

# BRIEFING ON THE FOOD AID CONVENTION

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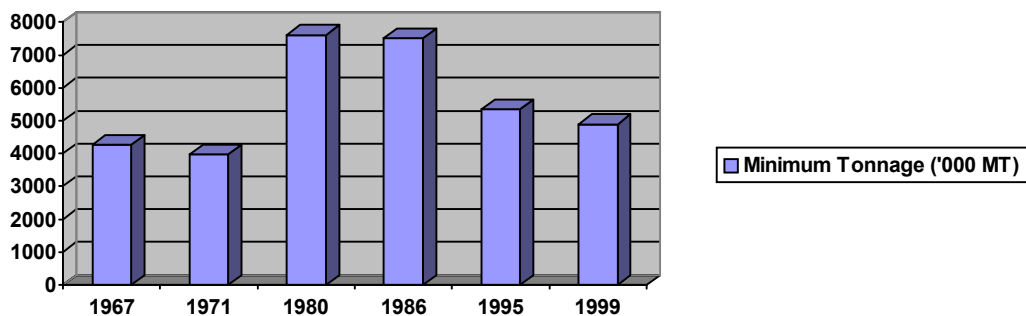
## Origin and Purpose

The Food Aid Convention was established in 1967 in connection with the Kennedy Round of GATT trade negotiations. From its inception its purpose was to implement a system of international burden sharing to provide a floor amount of cereal based food aid destined to developing countries. The initial membership included all the major wheat exporting countries and some of the major cereals importing countries. The burden of providing this minimum level was shared out through a complex formula based upon cereals production and consumption and per capita GDP in the donor countries<sup>1</sup>. The major cereals importers provided input in the form of cash while the exporters offered commodities. Unlike the FAO Committee on Surplus Disposal, which has a clearly identified focus on dealing with agricultural surpluses and orderly marketing, the Food Aid Convention was, from its inception, driven more by responding to hunger and food import needs than market problems for exporters. Perhaps the clearest indication of this is the commitment to a specified quantity of food regardless of world prices.

## Recent History

### *Overall Experience*

There have been six Food Aid Conventions signed and ratified during the past quarter century. The quantities of food aid guaranteed under these conventions have varied considerably

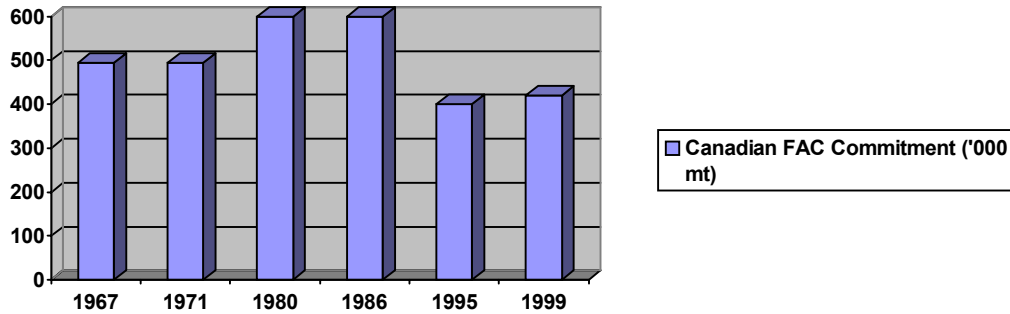


Within certain Convention periods there were adjustments, usually based upon unilateral notifications by donors. Other changes during the past twenty-five years have included:

1. An increase in the *number of countries on the eligible recipients list*, most notably the addition of the emerging economies of the former Soviet Union in the 1995 Convention
2. An increase in the *range of eligible food commodities*, extending beyond cereals to include limited amounts of pulses, edible oil, root crops, skim milk powder, sugar, seeds and micronutrient fortification/supplementation (1995,1999).
3. The inclusion of local purchase flexibility (1986).
4. The inclusion of costs associated with transport in the case of internationally recognized emergency situations (1999).

## Canadian Experience

Canada was an original signatory of the 1967 FAC, committing to provide 12% of the total minimum food aid level. The US and the EU between them provided 75% with the balance made up by countries like Australia, Argentina, Switzerland and New Zealand. As in other aspects of Official Development Assistance, Canada's relatively modest contribution has been made more significant by the perception of less associated self-interest. Canada's commitments have also varied over the years.

