



## No. 8. FOOD AID in the context of international and domestic markets and the Doha Round

### SUMMARY

- ▶ *Over the past two decades, the volume of food aid has declined both in absolute terms and as a share of the basic food imports of low-income food-deficit countries (LIFDCs). Its composition has also changed, shifting away from programme food aid towards emergency food aid.*
- ▶ *Reaching consensus on the impact of food aid on recipient countries and on disciplines to be applied to international food aid transactions remains a major hurdle in the current round of multilateral trade negotiations.*
- ▶ *There is, however, substantial agreement on the importance of the targeting and timing of food aid deliveries. These concepts are used in this brief to develop a classification scheme for food aid that could prove useful in the current multilateral trade negotiations.*
- ▶ *Managing food aid in the context of the negotiations also requires strengthening of the existing international mechanisms for undertaking food aid needs assessments and for the monitoring and analysis of food aid flows.*

### 1 International agreements on the use of food aid<sup>1</sup>

Food aid has its origins in disposal of the food surpluses (mostly of cereals) that had accumulated in some developed countries by the early 1950s. This form of aid is likely to displace commercial imports and discourage local production in recipient countries. Recognizing this possibility, in 1954 the international community established the FAO Principles of Surplus Disposal (the Principles), an international code of conduct to encourage the constructive use of disposal of surplus agricultural commodities, while safeguarding the interests of commercial exporters and local producers.

The importance of food aid in addressing certain food insecurity issues was also recognized when, in 1967, food aid donors signed the Food Aid Convention (FAC). This treaty aimed at enhancing the capacity of the international community to respond to food aid needs by setting the minimum level of food aid that countries were willing to provide, thus guaranteeing a predictable flow of food aid independent of price or supply fluctuations.

In 1995, both of these international instruments became an integral part of the WTO Uruguay Round Agreement on Agriculture

(AoA), which stipulated that food aid transactions should be carried out in accordance with the Principles and should to the extent possible take the form of grants or be made on terms no less concessional than those provided for in the FAC.<sup>2</sup>

The food aid text still falls under the "export competition" pillar of the AoA. The WTO's July 2004 Framework Agreement established a requirement for full "parallelism"<sup>3</sup> between food aid and other forms of export subsidization, as a result of concern about food aid transactions being used to circumvent restrictions on export subsidies.

These international agreements have not, however, been effective in disciplining international food aid transactions in a satisfactory manner:

- the Principles, because they are not a legal instrument with a formal dispute adjudication process;
- the FAC, because the obligations of the signatories are limited to reporting up to only their minimum commitments; and
- the AoA, because there is no explicit provision in the Agreement stipulating formal monitoring and reporting to the WTO and, thus, determining the extent to

<sup>1</sup> This brief draws on a longer technical note reviewing issues related to the impact on international and domestic agricultural commodity markets of the existing food aid regime, and the current state of the negotiations aimed at bringing food aid into the new WTO disciplines. FAO Trade Policy Technical Note No. 8 on Food Aid is available at [http://www.fao.org/trade/policy\\_en.asp](http://www.fao.org/trade/policy_en.asp)

<sup>2</sup> Article 10.4(b) and 10.4(c) of the Uruguay Round Agreement on Agriculture (WTO (1999)) *The Legal Texts – the results of the Uruguay Round of multilateral trade negotiations*, Cambridge University Press, pp.42-43).

<sup>3</sup> The concept of parallelism is discussed in detail in FAO Trade Policy Technical Note No.4 on export competition [http://www.fao.org/trade/policy\\_En.asp](http://www.fao.org/trade/policy_En.asp)

which the first two international instruments are being adhered to.

In the current round of multilateral trade negotiations, it has been difficult to reach agreement on a set of rules that would bring international food aid under further trade disciplines. The wording contained in the July 2004 Framework Agreement highlights the lack of consensus among the WTO negotiators regarding the specific rules to be agreed to: "food aid that is not in conformity with operationally effective disciplines to be agreed" will be "eliminated by the end date to be agreed". The negotiations will also address the "role of international organizations as regards the provision of food aid by [WTO] Members, including related humanitarian and development issues" and the "question of providing food aid exclusively in fully grant form".<sup>4</sup>

The Hong Kong Ministerial Conference in December 2005 failed to develop a consolidated draft text on food aid, though April 30, 2006 has been set as a deadline for reaching an agreement. This is due in part to differences in the policy approaches to the provision of food aid in certain donor countries and in part to a lack of an effective process to monitor international food aid transactions, combined with the inconclusive nature of research on the impact of food aid on commercial trade.

