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## **Food Aid and the WTO: Can New Rules Be Effective? \***

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A new Agreement on Agriculture from the Doha Development Agenda negotiations is certain to contain binding rules on food aid shipments. Negotiating parties are concerned that food aid has been used as a form of export competition policy, and they seek the use of coercive WTO legislation to prevent the disposal of surplus agricultural commodities as food aid. Current Uruguay Round food aid guidelines are contrasted with the most recent Doha Development Agenda proposals, and the prospective effectiveness of new rules is assessed. Food aid rules will be difficult to enforce within the WTO's Dispute Settlement Understanding. Also, exogenous policy changes in donor countries are reducing the relevance of rules that target food aid as a means of surplus disposal. The future of international food aid governance in the event of a Doha Round collapse is also discussed.

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## Introduction

Food aid is on the menu at the Doha Development Agenda (DDA) Round of World Trade Organisation negotiations. A potential new WTO agreement is almost certain to contain rules that will limit the circumstances under which food aid will be allowed. The presence of these rules in a WTO agreement is the result of pressure from two often diametrically opposed interest groups. The first group is comprised of competing exporting nations who believe that food aid displaces commercial trade and is a means of disposing of surplus agricultural commodities by circumventing export subsidy disciplines. The other group is made up of humanitarian advocates; there have been calls for the inclusion of binding humanitarian objectives, such as minimum food aid donation requirements, in a WTO agreement since the Marrakech Agreement in 1994.

Negotiating parties at the DDA table are now walking a fine line, trying to create food aid rules that will satisfy both competing agricultural exporters and humanitarian advocates without alienating either group. This might be too narrow a line to walk, however, and new DDA disciplines on food aid may stumble and not satisfy either group.

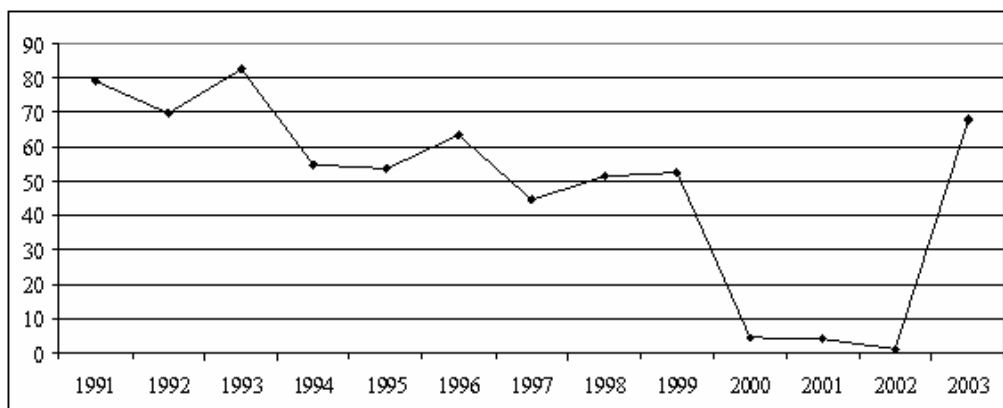
This article provides an overview of the WTO's current involvement in the international governance of food aid deliveries and outlines the most recent DDA proposals for binding food aid rules. The potential effects of these rules on food aid policies and shipments are assessed, considering both the direct impacts of food aid rules and the indirect impacts of other components of a new DDA deal on food aid shipments. New rules on export subsidies and export credit guarantees are particularly relevant to this analysis, as these two forms of export competition policy have historically been used to dispose of surplus agricultural commodities. This analysis is conducted within the context of changing policies (shrinking cereal stocks and an expanding biofuel industry) that are unrelated to WTO-agreement adherence.

Close analysis of the DDA proposals suggests that new rules are not likely to have significant effects on food aid shipments. The proposals that appear in each successive WTO draft proposal are less restrictive than the last, and any rules that do make it through to a final deal are likely to be faced with enforcement and credibility issues. This article also discusses the prospect of DDA collapse and outlines alternative venues for international governance of food aid.

## Looking Back at Food Aid in the WTO

Agricultural exporters have long been dissatisfied with international efforts to curtail the use of food aid as a tool of surplus disposal and to curb its potential

to displace commercial trade in recipient countries. This dates back to the United Nations' Food and Agricultural Organisation's (FAO) convention of the Consultative Subcommittee on Surplus Disposal (CSSD) in 1954, an effort to monitor member countries' food aid practices. There are two key principles that govern the CSSD. The first is the maintenance of Usual Marketing Requirements (UMRs) in aid-recipient countries. UMRs are an attempt to ensure that food aid provides wholly additional consumption; that is, food aid should not displace commercial imports. UMRs are operationalised by comparing current-year commercial food imports (net of food aid) to a five-year historical average. If current-year imports fall below the average, then food aid is presumed to have displaced commercial trade and UMRs are not satisfied. The second core principle is that donor countries are to notify the CSSD of all food aid shipments. This principle has gone largely unfulfilled, as the share of aid reported to the CSSD has been trending down since its inception (figure 1).<sup>1</sup> Two important points are worth making about the CSSD. First, the CSSD does not have a humanitarian agenda; it is intended as an oversight body for the disposition of commodity surpluses as food aid. Second, its principles are non-binding and are unenforceable.



