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# **COMMUNITY FOOD AID**

## **INSTRUMENT OF DEVELOPMENT POLICY OR EXPLOITATION OF SURPLUSES**

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## **INSTRUMENT OF DEVELOPMENT POLICY OR EXPLOITATION OF SURPLUSES**

Summary of address by

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1. Food aid is caught in a crossfire of contradictory criticism. Is the real target the agricultural policy?

- . "With the hunger there is in the world, the Community's agricultural surpluses are a shameful scandal". Should we therefore be doing more?
- . "Stop all your food aid. You're discouraging developing countries from making efforts of their own". Should we be stopping food aid instead?
- . "The Community blocks agricultural imports from developing countries". That would mean we should have more liberalization for agricultural imports.
- . "The Community should block agricultural exports from the developing countries. Instead of rice for their own people, they are producing animal feed for Europe." Should we then be closing the market instead?

These are some of the typical criticisms we have to face. Don't we have an innocent man (food aid) in the dock, while the real culprit (agricultural policy) goes free?

2. Community food aid represents only a drop in the ocean of the agricultural markets

Some figures on the cereals market:

- . World production: 1 780 million tonnes (87/88)
- . Developing countries:

Production	920 million tonnes
Total consumption	1 030 million tonnes
<u>Imports</u>	approx. <u>110 million tonnes</u>
- . Food aid:

Total, OECD countries	<u>11 million tonnes</u>
of which Community + Member States	1.6 million tonnes
USA	7.5 million tonnes
- . Which means:
  - Developing countries import more than 10% of their total requirement in cereals.
  - Food aid deliveries represent about 10% of these imports.
  - Of this, the Community (together with Member States) supplies only about 15%, and the USA 67%.

- This demand cannot be satisfied because of the insufficient purchasing power of developing countries; for a population of over 500 million suffering from malnutrition (FAO), a rough estimate of this demand would be approximately 40 million tonnes.

The place of food aid in the Community's development aid programme:

The share of food aid in the overall Community programme is approximately 25% higher than the OECD average at 11%.

Since the role played by food aid in the bilateral programmes of the Member States is much less significant (5%), the share for Community + Member States drops to 7%.

This stands in contrast to the share food aid has in the US development aid programme (20%).

3. Agricultural surpluses were the driving force behind the creation of the instrument of food aid; since then, however, it has been uncoupled from agricultural policy

The Community started up its first food aid operations in 1968. No one disputes that agricultural surpluses were the trigger. However, since then the instrument of food aid has gradually become uncoupled from agricultural policy. The first clearly formulated policy for food aid came in 1983, and with a framework Regulation in 1986 the final separation was complete. Today, food aid is administered strictly according to considerations of development policy.

In 1968, the first programme was for 300 000 tonnes of cereals, which the Community had committed itself to within the framework of the Food Aid Convention, which was part of the International Grains Arrangement of 1967.

Since then, the Community programme has reached an annual level of approximately:

1 300 000 tonnes of cereals  
95 000 tonnes of milk powder  
27 000 tonnes of butteroil  
34 000 tonnes of vegetable oils.

In addition, "other products" account for approximately 30 million ECU.

In broad terms, these have been the stable figures for the programme for some years, with cereals (especially in disaster years) increasing slightly, milk products (especially butteroil) falling in volume terms, and vegetable oils being added in increasing amounts because of their higher "cost-nutrition ratio". The "other products" are essentially purchased in the developing countries themselves.

There is no recognizable correlation between this development and the trend of Community surpluses: for example, the amount of milk products fell in the food aid programme, while Community surpluses were increasing; vegetable oils were brought in although there was no surplus of these products. For cereals, our deliveries of food aid represent about 10% of the annual surplus; at a time of falling surpluses, food aid has slightly increased.

Given the significantly higher surpluses of the USA (total supplies of cereals in storage: over 200 million tonnes; EC: about 30 million tonnes), the much larger volume of food aid in absolute and relative terms, and the management of the US programme (obviously geared to commercial criteria rather than development policy), America's food aid is potentially a much greater disruptive element than that of Europe.

4. There is a clear need for food aid as disaster relief. The Community was the first on the spot in Ethiopia and in the Sahel in the 1984/85 famine, as it is once again in Ethiopia today

Roughly 30% of our food aid is allocated for humanitarian reasons - especially for famine disasters - and distributed free of charge to the population in need. In these cases the Community also covers transport and distribution costs.

During the famine in Africa in 1984-85, the Community and its Member States, together with the USA, were the most important group of donor countries.

Now we are the largest donor in Ethiopia. The aid operations are free of red tape and well coordinated.

As an example of this:

- on 16 November last year we received notification of a need for logistics support in Ethiopia;
- on 19 November it was decided to grant 10 million ECU in aid;
- on 30 November the airlift which this money financed was in operation between Asmara and Makele.

5. Food aid in "normal" deficit situations is a useful balance of payments support

Of the Community's food aid, 70% is used in situations where a structural deficit is the norm. This form of aid has often come under heavy criticism. It is true that it does carry potential risks but these can be avoided, as is explained under point 6.

