The Doha Development Round & International Food Aid

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In a world where over 840 million people suffer from malnutrition, few question the need for some form of humanitarian aid. However, the developing nations, those hardest hit by hunger, have taken advantage of the Doha Development Rounds to voice their opposition to direct and monetized food aid.

Since 2001 The Doha Development Rounds have been the forum to discuss issues pertaining to international trade. These talks, sponsored by the World Trade Organization, focus on opening the economies of developing nations and reducing trade barriers worldwide. Starting in Doha, Qatar, these rounds have been held in eight separate locations with over 140 nations participating. Past conferences have come to a standstill due to conflicts arising between developed and developing countries over a variety of different trade issues. This is unfortunate because the Doha Rounds constitute a real opportunity for the world's leaders to confront the serious economic problems that, if solved, could hasten development and alleviate poverty in the third world.

According to the non-profit group, Care, 799 million of those suffering from malnutrition live in the developing world.[1] So, why would the very nations suffering the most be so outspoken against what seems to be the solution to their problems? It seems that the direct delivery of much needed food would offer a simple solution to hunger and malnutrition, but in reality world hunger is an extremely complex problem and current direct food aid policies have undesirable economic ramifications that can actually perpetuate a cycle of hunger and dependence. Ultimately, a balance must be struck between delivering desperately needed aid and damaging

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[1] CARE. Facts About Hunger. 20 10 2008 <http://www.care.org/campaigns/world-hunger/facts.asp>.

the chance for economic development that would make a nation self-sustaining. This argument over how to best maximize new consumption while minimizing trade losses has been hotly debated at the Doha Rounds, with the majority of debate focusing specifically on U.S. food aid policy.

In July of 2008, worldwide increases in food prices brought agricultural issues to the foreground of the Doha Development Conference in Geneva, Switzerland. Both developing and developed nations sought to place blame for the run-up in prices on a variety of different issues ranging from export subsidies to bio-fuels. However, volatility in food prices can be explained by the fact that, "both food supply and food demand respond slowly to changes in price. As a result any disruption in the match of supply and demand will produce exaggerated changes in price."[2] Food prices have historically followed a pattern of cycling back and forth between shortages and overproduction.[3] This cycle of volatility in food prices leaves the world's poor unable to adjust, leaving a gap that must be filled with some form of humanitarian aid.

The Actual Effects of Direct Food Aid

Developing countries and trade researchers assert that not all aid is good aid, specifically criticizing the United States policies that are largely based on in-kind commodity aid and development programs funded through monetization.[4] In-kind donations are comprised of direct shipments of food to the foreign nation while monetization is the U.S. policy of selling discounted grain in the foreign nation. The proceeds of the sale are then allocated toward

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[2] Polaski,Sandra."Rising Food Prices, Poverty, and the Doha Round." 2008
[3] Polaski
[4] Institute for Agricultural and Trade Policy. "iatp.org." 19 july 2008. 10 October 2008 <iatp.org>.

development projects or nongovernmental organizations operating there.[5] Opponents argue that the current structure of U.S. food aid is wasteful, economically damaging, and a violation of the export regulations set out in multiple trade agreements.

Current U.S. law states that food aid must be secured domestically with seventy-five percent shipped by a domestic carrier.[6] This policy provides an economic benefit for the United States generating shipping revenues and providing an outlet for excess production; however, if the true goal is to provide humanitarian aid, these policies are detrimental, translating into costlier aid delivered in an environmentally damaging manner.[7] These policies in effect transfer a portion of the aid benefit to the United States in the form of shipping revenues and agricultural sales.

The difference in costs between locally securing grain in the afflicted nation with a cash donation or shipping domestic grain to a foreign nation represent a loss in "real aid." Every dollar spent on shipping costs cannot be used to buy more aid. This amount can be significant. In the summer of 2008, as both fuel and agricultural prices skyrocketed, increasing shipping costs diverted a large amount of aid dollars from actual food purchases. When commodities prices rise in tandem, less aid can be provided as the need for it increases.

Additionally, opponents argue that direct food aid hurts farmers in developing markets.[8] The food aid that is shipped in from the United States displaces local production, depressing prices and in turn reducing profits for local farmers. Trade watch groups such as "The Institute

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[5] Cardwell, Ryan "Food Aid and the WTO: Can New Rules be Effective?" The Estey Centre Journal of International Law and Trade Policy (2008): 74-93
[6] Cardwell
[7] The Institute for Agricultural and Trade Policy
[8] Polaski

for Agricultural and Trade Policy" have compared U.S. food aid to dumping.[9] Banned under trade agreements, dumping is the economic term for selling a product below your cost of production or your domestic price. Comparisons between U.S. aid and dumping are reasonable considering the U.S. is effectively selling their surplus in a foreign country for less than the cost of production. By doing this, the U.S. forces down prices of the commodity in the local market, which damages poor farmers and decreases the economic incentive for locals to produce food. If, instead, the U.S. purchased aid from local markets, there would be desirable economic effects. By purchasing in the foreign market the U.S. would increase demand, thus raising prices; the U.S. would be supporting local farmers and encouraging others to produce while still providing much needed aid to those suffering from hunger.