Source: FAO, 2003

**Figure 1** Share of Global Food Aid Flows Reported to the CSSD (%)

Food aid made its first appearance as part of an international trade agreement during the Kennedy Round trade negotiations in 1967. The International Grains Agreement was negotiated under the auspices of the Kennedy Round and included the parallel Food Aid Convention (FAC). The FAC is a non-enforceable agreement among signatory donor countries for minimum annual food aid donations; it has been renewed several times over the past 40 years. The current FAC has been extended to

July 2008 in the hope that the DDA negotiations will be completed before a new convention has to be convened.

The FAC has an explicit development agenda. Its primary directive is to ensure delivery of sufficient volumes of food aid, as determined by the FAC's members at the time of its drafting (the current convention was drafted in 1999). The convention spells out minimum donation requirements for each of its eight donor members and specifies a list of acceptable commodities. Article IX of the FAC defers to the FAO's "Principles of Surplus Disposal and Consultative Obligations" as a nod to averting commercial displacement; however, the convention's purpose is humanitarian, not commercial.

Binding rules on agricultural trade were first brought into the WTO with the Uruguay Round Agreement on Agriculture (URAA). The URAA contains binding rules on market access and domestic support, as well as disciplines on export competition. Article 10 in the URAA's export competition pillar reveals member countries' belief that food aid has been used as a tool of surplus disposal, and it provides guidelines that signatories are to follow in an effort to prevent the use of food aid as a means of circumventing export subsidy restrictions. The first of these guidelines calls for food aid to be untied; that is, aid should not be dependent on procurement from a specific country (usually the donor) or group of countries. This guideline has been widely flouted by donor countries. A mere 12 to 15 percent of food aid is untied, using the definition of "tied aid" employed by the Organisation for Economic Cooperation and Development (Clay, 2006). Canada has recently changed its procurement policy to allow 50 percent of its food aid budget to be spent on purchases from a list of eligible developing countries, and the 2007 U.S. Farm Bill may increase procurement flexibility for some types of U.S. aid. While still officially "tied" (because there is a list of eligible source countries), these policy changes represent movements towards the spirit of the URAA food aid principles.

The second URAA guideline defers to the FAO's "Principles of Surplus Disposal and Consultative Obligations". This guideline calls for the maintenance of UMRs and the reporting of aid shipments. This last guideline has generally been ignored by signatories, as discussed above. The third guideline calls for food aid to be provided in grant form, as opposed to sold under credit or subsidy arrangements. Most donors comply with this guideline, with the notable exception of the United States, which provides up to 20 percent of its food aid on concessional terms (Young, 2002).

The URAA guidelines on food aid stand apart from the rest of the URAA because they are not enforceable. The guidelines are provided with the hope that member countries will abide by them in good faith; those donors who do not comply with the

URAA guidelines are not subject to trade retaliation under the WTO's Dispute Settlement Understanding.

The URAA negotiations produced enforceable disciplines on agricultural export subsidies in an effort to curtail the use of this primary outlet for commodity surpluses. Article 9 of the URAA committed member countries to bound levels of export subsidies, measured in both quantity and value, and instituted schedules of reduction over a six-year implementation period. The base period at which subsidies were bound was 1986 to 1990, which was a period of high export subsidies. The bound levels of subsidies were so high that the constraint was not typically binding and there was substantial "water" (unused allowable subsidies) in the disciplines. Despite the headroom that countries have had available to them, the use of export subsidies has declined significantly in recent years. The United States has phased out the Export Enhancement Program and only applies export subsidies to dairy products, while the EU has reduced intervention prices and purchases (Rude and Meilke, 2006).

The URAA, though calling for new disciplines, does not contain binding rules on export credits. As such, there remains relatively undisciplined access to three primary vents for surplus agricultural commodities (export credits, food aid and storage) under the current agreement.

