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International Food Aid and the 2007 Farm Bill

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International Food Aid and the 2007 Farm Bill

Summary

Legislative authority for international food aid programs in the 2002 farm bill (P.L. 107-171) expires in 2007. The 110th Congress has been considering the extension and reauthorization of food aid programs as part of the 2007 farm bill. On December 14, 2007, the Senate passed its version of the 2007 farm bill, which included reauthorization of food aid programs in Title III, the trade title. The House passed its version of the 2007 farm bill (H.R. 2419) with its version of the trade title on July 27, 2007.

International food aid is the United States' major response to reducing global hunger. In 2006, the United States provided $2.1 billion of such assistance, which paid for the delivery and distribution of more than 3 million metric tons of U.S. agricultural commodities. The United States provided food aid to 65 countries in 2006, more than half of them in Sub-Saharan Africa. Most of the food aid — $1.2 billion or 57% — was provided as emergency food aid. About one-third is used in non-emergency or development projects carried out by U.S. private voluntary organizations (PVOs) and cooperatives.

The United States provides U.S. commodities as international food aid through eight programs. These are Titles I, II, and III of the Agricultural Trade Development and Assistance Act of 1954 (P.L. 83-480), known collectively as P.L. 480; the Food for Progress Program; the John Ogonowski Farmer-to-Farmer Program; the McGovern-Dole International Food for Education and Child Nutrition Program; Section 416(b) of the Agricultural Act of 1949; and the Bill Emerson Humanitarian Trust (BEHT).

In Congress, the food aid reauthorization debate has focused on P.L. 480 Title II commodity donations and food aid for school feeding and child nutrition in the McGovern-Dole food aid program. Issues raised include the need for and role of food aid in both meeting urgent humanitarian food needs and reducing hunger among the chronically hungry; the timeliness and cost of emergency food aid; and making food aid a more reliable response to emergency needs while not neglecting the use of food aid and cash resources to improve the lot of the chronically hungry in poor countries. Attention also has been paid to how U.S. food aid programs conform to existing and possible future World Trade Organization (WTO) agreements.

The Administration and two groups of PVOs/cooperatives that carry out food aid programs have made recommendations for legislative changes in farm bill authorized food aid programs. The Administration's only food aid proposal — to make P.L. 480 funds available for local or regional purchase to meet emergency food needs — was not included in the House-passed farm bill. The Senate bill, however, does authorize the use of P.L. 480 funds for a pilot program for local or regional purchase of emergency food aid commodities.

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Background

International food aid is the United States' major response to reducing global hunger. In 2006, the United States provided $2.1 billion (Table 1) of such assistance which paid for the delivery and distribution of more than 3 million metric tons of U.S. agricultural commodities. The United States provided food aid to 65 countries in 2006, more than half of them in Sub-Saharan Africa.[1] Most of the food aid — $1.2 billion or 57% — was provided as emergency food aid.

The U.S. Agency for International Development (USAID), which administers the largest U.S. food aid program, estimates that from 50-70 million people benefit from U.S. food aid programs annually. Much of U.S. assistance is provided through the World Food Program (WFP), the United Nations' food aid agency. The United States is the largest contributor to WFP. Its contribution in 2006 was $1.125 billion or about 40% of total donor contributions to WFP that year. On average since 1995, the United States has provided WFP with about 50% of the food aid it distributes.

Legislative authority for international food aid programs in the 2002 farm bill (P.L. 107-171) expires in 2007. The 110th Congress has been considering the extension and reauthorization of food aid programs as part of the 2007 farm bill. The Senate passed its version of the 2007 farm bill on December 14, 2007. The House passed its version of the farm bill (H.R. 2419) on July 27, 2007.

U.S. Food Aid Programs

The United States provides U.S. commodities as international food aid through eight programs. These are Titles I, II, and III of the Agricultural Trade Development and Assistance Act of 1954 (P.L. 83-48), known collectively as P.L. 480; the Food for Progress Program; the John Ogonowski Farmer-to-Farmer Program; the McGovern-Dole International Food for Education and Child Nutrition Program; Section 416(b) of the Agricultural Act of 1949; and the Bill Emerson Humanitarian Trust (BEHT). In Congress, the food aid reauthorization debate has focused on P.L. 480 Title II commodity donations and food aid for school feeding and child nutrition in the McGovern-Dole food aid program.

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[1] Data on U.S. food aid are available from USAID at [http://www.usaid.gov/policy/budget/cbj2008/fy2008cbj_full.pdf], p. 761ff and at USDA, Foreign Agricultural Service, Food Aid Tables, available at [http://www.fas.usda.gov/excredits/FoodAid/Reports/Food%20Aid%20Table%20I%202006%20final.pdf].