In a particularly damaging instance in 2005, the U.S. delivered a shipment of grain to Niger as the local harvest was being brought to market.[10] The oversupply of grain caused a reduction in prices that was catastrophic for local farmers. By operating under the assumption that driving down prices benefits the poor as a whole, U.S. aid policy overlooks the fact that nearly seventy-five percent of the world's poor are rural farmers and laborers who have been found to experience net gains from price increases in agricultural products.[11]

The most detrimental side effect of direct or monetized food aid is the damage done to the long-term economic growth prospects of the affected country. The surpluses created by introducing direct aid in the local markets reduce local producers' returns creating a disincentive to invest in agriculture.[12] With no incentive to invest, developing nations will never create strong, self-sufficient agricultural sectors, leaving them reliant on outside aid from foreign

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[9] The Institute for Agricultural and trade Policy
[10] The Institute for Agricultural and Trade Policy
[11] Polaski
[12] The Institute for Agricultural and Trade Policy

governments and nongovernmental organizations.[13] This dependence, created by current food aid policies, contributes to an endless cycle of need in underdeveloped countries.

History of Food Aid Negotiations

Attempts to monitor food aid date back to 1954, when the United Nations formed the Consultative Subcommittee on Surplus Disposal.[14] The organization was not humanitarian in nature but instead sought to protect trade. It operated under the premise that food aid should provide additional consumption as opposed to the displacing of commercial exports. The organization sought to record all aid as well as to test aid to ensure it was not displacing trade. If a nation's food imports fell compared to the five-year average, food aid was said to be displacing commercial exports.[15]

In 1986, the Uruguay Round was held. This meeting on trade issues eventually resulted in the formation of the WTO and the signing of 20 agreements on trade. Among these agreements was the formal adoption of the principles previously set forward by the Consultative Subcommittee on Surplus Disposal. In addition to adopting these principles, the Uruguay Round created the stipulation that food aid should not be tied to or dependent on other agreements.[16] In short, the Uruguay Round had reasserted that aid should not displace commercial sales and added that aid should be given unconditionally. However, the food aid portion of the Uruguay Agreement on Agriculture was merely a guideline and lacked any enforceability.

Because of this the U.S., among others, has entirely ignored the agreement since its passing and continues to require aid be given in "like kind" direct aid and routinely ties aid to

[13] Michael Cohen, Maria Kupou, Parag Khanna. "The New Colonialists." Foreign Policy (2008): 74-79
[14] Cardwell
[15] Cardwell
[16] Cardwell

broader, politically motivated development packages. Developing nations have pressed the U.S. to adhere to the guidelines and have attempted to incorporate them in proposed agreements since the beginning of the Doha Rounds in 2001.

During the rounds, the debate on food aid has taken two sides: those who believe direct aid is essentially an export subsidy and those who believe it is a necessary component of humanitarian relief.[17] There is a clear division in the debate with most developing nations arguing that direct aid constitutes a form of export subsidy, while the U.S., supported by some large NGOs, argues that it does not.

Unlike many Doha disagreements that feature the developing nations squaring off against the undeveloped, the food aid debate features nearly every nation opposing the U.S.'s current policies. However, the U.S. is reluctant to give up their advantageous arrangement that is economically beneficial for the U.S. and heavily supported by special interest groups such as U.S. farmers and shipping companies.[18] Additionally, NGOs are reluctant to criticize a policy that creates a portion of their funding through the process of monetization.

In the 2005 Doha talks, the U.S. offered to eliminate all food aid that was not classified as either emergency aid or being provided to a less developed or net food importing country.[19] The designation of a "Net Food Importing County" is determined by calculating the balance of a nation's agricultural exports and imports. Countries with negative balances, those whose imports exceed exports, are considered net food importers. The U.S. maintained that the delivery of food aid in these situations would not cause the displacement of local production and therefore would

[17] Cardwell
[18] Clay, Edward. "Food Aid and the Doha Development Round:Building on the Positive." Overseas Development Institute (2006): 1-11.

[19] The Institute for Agricultural and trade Policy

be beneficial. However, opponents criticized this theory, asserting that it is critical both to support agricultural growth in developing nations and that aid in net food importing counties is still detrimental to producers. Neither European nations nor developing nations were satisfied and the offer was noted for discussion in the future, but no compromise was reached.[20]

At The Doha Conference in 2008 a further attempt was made to reach an agreement that would appease all parties involved through the minimization of trade damage and maximization of humanitarian goals.[21] One proposal suggested establishing a “safe box” that would allow direct food aid to be distributed in times of emergency. The box would be protected from export regulations much like domestic aid is protected in the green box.[22] Recent proposals use multiple “boxes” to indicate exceptions to a regulation. The green box is an exception to the Agreement on Agriculture that allows subsidies to be paid for environmental reasons.

