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**FOOD AID AND AGRICULTURE IN THE URUGUAY ROUND
OF THE GATT TRADE NEGOTIATIONS**

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Preface

The preparation of this paper was supported by a grant from the Agency for International Development, OTR-0800-G-SS-8126. The aim of the study on which it reports has to consider issues raised by the GATT Uruguay Round trade negotiations relevant to US food aid commitments. The failure of the negotiations to make an advance in liberalizing agricultural trade by the December 1990 deadline seriously affected the ability of the study to be completed in the time frame originally contemplated. The period of study was extended for an additional year, through the end of 1991. Unfortunately, little changed during this period. The results reported, therefore, rest upon issues raised but not yet resolved.

In conducting research and writing this paper I am indebted to a number of people. Officials in various international organizations and national government delegations made themselves available for interviewing and were very informative. I was able to speak with delegates to the GATT talks in Geneva in the summer of 1990, as well as the Executive Director of the International Wheat Council (which serves as secretariat for the Food Aid Committee), and during 1990-91 with officials of the World Food Council, the Food and Agriculture Organization (FAO), the World Food Program, the US Department of Agriculture, the US Department of State, and the Agency for International Development. My work was also aided by scholars who have worked on aspects of this topic including Carl Mabbs-Zeno (ERS/USDA) and Odin Knudsen (World Bank), while Robert Paarlberg (Wellesley College) and Timothy Josling (Stanford University) offered many helpful comments and suggestions. My son, Mark Hopkins, completed his senior thesis in economics at Wesleyan University on a corollary topic and I found his assistance and thinking most useful. Nien-he Hsieh, a senior at Swarthmore College, is completing a thesis on the dynamics of the GATT negotiations and has also been of great assistance as a research assistant. Finally, Nancy Maclay, assistant to the food policy program at Swarthmore College, has been of invaluable assistance at every stage of the work from its inception to the typing of this manuscript.

Executive Summary

This paper examines the implications of the Uruguay Round of GATT trade negotiations for the US food aid program. The Uruguay Round has sought major liberalization of agriculture. Since the Round began in 1986 proposals for agriculture have contained, inter alia, recommendations for the future size, terms, and priorities for food aid.

The overall liberalization effort, if successful, promises global economic gains. It would affect many countries and groups differently, however. In Europe and Japan, farmers benefiting from protected markets and/or subsidies would be losers while consumers and taxpayers would gain. Among developing countries consumers in countries which depend on food imports would lose. This is a specially difficult problem for countries already food short. One proposed solution is to make changes in the provision of food aid. This would reduce the problem of access to international food supplies, at least for impoverished people and countries most vulnerable to harm from rising world food costs. Issues of food aid's use that emerged during the GATT Uruguay Round of negotiations, therefore, are the subject of this study.

I address three questions regarding food aid that surfaced during the GATT talks. First, what effect would agricultural liberalization have on future food aid availability? Second, what modalities for food aid would be legitimate under stricter rules against export subsidies? Third, how should adherence to internationally agreed upon principles for the "best" use of food aid be monitored internationally?

After five years of negotiations the international objectives of increased food trade, higher income for efficient food producers, and lower cost to food consumers in regions now highly protected seem unlikely to be achieved.* The potential impact on food aid of the GATT

*An impasse over agriculture liberalization first prevented agreement at the Montreal "mid-term review" in 1988. This was papered over later. Subsequent U.S. demands of 100 percent, 90 percent and 75 percent reductions on both production and export were rejected out of hand by the EC throughout the negotiations. The EC offered a 15 percent overall reduction and a "rebalancing" to allow more protection in some areas. At the end of March 1992 the Europeans moved to an offer to phase in supply management (with farm income supports) on

negotiations, therefore, is now largely discounted. Because changes in agricultural policy resulting from the GATT negotiations seem likely to be negligible, concerns corollary to trade liberalization, such as "food security" and the growing food import dependency of many very poor countries, are unlikely to be directly addressed by GATT negotiations. Nor are these issues likely to be mandated by the GATT talks for consideration by other international fora, though this seemed probably in the 1988-90 period.

Thus the problems of poor countries that frequently need food imports moved from tangential to irrelevant in discussions within international trade bureaucracies. Food aid as a concern, once an important subsidiary issue discussed by the major negotiating groups in their proposals to the GATT round in October 1990, has been made virtually invisible by the more general stalemate on agricultural issues.

Agricultural liberalization, however, as espoused at GATT talks and already in progress, whether reached by multilateral agreement or unilateral means, is likely to have two negative consequences for food aid. First, it will cause food prices to rise; given fixed food aid budgets, higher food prices will mean less food aid shipped. Second, it will reduce the size of costly surpluses commonly held by donor states; smaller surpluses will reduce producers' willingness to support even the existing food aid appropriations. This will exacerbate the gap between availability and need for food aid. Projections show future food import costs of deeply indebted countries will rise.

items in surplus, while the U.S. and Cairns began discussing a 24 percent reduction -- one much closer to the 15 percent offer of the EC in October 1990. However, this potential "breakthrough" resembles the "breakthrough" in U.S.-EC negotiations on international grains stockholding in January 1979 in Geneva. That negotiation on agriculture (then not integrated into but held in tandem with the GATT Tokyo Round) collapsed after a few weeks. As then, a 1992 agricultural deal that keeps market access unchanged could be scuttled by the LDCs. In any event the Uruguay Round outcome will be modest in its liberalization effects. Slow change toward policy coordinated liberalization will occur and liberalization has already occurred unilaterally. The possible agreement on agriculture, therefore, will be too weak to demand that serious attention be given to LDC concerns. This increases the need to address issues concerning food aid, which will be left unresolved at GATT in all probability.

Thus agricultural liberalization, at least in the short run, **would reduce the supply of food aid while increasing the need for it.** The GATT negotiations, recognizing this issue as a potential problem, included draft language to offset these negative effects of liberalization for developing countries by insuring continued food aid to needy recipients. Projections of future trade, with or without a GATT agreement, reveal considerable concern about the adequacy of food aid; hence steps to address this impending inadequacy deserve attention. One remedy is renegotiation of the Food Aid Convention, with higher pledges and with guarantees of food aid for most affected countries. These recommendations were raised by the GATT negotiations.

A second issue that arose in GATT talks concerns what is legitimate food aid. Concessional sales are an element in the U.S. food aid program; they are not used by any other donors. Japan stopped its concessional rice food aid exports in the 1970s. Such "sales" have been questioned as legitimate food aid. Some countries argue that, to be considered "legitimate," food aid should be provided only as a grant. This would better distinguish it from highly discounted commercial food sales. Europe and the U.S. have used discounted sales in competing for markets, especially since the mid-1980s. These discounted commercial sales under the U.S. Export Enhancement Program (EEP) and European export restitutions have cost recipients, at times, as little as 40-60 percent of normal market prices. "Concessional" food aid is generally considered to provide a 60-70 percent grant. Thus the proximity between export subsidies and discounts in concessional food aid loan programs blur the distinction between food aid and commercial sales. This has led to renewed concern that food aid might be used to violate fair trade principles. The issue to be resolved is what "food aid" transfers, if any, should be considered legitimate under new international trade rules. In anticipation of this concern, donors need to begin to think of redesigning food aid programs so as to maintain the greatest possible separation from export market competition.

Finally, the question arises as to how international oversight of food aid should occur. Changes in the rules of and commitments to food aid discussed at GATT are also relevant to deliberations of other international fora. Currently several international agencies have

oversight responsibilities for food aid. Collectively they provide different, overlapping, and incomplete oversight. Most notably, these are the Food Aid Committee of the Food Aid Convention (FAC) that meets semi-annually in London in conjunction with the International Wheat Council meetings, the Committee on Food Security (CFS) and the Committee on Surplus Disposal (CSD) -- both sub-organs of the Food and Agriculture Organization (FAO) -- and the Committee on Food Aid Policies and Programs (CFA) oversees the World Food Program (WFP). What is the appropriate forum for the future, especially if food aid agreements are renegotiated? Some fora represent trade interests primarily; others focus largely on economic development. All these bodies have a claim to want food aid resources to be used in efficient, equitable and non-distortive ways. Existing international mechanisms are too weak to secure these goals, however. Thus international oversight should be restructured. The Food Aid Committee (FAC) and the FAO's Committee on Surplus Disposal are unable effectively to pursue issues raised by the Eighth GATT Round. The World Food Program, under U.S. leadership, is best placed to do this. It has the broadest scope of authority and most capable secretariat. Further the WFP offers a good compromise between a developing country dominated FAO forum and the donor dominated FAC institution.

