

**Resolving the outstanding issues on food aid:
Response to the “Communication from the Chairman of the Committee on
Agriculture Special Session, 30 April 2007**

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The Chairman of the Committee on Agriculture Special Session has made constructive proposals that could form the basis for a workable agreement, but it will require members to go beyond what was agreed and left unresolved at Hong Kong, making clear what are trade issuesⁱⁱ. There is then a need for a parallel statement of understanding, perhaps in some other forum on what will be the envisaged responsibilities of other aid governance bodies. That requires an agreement in principle for ending the special status of food aid and what should be the first steps in that direction.

The proposals of Ambassador Falconer are to be welcomed as they provide the basis for agreement on outstanding issues on food aid within the pillar on export competition. These proposals concern issues on which there are well understood differences of view amongst major stakeholders:

- principles that should apply to all food aid, in particular moving to all grant aid;
- the specifications of the Safe Box for emergency aid;
- how to prevent non-emergency in-kind aid from having trade distortion effects and
- the future status of monetization.

There are two principles that have been generally accepted in the course of the negotiations. First, the WTO shall not stand in the way of the provision of “genuine food aid”, leading to the proposal for Safe Box for emergency aid. Second, “commercial displacement” should be “eliminated”ⁱⁱⁱ

A third principle is implicit in the developmental framework of the negotiations: avoiding distortionary effects, especially where these are likely to impact negatively on developing country agriculture and so impede achievement of the MDGs on poverty reduction.

In commenting on the proposals I want to suggest the explicit acceptance of two further principles that are also implicit in many proposals about the form and content of an eventual agreement:

First, the longer term goal should be *to treat food aid in a similar way to other forms of official development assistance (ODA)*, removed to the greatest extent possible from the supervisory remit of international agreements for commercial trade. This could be called the *normalisation principle*. Currently food aid is treated as a special case, exempt from trade disciplines as well as the voluntarily agreements adopted in the OECD by donors both to prevent trade distorting competition through

concessional export credits and progressively to untie aid as a means to increasing its effectiveness, especially to least developed countries.^{iv}

A second and related *principle is that of proportionality*. Food aid was only 3.4% of ODA in 2005 and 2.8% of global cereal imports in 2004. What exists at present is a complex but ineffective set of special arrangements that are administration intensive. These arrangements are inherited from the past when food aid played a more important role in aid and trade. Instead, simple rules are needed that are clear in their application and easy to administer, including monitoring and supervision and the treatment of potential disputes.

Turning to the specific proposals:

General provisions which would apply to all food aid in all circumstances (Para 57):

The proposal that food aid should be exclusively in grant form commands extremely wide support including importantly the joint submission of the Africa Group and LDC groups, that is most of the likely future priority countries for food aid.^v Otherwise concessional food aid credits to middle income countries fall in to the category that is commercially fundable and so these are potentially distorting.

The Safe Box (Para 58-76)

A *precautionary principle* is the basis for the Safe Box - avoiding any restrictions that might risk preventing or delaying assistance in life threatening situations and other crises covered in what are the current WFP or other international agency definition of an emergency. The proposed Safe Box with its broad definition of the three conditions would seem to be practical only if good practice is assumed. However, there are concerns that some members might use the Safe Box as a vehicle for export subsidisation through aid in-kind. So a procedure for review of its operation is needed including a timetable – perhaps after four years. It should also be clear that the Safe Box is *not* intended to include humanitarian operations of a protracted nature for which it is appropriate to plan in advance and in doing so avoid assistance in forms that are potentially distorting.

Non-emergency food aid (Para 68-70)

It is similarly appropriate to apply a precautionary principle to all non-emergency tied aid because of the risk of potential commercial trade displacement and internal market distorting effects. The eventual goal should be, as with other forms of ODA, to phase out tying practices.^{vi} Donors who provide tied aid indicate an awareness of, and so try to mitigate such effects. Nevertheless the risk remains that part or all of the negative impact will be borne by small farmers, processors and traders in least developed countries who are not well placed to make a case through any dispute procedure.^{vii}

In-kind food aid supporting activities that directly transfer food to final recipients (para 68): the disciplines envisaged are “that it is based on a needs assessment conducted by a recognised agency (such as the United Nations or the Red Cross); that it is targeted to an identified vulnerable population; and that it is provided to address specific developmental objectives or nutritional requirements”. The key issues are a commitment in principle to eventual untying and for a review of the disciplines after four years.