Table 1. Food Aid Program Funding under the 2002 Farm Bill, FY2002-FY2006

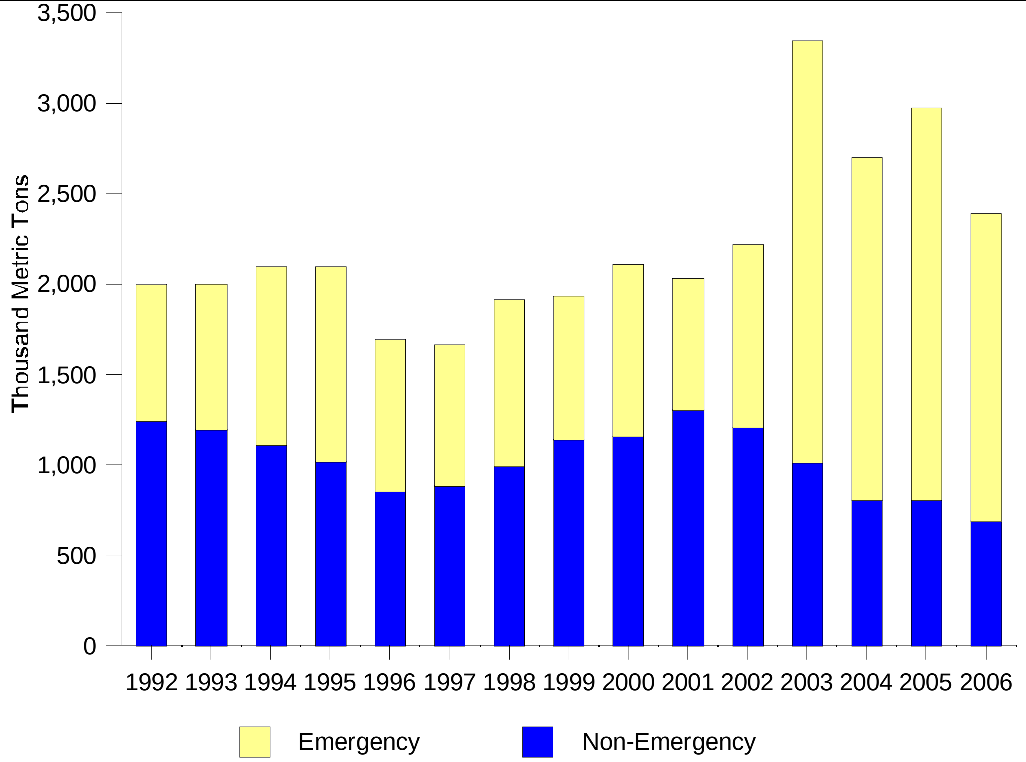
Program	Average FY2002-FY2006 ($mil.)	FY2006 ($mil.)
Total food aid	**2,234**	**2,087**
P.L. 480 Title I	136	123
P.L. 480 Title II	1,550	1,706
P.L. 480 Title III	0	0
Farmer-to-Farmer	10	10
McGovern-Dole	97	97
Section 416(b)	157	20
FFP	131	131
Emerson Trust	153	0

Source: USDA.

P.L. 480 Title II

P.L. 480 Title II, the largest U.S. food aid program, provides for the donation of U.S. agricultural commodities to foreign countries to meet humanitarian needs arising from emergencies or for use in non-emergency or development projects. USAID administers this program which is carried out by private voluntary organizations (PVOs), cooperatives, or intergovernmental organizations such as the World Food Program (WFP). The authorizing statute provides that a minimum of 2.5 million metric tons of U.S. agricultural commodities is to be provided each year and that of the total provided, not less than 1.875 million metric tons is be made available for nonemergency food distribution through the eligible organizations. (This provision can be waived, and often has been, if the Administrator of USAID determines that the volume of commodities mandated cannot be used effectively or in cases of emergency.) In recent years, emergency food aid has become the largest component of Title II, while the use of food aid in development projects has declined substantially (**Figure 1**).

Figure 1. Emergency and Non-Emergency Food Aid, FY1992-FY2006



Source: USAID.

Other P.L. 480 Food Aid Programs

P.L. 480 Title I, uses long term, low interest loans to finance government-to - government purchases of U.S. agricultural commodities by developing countries and emerging markets with the potential to become commercial markets for U.S. agricultural exports. The U.S. Department of Agriculture (USDA) administers the Title I program, and has been phasing out funding for Title I. No funding was requested by the Administration for Title I in FY2007 or FY2008 budget requests to Congress. **P.L. 480 Title III**, also administered by USAID, provides for government-to-government grants to support long-term economic development in least developed countries. The revenues generated by the sale of Title III commodities can be used for economic development activities in the recipient country. The Administration stopped requesting funding for Title III in FY2001. Congress has not appropriated funds for Title III since FY2001.

The John Ogonowski Farmer-to-Farmer Program is a technical assistance program that aims to improve global food production and marketing by transferring technical skills of the U.S. agricultural community to farmers in participating countries. The Farmer-to-Farmer program does not use commodities, but is allocated 0.5% of the funds made available to P.L. 480 to carry out its technical assistance activities. It is authorized under Title V of P.L. 480, administered by USAID, and implemented by PVOs, cooperatives, land grant universities, private agribusinesses, and nonprofit farm organizations. The program was renamed in the 2002 farm bill to honor John Ogonowski, a participant in the program, who was one of the pilots killed on September 11, 2001.

The Bill Emerson Humanitarian Trust (BEHT)

The Emerson Trust is a reserve of commodities and cash that can be used to meet unanticipated humanitarian food needs in developing countries or when domestic supplies are short. It is authorized under the Bill Emerson Humanitarian Trust Act of 1998 (P.L. 105-385). Up to four million metric tons of grains can be held in the Trust in any combination of wheat, rice, corn, or sorghum, but wheat is the only commodity ever held. Funds regularly appropriated for P.L. 480 can be used to purchase grain to replace supplies released from the reserve, but the purchases are limited to $20 million per fiscal year. Emergency supplemental appropriations have on occasion been devoted to replenishing the BEHT. The authorizing statute, however, does not require the replenishment of the Trust. Currently, the Trust holds 915,000 metric tons of wheat and $107 million.

The McGovern-Dole International Food for Education and Child Nutrition Program (FFE)

The McGovern-Dole International Food for Education and Child Nutrition Program (FFE), authorized by the 2002 farm bill, provides U.S. agricultural commodities and financial and technical assistance to establish school feeding and maternal, infant and child nutrition programs in foreign countries. The McGovern-Dole program is considered by many to be a model of combining food with non-food resources to meet its program objectives because of the flexibility with which it can combine food commodities, cash, and technical assistance in carrying out its programs. USDA administers the program which is carried out by PVOs, cooperatives, intergovernmental organizations, and governments of developing countries.

Food for Progress (FFP)

Food For Progress provides U.S. agricultural commodities to developing countries and emerging democracies that have made commitments to introduce or expand free enterprise in their agricultural economies. It is authorized in the 1985 farm bill (P.L. 99-198) and administered by USDA. Commodities for the FFP can be purchased with appropriations for P.L. 480 Title I or with funds of the Commodity Credit Corporation (CCC); if available, CCC commodity inventories may be used. USDA administers FFP.