I. INTRODUCTION

The Uruguay Round of GATT negotiations failed to reach agreement, as planned, in December 1990. This failure rests principally on an intractable disagreement over how much to reduce trade barriers in agriculture. Since the beginning of negotiations in 1986, agriculture has proved to be the major stumbling block to a successful international agreement coordinating national trade and production policies. One strategy to achieve an agreement was for countries benefitting from liberalization in agriculture to insure protection from negative effects to others. Thus many proposals promised that as international food prices rose, as expected with liberalization, food aid from donor states would continue and if needed increase.

The 1990 impasse over agriculture continues to be the major barrier to concluding the negotiations. Modest changes are the only possible outcome under discussion in 1992. As a result, proposals on food aid, put forward by the United States, the European Community, a group of developing food importing states and the "Cairns" group of efficient agricultural exporting countries,¹ remain secondary issues at GATT. These issues, raised during the negotiations, however, involving food aid problems will continue to be important. This is because liberalization is already underway through a series of incremental actions and because global balances in food production and consumption needs are not satisfactory without some public sector efforts to address market failure, especially food aid.

This report discusses the implications of international policy coordination on trade for the future role of food aid, both that from the United States and from other donors. The prospective availability of food aid to meet assistance needs of poor, food insecure people seems increasingly to be in question by analysts. Several reasons are cited. First, poor country, food import needs are expected to rise substantially by the year 2000. Second, the rationale for food aid may weaken as pressure from shrinking industrialized country farm groups declines. Certainly the share of food aid in ODA has shrunk, from over 20 percent in 1970 to less than 10 percent. Finally, global priorities have shifted toward other problems, such as the environment. For the time being, ironically, the stalemate in agriculture may perpetuate the high production in industrialized countries which is one political rationale for food aid, while at the same time blocking even greater gains for poor countries from trade liberalization. Under liberalization, for example, food production is forecast to increase in countries in the "South" but decline in northern industrial states compared to the current situation without liberalization. By 1995, by one estimate LDCs would have annual net welfare gains of \$56.3 billion from total world liberalization.² Producers in exporting developing countries have large gains, while consumers suffer losses.

¹The Cairns group consists of Argentina, Australia, Brazil, Canada, Chile, Colombia, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand, and Uruguay.

²For a review of the trade gains and losses to producer/consumer and government entities, see Kym Anderson and Rod Tyers, "How Developing Countries Could Gain from Agricultural Trade Liberalization in the Uruguay Round" in Ian Goldin and Odin Knudsen, eds., Agricultural Trade Liberalization: Implications for Developing Countries (Paris: OECD, 1990), p. 69.

The reforms most sought in the Uruguay Round, in addition to liberalization in agricultural sector trade, were the establishment of rules among contracting parties for intellectual property rights and the deregulation of trade in services. These, along with reforms in other areas such as tropical products were thought to promise, in their totality, net benefits to all participants. The failure of GATT parallels a growth in regional negotiations to expand trade among such areas as the United States, Canada and Mexico, Western and Eastern Europe, and Japan linked to Asian countries. The existence and role for global policy coordination of trade -- and aid -- is weakened by these trends. It is manifest in a relative decline in the attention given to multilateral economic institutions such as GATT or the OECD.

The consequence of these developments is that the potential impact of the GATT negotiations is now largely discounted. Changes in agricultural policy resulting from the GATT negotiations seem likely to be negligible. Corollary concerns such as "food security" and the growing food import dependency of many very poor countries are unlikely to be addressed by GATT negotiations or even mandated for consideration by other international fora.³ After five years of negotiations the international objectives of increased food trade, higher income for efficient food producers, and lower cost to food consumers in regions now highly protected seem unlikely to be achieved. As a result, the problems of poor countries that frequently need food imports moved from tangential to irrelevant in discussions within international trade bureaucracies. Food aid as a concern, once an important subsidiary issue discussed by the major negotiating groups in their proposals to the GATT round in October 1990, has been made virtually invisible in this forum by the more general stalemate on agricultural issues.

The international concerns which generated an interest in the GATT Round opportunities, however, remain. In particular, food insecurity among the world's poorest states and the adequacy of food aid in the future continue as problems. In the last five years, in fact, evidence has increased that current practices and resource transfers are inadequate to meet the projected food aid needs.⁴ Other fora than GATT need to become the locus for advancing a solution to these concerns.

II. Relationship of Food Trade, Food Aid and GATT

In 1989-90 three perceptions were widespread among government officials dealing with international food and agricultural issues. First, the 1990s would see a growing need for food aid as populations in less developed countries outgrew the capacity of these countries to maintain current levels of consumption, many of which were already below minimal standards. Second, there would be general gains derivable from liberalization of agricultural trade. Border measures, NTBs, and subsidies collectively led to net losses in major negotiating states, including the United States, the European Community, Japan, the Cairns Group and many

³These concerns are discussed in Nicole Ballenger and Carl Mabbs-Zeno, "Treating Food Security and Food Aid Issues at GATT" (Washington: USDA, ERS, mimeo, 1990).

⁴National Research Council, Food Aid Projections for the Decade of the 1990s (Washington: National Academy Press, 1989).

developing countries.⁵ Third, food would continue to decline in price relative to other goods, but not as rapidly if liberalization occurred. As Figure 1 indicates, prices have declined throughout

Figure 1

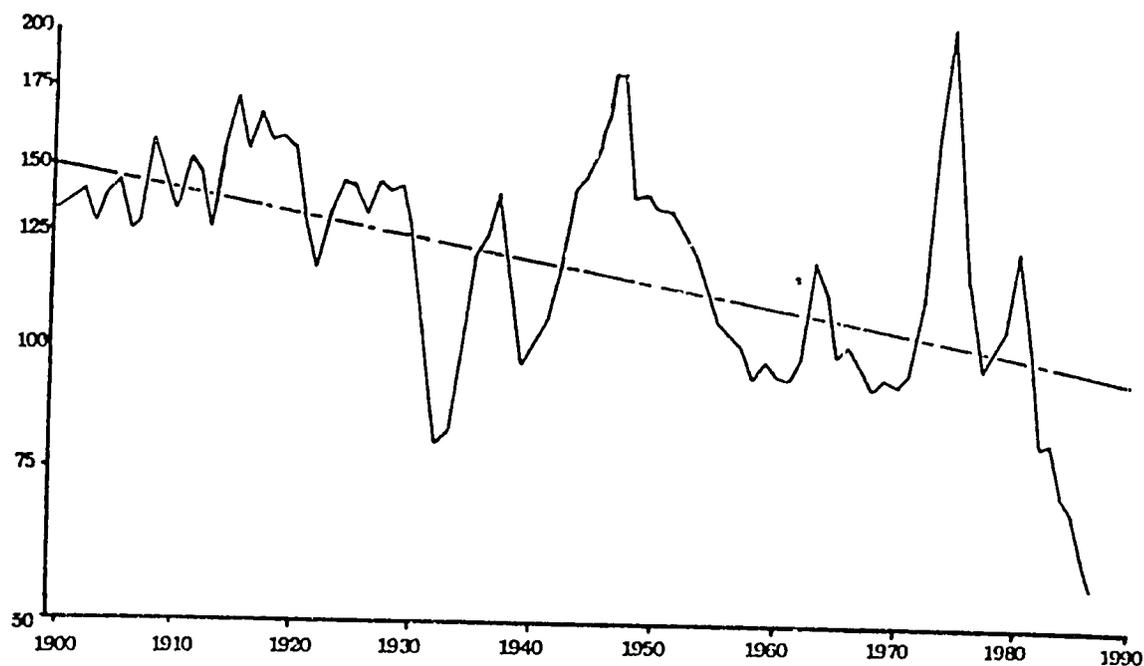


Fig. 1. Real international food prices, 1900 to 1987 (1977-79 = 100). An index of export prices in US dollars for cereals, meats, dairy products and sugar, deflated by the US producer price index (primarily of industrial product prices), with weights based on the importance of each product in global exports in 1977-79.

