



منظمة الأغذية
والزراعة
للأمم المتحدة

联合国
粮食及
农业组织

Food
and
Agriculture
Organization
of
the
United
Nations

Organisation
des
Nations
Unies
pour
l'alimentation
et
l'agriculture

Organización
de las
Naciones
Unidas
para la
Agricultura
y la
Alimentación

COMMITTEE ON COMMODITY PROBLEMS

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CONSULTATIVE SUBCOMMITTEE ON SURPLUS DISPOSAL (CSSD) FORTY-FIRST REPORT TO THE CCP

I. INTRODUCTION

1. The CSSD was established by the FAO in 1954 to monitor international shipments of surplus agricultural commodities used as food aid in order to minimize the harmful impact of these shipments on commercial trade and agricultural production. Reporting on food aid is according to rules and procedures endorsed by the major suppliers of commodity assistance, and embodied in the handbook entitled: *Principles of Surplus Disposal and Consultative Obligations of Member Nations*.¹ This report covers activities for the period from October 2004 to November 2006 (454th to 461st meetings).

A. ADHERENCE TO THE REPORTING OBLIGATIONS

2. The reporting procedures of the Subcommittee, formulated and revised over the past 60 years, rely on transparency. This is achieved through the notification process whereby aid-supplying countries which adhere to the *Principles*, report to CSSD with information about their food aid transactions with recipient countries. For some types of transactions, aid suppliers are obliged to consult with other CSSD members in advance. The different types of transactions are listed in a **Register of Transactions** and comprise the more common kinds of assistance, such as government-to-government grants for free distribution, grants for sale in the open market, concessional assistance and monetary grants. In order to ensure that the commodity supplied does not displace normal commercial trade, the consultative process involves the establishment by the aid-supplying country of a benchmark import level known as the usual marketing requirement (UMR). The UMR is a commitment by the recipient country to maintain its normal intake of commercial imports, in addition to the food supplies as a grant or concessional shipment. The UMR is based on average commercial imports over the most recent five-year period for which

¹ This handbook, issued in 1992, is available in English, French and Spanish. It was supplemented in 2000 by an annex that reflects changes in the multilateral trade environment since 1992 and specifically those relating to WTO. This updating exercise was endorsed by the FAO Conference in 1997.

statistics are available. In certain circumstances, the UMR can be waived or reduced to take into consideration unusual situations, such as severe drought, floods, balance of payments difficulties or the absence of reliable import data.

3. While aid-suppliers are obliged by the CSSD rules to engage in prior consultation, notification and the establishment of UMRs for a broad list of concessional transactions, there are instances where an official notification of transactions is sufficient. When food aid is shipped to meet an **emergency situation**, for example, or when the shipment is of a **relatively small size** or is **distributed through a private charitable organization or a multilateral body, such as the World Food Programme**, the supplier need only provide a notification on an *ex post facto* basis. The CSSD reviews these notifications at its regular meetings, allowing other members, particularly those that are not part of the consultative process, to participate in the review process.

4. Issues discussed in the Subcommittee are generally resolved by consensus. At times questions raised in committee are referred back to capitals. They may be subject to additional bilateral discussion by the parties concerned. Most suppliers of food aid and commodity assistance follow the rules and procedures set out in the *Principles*.

B. MONITORING TRANSACTIONS²

5. From 1 November 2004 to 1 December 2006, CSSD members reviewed 55 notifications of food aid transactions. During CSSD meetings, a number of questions were raised about consultation and notification obligations, the level of UMRs and other matters related to the reporting procedures for food aid. In addition, as requested by the CCP, the CSSD has attempted to improve data collection and analysis of food aid transactions by attempting to streamline bilateral consultation communication and familiarizing delegations with the notification procedures of the CSSD.

6. CSSD members saw a significant drop in the volume of food aid transactions being notified to the CSSD from 2004 to 2005, from 905 300 metric tonnes to 203 384 metric tonnes, and an increase in the period January 2006 to November 2006, when the volume notified rose to 396 642 metric tonnes. In 2005 and 2006, most previous major donors were absent from the transactions reported to the CSSD. During this period, only two countries reported food aid transactions: Japan and the United States. In 2006, Japan's food aid notifications represented 39.8 percent of reported volume, the United States 60.2 percent.