The URAA has not had significant effects on food aid shipments. Disciplines that were aimed at food aid shipments were not binding and did not affect donor policies. Some food aid is still tied and there were no restrictions placed on situations under which food aid would be allowed. Export credits were not disciplined, so there was no added pressure on food aid to dispose of commodity surpluses that would otherwise have been sold under government credit guarantee programs. The effect of export subsidy reductions on food aid was likely negligible; there would not have been a large increase in the pressure to vent surplus commodity stocks as food aid because subsidy limits were not always binding.<sup>2</sup>

### **Looking Forward at Food Aid in the WTO**

The DDA negotiations have included lengthy discussions on food aid rules, and it appears as though a new deal will contain binding disciplines on aid shipments. But before outlining these disciplines, it is important to note that the inclusion of food aid rules in a WTO agreement is the result of competing objectives, and these competing objectives may prevent new rules from satisfying anybody. On one hand, the DDA is referred to as the *Doha Development Agenda*, implying that one of the primary motivations of member nations is to establish a trading environment that benefits developing countries. Furthermore, many developing countries argue that

they did not receive the improved market access promised them in the URAA in return for agreeing to the Agreement on Trade-Related Aspects of Intellectual Property (Cardwell and Kerr, 2008). New rules on food aid are likely to tread carefully so as to not jeopardise legitimately needed food aid. This would further alienate developing-country members and draw negative public attention to the WTO.

On the other hand, the belief that food aid is used as a tool of surplus disposal and can displace commercial imports is widely held among WTO member countries, and negotiating parties appear determined to address this concern in a new DDA deal. A set of draft guidelines has emerged from DDA negotiations; these guidelines attempt to walk the fine line between restricting the use of aid as a tool of surplus disposal and ensuring that legitimate aid is not impeded. However, the current proposals lean more towards a commercial agreement than a multilateral humanitarian agreement. Initial discussions regarding minimum donation requirements as reflected in the Marrakech Agreement no longer appear in WTO draft documents or reference papers. Furthermore, the draft modalities of July 2007 illustrate the difficulty that member countries have encountered in reaching an agreement on food aid disciplines. Early proposals, such as the guidelines in the URAA (e.g., untying food aid) and earlier DDA draft modalities (e.g., phasing out in-kind aid), no longer appear in WTO documents. This suggests that such proposals were abandoned in an effort to generate a consensus and move the agreement more towards a commercial agreement and further from a humanitarian understanding. The current proposals are less restrictive but indicate that there will be some efforts to discipline international food aid shipments.

The most concrete proposal (i.e., the one with the fewest square brackets) to arise is the creation of a “safe box” for emergency food aid. Any aid that meets the safe-box criteria would be exempt from export competition disciplines, akin to “green box” programs for domestic support. The stumbling block for this proposal, however, is determining under what circumstances food aid would qualify for the safe box. There appears to be great hesitancy on the part of WTO negotiators to venture into the assessment of a food emergency, and negotiators acknowledge that the WTO’s expertise is in commercial trade, not in humanitarian and development assistance (WTO, 2007a). As such, it appears as though the WTO would defer to humanitarian and development organisations for the declaration and assessment of food emergencies. The current proposal is that a declaration of an emergency by either the affected region’s government or the United Nations would trigger safe-box food aid. There is some debate about what agencies and organisations, beyond those two entities, would have standing in the assessment of a food emergency. It appears as

though a set list of eligible multilateral organisations and a few major non-governmental organizations, such as the International Committee of the Red Cross, will be developed.

The proposed safe box also requires that an assessment of need be undertaken by either a relevant United Nations agency or the International Committee of the Red Cross. An allowance is likely to be made for aid that is delivered before a needs assessment, pending an assessment within three months of the initial delivery. This assessment would establish both the merit of the appeal for aid and the duration for which such aid could be considered “safe” and non-actionable.

Non-emergency food aid shipments are also under the microscope at the DDA negotiations. Documents that appeared early in DDA negotiations (WTO, 2006c) aimed for the elimination of all donor country–sourced in-kind<sup>3</sup> non-emergency aid and the phasing out of monetised food aid.<sup>4</sup> Monetised food aid is a target for both commercial trade and developmental objectives. Competing exporters argue that monetised food aid is not additional consumption and necessarily displaces either commercial imports or domestic production, or both. Development advocates argue that monetised food aid can depress local food prices and generate disincentives for local producers because it is untargeted.<sup>5</sup> This phenomenon has been observed empirically by Donovan et al. (1999) and by Barrett, Mohapatra and Snyder (1999). The elimination of donor country–sourced in-kind aid and monetised aid has met with resistance, however, and these proposals have been watered down in subsequent negotiations. Agricultural exporters (chiefly the United States<sup>6</sup>) appear to be determined to hang on to donor country–sourced in-kind commodity donations as an option. The elimination of monetised aid has also raised the ire of some non-governmental aid agencies, many of whom rely on the proceeds from monetised aid to fund development and humanitarian projects (Young and Abbott, 2005).<sup>7</sup> The most recent July 2007 proposals call for monetised aid to be limited to situations that generate funds that finance the delivery of food to targeted groups or the procurement of agricultural inputs. All monetisation is to occur under the auspices of the United Nations and the recipient country’s government.

