South and North, we all have to embrace this notion of food sovereignty. Longstanding dependencies and imbalances in power will eventually lead to resistance, violence and even terrorism.

3. Food aid in developing countries: producers and consumers

(see annex Synopsis of Ethiopia study at page 24)

Long-term dependency on food aid in kind, sold on local markets, shows different kinds of problems that will send the country into a downwards spiral.

National prices will collapse, local food production fall, and local markets and incentives to improve local infrastructure will be disrupted. The incentive to produce food for the following seasons is taken away when farmers know that cheap food imports and food aid in kind will flood their markets. Also food aid in kind takes a long time to arrive in the place of disaster. It takes between three to six months to get food aid in kind to the appropriate location as purchasing, transport and distribution of food has to come from across the world. Often the arrival of food aid happens at the moment that the local producers are finally beginning to reap the current season's harvest. This means that food aid is competing with local food, after a period of severe hunger, inflicting price collapses on local food products.

Local producers suffer, falling further back into poverty and long-term dependency on food aid. It is said that local consumers welcome food aid in kind as it reduces food prices in urban areas. This is becoming less evident. Consumers are more and more aware that imports are not necessarily better than local products. Awareness is also increasing amongst civil society organizations and consumers organizations⁷. One example is Uganda where consumers receiving food aid refused yellow maize, which is considered to be pig feed, and said that they prefer white maize, as their local and culturally accepted food. The refusal of GMO food aid in kind by the Zambian government shows awareness at a government level. Another clear case of consumers' awareness is the "frozen chicken" case in Cameroon, where the local chicken sector was completely destroyed due to the dumping of frozen chicken from abroad. NGOs analysis and the mobilization of consumers and producers have led to a government ban on the import of frozen chicken.⁸

The destruction of local food patterns leading to food with a different nutritious value is another factor to be looked at. Imported dumped food and food aid in kind might consist of refined foods, like white wheat and refined spice oil. These foods may be less nutritious in the necessary amount of proteins, vitamins and minerals. Often the food does not fit into the locally accustomed and acceptable diet. In urban areas you can see obesity and malnutrition in one family as more emphasis is put on the daily calorie intake. It can happen that in order

⁷ AIS (Bolivia) and CIN (Kenya) are performing a consumer's information campaign.

⁸ SAILD (Cameroun), 2004 April, Study

to be well nourished, adults will eat a lot of starch and become obese, while their children will be undernourished and lack proteins and micronutrients as they cannot fill their stomachs with enough food.⁹

4. Trade interests of donor countries in food aid in kind

The position of "in kind" donating countries is directly connected to the availability of commodity surpluses from their agricultural policies. Therefore the implementation of food aid policies in the USA and elsewhere have been directly linked with the ministries of agriculture. For example in the USA under the so-called Food for Peace programme, \$ 300 million is spent annually on buying US wheat, corn and other commodities from subsidized surpluses on the US market. This food aid is either shipped to famine-afflicted regions of the world, or it is given to non-profit organizations that then sell the food to finance development and assistance programmes in poor countries.

A whole "charity" industry linked with the food industry, transport, shipping and the distribution sectors are involved. This is why in the US fifty cents of every dollar allocated by the US government is not spent on food, but on getting the food to developing countries mostly with a delay of five months.

The programme has a lot of support among US farmers, but according to a forthcoming book, the U.S. Department of Agriculture (USDA) food aid purchases are too small to have much effect on crop prices¹⁰. The commercial interests involved are demonstrated by the fact that giant processors, for example, Cargill, Archer Daniel's Midlands, handle the commodities and shipping companies transport the food at rates inflated as much as 80 percent by rules that steer 75% of the business into US firms. A handful of aid organizations sell the food to pay for their development projects, but in so doing compete with local producers in developing countries, the very people they intend to develop.

