Abstract: Three food aid delivery systems are discussed. They illustrate the possible benefits and costs related to food aid activities. Case one is an example of anticipated food aid obligations, where commitments to food aid relief increase domestic production in the donor nation. Case two illustrates the situation where potential export markets are curtailed by a lack of foreign exchange, thereby leading to balance-of-payments support by the donor nation. Case three illustrates how food surpluses can be disposed of through food aid programmes. The Consultative Subcommittee on Surplus Disposal (CSSD) was established to ensure that normal commercial trade and recipient agricultural production were not adversely affected by food assistance programmes. The analysis reported on here reveals that the CSSD is clearly hampered in its attempts to fulfil its mandate, although it is still a necessary watchdog of food aid activities. The CSSD could be better used if the impact of food aid activities were better understood.

What Constitutes Food Aid

Most would agree that food aid should be defined as either the provision of food during time of emergencies or the planned and budgeted provision of food to overcome foreseen problems. Agricultural trade, on the other hand, implies the provision of food on a commercial basis. Concessional trade, which is often used by exporters to increase market shares or to dispose of agricultural surpluses, is not as easy to define and often lies in the "grey area" between food aid and agricultural trade. Exporters may, therefore, classify concessional trade as food aid, which may be disruptive to agricultural production and trade. This paper is an attempt to clarify some of the issues surrounding food aid and trade.

The provision of food aid to deficit countries is monitored by the Consultative Subcommittee on Surplus Disposal (CSSD), while trade is governed by the provisions of GATT. According to CSSD principles, food shipments can be defined as food aid if the delivery mechanism corresponds to one of the 13 methods listed in the CSSD's Catalogue of Transactions, if the food aid does not diminish usual marketing requirements (UMRs), and if no formal complaints are made by recipient or third party nation(s).

UMRs, if specified, represent a level of imports that must be maintained by the recipient country while receiving food aid shipments. The UMR limit, which must be agreed to by the CSSD, is usually calculated by the supplying country. Normally, UMRs are based on the imports of the commodities to be covered by food aid for the preceding five years, adjusted to reflect the recipient nation's balance-of-payments position and general economic situation. Table 1 illustrates the amount and number of countries that had UMR commitments for the split years 1983/84 to 1986/87.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat and flour</td>
<td>41</td>
<td>37</td>
<td>32</td>
<td>35</td>
</tr>
<tr>
<td>Rice</td>
<td>12</td>
<td>12</td>
<td>9</td>
<td>4</td>
</tr>
<tr>
<td>Coarse grains</td>
<td>10</td>
<td>12</td>
<td>15</td>
<td>11</td>
</tr>
<tr>
<td>Vegetable oil</td>
<td>10</td>
<td>12</td>
<td>15</td>
<td>11</td>
</tr>
<tr>
<td>Butter oil</td>
<td>10</td>
<td>12</td>
<td>15</td>
<td>11</td>
</tr>
<tr>
<td>Skim milk powder</td>
<td>10</td>
<td>12</td>
<td>15</td>
<td>11</td>
</tr>
<tr>
<td>Fish and fish products</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Pulses</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Sugar</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Although UMRs were established to protect commercial trade, they may act as an upper limit on commercial export markets because additional food requirements can be received as food aid. Any rational consumer would prefer to receive free food as opposed to purchasing food; UMRs thus do little to safeguard the potential increases of export markets to developing countries.

Since the CSSD is responsible for safeguarding the interests of both exporters and importers, it is the forum in which complaints of detrimental aid practices can be made and dealt with. This provision is, however, seldom used, since recipient countries generally do not complain and very few exporting countries wish to enter a round of disputes over the validity of their aid policies in developing countries.

As noted above, for food shipments to qualify as food aid they must correspond to one of the 13 methods outlined in the Catalogue of Transactions. Of the 13 methods, the least contentious are those that provide food for emergency relief or provide food aid to nongovernment and multilateral food organizations such as the World Food Programme. Likewise, targeted food aid (the provision of food to selected groups of people within the recipient country free or at subsidized prices) is normally not seen as interfering with commercial trade. These transactions clearly correspond to the simple definition of food aid presented at the outset of this paper.