Despite the term “development” in the DDA, the real debate over food aid is taking place among donor countries. This is congruous with the FAC, in which food aid guidelines have been determined by donor countries, with no formal standing for recipient countries. The WTO’s membership, however, includes several countries that are frequent recipients of food aid, and the requirement of consensus for a WTO agreement means that any one of these member countries could derail negotiations.

This has not occurred, and most food aid–recipient countries have voiced general agreement with the current proposals.

A joint submission (WTO, 2006a) by African and least-developed countries (LDCs, a group of countries that make up a large share of global food aid recipients) on food aid reveals broad consent on most food aid proposals. It appears as though potential recipient countries are satisfied that the safe-box approach will not impede legitimately needed emergency food aid. African and LDC proposals on non-emergency food aid are also very similar to the most recent proposals (WTO, 2007b). One interesting difference is that the 2007 proposals open the door wider for monetisation of food aid (discussed above) than is proposed by the African and LDC submission.

The G-20 group of developing countries has also issued a set of comments on food aid disciplines (WTO, 2006b). The G-20 countries concur that the WTO should defer the pronouncement of an emergency to a specialised body and also call for the phasing out of in-kind non-emergency donations in an effort to avoid commercial displacement and local production disincentive effects. Comments from the G-20 countries also emphasise the importance of tightening food aid notification requirements. Reporting of aid shipments will have to increase beyond the levels illustrated in figure 1 if WTO disciplines are to be effective.

Food aid disciplines fall under the DDA’s export competition provisions, and this is testament to the concern that negotiating parties have about food aid being used as an alternative outlet for the disposal of surplus agricultural commodities. In fact, the tightening of export subsidy and export credit disciplines was the primary motivation for member countries to negotiate the inclusion of enforceable food aid disciplines in the DDA. The notion that disposing of commodity surpluses as food aid can lead to commercial displacement is widely accepted among WTO member countries, and the July 2007 draft modalities contain specific reference to rules that will “ensure the elimination of commercial displacement caused by food aid.” It is therefore worth discussing the directions that export subsidy and credit disciplines might take in a DDA.

The DDA negotiations have included ambitious proposals on disciplining agricultural export subsidies and export credits. The agenda for export subsidies is clear: member countries intend to eliminate agricultural export subsidies over an implementation period, finishing by 2013. The most recent correspondence from the WTO’s Chairman of the Committee on Agriculture reveals some debate over whether required cuts will be based on volume or value, but the end result appears

unambiguous – a reduction in, and eventual elimination of, the quantity of commodities shipped under export subsidies.

The debate over export credits is less clear. The intention of many negotiating parties is to eliminate the subsidy element from officially supported export credits; however, the means by which to achieve this goal is as yet uncertain. The July 2007 modalities outline several key objectives, including 1) requiring repayment terms of less than 180 days; 2) requiring payment of a minimum interest rate; 3) requiring premiums to cover the risk of non-repayment; and 4) requiring a credit program to be self financing. An export credit program that is outside of these disciplines would be considered an export subsidy and would have to be eliminated by 2013.

Special and differential treatment for developing countries is also being addressed. Developing countries that provide export credits will be subject to longer implementation periods and repayment schedules. There are also likely to be allowances for export credits that do not meet with the aforementioned criteria (i.e., a special allowance for credits with a subsidy element) in emergency situations. Specifically, “Members may provide ... export credits that are not otherwise in conformity with the terms of conditions of paragraph 3.4(b) to (g)” in exceptional circumstances (WTO, 2007b).

There are several important obstacles to a resolution of the negotiations over export credits. First, there are inherent difficulties in establishing the subsidy element of an export credit program. Thompson (2007) points out that the appropriate benchmark against which to compare an export credit’s subsidy element is far from clear. Thompson also notes that allowing export credits (that would otherwise be prohibited) to developing countries in emergencies or times of liquidity constraints undermines the principles of a potential deal; Thompson further suggests that such credits should only be allowed if they adhere to the FAC’s requirements of concessionality.<sup>8</sup> A simpler and more logical solution to the special and differential treatment issue would be to require such food aid to be provided in grant form and notified as food aid. The chair’s communication paper states that exceptions to export credit disciplines could be made in the event that “... the importing developing country requests them” (WTO, 2007a). This condition bears a striking resemblance to the requirements for emergency food aid (which is to be 100 percent grant) to qualify for the safe box (i.e., an appeal from the recipient country).

