



## Food Aid and the Doha Development Round: Building on the Positive

*Edward Clay*

*Food aid is a constraint on progress in the WTO agricultural negotiations. There is a growing risk of some unsatisfactory compromise just to unblock the wider agricultural negotiations and the opportunity will be lost to move towards a more constructive food aid regime. It is time therefore to re-assess the options under discussion looking for an outcome that would provide the basis for subsequent constructive negotiations outside the WTO to set the policy framework within which food aid operates. This Background Paper attempts that task first setting the context of food aid, its tying status and Doha Negotiation process. Four broad options before the negotiators are identified and considered in terms of three criteria, allowing those who organise food aid the flexibility to make appropriate decisions, simplicity in tracking compliance with WTO disciplines, and ensuring that real levels of food aid are sustained. The application of these criteria points to a combination of progressive, partial untying of all food aid to allow developing country sourcing of food wherever appropriate, phasing out of forms of food aid most likely to be anti-developmental combined with a donor reaffirmation of current levels of commitments and funding during the transition process.*

### The post Hong Kong challenge

The Doha Development Round negotiations offer a once in 12 to 15 year opportunity to disentangle food aid from the agricultural trade policies of rich countries that compromise both its effectiveness and efficiency. The negotiations could be working towards a food aid regime that is genuinely responsive to the need for humanitarian relief and which promotes poverty reduction in the poorest, food insecure countries. Instead, food aid has become one of the key unresolved issues in the Doha Round (Box 1). There is a considerable gap between the negotiating positions of two major parties, the US wants a continuation of the status quo under which food aid is exempt from WTO disciplines on export subsidies, whilst European governments propose complete untying in parallel with the reduction in other export subsidies. Can or should the food aid question be resolved along with other key issues, practically and pragmatically, to maintain the momentum of the Doha process, without either compromising humanitarian and food security aspirations or wasting aid money?

### The best as the enemy of the good?

Financial assistance is in general preferable to commodity aid in providing the greatest flexibility for all parties and minimising transaction costs. Nevertheless where context specific circumstances make food aid an appropriate option, the issue is to ensure its effectiveness and efficiency. Those managing the responses to disasters and conflict or providing food for social protection and development should be free to decide what is appropriate. Most donors commit funds solely for food aid, first because of their Food Aid Convention obligations to provide minimum annual levels of food aid, and second to support the World Food Programme (WFP) multilateral activities. This is not aid tying, but the committing funds to a specific use (Box 2). Food aid is an agricultural trade issue because some donors seek through their tying practices to combine humanitarian and development goals with export promotion and assuring outlets for their own domestic producers. These tying practices are prima facie a form of export subsidy. Is this a win-win situation as defenders of the status

**Box 1: Food Aid – the Unresolved Doha Round Issues**

The final version of the Hong Kong Ministerial Declaration indicates the issues for further negotiation in 2006:

‘On food aid, we reconfirm our commitment to maintain an adequate level and to take into account the interests of food aid recipient countries. To this end, a “safe box” for bona fide food aid will be provided to ensure that there is no unintended impediment to dealing with emergency situations. Beyond that, we will ensure elimination of commercial displacement. To this end, we will agree effective disciplines on in-kind food aid, monetization and re-exports so that there can be no loop-hole for continuing export subsidisation. The disciplines ...will be completed by 30 April 2006 as part of the modalities, including appropriate provision in favour of least-developed and net food-importing developing countries as provided for in paragraph 4 of the Marrakesh Decision.’

The comments on food aid in the Report by the Chairman of the Special Session of the Committee on Agriculture annexed to the above Draft Ministerial Declaration of the WTO indicate more explicitly the continuing areas of disagreement:

‘There is consensus among Members that the WTO shall not stand in the way of the provision of genuine food aid. There is also consensus that what is to be eliminated is commercial displacement. There have been detailed and intensive discussions, some of which have even been text-based, but not to a point where a consolidated draft text could be developed. This has been precluded by Members clinging to fundamentally disparate conceptual premises. There are proposals that in the disciplines a distinction should be made between at least two types of food aid: emergency food aid and food aid to address other situations. However, there is not yet a common understanding where emergency food aid ends and other food aid begins, reflecting concerns that this distinction should not become a means to create a loophole in disciplines. A fundamental sticking point is whether, except in exceptional, genuine emergency situations, Members should (albeit gradually) move towards untied, in-cash food aid only, as some Members propose but other Members strongly oppose.’