These policies were propagated by appealing to the satisfaction of the "feel good" factor in charity or the "warm glow", common in the US versus a development and empowerment approach more favoured by the EU. Recently more criticism is emerging internally and externally from development and food aid organizations in the US. What the people and farmers do not understand is that: "the system has been hijacked along the way by shipping interests, by processing interests, with fine-print restrictions in the legislation".¹¹

In the European Commission, the EU's civil service, the Trade directorate general (DG) showed an interest in negotiating food aid under the WTO. This is because it confronts the EU with a trade distorting effect due to the subsidized food buying, distribution and shipping by the US and others. The dumping effects of food aid was not of their concern: "it is not for humanitarian reasons that the EU put the issue of food aid on the WTO agenda", as a DG trade official stated recently. The above-mentioned situation in the "food aid industry" is seen as un-leveled competition, in WTO terms, favourable for US farmers and the food and

⁹ D. Saunders: study on obesity in Southern Africa (2003)

¹⁰ "Food Aid after Fifty Years: Recasting Its Role", by Christopher Barrett, Daniel Maxwell, 2005

¹¹ Exchange of information is going on between the FTN Coalition and US based development NGOs like Oxfam America, Caritas International, Church World Service, Food First etc.

distribution sector. Food aid is thus used to pave the commercial path for commercial interests.

Very recently¹², however, the USDA declared that it would save both time and money, if the allocated funds for food aid could be spent on buying this food locally or regionally. This statement corresponds with the findings of a report from the Development Co-operation Directorate of the Organization for Economic Co-operation and Development (OECD DAC) of November 2004 on the effectiveness of food aid and its tied status (see chapter OECD on page 15).

This creates a new situation for recipient developing countries. They could be structurally better off in relation to food aid due to the possibility of renegotiating better conditions.

5. Institutions working on Food Aid and power relations

(UN) Food and Agriculture Organization (FAO) and World Food Programme

The FAO is the institute that demonstrates in figures and policies what amount of people suffer from hunger and malnutrition in rural areas. This number is increasing in absolute and relative terms. The first Millennium Development Goal states that by 2015 hunger and malnutrition should be cut by 50% from 800 million in 1999 to 400 million in 2015. However this number has in fact now increased to 842 million. These people are caught in a rural poverty trap. Their only means of income, agriculture, has seen the already low prices for its produce drop dramatically over the past decade.

The expectation is that within five years urban areas will experience the same problem as the rural poor and migrate in large numbers to the cities where there is no industry to absorb them. In India the expectation is that by 2015, 300 million debt-ridden people will move into the urban areas as they will have sold all their land to their creditors.

So are we on the track to end hunger in the world? The answer is a resounding. No. Yet we know better than ever what to do to end hunger.¹³

The WFP is a programme implementing food aid. Of all food aid 60% of the WFP is coming from the USA, while at the same time the WFP is presided over by the USA. This food aid is all in kind, and has resulted from agricultural surpluses. Years of data collection have proven that the provision of food aid correlates directly to the level of surpluses in the USA, and therefore can be called supply-driven. No needs or demand assessments are carried out. 40% of the WFP food aid comes in funds due to a clear policy of making food aid effective and not disturbing local agricultural and food and trade policies. The EU has the most progressively elaborated guidelines on food aid at this moment.

¹² The *Washington Farm Report*, February 20, 2005

¹³ From the foreword of the *Hunger Report 2004*, Bread for the World Institute, Washington, USA (2004)

The Food Aid Convention

The Food Aid Convention (FAC) was established in 1967 under the auspices of the International Grains Council to improve the predictability of food aid flows. The current FAC entered into force in 1999. There are 23 signatories to the current FAC, including the EU and the 15 member states, Argentina, Australia, Canada, Japan, Norway, Switzerland and the USA. At the moment, the negotiations for a new FAC to begin in July 2005 are underway.

The FAC aims at ensuring a minimum availability of quality food aid¹⁴ to meet emergency requirements and developmental activities in developing countries. It should be made available to developing countries with the greatest needs on a predictable basis, irrespective of fluctuations in world food prices and supply. It intends to protect recipient countries against downward fluctuations in annual food aid shipments in times of high prices.

