

## COMMITTEE ON COMMODITY PROBLEMS

### Sixty-seventh Session

Rome, 20–22 April 2009

### CONSULTATIVE SUBCOMMITTEE ON SURPLUS DISPOSAL (CSSD) FORTY-SECOND REPORT TO THE CCP

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## I. INTRODUCTION

1. The CSSD was established by the FAO in 1954 to monitor international shipments of surplus agricultural commodities used as food aid in order to minimize the harmful impact of these shipments on commercial trade and agricultural production. Over the years, members of the CSSD have developed a comprehensive set of rules and procedures designed to assist aid-supplying countries to account for and identify the flow of food aid shipments. These rules, endorsed by the major suppliers of commodity assistance, are embodied in the handbook entitled: *Principles of Surplus Disposal and Consultative Obligations of Member Nations*.<sup>1</sup> This report of the Consultative Subcommittee on Surplus Disposal (CSSD) covers activities for the period from December 2006 to December 2008 (462<sup>nd</sup> to 467<sup>th</sup> meetings).

2. The Principles set out detailed procedures for reporting food aid to the CSSD by aid-supplying countries including notification of the various categories of food aid, prior consultation with other exporters and the establishment of usual marketing requirements (UMRs). The reporting obligations of aid-supplying countries vary according to the type of food aid supplied and whether governments, private charitable organizations or multilateral agencies are the vehicles for distribution. Meetings of the Subcommittee are held on a quarterly basis to keep track of the continual flow of food aid reported to the CSSD, however, some of the work of the Subcommittee is done in bilateral consultations between formal meetings. The CSSD is located in Washington D.C. and is serviced by the staff of FAO's Liaison Office for North America (LOWA).<sup>2</sup>

3. Officers elected during the review period:

From December 2006 to November 2008

Chairperson: Dr. Hussein Mansour (Egypt)

Vice-chairperson: Mr. Christian Berger (France)

From November 2008

Chairperson: Mr. Christian Ligeard (France)

Vice-chairperson: Mr. Emerson Kloss (Brazil)

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<sup>1</sup> This handbook, issued in 1992, is available in English, Spanish and French. It was supplemented in 2000 by an annex that reflects changes in the multilateral trade environment since 1992, and specifically those relating to WTO. This up-dating exercise was endorsed by the FAO Conference in 1997.

<sup>2</sup> The current Secretary of the Subcommittee is Mr. Robert Patterson.

## II. OVERVIEW

4. World production of cereals during the reporting period, calendar years 2006 and 2007, was estimated at 2 012 and 2 108 million tonnes correspondingly, showing a slight decline in 2006 largely due to reduced plantings and/or adverse weather in some of the world's major producing and exporting countries, including the United States, several European countries and Australia. For coarse grains, the estimate of output in 2006 is 978.2 million tonnes, which is 2.6 percent down from 2005. Reduced plantings and adverse weather conditions in some of the above-mentioned countries are the main reasons of this reduction. In 2006 rice production decreased 0.4 percent due to reduced output in some major producing countries like Bangladesh, Pakistan, Thailand and Viet Nam. Global cereal production in 2007 reached its record high of 2 108 million tonnes mainly due to an 8.3 percent increase in production of coarse grains and a 1.6 percent increase of wheat. Latest estimates of rice production show a 1 percent increase from the 2006 level. FAO forecasts a record global cereal output of 2 164 million tonnes in 2008, 2.6 percent higher than in 2007. The bulk of the increase is expected in wheat, set to reach 647 million tonnes, 6.8 percent up from 2007. FAO's forecast for global coarse grains production in 2008 is 1 075 million tonnes, 0.6 percent up from the 2007 record level. FAO forecasts global rice production in 2008 at 441 million tonnes, 1.8 percent up from the 2007 latest estimates.

5. Along with record 2007 production estimates, international cereal prices rose sufficiently from November 2005 to December 2007. In December 2007, the United States hard red winter wheat export prices averaged USD381.00 per tonne, up by about USD214.00 or 128 percent, from November 2005. Maize prices went from USD97.00 per tonne in November 2005 to USD178.00 per tonne in December 2007. International rice prices rose slightly from USD305.00 FOB per tonne in 2006 to USD326.00 per tonne FOB in 2007.

6. World cereal utilization in 2007/08 is forecast to expand to 2 105 million tonnes, or over 2 percent above the previous season reflecting higher all around use: food, feed and industrial utilization. Based on the latest forecasts for world production and utilization, global cereal stocks are expected to remain at 427 million tonnes by the close of the seasons ending in 2008, unchanged from their reduced opening level and still the lowest since 1983.