Source: Tyers and Anderson (forthcoming), based mainly on price series from the World Bank's Economic Analysis and Projections Department

this century, but variability has been high. Liberalization would slow this trend and reduce world price variation.⁶ For some, gains from the second and third prospects were seen as ways to address the first problem, food insecurity among poor countries. Increased food aid, to compensate for negative effects of liberalization, was a solution proposed by the U.S., E.C and

⁵ There has long been recognition that losses resulted from distortions in international agricultural trade. See for example D. Gale Johnson, World Agriculture in Disarray (London: McMillan, 1973), World Development Report, 1986 (Washington: World Bank, 1986) which focuses on agriculture; and Ian Goldin and Odin Knudsen, eds., Agricultural Trade Liberalization, op.cit., 1990.

⁶See Rod Tyers, "Agricultural Trade Reform and the Stability of Domestic and International Food Prices," paper prepared for IFPRI Seminar on GATT Negotiations on Agriculture and the Developing Countries (Montreux, Switzerland: May 30-June 1, 1990, mimeo), pp. 1-3.

Cairns group at the GATT talks. A link between food trade and food aid, as entertained in GATT talks, is natural and has a long history.

Historical Background

Food aid became institutionalized as a form of economic assistance in the 1950s. Rules for food aid were imbedded within liberal trading regime norms; these were established so that food aid would interfere minimally with the fair trade rules of the regime. From the inception of PL 480 in 1954, for instance, a FAO Committee on Surplus Disposal (CSD) was established to review food aid donations and to enforce a guideline that they not displace commercial sales. Food aid was to be additional imports for the country receiving it and not a substitute for commercial imports. In practice, this would require an expansion of demand for food roughly equal to the food aid provided. While countries, especially the United States, might wish to use food aid to develop markets, the only responsible way for this to occur would be through economic growth in recipient countries. Food aid was not to be a "loss leader" getting people hooked on a discounted imported commodity and then later, by withdrawing food aid, inducing people to replace it with commercial imports.

Practically all food aid came from the United States until the late 1960s. At the end of the sixth or Kennedy Round of GATT trade negotiations in 1967 a narrow agreement on agriculture was reached. Since the European Community was unwilling to negotiate reductions in its protective arrangements for agriculture, established by its 1962 Common Agriculture Policy (CAP), nor was Japan willing to reduce its protectionism, concessions in another area were worked out. It was agreed that the countries with large agricultural exports should have some help in disposing of surplus stocks. Stocks did provide some global benefits -- namely they served to stabilize international food prices. They also assisted, through their use as food aid, those developing countries with hungry populations. Food aid supplemented international markets when they failed to meet this basic need. The new "trade" deal was accomplished by the establishment of a Food Aid Convention (FAC) in which importing countries, particularly European states and Japan, would pledge to provide minimum levels of food aid. Initially it was envisaged that their "donations" would come from supplies in the United States or Canada; even if not, it was presumed that transferring already produced cereals into a non-commercial channel would lower total commercial supplies, thus helping producers. Overall the effect of the FAC would relieve some of the burden borne by North America as the major area responsible for adjustments in world agriculture.

Food aid thereby was linked to food trade negotiations through the 1967 Food Aid Convention. This Convention was associated with the International Wheat Agreement (IWA); both were to be served by the same international executive -- the International Wheat Council (IWC). Under this arrangement the semi-annual meetings of the IWC would also host a half day meeting of the Food Aid Committee which would oversee the FAC. The IWC Secretariat would keep track of food aid provisions to be sure that signatory countries met their obligations. Reports of the International Wheat Convention prepared by the Secretariat regularly contained tables showing food aid as a "special transaction." Later a Food Aid Committee annual report was prepared. Fulfillment of pledges was discussed as a topic of the Food Aid Committee as part of the IWC meetings agenda.

Liberal trade principles were to be upheld by rules established at the CSD in the 1950s; these were later confirmed in the FAC. The latter, based on burden-sharing in providing food aid guaranteed initially that twelve industrial country signatories would provide about 4 1/2 million metric tons. This was increased to twenty countries and 7 1/2 million tons in 1980. These agreements and oversight bodies were understood by those involved in international trade to be important instruments for legitimating food aid, sharing its burden, and seeing that its use did not distort commercial trade.

Since the late 1960s the character of food aid has changed. Total tonnage has declined from nearly 15 million tons to approximately 10 million. At the same time the volume of world trade in cereals has more than doubled to over 200 million tons. The composition of food aid has also changed. Initially, cereals, particularly wheat, were almost exclusively the commodities provided. In the 1980s, however, dairy products and oil came to account for 10 percent of tonnage and roughly 20 percent of the value of food aid. While the United States had borne over 90 percent of the cost of food aid in the 1960s, by the 1980s its contribution ranged between 50 and 60 percent. The growing multilateral nature of food aid coincided with the shifting economic weight and contribution to trade of major donors. Europe, Canada, Japan and Australia all took on larger roles, while the United States' position receded in importance but remained dominant. Tolerance also began to wane among other donors for the special elements in the U.S. food aid program. Criticism of the U.S. practice of using food aid for commercial market development began to grow. Especially criticized were "concessional sales," a major element in U.S. food aid, in contrast to the grant aid program which other countries used. Allocating aid based on political considerations also was criticized.⁷

By 1990 other food aid donor countries, especially those belonging to the Cairns group, favored continuing food aid even under a liberalization of agriculture, but argued that it should be sanitized from its historical legacy based in protectionist measures. Accomplishing this required eliminating remnants of surplus disposal food aid practices that are responsive to production subsidies and market promotion goals. Thus the Cairns group proposal made food aid a fully grant resource targeting it to countries with high needs but with little near-term commercial import capacity.

The negotiations to reduce barriers to commercial agricultural trade, therefore, produced two new issues regarding food aid. First, they raised the question of how to determine what constitutes "bona fide" or legitimate food aid. Second, some countries proposed redefining the role of food aid in the larger commercial food trade regime. The "offers" tabled by major players consequently discussed these issues. These in turn raised a third issue: who or what body could most effectively address or follow through on issues raised.

The Major Players

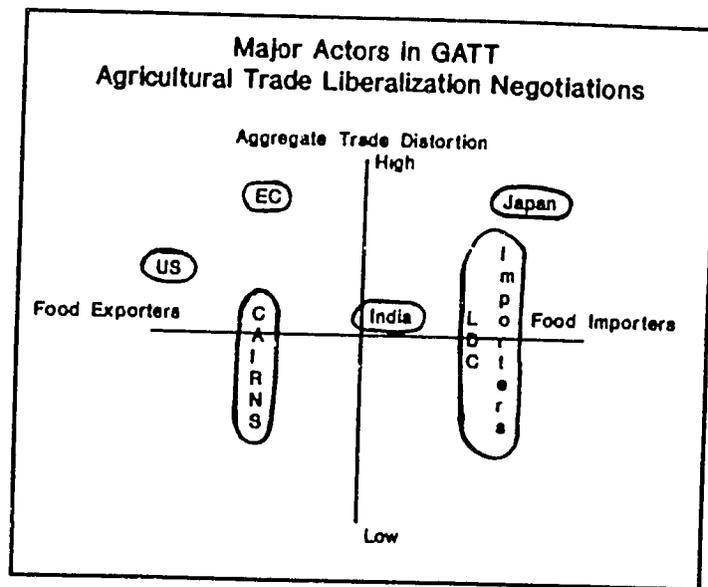
Negotiations on agriculture were only one of 15 topics negotiating subjects established