The Convention contains clauses on best practices covering the management and design of food aid programmes. These include assurances that food aid should only be provided when it is the most effective and appropriate means of assistance and that the particular needs of women and children should be met. Harmful effects on local production and eating habits of the beneficiaries should be avoided. In the 1999 FAC, "value commitments" were introduced as an alternative to the "volume commitments". Donors might make available cash contributions to purchase food in the recipient country itself in order to assist a deficit area in this country. Alternatively purchases could be made from other developing countries, so-called triangular transactions. The list of products includes not only cereals and pulses, but also other products, such as edible oil, skimmed milk, sugar and seeds.

But the FAC has various weaknesses too. No sanctions are applied for non-compliance with guidelines. Also it fails to provide a forum for donors to address new issues and concerns in relation to food aid. Its principles meanwhile only apply to the minimum commitments of the members and food aid above this minimum commitment does not have to comply with the FAC rules. Finally part of the committed food aid, though not more than 20%, can be given as soft loans.

The position of the USA and other "in kind" donor countries

The food aid policies in the USA have been directly linked with the ministries of agriculture. In the USA under the so-called Food for Peace programme \$ 300 million are spent annually on buying US wheat, corn and other commodities from often subsidized surpluses on the US market. This food aid is shipped to famine-afflicted regions of the world, or it is given to non-profit organizations that then sell the food to finance development and assistance programmes in poor countries. A whole "charity" industry linked with the food industry, transport, shipping and distribution sectors is involved. This is why in the US fifty cents of every dollar allocated by the US government is not spent on food, but on getting the food to developing countries mostly with a delay of five months.

As already stated on page 8, very recently¹⁵ the USDA in line with the OECD declared that it would save both money and time, if the allocated funds for food aid should be spent on buying this food locally or regionally. In the USA a discussion is going on between and within organisations involved in food aid. Government bodies USAID and USDA discuss on where food aid should be handled. In Geneva developing countries are still put under pressure by

¹⁴ The commitments are expressed in wheat equivalents and amount to 4.8 mln. tons per year.

¹⁵ The *Washington Farm Report*, February 20, 2005

US negotiators to continue to accept food aid in kind (especially as budget support). US farmers feel either threatened by the cut in subsidies for food aid or promote it as it is just a minimal part of their income. It is mostly the big enterprises that will lose out on an elimination of food aid in kind and have more interests at stake. This discussion has only started, and it is not sure whether a clear position will have developed before the end of the WTO ministerial in Hong Kong by the end of 2005.

The position of the European Commission (EC)

In the last ten years the position of the EC has improved but it is still under threat. The link between subsidies and surpluses makes food aid in kind still an easy way to get rid of excesses of food production in European Countries. With the new EU countries this problem might return.

However the EC's Development DG does not believe that the present Food Aid Convention has met its objectives. For example:

- Article I (b) states in attaining the objective of: "encouraging members to ensure that the food aid provided is aimed particularly at the alleviation of poverty and hunger of the most vulnerable groups, and is consistent with agricultural development in those countries." But according to available statistics, almost one third of the food aid provided by donors is being sold on the market, meaning that food aid was not targeted at the most vulnerable groups.
- Article VII (a) requires that in ensuring: "food aid should only be provided when it is the most effective and appropriate means of assistance." But the monetization, or conversion into cash, of part of the food aid makes clear that in these cases food aid apparently was not the most appropriate means of assistance.
- There is no clear evidence that the provision of annual minimum commitments under the Convention has succeeded in making food aid more effective. Even if donors have, historically, surpassed their minimum commitments, this does not necessarily mean that food aid has been provided when most needed and to the most vulnerable. The negative relationship between international prices and food aid flows is well known. Analysis has shown that food aid volumes increase when international food prices are low and decrease when prices are high.
- Although minimum commitments are supported on the grounds that they enhance the predictability of food aid, the usefulness of minimum commitments and the merits of predictable food aid needs to be reassessed. In principle food aid should only be provided in response to identified needs.
- As minimum commitments are fixed at 10,000 tons, minor food aid donors, or donors who provide food aid occasionally, are not credited with their contribution.
- Food aid can be provided on concessional terms up to a maximum of 20% of a member's total commitment. The European Community believes that concessional loans are more usually linked to an interest in opening commercial markets than pursuing humanitarian or development objectives and argues that food aid should only be provided on full grant terms.