*Source:* World Trade Organisation, Doha Work Programme, Draft Ministerial Declaration, Ministerial Conference, Sixth Session, Hong Kong, 13 - 18 December 2005, Para 6 and Annex, Para 14 (The Report of Chairman, Agricultural Negotiating Committee) 18 December 2005, Wt/Min(05)/W/3/Rev.2.

quo assert or does tying involve a significant, no longer acceptable, trade-off between humanitarian and developmental objectives and promotion of domestic interests in donor countries?

**Out of step – food aid’s continuing tying status**

In contrast to the wider move towards untying, over two thirds of aid during 2001-2003, only 12% of DAC member food aid was fully untied (Box 2). The absence of reciprocity and a high level of mutual distrust between food exporter interest groups in different donor countries have militated against unilateral untying. Instead, the partial untying of food aid funds is becoming much more extensive, indicating growing donor flexibility over procurement in developing countries. As a result, 26% of food aid deliveries was purchased in developing countries in 2004 including a record 1.1 million tonnes of local purchases. All DAC members with the sole exception of the US (less than 1%) funded significant developing country procurement, 58% of their food aid in 2004 (Table 1).

**Food aid in context**

Food aid is no longer a major part of aid and agricultural trade, being less than 5% of all OECD official development assistance (ODA) and under 2 percent of total developing country food imports in 2004. This apparent global insignificance is deceptive because of food aid’s

considerably greater importance for some participants in the WTO negotiations and some stakeholders in the aid system.

**Aid agencies:** The 1999 Food Aid Convention (FAC) includes annual minimum commitments of just under 5 million tonnes of commodities and actual deliveries were 7.5 million tonnes in 2004. The US is responsible for 51% of minimum contributions to the FAC and accounted for 57% of deliveries in 2004. In recent years food aid has fluctuated between 10-15% of total US ODA. The EU, including its member states, is collectively responsible for 27% of the FAC commitments. In 2004 the European Commission (EC) provided 8% with smaller shares for member states such as Germany and the UK, both 2%, but accounting for less than 3% of EC and member state ODA. WFP is wholly dedicated to providing food aid as is a substantial part of the activities of some, especially US based NGOs.

**Donor Exports:** food aid has ranged from 7% up to 20% of US wheat exports and more than 50% of US dried skim milk exports in recent years. Rice is a significant proportion of the export market for highly subsidised US, Japanese and Italian rice, competing with low cost developing country producers such as Thailand and Vietnam. The EU in offering to end over \$3 billion in its exports subsidies sees US food aid as highly institutionalised export subsidies of more than US\$ 1.5 billion targeted on cereals, soya beans and, more recently, dairy products.

**Developing country imports:**

Food aid ranged between 15% and 20% of food imports of least developed countries during 1994-2003. For a few, it has been a substantial source of budgetary support, e.g. Mongolia, and as post-disaster assistance to Central America following Hurricane Mitch in 1998. Regionally 50% of food aid went to Sub-Saharan Africa in 2004, and a few larger recipients dominated deliveries including Ethiopia (10.5%) and North Korea (9%).

**Uses:** Food aid is now provided largely as emergency aid or humanitarian assistance, 58% in 2004, with 28% as project aid for development channelled through WFP and NGOs. Bilateral programme aid to be sold as budgetary support, the main use when international arrangements were put in place between the

**Table 1: 2004 Global Food Aid Deliveries: Selected Donors and Supply Modes**

Donor	Deliveries	Transfer mode as % of donor deliveries		
		Direct	Local	Triangular
	000t			
Australia	160	82	11	8
Canada	196	83	14	2
China	160	100	< 0.5	< 0.5
Denmark	51	72	16	12
EC	572	11	47	42
France	80	57	22	11
Germany	161	11	61	28
Italy	99	48	21	31
Rep. of Korea	207	100	0	< 0.5
Japan	580	58	7	35
Netherlands	127	14	37	49
Norway	115	9	73	18
Sweden	113	2	46	52
Switzerland	49	9	55	35
UK	149	9	55	38
USA	4247	99	1	< 0.5
Total all exc. USA	3248	42	32	26
Total, all donors	7495	74	14	12

*Notes:* Adapted from WFP INTERFAIS data; amounts are quantities delivered in grain equivalents metric tonnage; supply mode: *direct transfers* procured in donor market, or EU market in case of EC and EU members states; *local purchases* in recipient country of use; *triangular transactions* imported from other developing countries.