⁷See Mitchel Wallerstein, Food for War - Food for Peace (Cambridge: Massachusetts Institute of Technology Press, 1980) and John Cathie, The Political Economy of Food Aid (London: St. Martins Press, 1982).

by GATT in 1987-91; among the other substantive areas of negotiations were tropical products, textiles, intellectual property rights, and trade in services -- each with difficulties of its own. Negotiating groups were also set up to work on legal aspects of GATT machinery. In the major area of dispute, agriculture, the principal axis of conflict was between the "players" with the two largest markets, the United States and the European Community. Both provided substantial subsidies to their food producers and exporters. Both offered major markets; the 1989 GNP of the U.S. and the EC was over \$5 trillion each -- larger than the sum of national products of the entire set of the less developed countries (LDCs). These LDC countries, however, as a third "player," contain a majority of the world's population. China and India each have more people than the U.S. and Europe combined. Given the high propensity of LDC consumers to spend on food and agricultural items, LDC consumers collectively represent an enormous market, and, in current trade alone, LDC countries account for about half of the world's annual food imports. In addition to the U.S., Europe and the LDCs, two other "players" are important: (1) the "Cairns" group -- led by Australia and Canada -- bringing together industrial and developing country agricultural exporters and (2) the world's second largest economy, Japan.

Like Europe, Japan protects agriculture and has resisted liberalization measures. The LDCs during the negotiations 1986-90 were the least clear on strategy and stakes, and suffered from a classic weakness, problems of large, disorganized interest groups in international bargaining.⁸ Figure 2 depicts these major players and their situation via-a-vis the degree of

Figure 2

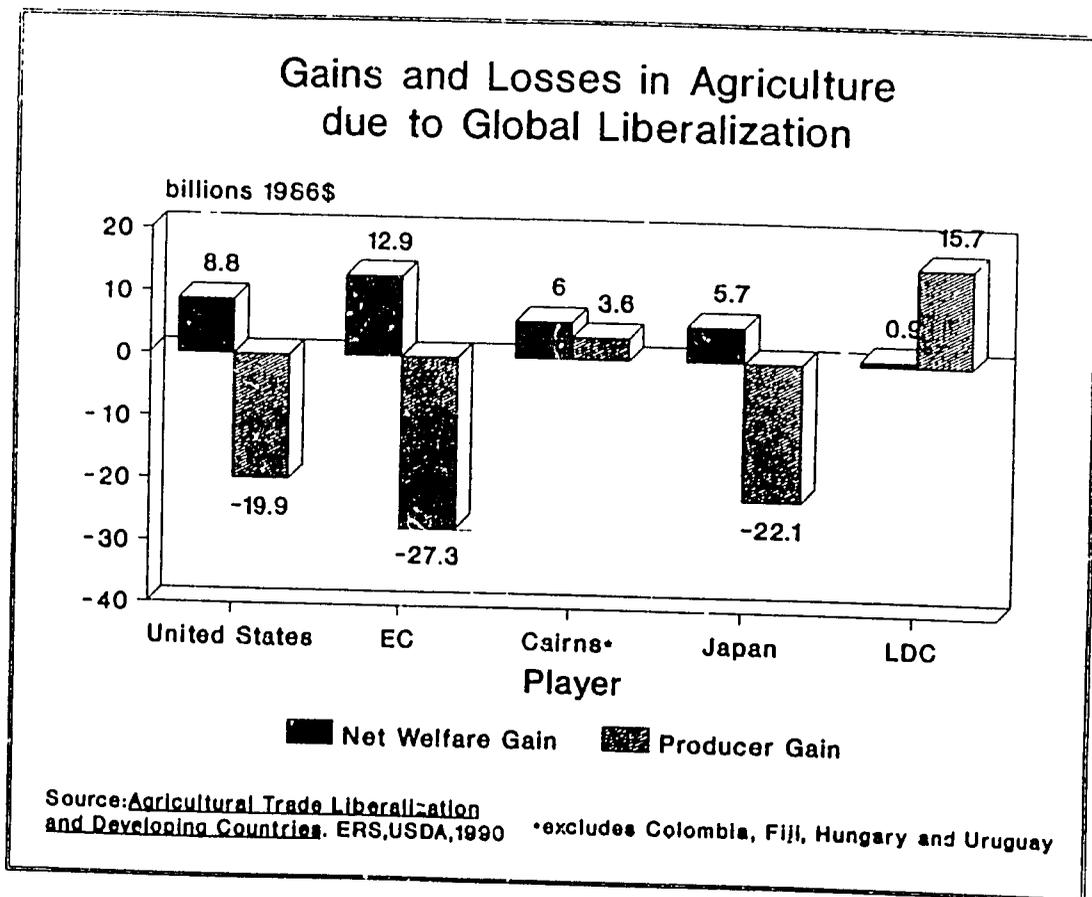


⁸See Robert Rothstein, Global Bargaining (Princeton: Princeton University Press, 1979), and Mancur Olson, Jr. The Logic of Collective Action (Cambridge: Harvard University Press, 1965).

protection or trade distortions in their domestic and export policies and their relative position as net exporters or importers. With respect to the agricultural trade negotiations, the size of each group as an exporter and importer of products affects their bargaining position. For example, agricultural products constitute less than 15 percent of trade for OECD countries, whereas as they comprise about twenty percent of trade for developing countries. Agricultural exports exceed imports for developed countries while the reverse is true for developing countries.⁹ Using an assumption of full liberalization, economic models have made forecasts on the direction and size of gains and losses that individual countries might expect.

In Figure 3 amounts of those forecasted gains and losses are depicted. The amounts are

Figure 3



expressed according to the effects upon producers in each of the five major units and the "net" effect for each country or bargaining group. Where losses to producers are high, opposition to liberalization is usually strong. The more protection producers receive, as in Europe and Japan, and hence the more they will lose from liberalization, the more intransigent will be

⁹World Development Report, 1991. *The Challenge of Development* (Washington: World Bank, 1991).

their resistance. The effect of groups seeking to retain protection has been potent, especially in the absence of countervailing lobbies. Studies of political dynamics in the EC and Japan make this abundantly clear.¹⁰ In the Cairns group, and in LDCs, producers are gainers. Support for liberalization has been strong in the Cairns group, not surprisingly. Among LDCs,¹¹ however, liberalization has been viewed with ambiguity. Consumer groups lose. They are often more politically potent than producers. Moreover, net gains for LDCs are at best low. Amidst this diversity of views, all groups accept the idea of the continuation of food aid. Support for increasing it, however, has been strongest among these latter two groups -- Cairns and the LDCs.

Developing Countries' Perspectives: Uncertainty and Inequality

As recipients, one might expect strong support among LDCs for food aid or for equivalent compensation when liberalization causes harm. However, developing countries' positions and proposals during the first four years of the Uruguay Round at GATT were largely in disarray.¹² They were often left out of the information loop, and in formulating ideas and strategies they seldom knew in advance positions of the U.S., the EC or even the Cairns group. Representatives of the other major groups invariably were given drafts of proposals in advance. Some drafts were even reviewed and changed in private discussions. Developing countries were provided drafts only on the day of the meeting at which they were to be discussed.

The relative lack of influence of individual LDC countries, of course, played a role in their hesitant behavior. However, another clear problem was uncertainty. Uncertainty encourages risk-aversion. There is reason for uncertainty based on the wide differences among estimates of the welfare effects of liberalization for developing countries. These are presented in the table below.

Table 1
Various Predicted Effects of Agricultural Liberalization on LDCs

	Anderson & Tyers		UNCTAD	SWOPSIM	
	OECD liberaliz.	Global	OECD liberaliz.	OECD liberaliz.	Global
Net Change in Welfare (billions \$)	11.5	56.3	-0.6	-4.5	2.6

¹⁰The power of lobbying groups is discussed in Odin Knudsen, John Nash, with contributions by James Bovard, Bruce Gardner, and L. Alan Winters, Redefining the Role of Government in Agriculture for the 1990s (Washington: World Bank, 1990).