- Since the principles and terms of the Food Aid Convention apply only to the minimum commitments of its members, it follows that food aid above this minimum commitment does not have to comply with the FAC rules. In our view, this is a major weakness and concessional loans are an example of the violation of the FAC rules.

Moreover, the Convention requires that members' food aid contributions are reported as wheat equivalent quantities. This leads to difficult and complicated conversion formulae, requiring information on multiple elements that is not always easily available. Some types of food aid cannot be converted into a wheat equivalent and are therefore not allowed to be reported as member's contributions thus leading to incomplete reports. In addition, the conversion of value commitments into wheat equivalent hides the real value of food aid contributions and results in misleading reports.

In addition food aid is provided through several budget instruments, for example as bilateral aid, multilateral aid, support to NGOs, emergency aid or humanitarian aid programmes as food aid-in-kind and as cash contributions.

This makes gathering information on fulfilment of members commitments a cumbersome task. Therefore the usefulness of the reporting system needs to be examined carefully, especially as impact is not measured. This is particularly true because of the conversion into "wheat equivalent" of members' commitments, as required by the Convention.data,

The pending issues of the positions of the USDA versus EU DG Development

The EC believes that the Food Aid Convention should serve as a forum for food aid donors in which to address new issues or concerns. However, the present Convention has so far failed to fulfil this role:

- The most recent example is the case of genetically modified (GM) food aid. When some recipient countries in Southern Africa refused GM-food aid, donors, with the exception of the EC, did not raise the issue at the FAC.
- Another example is the untying of food aid. Donors, with the exception of the EC, have shown little willingness to discuss it in the FAC.
- The issue of the impact and effectiveness of food aid has not been adequately tackled and the 1999 Convention has not led to improvements in donor co-ordination even though this is an explicit objective.
- The issue of twinning needs further negotiation. This means the payment by a cash donor of additional costs from an "in kind" donation. The principle "full cost recovery" is a position defended by some EC countries, including the Netherlands. Twinning candidates should be submitted to strict criteria. For instance a country in which 20% of its population are malnourished, and therefore defined as in a state of food insecurity, should not be a twinning candidate.
- Local and regional food purchases should prevail. It is against these weaknesses that the European Community has expressed its readiness to re-negotiate the Food Aid Convention.

- Postponement of the renewal of the FAC was decided during the November 2004 negotiations on the renewal of the FAC by July 2005. It was decided that the donor countries would wait until the WTO ministerial meeting in Hong Kong in December 2005.

Organization for Economic Co-operation and Development (OECD)

A recent OECD/DAC study¹⁶ shows that the cost of 'global inefficiency' in food aid in kind, compared to financing *commercial imports*, is at least 30%. Purchasing food aid locally, regionally, or on a triangular arrangement from a third country, at the request of the developing one, is even more cost effective. When compared with food in cash a lot of funds can be saved for extra aid that needs to be used for development project aid. This vision is also reflected in the same OECD report, which makes a clear link between the overall flow of aid, comparing food and pure development aid respectively.

"Food aid has declined in absolute value and relative importance from over 20% of total bilateral Overseas Development Aid (ODA) in the mid 1960s to below 5% since the mid 1990s. Meanwhile the share of food for humanitarian relief and crisis-related emergency assistance has increased at the expense of both the development programme and project aid. These trends are reflected in the food aid programmes of both the major food aid donors, the USA, accounting for more than half of total bilateral food aid, the EC, with more than 10% of bilateral food aid, and also most other DAC members. The total expenditure by the WFP, which currently channels about half of global food aid, has risen because of its key role in relief, whilst its development portfolio has contracted."

6. Food Aid in terms of the WTO

The WTO is a trade organization dealing with the world-wide regulation of trade. It seems inappropriate that humanitarian food aid is being negotiated under the Agreement on Agriculture (AoA) of the WTO. The European Commission put the issue on the AoA-agenda as they consider the complexity of food aid in kind, the related export subsidies, the involvement of the food industry, distributors, transport and shipping as trade distorting. Although the Food Aid Convention negotiates on the criteria for food aid spending, it was decided to await the WTO Hong Kong Ministerial meeting as the WTO has more implementing power than the FAC.