**Box 2: The OECD Aid Untying Agenda**

The OECD Development Assistance Committee (DAC) is engaged in a long term effort to untie aid through clarifying the meaning of tying, exploring its consequences and reaching agreement on moves towards the progressive untying that have included all categories of aid, excepting food aid and technical co-operation.

DAC definitions of tying status:

- Tied aid: procurement limited to the donor or a small group of countries;
- Partially untied aid: procurement limited to the donor and substantially all developing countries;
- Untied aid: procurement open to substantially all countries

OECD studies indicate that tying typically results in incoherent and ineffective aid, with cost increases in the range of 10-30%, parallel systems of administration, fragmentation of efforts and donor rather than recipient driven priorities.

There has been considerable, sustained progress towards untying. According to these definitions during 2001-2003 over 74% of all DAC members aid expenditure, excepting technical co-operation, was untied compared with 28% in 1982-84 and 48% during 1992-94. The results of untying have been identified as including improved aid effectiveness and reduced trade distortion without any reduction in aid budgets.

1950s and 1970s, has declined from 50% during 1992-94 to only 14% in 2004. These categories are broad and overlap in terms of actual food uses. NGOs monetize in some cases the whole of multi-year US development project assistance to provide local currency support. Consequently, all forms of tied food aid potentially have trade displacing impacts and internal market distorting effects.

**A highly variable and uncertain resource:** Total food aid deliveries fell by 37% in 2004 (Figure 1). This sharp decline reflects a sensitivity to commodity prices and also shipping costs as the US and some other donors budget a year ahead in financial terms. Stock levels in exporting countries are another destabilising influence because some donors budget extra funds for surplus disposal when stocks are high. Between 1999 and 2001 the US funded over \$400 million of shipments annually from surplus stocks using a Department of Agriculture (USDA) trade budget line, initially largely as economic crisis support to Russia. The EU reciprocated in 1999 with one-off, commodity aid to Russia also using agricultural budget funds. A high profile humanitarian crisis such as followed the invasion of Iraq is also likely to elicit a one-off supplementary budgetary response reflected in 2003 deliveries. Budgetary pressures in the US and the possible effects of further EU aid reforms are making it extremely difficult for operational agencies to plan development projects such as school meals even a year ahead.

### Food Aid in the Uruguay Round

The 1994 Agreement on Agriculture (AoA) effectively excludes from WTO disciplines all official food aid satisfying DAC definitions for ODA, provided there is no link to the export of other goods and services (article 10 iv). The 1994 Marrakech Decision added an obligation on the part of WTO-Member donors to 'review the level of food aid...and...to establish a level of food aid commitments sufficient to meet the legitimate needs of least developed and net food importing developing countries during the reform program' and to provide this aid to the greatest extent possible in a grant form. But no mechanism was put in place to ensure that these aspirations were realised. Instead short-term domestic pressures determine the