### **Effects on Food Aid Shipments**

**W**hat effects might a DDA deal have on food aid shipments? There are three major considerations: the direct effects of food aid disciplines; the indirect

effects of changes in export subsidy and export credit disciplines; and changes to domestic support programs that result from a DDA deal.

### *1. Direct Effects of Food Aid Disciplines*

If all of the disciplines that have been proposed in negotiations thus far were implemented and enforced, then food aid shipments would fall, *ceteris paribus*. The safe box would limit the circumstances under which emergency food aid would be allowed, and the proposed disciplines on in-kind and monetised food aid would sharply reduce aid shipments.

The prospects for the success of these rules are affected by two factors. First, it seems unlikely that all of the current proposals will meet with unanimous agreement from member countries; such an agreement is required for a WTO deal to be done. There is resistance from the United States on increasing the flexibility of food aid procurement policies. Specifically, U.S. policy requires that most of its food aid be sourced domestically and shipped as in-kind aid. Though donor-sourced food aid may sometimes be the best option, there is a desire on the part of aid agencies to undertake local and triangular purchases in circumstances that would allow for faster and cheaper food aid procurement. Progress has been slow on this front, and a more likely result is that in-kind aid will be allowed only when based on a needs assessment by a third party and when targeted to vulnerable groups (WTO, 2007b). It is worth noting, however, that the most recent proposals for the 2007 U.S. Farm Bill suggest allowing 25 percent of Title II food aid funding to be used for locally or triangularly sourced food aid.

There is also resistance to eliminating monetised aid, and the most recent proposals for disciplines on monetised aid include square brackets around the divergent alternatives of a) prohibiting monetisation except under specific circumstances or b) encouraging members to “endeavour to constrain [monetisation]” (WTO, 2007b). The latter possibility implies that no binding rules would be placed on monetisation, and the practice could continue unabated. The wide gap between these two alternatives intimates that any disciplines on monetisation will fall somewhere in the middle.

Second, despite the presence of binding food aid rules within the WTO’s single Dispute Settlement Understanding, it may be unrealistic to expect a violation of a food aid discipline to be pursued and enforced with the same vigour as would a violation of another article of the Agreement on Agriculture or any other WTO agreement. Consider a situation in which a donor country made a bilateral donation of food aid to a recipient country or region without an *ex ante* formal appeal from a WTO-accredited agency. If such aid did not conform to safe-box criteria, then another country (presumably a competing exporter) could instigate a trade case through the WTO’s

Dispute Settlement Body in pursuit of restitution for lost exports. The case would involve the offended member country requesting negotiations with the donor and, failing the resolution of the dispute through negotiations, procession to a WTO panel. If a panel were to rule in favour of the complaining country then the WTO's Dispute Settlement Body would authorise retaliatory trade sanctions in the amount of trade lost as a result of the food aid donation.

It is difficult to envision a situation in which such a complaint would be followed through to the stage of retaliatory trade actions. The April 2007 communication from Chairman Falconer suggests that it is not "humanly conceivable that action [donation of food aid] would be withheld, pending ideal processes [a formal appeal] to work their way through" (WTO, 2007a). This presumably means that aid delivered without being approved as "safe box" would require *ex post* notification, to be subsequently judged on its merits. Despite the fact that the WTO's dispute settlement procedure does not provide official intervener status for non-governmental organisations, there is discretion for a panel to consider opinions beyond the relevant member countries (Trebilcock and Howse, 1999). It would be easy for a donor country to locate a group of people who could attest to the need for the controversial aid shipment, even if such a group were not on the WTO-approved list of non-governmental organisations.

Another important factor is that the WTO's reputation is already sullied among civil-society humanitarian advocates, and a case that brought retaliatory trade penalties against a food aid donor might only worsen public perceptions of the WTO's agreements. These problems combine to greatly diminish any credibility that WTO-endorsed food aid rules would carry with member countries.

DDA negotiators have wisely backed away from including specific and binding humanitarian objectives in food aid disciplines. The Marrakech Decision of 1996 mentioned negotiations to ensure sufficient food aid donations, and there have been calls to link rules on food aid with minimum donor commitments (Young, 2002). But the WTO agreements are ill equipped to enforce such rules and there would be practical problems with bringing humanitarian and developmental objectives within the confines of a commercial trade agreement. The WTO agreements are based on the assumption that distortions from free trade harm everyone (in the form of reduced consumers' welfare) except a small group of import-competing producers. As such, WTO agreements are not equipped to accommodate complaints from anyone other than producer groups who feel that they have been harmed by the actions of another member country or a firm therein (Kerr, 2004). There is no mechanism to hear complaints from humanitarian advocates about the effectiveness or legitimacy of food aid.