7. From January 2006 to December 2008, CSSD members reviewed 48 notifications of food aid transactions. During CSSD meetings a number of questions were raised about consultation and notification obligations, the level of UMRs and other matters related to the reporting procedures for food aid.

### *Adherence to the Reporting Obligations*

8. The reporting procedures of the Subcommittee, formulated and revised over the past fifty-four years, rely on transparency. This is achieved through the notification process whereby aid-supplying countries which adhere to the *Principles*, report to CSSD with information about their food aid transactions with recipient countries. For some types of transactions, aid suppliers are obliged to consult with other CSSD members in advance. The different types of transactions are listed in a **Register of Transactions** (Appendix VII) and comprise the more common kinds of assistance such as government-to-government grants for free distribution, grants for sale in the open market, concessional assistance and monetary grants. In order to ensure that the commodity supplied does not displace normal commercial trade, the consultative process involves the establishment by the aid-supplying country of a benchmark import level known as the usual marketing requirement (UMR). The UMR is a commitment by the recipient country to maintain its normal intake of commercial imports, in addition to the food supplies as a grant or concessional shipment. The UMR is based on average commercial imports over the most recent five-year period for which statistics are available. In certain circumstances, the UMR can be waived or reduced to take into consideration unusual situations such as severe drought, floods, balance of payments difficulties or the absence of reliable import data.

9. While aid-suppliers are obliged by the CSSD rules to engage in prior consultation, notification and the establishment of UMRs for a broad list of concessional transactions, there are instances where an official notification of transactions is sufficient. When food aid is shipped to meet an **emergency situation**, for example, or when the shipment is of a **relatively small size** or is **distributed through a private charitable organization or a multilateral body such as the World Food Programme**, the supplier need only provide a notification on an *ex post facto* basis. The CSSD reviews these notifications at its regular meetings, allowing other members, particularly those that are not part of the consultative process, to participate in the review process.

10. Issues discussed in the Subcommittee are generally resolved by consensus. At times questions raised in committee are referred back to capitals. They may be subject to additional bilateral discussion by the parties concerned. Most suppliers of food aid and commodity assistance follow the rules and procedures set out in the *Principles*.

#### *Monitoring Transactions*<sup>3</sup>

11. During the reporting period the CSSD received notifications from Japan and the United States. CSSD members saw a significant rise in the volume of food aid transactions being notified to the Committee from 2007 to 2008, from 107.2 thousand metric tonnes to 2 715 thousand metric tonnes correspondingly. Such an increase is explained by the large number of food aid transactions reported by the United States with private voluntary organizations and the World Food Program in the year 2008 (FY 2007). During the reporting period, Japan's food aid notifications represented 7.3 percent of the reported volume and the United States 92.7 percent.

12. Wheat, wheat flour and other grains/cereals were the main commodities notified in the CSSD during the reporting period (Appendix III). Wheat and wheat flour dropped from 177.4 thousand metric tonnes in 2006 to 13.0 thousand metric tonnes in 2007, then rose again to 1 093 thousand metric tonnes in 2008. Rice dropped from 108.0 thousand metric tonnes in 2006 to 78.3 thousand metric tonnes in 2007, and rose again to 236.3 thousand metric tonnes in 2008. Total volume of soybean/soybean meal reported to the Committee rose significantly from 38.0 thousand metric tonnes in 2006 to 72.3 thousand metric tonnes in 2008.

13. The CSSD Register of Transactions, as revised and approved in the 113<sup>th</sup> Session of the FAO Council, now includes 16 types of food aid transactions. In 2007 direct government to government transactions remained the most frequent type used, in terms of food aid volume. In 2008 direct government transactions represented 13.3 percent of all transactions reported to the Committee, 39.7 percent were reported with the Private Voluntary Organizations and 47 percent by the World Food Program (Appendix VI). Food aid supplied for free distribution directly to the final consumers in the recipient country (Type 1) maintained 57.4 percent of the total volume of transactions in 2008; no transactions of this type were reported to the committee in 2007. Type 2 transactions, which are grants for sale in the open market of the recipient country, maintained 27.4 percent of the total volume of transactions in 2007, and only 4.6 percent in 2008. Type 1&2 transactions comprised 8.1 percent of the total volume in 2008. Type 6 transactions through the World Food Programme comprised 1 277 thousand MT or 27.2 percent of the total volume in 2008. Type 4 or monetary grants by a government either to a supplying or recipient country for the specific purpose of purchasing a commodity maintained 73 percent and 7.7 percent in 2007 and 2008 correspondingly. There were no transactions notified to the CSSD under the category Type 10a both in 2007 and 2008.