However, the distinction between food aid and concessional trade becomes less clear for transactions that involve the provision of food or cash grants for general distribution in the recipient country. As can be seen in Figure 1, nonproject food aid is clearly the largest category in which food aid is transferred. In most instances this aid is "tied," requiring the recipient country to purchase food from the donor country. This aid can be further tied to a specific commodity or commodities.

Nonproject food aid can be grouped into four general delivery systems. The first system entails the gift of food, which is then sold through normal marketing channels in the recipient country. The recipient country is usually required to take all necessary measures to avoid reexportation of the gift commodity, its by-products, or similar products. Revenue generated from the sale of the gift commodity in the recipient nation must be used to assist its economic development. The second system entails the sale of food to the recipient country on concessional terms of credit. To comply with CSSD regulations, the
EVERYTHING YOU EVER WANTED TO KNOW ABOUT FOOD AID BUT WERE AFRAID TO ASK

repayment period must be greater than three years. The third delivery system entails giving the recipient country a cash grant, in the name of balance-of-payments support, which is then used to import food. Similar to the first system, the revenue from these food sales is often earmarked for development projects. The third system allows the recipient country to purchase food with nonconvertible currency. In all these cases, "normal" patterns of trade must not be altered; i.e., UMRs must be maintained.

Food shipments not complying to the CSSD's Catalogue of Transactions do not qualify as food aid and, therefore, fall under the purview of the GATT and may be subject to international retaliation. While the role of the CSSD is to safeguard normal commercial trade patterns and agricultural production, one cannot easily prove that concessional trade has disrupted normal trade conditions, given the relative magnitudes of commercial agricultural imports by developing countries to food aid ($683,000 million versus $2,900 million in 1984) (FAO, 1985b and 1986b). In addition, food can be provided on concessional terms with greater than three-year repayment periods but with the unwritten expectation that the recipient country will pay for the food in less than three years.

Thus, in spite of the CSSD's activities to define what constitutes food aid and how it may be delivered, numerous opportunities exist to use food aid as a means of enhancing markets and disposing of surplus food supplies while ignoring GATT regulations.

**Impacts of Aid**

To think of food aid as a generic concept that benefits only the recipient nation is simplistic and incorrect. Food aid can benefit producers in the donor countries as well as handicap producers in the recipient countries. The impacts of food aid depend on the relative supply and demand elasticities of each nation, the mechanism used to deliver food aid, and the ability of the recipient to absorb additional food supplies. Three food aid delivery systems are discussed below, illustrating the possible benefits and costs related to food aid activities. Case one is an example of anticipated food aid obligations, where commitments to food aid relief increase domestic production in the donor nation. Case two illustrates the situation where potential export markets are curtailed by a lack of foreign exchange, thereby leading to balance-of-payments support by the donor nation. Case three illustrates how food surpluses can be disposed of through food aid programmes.

Figure 2 illustrates case 1, where food aid is provided to food deficit nations. In the long run, the donating countries shift their supply curve and hence the excess supply curve to $ES'$ to the right (for example, by relaxing production restrictions) in response to anticipated food aid needs by an amount sufficient to allow the recipient countries to shift their demand curves to the right (excess demand curve to $ED'$) so that they are no longer consuming below an acceptable nutritional level. Assuming that both excess curves shift the same amount, world prices will not change. The government of the exporting country purchases the additional food that is produced and provides it to the recipient country as food aid. Producers in the donor country gain from the shift in their supply curves, while

---

153
the consumers in the recipient country gain by the shift in their demand curves. The cost of these benefits is borne by the government of the donor country.

Figure 3—Balance-of-Payments Food Aid

Case 2, illustrated in Figure 3, represents the impact of balance-of-payments (BOP) support to a developing country. Prior to the BOP grant the importing country can only import $OQ1$, owing to the BOP constraint on food imports $OB1$, assuming a fixed exchange rate. After the provision of the BOP grant $B2-B1$, the importing country will be able to import $OQ2$. When this occurs, the consumers in the donor country and the producers in the recipient country will lose, while the producers in the exporting country and consumers in the recipient country will gain. The impacts on producers and consumers will depend on the relative supply and demand elasticities in both countries. If the donor country is large and the excess supply curve is elastic, the net welfare effects in the donor country will be small. If the recipient country is small, the net welfare effects may be relatively large, favouring either the producers or the consumers, depending on their relative elasticities. Again, the cost of food aid is borne by the donor country.