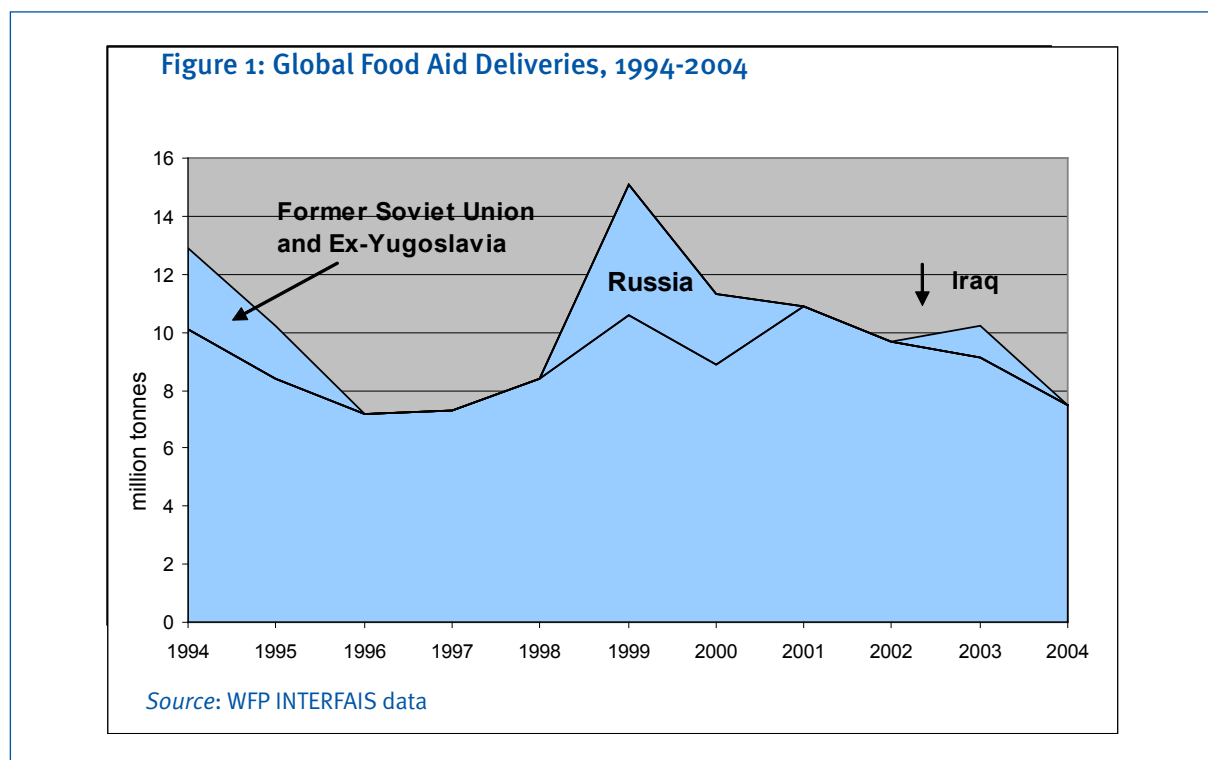
direction of food donor policy. In a tight market situation the US and Canada, unilaterally reduced their multi-annual minimum commitments under the 1995 Food Aid Convention. In the late 1990s with overhanging surpluses some donors including the US, Japan and the EU appeared to use food aid as a loophole for surplus disposal and competitive subsidised food exports, causing trade displacement (e.g. rice and dairy products).

In 2000 the WTO committed itself to reducing all forms of export subsidy in a developmentally sensitive way, including food security considerations. Negotiations exposed the wide gap between the US and EU positions. The US wishes to retain its full range of tied aid programmes. The EU and other European donors propose the complete untying of food aid, requiring that operational agencies be provided with financial resources and the freedom to procure globally, giving priority to developing countries. Negotiations have sought to bridge this gap by determining what should be regarded as genuine food aid and so exempt from WTO disciplines. Discussions have focused particularly on the distinction between emergency aid and other food aid, whether only grant aid should be allowed and on the role of international organisations. The Chairman of the agriculture negotiating committee reported in November 2005 a lack of progress (Box 1).

The range of possible options before the negotiators includes:

- Maintaining the Uruguay Round status quo whilst strengthening monitoring requirements;
- Phasing out some forms of food aid use most likely to be odds with new WTO disciplines;
- Complete untying, cutting the Gordian knot of links between food aid and export subsidisation; and
- Partial untying to permit developing country procurement as a requirement for genuine food aid, exempt from disciplines.

There is urgent need to explore more fully the potential implications of the broad options for future disciplines. To be persuasive, an evidence-based assessment of the options is required, focusing on what can be learnt from the recent evolution of donor policies and



practices. Such an assessment should focus on the three criteria for an effective new regime that are at the centre of Doha Round negotiations.

First, what would be the basis for distinguishing genuine food aid from actions compromised by export subsidy intentions? The key underlying issue is flexibility – do a donor's food aid regulatory framework or practices allow those who manage humanitarian responses to natural disasters and conflict, or provide food for social protection and development, to decide what is appropriate?