In practice we have to ensure that the WTO does take disciplinary action against the misuse of food aid for commercial reasons. We have to ensure that the WTO will take sufficient disciplinary action. The following articles in the AoA show two clauses concerning food aid:

¹⁶ "The development effectiveness of food aid and the effects of its tying status", OECD/DCD/DAC/EFF(2004)9

1. *Article 10, Prevention of circumvention of export subsidy commitments*

Point 4.: "Member donors of international food aid shall ensure:

- a) that the provision of international food aid is not tied directly or indirectly to commercial exports of agricultural products to recipient countries;
- b) that international food aid transactions, including bilateral food aid which is monetized, shall be carried out in accordance with the FAO "Principles of Surplus Disposal and Consultative Obligations", including, where appropriate, the system of Usual Marketing Requirements (UMRs);
- c) that such aid shall be provided to the greatest extent possible in fully grant form or in terms no less concessional than those provided for in Article IV of the Food Aid Convention 1986."

Comments:

The WTO thus forbids the use of export subsidies for food aid with commercial side effects. But it is still not stated clearly enough that food aid should not be used as a "surplus disposal mechanism". This is still in practice the USA and elsewhere. This is the reason why many NGOs call for "stronger disciplines on food aid that prevent it from being used as a mechanism for surplus disposal. Sophia Murphy of the IATP pointed out that: "the WTO is not competent to judge what kinds of food aid serve a legitimate humanitarian or development purpose versus the donations that simply relieve pressure on the donor's structural oversupply...".

This is why the FTN Coalition suggests that in addition to the WTO those institutions specializing in food aid should develop efficient and effective food aid criteria. At the moment the FAO-Principles are less effective and therefore should *not* be leading in the WTO text. The FAC criteria should be the basis for normative food aid supply as these are striving for needs-based assessments. FAO and WFP should also adopt these criteria.

2. *Annex 2, "Domestic support: the basis for exemption from the reduction commitments".*

Point 4.: "Domestic food aid. Expenditures (or revenue foregone) in relation to the provision of domestic to sections of the population in need. Eligibility to receive the food aid shall be subject to clearly defined criteria related to nutritional objectives. Such aid shall be in the form of direct provision of food to those concerned or the provision of means to allow eligible recipients to buy food either at market or at subsidized prices. Food purchases by the government shall be made at current market prices and the financing and administration of the aid shall be transparent".

Comments:

This article stated that internal food aid provided by governments from developing countries to their own poor citizens, is exempted from reduction obligations. This is a form of domestic support that would fit in the "green box".

This is a formulation the FTN coalition agrees with as it supports the Indian Public Distribution System (PDS) and Brazilian situation (Fome Zero - the Zero Hunger programme of the government).

It is important that internal food aid is also provided in cash, *untied*, similar as in the international situation. It will keep prices on the local markets realistic for both producers and consumers. Exit strategies for food aid receiver groups should always be part of the food aid programme.

3. *The AMS - Aggregate Measure of Support*

The AoA does not mention food aid when considering the AMS - the sum of all domestic support in the amber, the blue and the green boxes -.

Comments:

However there is an indirect link. Internal domestic agricultural support, in the boxes for the EU and the US and others, do lead indirectly to overproduction. Consequently part of this overproduction will be "exported" as food aid with the help of export subsidies. An International Food Policy Research Institute (IFPRI) study states the following: "To the extent that industrialized countries can utilize domestic subsidies to expand their production, and export subsidies to sell it in world markets, this may limit the possibility of food vulnerable countries to produce themselves a larger percentage of their food, and make them dependent on food aid or export subsidies".

4. *Special Safeguards*

Under the AoA several mechanisms are currently under discussion to protect local markets from all kinds of dumping practices.