14. The United States delegation questioned the necessity of reporting on WFP donations which are not monetized. The United States delegation noted that direct distribution transactions are not being reported by other donor countries, with the exception of Japan, which is the only country that is monetizing.

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<sup>3</sup> Based on data notified to the CSSD for calendar years 2006 and 2007.

15. The delegates raised their concerns about discrepancies between calculations of donations reported to CSSD and to other organizations. The delegates also mentioned that food aid transactions are being reported to number of bodies and it would be more appropriate to have one single body collect this information.

*Issues Arising from Specific Transactions*

16. During the six CSSD meetings held in the reporting period, a number of comments and issues were raised about specific food aid transactions reported through the CSSD. In the 464th meeting, the European Community raised its concern over the changes in the UMR figures in United States notifications of food aid to Afghanistan, citing a change in the UMR for soybean from 12 000 tonnes to 30 000 tonnes on the *ex post facto* notification. The US delegation noted that throughout the year trade data is updated, and that the *ex post facto* notification contains the more updated and correct number, which is a UMR of 30 000 tonnes.

17. Regarding a United States *ex post facto* notification for soybean oil and crude degummed soybean oil for Afghanistan and Pakistan in fiscal year 2006, the European Community asked for clarification about where the donation was monetized. The United States delegation stated that 3 700 MT of refined soybean oil was monetized in Afghanistan and 5 000 MT of crude degummed soybean oil was monetized in Pakistan.

18. The European Community delegation expressed its concern to the United States over the threefold difference between a proposed soybean meal donation of 15 000 MT to Peru in 2006 and the actual shipment of 48 500 MT. The United States delegation explained that the two governments have been negotiating two different donation amounts: USD5 million and USD10 million. Initially the governments agreed on donating soybean meal in the amount of USD5 million (which at that time equated to about 15 thousand tonnes of soybean meal), but later the Peruvian government indicated the further need for the food aid and the final agreement was for USD10 million. Due to reprising and dollar value change this amounted to 48 thousand tonnes of soybean meal. The decision was also based on the results of commodity analysis of the market, indicating that the gap between consumption, total production and commercial imports of soybean meal exceeded 15 thousand tonnes.

## APPENDIX I

### MEMBERS, OBSERVERS AND OBSERVER ORGANIZATIONS

(As of November 30, 2007)

#### Members (41)

Argentina	Ghana	New Zealand
Australia	Greece	Pakistan
Austria	Guyana	Paraguay
Bangladesh	India	Peru
Belgium	Indonesia	Spain
Bolivia	Iraq	Sri Lanka
Brazil	Ireland	Thailand
Canada	Italy	Turkey
Costa Rica	Jamaica	United Kingdom
Cuba	Japan	United States
Ecuador	Lebanon	Uruguay
EC	Malawi	
Egypt	Mexico	
France	Myanmar	
Germany	Netherlands	

#### Observers (16)

Chile	Honduras	Panama
Denmark	Iran	Philippines
Dominican Republic	Jordan	Sweden
El Salvador	Republic of Korea	Switzerland
Finland	Malta	
Guatemala	Norway	

#### International Organizations (7)

International Bank for Reconstruction and Development (IBRD)  
 International Cotton Advisory Committee (ICAC)  
 International Federation of Agricultural Producers (IFAP)  
 International Monetary Fund (IMF)  
 Organization of Economic Cooperation and Development (OECD)  
 Organization of American States (OAS)  
 United Nations Economic Commission for Latin America and the Caribbean (ECLAC)

## APPENDIX II

MEETINGS CONVENED AND ATTENDANCE DURING PERIOD UNDER REVIEW  
(December 2006 to December 2008)

Meeting	Date	Members and Observers
462nd	January 16, 2007	13
463rd	April 4, 2007	8
464th	October 3, 2007	8
465th	January 23, 2008	10
466th	July 17, 2008	20
467th	November 10, 2008	16





## APPENDIX IV

## I. COMMODITY TRANSACTIONS REPORTED TO THE CSSD, 2007 &amp; 2008

Commodity	2007		2008		% Change <sup>1</sup>	% Share 08
	No.	000 mt	No.	000 mt		
Wheat/wheat flour	2	13.1	134	1093.1	8264.4%	40.3%
Other grains/cereals	1	18.0	232	954.2	5201.3%	35.1%
Rice	13	78.3	71	236.4	201.8%	8.7%
Edible oils	0	0.0	199	143.4	0.0%	5.3%
Dairy products	0	0.0	8	6.5	0.0%	0.2%
Soybean/soybean meal	2	16.4	19	72.3	340.5%	2.7%
Pulses	0	0.0	209	208.0	0.0%	7.7%
Sugar	0	0.0	0		0.0%	0.0%
Other products	0		7	1.6		
<b>Total</b>	<b>18</b>	<b>125.8</b>	<b>879</b>	<b>2,715.5</b>	<b>2058.6%</b>	<b>100%</b>

