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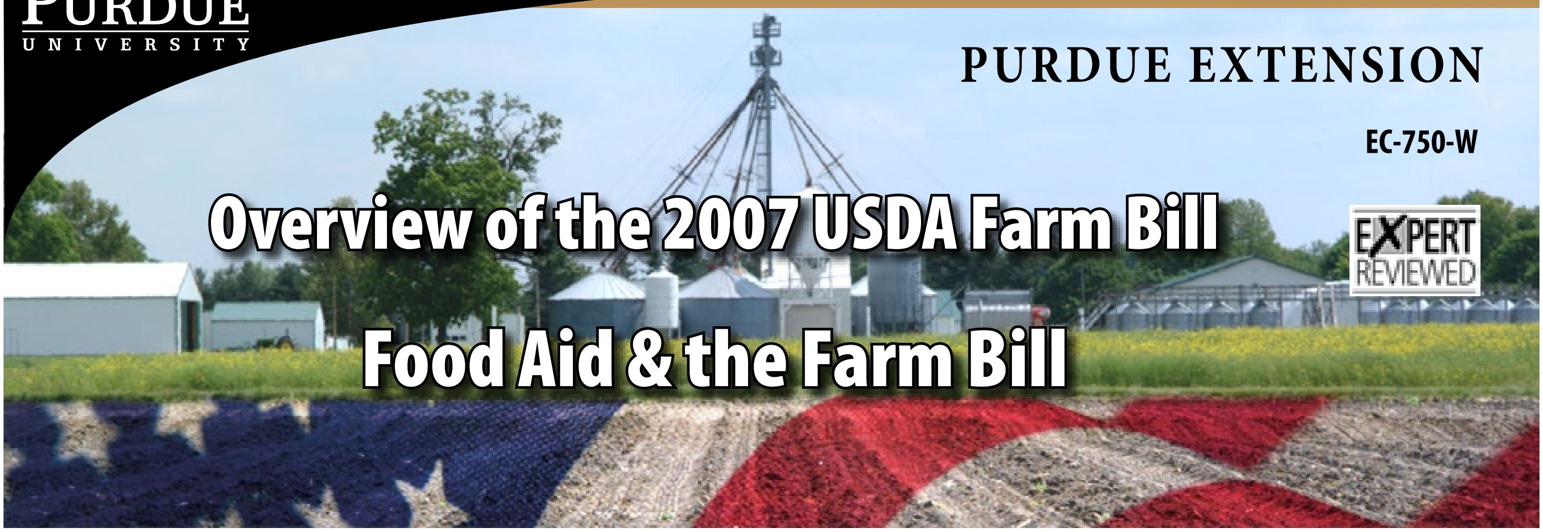

Overview of the 2007 USDA Farm Bill

Food Aid & the Farm Bill

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Background

U.S. international food assistance programs, commonly referred to as "food aid," are authorized in the trade title (III) of farm bills. Their inclusion arises due to multiple program objectives that in the past have complemented domestic farm legislation and yielded strong support from agricultural interests. Food aid programs not only address food security concerns in recipient countries, but also humanitarian relief from natural disasters and political strife, economic development, foreign market development for U.S. agricultural exports, and disposal of U.S. surpluses. Restrictions on program implementation, such as "buy U.S." requirements and the cargo preference provision, also benefit U.S. interests.

Food aid programs are classified as emergency relief, project aid, or program aid. Emergency relief augments food supplies or rebuilds productive assets following natural disasters or political strife. Project food aid funds a wide range of development projects implemented by foreign governments or private voluntary organizations (NGOs). Program aid provides balance of payments support to recipient governments to cover food import costs as well as other foreign exchange needs. Program and project aid are often "monetized" as donated food is sold in recipient countries and receipts fund broad development programs. Emergency food aid is the most likely to effectively use food rather than cash donations, while cash is clearly a more efficient means to fund broad development projects.

U.S. farm legislation authorizes eight programs that overlap these classifications and address specific objectives (Box 1, p. 2, Food Aid Programs as of 2006). Annual budgetary allocations fund these programs, and the more controversial programs that foster foreign market development and are monetized (PL 480 Titles I and III and Section 416b) remain authorized but are dormant due to zero budget allocations. PL480 Title III and Section 416b budget allocations were already zero in 2006. The 2007 Administration budget sets to zero the even more controversial PL480 Title I program, which funds foreign market development activities.