Section 416(b)

Section 416(b) of the Agriculture Act of 1949 provides for donations of surplus U.S. agricultural commodities, acquired by the CCC through its farm price support operations, to developing and friendly countries. Section 416(b) is permanently authorized and does not expire with the 2002 farm bill. USDA administers Section 416(b), which operates much like Title II. Commodities provided can be used for emergency and non-emergency assistance; commodities are provided to the ultimate beneficiaries via PVOs, cooperatives, and the WFP. Section 416(b) food aid has been highly variable because it is entirely dependent on the availability of surplus commodities in CCC inventories.

Food Aid Issues

Need for Food Aid

Proponents of providing food aid to developing countries point to the large number of chronically hungry people in the world as evidence of the need for food aid. The United Nations Food And Agriculture Organization (FAO) estimates that there are more than 850 million people in the world who are chronically hungry.[2] These people lack the food that they would need to lead active and healthy lives. FAO points out, however, that the amount of food aid that has been provided, an average of about 10 million metric tons per year from all donors, would make barely a dent in global hunger.[3] The average annual total volume of food aid is equivalent to about 2% of world grain trade and less than 0.5 % of world grain production. If all the food aid in the world were distributed evenly among the 850 million hungry people, FAO calculates, it would provide only about 12 kilograms of grain per person per year. Clearly, FAO concludes, the amount of food aid that has been provided is not enough to make a dent in chronic hunger.

There is broad agreement that food aid provided for emergency relief is a valuable tool for ensuring basic nutritional needs in times of humanitarian crisis — earthquakes, hurricanes, droughts, wars, etc. — and is credited with saving millions of lives.[4] A growing share of global food aid is provided as emergency aid — which, according to FAO, accounts for one-third to one-half of total global food aid. USAID reports that in FY2006, more than 70% of U.S. food aid (Title II) was provided as emergency aid. In addition, FAO says, the timely delivery of food aid in emergency situations can relieve the pressure on poor people to sell scarce productive assets, thus enabling them to resume normal livelihoods when the crisis passes. But even in emergency situations other ways to enable people to get the food they need, such as providing cash vouchers for the poor to purchase food on local markets, may be preferable to in-kind food aid from overseas.[5]

While food aid can contribute to reducing chronic food insecurity, it alone is not sufficient. USAID notes in its Food Aid Strategic Plan for 2006-2010, that distributing food commodities by themselves is of limited use in reducing food insecurity.[6] Realizing benefits from commodity food aid, USAID says, requires

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[2] United Nations Food and Agriculture Organization (FAO), *The State of Food Insecurity in the World 2006*, available at [http://www.fao.org/docrep/009/a0750e/a0750e00.htm].

[3] See UNFAO, *The State of Food and Agriculture 2006: Food Aid for Food Security?*, available at [ftp://ftp.fao.org/docrep/fao/009/a0800e/a0800e.pdf].

[4] FAO, *Food Aid for Food Security*, p. 7.

[5] Research suggests that in certain situations (both emergencies and asset protection programs), alternatives that provide cash, or vouchers, or food stamps can be preferable to in-kind food aid. See Christopher Barrett and Daniel G. Maxwell, *Food Aid After Fifty Years* (New York, Routledge, 2005), p. 198 ff; and FAO, *Food Aid for Food Security*, p. 43.

[6] USAID, Bureau for Democracy, Conflict and Humanitarian Assistance, *Strategic Plan for 2006-2010*, May 2005, available at [http://www.usaid.gov/our_work/humanitarian_

(continued...)

combining food aid with other non-food (cash and in-kind) resources to ensure that it has an impact beyond just feeding people.

The United States is the only international food aid donor that makes all of its food aid contributions in the form of commodities. Other major donors have different food aid policies. Most food aid provided by the European Union, the world's second largest food aid provider, is purchased in developing countries. The EU has transformed its food aid policy into a food security policy, with food aid being restricted to humanitarian crises and no longer used to support development activities.[7] Canada, the world's third largest provider of food aid, since 2005, allows up to 50% of its food aid to be purchased locally or regionally. Most other food aid donors make their contributions for food aid in the form of cash donations for the purchase of commodities by the World Food Program, which the WFP then distributes primarily as emergency food aid.

Timeliness and Cost of Emergency Food Aid

Time delays in shipping commodities from the United States can prevent a rapid response to emergencies and create problems later when commodities arrive. Estimates are that it can take from three to five months for commodities shipped from U.S. ports to reach emergency destinations. Such delays make it difficult to get food to people, especially when there is a rapid onset of food need as in the 2004 Asian tsunami or more recently in response to food emergencies in East Africa. When commodities arrive late, they may no longer be needed or, if distributed, may disrupt local markets. In an effort to expedite arrivals, USAID has been pre-positioning commodities in ports nearer to where the emergencies are occurring. P.L. 480 legislation permits pre-positioning of commodities, but the current legislation limits the amount of funds that can be spent on pre-positioning.[8]

The cost-efficiency of delivering food commodities is affected by transportation costs and by the requirement that some portion of U.S. food aid be shipped on U.S. flag vessels (cargo preference). Transportation costs are high. According to USAID and USDA budget data, in FY2006, 55% of the funds allocated to P.L. 480 Title II ($930 million out of $1.7 billion) went to cover transportation costs, including both ocean freight and internal shipping, handling, and transportation. Ocean freight rates vary from year to year, but paying such costs is one reason why the Administration, in its farm bill proposals and in recent budget submissions has called for allocating some portion of funds available to P.L. 480 Title II to purchase commodities in locations closer to where they are needed. This proposal is discussed below.

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[6] (...continued)
assistance/ffp/ffp_strategy.2006_2010.pdf].

[7] See *European Programme for Food Aid and Food Security* at [http://ec.europa.eu/europeaid/projects/foodsec/interventions_en.htm].