Second, will the option ensure that resources are available for responding to new humanitarian crises and also prevent a decline in the level of resource transfers to food insecure countries? There is concern about declining resources because of asserted additionality of some tied food aid.

Thirdly, are there simple but workable rules that will require only a minimum of monitoring and supervision under the WTO Committee on Agriculture? There is a need to elaborate the principles that should underlie a set of workable rules which are:

- easy to understand;
- simple to operate;
- transparent;
- have teeth; and
- avoid any disruption or delay to actual food aid actions.

To do these things the agreed rules should:

- Focus on the donors legislative rules, procedures and budgetary practice rather than on monitoring every year the thousands of individual food aid actions.
- Provide a strong incentive for those operating under the new rules to make them work. For example, if WFP or an NGO has the flexibility to procure maize within Africa and deems this were appropriate, timely and cost effective, then the agency will probably try to do this and oppose a donor trying to get them to accept aid in kind.
- Encourage peer group pressure. Doubtful behaviour by one donor is likely to lead to focused scrutiny by the others.

### **Option 1: Retaining the status quo**

The global food aid system is widely viewed as in need of reform. Even its defenders see the need for strengthening institutional modalities such as the FAC and almost non-functioning FAO Sub-Committee on Surplus Disposal (CSSD) rules to prevent export displacement and give operational agencies more flexibility. The status quo option fails to satisfy the basic flexibility criterion of allowing those managing the responses to disasters and conflict, or providing food for social protection and development, to decide what is appropriate.

The main argument advanced against using new AoA disciplines to initiate reform is that the WTO should be concerned only with trade displacement issues. However, the Doha Round is supposed to be developmental and both the effectiveness and efficiency of current arrangements are called in question by a considerable body of evidence.

Second, defenders of the current rules assert the additionality of some food aid that might be jeopardised by new restrictions on tied aid. Some operational agencies contrast the scale of global hunger, estimated by FAO at over 800 million undernourished people, with

the modest levels of food aid and argue against changes that might reduce total food aid flows. However the reality is that food aid continues to be in secular decline, both as a share of ODA and in real terms. Adhering to existing arrangements therefore could be expected only to assure the bulk of current resources in the short term. The real value of US food aid has continued to decline over three decades with only periodic spikes linked to measures to dispose of transitory, excessive surpluses. This decline has continued despite legislative changes tying procurement even more closely to domestic interests, by raising the proportion of food to be shipped in US registered vessels and introducing pre-shipment processing requirements. Both Australia and Canada reduced their commitments to the FAC during the 1980s and 1990s whilst still continuing to tie almost all their food aid.

The decline is not directly attributable to the untying of food aid. Since the 1980s all European bilateral donors, including Norway and Switzerland, have been moving to partially untie their food aid budgets to allow developing country purchases. But, their food aid levels have not declined, but vary to some extent in response to international humanitarian crisis appeals, whilst continuing to satisfy FAC obligations. However, giving priority to increasing emergency needs has tended to crowd out funding for bilateral programme aid and support for WFP and NGO development projects. EU policy reforms in 1996 allowed the use of funds as cash in support of food security that were previously restricted to procuring and delivering food aid. Recipient governments, NGOs and EU delegations have then progressively opted to use the cash option. The implication is that minimum food aid levels are more likely to be assured by obligations such as the FAC or commitments to provide support to multilateral programmes and to respond to international humanitarian appeals.

Finally, the additionality argument is undermined by donor practices which make food aid an uncertain resource. The existing rules provide no assurance that short-term variability, which both undermines effectiveness and is linked to agricultural export policy in donor countries, will be addressed.

The case for change is underpinned by the mixed performance of the existing regime in terms of effectiveness and its lack of efficiency (OECD, 2005). Food aid saves lives in an extreme emergency. Humanitarian aid, whether categorised as protracted relief or a partial safety net also saves lives, reduces nutritional stress and protects livelihoods. But in both circumstances effectiveness is constrained by tying practices that often restrict the choice of appropriate and socially acceptable foods, lead to late arrivals and hamper post-crisis agricultural recovery. Developmental food aid for direct distribution has a patchy record, pointing to the critical importance of context specific influences on performance. In an era of increasing internal and international market integration, the continuing provision of tied food aid for sale, either as budgetary support to governments or to fund NGO projects, is increasingly hard to justify, because it is likely to cause import displacement and/or local market distortion.

