

**Prepared Remarks of Dr. Jim Butler  
Deputy Under Secretary for  
Farm and Foreign Agricultural Services  
U.S. Department of Agriculture  
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## **Trade Policy and Food Aid**

It is an honor to be here speaking before such a large, diverse, and dedicated group. I've heard stories about how much this conference has grown, but the turnout this week is *truly* impressive. This is my first Export Food Aid Conference, and I'm very excited to be here today and to have this opportunity to meet with you.

When we think about the magnitude and urgency of global needs, it is easy to get frustrated by the resource limitations and many other constraints we face. But make no mistake: The work you do continues a proud and generous tradition.

I want to echo Secretary Veneman's message: Everyone here — humanitarian organizations; commodity suppliers and processors; freight forwarders; shippers; port and railroad officials; USDA, USAID, and other government staff — all of you play a vital role in a noble mission. For your efforts on behalf of so many others, you have my respect and admiration.

Today, I am going to talk about a few of the challenges that will affect the future of food aid and development — the immediate challenge posed by the current supply situation, and the ongoing opportunities and challenges related to trade policy and particularly the WTO negotiations on agriculture.

## **Tight Supplies, High Prices Affect Food Aid Availability**

As you may know, the global supply situation for a number of important commodities has tightened dramatically. For five consecutive years now, world grain consumption has exceeded production. World wheat stocks at the end of the current marketing year are projected to be down to only about 22 percent of annual use, the lowest percentage in 30 years. At this level, these stocks will be equivalent to about two-and-a-half months of normal use.

For corn and other coarse grains, the global stocks-to-use ratio is expected to drop to less than 11 percent by the end of the current season. That will be the lowest level ever recorded in our database, which goes back 44 years. For rice, we are looking at the lowest global stocks-to-use ratio since 1981.

We face a similarly tight situation for U.S. stocks of the leading food aid commodities, including wheat, coarse grains, rice, and vegetable oils. For example, U.S. soybean oil stocks at the end of the current marketing year are projected to be at the lowest level since the mid-1980's.

As a result of the tight supplies, prices are sharply higher than they were a few years ago. For example, world wheat prices today range from \$160-\$190 a metric ton, compared with \$115-\$140 a ton two years ago. U.S. soybean oil prices are the highest in two decades.

And we have an additional complication. For the first time in recent memory, we are witnessing a convergence of high freight rates with record or near-record high commodity prices. Both foreign and U.S. freight rates are up sharply. The average cost per metric ton of commodity delivered under P.L. 480, Title II, reached an estimated \$542 last year, up more than \$150 per ton or nearly 40 percent from 2001. Freight costs this year remain high.

The bottom line is that tight stocks and high commodity and freight costs reduce the food aid tonnage that we can supply with available funding. The higher the costs, the less we can buy and deliver with a given amount of money. So, this presents a challenge in terms of allocating our food aid and responding to needs. While demand continues in many parts of the world, there is simply less to go around.

However, I can assure you that the United States will remain the world's largest food aid donor country this year. We will meet our commitments. And there is some encouraging news. Looking around the globe at this point, we do not see quite the number or magnitude of food emergencies that we have faced in some recent years. Just a few weeks ago, FAO reported that, despite the continuing need for assistance, overall food availability in sub-Saharan Africa has improved since late last year.

In addition, we do have a reserve available — the Bill Emerson Humanitarian Trust — to respond to unanticipated emergency food needs, should they arise. Last year, USDA released more than 400,000 metric tons of wheat from the Trust to meet urgent needs in Africa and Iraq.

Although we have no current plans to draw from the Trust this fiscal year, USAID and USDA will continue to closely monitor world food needs. We would consider using the Trust for unanticipated emergencies, if those needs could not be met with existing food aid resources.

### **Changing Structure of World Agriculture Contributes to Vulnerability**

I've talked about the commodity stocks/price situation as a constraint on current food aid availability. But, there are also some broader implications related to the changing structure of world agriculture.

Net-food-exporting and net-food-importing countries no longer hold the large grain stocks that were held in the past. This is the result of a clear policy decision by the United States and other countries. Stock-holding is expensive, and large stocks overhanging the market can depress prices for producers. Some of the changes in stock-holding policies are due to privatization and more market-oriented policies, as many governments got out of the business of trying to control production and prices.

Market-oriented policies generally benefit both producers and consumers around the world, allowing producers to respond to market signals from users and gear their production to demand. But the changes in stock-holding policies can also leave low-income, food-deficit countries more vulnerable to supply-price fluctuations.

When agricultural commodity supplies are tight, producers in food-exporting countries often benefit from the higher prices. And in affluent countries, consumers can afford to pay more. Raw commodities account for a relatively small portion of their total food costs, and their total food costs account for a relatively small proportion of their incomes.

Of course, it's a starkly different story for low-income, food-deficit countries. Higher commodity prices may reduce their ability to meet food needs through commercial imports, while there may also be reductions in the food aid available from donor nations.

So, the challenge is how to maintain a healthy food situation in these countries in spite of fluctuations in world supplies and food aid availabilities.

In our work around the world, U.S. food aid goes hand-in-hand with development efforts—funding infrastructure projects, training, and credit; increasing access to education; building partnerships; and promoting entrepreneurship and free and open markets. The technical assistance the United States provides can help developing countries increase production, improve their regulatory and policy-making processes, and attract investment needed to get their economies growing.

In her message, Secretary Veneman highlighted a few recent, major initiatives, such as the President's Millennium Challenge Corporation to significantly increase U.S. development assistance. She also pointed to our ongoing science and technology initiatives to increase agricultural productivity and reduce hunger and dependency in developing countries, where agriculture is often the leading economic activity.