- Special Safeguard Mechanisms (SSM)
- Special and Differential Treatment (SDT) needs a simplification in use, so that
- Special Products (SP): The advice surrounding the conflict between consumers and producers is NOT to use SSM/SP on food crops such as wheat, rice and maize.
- Special care has to be taken in negotiating SPs for food products provided that are also made available as food aid such as grains (gmo and non-gmo), edible oils, milk powder, that compete with local food production

For Least Developed Countries the use of SP is not necessary, as they will not apply to them.

- Other developing countries should look very carefully into how they use SSM/SP and negotiate this with the rich countries. Difficult or one-sided trade-offs are expected.

Comments:

These are temporary mechanisms too short to overcome the local production problems and build up a sound agricultural sector or a manufacturing agricultural industry that is capable of competing on the international markets. These mechanisms are complex, sometimes contradictory and difficult for negotiations and trade-offs. The utilization is also difficult. They need to be simplified for their timely and appropriate use.

In this respect the FTN Coalition still prefers the introduction of a *Development Box*.

7. Conclusions on WTO AoA Food Aid by the FTN Coalition

The misuse of food aid for commercial reasons, or of negative commercial side effects for food aid receiving countries, should be policed within the WTO by :

- Eliminating the use of export subsidies creating artificial surpluses for food aid.
- Immediately halting the use of food aid as a means of disposing of agricultural surpluses.
- Limiting the level of domestic support, AMS, that indirectly influences the amount of available and therefore provided food aid, donor driven food aid, and should therefore be considered *unnecessary*. This unnecessary food aid increases dependency by food aid recipient countries and disrupts their local markets, local production and local nutritional patterns.
- Simplifying the use of Special Protection Mechanisms against the dumping of food aid for the use of developing countries.
- Using the FAC criteria as guidance in order to determine if a certain food aid donation is based on a clear humanitarian need or if it is a hidden form of the surplus dumping of food aid.

8. Conclusions and recommendations

Conclusions derived from this introduction show that many aspects of a humanitarian aid plan do not have anything to do with aid and development objectives. In many cases trade and the opening up of new markets in developing countries are the hidden agenda of already very dominant states and their domestic agriculture and food industry sectors.

It is our conviction that as rich nations in the world we have a responsibility and obligation not to abuse our dominant position further nor to take advantage of the power imbalance between developed and developing countries.

The best solution in order to avoid the misuse of food aid *by wealthy food donating countries* for commercial reasons remains: **untying food aid and the stimulation of local purchases**. This means that food aid should be provided **exclusively in cash**.

WTO - new requirements for the Agreement on Agriculture

The FTN Coalition is convinced that the WTO can play an important role in policing the misuse of food aid for commercial reasons. The Agreement on Agriculture should guarantee:

1. NOT to use export subsidies to create artificial food surpluses as the basis for food aid in kind, thus phasing out, subsidized food aid in kind along with export subsidies and subsidized export credit.
2. Subsidized food aid in kind distorts trade with regard to the WTO and puts the EU in a position of unequal competition.
3. International food aid transactions, including monetized food aid, should explicitly or implicitly be separated from commercial transactions by donating countries.
4. Adequate disciplinary measures on the domestic subsidies, price support mechanisms and green box support should be in place in order to avoid the creation of artificial surpluses leading to surpluses and dumping.
5. Mechanisms to protect local production against dumping by SDT/SSM/SP in food and food production should be simplified and not contradictory.
6. Needs assessments and supply management should be the basis of food aid production in the world thereby eliminating the creation of uncontrollable surpluses.
7. The WTO should use the definition of Food Aid as adopted by the FAC, which is better formulated than the actual definition of the FAO/WFP.

In addition the specialized international institutions such as the FAO, the WFP, the Food Aid Convention and the OECD should take their responsibilities seriously in the assessment and sustainable provision of food in the world. Not only should the provision of food aid be taken into account, but also the longer-term consequences of food aid and food aid dependency. The WTO plays a crucial role in the prevention from misuse of food aid.