The efficiency costs of tying practices whatever the uses of food aid, have been clearly demonstrated. The OECD (2005) study comparing actual practices with untied actions that would conform to AoA disciplines indicates that in-kind food aid carries substantial efficiency costs - at least 33% more than less restrictive procurement methods. In contrast, developing country procurement as local purchases and regional triangular transactions are relatively efficient. Complete untying would release around US\$750 million a year through efficiency savings to provide other aid to the poorest countries.

There are, of course, stakeholders and interest groups that might lose out from a change in the rules. The case for persisting with the status quo option amounts to little more than staying close to nurse for fear of something worse!

### **Option 2: Phasing out food aid most at odds with future WTO disciplines on export subsidies**

Confronted with the unsatisfactory features of the current system, negotiations have focused on distinguishing categories of use that offer higher or lower probability of providing appropriate aid. An attempt has been made to relate the exemptions from and application of disciplines to the role or uses of four broad categories of food aid:

- Emergency aid as presently defined;
- In-kind development project aid for direct distribution;
- In-kind development project aid for sale or monetisation;
- Programme aid for budgetary support on a grant basis and as concessional sales credits.

Good practice would then be reinforced phasing out the least unsatisfactory categories such as sales credits and strengthening of monitoring for the potentially more doubtful categories.

The WTO wishes to avoid imposing disciplines that might interfere with humanitarian assistance. A first major stumbling block is the difficulties over agreeing on a definition of uses (Box 1). The presently most widely accepted definition of emergency food aid, that of the WFP, includes actions ranging from immediate post-crisis responses to protracted relief and rehabilitation operations up to five years after an event. In an atmosphere of mutual distrust some parties consider that exempting all 'emergency aid' satisfying this definition could provide exporters with loopholes through which to avoid disciplines on export subsidies.

A second practical difficulty of a category based regime is to avoid the risk of humanitarian aid or other legitimate food aid being hampered by some form of ex ante assessment and approval, similar to those which already exist for bilateral programme aid proposals submitted to the CSSD and in the US for monetisation projects. The attempt to distinguish 'genuine' food aid on the basis of use potentially leads into further costly and problematic assessments to determine needs and to measure local market distorting and commercial import displacing impacts of thousands of individual donor actions.

The opportunity to move towards a reformed food aid regime could be sacrificed to the imperative of achieving an agreement. Allowing most of the existing categories of food aid to be exempt from disciplines could be counterproductive from both humanitarian and developmental perspectives. Above all it fails to provide flexibility to those responsible for making operational decisions about the supply of food assistance. The continued tying status of emergency and development project aid would still compromise effectiveness and make inefficient use of aid funds.

### **Option 3: Complete untying**

This option is logically the most coherent, allowing full flexibility in the use of aid resources to those responding to emergency situations and promoting the international community's poverty reduction development agenda. It would be in step with the DAC commitment and actual wider moves to untying of other forms of aid. However, practically it would be a leap



in the dark. The mutual lack of trust between donors sensitive to internal food producing and exporting interests has resulted in moves only to partial untying. The negotiations so far suggest that whilst complete untying might be accepted as the eventual objective of food aid reform it would be premature to expect an agreement on full untying within the Doha Round, even with an extended timetable for implementation.

#### **Option 4: Generalised, partial untying to permit developing country procurement as a requirement for genuine food aid**

The progressive and eventual generalised partial untying of food aid merits fuller consideration, spelling out more fully key features, potential advantages and drawbacks. This is, first, because, partial untying broadly satisfies the basic flexibility criterion. Second, it represents a continuation of evolving good donor practice, and so it is relatively easy to anticipate its main characteristics and implications.

