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EXAMINING THE PERFORMANCE OF U.S. TRADE AND FOOD AID PROGRAMS FOR THE 2007 FARM BILL

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

UNITED STATES SENATE

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Wednesday, March 21, 2007

U.S. SENATE,
COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY,
Washington, DC

The committee met, pursuant to notice, at 9:35 a.m., in room SR–328A, Russell Senate Office Building, Hon. Saxby Chambliss, presiding.

Present or submitting a statement: Senators Lincoln, Nelson, Salazar, Brown, Klobuchar, Chambliss, Roberts, Coleman, Crapo, and Thune.

STATEMENT OF SENATOR CHAMBLISS, A U.S. SENATOR FROM GEORGIA

Senator CHAMBLISS. The Committee on Agriculture, Nutrition, and Forestry will come to order. We have a hearing this morning on "The Performance of U.S. Trade and Food Aid Programs for the 2007 Farm Bill."

I welcome you to this hearing to examine the performance of trade and food aid programs and I appreciate our witnesses and members of the public being here to review this very important topic as well as those who are listening through our website.

Unfortunately, I am sitting here today because Chairman Harkin has a family emergency and certainly our deepest sympathies go out to Chairman Harkin and his family. We are certainly going to keep him and all of his family in our thoughts and prayers over the next several days here.

Trade has always been an essential part of agriculture policy and the future profitability of farmers and ranchers will continue to rely upon strong export markets. Amidst ongoing free trade negotiations with South Korea and other countries and the negotiations in the World Trade Organization, the importance of trade will only grow in the future.

Likewise, the food aid programs are a cornerstone of U.S. agriculture policy, and along with the domestic feeding programs, they are among the most inspirational programs in the farm bill. The hearing today will help the committee understand what is necessary to better target resources, expand agricultural exports, and more efficiently utilize precious resources in our food aid programs.

Export promotion and food aid programs are essential parts of the farm bill. As U.S. agriculture remains one of the few sectors of the U.S. economy with a net trade surplus, albeit getting smaller every year. As we will no doubt hear from our witnesses, U.S. agriculture exports continue to set records year after year, valued at over $70 billion in 2006. I am hopeful the recent reorganization of the agency will allow the Department to continue targeting export markets and assist U.S. exports abroad.

In addition, farmers and ranchers are experiencing stiff international competition while at the same time key export markets are raising import barriers designed specifically to keep our products off their domestic markets. Export promotion programs at the Department of Agriculture are vital to deal with these challenges. As we begin drafting the farm bill, and given the tight budget situation that we are in, we are going to have to be very creative in order to provide the resources needed to fight these trade disputes effectively.

Regarding food aid, the United States donates over half the world's assistance and responds to emergencies on almost every continent. As we explore ways to improve the efficiency and effectiveness of our programs, we need to continue to provide a strong level of support amid growing demands worldwide. I believe we can integrate high levels of flexibility while retaining the existing structure of the programs. More importantly, we should think creatively in order to respond to changing circumstances and to attack the fundamental roots of poverty around the world while at the same time maintaining political support for these programs at home. I am convinced food security today leads to greater security for the world tomorrow.

Extensive experience teaches us that hungry children cannot learn. Food aid programs, like the McGovern-Dole International Food for Education and Child Nutrition Program, are an essential part of improving the daily lives of poor populations in regions such as Africa and Latin America. Today, the program helps promote education and increases school attendance, especially for young girls. By tackling food security, U.S. food aid programs are helping to increase access to education and specialized programs for poor populations, thereby leading to greater self-sufficiency, lower infection rates for HIV-AIDS, and improved resource management.

Without a doubt, the foreign and domestic feeding programs are among the most profound and altruistic parts of the farm bill. The commitment of the Congress to these essential programs is quintessentially American and an inherent part of the longstanding generosity of our country. The farm bill provides this committee with a unique opportunity to make a positive contribution not only to our less fortunate brethren at home, but also those less fortunate around the world. Through the contribution of agriculture commodities, American farmers and ranchers participate and have a profound effect on the foreign policy of the United States.