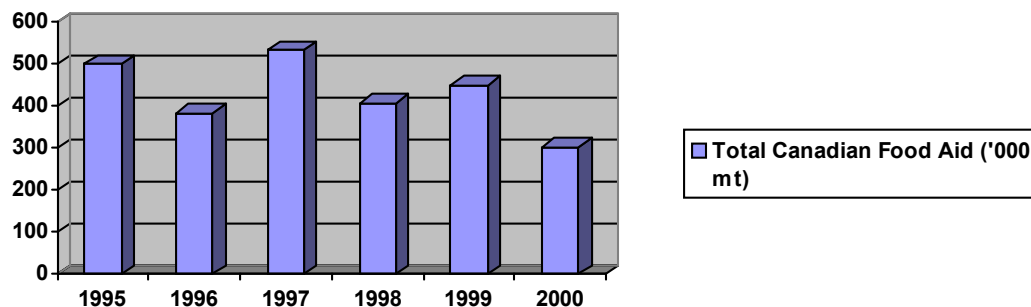


It is important to note that the FAC commitments are minimum commitments. Canadian food aid shipments have usually far exceeded these levels. In 1992 Canadian food aid shipments topped 1 million tonnes wheat equivalents, 75% above the FAC commitment. However, in the past few years total Canadian food aid shipments have dipped sharply, exceeding our FAC commitment level by only 7% in 1999 and dropping to at least 20% below the commitment level in 2000.

## Observations

As Charlotte Benson has observed<sup>ii</sup>, the level of Canadian food aid, like that of the US, is negatively correlated to the world price for wheat – lower wheat prices have generally driven higher food aid levels. It is less clear whether this is mainly due to the obvious price connection (same dollars buying more wheat) or a tendency towards using food aid for surplus disposal. She also noted that the total levels of Canadian food aid have little connection to our FAC commitment levels, unlike the situation for EU food aid. This suggests that Canadian FAC levels may have been set to provide maximum certainty that they would be met rather than indicating any real commitment to respond to changing global needs – a point that Benson makes more generally about all donors FAC commitment levels.

The Canadian experience during the past five years may contain an additional lesson.



There appears to have been, despite the usual pattern of increased food aid during times of low world cereal prices, a trend towards declining Canadian food aid shipments over the last half of the 1990s. This is marked contrast to the US where low wheat prices have driven a dramatic increase in food aid shipments, up 67% over the same period. This corresponds to a policy shift within CIDA away from food aid and food related programming within Canada's ODA budget.

## Re-examining the Purpose

### *Increasing the Role of the Market in Food Security*

In the early years of the FAC, the debates about food security were largely focussed on the need to increase the availability of food, mainly through local production of food in food-deficit areas of the developing world. While food aid policy was constantly swinging between its often-opposing 'surplus disposal' and 'need driven' rationales, it was earlier seen as an instrument for making up for food deficits at the *national* level.

During the past two decades there has been a growing emphasis on relying on international markets to meet these national food deficits and, in some cases, giving preference to such market reliance over a focus on increasing local production. (The debate about this policy shift continues to rage but there has been a clear shift away from development assistance targeted towards agriculture<sup>iii</sup>.)

At the same time as increasing the reliance on international markets to meet national food deficits, there has been a growing realization of the serious problem of *food access* in local markets. In many cases, particularly in situations of chronic hunger, those who are hungry are so because of a lack the resources or entitlements to obtain food. This has led to much greater attention being paid to the need to direct food aid to these people through the use of *targeted food aid* to overcome local market failures.

The increasing reliance on international markets to address national food deficits, either through commercial purchases by these governments or through food aid, raises concerns about the vulnerability to international price volatility. It has been widely predicted that international market liberalization will lead to greater price volatility. It is also likely that large national food deficits will often occur at just the time that international prices are high, placing extraordinary demands on food aid budgets. With low and declining ODA budgets, there may be few channels for the international community to respond serious food shortages. Increasing levels of hunger are to be expected

The fate of Food Aid Convention will have major bearing on this situation. It's disappearance or significant erosion could remove a politically important global safety net.

### *Relationship to the WTO Marrakech Decision*

The assurance of their food supply continues to be a preoccupation of the least developed and net food importing developing countries. The incorporation of agricultural trade rules into the GATT with the establishment of the World Trade Organization was expected to lead to higher world prices for agricultural commodities and a decline in concessional sales. In light of this possibility, the members of the GATT committed to the "Decision on Matters Concerning the Possible Negative Effects of the Reform Programme on Least Developed and Net Food Importing Developing Countries" (so-called *Marrakech Decision*). This Decision addressed four aspects of national food supply – special consideration if export subsidies are removed by exporters, short term financial assistance to facilitate commercial purchases, development assistance to increase local food production and assurance of access to food aid. This latter aspect referred to reviewing the 1996 Food Aid Convention with a view to "establish(ing) a level of food aid commitments suitable to meet the legitimate needs of developing countries during the reform process."<sup>iv</sup> Pursuant to this commitment, the Food Aid Convention was renegotiated in 1999 to reflect this decision at which time Canada increased its commitment from 400,000 mt/yr to 420,000 mt/yr.