¹¹Excluding those LDCs not members of the CAIRNS group.

¹²Australian Bureau of Agricultural and Resource Economics, Agricultural Policy, the GATT and Developing Countries (Canberra: Australian Government Publishing Service, 1989).

UNCTAD ran a model assuming full liberalization of agriculture by OECD countries and found the net consequences for developing countries to be negative. The United States Department of Agriculture also has done extensive modeling, examining different scenarios. Results of USDA's Swopsim model also show net LDC losses of over \$4 billion (using 1986 data) from liberalization by OECD countries, although it shows a welfare gain of \$2.3 billion if LDCs also liberalize. That is, if LDCs also liberalized then the prospective scenario would be a net gain rather than a loss for them. Finally Anderson and Tyers, using somewhat different base years project to 1995 the results of liberalization. In their view LDCs would perceive a net welfare gain of about \$11.5 billion just from liberalization in the OECD countries, while if all countries liberalized the LDCs would perceive a \$56.3 billion gain in welfare (net after looking at producer, consumer and government effects). This last analysis agrees that LDCs' greatest gain is from liberalizing their own markets! It goes further, however, challenging the view that the effects of OECD liberalization on LDCs is negative. Both UNCTAD and most USDA forecasts showed a net negative effect from liberalization when only OECD countries undertook it.¹³ In general, regardless of which simulation is more accurate, there is a broad belief among negotiators that food importing LDCs will lose if industrialized countries undertake agricultural liberalization.

Dozens of developing countries have been predicted to suffer a net loss in foreign exchange because of food price rises. Only five countries, however, banded together at the GATT talks to express a position on the need for compensation. This group, the W-74, named after the document number of their first submission, comprised five countries receiving food aid or concessional food sales. One rationale motivating them was a fear that food aid in general and concessional sales in particular might be reduced or eliminated as a trade concession at GATT. All five had commercial imports in addition to substantial food aid. The W-74, organized by Jamaica, consisted of Egypt, Jamaica, Mexico, Morocco, and Peru.¹⁴ Other developing countries, such as Nigeria, voiced support for their initiative, but did not draft or take a position on this issue or on others involving agricultural liberalization.¹⁵

There is a fundamental problem in the idea of compensation, as discussed in the GATT talks. While special exemptions and treatment for LDCs could be agreed upon, GATT is not a funding or aid agency. Compensation, therefore, whether in the form of greater food aid or in

¹³See UNCTAD, Agricultural Liberalization and Developing Countries (New York: United Nations, 1990); Kym Anderson and Rod Tyers in Goldin and Knudsen, eds., op.cit.; and Barry Krissoff, et.al., Agricultural Trade Liberalization and Developing Countries (Washington: USDA, ERS Staff Report No. AGES 9042, May 1990).

¹⁴Ransford Smith, chief of the Jamaica delegation, was especially active in forming this group. He explained that the importance of food imports in the economies of the W-74 required recognition in any GATT agreement of compensation arrangements that would offset the effect of higher international food prices. (Interview: Geneva, June 18, 1990).

¹⁵With its ban on wheat imports in the late 1980s Nigeria was reluctant to join formally the W-74 but supported the idea of compensation according to their chief delegate, Minister Udoh.

World Bank or IMF guarantees, would require the LDCs to negotiate in different fora on such issues. At best GATT could only recommend that these other institutions take seriously the claims or needs of LDCs arising from potential harm from liberalization.¹⁶ But there has been little interest within these other "appropriate" bodies for the idea of compensation. A market correcting role for food aid as part of a GATT package is an idea without momentum as of 1992.¹⁷ Another idea for compensation is market access into industrialized states. This idea as a compensatory proposal -- one that would be legal and binding -- confused the issue. Market access could be very important economically, but this potential gain varied widely among LDCs. Some, who already enjoyed preferential treatment in entering European markets (albeit largely for selected unprocessed goods) under the Lome Convention, could see a universal granting of access as reducing not increasing their economic advantage. Mexico, a major proponent of the idea of a compensatory "market share", lost interest in the W-74 proposal as the prospect of a US-Mexican free trade agreement grew and hence greater access to the U.S. market seemed possible outside of a GATT agreement.¹⁸

International Market Failure

Within the framework of GATT, food aid can be seen as an international policy to correct for international market failure. When international norms dictate that starvation in a world of abundant food is no longer tolerable, then peoples too poor to acquire food must be assisted by their national government or by international transfers. Governments of poor states cannot provide adequate assistance. Their populace is served, therefore, by food aid to correct for the inability of international markets to provide them food. This failure arises when chronic poverty prevents sufficient access to world food markets. A gap then emerges because imports are insufficient to increase domestic supplies to a level that would meet minimal nutrition needs. Access can also fail when a shock occurs. Suddenly additional imports are needed; costs for the same imports increase sharply. This poses grave problems for many LDCs. Thus a domestic crop shortfall or a steep rise in international prices, requires non-market international assistance.

¹⁶Based on interviews with the U.S., EC, Australian and Canadian delegations, June 1990.

¹⁷John Parotte, Executive Director of the International Wheat Council (IWC), for instance, expressed little interest or anticipation that food aid as compensation to LDCs, as discussed at GATT, would be relevant or taken up readily by his secretariat. The IWC was asked to become the oversight body for the Food Aid Convention, a result of the Kennedy Round at GATT. Another fora mentioned by GATT negotiators was the CSD, but there were no preparatory consultations with that body either.

¹⁸Mexico did not so much defect from the food importing country group as see a greater gain all along in joining or having access to the US market, which, according to its Geneva-based trade representative, de la Pena, was Mexico's foremost interest. What changed, therefore, was the US position.

These problems -- unaffordable food imports, coupled with a domestic food production shortfall, for example, has led a number of countries such as Bangladesh and Mozambique to face short-term threats of famine. International commercial food markets cannot address this problem. Food aid (or extra cash aid) can help stabilize the domestic market situation and prevent the use of scarce foreign exchange for food imports that had been planned to supply long-term development inputs. Without such aid, shocks would distort long-term economic prospects in many countries. Since economic growth is a basic goal of trade liberalization, the use of food aid to counter shocks and international market failures is a formulation of how food aid fits into a GATT framework. The idea is that poor countries should be at least as secure in their world trade environment after liberalization as before. This principle was a key rationale for major negotiating groups.¹⁹

In the trade context, therefore, food aid may be conceptualized as an international public good to secure food security. Its use requires management lest it allow donors to circumvent commitments against the use of export subsidies. GATT rules and disciplines could prohibit food aid since it runs counter to free trade precepts. However, the consensus position has been to maintain adequate levels of food aid and to do this in ways that did not violate GATT provisions on fair trade. Food security is seen as a legitimate concern of states and the international trading system. Countries like Japan and Switzerland, however, clearly do not need food aid. They have quite different domestic resources to address their concerns on "food security" -- concerns which they raised as the basis for special exemptions in the negotiations. Protection of agriculture was their solution to "security" needs. The food security problems of developing countries, however, particularly the net food importing developing countries, were ones to be addressed by food aid.²⁰

III. Food Aid Availabilities

Countries dependent on imported food to meet their minimum caloric requirements clearly need access to commercial purchases at reliable and preferably low prices. GATT liberalization would benefit these countries by reducing price variability, according to most economic models; but it will do so by raising prices.²¹ In spite of subsidized domestic rice production, Japan's food security depends on dependable access to imports; and, thanks to its wealth, it has achieved a high degree of security through such access. Poor countries also need access, but without wealth they depend upon the availability of food aid. For them, food aid is particularly important to offset price rises as well as to meet a "caloric gap" between what they produce or can afford to import and what their population would need as a minimum

¹⁹Officials from the Australia, Canada, the U.S. and the GATT Secretariat all espoused this view. On international equity in food access also see Jean Dreze and Amartya Sen, Hunger and Public Action (London: Oxford University Press, 1989).

²⁰See Focus: GATT Newsletter (Geneva: March, 1991, No. 79, p. 2).