Kerr (2004) describes a similar phenomenon as the “capture” of the WTO by groups that are not traditional protectionists. Such groups include consumer groups (e.g., opposed to growth hormones in beef production) and environmentalists (e.g., concerned about dolphin-unfriendly tuna catches) who seek to limit market access for products to which they object. The key issue with these types of complaints is that the WTO has no mechanism to adjudicate on complaints from groups other than rent-seeking producer groups.

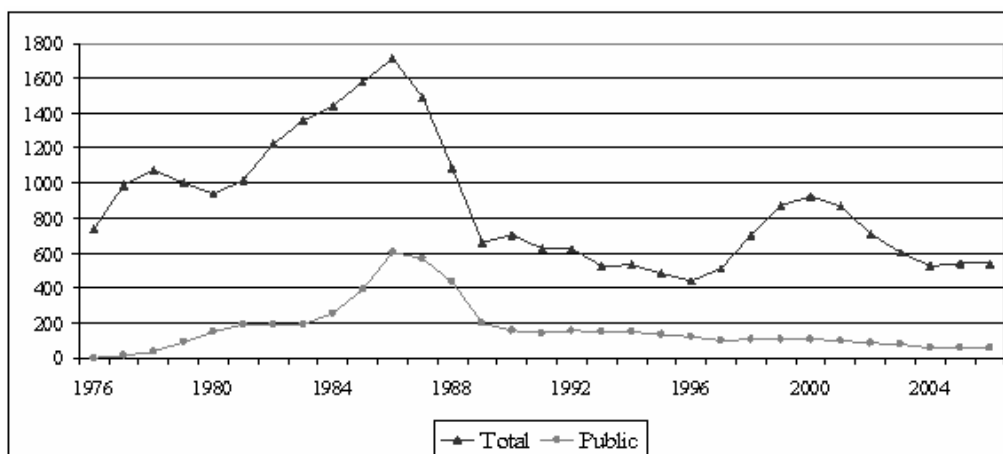
The situation is even more complicated in the case of food aid guidelines. In the case of dolphin-unfriendly tuna catches, there is the potential (if the WTO were equipped to adjudicate on such a complaint) for retaliatory trade actions – presumably tariffs on imports from the country that houses the offending producer into the country that houses the complainant. But what if a member country were to violate its food aid obligations, as outlined in a new WTO agreement? If the violation were to involve an aid shipment that displaced commercial trade from a competing exporter, then the traditional dispute settlement procedure could be followed and there would be scope for retaliatory trade measures from the competing exporter. If the violation were of a different form, however, then two things are unclear: 1) who would bring the complaint and 2) if a violation of rules were established, then who would retaliate? A WTO-enforced minimum food aid donation requirement would be the prime example of this problem. Retaliatory trade sanctions are welfare reducing for the country implementing the sanctions, so the incentives for any one country to impose sanctions on an offending member do not exist. It is difficult to envision any one WTO member country seeking to reduce its own welfare by requesting the authority to impose trade sanctions against another member country that did not fulfil its minimum donation commitment.

Another complication arises in the event that a non-governmental organisation violates new WTO rules on food aid shipments. The target for WTO sanctions is clear in the case of an actionable bilateral food aid shipment – the donor country. However if a non-governmental organisation were to break a food aid discipline by, for example, monetising an aid shipment to raise funds for a project unrelated to food distribution, then against whom would trade sanctions apply? It is conceivable that the host country of the non-governmental organisation could bear the sanctions, but what of truly multinational organisations such as CARE or the Mennonite Central Committee? The practical difficulty in such a case, combined with the almost certain public outcry that would accompany WTO-endorsed sanctions, greatly reduces the credibility that WTO-enforced food aid rules would hold.

Given the credibility issues that food aid rules in a DDA deal could face, it may come down to member countries abiding by the agreement as a matter of good faith; specifically, a hope that member countries will abide by the rules simply because they have been agreed to, not because they will be enforced. This bodes poorly for the future of food aid rules in a WTO agreement. The impetus for bringing food aid rules under the auspices of the WTO was that voluntary guidelines through the FAC and the CSSD were not followed in good faith. It is likely that the food aid disciplines in the current DDA proposals will have very little impact on food aid shipments.