Differences between approaches to the provision of food aid in donor countries have contributed to the lack of progress in the negotiations. Furthermore, the structure of food aid flows over the past decade has also changed significantly, reflecting the changing international policy environment and new approaches to the use of food aid as a policy instrument to alleviate hunger and food insecurity. Emergency food aid, which is usually directly distributed during times of "severe" food shortages, now constitutes nearly 70 percent of total food aid compared to 15 to 20 percent at the beginning of the 1990s. A further 15 to 20 percent of total food aid is provided in the form of support to projects involving transfers of food commodities. Such transfers are intended either for distribution to targeted groups for development purposes or for monetization (that is, sale on the open market) to fund other food security related work.<sup>5</sup>

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<sup>4</sup> WTO (2004), *Doha Work Programme, Decision Adopted by the General Council*, Document WT/L/579, paragraph 18, Geneva. ([http://www.wto.org/english/tratop\\_e/dda\\_e/draft\\_text\\_gc\\_dg\\_31july04\\_e.htm](http://www.wto.org/english/tratop_e/dda_e/draft_text_gc_dg_31july04_e.htm))

<sup>5</sup> It should be noted that these changes have been taking place against a backdrop of a declining share of the value of food aid in the food import bills of, and the official development aid

## 2 Issues needing immediate attention in the negotiations

Against this background, it is possible to identify some important issues for trade negotiators to address to ensure commercial displacement is minimized:

- determining and defining which types of food aid require international monitoring
- agreeing on some best practices and institutional arrangements at the international level for evaluating and assessing the level of "food aid needs"
- establishing a mechanism for effective monitoring and assessing food aid flows to ensure adherence to the disciplines agreed to.

If it were possible to determine the extent of the commercial displacement effect caused by a particular food aid transaction *ex ante*, an international agreement would merely require the determination of a permitted cut-off point in percentage terms for displacement. However such a cut-off point is impossible to determine for each international food aid transaction. This is because the extent to which commercial displacement occurs depends on many country- and situation-specific factors, such as who is to be the recipient of the aid, the nature of the commodity given as aid and the timing of its delivery, the crop mix produced in the locality receiving food aid, local market linkages (i.e. nature of infrastructure and market channels), as well as consumer tastes.

Nevertheless, agreement can be reached on food aid disciplines without measuring either the impact on domestic and international commercial displacement or the extent of additional consumption caused by individual international food aid transactions. The internationally agreed list of transactions that qualify as food aid (identified as the "catalogue of transactions" in the Principles<sup>6</sup>), coupled with fifty years of experience of food aid in practice, could be used to classify food transactions into broad categories to be subjected to international scrutiny, analysis and discipline.

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provided to, developing countries (both fell from around 12 to 13 percent in the early 1970s to 2 to 4 percent in the early 2000s).

<sup>6</sup> The latest "catalogue of transactions" was published in 2001 and identifies approximately 20 types of international transactions to be considered as "food aid" (FAO, *Reporting procedures and consultative obligations under the FAO principles of surplus disposal: A guide to members of the FAO Consultative Subcommittee on Surplus Disposal*, Rome, 2001).

### 3 A scheme for classifying food aid

The concept of “additionality in consumption”<sup>7</sup> could be used as a criterion for creating a broad classification system for food aid.

In this system, at one extreme lies food aid delivered during emergencies caused by man-made or natural disasters. In this case, most of the food delivered is for additional consumption, and little leakage into markets occurs. Such food aid deliveries have little effect on market prices, domestic production or commercial imports, but serve an important humanitarian purpose.

At the other extreme lies programme food aid, which is delivered to governments as balance of payments support. As this aid is monetized, no additional consumption is generated, and it immediately negatively affects commercial imports and possibly production levels in ensuing seasons.

The extent of additionality in consumption also depends on the accuracy of targeting food aid to food insecure and vulnerable population groups, which tend to consume rather than sell the food they receive. The displacement effects of different types of food aid can be gauged, at least *a priori*, by considering the degree of targeting inherent in its delivery.

Food aid transactions aimed at food insecure and vulnerable populations require varying degrees of monitoring and reporting, depending on the degree to which they distort international food markets compared to the benefits that they confer. The classification scheme presented in this brief (Table 1) identifies such transactions, and could also be used to identify international food aid transactions which could remain outside the monitoring and assessment process at the international level.