²¹Rod Tyers, "Agricultural Trade Reform and the Stability of Domestic and International Food Prices," op.cit., pp. 1-3.

nutritional standard. Over the years various estimates have been made about how much availability would be required in poor countries to meet the import needs of countries too impoverished to afford commercial imports, both to maintain "status quo" consumption and to close the caloric gap. During the 1980s the U.S. Department of Agriculture published annual (or more frequent) reports on Food Needs and Availabilities. These were discontinued in 1990. Other organizations have also made estimates of the future trends in world trade and expected food aid needs. These include projections made by the World Bank, the Food and Agriculture Organization and the International Food Policy Research Institute.²² Estimates of food aid needs in the 1990s range from two to three times the ten million tons of aid provided on average in the 1980s. Substantial concern existed at the GATT talks on agriculture, therefore, that food aid be protected and perhaps enhanced as a way to protect the food security of LDCs.

Two impacts whereby liberalization might dampen food aid availability were recognized in the GATT talks. First, under fixed budgets, if food prices rise, less food will be available as food aid from current donor countries. Second, to the extent that agriculture producer groups have been an important source of political support for food aid, a decline in stocks will weaken producers' interest and thus threaten the adequacy of support for food aid among donor states. In light of these concerns, proposals put forward recognize the need to, in the language of the U.S. offer of October 15, 1990, "establish appropriate mechanisms to assure that the implementation of this agreement will not adversely impact such [bona fide] food aid."²³ The Cairns group offer went further to suggest that the GATT arrangements would "seek to assure a level of food aid that is sufficient to continue to provide assistance to developing countries in meeting the food needs of the people."

A general consensus existed among delegates to the GATT talks that food aid should not be prohibited by an agreement to reduce export competition measures. Export subsidies and highly concessional sales, as currently practiced, would need to be differentiated from food aid, however. The former could be cut, while agreeing that it might be appropriate to increase the latter, i.e. food aid, as needs of poor importing countries grew. No serious discussions were held, however, on the probable size of such future food aid needs nor on the likely countries that would provide donations.

As discussed earlier, less developed countries, spearheaded by the W-74 group, were eager to see food aid increased as a compensatory measure. These countries proposed that a "time-bound window" be established through which food aid and concessional sales could be provided "during the reform process." They did not specify which multilateral agency, other than a "existing" one, should implement this measure. The principle would be that if food import needs rose, countries would be expected to pay no more for imports in a year of rising need than in the previous year. Additional imports needed would be supplied through the special food aid window. The rationale for greater food aid would be to facilitate the adjustment

²²See National Research Council, Food Aid Projections for the Decade of the 1990s (Washington: National Academy Press, 1989).

²³The United States government, offer submitted pursuant to "MTN.TNC/15" (Geneva: October 15, 1990), mimeo, p. 10.

measures agreed to under the GATT liberalization.²⁴ Discussion over these matters arrived fairly quickly at general agreement among all the negotiating parties on the continuation and possible expansion of food aid. Recall, however, that no concrete agreement on a formula for "compensation" was reached. An important rationale for the general agreement was to encourage acceptance of GATT disciplines by developing countries; another was to prevent negative effects from occurring in poor countries unable to easily adjust to the consequences of agricultural liberalization.

What level of food aid might be needed? This question was not addressed within the GATT framework. It was assumed that some other agency would deal with the issue of setting targets for future needs and the mobilization of resources to meet these. Moreover there was no indication that enhanced need would be defined as meeting current caloric deficiencies. Rather the role of food aid increases could be to offset deficiencies that arose in the future because of the consequences of the GATT arrangements. If caloric "requirements" of countries rather than stable national supply were the goal, requirements for food aid would be much higher and its use would need to be carefully targeted on those currently undernourished. This would require even greater food aid tonnages than the twenty to thirty million tons forecast to be needed to maintain current levels of caloric availability in poor countries.²⁵

Food aid plays a modest role in augmenting the food supply of developing countries -- about one percent. In certain regions, however, SubSaharan Africa in particular, its importance has increased significantly. In Africa approximately a third of food imports and 6 percent of total consumption consists of food aid. Projections to the year 2000 suggest that levels of food aid to Africa are expected to increase from 4 million tons per year to four times that amount. Even if little progress is reached in reducing agricultural subsidies, and hence surplus stocks in Europe and the United States, given the declining share of food aid in total overseas development assistance a growing gap will exist between the level of needs projected at current conditions and the availability likely under current priorities and domestic policy pressures.²⁶

How will the impending "gap" in the availability of and need for food aid be addressed? The GATT negotiations make clear the important linkage between food trade and the role of food aid. What is not clear is how countries facing increased needs for food imports will address this

²⁴See working paper submitted by Egypt, Jamaica, Morocco, and Peru "Uruguay Round Window for Net Food Importing Developing Countries" (Geneva: October 3, 1990), pp. 1-2.

²⁵See estimates in the World Bank Africa Region, Food Security Unit, January 1992, and Robert S. Chen and Mark M. Pitt, "Estimating the Prevalence of World Hunger" (Providence, RI: Brown University, September 1991).

²⁶See the Ministry of Foreign Affairs, Netherlands, Food Aid and Development (The Hague: Directorate General for International Cooperation, 1991), pp. 93-95. The Dutch forecast that European opposition to liberalization under GATT makes it "unlikely that fundamental adjustment measures will be taken, certainly not in the short-term and perhaps not even in the middle-term (p. 95)."

problem. The standard solution, increasing domestic production in developing countries, remains a central strategy. *No analyses of future international production and trade, however, have forecast that expanded production will alleviate the gap.*

The necessary solution to complement domestic economic growth is an expanded pledge by donor countries to provide food or cash to stabilize a minimum level of domestic food supply in poor countries. This suggests a redrafting of the FAC. New international pledges will need to take into account a wider range of commodities and to focus more on need rather than surplus disposal. These new pledges, like the existing ones in the FAC they would replace, should be longer-term, i.e. five or even seven years in duration; they also should reflect a greater sharing of the burden by those countries whose protectionist policies adversely affect the income earnings and incentive structures for food producers in developing countries. States that protect their markets from LDC sugar or meat imports, for example, have a greater burden to offer compensation. Whether resource transfers are formally labeled as food aid, or constitute cash provided as a grant or on a soft loan basis (such as under the IDA "window" of the World Bank), imports of food in LDCs must increase and these must be paid for either through expanded tied aid (food aid) or untied cash that will inevitably be used to pay for commercial imports. If the GATT negotiations fail, the bulk of the food gap may be covered by a mixture of cash for purchasing food and of export subsidies. Increased grant food aid will be needed for the remaining portion. If liberalization succeeds, however, other more aggressive policy changes will be needed. Food aid will need to expand. Conceivably past budgetary amounts used for export promotion, prohibited from use by liberalization, could be tapped.²⁷

IV. Legitimate Modalities

A second major concern of the GATT negotiations was to distinguish legitimate flows of food aid from export subsidies. Draft proposals by the United States, other countries, and the GATT Secretariat referred frequently to the concept of "bona fide" forms of food aid. This concept included concessional sales to areas with a potential for market development. The Cairns group, however, sought to exclude such "concessional sales." They proposed that the only food aid to be allowed under liberalized agricultural trade regime should be grants to the least developed. This would mean that a GATT agreement would not only reduce or eliminate direct financial assistance to exporters but also that the tonnage available as food aid would go up in cost as "contracting parties [provided] all food aid ... on a grant basis." Further the Cairns group urged that to "the maximum extent possible" food aid be channeled through relevant

²⁷Other sources might include global taxes on commercial trade dedicated for food aid, e.g. a 1 percent tax on cereal trade "users" to finance food aid. Such an idea is analogous to the design of the U.S. highway gas tax in which the public sector corrects a market failure by extracting funds for the commonly needed road system from "users" who otherwise would be "free-riders." The management of such a system by an international body would be novel. Such a proposal, perhaps floated by UNCTAD officials, however, might be consistent with a "new world order."

international organizations.²⁸

Some countries argue that, to be considered "legitimate," food aid should be provided only as a grant. This would better distinguish it from highly discounted commercial food sales. Europe and the U.S. have used discounted sales in competing for markets, especially since the mid-1980s. These discounted commercial sales under the U.S. Export Enhancement Program (EEP) and European export restitutions have cost recipients, at times, as little as 40-60 percent of normal market prices. "Concessional" food aid is generally considered to provide a 60-70 percent grant. Thus the proximity between export subsidies and discounts in concessional food aid loan programs blur the distinction between food aid and commercial sales. This has led to renewed concern that food aid might be used to violate fair trade principles.