7. From 2005 to 2006, the CSSD reported significant changes in all commodity categories. Wheat and wheat flour dropped from 198 700 metric tonnes in 2004 to 88 915 metric tonnes in 2005, then rose again to 177 442 metric tonnes in 2006. Wheat and wheat flour and rice are the major commodities in the notifications (Appendix III, CCP 07/Inf.9). Soybean products rose in 2006, with three notifications of donations from the United States.

8. The CSSD Register of Transactions, as revised and approved in the 113th Session of the FAO Council, now includes 16 types of food aid transactions. Direct government to government transactions remained the most frequent type used, in terms of food aid volume. From 2004 to 2006, Type 2 transactions (grants for sale in the open market of the recipient country) and Type 4 transactions (monetary grants to purchase a commodity from an exporting country or from local suppliers) accounted for almost all the transactions reported. During this period, Type 2 transactions increased significantly from 67 500 metric tonnes in 2004 to 185 150 metric tonnes in 2006.

9. Several CSSD members indicated that the drop in food aid notifications since 2000 is a matter of considerable concern because it prevents the Subcommittee from fulfilling its mandate to ensure that food aid is not having a negative impact on the flow of commercial transactions of

² Based on data notified to the CSSD for calendar year 2003.

agricultural products. Although genuine food aid is an important tool of humanitarian assistance to combat hunger, various CSSD members have expressed concern that non-legitimate food aid is being used as a form of a marketing tool or export assistance program for surplus commodities in donor countries, and as disguised export subsidies, in circumvention of commitments under the WTO Agreement on Agriculture.

10. In the discussions, several CSSD delegates also referred to the discussions currently taking place between the WTO members in the context of the agricultural negotiations to explore ways to improve disciplines applicable to food aid transactions, so as to ensure that international food aid transactions will be based on humanitarian considerations and the needs of recipients, without distorting normal trade patterns. In that respect, some CSSD delegates mentioned that it is expected that there will need to be a timely notification mechanism of food aid transactions to the WTO which would constitute the basis for the enforcement of any disciplines to be agreed between WTO members in that forum. (They added that this can result in increased cooperation between FAO/CSSD and the WTO.)

C. ISSUES ARISING FROM SPECIFIC TRANSACTIONS

11. During the eight CSSD meetings held in the reporting period, a number of comments and issues were raised about specific food aid transactions reported through the CSSD.

12. Throughout this reporting period and following continued discussions from the previous reporting period, there were recurring concerns expressed about potentially trade-distorting food aid transactions primarily from the United States. For example, several members expressed concerns about United States donations of wheat to Jordan during the period: 53 750 metric tonnes in 2005 and 53 750 metric tonnes in 2006. In response to the 2005 donation, the European Community (EC) delegate noted that official data showed that the amount of public stocks was increasing in Jordan, up to a ratio in the range of 40 percent of annual consumption, and that the United States food aid would roughly amount to 15-20 percent of the annual consumption. For both donations, the United States delegate noted that a food gap had been identified by the usual market assessment conducted by the United States, that is, a gap was found between consumption and supply provided by domestic production and commercial importation. The United Kingdom delegate suggested it may be worthwhile for the United States to reflect on its methodology for deciding whether a donation will impact commercial sales for the future which is to consider the five-year average of commercial imports. The delegate from Canada expressed concern with regards to credit sales of United States wheat to Jordan. He reiterated it is Canada's long-standing position that food aid should be provided in fully grant form and not in concessional loans. In response, the United States delegate noted that within the Food Aid Convention, it has been agreed that grants and concessional sales/financing are appropriate forms of food aid. The Australian delegate also objected to the donation of wheat to Jordan in 2006 on the basis that there is no apparent humanitarian need in Jordan, stating that Jordan is able to obtain credit for wheat purchases and has an emerging private sector. The United States noted that while Jordan continues to make economic progress, the country still faces difficult challenges and that portions of the population continue to suffer from malnutrition and poverty.