FAC and WFP - new requirements

Recommendations for the new FAC should be incorporated into the WFP and as such be emphasised in the WTO agreements. But it should be kept in mind that it is NOT the WTO that has the required knowledge of food aid:

1. The definitions of food aid as adopted by the UN system of the FAO and the WFP, should redefine the FAC definition in relation to needs assessments.
2. The presidency of the WFP should shift from a donor country to a recipient country because of the global imbalance in power relations. Alternatively the FAC should admit recipient countries as members.
3. All food aid¹⁷ should be untied from purchases by domestic suppliers.
4. FAC members should recognise the human right to adequate food and adhere to the voluntary guidelines adopted by the IGWG.
5. The WFP should adopt either binding sanctions or a dispute settlement body in order to implement effective food aid thus guaranteeing food sovereignty to developing countries.
6. Food aid should be granted on the basis of a needs assessment as measured in terms of calorie and protein availability or anthropometry.
7. The preferred method of supply should be local, regional and triangular purchases of food in the recipient countries or their neighbours.
8. Food aid should be timely and appropriate.
9. Recipient countries and organizations have the right to accept or reject GMO food aid.
10. Standards for the compulsory labelling of GMO food products and the ability to trace their origin should be adopted for food aid.

NGOs - new requirements

Civil Society Organizations play an important role in this process. In some food aid donating countries development and emergency aid NGOs depend on food aid in kind for their operational costs. The FTN coalition wishes to support especially these NGOs:

1. NGOs should convince the governments of developed countries that food aid should fully be provided in cash grants instead of in kind, apart from relief assistance during emergencies and natural disasters.
2. Governments of developed countries should raise their development co-operation budget to 0,7% of their GNP, stipulated by the Monterrey Agreement on Financing for Development.
3. Food aid programmes being dealt with under the ministries of agriculture should be transferred to the ministries of development co-operation

¹⁷ Food aid (and its transport) is excluded from the DAC recommendation on Untying Assistance to Least Developed Countries, which came into force on 1 January 2002. At present, however, DAC is drafting a report on the effects of tied food aid.

4. Substitution of food aid into structural development aid to relieve developing countries who are net importers of food.
5. Monetization of development aid should be replaced by cash donations in order to promote local and regional purchases. This will minimize the risk of the destruction of local production and consumption in recipient countries.
6. Commercial interests or transactions favourable to commercial sectors from donor countries should be avoided.

9. Abbreviations

AoA	Agreement on Agriculture
AMS	Aggregate Measure of Support
EU	European Union
DAC	Development Co-operation Directorate
DG	Directorate General
FAC	Food Aid Convention
FAO	Food and Agriculture Organization of the United Nations
FTN	Food Trade and Nutrition coalition
GM	Genetically Modified
IFPRI	International Food Policy Research Institute
ODA	Overseas Development Aid
OECD	Organization for Economic Co-operation and Development
PDS	Public Distribution System
MDG	Millennium Development Goal
NGO	Non-governmental organization
SDT	Special and Differential Treatment
SP	Special Products
SSM	Special Safeguard Mechanisms
UMR	Usual Marketing Requirement
UN	United Nations
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
WFP	World Food Programme
WTO	World Trade Organization

Annex 1. Example Ethiopia-conclusions from the case study

From the IGC report on Price Stabilization in Ethiopia (2003)

The Ethiopia example - conclusions¹⁸:

In the report it is concluded that the costs of production do not constitute a sound threshold for assessing the probability of collapsing prices on a national scale. It is assumed that prices have not collapsed if they remain at a level that will provide an incentive for adequate production in the following season. An analysis of prices to farmers and subsequent production levels is used to derive threshold prices in the Addis Abeba wholesale market that can be used as an indicator of a national price collapse.

Given the substantial proportion of the total cereal crop that is traditionally made up of maize and sorghum (53%), significant yield reductions in these two crops will affect the cereal balance overall. It is expected that a deficit of approximately 12% will become evident by the end of March. It is anticipated therefore that prices for maize and sorghum in particular will remain buoyant and that cereal prices overall will remain firm over the four months from December to March.

Measures for Price Stabilization in the 2003/04 marketing year

Although it is considered unlikely that cereal prices will collapse this season, it is nevertheless possible that localized reductions of wheat prices in particular may occur in the short term. To mitigate against such developments a range of short term measures were considered. It was concluded that the most appropriate measures that could be undertaken would be the expansion of the Local Purchase Programme to absorb surplus production either across the market or in targeted areas, combined with the export of surplus maize. Targeted purchases would be particularly important if the price differential between a given market and the domestic network greatly exceeds the normal gap.