[8] Section 407(c)(4) provides for pre-positioning of commodities both in the United States and in foreign countries, but limits funding for pre-positioning to $2 million per year.

The Cargo Preference Act (P.L. 83-644, August 26, 1954 as amended) contains legislation concerning the transportation of waterborne cargoes in U.S.-flag vessels. The act requires that 75% of the volume of U.S. agricultural commodities financed under P.L. 480 and other concessional financing arrangements be shipped on privately owned U.S.-registered vessels. Maritime interests generally support cargo preference, but opponents argue that it increases the costs of shipping U.S. commodities to poor countries and potentially reduces the volume of food aid provided. A Government Accountability Office (GAO) report found that shipments of food aid on U.S.-flag vessels did little to meet the cargo preference law's objective of helping to maintain a U.S. merchant marine and that cargo preference requirements adversely affect operations of the food aid programs, chiefly by raising the cost of ocean transportation and reducing the volume of commodities that can be shipped.[9] The U.S. Department of Transportation (DOT), which reimburses food aid agencies for the costs of cargo preference, maintains, however, that its reimbursements "appropriately and expeditiously" compensate for the costs of using U.S. vessels. DOT maintains that cargo preference has "minimal if any impact on the amount of food aid available."[10]

Monetization and Additional Cash Resources

A P.L. 480 provision (Section 203) first included in the Food Security Act of 1985 (P.L. 99-198) allows PVOs and cooperatives to sell a percentage of donated P.L. 480 commodities in the recipient country or in countries in the same region. The currency generated by these sales can then be used to finance internal transportation, storage, or distribution of commodities; to implement development projects; or to invest, and with the interest earned, to finance distribution costs or projects. Under Section 203, PVOs or cooperatives are permitted to monetize (i.e., sell) for local currencies or dollars an amount of commodities equal to not less than 15% of the total amount of commodities distributed in any fiscal year in a country.

Many of the organizations that rely on sales of U.S. food aid commodities to finance development projects support monetization as their major source of development finance. Estimates are that almost 70% of P.L. 480 Title II development food aid commodities provided to PVOs and cooperatives is monetized.[11] That such a large proportion of U.S. food aid commodities is monetized is cited as evidence of a great need for cash to carry out development projects implemented by the PVOs and cooperatives.

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[9] See Government Accountability Office, "Cargo Preference Requirements: Objectives Not Met When Applied to Food Aid Programs," September 29, 1994, available at [http://archive.gao.gov/t2pbat2/152624.pdf].

[10] DOT's views on the impact of cargo preference on U.S. food aid shipments are expressed in a letter included in the recent GAO report 07-560, *Foreign Assistance: Various Challenges Impede the Efficiency and Effectiveness of U.S. Food Aid*, April 2007, p. 76. GAO also found, in its latest report on the subject, that cargo preference laws add to food aid costs and suggested that reimbursements might not be adequate to cover them.

[11] Barrett and Maxwell, op. cit., p.133. The authors estimate also that 40% of Food for Progress and Section 416(b) commodities are monetized. Very little monetization occurs with Title II emergency food aid.

PVOs and cooperatives receive some cash under current law to support their development projects. Section 202(e) of the P.L. 480 statute provides that of the funds made available in a fiscal year to Title II, not less than 5% nor more than 10% shall be made available to eligible organizations in establishing new programs or meeting specific administrative management, personnel, and internal transportation and distribution costs. Such funds may not be used for such expenses as technical assistance, training, or project-related materials, however.

Some PVOs have begun to question the use of monetization as a source of funds. CARE, which has been a supporter of monetization in the past, has decided to transition out of monetization over the next two years. According to CARE, monetization is management-intensive, costly, fraught with legal and financial risks, and economically inefficient. As CARE notes in its food aid policy paper: "Purchasing food in the U.S., shipping it overseas, and then selling it to generate funds for food security programs is far less cost-effective than the logical alternative — simply providing cash to fund food security programs."[12] Echoing criticisms of commodity food aid heard in WTO Doha Round negotiations (discussed below), CARE notes that when monetization involves open-market sale of commodities to generate cash, which is almost always the case, it inevitably causes commercial displacement. As such, it can be harmful to traders and local farmers and undermine the development of local markets, and be detrimental to longer-term food security objectives. Catholic Relief Services (CRS) has taken a similar position with respect to monetization, but has not announced a phase-out of monetization.[13]

Monetization has its supporters among the PVOs and cooperatives that implement development projects that use food aid. Supporters maintain that monetization can have multiple benefits particularly in low-income countries that depend on imports to meet food needs. In such circumstances, monetization, supporters say, can compensate for limited liquidity or limited access to credit for international purchases of food. Other benefits of monetization cited include its use to increase small-scale traders' participation in local markets and financial systems and its use to control urban price spikes. Furthermore, supporters say, monetized commodities can be integrated into agricultural processing operations, helping to establish feed mills, fortified foods, or other locally important products. In all such cases, proponents maintain, monetization programs should be subject to a market analysis (required in P.L. 480 legislation) to ensure that commodities monetized will not interfere with local production or marketing and that there is adequate storage for the commodities provided.

WTO Food Aid issues

Food aid has become one of several unresolved issues in the current World Trade Organization (WTO) Doha Round of multilateral trade negotiations that has

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[12] CARE-USA, *White Paper on Food Aid Policy*, June 6, 2006, available at [http://www.care.org/newsroom/articles/2005/12/food_aid_whitepaper.pdf].

[13] See Catholic Relief Services, *Food Aid and Food Security*, at [http://www.crs.org/get_involved/advocacy/food_aid/in_depth.cfm].

been ongoing since November 2001.[14] Food aid has been considered under the rubric of export competition, with some U.S. trading partners alleging that the United States has used food aid to circumvent its export subsidy reduction commitments and that food aid displaces commercial sales. The United States has, for the most part, argued for a continuation of commodity food aid, while the European Union has proposed that food aid be subject to rules that apply to other forms of export subsidies. The EU has offered to eliminate its agricultural export subsidies, a long-standing aim of U.S. agricultural trade policy, worth about $3 billion, if the United States will make parallel reductions in food aid and export credit guarantees. U.S. PVOs who monetize in-kind food aid commodities to finance projects in developing countries are concerned that new WTO disciplines aimed at preventing commercial displacement could severely limit their ability to do development work. Other U.S. PVOs that have made extensive use of monetization, however, have indicated that they will begin to phase out monetization as a source of funding for their development projects.