Monetization (para 70) is associated with higher risks of commercial displacement and market distortion, whether to provide budgetary support to government or local currency support to projects. The acceptance of the African and LDC groups proposal to narrowly restrict such actions is practical but would require clear definition.^{viii} The proposal implies a review procedure and establishing a timetable for phasing out of monetization more generally, perhaps over the four years, 2009-2013.

What is missing from the Communication is a proposal to automatically exempt from export competition disciplines *all* food aid that is on grant terms, is untied and which satisfies the various conditions of Para 2 of the draft modalities.^{ix} Such a proposal would provide a way to progressively remove food aid from the requirements for monitoring and reporting under a future Agreement on Agriculture.

The proposals require a framework for reviewing progress, realistic minimum commitments for untying to allow sourcing of food in developing countries and a timetable.^x Acceptance of the normalisation and proportionality principles implies working within existing institutional arrangements for aid governance.^{xi}

Endnotes:

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ⁱⁱ The Chairman's Communication is available at: http://www.wto.org/english/tratop_e/agric_e/agchairtxt_30apr07_e.doc

ⁱⁱⁱ World Trade Organisation, Doha Work Programme, Draft Ministerial Declaration, Ministerial Conference, Sixth Session, Hong Kong, 13 - 18 December 2005, Wt/Min(05)/W/3/Rev.2

^{iv} The special status of food aid and relative significance of food aid are documented in Clay, Edward 2007. "Food aid, tying and distortion: an appropriate response", A paper for the International conference "Food aid: exploring the challenges" Berlin, 2-5 May, 2007 <http://www.foodaid2007.de/en/conference/papers>

^v The Joint Submission is reproduced as Box 1 in ODI Background Paper No 2 London, ODI http://www.odi.org.uk/wto_portal/post_wto/clay_background2.pdf

^{vi} First, all tied aid transactions are inherently distorting from an export competition perspective: the tying conditions are intended to give an advantage to a specific group of suppliers, usually donor country exporters. Second, these transactions imply a risk of either commercial import displacement or disruption to the internal market of the recipient country (or a combination of both).

^{vii} As the commodity composition of food aid has shifted from temperate zone commodities – wheat and dairy products – to maize, rice, pulses and edible oils the potential is increasing for competition from tied aid with such local and regional producers.

^{viii} For example “facilitating procurement of agriculture inputs, where necessary, by the final recipients” should be drafted to preclude the use of counterpart funding for a general input subsidy which would be a form of fungible budgetary support.

^{ix} A consequence of accepting the normalisation principle is that the eventual agreement should be formulated in a way that is consistent with established usage in agreements on ODA. The DAC distinguishes between untied aid and tied aid, and so there is a need to clarify whether disciplines would apply only to aid in-kind or all tied aid and whether cash-based aid is understood to include both untied and partially untied aid (Clay, 2007, Annex 1)

^x In 2005 around 32% of all food aid satisfied these criteria (Clay, 2007, Table 2). But there is great divergence in current donor practice ranging from the EU and members states that provided 92% on an untied basis and the US supplying 99% as aid in-kind. A target of untying 50% of all developed country food aid based is achievable for say 2113 if it were based on individual donor commitments including by Australia, Canada and Japan to source at least 50% of food aid in developing countries, the EU continuing to provide over 90% untied and a US commitment of allowing 25% procurement in developing countries in the spirit of the draft 2007 Farm Bill proposed by the Administration.

^{xi} For example, the phasing out of concessional food aid credits could involve donors continuing to report on transactions to the FAO Sub-Committee on Surplus Disposal, that in turn forwards a consolidated annual report to the OECD committee on export credit agreements. That latter committee could in due course assemble in collaboration with the WFP all the documentation for a review to be tabled at the WTO Committee on Agriculture.