All DAC donors have to some degree funded developing country procurement or committed themselves to partial untying, at least, of a proportion of the funds committed for food use to find more flexibility in responding to humanitarian crises and to promote production in and trade between developing countries. In 2004 Australia and France modified their regulations to facilitate developing country procurement. In 2005 Canada increased the proportion of budgeted funds that can be used in this way from 10% to 50%. The US found sufficient budgetary flexibility to procure 476,000 tons in developing countries, over 8% of its food aid in 2003, mostly for humanitarian purposes in Iraq. The US Administration then proposed that up to 25% of PL480 Title II resources should be available for developing country procurement in 2006 as humanitarian aid, but the Congress refused to approve an appropriation.

Both WFP and many international NGOs have considerable practical experience of developing country procurement. Further moves in this direction would require consultation, guidelines and probably international and country level agreements on co-ordination of actions to ensure that developing country procurement is sensitive to both production and market effects in both recipient and potential source countries.

**How it would work:** a donor agency commits funds to the specific purpose, in this case financing the acquisition and delivery of food for food-based interventions or for sale on the recipient market. These funds could be used to purchase the food within the recipient country or from another developing country, perhaps on a specified list of source countries or from the donor's market. For example, the donor could specify that €2 million could be used to acquire white maize in Malawi or another SADC country because it is not available from its own market. Alternatively the donor may make a commitment to finance the acquisition and delivery of say 10,000 tonnes of maize, to be purchased in the recipient country or from any of a specified list of source countries or the donor market. The key feature of such transactions is that those managing and organising the delivery have the flexibility to determine what to supply, the source, transportation, route and other linked services. In some situations in-kind aid may be the preferred option on grounds of availability, timeliness and cost.

**Verification:** How would the authenticity of a transaction be validated? First, the onus of proof must be on the donor to show that its food aid actions have this flexibility. Its legislative, regulatory and specific contractual requirements would be open to inspection by another member of the WTO, an international or civil society organisation. It would have to

show that its procedures and actual practices in specific cases do not preclude developing country procurement. For example, commodity description, phyto-sanitary or packaging requirements might effectively preclude developing country procurement.

**Timetable:** The introduction of partial untying requirement as an exemption from WTO disciplines would be phased both for practical reasons and in parallel with the phasing out of other export subsidies. Donors might agree to a minimum of 25% within 2 years of the ratification of the agreement, rising to 50% and eventually to 100% of all funds committed as food aid or as their minimum contributions under a renegotiated FAC.

An agreement in principle within the next AoA could allow for the details of implementation to be delegated to the FAC or the CSSD. To allow wider consultation amongst stakeholders the specifics of a generalised partial untying regime could be discussed prior to an agreement in other fora including the WFP Executive Board, the FAO Committee on Food Security and Committee on Commodity Problems and the DAC.

**Monitoring:** Could be relatively simple to monitor, and, for example, might be done in the following way:

- The FAC (or a reinvigorated CSSD) might require that all signatories report annually on progress in implementation, including legislation, regulations, contractual procedures and the proportion of funds used and commodities procured in developing countries.
- The WFP Executive Board might also consider progress within WFP operations.
- Regional groupings such as SADC and the Club of West Africa and Sahelian States would be invited to report on progress.
- Finally, a consolidated report based on all these documents could be submitted annually to the WTO Committee on Agriculture by the FAC.

**Sanctions:** The inclusion in the AoA of a partial untying requirement as exemption from WTO disciplines on export subsidisation would allow an individual member to raise an objection to the actions of another member to be settled retrospectively through the disputes procedure. However, the primary sanction would be peer group pressure within the donor community. More widely members of the WFP Board or civil society organisations could draw attention to apparently unacceptable practices.

### **A broad basis of support?**

- This option builds on what all DAC donors and international agencies have recognised as the appropriate way to increase the effectiveness and efficiency of food aid.
- The mutual suspicions amongst exporting countries and unwillingness of domestic interests to allow their national, public funds to be used to purchase food from competitors is taken into account.
- The phased introduction of partial untying would make for acceptability and allow for adjustments by interest groups that might be affected by an abrupt change.
- Partial untying is in accordance with the spirit of the Doha Development Round in addressing the need to provide aid in ways that promote local production and encourage intra-developing country trade.
- Partial untying offers considerable scope in crises for providing more appropriate food aid in a timely way. In protracted relief operations and development projects it allows for example, switching over time between sources as needs and availabilities change, and so reduces the risk of disruption of supply.