When celebrating the 50th anniversary of PL480 in 2004, these food aid programs were seen as controversial from a variety of perspectives in spite of tangible successes. Numerous academics, interest groups, and public entities have called for reform of food aid programs, including the General Accounting Office and implementing NGOs. Food aid programs exhibit a long history of criticism and reform, due to the multiple objectives that have changed over time, costs of implementation constraints, and inefficiencies in distribution. (See Box 2, p. 3, for a brief discussion of issues surrounding this criticism.)

Circumstances have also changed for these programs. Most notably, reforms of U.S. farm legislation since 1985 and even more so since 1995 have led to policies that no longer generate surplus stocks, so that complementarities between food aid programs and broader farm legislation are weaker and surpluses are no longer available for donation. Non-

Box 1. U.S. Food Aid Programs as of 2006

Program	Description	2006 Budget Allocation * $ millions
Public Law 480	Food for Peace, begun in 1954	
PL 480 Title 1	Concessional government-to-government sales, as grants or loans, recently geared toward countries with a shortage of foreign exchange, and to foster foreign market development	**30** Dormant in 2007
PL 480 Title II	Donations (grants) to meet both emergency and non-emergency food security needs, implemented government-to-government, via NGOs, or through the UN's WFP **	**519** plus **803** via WFP
PL 480 Title III	Government-to-government grants to support long-term economic growth in least developed countries by "monetizing" food donations (sales revenue funds projects)	**0** Dormant
Section 416b	Overseas donations of CCC owned surplus commodities, sold to support agricultural, economic, or infrastructure development and to foster foreign market development	**0** since CCC inventories are now zero
Food for Education	Provides food donations as well as financial and technical assistance for school feeding and child nutrition programs	**33** plus **21** via WFP
Food for Progress	Donation or credit sales of food to developing countries and emerging democracies, typically monetized to support democracy and expansion of private enterprise	**79** under PL480 Title I **129** under Section 416b
Bill Emerson Humanitarian Trust	Up to 4 million metric tons of grains kept as a reserve to respond to unexpected humanitarian food crises that cannot otherwise be met with PL480. Recently this reserve has been accessed nearly every other year.	Not "programmed" as food aid 377 spent in 2005
Total Donations		**1,636** (plus 936 as ocean freight ***)

* Programmed US Food Aid expenditures for FY 2006 as of October 30, 2006.

** Roughly half of US donations are distributed through the UN's World Food Program (WFP).

*** An additional $936 million is paid for ocean freight to US shippers on PL 480 Title II donations, beyond the $1.636 billion spent in total on commodities.

Source: Foreign Agricultural Service, USDA (Web site accessed 6/14/2007)

recourse loan programs that utilized stocks accumulation to set floors under commodity prices have been replaced by marketing loan programs that do not accumulate stocks and by decoupled payments to farmers intended not to affect market prices, production, or trade.

In addition, a significant increase in the number of emergencies over the last decade have crowded out other classes of food aid (project and program aid) since expenditures on food aid have remained flat while rising commodity prices have decreased tons donated. Negotiations under the WTO's Doha Round have also significantly influenced the food aid debate, as the EU position on export subsidies has linked food aid reform to elimination of the EU's general export subsidies.

WTO & Food Aid

In the Doha Round WTO negotiations, the European Union (EU) has indicated a willingness to eliminate its direct export subsidies on the condition that all forms of export subsidies, both explicit and implicit, are disciplined as well. Food aid has entered the export competition pillar of agricultural negotiations since the EU has argued that certain U.S. food aid programs are potentially implicit export subsidies. The EU was concerned both with programs to foster foreign market

Box 2. Issues in the Food Aid Debate

The debate over reform of food aid programs has its own vocabulary to describe the issues central to both past farm bill discussions and WTO debate:

Tied aid—cash or food?—Donations could have been given to recipients as cash rather than food. Those recipients might have spent the funds on other goods than food or sourced food from another supplier than the U.S. Critics argue that cash is generally more efficient than food as a vehicle for donation (there are only a few circumstances when donations of food would be preferred). Political interests in support of food aid may benefit from this constraint on implementation and so support the programs. USTR has argued that cash donations would not replace food aid programs if WTO reforms eliminated or overly restricted existing programs.

Monetization—Monetization is the sale of food aid for cash by the implementing entity. NGOs, for example, sell commodities in recipient countries to generate funds to support the costs and logistics of distributing food. Recipients also monetize food aid to fund broad development initiatives unrelated to food security. This is seen in the WTO debate as an inefficient way to convert food aid back to cash.