There can be no objections to providing part (about 10%) of an import requirement in cereals of over 100 million tonnes in the form of food aid. Otherwise, developing countries would have to use their meagre foreign exchange reserves for commercial imports of food aid. This point is becoming particularly important against the backdrop of growing balance-of-payments problems connected with the debt crisis.

6. Food aid can be constructively incorporated into a food security policy, when

- it is fine tuned to the harvest season in the recipient countries;
- it comes on to local markets under price conditions which do not discourage the countries' own production efforts;
- it contributes to the formation of counterpart funds which, in conjunction with other development aid funds, are used for rural development (along the lines of "Operation Flood" in India);
- it is used in a sensible way from the point of view of development policy in "food for work" projects;
- it takes the form of "triangular operations" taking a surplus off one country's hands and covering a neighbouring country's shortage (here, food aid is really beyond any criticism); for cereals, these operations now account for some 10% of our direct aid;
- food aid in the form of deliveries of foodstuffs is replaced by "substitution operations", which is an option employed only by the Community; this means that those countries which normally would have been recipients of food aid are able to receive the funds intended for them not in the form of foodstuffs, but as support for other food security aspects.

7. The first priority of Community development aid is not food aid but rural development and food security. This accounts for 80-90% aid under Lomé III

Rural development and food security are at the forefront of the Community's development policy. Food aid is manifestly given second place.

We are making efforts to achieve smoother dovetailing of the variety of instruments available, e.g. through the complementary use of counterpart funds. Administratively, each Commission department in Brussels covering a given group of countries is responsible for the use made of both structural aid and food aid.

In the dialogue on development policy, especially under Lomé III, not only has the Community successfully brought the topic of "food security" into the centre of the debate: it has also agreed sectoral measures with the governments concerned (pricing policy, marketing, etc.) which justify the concentration of development policy instruments on this priority topic and are offering some prospects of success.

Food aid, if possible as part of a multiannual plan, often has a role to play as a useful addition, as part of a national policy (as in Mali) or part of the food security policy of a region (SADCC project in southern Africa).

8. The conflicting goals of the Community's agricultural policy and its development policy are facing us with more and more problems. Nevertheless, each market and each product must be seen separately, on a case-by-case basis. To condemn the agricultural policy, lock, stock and barrel cannot be justified from the point of view of development policy, yet agricultural reform is imperative from the development standpoint

It is thanks to the agricultural policy that we have a food aid system. We do not however purposely produce surpluses in order to provide food aid, or indeed to feed the Third World (although certain lobbies might imagine this to be so).

The first problem caused by the agricultural policy comes in the allocation of scarce budget appropriations. In the Community budget, the agricultural policy threatens to stifle all the others. Thus there is an urgent interest in reform from the standpoint of all the other policies - and this includes development policy.

Then there are further conflicts created on the markets. These are not so widespread as is sometimes made out. For example, milk products, where we do not compete with developing countries, create no problems. A distinction must be drawn between:

- Agricultural exports from development countries to the Community

Increasingly the Community market is becoming self-sufficient or producing surpluses. Scarcely any room for sugar, beef and veal, or cereals but plenty for fodder, and yet there is a Protocol on sugar and an agreement on beef and veal with the Lomé countries; little room for fruit and vegetables, especially since the accession of Spain and Portugal, and yet there are special agreements with the countries of the Southern and Eastern Mediterranean.

- Community agricultural exports to developing countries

This is the major area of potential disruption with regard to production in the country concerned or in neighbouring countries. The most commonly made criticism is not levelled at food aid but at commercial exports being brought down to the world market price by means of export refunds. When faced with this problem, developing countries would be advised to protect themselves against cheap imports.

The Community agricultural policy gives us no moral right to lecture developing countries on the pure market economy. Countries striving for food security by their own efforts are justified in having a certain degree of protection against price conditions on the world market, which are depressed by agricultural surpluses (not only the Community's) and which are no longer indicators of longer-term shortages.

- Community agricultural exports competing with exports from developing countries on markets of third countries

The practical problems here involve a narrower range of products. One such problem concerns sugar. Of course, the Community bears some of the responsibility for the low prices on the world market. It is taking opportunities for sales (and hence development) from those developing countries which have comparative advantages for sugar production but are unable to subsidize their exports.

For this reason, reform of agricultural policy is also imperative from the standpoint of development policy.

9. Concerted action by the main countries concerned (not just the Community but above all the USA) is essential for stabilizing world markets for foodstuffs

For healthy world markets, it is absolutely essential for the other protagonists, first and foremost the United States, to play their part. This must be a central topic in Uruguay Round discussions on agricultural products.

In its PL 480 programme ("Food for Peace"), the United States has a controversial mix of commercial, partly subsidized exports and food aid donations, which causes considerably more disturbance on markets than the Community operations.

10. In development policy, food aid is a useful and often necessary component. How it is used must be closely monitored to prevent it running counter to the main aim, "food security through countries' own endeavours". Food aid should always be seen as a transitional solution, even if it is clear from all that we know and are able to predict, that the transition will not be a short one.