Some agreement was reached on how to curb the export subsidy aspects of food aid at a Doha Round negotiating session in Hong Kong in December 2005.[15] Negotiators agreed to establish a safe box for emergency food aid to ensure there would be no impediment to dealing with emergency situations. Without deciding on details, negotiators agreed in principle that disciplines would be established for in-kind food aid and monetization so as to eliminate any displacement of commercial sales by food aid.

Most recently, the chairperson of the agriculture negotiations in the Doha Round circulated a draft of possible modalities for agriculture.[16] In the context of negotiations on food aid, modalities would include understandings and rules or guidelines for how food aid programs would be carried out by WTO member countries. The WTO stresses that the draft modalities are not proposals, but rather are "the negotiations' chairpersons' judgement of what WTO members might be able to agree, based on what they have proposed and debated in the seven years of negotiations...."[17] The draft modalities for food aid include several general propositions. These are that food aid should be provided on a needs-driven basis and in fully grant form; not tying food aid transactions to commercial agricultural or other exports nor linking food aid to market development objectives of donor WTO members; and prohibiting the commercial re-exportation of food aid commodities.

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[14] For background on the WTO agriculture negotiations, see CRS Report RL33144, *WTO Doha Round: The Agricultural Negotiations*, by Charles E. Hanrahan and Randy Schnepf.

[15] See CRS Report RL33144 for a discussion of agreements reached in the WTO Hong Kong meeting.

[16] See WTO, Committee on Agriculture, Special Session, Draft Modalities for Agriculture, JOB(07)/128, July 17, 2007, revised August 1, 2007 Appendix F), at [http://docsonline.wto.org/DDFDocuments/t/tn/ag/W4.doc].

[17] See WTO commentary on the draft modalities for agriculture, at [http://www.wto.org/english/tratop_e/agric_e/chair_texts07_e.htm].

According to the draft modalities report, a safe box would be established for emergency food aid. Food aid provided as emergency aid (whether cash or in-kind) would not be subject to challenge if there has been a declaration of emergency by the recipient country or the Secretary-General of the United Nations; or if there has been an appeal for emergency aid from a country or from a relevant UN agency, such as the World Food Program; and if a needs assessment has been undertaken by a relevant UN agency.

For non-emergency food aid, the draft modalities provide that such aid would be based on an assessment of need by an identified multilateral third party organization; targeted to a well-identified vulnerable population group; and provided to address specific developmental objectives or nutritional requirements. The draft modalities report says that monetization "shall either be prohibited except, or permissible, where it is necessary to fund activities that are directly related to the delivery of food aid to the recipient, or for the procurement of agricultural inputs." Further, such monetization would be carried out under the auspices of a relevant UN agency and the recipient government.

Food Aid Legislative Proposals

The Administration and two groups of PVOs and cooperatives that carry out food aid programs have made recommendations for legislative changes in farm bill authorized food aid programs. In addition, two identical legislative proposals for increased funding of the McGovern-Dole International School Feeding and Child Nutrition Program were introduced in the 110th Congress, H.R. 1616 (McGovern) and S. 946 (Durbin). H.R. 1616 attracted more than 100 co-sponsors.

The Administration's Proposal for Local or Regional Purchase for Emergency Food Aid

High transportation costs and lengthy delays before U.S. commodities arrive at their destinations in emergency situations prompted the Administration to propose that the Administrator of USAID be given the authority to use up to 25% of the funds available for P.L. 480 Title II to purchase commodities in locations closer to where they are needed.[18] The rationale for this proposed new authority is that it would increase the timeliness and effectiveness of the U.S. response to food aid emergencies by eliminating the need to transport commodities by ocean carriers. According to the Administration's proposal, savings achieved in transportation and distribution costs would be available for additional commodity purchases, thus increasing the overall level of the U.S. response to emergencies. Local or regional purchases would also shorten the time it takes to get food supplies to where they are needed.

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[18] The Administration farm bill food aid proposals are available at [http://www.usda.gov/documents/07finalfbp.pdf]. Legislative language for Title III food aid programs proposed by the Administration is at [http://www.usda.gov/documents/fbtrade_071.pdf].

This farm bill food aid recommendation is not the first time that the Administration has proposed allocating funds for local or regional purchase. The President's FY2006 budget request contained a proposal to shift $300 million from P.L. 480 Title II to USAID's International Disaster and Famine Assistance account, which is administered separately from Title II. The funds would have been used to purchase food for emergency relief in markets closer to their final destinations rather than in the United States as required under P.L. 480. The proposal, however, proved controversial with farm groups, agribusinesses, and the maritime industry that supply and ship commodities for Title II, and with many PVOs (PVOs) that rely on food aid to carry out development projects in poor countries. Many PVOs expressed concern that the allocation of up to 25% of the P.L. 480 Title II funds could reduce the volume of commodities available for development projects.

The conference report (H.Rept. 109-255) accompanying the FY2006 agriculture appropriations act (P.L. 109-97) addressed the issue of converting a portion of P.L. 480 commodity food aid into cash by stating: "The conferees ... admonish the Executive Branch to refrain from proposals which place at risk a carefully balanced coalition of interests which have served the interests of international food assistance programs well for more than fifty years."

The President's FY2007 and FY2008 budget requests also contained proposed appropriations language to allow the Administrator of USAID to use up to 25% of P.L. 480 Title II funds for local or regional purchases of commodities in food crises. The Senate report (S.Rept. 109-266), accompanying the FY2007 agriculture appropriations bill, explicitly rejected this proposal, stating that "the Committee does not agree with the Administration's proposal to shift up to 25% of the Public Law 480 Title II program level to USAID to be used for direct cash purchases of commodities and other purposes."