Commercial displacement, targeting, and additionality—The central concern in the WTO debate is that food aid may displace imports from other commercial sources, acting as an implicit export subsidy. This depends on the extent to which the food aid creates additional demand and the extent to which surplus disposal augments world supplies. Well targeted aid that goes to recipients who would not otherwise purchase that food (e.g., refugees and the destitute) does not displace competing imports and benefits all exporters via increased demand. Emergency food aid is much better targeted than other classes of food aid and is more likely to be additional in the sense that world demand is increased relative to supply.

Production disincentives—The first major critic of food aid was that food donations could lower price and so create a disincentive for future agricultural production in recipient countries. Research has shown that well targeted aid does not create such disincentives, and trade policy of importing countries more often converts this effect for poorly targeted food aid to commercial displacement rather than a production disincentive.

Cargo preference and "buy U.S."—These implementation restrictions on U.S. food aid programs require that food donations are purchased from, and processed, bagged, and shipped by U.S. firms. These restrictions can add significant costs to food aid programs – over 40% of PL480 Title II donation costs cover the ocean freight on U.S. flag vessels to ship donations overseas.

Local purchases and triangular transactions—"Buy U.S." restrictions prevent sourcing food aid either within the recipient country (local purchases) when only specific regions in that country are affected, or from neighboring countries (triangular transactions). These methods of sourcing food aid can ensure more timely deliveries to meet emergency needs and can incur lower acquisition or distribution costs. Local purchasing may also diminish production disincentives. Allowing limited local purchase (25% of PL480 Title II, for emergencies only) is the only food aid provision of the USDA's current farm bill proposal, and is a response to a call for this reform in the WTO debate.

development (PL480 Title I and Section 416b) and with surplus disposal aspects of the programs. The EU called for elimination of the programs that focused on foreign market development rather than emergencies and for disciplines to convert food aid donations to their cash equivalent, as well as to require food aid programs be only in grant form rather than as loans.

Explicit use of food aid as an export subsidy was forbidden in the 1986 Food Aid Convention. The Uruguay Round Agreement on Agriculture (URAA) strengthened language on this prohibition. Nevertheless, this concern has persisted because of the foreign market development aspects of existing U.S. programs, because of the increasing monetization (sales to generate cash) by implementing agencies, and because the availability of food aid has varied counter cyclically with need in recipient countries; that is, less food aid is available when world prices and so import costs are high.

An addendum to the URAA recognized this issue and the potential for a successful agreement to diminish food aid and make food importing countries worse off. But the "Decisions on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Food Importing Developing Countries" set minimum commitments to food aid at such a low level low that they have not yet bound donors. Developing countries see these commitments made by donors at the Marrakech signing in 1994 and higher future food aid minimums as part of the unfinished business of the Uruguay Round.

In the July 2004 Framework Agreement of the Doha Round negotiations, the EU position was partially accepted in that all forms of export subsidies are to be disciplined, with the primary objective being to prevent commercial displacement, and that conditions imposed on donors requiring cash rather than food and grants rather than loans would be addressed in subsequent negotiations.

Continuing Doha Round negotiations have explored what constitutes an emergency, recognizing that eliminating food aid for emergency situations would be counter productive. The U.S. has strongly rejected the proposition that food aid be replaced by cash donations, reflecting strong political support for existing programs by a coalition of interests, including farm groups, implementing NGOs, agribusiness, and maritime shippers. Former U.S. Trade Representative Robert Zoellick and USDA officials made clear that if WTO disciplines required elimination of US food aid programs, an equivalent amount of foreign assistance as cash would not be forthcoming. Ongoing discussions on disciplines address the various issues surrounding effectiveness of food aid, especially tying, monetization, local purchases, and triangular transactions (Box 2, p. 3) and their relationships to specific U.S. programs.

Food Aid & the 2007 Farm Bill

Food aid programs are mostly authorized under farm bills. Only Section 416b, donations from surplus government stocks, is part of permanent 1949 agricultural legislation. Rules governing program administration and implementation, so any reforms, would be part of a new farm bill. The 2002 Farm Bill reauthorized PL480 and other food aid programs, making a number of small changes affecting program objectives, authorized appropriation levels, and implementing rules such as the extent of monetization. The McGovern–Dole Food for Education program begun in 2001 was promoted from pilot project status and was provided $100 million in CCC funds to continue existing projects. The last major overhaul of food aid was in the 1991 Farm Bill.

