



## **THE ROLE OF MONETIZATION IN PROPOSED FOOD AID MODALITIES – CHAIR’S JULY 2008 TEXT, ANNEX L**

Your Excellency,

We wish to draw your attention to the possible repercussions of Ambassador Falconer’s revised language on food aid in the draft modalities text, 10 July 2008. The revisions in paragraph 12, Annex L, broaden the scope for food aid monetization. We, the undersigned, are concerned by these revisions and attach alternative language for your consideration.

Monetization is the sale of food aid to generate cash. Sometimes the monetization is tied to food aid projects and spent on the costs associated with food aid delivery. Often, it goes into more general development projects. The recipients are generally NGOs, not governments. The result is grotesquely inefficient: the cost of shipping food from the United States to a recipient country to be sold on the open market (thereby displacing commercial sales of both local and imported production) wastes half or more of the value of the aid. Monetized aid is not targeted at the households that need the food. Monetization increases volatility in local markets and often causes abrupt, if temporary, price falls. These market conditions discourage local production, yet livelihoods, food security and rural development all depend on stimulating *increased* production in food aid recipient countries.

It is widely recognized that the monetization of food aid results in the most serious food aid-related trade distortions. It is therefore very important that any new rules result in the greatest possible reduction of these distortions.

There is also an important non-trade related aspect of monetization, particularly when they not linked directly to the provision of food assistance. With the prospect of food shortages due to climate change related events and other instabilities, the limited role of food aid is set to become even more important. The current food price crisis underscores the important role of a reliable food aid system that can respond to food emergencies. The principle framework for the food aid system is the Food Aid Convention. The Food Aid Convention is the framework used by most food aid donors. For all but one donor, it is the framework for all their food aid donations. The integrity of the Food Aid Convention, and the political support essential for its continuation, is based on ensuring transfers to individuals or households that will result in an improvement in their nutritional intake. It is also the only international treaty that makes a specific commitment of resources from its Member states. These commitments are in amounts of food not dollars – a particularly important characteristic in light of the recent food price increases.

The Food Aid Convention is now due for renegotiation. If the WTO permits the continuation of the monetization of food aid resources for purposes not connected to the cost of food aid delivery it will undermine the credibility of the Food Aid Convention at a critical moment. As important as some of the other uses of monetization proceeds may be (for example, purchase and supply of agricultural

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inputs), it would be far wiser to seek these resources in the form of cash assistance rather than jeopardize the system of international food aid as a whole.

Governments involved in the joint donor and recipient Paris Declaration process to improve the effectiveness of aid have agreed to the objective of untying aid and encouraging more local and regional procurement. These are important objectives that are directly relevant to food aid.

We have suggested some minor but significant changes to the food aid text below. We urge you to give this careful consideration.

Yours sincerely,

**C. Stuart Clark**  
**Senior Policy Advisor**  
**Canadian Foodgrains Bank**

**Sophia Murphy**  
**Senior Policy Advisor**  
**Trade Information Project /Institute for Agriculture and Trade Policy**

**Gawain Kripke**  
**Director, Policy & Research**  
**Oxfam America**

**Christopher B. Barrett**  
**Stephen B. and Janice G. Ashley Professor of Applied Economics and Management**  
**and International Professor of Agriculture**  
**Cornell University**

**PROPOSED ALTERNATIVE LANGUAGE**

WTO Agreement on Agriculture (Doha Agenda Proposed Language)

Food Aid: Annex L

10 July 2008

**(current text)**

12. Monetization of in-kind food aid shall be prohibited except where it is necessary to fund the internal transportation and delivery of food aid to Least-developed and Net Food-importing developing country Members, for the procurement of agricultural inputs to low-income or resource poor producers in those Least-developed and Net Food-importing developing country Members and to meet direct nutritional requirements of those Members. Monetization shall be carried out within the territory of the recipient least-developed or net food-importing developing country<sup>6</sup> [and to fund activities that may have humanitarian development objectives but only where they are directly related to the delivery of the food aid to developing country recipients in developing countries]. Additionally, commercial displacement shall be avoided or, if not feasible, at least minimized.

**Proposed alternative language:**

12. Monetization of in-kind food aid shall be prohibited except where it is necessary to fund the internal transportation and delivery of food aid to Least-developed and Net Food-importing developing country Members. Monetization shall be carried out within the territory of the recipient least-developed or net food-importing developing country. Commercial displacement shall be avoided or, if not feasible, at least minimized.