The United States, represented at the GATT talks by the Department of Agriculture more prominently than by those interested in international development, has been keen on protecting the existing definition of food aid. The argument then has been between those (e.g. the U.S.) who, under a liberalized agricultural trade regime, would include concessional sales as food aid and others, including the Cairns group, who would exclude this form of "food aid." The latter fear that permitting concessional sales would legitimate subsidized exports and market development efforts, currently financed in the European Community by rebates to exporters and in the U.S. by the Export Enhancement Program.²⁹ For example, terms established in 1990 for PL 480 Title I sales could continue food transfers that would otherwise be outlawed under GATT arrangements.

The history of waivers and exemptions provided at GATT suggests this issue is serious. The 1955 U.S. waiver on domestic agriculture supports, for example, has proven a major loophole to liberalization. Currently both the United States and Europe provide substantial discounts for food exports to middle income countries, such as those in North Africa. Wheat exports from the United States and Europe to Algeria in October 1991, for example, were priced from the United States and France below \$90. These prices reflected subsidies from government programs that dropped the commercial export price by 40 to 60 percent; such subsidies from the U.S. and the E.E.C. have encouraged a highly controversial practice in international trade, one especially criticized by Cairns group countries.

Although removal of export subsidies is one of the most widely agreed measures at the GATT negotiations, resistance is strong. Their phasing out would clearly be a costly blow to many developing, food importing countries, particularly ones not in the "least developed" category yet unable to afford even discount sales. U.S. producers have become increasingly wedded to export subsidies since 1985. Thus while these remain a high priority target for

²⁸MTN.TNC/15 submission of Argentina et.al. to Uruguay Round Agriculture, 15 October 1990, para. 22.

²⁹Other U.S. programs also subsidize exports. These include, for example, the temporary export authority available for assisting the movement of U.S. stocks, the use of Section 416 of the 1949 farm legislation, and the subsidized financing provided under CCC Credit Authority.

elimination by U.S. negotiators and especially by the Cairns group, escape avenues are a concern because there are so many vested interests benefiting from subsidies. Thus, disgruntlement over any form of concessionary sale underlies the proposal that all non-grant transfers be subject to GATT rules, thus outlawing or at least reducing every form of subsidy.

It is possible to imagine that a compromise between the United States and Europe would provide for a slow phasing-out of subsidies. Their continued use could be limited to countries where market development is a long-term rather than an immediate and competitive objective of trade policy. This would allow countries such as Egypt and Jamaica to continue to receive substantial amounts of concessional "food aid." Indeed the total volume of concessionality and food transferred as food aid could rise as funds for subsidies that create a middle ground between food aid and fully commercial sales were shifted to concessional sales while export subsidies *per se* were gradually eliminated.

There is an increased capacity to deal with agriculture within an international policy framework, regardless of particular advances that emerge from the Uruguay Round of GATT. This growing inclusiveness of international economic policy suggests that food aid modalities are tightly linked to trade rules and jointly these will increasingly embrace the economic decisions of individual countries and, in the case of agriculture, even individual farmers and consumers. The negotiations make clear that the food aid component of agricultural transfers itself cannot be managed satisfactorily within the GATT framework. Thus if any agriculture agreement should emerge from the Uruguay Round, general principles to maintain the legitimacy of food aid will also emerge; the ramifications of new food aid rules in the 1990s and beyond, however, need to be addressed through other international mechanisms.

V. International Oversight Agencies

A third question posed by the GATT negotiations for U.S. food aid policy concerns the role of international institutions. When the GATT talks turned to the issues of food aid rules, it was clear to negotiators that practical steps needed to be worked out in other fora. Various negotiators favored a more participatory forum than GATT or the IWC; most conceded that level of commitments needed to be negotiated upward; and virtually all parties agreed that a new food aid pledge would need to take into account a wider variety of commodities than envisaged by the FAC. The particular details for new food aid policy and specification of the forum(a) for negotiating these were hazy conceptions for GATT negotiators and Secretariat working on agriculture issues.³⁰ Thus, the question of what mechanisms should facilitate international policy coordination is raised but not answered by the GATT talks.

Since the 1980s the U.S. food aid officials have engaged in informal policy coordination with the European Community and Canada on food aid; the practice is not institutionalized, however. Historically, the U.S. has preferred a narrow arena for oversight of food aid such as the FAC. Discussions on pledging levels and monitoring of food aid commitments in this body, related as it is to wheat trade, has proved congenial to agricultural interests. The U.S. has favored continuation of food aid policy coordination largely in its extant form. Other countries,

³⁰This claim rests on interviews with over 15 officials in Geneva, June 1990.

either those seeking expansion of food aid for compensation (the W-74) or those seeking to include developing countries in any global bargain on agriculture (the Cairns group), have favored greater food aid, provided on more concessional terms, through multilateral bodies as a way to entice LDC assent. For these players the existing institutional arrangements are unsatisfactory.

What is the possibility of enhanced policy coordination on food aid? Is there an institutional modality capable of overseeing GATT trade objectives as well as humanitarian and development goals? To answer this question the competency and acceptability of different candidates for this task can be assessed. One candidate for food aid oversight is the International Wheat Council. It was the body turned to by GATT at the end of the Kennedy Round in 1967. It is unlikely, however, to be of utility. As food aid has shifted increasingly towards least developed countries, particularly in Africa, the relevance of the particular commercial considerations dealt with by the IWC has declined. In addition the component of food aid made up of wheat has declined also. Finally, the Secretariat (and the Headquarters) of the IWC has dwindled compared to the size of international agricultural trade. It is unreasonable to expect, therefore, that the Secretariat of the Wheat Council would provide leadership and satisfactory outcomes for a multilateral policy on food aid. Indeed, it is not clear that the IWC can adequately track current levels of food aid shipments and transactions.

The Committee on Surplus Disposal, established in 1954 and operating in Washington from the North America office of the FAO, is also an unlikely candidate to provide oversight to food aid. The CSD is able to establish the usual marketing requirements (UMRs). These proclaim that food aid to a particular country is legitimate once the country has satisfied the requirement of importing a usual amount of food commercially. It has not, however, been able to go beyond this function. Moreover, the importance of UMRs in separating food aid from commercial transactions, thus preventing loss of commercial markets to food aid, has declined substantially since the 1950s. Finally, not all donor countries and only a few recipient countries participate in the CSD. Thus, in both the CSD and the FAC (under IWC auspices) there is a lack of universality, small secretariats, and decreasing operational relevance for food aid. The use of food aid has become increasingly oriented to developmental and emergency purposes, while ways to separate it from subsidized commercial sales -- a major GATT concern -- have escaped oversight by multilateral bodies. This suggests that an expanded role of oversight for food aid to complement potential new rules on agriculture by GATT for commercial agricultural trade must fall to a more universal and well-staffed body.