The USDA proposal for a 2007 Farm Bill contains only one modest proposal related to food aid. Solution 10 for Title III of the Farm Bill would "authorize the use of up to 25% of PL 480 Title II funds for the local purchase and distribution of emergency food aid to assist people threatened by a food security crisis." This proposal appears to walk a tightrope between the coalition of political interests strongly supporting food aid programs and the pressures for reform in WTO negotiations. Even this modest proposal is controversial and faces criticism from the political interests behind food aid (and who benefit from it). In spite of recognition that timeliness and cost during emergencies argues strongly for allowing local purchases, this proposal only permits a fraction of food aid purchases be sourced locally, and then only in emergencies.

The current USDA proposal does not eliminate (or address) any of the more controversial programs or objectives—foreign market development and monetization. But recent budgetary allocations to food aid programs show a willingness on the part of the current U.S. Administration to reform aspects of these programs. In 2006 there were no funds allocated to PL480 Title III or to Section 416b. No monies were budgeted for PL480 Title I in 2007. These three programs are the ones targeted by the EU because they included explicit foreign market development objectives and because they involved significant monetization. While these programs are now dormant, they remain authorized unless provisions of a new farm bill would change that, so they could be reactivated in the future.

When Secretary of Agriculture Johanns presented the USDA Farm Bill Proposal to a conference of implementing NGOs and other food aid-related interest groups in April 2007, there was surprisingly little criticism of the proposal, in part because these NGOs understand the inefficiencies arising from constraints now imposed on the program. Of much greater concern were issues surrounding appropriations. Since food aid spending depends on annual budgetary allocations, the failure of Congress to establish budgets in a timely fashion, and operating under continuing resolutions instead where food aid budgets have not been a high priority, have led to delays in setting annual allocations and so have hampered program planning and implementation. NGOs also expressed concern that today's high commodity prices mean that quantities donated are shrinking, since budgetary allocations to food aid have remained flat, in spite of increasing need and the much greater incidence of emergencies in recent years.

Final Comments

Food aid is a bargaining chip in the WTO Doha Round negotiations on export competition. While disciplines on food aid would be a small price for the U.S. to pay in return for elimination of EU export subsidies, surely negotiations cross pillars in setting agricultural policy tradeoffs, and the EU has already significantly reformed their export subsidies programs to meet its own domestic concerns. Moreover, it is clear that WTO negotiations have stalled because cross-pillar concerns with depth of cuts (EU market access versus U.S. domestic support) have held up agreement. Elimination of food aid would be a very high price to pay, and counter to the spirit of the Doha Development Agenda. It is therefore likely that if there is an eventual outcome to the Doha Round, emergency food aid will persist, but some rules reforms will be agreed to by the U.S. that will change existing programs.

Given that WTO negotiations appear to be stalled and a 2007 Farm Bill is moving ahead, reform of food aid in the current Farm Bill presents a timing dilemma to USDA and USTR. The current solution is a modest proposal to get local purchasing permitted, a proposal that could go further in subsequent WTO negotiations, and using budgetary allocations to suspend but not yet de-authorize the more controversial food aid programs. It is likely that PL480 Title I and Section 416b would no longer be used to address foreign market development, and monetization of food aid would come under greater discipline in a WTO agreement. But a new Farm Bill will take only very small steps in that direction. Food aid would not be converted to cash equivalent, and it is unlikely that the Administration will take on all the powerful political interests that have given rise to the inefficiencies of the "buy-U.S." restrictions of the programs.

The economic case for reform of food aid is strong. Cash is more efficient than food as a donation in most instances, and restrictions on programs bring high costs. Getting the greatest humanitarian relief from these limited resources would be accomplished by significant reform. But doing so would require political courage, and food aid is not key to either the Farm Bill or to WTO agricultural negotiation tradeoffs.

Elimination of cargo preference and onerous "buy U.S." requirements, permitting even greater local purchasing, provision of sufficient resources for logistics to eliminate monetization, and consolidation of programs to emphasize emergency relief rather than broad development objectives and donor interests would all go a long way towards more efficient realization of the humanitarian goals of these programs. It would be sad if the interests of the poor in developing countries were lost sight of and food aid were eliminated, particularly as the outcome of a WTO round ostensibly focused on development.

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