Figure 4—Surplus Disposal Food Aid

Case 3, illustrated in Figure 4, depicts how a donor country might dispose of surpluses through food aid programmes. The donor country is assumed to support a domestic price $P_d$ above the world price $P_w$. This produces the kinked excess supply curve $ES'$. Theoretically, this reduces world price to $P1$ and expands trade by $Q2-Q1$. If, however, the market will not clear at $P1$ because of a lack of foreign exchange or unwillingness on the part of the importing country to absorb the surplus, the price in the exporting country will have to be further reduced for market clearing to take place at a volume acceptable to the importing country, creating a wedge similar to that created by import quotas. If this were to occur, the cost of the agricultural price support programmes in the exporting country would increase substantially to compensate producers for the difference between $P_d$ and the low export clearing price. Faced with this situation, the exporter may chose to trade $OQ1$ at the reduced world price $P1$ and provide the amount $Q2-Q1$ as aid. These food shipments
may then be considered food aid if UMRs are maintained, even though the world price has been reduced.

Welfare effects from this type of surplus disposal programme can be compared in two alternative scenarios. The first scenario is the case described above, which allowed the domestic price in the exporting country to drop to a level that maintained previous trade volumes $Q$. The second scenario is a government storage programme where storage of surplus stocks would maintain a world price at $P^w$. In both of these instances, consumers benefit and producers lose in the recipient country, owing to a surplus disposal programme in the exporting country. Producer welfare in the exporting country remains unchanged, owing to the domestic support price $P^d$. Consumers in the exporting country gain if the surplus disposal programme replaces a government storage programme and lose if the surplus disposal programme replaces a lower export clearing price. The saving to government revenues from a surplus disposal programme depends on the relative costs of storage versus the costs of the deficiency payments.

Food shipments outlined in these three cases would qualify as food aid because UMRs are not reduced. In all three cases, the returns generated within the recipient country from the sale of the food aid may be collected as counterpart funds. These funds may then be used by the recipient governments to develop indigenous agriculture, with the intention of reducing food aid and imports. Alternatively, these funds could be invested in nonagricultural development, with the intention of reducing future food aid needs through increased food imports.

The preceding discussion illustrates the influence that food aid delivery systems can have on the welfare of producers and consumers in donor and recipient countries, reinforcing the conclusion that food aid cannot be treated as a generic concept. The preceding discussion also reveals that, in principle, food aid distorts natural marketing conditions. Even though these distortions may be difficult to measure, owing to the relatively small size of food aid donations, donor countries can benefit from the provision of food aid. The question that still remains is, "How does one prevent donor countries from seeking these benefits at the expense of recipient or competing exporting countries?"

**Conclusions**

The CSSD was established to ensure that normal commercial trade and recipient agricultural production were not adversely affected by food assistance programmes. This mandate entails safeguarding current levels of commercial agricultural exports as well as their potential growth in the future. The mandate also entails monitoring food aid transactions so that concessional trading arrangements do not undermine fair trade practices under the guise of food aid programmes. Finally, the CSSD's mandate requires monitoring the recipient country's agriculture to determine if food aid has been a disincentive to the development of indigenous commodity markets. This is often the most difficult task because it usually involves the estimation of the trade-offs between the possible development of indigenous products and markets and the use of food aid in existing markets.

The CSSD is clearly hampered in its attempts to fulfil its mandate. The current definition of UMRs is useful for maintaining historical commercial import levels but does little to promote export expansion. The Catalogue of Transactions leaves numerous opportunities for exporting nations to practise concessional trading, which may undermine normal trading practices. Finally, the forum mechanism, which is used to check complaints of harmful disruption caused by food aid activities, is seldom used by exporters or recipient countries. Even if exporters do complain, the principles set out by the CSSD are not binding and represent only a commitment by signatory countries to consider the interests of recipient and other signatory countries when designing their food aid programmes.

Although the CSSD may be limited in its ability to fulfil its mandate, the CSSD is still a necessary watchdog of food aid activities and could be better used if the impact of food
aid activities were better understood. Further investigation by agricultural economists into the complexities surrounding food aid transactions could result in new mechanisms to safeguard recipient production and commercial trading patterns.

