ILLINOIS AG POLICY BRIEFS

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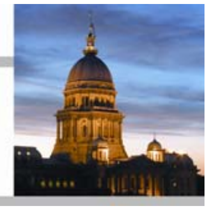

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Whither Food Aid?

One of the most important breakthroughs in the current World Trade Organization's (WTO) trade negotiations has been getting the European Union's commitment to eliminate all agricultural export subsidies. Export subsidies have been banned since the 1960s in everything except agricultural products. The EU is the main place that still subsidizes agricultural exports. After it buys agricultural commodities to support market prices, the EU uses subsidies to move the inventories out into the world market, often depressing world market prices in the process. If the EU cannot subsidize exports, it will have to reduce its support prices enough to bring its production down into line with their market demand. This would be a good thing. The EU has agreed to a ban on agricultural export subsidies - but only if other countries that indirectly subsidize agricultural exports also stop.

For many decades the US has given to poor countries commodities accumulated by the Commodity Credit Corporation (CCC) under its agricultural price support programs. There were few complaints by other countries as long as this food aid went to starving people in poor countries for purely humanitarian reasons, as in times of famine or natural disasters. The recipients of this food aid did not have the money to buy the food even if it had been available on the local market. Over time the US has diversified its food aid well beyond this original motivation in ways that other countries, including the EU, see as an indirect export subsidy. They insist that the US stop using such forms of food aid.

While the EU advocates moving all food aid to a "cash only" basis, of greatest concern to them is "monetization" of food aid. The US Department of Agriculture gives commodities to charitable organizations to sell in low-income countries where they are working. From these sales the NGOs obtain local currency, which they use to finance their projects in those countries. This is where the EU's complaint arises. Because the commodities are *sold*, the local buyers obviously had the purchasing power to buy those commodities. These sales then must have displaced potential commercial sales – by either local farmers or other suppliers.

When "monetization" of food aid displaces sales of local farmers, it drives down the local market price. This may actually increase poverty in the recipient countries since 70 percent of the people who live on less that one dollar per day in low-income countries are farmers. US farmers would scream unfair if the CCC gave commodities to charitable organizations to sell into the US market to generate funds to support their Hurricane Katrina recovery projects. That is exactly how farmers in developing countries see monetized food aid, but unlike American farmers, they have little political voice.

American farmers like food aid because they see it moving more commodities overseas, and the US maritime industry likes food aid because it has to be shipped in US vessels. Many charitable organizations rely heavily on monetized food aid to support their projects overseas. The issue is not the value of the projects the organizations carry out, many of which do a lot of good, but rather the mode of financing those projects. What is needed is not monetized food aid, but larger foreign aid appropriations less constrained by earmarks that could support the good works of the NGOs without destroying incentives to local farmers in the recipient countries and distorting international agricultural markets.

The EU will not give up its agricultural export subsidies unless we give up ours. Giving up food aid monetization would be a small price to pay for the great potential value of getting rid of agricultural export subsidies once and for all.

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