The obvious candidate for greater international policy coordination of food aid is the World Food Program. With its Committee on Food Aid Policies and Programs (CFA) as the legislative oversight body, WFP has substantial staff and experience. With the assumption of an American, Catherine Bertini, as Executive Director of the WFP in April 1992, the United States will have a special interest in supporting the future evolution and direction of this organization. Unlike the FAO, which is largely controlled by developing country interests, the WFP has a preponderance of its resources, authority and personnel from industrialized, donor countries. Thus, while the WFP is less experienced in matters of trade than the FAO, the WFP is many times better equipped to act as an oversight body for food aid in general than either specialized FAO committees, such as the Committee on Food Security (CFS) or the CSD. The Japanese and Europeans, both of whom provide food aid on a grant basis, have been strongly supportive of the

WFP. Some of these countries provide a large share of their aid through the WFP.³¹ The Netherlands, for example, to signal support for flexible funding of food assisted aid in UN channels, announced that in 1992 it would provide all of its food aid pledge through multilateral bodies, principally the WFP, as a cash grant rather than as tied commodities. It took this step as a way to decrease surplus disposal motivations in food aid. In looking to the future size, direction, and uses of food aid, therefore, the WFP and its governing body, the CFA, provide a logical location for addressing broad questions of future food aid size and GATT related considerations. Indeed, with the close proximity in working relationship between the WFP and the United Nations High Commission for Refugees (UNHCR), located in Geneva, there is considerable bureaucratic interaction in the Rome-Geneva axis, thus making conferral between the headquarters of GATT and WFP logistically easy.

As the largest contributor to WFP, and the country from which the current Executive Director comes, the United States is a good candidate to support an expanded role for WFP in providing international oversight and follow-up on GATT related issues, such as compensation for liberalization. Reshaping and expanding the role of food aid, in light of the problems uncovered and affected by GATT negotiations, requires leadership and institutional capacity. As Executive Director Catherine Bertini faces a daunting task. The WFP mandate from the World Food Conference (1974) and recent legal and administrative changes (1986-91) give a large potential scope and capacity for the WFP as the dominant oversight and coordinating body for food aid.

Would other countries support a strengthened WFP role as the oversight body for all food aid? The developing countries would certainly favor the WFP over donor dominated bodies, such as the CSD and FAC, because they would have a more favorable opportunity to express their views in shaping international policy. But most would prefer an FAO organ, probably the CFS, as a forum. In this sense the WFP would be a compromise for LDCs. It would neither be simply a donors' club nor would it be a lobbying body, as the FAO can be, with its predominant emphasis reflecting developing countries' preferences. The location of the WFP in Europe and the greater attention of using the WFP by many European countries would suggest that it would also be acceptable as a forum for these groups in working out the future responsibilities of food aid, especially its relationship to commercial trade. Japan, and perhaps a few other industrialized countries, would probably be reluctant to accept an expanded WFP role as the oversight body. Japan has long expressed strong centralized management over its trade and aid policies. Collaboration and reduction of sovereignty implied in international agreements on matters such as food aid runs counter to the traditional mode of action by the Japanese government. Nevertheless, this would not be an issue of great contention. The Japanese have long supported a strong UN system. The current role of MITI in allocating Japanese food aid would not be threatened, at least no more so than would the role of the Department of State in the United States. In both instances the conclusions of an international body such as the WFP would have to take into account the strong domestic proclivities of the major contributors of food aid.

The WFP's capacity for oversight is based on its current ability to keep track of global

³¹A number of European countries give a large fraction of their food aid through the WFP. Others, in using their "national actions," provide a smaller amount than the U.S. (such as France) and Japan gives but a small portion through the WFP.

food aid flows and to analyze policy -- functions other international bodies do less well if at all. For instance, the WFP created a unit, Interfais, in the 1980s to record systematically all food aid transactions by donor, recipient, and purpose. This group publishes the Food Aid Monitor, a Quarterly, rich in basic data on food aid -- more so than comparable FAO and IWC publications. During 1988-90 the WFP worked out agreements for greater organizational autonomy and an independent headquarters building. These promise to give greater scope and weight to the organization. With such "sunk costs" in place, the WFP offers the most effective arena for dealing with the oversight of global food aid and the problems raised by the GATT negotiations -- i.e. sustaining levels as surpluses decline, separating aid from commercially motivated subsidized food transfers, and managing international policy coordination.

VI. Conclusion and Recommendations

Between 1986 and 1992 there have been modest unilateral moves in the European Community, the United States, and other major grain exporters to reduce surplus production. Those concerned with world hunger worry this may remove a safeguard of large stocks and weaken support for food aid. *Forecasts anticipate there will be global shortages at some point in the 1990s.* These are based on the declining percentage of stocks to consumption (down from 26 percent in the mid-1980s to 17 percent in the last year). Wheat prices, in particular, have rebounded to this decline already (1991-92). Nevertheless, the long-term shift in exporting country policies, while gradual, has not offset the slow secular decline in the real price of international grain, which in 1990 were at historic lows. This trend, which fits the pattern of declining food prices globally in the 20th century (see Figure 1), fulfills general economic analysis flowing from Engel's Law. This law states that a smaller portion of income is spent on food as incomes rise; the result is a *relative* decline in demand for food, a decline only accelerated by economic growth in food and agricultural production.³² This only increases inequality within and among states and exacerbates the morally and politically unacceptable situation of global food insecurity -- hunger and famine existing in a world of food abundance.

In light of the prospective failure of GATT to address the problems of LDC food security, what perspectives and policies are relevant to future US food aid policy? What response is appropriate to the projected growing need of LDCs to import food as development assistance? What, if anything, should the U.S. do about the declining level of international attention to food security by trade-related bodies, including the FAC? Can larger, more need-responsive quantities of food aid be achieved, and, if so, will it not require new collaborative arrangements among donors under U.S. leadership? The issues underlying these questions raised by the GATT talks were the focus of this report.

USAID officials should be appropriately concerned by a failure to resolve food aid issues in the GATT talks. In the context of the evolving global food trade regime, ***regardless of what rules and practices actually evolve from GATT talks, the issues will remain.*** The discussions at GATT identified and shaped issues that can help the US government in formulating future policies on food aid. These include U.S. bilateral practices and especially the actions of

³²See Johnson op.cit. and Peter Timmer, et.al., Food Policy Analysis (Baltimore: Johns Hopkins University Press, 1983).

the U.S. affecting the current international organizational and regulatory environment. Some specific recommendations are offered to correct inadequacies.

The U.S. has an opportunity, with an American assuming the helm of the World Food Program in 1992, to take greater leadership in food aid, addressing the broad issues that surfaced in the GATT talks. Although the U.S. share of food aid has declined from over 90 percent in the early 1960s to about 50 percent (in value) in the 1989-91 period, the U.S. is still the largest single contributor of food aid and still the world's largest exporter of grains. Given its position in the world, the US has major responsibility to exercise leadership. Moreover, the predominant goal of food aid has broad political support, namely the eradication of hunger and the provision of emergency relief to prevent famine.

To date, the U.S. has favored continuation of food aid policy coordination largely in its extant form, i.e. the use of disjointed multiple international arenas. In contrast, most other countries, including those seeking expansion of food aid for compensation (the W-74 countries) or those seeking to include developing countries in any global bargain on agriculture (the Cairns group of countries), *have favored greater food aid, provided on more concessional terms, through multilateral bodies*. Their rationale is based, in part, on a desire to entice LDC participation in GATT, thus promoting a more integrated world production and trading system. For these "players" the existing institutional arrangements are unsatisfactory.

In light of this, the Agency for International Development should be prepared to put forward new initiatives, particularly in the relevant international fora. With or without a failure to achieve agricultural liberalization in the GATT negotiations, international food security will continue to be of global importance, especially for LDCs. The U.S. has an opportunity to accomplish three needed tasks.

- First, food aid pledges, currently reached under five year FAC agreements, need to be increased. This is very important to prevent pro-cyclical provision of food aid should prices suddenly rise in a period of a shortage comparable to that of 1973-74. Coordination and priority for food aid among donors needs to be strengthened so that food aid works more effectively to offset possible international market failures and to have more substantial impact within recipient countries.

- Second, clearer rules for the definition and use of food aid need to be established. Negotiations should be held that result in distinguishing "legitimate" food aid and that incorporate and assess cash aid used for food follow food aid principles. Food aid's legitimacy, as distinct from commercially motivated export subsidies, needs protection.

- Third, the U.S. should identify and use an appropriate international oversight agency, ideally the World Food Program, to act as the paramount body to facilitate policy coordination and to assist in the accomplishment of these tasks.