Notes

1Department of Agricultural Economics and Business, University of Guelph.
2The CSSD was established in 1954 as a subcommittee of the FAO Committee on Commodity Problems. CSSD’s function is to examine, and regulate if necessary, the impact surplus disposal programmes have on commercial export patterns, world prices, and agricultural production and economic development within recipient countries.
3Note that the following descriptions capture the essence of permissible food aid transactions. For a detailed description of CSSD provisions, see FAO (1980, pp. 7-9).
4UMRs might be more useful if they were per-capita based and adjusted to reflect population growth and income changes.
5For example, the issue of whether "tied usual marketing requirements" (the obligation to continue usual commercial imports from the country supplying the commodities in the concessional transactions) can be considered food aid is still unresolved.

References

FAO (1980) FAO Principles of Surplus Disposal and Consultative Obligations of Member Nations, Rome, Italy.
FAO (1985b) Trade Yearbook 1985, Rome, Italy.
FAO (1986a) Food Aid Bulletin, No. 8, Rome, Italy.
FAO (1986b) Trade Yearbook 1986, Rome, Italy.

DISCUSSION OPENING—Robert D. Stevens (Michigan State University)

Increasing our ability to analyze the impacts of food aid on different affected groups is important, as the authors point out, because food aid can have wider impacts than benefits to consumers in recipient nations. As the authors propose, better analysis tools could aid FAO’s Consultative Subcommittee on Surplus Disposal to carry out its watchdog role to attempt to ensure that food aid does not have negative effects on other groups, including producers in recipient nations, food producers in donor nations, and producers and exporters in other nations.

Does the paper increase our analytical ability for these purposes? The analysis is weakened by two mistaken assumptions about food aid: first, that food aid is available from donor nations to fill any additional requirements of recipient nations not specified by UMRs; and, second, that food aid flows are of sufficient volume in the world market to influence world prices (Figures 2 and 3). Food aid represents about 5 percent of world trade in cereals and a much smaller proportion of world agricultural trade.

Three specific questions relating to the analysis follow. First, in case one, why will food aid shift the demand curve to the right in the recipient nation as indicated instead of decreasing prices? Additional supplies of food in a nation would usually depress prices
unless the food were sold by the government and the funds from government sale of the food were used to pay wage labourers, whose increased food demand would maintain the prices. This is unlikely, however, as less than 100 percent of additional income will be spent for food.

Second, case two appears analytically the same as case one but is not sufficiently specified. In the recipient country, greater supplies of food could either benefit consumers through lower prices or benefit producers if internal prices could be maintained and the proceeds of government food sales channelled to development projects that increase farm income.

Third, in case three, concerned with what food disposal activities might benefit a donor nation, the conclusion was drawn that food disposal activities lead to consumer benefits in a donor country. Missing in the discussion was the cost of the disposal activities to consumers. The authors thus fail to prove that donor countries benefit financially from food aid.

In conclusion, three points: (1) the paper should have focused on the small-country case and assumed no appreciable effect on world market prices; (2) as the positive impact on consumers in the recipient country is clear, focus should have been placed on the effects on different groups of producers; and (3) a real issue is possible third-country market displacement by donor food aid. Finally, we should recognize that as aid always increases total world trade by increasing foreign exchange availability in recipient countries, third countries will usually obtain some benefit from food aid.

GENERAL DISCUSSION—Jacques Brossier, Rapporteur (Institut National de la Recherche Agronomique, Dijon)

One participant stated that the countries that give food aid seek a political advantage. The recipient countries, being LDCs, are in a difficult position in commercial transactions. Another participant commented that India had become dependent on food aid, and only with great difficulty did it get out of that situation. It is now a net exporter of food. A question was raised about the impact of 50 percent of total food not being for projects or emergencies. What are the implications of such a large amount of food aid (5 million tons) on output prices in the recipient countries, especially the small ones? A comment was made that all economic activities produce distortions, but food aid has positive as well as negative distortions.

The author agreed that food aid has negative effects, especially when it is in fact an implicit case of dumping (case three); i.e., why buy or produce if you can receive the food free? But, in this case, food aid limits the UMRs, so that one should follow up on the distribution of the aid in the country. The influence of changes in exchange rates was not studied.

Participants in the discussion included R. Deuson, H.S. Kehal, K. Korayem, and M. Schiff.