<sup>1</sup> Based on volume

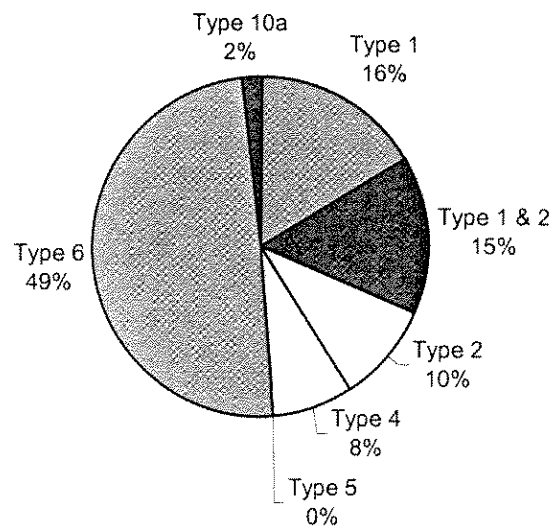
## APPENDIX V

## II. COMMODITY TRANSACTIONS REPORTED TO THE CSSD, 2008

**Type of Transaction, By Number and Volume  
(All Commodities)**

	No.	%	MT	%
Type 1	498	57.4%	420,665	16.3%
Type 1 & 2	70	8.1%	387,800	15.0%
Type 2	40	4.6%	245,600	9.5%
Type 4	23	2.6%	198,393	7.7%
Type 5	0	0.0%	0	0.0%
Type 6	236	27.2%	1,277,193	49.5%
Type 10a	1	0.1%	48,500	1.9%
Total	868	100.0%	2,578,151	100.0%

**Types of Transactions by Number and Volume, 2008**



**APPENDIX VI****REGISTER OF TRANSACTIONS**

1. Donations of domestically produced commodities from a government to a government of an importing country, an intergovernmental organization or a private institution for free distribution directly to the final consumers in the importing country.
2. Donations of domestically produced commodities from a government to a government of an importing country, or an intergovernmental organization or a private institution for distribution, by means of sale on the open market of the importing country.
3. Monetary grants by the government of an exporting country to an importing country, for the specific purpose of purchasing a commodity from the exporting country.
4. Monetary grants by a government either to a supplying country (or countries) or to a recipient country for the specific purpose of purchasing a commodity from an exporting country (or countries) or from local suppliers in the recipient country for delivery to/in the specific recipient country.
5. Monetary grants by a government to an intergovernmental organization or to a private institution for the specific purpose of purchasing commodities in the open market (including local purchase) for delivery to/in eligible recipient countries (developing countries).
6. Transfers of commodities under the rules and established procedures of the World Food Programme.
7. Sales from the currency of the importing country which is not transferable and is not convertible into currency of the importing country which is not transferable and is not convertible into currency or goods and services for use by the contributing country.
8. Sales for the currency of the importing country which is partially convertible into currency or goods and services for use by the contributing country.
9. Government-sponsored loans of agricultural commodities repayable in kind.
10. Sales on credit in which, as a result of government intervention, or of a centralized marketing scheme, the interest rates, period of repayment (including periods of grace) or other related terms do not conform to the commercial rates, periods or terms prevailing in the world market. In particular with respect to period of repayment, credit transactions are distinguished as follows: (a) 10 years or more; (b) over 3 years and under 10 years.
11. Sales in which the funds for the purchase of commodities are obtained under a loan from the government of an exporting country tied to the purchase of those commodities, distinguished as follows with respect to period of repayment: (a) 10 years or more; (b) over 3 years and under 10 years.
12. Transactions under categories 1 to 4 and 7 to 11 subject to tied Usual Marketing Requirements or to tied Offset Purchasing Requirements.
13. Transactions under categories 1 to 4 and 7 to 11 subject to tied purchase of fixed quantities of the same or another commodity from the exporting country.
14. Government and non-government sponsored barter transactions not involving price concessions.
15. Non-government sponsored barter transactions involving price concessions
16. Sales for non-convertible currency non involving price concessions.