Proponents of local or regional purchase argue that it would mean quicker and lower-cost delivery of food and be less likely to disrupt receiving country markets.[19] Proponents admit that there would be some risks if local markets are unable to absorb large increases in food demand that local purchases could represent. The quality of local food products and ability to transport food locally are also potential problems. One study of the World Food Program's experience with local and regional purchases found that such risks are manageable, however, and could be avoided.[20] Another study of global food aid transactions found that local food aid procurement was 66%

[19] See for example, "U.S. International Food Assistance Programs: Issues and Options for the 2007 Farm Bill," by Christopher B. Barrett, in American Enterprise Institute, *The 2007 Farm Bill and Beyond, Summary for Policymakers*, Washington, DC, 2007, p. 97 ff.

[20] See "Local and Regional Food Aid Procurement: An Assessment of Experience in Africa and Elements of Good Donor Practice," by David Tschirley, MSU International Working Paper no. 91, 2007, available at [http://www.aec.msu.edu/fs2/papers/idwp91.pdf].

less expensive than shipments directly from donor countries.[21] An estimated 60% of all food aid from all donors is locally or regionally procured.[22]

Proposals of the Alliance for Food Aid

The Alliance for Food Aid, an organization that represents 15 PVOs and cooperatives that operate food aid projects in developing and transition countries, has made a number of proposals for legislative changes in U.S. food aid programs.[23] Alliance member organizations use U.S. food aid commodities, which they often monetize or sell, primarily to carry out such non-emergency or development projects as mother-child health clinics, agricultural development projects, food for work projects (e.g., food as payment for work on community infrastructure projects), and projects that target HIV/AIDS affected communities.

A key recommendation of the Alliance is the establishment of a "safe box" for non-emergency food aid which would ensure that 1.2 million metric tons of non-emergency food aid commodities would be available to PVOs/coops each year. This volume of commodities would not be subject to a waiver by the Administrator of USAID as is provided under current law. Mandates such as this one, especially without the possibility of a waiver, have generally been resisted by USAID, the Title II-administering agency. USAID's argument is that such mandates deny the Agency flexibility, especially, in responding to emergency food needs. The Administration's FY2007 budget request for P.L. 480 food aid included a proposal to eliminate the requirement in current law that 75% of Title II commodities be allocated to non-emergency food aid programs. The existing non-emergency commodity mandate has not been met in recent years (**Figure 2**). This has been a source of concern for PVOs/cooperatives who depend on food aid commodities to carry out non-emergency or development projects.

The Alliance for Food Aid also recommends that cash now made available under Section 202(e) of P.L. 107-171 be raised to 10% and that PVOs/cooperatives be allowed to use such funds not only for operational and administrative purposes, provided in current law, but also for the costs of development projects. Current law provides that between 5% and 10% of Title II funds can be used for administrative and operational expense in connection with food aid programs. Also the Alliance proposes that such funds be used by eligible organizations to improve needs assessments and monitoring and reporting on the effects of monetization and other aspects of food aid programs. Increasing the cash available and broadening the purposes for which it can be used would, the Alliance maintains, enable food aid

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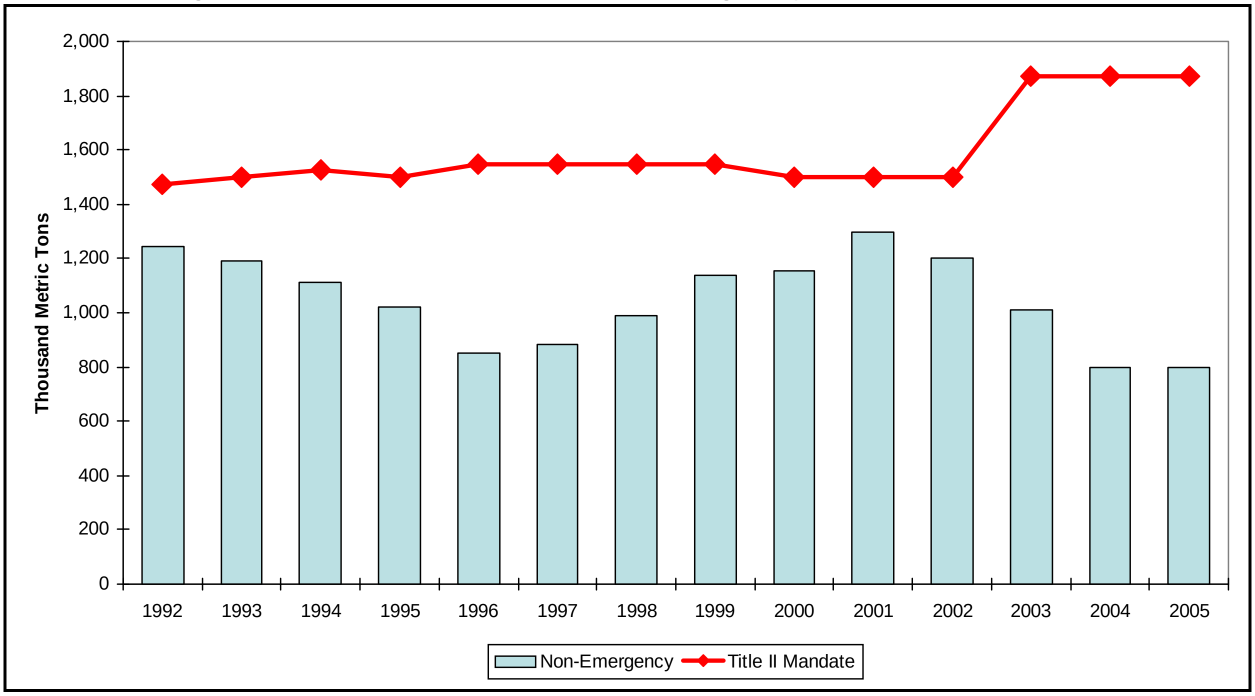
[21] Edward Clay et al. *The Development Effectiveness of Food Aid: Does Tying Matter?* Report prepared for OECD, Paris, 2005.