13. Members expressed concerns over a number of other specific transactions. In 2005, the Canadian government raised concerns about the donation of 30 000 tonnes of soybeans by the United States to the Pakistan. Both Canada and Australia raised concerns about the donation in 2005 of 9 300 metric tonnes of wheat to the Philippines. Australia also expressed concern about the modality of a donation of 25 000 metric tonnes of wheat from the United States to Indonesia in 2005. The Australian delegate expressed the view that this mechanism by which the donation would be monetized would raise the prospect of displacing normal commercial activity within Indonesia. At the 460th meeting, the EC delegate expressed concern about a donation by the United States of sorghum to Niger, because it represented 85 percent of the UMR calculation for sorghum and for the high transportation cost involved. The United States delegate responded that the ratio of the proposed donation to the UMR does not have a lot of economic foundation, and

that the food gap between consumption and supply provided by domestic production and commercial importation is more relevant. With regards to the high transportation cost, the United States delegate stated that the major part was the overland cost, and this would be the same if the donation was sourced from local supplies. Canada expressed concerns with a United States donation of wheat and rice to Mauritania for monetization, stating that this is one of most trade-distorting forms of food aid.

Cash-based vs. Monetized In-Kind Donations

14. A recurring point of discussion was the issue of donations of domestically produced commodities from a government to a government of an importing country, or an intergovernmental organization or a private institution for distribution, by means of sale on the open market of the importing country (Type 2 transactions). In 2005 and 2006, all donations by the United States, except one, took this form. Several delegates repeatedly expressed concerns over this type of transaction. At the 458th meeting, the Australian delegate expressed concern about the mechanism by which a donation of 25 000 metric tonnes of wheat from the United States to Indonesia was to be monetized. He expressed the view it raised the prospect of displacing normal commercial activity within Indonesia. At the 458th and 460th meetings, the Canadian delegate responded to donations by the United States to the Philippines and Mauritania, respectively, for monetization by expressing Canada's view that monetized food aid often displaces local agricultural production and viable commercial trade, and rarely addresses genuine humanitarian need. At the 458th meeting, the delegate from Canada noted that on 22 September 2005 the government of Canada increased the amount of Canadian food aid that can be purchased (i.e. cash-based food aid) in least-developed and low-income developing countries from 10 to 50 percent. The United States delegate responded that for all proposed donations, the United States conducts its usual market assessment and for all donations, a food gap has been identified. The United States agreed that efficiency is important, but that what is more important is that the food actually gets there. At the 457th meeting, he noted that as the EC has moved from in-kind to cash-based donations its total level of donations has declined. Discussions were also held over comments made by United States Trade Representative Robert Portman at a Senate Agriculture Committee hearing (21 September 2005) that there was plenty of evidence that cash-based food aid donations were prone to corruption.

Five-year Average of Commercial Imports

15. In response to the donation of 53 750 metric tonnes of wheat by the United States to Jordan in 2006, the United Kingdom delegate suggested it may be worthwhile for the United States to reflect on its methodology for deciding whether a donation will impact commercial sales for the future, which is to consider the five-year average of commercial imports. The United Kingdom delegate suggested there may be a risk, given that the United States has been providing concessional wheat during that period, that those statistics might not reflect what the market might naturally do in terms of market imports without the provision of concessional wheat or other donations. The United States delegate noted that whether using this statistic is the perfect methodology or not it has been recognized within the CSSD as a type of control that may be used to stay within CSSD principles.

D. IMPROVING NOTIFICATION CONSULTATION AND REPORTING PROCEDURES

16. Following previous discussions where members raised the drop in food aid notifications since 2000 as a matter of considerable concern, the CSSD sent letters in 2005 inviting members to join the CSSD. Countries invited to join the CSSD included major donors (China and South Korea) various major recipients key players in agricultural trade and potential observers. Unfortunately, none of the countries approached accepted the invitation.