## ***2. Indirect Effects of Export Subsidy and Export Credit Disciplines***

Successful completion of a DDA deal will include new restrictions on export credit arrangements and tighter constraints on export subsidies. Though the magnitude of the mandated decrease is yet to be determined, the result will be a decrease in the volumes of commodities that are shipped under export credit arrangements and export subsidies. There is concern this reduction will lead to an increase in food aid shipments as surplus disposal. Were it not for other confounding factors, this might be the case, and surplus agricultural commodities could be vented as food aid. However, two important factors must be considered in analysing the relationship between surplus disposal and food aid. First, public U.S. government grain stocks have been shrinking for the past several years (figure 2), due in large part to the loan deficiency payment program. This program provides farmers with the option of accepting a deficiency payment that covers the difference between the loan rate and the market rate for their crops, in lieu of forfeiting their crops to the United States Department of Agriculture (USDA). This program has tempered the USDA's acquisition of grain stocks. The pressure to unload commodity surpluses in the United States is not as strong as it once was, because the volume of surplus public grain stocks is shrinking. Lower intervention prices in the EU have reduced the need for export subsidies, so new binding rules on export subsidies may not put upward pressure on EU food aid shipments either.



Source: USDA, 2006a

**Figure 2** Wheat Stocks (millions of bushels)

A second factor is the ramping up of biofuel production in the United States. Most biofuel in the United States is corn-based ethanol, and the rapid increase in ethanol production is expected to tighten the market for livestock feed grains over the coming years. As more corn is used in biofuel production, other crops are expected to be pushed into the feed market to make up for reduced corn availability. Wheat will fill part of this role, further reducing wheat stocks. A study by Elobeid et al. (2006) projects a long-run increase in the use of U.S. feed wheat from 150 million bushels to 283 million bushels in response to an expanded biofuel industry. This will further deplete wheat stocks and decrease pressure for disposal of surplus grain.

New export competition rules could increase pressure on food aid as an outlet for the disposal of commodity surpluses, *ceteris paribus*. However, the surpluses from which these shipments will be drawn will be smaller than in years past. Shrinking public stocks in the United States combined with the tightening effect of biofuel production on grain markets mean that the option of disposing of commodity surpluses as food aid will not be as pressing as it once was to policy makers (particularly in the United States). The indirect effects of tighter export competition rules from a new DDA are likely to be small.

### **3. Indirect Effects of Domestic Support Reform**

A third consideration is the impact of a DDA deal on domestic support programs that create the commodity surpluses from which much food aid is drawn. Despite up to one-third of U.S. food aid shipments being drawn directly from the USDA's public stocks (USDA, 2006b), changes to rules on domestic support are unlikely to significantly affect food aid shipments. Surplus commodity stocks are no longer the

important drivers of food aid shipments as in years past. Also, current proposals for reform of domestic programs suggest that binding constraints on the United States and EU are unlikely to materialise. Brink (2006) points out that current proposals, including those espoused by the EU, will be ineffective in reducing domestic support. Production of the commodity surpluses from which food aid is extracted may not be heavily impacted.

What will be the effect of a DDA deal on food aid shipments, considering the possible effects of the three factors discussed above? Explicit rules on food aid that attempt to restrict the conditions under which food aid is allowed would be difficult to enforce and may not be credible among member countries. It is difficult to envision a case of retaliatory trade sanctions against a food aid donor. Member countries might abide by the proposed disciplines, but this would more likely be due to good faith than to coercion from a new DDA agreement. This scenario is not promising; there are already food aid guidelines and “good faith” suggestions in the URAA to which member countries do not adhere. Export subsidy and export credit disciplines are likely to be more credible than those on food aid and could push a larger share of commodity surpluses into food aid channels. However, these stocks are shrinking with time and are likely to contract even faster with the expansion of biofuel production. Current proposals on domestic support do not appear aggressive and may not substantively affect donor-country surpluses. The primary motivation for negotiating a food aid component into the DDA was to avoid commercial displacement that could arise from disposal of surplus commodities, but as these surpluses contract this concern becomes less imperative. It may be a case of applying more pressure to smaller surpluses, with negligible results.

The collapse, or long-term hibernation, of the DDA is also a possibility. If negotiators cannot make significant progress over the coming months, then WTO negotiations may be suspended indefinitely. The U.S. Trade Promotion Authority has expired, and there will be a presidential election in 2009. If a deal is not done in short order, then there may not be scope for a new deal until as late as 2010 (Evenett, 2007). The implementation period for Uruguay Round disciplines on export subsidies is past, and there will be no new constraints imposed on their use without a DDA agreement. Donor countries would retain export subsidies as an option for surplus disposal, subject to URAA limits. Export credits would remain a second option for disposing of surplus commodities. The upshot is that increased pressure that the DDA might have placed on food aid as a vent for surplus disposal would not materialise.

There would also be no binding rules on food aid if a DDA deal does not materialise. The proposed safe box for emergency food aid would not emerge and

donor countries would not be subject to enforceable disciplines. The governance of international food aid would fall to another organisation.