- Potential efficiency gains are indicated by the recent OECD study on the effects of tying status.

Limitations of partial untying are that it

- cannot achieve all the potential effectiveness and efficiency gains of full untying;
- will require sensitivity to both local and regional market implications; and
- could lead to a possible reduction in food aid. However, so far there is no evidence that the partial untying per se has resulted in a significant reduction in the food aid levels by any DAC donors. The phased introduction of partial untying would allow fullest scope to minimise any possible disruption of support.

This option is not risk free, because there is always scope for donors to comply with the formal requirements of partial untying whilst ignoring them in practice. But such risks appear to be attached to all of the options under consideration. The risks that donors under pressure will violate the spirit of what is agreed would be reduced if there were simultaneous agreement to phase out potentially more trade displacing and market distorting forms of food aid such as concessional trade credits. Monetisation, if necessary in an emergency, would not be precluded. However, since cash is a more efficient way of a donor providing local currency support, monetisation would be discouraged by allowing the operational agency the option of sourcing food in a developing country.

What is the likely distribution of benefits and losses from the move to a partial untying regime? Potential winners within developing countries include:

- recipients of humanitarian aid, by increasing the scope for quicker, more appropriate foods;
- farmers, processors and traders in the poorest countries where food aid is sometimes a substantial share of overall supply and there are thin markets with only periodic surpluses such as Ethiopia, Malawi and Niger;
- exporters in developing countries with a regional market supply potential such as Uganda and Tanzania;
- established developing country exporters such as South Africa, Brazil, Thailand and Vietnam.

The potential losers are some narrower, developed country interest groups who are presently uncompetitive against developing countries (e.g. rice growers) and those likely to be displaced by emerging local and regional sourcing of commodities, processing and services (highly processed and fortified foods). Developed country exporters of products with less scope for developing country competition and for whom food aid is wholly marginal to their trade would be little affected. Taxpayers in donor countries could gain from more efficient uses of aid funds.

## Conclusion

There are significant changes underway to make food aid more effective, especially in providing humanitarian assistance. The negotiators should be looking for ways of sustaining that positive process.

First, all donors should agree to move towards partially untying all their food aid, by allowing initially a proportion and eventually all funding for food aid in fulfilling their FAC obligations and as commitments to WFP to be available for developing country procurement. These

commitments, with provisions for monitoring progress, should be reflected in the AoA.

Second, there should be an agreement to phase out in parallel with other measures to end export subsidisation both programme food aid, as grants or concessional loans, and monetisation in development projects. These are the forms of food aid that are mostly likely to be anti-developmental in a global context, either trade displacing or distorting markets in food importing recipient countries.

Third, there should a public commitment by all donors, but not necessarily within the AoA, to maintain the levels of food aid and funding for food aid implied by current FAC obligations and recent levels of advance commitments to WFP's multilateral emergency and developmental facilities.

In the longer term, if food aid levels cannot be sustained without giving an advantage to growers, processors and shippers in donor countries, even in competing with farmers in recipient countries and developing country exporters, then continuing such aid will be contrary to the spirit of the Doha Development Round and DAC commitments to untie progressively aid to less developed countries.

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@Overseas Development Institute 2006

Dr E.J. Clay is Senior Research Associate with the Overseas Development Institute, London and the lead author of the OECD study, *The Development Effectiveness of Food Aid: Does Tying Matter?* (Paris, 2005 ISBN: 9264013474) launched at ODI on 26th September 2005

[http://www.odi.org.uk/speeches/food\\_aid\\_septo5/background\\_note.html](http://www.odi.org.uk/speeches/food_aid_septo5/background_note.html)

All the cited World Trade Organization documents are to be found on [www.wto.org](http://www.wto.org)

Email: [e.clay@odi.org.uk](mailto:e.clay@odi.org.uk)



Overseas Development Institute, 111 Westminster Bridge Road,  
London SE1 7JD. Tel: +44 (0)20 922 0300, Fax: +44 (0)20 922 0399,  
Email: [odi@odi.org.uk](mailto:odi@odi.org.uk). [www.odi.org.uk](http://www.odi.org.uk)