[22] Barrett, op. cit.

[23] A list of the member organizations of the Alliance for Food Aid is available from its website at [http://www.allianceforfoodaid.com/]. The legislative proposals of the Alliance for Food Aid are contained in testimony presented before the House Agriculture subcommittee on Specialty Crops, Rural Development and Foreign Agriculture on May 10, 2007; and before the House Foreign Affairs Committee on May 24, 2007. Both statements are available on the Alliance website.

organizations to substitute cash for monetization in carrying out development projects where monetization is not appropriate. Despite calling for more cash to be made available for non-emergency programs, the Alliance stresses its continued support for monetization "where appropriate, based on market analysis."

Figure 2. P.L. 480 Title II: Non-Emergency Food Aid Mandate



The Alliance also calls for changes in current law regarding the Emerson Trust in order to make it a more reliable contingency for food aid emergencies. One rationale for making changes in the Trust is to enable it to respond in a more timely manner to emergencies. In addition, the Alliance wants to make Emerson Trust commodities more available so that non-emergency food aid would not be shifted to emergency relief. To accomplish these aims, the Alliance suggests increasing the amount of P.L. 480 Title II funds that can be used for BEHT reimbursements from \$20 million per year (as provided in current law) to \$60 million per year. This funding would be made available annually until the Trust reached its maximum level of 4 million metric tons, or the dollar equivalent. The Alliance contends that the Trust should be replenished with funds rather than commodities so that the most appropriate commodities can be procured when needed. Currently the Trust holds only wheat, which is not always the most needed commodity in emergency situations.

The Alliance does not endorse the Administration's proposal for local or regional purchase of commodities for emergency food relief. It does, however, call for a pilot local purchase project to "assure that accepted practices of food aid program are followed and to identify future methodologies and best practices for future programs." Neither does the Alliance endorse legislation introduced in the 110th Congress to substantially increase funding for the McGovern-Dole program. Instead, it calls for making available an appropriation of not less that \$100 million annually so that funds would be available for multi-year programs.

Proposals of Catholic Relief Services, CARE, Mercy Corps, and Save the Children

A group of four PVOs joined together for the purpose of making a common set of recommendations for legislative change in U.S. food aid programs.[24] These four organizations, were formerly members along with current Alliance members of a group that called itself the Coalition for Food Aid. The four PVOs differed with other Coalition members over the role of monetization in non-emergency (development) food aid projects. The group of four PVOs has decided generally to phase out the use of monetization in their food aid projects, while Alliance members argue for the continued utility of monetization both as a source of finance for projects and as a tool to help build local food marketing capacity. As an alternative to monetization, the four PVOs propose increasing the amount of cash that would be available to P.L. 480 Title II programs. The group of four PVOs makes three main recommendations for legislative changes in U.S. food aid programs.

First, the group calls for changes in the Emerson Trust that would make it, in its view, a more effective mechanism for responding to emergency food needs. To accomplish this, these PVOs call for automatic first use of the BEHT when Title II emergency resources have been exhausted in a given year. The group also proposes that the resources available for emergency food aid be increased to 50% of Title II. One rationale for using the Emerson Trust in this way is to protect resources for non-emergency development programs. The group of four PVOs proposes the following changes in the BEHT:

> (1) Liquidate the current stocks in the Trust so that it will hold only cash;
> (2) Allow the Commodity Credit Corporation (CCC) to invest the cash in the Trust in conservative short-term instruments for an appropriate return;
> (3) Require the Administration to use the Emerson Trust, once Title II emergency funding allocations have been made (to avoid the need to use development food aid to fund emergency responses); and
> (4) Provide authority to the CCC to automatically replenish the Trust in a fiscal year.

Second, the group of four PVOs calls for establishing a "bridging mechanism" to ensure that there are no funding breaks in the food aid pipeline. The bridging mechanism would consist of authority for the Administrator of USAID to draw on CCC funds to contract for commodities and freight to meet programming needs in the next fiscal year prior to the actual enactment of an appropriation. The CCC would be reimbursed promptly from the Title II appropriation when it becomes available. The group argues that such a bridging mechanism would avoid small scale commodity purchases and shipments that occur early in the year, which push up both commodity and freight costs, and generally force PVOs to scale back or stretch out

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[24] Testimony of Catholic Relief Services on behalf of itself, CARE, Mercy Corps, and Save the Children before the House Agriculture Subcommittee on Specialty Crops, Rural Development, and Foreign Agriculture, May 10, 2007, at [http://www.crs.org/newsroom/speeches-testimony/entry.cfm?id=838].

program resources to try to minimize harm to participants enrolled in planned or approved programs.

The main issue raised by proposals such as these is cost. Using CCC funds to finance the operations of the BEHT or to establish a bridging mechanism as described by the group of four PVOs would be subject to "pay-as-you-go" budget rules, which means that any increase in mandatory spending that resulted from reforms of the BEHT would have to be offset by reduced mandatory spending elsewhere or with increased revenues.

The third proposal from the group of four PVOs is to make more cash available to PVOs through Title II. This group argues that cash would provide greater flexibility in carrying out programs to fight world hunger. It maintains that the real causes of food insecurity and hunger cannot be solved over the long term by the provision of food aid alone and that additional resources in the form of cash are essential to address the hunger problem. Like the Alliance, the group of four focuses on Section 202(e) cash, but unlike the Alliance it calls for substantially increasing the funds available from 202(e) for both program operations and program costs to not less than 25% of funds available to Title II. The group of four also calls for using authorizing language patterned after that in the McGovern-Dole Food for Education and Child Nutrition Program. The legislative authorization for McGovern-Dole, the group notes, allows for a mix of commodities, cash, and technical assistance to carry out its programs. A strength of such authorizing language, according to the four PVOs, is that it discourages implementing organizations from monetizing commodities because it is much easier and more cost effective to use cash.