Under the 2008 proposal, emergency aid would be protected in a “safe box”, but all nonemergency aid would be phased out entirely. The U.S. found this unacceptable as it represented a major deviation from current policy. The proposal also alarmed many NGOs dependent on U.S. monetization of food aid for large percentages of their funding.[23] Ultimately, the 2008 Doha Conference fell apart after nine days due to the participating nations’ continued inability to agree on a wide range of issues.

Conclusions

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[20] Clay
[21] Cardwell
[22] World Trade Organization. WTO: Agriculture Negotiations. 8 October 2008 <http://www.wto.org/english/tratop_e/agric_e/negs_bkgrnd07_domestic_e.htm>.

[23] Cardwell

The 2008 “safe box” proposal raised many questions. After general agreement was reached that direct food aid should play a role in emergencies, the question of “what constitutes a state of emergency” was left unanswered. The WTO is not a humanitarian organization and was uneager to expand its role outside the area of trade facilitation into world relief oversight. The question of how a food aid provision could ever be enforced against an NGO was also raised. Nations can be brought before the WTO for sanctions, but no existing organization has sanctioning rights over all NGOs, and the WTO is reluctant to take on this responsibility. With an already tarnished international reputation, the WTO does not need the further negative publicity that would accompany events where the World Trade Organization would be put in the position where it had to prevent or sanction charitable organizations such as UNICEF or OXFAM for attempting to distribute direct aid to suffering people.

Issues regarding the U.S.’s policy on food aid continue to disrupt attempts to reach a consensus at the Doha rounds.[24] However, a reasonable solution must be reached if the Doha Rounds are ever to produce a unifying treaty. If a Doha agricultural agreement were to pass without a food aid limitation but with the elimination of remaining export subsidies, it would be very detrimental. This would cause an increase in the U.S.’s surplus production due to the removal of export subsidies. Current export subsidies allow U.S. producers to be more competitive in international markets; because of this the U.S. exports more goods. Without these subsidies, which make U.S. goods more competitive, the U.S. would have a larger surplus of grain due to a reduction in exports. This surplus would need to be liquidated and would likely find its way into direct aid packages.[25] This would constitute a transfer of export competition as opposed to an actual reduction. This transfer of the surplus into increased direct aid packages

[24] Clay
[25] Cardwell

would mitigate gains realized by the removal export subsidies and increase the negative economic side effects experienced in countries that would now be receiving even larger packages of direct aid.

A sensible solution will eventually require the U.S. to relax their laws requiring in-kind commodity food aid and to begin providing cash aid as practiced by the European nations. The transitions from direct aid to cash should take place gradually to avoid causing extreme price volatility that would be driven by shifts in the demand curve as the policy change led foreign demand to increase and domestic to fall.

It is important that humanitarian needs be considered. Trade policy should not compromise people's general well being and exceptions to allow direct emergency aid should be included. Five to ten percent of total world hunger can be traced to specific events such as floods or wars.[26] These events, which cause sudden shortages, could be alleviated through direct aid. The WHO or Red Cross could be given the responsibility of declaring when a state of emergency justified food aid.

However if food aid is only to be given in the case of an emergency, new donors must step up globally to assist in funding the various NGOs that will experience shortfalls in funding due to the discontinuation of the U.S.'s policy of food aid monetization. Monetized funds coming from the sale of food aid in the foreign country have often been used to fund social and humanitarian programs within the developing nation. While monetization does have negative economic effects, the NGOs it funds do run programs with extremely positive effects in

[26] CARE

developing nations. These organizations must continue to be supported because they are vital to alleviating suffering and aiding in development in the third world.

With the conclusion of another unsuccessful Doha round it seems more and more unlikely that the necessary changes in food aid policy will be facilitated by the Doha Development Rounds. They will need to be addressed through a different means. As stated previously, the WTO is not a humanitarian organization and a revamping of food aid policy may need to be approached by an organization with narrower goals and a concentration on aid as opposed to trade.

The Food Aid Convention (FAC) a strictly humanitarian organization founded by John F. Kennedy has been due for renewal since 2002.[27] This organization has the singular goal of reducing world hunger, and, during this transitional time prior to renewal, the Food Aid Convention has the opportunity to make key changes to how food aid is distributed. Currently, the convention stipulates that member nations provide a minimum quantity of aid in either monetary or direct forms. By changing this policy and requiring members to meet their minimum aid obligation in the form of cash, the FAC could effect a change in the U.S.'s overall aid policy.

The reworking of the Food Aid Convention prior to its renewal offers a unique opportunity for changes such as this to occur. Additionally the Food Aid Convention has a far narrower focus and far fewer members, with only 23 signatories, so it may be able to succeed where Doha failed by bringing a positive and needed reform in the fight against world hunger.

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