The grain procured in this way would be disposed off as food aid, but would not formally be part of the statutory national food security reserve. It may be stored with the Ethiopian Food Security Reserve Agency (EFSRA) or, against issue of warehouse receipts, at the Ethiopian Grain Trade Enterprise (EGTE).

The effectiveness of such an intervention would be greatly enhanced if participating donors could agree on simplified, more flexible procurement procedures. This would permit more precise, timely targeting of purchases to influence prices in specific markets.

One further modification in the Local Purchase system would be to improve the participation of small producers and traders. The donors should consider appointing several established NGOs or producer organizations in regional markets to serve as small lot buyers. It would be essential that a local warehouse be certified at the same time, to hold the grain purchased

¹⁸ From the IGC report on Price Stabilization in Ethiopia (2003)

under the programme. An added administrative cost for this modification is inevitable but can be justified as permitting wider participation in the market.

The timing of local purchase operations is critical. In the event that donors assign the task to the EGTE, we recommend that exceptional procedures be agreed with the government to address the related issues of finance and timing.

Measures designed to have an impact beyond 2003/04

The high level of variability in on-farm prices for cereals in Ethiopia is attributed to the fact that the country is landlocked and has poor infrastructure, coupled with limited internal demand, supply-oriented agricultural policies, poor market integration and high transaction costs. The problem is particularly acute with maize, a crop that Ethiopia is capable of producing in excess of domestic requirements.

Ethiopia can address these problems and bring about a major improvement in the performance of its agricultural marketing system by a combination of the following measures:

Measures to stabilize the market inter-annually – notably the *nuanced management* of local purchase of food aid grain, that is procuring more when there is a surplus and less when there is a deficit.

Measures to improve market integration, notably the development of a viable warehouse receipts system.

Effective market information and contract enforcement systems.

Demand enhancement, notably through food aid reform, and the development of new uses for surplus grain

These solutions are reasonably straightforward in principle, but bringing them about will be a challenging task due to constraints on both the government and the donor side. Public policy remains directive and lacks the sort of facilitative approach needed to improve the performance of private sector players. Overall the donor community remains heavily oriented towards relief activities with relatively little attention being paid to longer-term development. The Local Purchase of food aid has been beneficial, but it is far short of realizing its potential as a tool for improving the performance of the local marketing system. Given weaknesses on both the government and donor side, there is a danger that any market development projects will misfire and fail to achieve their objectives.

Based on these considerations, the authors recommend that, beyond the immediate concerns of the 2003/04 season, the donor community should adopt the following approach to grain price stabilization and market development in general. It should first thoroughly prepare itself for a dialogue with government and possible long-term support to agricultural market development. This will in particular involve forming a strong donor co-ordination mechanism and addressing areas of inconsistency in policies on the donor side. These include: the adverse impact of imported food aid grain on domestic economic development; the provision of fertiliser aid without sufficient regard to the country's ability to use it to good effect, and; weaknesses in support for local purchase, notably administrative delays, absence of multi-annual programming and its insufficient use as a development tool.

The donor community should then enter into a discussion with the government and other local stakeholders seeking agreement on the principles, components and management system for market development and the reform of the food aid system. Agreement on the way forward will lead to the creation of an *agricultural marketing authority* to oversee the development of the marketing system, including the market information system, the warehouse receipt (WR) system and settlement of trade disputes and other aspects. Donor support for such development should be contingent upon acceptance of the true autonomy of the authority and its freedom from day-to-day political pressure.

Alternatively donors may wish to pursue a more modest programme of activities, but they should, in any event, strive to address any outstanding inconsistencies in market development, seeking in particular to reorient their food security assistance along more market-friendly lines.

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Title: Dumping Food Aid: Trade or Aid? (subsidized) Food Aid in kind: what is in it for
the WTO
Document: 1011/2
Author(s): FTN partners and Wemos
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Date: April 2005

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