Congressional Action

Title III of the House- and Senate-passed versions of the farm bill reauthorizes and amends U.S. international food aid programs. Title III in both bills extends these programs through 2012. The bills selectively incorporate recommendations of the PVOs/cooperatives for food aid program changes. The House bill disregards the one food aid recommendation from the Administration to allocate up to a quarter of P.L. 480 Title II funds to local or regional purchase of emergency. However, the Senate bill includes authority to use P.L. 480 Title II funds for a pilot program for local or regional purchase of emergency food aid commodities.

P.L. 480

The House bill extends the P.L. 480 food aid programs through 2012, and authorizes discretionary appropriations for P.L. 480 Title II humanitarian donations of $2.5 billion annually. If appropriated, that amount would represent a very substantial increase over the $1.2 billion appropriated annually in recent years. An increase in appropriations for P.L. 480 Title II of this magnitude was initially a provision in H.R. 2488, the House Foreign Affairs Committee-reported version of the farm bill's trade title. H.R. 2419 also extends the minimum tonnage requirements of Title II through 2012. The House-passed bill also increases the amount of cash that could be allocated to PVOs to pay for project-related expenses. H.R. 2419 increases Section 202(e) cash support to not less than 7% nor more than 12% of funds available to Title II. This amount is more than proposed by the Alliance for Food Aid but considerably less than proposed by the group of four PVOs that sought substantially increased cash resources for food aid development projects.

The Senate version of Title III also reauthorizes P.L. 480 food aid programs and extends the minimum tonnage requirements for Title II through 2012. In contrast to H.R. 2419, the Senate bill does not increase the appropriation for Title II. The Senate bill increases the share of Title II funds that can be used to cover project-related expenses of PVOs to not less than 7.5%.

Non-Emergency Development Food Aid. The House-passed bill stipulates that of the funds made available for Title II, not less than $450 million annually be made available for nonemergency (development) food aid. This minimum level of non-emergency assistance could not be waived unless requested by the Administrator of USAID, followed by enactment of a law approving the Administrator's request. The Senate bill establishes a minimum of $600 million for development food aid that also would not be subject to waivers. Following passage of the House-passed bill, the Office of Management and Budget, in its Statement of Administrative Policy, said that it strongly opposed this provision because it would deprive the Administration of the ability to quickly waive it in an emergency. OMB estimated that this House bill provision would result in a $100 million decrease in emergency food aid.

Local or Regional Purchase for Emergency Food Aid. The House-passed farm bill disregarded the Administration's sole farm bill food aid proposal for legislative authority to allocate up to 25% of Title II funds to local or regional purchase of commodities for emergency relief. H.R. 2419 did, however, stipulate that $40 million of the funds appropriated for USAID's International Disaster and Famine Assistance (IDFA) program be allocated to famine prevention and relief. IDFA funds can be used to purchase commodities locally or regionally. In contrast, the Senate farm bill establishes a pilot program, authorized at $25 million annually, to explore how local or regional procurement of food in emergency situations might be used.

Other P.L. 480 Provisions. Both bills extend provision for the Food Aid Consultative Group (FACG), which reviews the effectiveness of rules for the Title II program. The group is composed of representatives of USAID, USDA, PVOs, recipient countries, and U.S. agricultural producers. The Senate bill adds a representative of the maritime transport sector to the FACG.

Both bills extend the authorization for USAID grants for stockpiling and distributing shelf-stable foods. The House bill increases the amount that can be appropriated from $3 million to $7 million; the Senate bill increases the amount to $8 million. In addition, the bills extend authorization for the use of P.L. 480 funds for prepositioning of agricultural commodities overseas. The House bill increases from not more than $2 million to not more than $8 million the amount that can be spent to store commodities overseas. The Senate bill increases the amount that can be spent on overseas storage to not more than $4 million.

Both bills reauthorize the Ogonowski Farmer-to-Farmer program. The House bill provides a floor level of annual funding for the Farmer-to-Farmer Program of $10 million or not less than 0.5%, whichever is greater, and authorizes appropriations of $10 million for sub-Saharan African and Caribbean Basin countries and $5 million for all other countries. The Senate bill reauthorizes the program without change.

Other Food Aid Programs

Food for Progress. The House bill reauthorizes, without change, the Food for Progress program through FY2012. The Senate bill also reauthorizes Food for Progress and increases the amount that can be spent on transporting commodities from $40 million annually to $48 million for FY2008-FY2010.

McGovern-Dole Food for Education. In reauthorizing the McGovern-Dole program, the House-passed bill changes its funding basis from discretionary to mandatory and increases spending from $140 million in FY2009 to $300 million in FY2012. Funding for McGovern-Dole under the 2002 farm bill has averaged around $97 million annually. These provisions for the McGovern-Dole program — substantially increasing funding and making it mandatory — are virtually identical to those included in H.R. 1616 (McGovern) and S. 946 (Durbin), introduced earlier in the 110th Congress. Mandatory McGovern-Dole spending would be offset by changes in the federal crop insurance program. The Senate bill reauthorizes the food for education program, but calls for $300 million in discretionary appropriations to fund the program.

The Bill Emerson Humanitarian Trust. The Senate bill reauthorizes the Trust through 2012 and makes a number of changes in the statute governing the Emerson Trust. The bill specifies that the trust can be held as a combination of commodities and cash, not to exceed the equivalent of 4 million tons of commodities. Commodities held in the trust can be exchanged for funds available under P.L. 480 Title II, the McGovern-Dole program, or the market, if the Secretary of Agriculture determines that such sales will not disrupt the domestic market. The bill allows the funds held in the trust to be invested in low-risk short-term securities or instruments. The House-passed farm bill extended authority for the Emerson Trust through FY2012 without other modifications.