### **Alternative Venues**

If the scenario described above unfolds and the WTO does not develop formal food aid rules in the near term, then what are the prospects of an alternative venue developing new food aid guidelines? There may be room for another multilateral organisation to put forward some new rules on food aid. The current Food Aid Convention expires in July of 2008 and is an obvious venue.

While the DDA is a commercial agreement that pays lip service to humanitarian objectives, the FAC is the opposite: a multinational humanitarian accord that pays lip service to commercial concerns by making reference to UMRs. A renegotiated FAC would therefore approach food aid disciplines from a very different perspective than does the WTO. Three of the key negotiating points at the Trans-Atlantic Food Aid Policy Dialogue<sup>9</sup> are minimum donation requirements from donor members (in quantity of food, not value), harmonisation of reporting requirements with WTO agreements, and the continued monetisation of food aid. The effectiveness of the FAC is constrained, however, by its nature as a voluntary, non-binding agreement. Non-binding agreements on food aid have a chequered past; for example, low rates of reportage to the CSSD and the failure of countries (Canada and the United States) to meet their FAC minimum donation requirements. Such failures provided the incentives for humanitarian advocates to support the inclusion of binding rules on food aid in the WTO – to coerce member nations to change their behaviour by threat of retaliation from WTO member countries. Another important factor is that countries may be less willing to make concessions on their food aid policies outside the reciprocal deal-making environment of the WTO negotiations. The United States, which favours the status quo, may be unwilling to compromise without gaining concessions from other member countries in other trade-related areas (e.g., market access and export subsidies).

It is likely that a new FAC will be negotiated, and it will bear some resemblance to previous FACs. Whether member countries abide by the new convention remains to be seen; however, it is likely that some of a new convention's guidelines will be followed more closely than in the past. This is due as much to gradual changes in donor behaviour as to explicit efforts to conform to FAC directives. Most donor nations are moving away from monetised aid, and tying is becoming less prevalent in food aid donations.

## **Conclusions**

If a new WTO deal is completed, then it will contain binding rules on food aid shipments in an effort to curtail displacement of commercial trade in food-aid recipient countries. The new rules will mark a departure from the URAA's non-binding food aid guidelines; member countries that violate the new rules will be subject to trade retaliation under the WTO's Dispute Settlement Understanding. If the current proposals make it through to a final DDA agreement and are enforced as outlined in draft modalities, then food aid shipments will decline. There are two factors that will prevent this from happening, however. First, any rules that appear in a DDA deal will be difficult to enforce and will face serious credibility issues among member nations. Adherence of member-country food aid policies to new rules in a WTO agreement may be a matter of good faith. Second, many of the issues that the new rules are intended to address are not as prevalent as in years past. Specifically, monetisation is already on the wane and surplus disposal is less prevalent because commodity stocks are shrinking.

If the DDA collapses, then the international governance of food aid will fall to another body – likely one without an effective enforcement mechanism. A new FAC is likely to emerge with or without a DDA deal and will contain guidelines for signatory countries to increase the effectiveness of food aid from a recipient-country perspective. A new FAC would not have binding, enforceable rules but might be as effective in promoting its agenda as would be weak rules in a WTO agreement.

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## Endnotes

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1. The jump in 2003 is the result of the U.S. reporting four years of aid in one year.
  2. There is anecdotal evidence that an increase in U.S. skimmed milk powder food aid shipments corresponded with mandated reductions in export subsidies over the implementation period (Margulis, 2006).
  3. There is considerable confusion about the food aid terms used at the WTO. The widely understood terms for food aid sources are donor-sourced (coming from donor-country production), local purchase (purchased in the recipient country) and regional or triangular purchase (purchased in a third, usually developing, country). In development circles there is also a debate about food transfers (traditional food aid) and cash transfers (where money is given to recipients to buy their own food). WTO use of the term “in-kind” refers to the first source of food aid while the term “cash-based” applies to the second and third sources.

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Cash transfers (which could also be understood as “cash-based”) are not part of the WTO discussions.

4. Monetised aid is in-kind food aid that is donated and then sold on the recipient country’s market.
5. These effects are commonly referred to as “Schultzian disincentive effects”, after Nobel laureate Theodore Schultz (1960).
6. The U.S. negotiating position has been in favour of continuing current food aid disciplines as outlined in Article 10.4 of the URAA (Young, 2002).
7. The food aid non-governmental organisation community is not unanimous on this point. CARE, a large multinational food aid donor, intends to unilaterally phase out monetization by 2009.
8. The FAC requires that food aid be provided at a minimum of 80 percent concessionality and that concessional aid comprise a maximum of 20 percent of a donor’s food aid provision.
9. The Trans-Atlantic Food Aid Policy Dialogue is an informal network of food aid non-governmental organisations that is involved in the renegotiation of the FAC.

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