These efforts hold a lot of promise. It is clear, however, that further changes are needed to reverse the widening economic gulf between developed and developing countries. One of these fundamental changes is trade liberalization.

## **Trade Liberalization is Key to Market Access, Development, and Economic Growth**

For developing countries, trade liberalization is a key to market access, development, and economic growth. Look at the trade-led growth in several Asian economies. For countries trying to develop, trade is the best means of generating the capital investment needed for growth. Just about everywhere you look around the world, economic growth is correlated with the opening of economies and access to markets.

Jobs are created, employment grows, incomes rise, and the living standards of millions can be lifted as opportunity spreads through the economy. Trade-based growth is not a cure-all for poverty and hunger, but I know of no other way to have that kind of impact.

U.S. Trade Representative Robert Zoellick recently reported that from 1994-2001—the years immediately following the last global trade round, the Uruguay Round—exports from developed countries to developing countries increased by \$271 billion, or 33 percent. That sounds impressive, but listen to this: For the same period, the exports of developing countries to their more industrialized and affluent neighbors increased by \$615 billion or 76 percent.

The promise of the current round of WTO (World Trade Organization) negotiations — the Doha Development Agenda, as it's called — is much, much greater than the last round. This is particularly true for agriculture. In fact, agriculture is the key needed to jump-start the negotiations in the other areas, including services and manufactured goods.

But if the opportunities are greater for this round, so are the challenges. We've had some setbacks and difficulties getting serious negotiations started, but we are beginning to see a renewed commitment from participants. Nations are becoming more realistic, moving from initial "wish lists" to constructive discussions based on what they really need.

As we meet here today, negotiators are back in Geneva for a special session of the Committee on Agriculture, with the objective of working out a general framework agreement on agriculture by the end of July. A framework agreement will lay out the basic structure of the commitments countries are willing to make in terms of tariffs, subsidies, and so on — essentially everything but the numbers, which would still have to be negotiated.

I am not going to get into details about U.S. proposals or different positions. You'll hear more about the WTO negotiations from Ken Roberts on Thursday. But I do want to make a few points – things I think you really need to know about these negotiations.

First, the United States will continue to play a leadership role. We submitted the first comprehensive proposal calling for ambitious trade reform. We have been listening to developing countries and urging our counterparts in the European Union and Japan to do the same.

In our negotiating proposals, we have shown our willingness to respond to the concerns of developing countries through greater safeguards to protect their markets under freer trade. We have also committed to major reductions in the level of support for our own farmers, if others will do likewise.

Secondly, if trade liberalization is to succeed and to benefit all countries, all countries must contribute. This includes developing countries, which need to increase access to their own markets. This is important not only to U.S. producers, who may give up considerable government support under an agreement, but also to producers in other developing countries who seek access to these markets.

### **The Export Subsidies-Food Aid Connection**

Finally, I want to alert you to the WTO-food aid connection — a very serious matter.

I mentioned the current work toward a framework agreement on agriculture and how important this is to the success of the trade round. However, there cannot be a framework agreement unless the European Union (EU) will agree to eliminate export subsidies by some yet-to-be-specified date. Export subsidies are the most trade-distorting form of subsidies, and are particularly damaging to developing countries. The EU accounts for some 95 percent of total world use of these subsidies.

Now, developing countries have an opportunity to play a major role in these negotiations and to help persuade others of the importance of comprehensive trade reform. After all, this

round is heavily focused on development, as its name suggests, and the WTO operates by consensus, with all countries speaking at an equal level.

Many developing countries have already been very persuasive, and the EU has heard their demands about export subsidies. However, as part of any agreement to eliminate export subsidies, the EU insists on new disciplines on other forms of export assistance, including export credits and food aid. There are concerns in the EU and among some other exporting nations that food aid can be used as surplus disposal in such a way as to push others out of markets.

Although we think current rules governing food aid are adequate, it seems certain that new disciplines on food aid will be part of any WTO agreement. The real challenge will be agreeing on disciplines that still allow donors to meet vital humanitarian needs.

In our view, this should *not* mean requiring that all food aid flow through the UN. We believe that food aid can often be delivered quickly and efficiently without always going through the World Food Program.

The calls for cash-only aid present an even more disturbing threat to meeting world food aid needs. The reality is that any requirement for mainly cash aid would erode political support and the availability of food aid resources in the United States, the world's largest donor nation. The same could happen for other donors. What the world needs is more food aid commodities, more cash, and more donors – not new and impractical rules that require everyone to contribute in exactly the same way.

After all, food equals life. Any new disciplines that may restrict food aid should be discussed by food aid experts in the FAO, the World Food Program, or Food Aid Convention — not by trade experts negotiating a trade agreement.

Unfortunately, the countries that rely on food aid have been largely silent at the WTO, standing on the sidelines. They need to get involved before decisions are made. When we talk to government officials of countries receiving food aid, all of us need to suggest that they pay attention and make sure they have a voice in this debate because they have the biggest stake in the outcome.

The focus should be addressing the needs of the world's poorest countries, not adding to their problems.

## **Conclusion**

In closing, let me emphasize that we will continue to work toward a healthy world — a world without hunger and deprivation.

This is why we are working through the WTO to create trade and economic growth opportunities not only for ourselves but for others, and especially for developing countries.

It is why we are negotiating and signing regional and bilateral free trade agreements with countries of all sizes, in all regions, at all income levels.

It is why we are working with developing countries to make sure they are in a position to fully participate in and enjoy the benefits of the global trading system. The United States is the largest single donor country providing trade-related technical assistance.

And it is why we must work together to vigorously resist the imposition of WTO rules that could unduly restrict the delivery of food aid.

We remain committed to our leading role in global food aid and development programs ... and to our strong partnership with all of you.

I look forward to answering your questions.

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