It should be noted the full implementation of the Marrakech Decision has not taken place, a point that the least developed and net food importing countries have repeatedly raised as one of the unfulfilled promises of the Uruguay Round. This issue has been recognized by all WTO members, although there are differing positions as to the extent of the 'negative effects' directly attributable to the implementation of the Uruguay Round. Nevertheless in the lead up to the Doha WTO Ministerial Meeting, the Committee on Agriculture reported to WTO General Council with the following food aid related recommendation:

*WTO Members which are donors of food aid shall, within the framework of their food aid policies, statutes, programmes and commitments, take appropriate measures aimed at ensuring: (i) that to **the maximum extent possible their levels of food aid to developing countries are maintained during periods in which trends in world market prices of basic foodstuffs have been increasing**; and (ii) that all food aid to least developed countries is provided in fully grant form and, to the maximum extent possible, to WTO net food importing developing countries as well.<sup>v</sup>*

In the context of the declaration of a 'development agenda' for the upcoming negotiations at the WTO, the FAC-related commitments will be watched closely by developing countries.

## **Related Issues**

### *Program Food Aid and Hunger Based Food Aid*

In the minds of most people food aid is about getting food to people who are hungry. However, a very significant (and highly variable) component of international food aid (*program food aid*) is primarily used as balance of payments support to developing countries and is sold to regular consumers on the market in the recipient country. For net food importing developing countries, this does have the effect of reducing food import bills. However, this type of food aid has a high potential to introduce distortions in local and, during peak levels associated with low prices, international markets as well. Canada does not provide this type of food aid.

Hunger based food aid, on the other hand, is generally 'targeted' towards those who are food insecure. In these cases, those who receive food aid often have insufficient access to food from the market, either because of shortage of supply or a lack of resources. Provision of food aid to these people has less potential to disrupt local markets and hurt local farmers as the recipients have limited ability to participate in the market.

While simple in concept, it must be acknowledged that local community dynamics often lead to a certain amount of 'blurring' of food aid targeting. Nonetheless, hunger based food aid continues to have a strong justification as an important short-term response to hunger.

### *Degrees of Additionality*

Canadian food aid is fully funded, that is, the purchase of food commodities is made under normal commercial terms from the overall ODA budget. It is therefore argued that it does not represent any additional ODA resources and must compete with other ODA priorities. Strictly speaking, this is true.

However, the Canadian public is very aware of Canada's role as a 'food power' in the world and assumes that Canada is shouldering its share of the burden in providing food aid as part of our overall foreign aid program. This is made abundantly clear whenever a high profile emergency involving hunger takes place. Canadian farmers continue to regard their labours in producing food under very difficult market conditions as their part in 'feeding the world'. Food aid is easily understood and widely supported among the Canadian public. Failure to honour public trust in this area could, conversely, result in 'subtractability' by significantly reducing public support for Canadian aid programs.

## Options

1. **Status Quo** – consistent with the trend in recent years, Canada could allow its food aid activities to wither away, perhaps releasing these financial resources for other types of priority ODA programming. With reference to the FAC specifically, Canada could reduce its current commitment level to avoid further failures to meet its commitments.

There are several possible consequences of this action.

- a. Canada may be perceived as becoming a less committed multilateral player in international forums, the loss of a virtue that has in the past leveraged Canada's influence on the international stage.
  - b. Canada may be perceived as disinterested in the plight of Least Developed and Net Food Importing Countries in the WTO agricultural trade discussions.
  - c. Canadian public support for ODA may be reduced, particularly if our ability to respond to food emergencies is curtailed.
2. **Maintain and Deliver on Current Canadian FAC Commitment Level** – this action, which would be the minimum necessary to signal continuing commitment to multilateral food aid efforts, will require change in current policies and practices at CIDA. The current budget (\$220 million/yr) that funds food aid is administered by CIDA's Program Against Hunger, Malnutrition and Disease. Changes in the terms and conditions of what was formerly the food aid budget have resulted in approximately half of this budget being devoted to health programming. The remaining approximately \$100 million is simply not sufficient to meet the FAC commitment of 420,000 mt/yr with a high quality food aid program. Even the lowest cost food aid programming (developmental food aid) costs over \$300/mt and emergency food aid, often cited as the most important and effective component, can cost much more. Additional funding of the budget for food aid will be required.
  3. **Increase Canadian FAC Commitment Level** – Canada could restore its commitment level to the original 12% (600,000 mt/yr) of total FAC level. This would be the same level as the Canadian commitment to the 1980 and 1986 FACs but still considerably less than Canadian food aid shipments in the early 1990s. Such action would send a strong signal of Canadian commitment to a global food aid safety net, particularly in the context of ongoing agricultural trade reform.

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<sup>i</sup> Benson, Charlotte, "The Food Aid Convention: An Effective Safety Net?", pp 102-113, in *Food Aid and Human Security*, Clay and Stokke eds, Frank Cass, London 2000

<sup>ii</sup> *Ibid*, pg 113

<sup>iii</sup> IFAD, *Rural Poverty Report 2001*, page iv

<sup>iv</sup> *Decision on Matters Concerning the Possible Negative Effects of the Reform Programme on Least Developed and Net Food Importing Developing Countries*, WTO Section 3 (i).

<sup>v</sup> G/AG/11, September 28 2001, "Committee on Agriculture (Regular Meeting) Implementation-Related Issues – Report to the General Council by the Vice Chairman" Section B I (b)