

# International Food Aid

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## Introduction

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U.S. government grant and concessional credit and international food aid abroad is administered under the authority of three programs: the Agricultural Trade Development and Assistance Act of 1954 (P. L. 480), commonly referred to as Food for Peace; Section 416 (b) of the Agricultural Act of 1949; and the Food for Progress Act of 1985.

Initially, food aid programs, particularly PL-480, played an important role in developing export markets and expanding trade, promote promoting broad-based development, fostering private enterprise, and combating world hunger and malnutrition. In addition, the well being of American farmers was closely linked to food aid programs. In the 1950s, food aid shipments accounted for as much as one-third of the total value of U.S. agricultural exports (Christensen).

In the 1970s, U.S. agricultural exports expanded rapidly while food aid stabilized and then declined. By the end of the decade, food aid represented only 3 percent of the value of U.S. agricultural exports. While food aid continued to play a role in export promotion, as former food aid recipients became

important commercial customers, other programs focusing on directly increasing exports, began to increase in importance. By 1978, exports under credit guarantee programs exceeded food aid exports and have remained so.

Despite the decline in the proportion of food aid to total agricultural exports, the U.S. commitment to food aid remains steadfast. The U.S. is the largest contributor to the International Food Aid Convention (Table 1). At the World Food Summit in Rome in 1996, the U.S., along with 186 other countries, pledged to cut the number of under-nourished people in the world in half by the year 2015 (USDA/FAS).

Most recently the United States has established a \$300 million food aid initiative linked to efforts to improve basic education and childhood development in poor countries. The U.S. Department of Agriculture's international school nutrition pilot program would purchase surplus agricultural commodities and donate them for use in school feeding and pre-school nutrition programs. The program will be administered in cooperation with the United Nations World Food Program in partnership with private voluntary organizations. Funding for the program would come from the CCC Charter Act and Section 416(b).

**Table 1. Food Aid Convention, Annual Grain Shipments, 1995/96 – 1998/99, July/June Year, Metric Tons: Wheat Equivalent**

Donor	Minimum Annual Contribution (1995 Conv)	1995-96	1996/97	1997/98	1998/99	Minimum Contribution (1999 Conv)
Australia	300,000	298,146	305,127	293,221	273,064	250,000
Canada	400,000	448,764	468,431	417,917	487,095	420,000
EU	1,755,000	2,431,991	2,049,591	2,201,162	1,962,481	1,320,000
Japan	300,000	474,870	326,835	302,626	560,135	300,000
USA	2,500,000	2,846,384	2,553,283	2,818,500	4,374,121	2,500,000
Other*	95,000	95,112	71,452	77,221	110,232	105,000
<b>Total</b>	<b>5,350,000</b>	<b>6,580,267</b>	<b>5,774,719</b>	<b>6,110,647</b>	<b>8,127,128</b>	<b>4,895,000</b>

\*Argentina, Switzerland, Norway  
Source: International Grains Council

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## Issues

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While the motives behind food aid programs can be laudable, as in the case of humanitarian efforts to address conditions of famine and malnutrition, they are not without their critics. Criticism of food aid generally relates to three main areas: disincentive effects, mis-allocation of resources, and problems associated with the distribution of food aid.

Critics argue that providing inexpensive imports may depress the importing country's farm prices to the detriment of domestic producers. In addition, the availability of food aid may result in recipient governments having less incentive to reform policies to develop self-sufficiency by increasing domestic production or generating foreign exchange to purchase food imports (Smith and Ballenger). Others argue that food aid has been directed to countries based on market development priorities at the expense of those countries with the most immediate or chronic food shortages.

Problems associated with the distribution of food aid donations also continue to be a source of criticism. For example it has been reported that millions of dollars worth of U.S. commodities donated to the

World Food Program through the Agency for International Development have been lost, stolen, or mishandled due to ineffective accountability procedures used to monitor the distribution and use of donations (GAO).

Aside from expanding exports, food aid has been used in times of over-supply to clear surplus production from the market and to stabilize declining U.S. commodity prices. Surplus disposal, in fact, is one of the major objectives of PL-480. U.S. competitors in the world grain trade, however, have been critical of U.S. commodity disposal actions. Australia and Canada, in particular, claim that U.S. surplus production is often shifted onto the world market when least needed, putting additional downward pressure on already low or declining prices.

Many of the issues surrounding food aid have not changed much since the debate over the 1996 Farm Bill. Central focus was given to the adequacy of food aid donations by the U.S. and other donors, the efficiency and effectiveness of food aid delivery mechanisms, the effect of cargo preference provisions for U.S. food aid shipments, and the additionality of agricultural exports provided in the form of food aid.