The table shows the relative importance of emergency/non-emergency and tied/untied food aid.<sup>8</sup> The first axis relates to the

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<sup>7</sup> The concept of “additionality in consumption” in recipient countries refers to the extra consumption generated by food aid that would not have taken place in its absence. For example, if all of the food aid received by households were consumed without decreasing the consumption of other foods, there would be no impact on domestic prices and hence no effect on domestic production or commercial imports.

<sup>8</sup> “Tying” is used here to denote the requirement for the complementary services used in delivering food aid (bagging, processing, transport, etc.) to be provided by the donors’ national companies. This should not be confused with “tied aid” as defined by the Development Assistance Committee of the OECD (DAC) (see FAO Trade Policy Technical Note No. 8, p. 2, 2005, for details).

increasing acceptance of humanitarian and needs-based criteria for providing food commodities as aid rather than as a means of surplus disposal. The second shows the effects of increasing awareness of the greater effectiveness and efficiency of untied aid. Shading represents the perceived degree of trade displacement.

Food aid provided under emergency conditions is expected to be the least distorting type. *Untied* emergency food aid should give the maximum degree of flexibility to deliver food wherever needed as quickly as possible. Such aid would be minimally trade-distorting and should not require any WTO oversight. Conversely, *tied* emergency food aid transactions are mainly useful to meet the needs of slowly evolving emergencies (such as those arising out of drought) or long term emergencies (such as complex ones resulting from conflicts) because of the time lapse between the initiation of the process and final delivery due to transportation and distribution delays. Monitoring these flows may be necessary to ensure that tied food aid is indeed destined to this kind of emergency.

Because of concerns about increasing trade-distorting effects, close monitoring of non-emergency food aid transactions is required.<sup>9</sup> Identification of the beneficiaries of such food aid flows is a prerequisite to ensuring that trade distorting effects are kept to a minimum. Most non-emergency transactions would normally be earmarked to support food-based interventions such as food-for-work, school feeding, mother-child, and HIV/AIDS programmes. In this case, some of the food would be expected to leak into domestic markets.

Closed (targeted) monetized food aid transactions are perhaps the most sensitive. Sales are made on a concessional basis to specific vulnerable groups or in a manner which benefits them directly (e.g. capitalization of a village grain bank). Such food aid increases supplies on the domestic market but, depending on the effectiveness of the targeting, may also increase demand. These transactions require close monitoring to ensure that the benefits accruing to the recipients are sufficient to offset any negative effects.

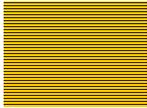
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<sup>9</sup> Programme food aid is excluded from consideration in the scheme as by its very nature it is untargeted and all of it displaces either imports or domestic supply in final consumption.

**Table 1**

**A scheme for classifying food aid transactions in terms of their possible impact on trade flows of food commodities and their status regarding possible disciplines**

|               | TIED             | UNTIED   |
|---------------|------------------|----------|
| EMERGENCY     |                  |          |
| NON-EMERGENCY | Closed monetized | Targeted |

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Minimally distorting – no WTO oversight necessary, i.e. no trade disciplines required
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Could be distorting if such aid causes delay in deliveries that disrupt domestic markets – requires monitoring, assessment and disciplining
- 
Distorting – therefore acceptable only if cash proceeds go directly to vulnerable groups – requires monitoring, assessment and disciplining
- 
Could be distorting if such aid does not reach vulnerable population groups – requires monitoring, assessment and disciplining

**4 Other issues**

Apart from the displacement effects of food aid, other aspects of food aid have been the subject of discussion and controversy. One of these aspects is the effectiveness of food aid in the form of commodities rather than cash. This issue was a subject of negotiations in the initial stages of the current round of talks, but was dropped to allow a consensus to be reached on the July 2004 Framework Agreement. The question of concessional food aid transactions is also to be addressed in the current trade negotiations.

When food aid is approached from a needs-based perspective, the distinctions between “commodity” and “cash”, or between “grant” and “concessional” should no longer be sticking points in the negotiations. In the first case, this is because aid will reach the ultimate recipients in the form of food irrespective of the form in

which it is given and, in the second case, because donors would not be likely to “lend” food to recipients who have no means to procure it in the first place.

Before the classification scheme presented in this brief can be made operational two further issues need to be addressed. The first requires agreement on the conditions under which an emergency is declared and who declares it. The second is an effective international mechanism for monitoring, analysis and reporting on international food aid deliveries. There exist international mechanisms for both of these purposes. WTO members may wish to consider these mechanisms and institutions for food emergency assessments, food aid delivery, and monitoring and review of food aid in the context of a new Agreement on Agriculture.