In the current environment, the debate over food aid will likely be conducted with respect to the issues

influencing the prospects for global food security. The International Food Policy Research Institute (IFPRI) has highlighted six critical issues that will significantly influence the world food situation and hence the need for food aid in the early 21<sup>st</sup> century (Per Pinstrup-Andersen, et. al.). IFPRI identifies new information on nutrition, low world market prices, the next round of trade negotiations, increasing productivity on small-scale farms, the potential role of modern biotechnology, and the relevance of new information technology and precision farming as the factors that will have the greatest effects on food security for low-income people for many years to come.

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## Policy Issues and Consequences

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### Adequacy of Food Aid

Food production in the developing world will not keep pace with demand. Estimates by IFPRI indicate that cereal import demands will almost double by 2020 to 192 million tons. Much of this increase in demand will occur in the areas where malnutrition and food insecurity are most rampant, such as Sub-Saharan Africa and South Asia. The ability of donor countries to maintain sufficient supplies of food aid is doubtful. 135 million children under 5 years of age are expected to be malnourished in 2020 — a decline of only 15 percent from 1995.

These estimates reinforce the conclusion that simply increasing the supply of food may help relieve hunger and malnutrition in the short term, but achieving food security requires long-term solutions to the problems of food availability, accessibility, and utilization in developing countries. Accordingly, U.S. food aid dollars may be better spent on programs designed to address the root causes of food insecurity. U.S. policies and programs designed to improve the handling and distribution infrastructure, especially in the poorest countries, may do as much to

enhance food security and meet international food aid needs as increasing available food supplies.

### Efficiency and Effectiveness of Food Aid

Multiple and sometimes competing objectives impede the effectiveness of food aid programs. A report by the General Accounting Office (GAO/ GGD-95-68) suggests that U.S. food aid programs have not significantly advanced the goals of sustainable economic development or long-term commercial market development. Recently, concerns have been raised that food aid is ineffective and may actually be counterproductive to U.S. commercial sales. In a proposal by President Bush, the Title I, PL-480 program and Section 416(b) donations will be reviewed to evaluate their effectiveness in meeting market development objectives. Groups calling for a review of current food aid initiatives question the effects of USDA food donation programs. Such groups encourage USDA to assess potential commercial markets before programming for food assistance. The results of any changes in the current Title I and Section 416(b) programs may have significant implications for the role of food aid in the future.

Burdensome requirements such as the requirements to carry title I cargo on U.S. flag ships, restrictions on re-exports of commodities and country selection process are obstacles to improved efficiency. Reforming these policies to increase the efficiency of U.S. food aid is one policy option that may be considered. It is likely that doing so would further reduce the competitiveness of U.S. shipping interests, but would benefit U.S. exporters and producers by increasing volumes of trade, reducing surplus stocks, and raising prices.

### Current WTO Considerations

The Uruguay Round Agreement on Agriculture contained specific language to prevent the circumvention of export subsidy commitments by food aid transactions. Citing the rapid decline in food aid donations over the period 1994-97 and subsequent increase in food aid donations since 1998 (an increase

of 120 percent between 1997-99), the EU is calling for a strengthening of the WTO provisions governing surplus disposal. If successful, further restrictions on food aid donations may lead to constraints on the ability of donor countries to respond to future food emergency situations. These actions would further exacerbate food shortages in the poorer countries and raise prices there. U.S. exporters and producers, however, would experience reduced volumes of trade and lower prices. The unintended consequences of these policy proposals could be quite severe, especially in the short run.

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## Summary

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International food aid was an important surplus disposal and market development tool during the 1950s and 1960s. Since then, its relative importance has declined as U.S. commercial exports have increased. The United States is still the largest donor to the International Food Aid Convention, accounting for 51 percent of the world's total in 1999. New initiatives, such as an international school nutrition program appear to be gaining momentum and may become important components of U.S. international food aid in the future. Food aid is not without its critics. Market disruption and lower prices in recipient countries, along with subsidized competition, have been cited by U.S. trading partners as undesirable consequences of international food aid programs in general, and U.S. initiatives in particular. Policy options for U.S. programs include issues related to the adequacy of U.S. donations to meet critical international food needs while facing the possibility of a declining food aid budget, the need to more effectively target food aid recipients, and the exacerbation of global hunger due to more stringent WTO requirements to limit or reduce international food aid shipments by some countries.

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## References and Suggested Readings

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