Thank you in advance to our witnesses and we certainly look forward to your testimony today.

Our first panel today consists of Mr. Michael Yost, Administrator, Foreign Agricultural Service, U.S. Department of Agriculture here in Washington, and Mr. Yost has been with us any number of times before. We are certainly glad to have you back. We also have Mr. William Hammink, Director, Office of Food for Peace, United States Agency for International Development, Washington, DC, and Mr. Thomas Melito, Director, International Affairs and Trade Team, from the U.S. Government Accountability Office, also obviously here in Washington.

Gentlemen, thank you very much for being here. We look forward to your testimony. Mr. Yost, we are going to start with you for opening statements, then we will go to Mr. Hammink and to Mr. Melito.

STATEMENT OF MICHAEL W. YOST, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Mr. YOST. Senator Chambliss, I am pleased to appear before you today with my colleague from the U.S. Agency for International Development, William Hammink. I welcome the opportunity to discuss trade and food aid programs administered by USDA.

Since the farm bill was enacted in 2002, the trade programs administered by the Foreign Agricultural Service combined with access gained through free trade agreements have served to expand new markets and maintain existing markets for U.S. agricultural products. Demand for U.S. food and agricultural products is higher than ever. Earlier this month, USDA raised its export forecast to a record $78 billion for this fiscal year.

Free trade agreements have proven to be good for U.S. agriculture. Under NAFTA, our exports to Canada and Mexico have risen from $9.5 billion to $22 billion annually. Agriculture exports to the CAFTA-DR countries totaled $2.6 billion in 2006. That is an 18 percent increase from the previous year. Implementation of free trade agreements with Colombia, Panama, and Peru would further benefit U.S. agriculture.

Today, I would like to highlight two trade programs administered by FAS, the Market Access Program and the Technical Assistance for Specialty Crops Program.

The Market Access Program forms a partnership between USDA and nonprofit agriculture trade associations, agriculture cooperatives, nonprofit State and regional trade groups, and small businesses. In 2006, MAP was used to find new markets for poultry products in Mexican supermarkets, to expand wheat markets in Nigeria, and to relaunch U.S. beef sales in Japan. Our farm bill proposal recommends increasing MAP funding from $200 million to $225 million annually. USDA will allocate this additional funding to help address the imbalance between farm bill program crops and non-program commodities.

The Technical Assistance for Specialty Crops, or TASC, Program has helped U.S. exporters regain market access for millions of dollars of products by addressing sanitary and phytosanitary and technical barriers. The administration's 2007 farm bill proposals would increase mandatory funding for the TASC program at the rate of $2 million per year up to a total of $10 million for fiscal year 2011 and beyond. In recent years, TASC funding has been used to gain market access for California nectarines in Japan, harmonize organic standards with Canada and the European Union, and create a data base for pesticide tolerance levels and standards for more than 300 specialty crops in more than 70 countries.

To complement the TASC program, the administration's 2007 farm bill proposals include a new grant program focused on SPS issues and supported by $2 million in annual mandatory funding. This additional funding would allow us to better address SPS issues for all agricultural commodities.

I would like to turn to two of our development food aid programs that provide nutrition and promote economic development, the Food for Progress Program and the McGovern-Dole Program.

During fiscal year 2006, the Food for Progress Program provided more than 215,000 metric tons of agricultural commodities valued at $175 million to 19 developing countries and emerging democracies committed to introducing and expanding free enterprise in their agriculture sectors. Again this year, more than 215,000 tons of commodities will be provided. More than two million people will be fed by this program this fiscal year. But this program is more than about just feeding. For example, in Madagascar, proceeds from wheat sales are providing micro finance loans to farmers.

The McGovern-Dole Program supports education, child development, and food security in low-income food-deficit countries that are committed to universal education. In the past 5 years, the McGovern-Dole Program has helped feed more than ten million children in more than 40 countries. An example is a grant USDA awarded to Counterpart International to provide more than 9,000 tons of commodities for use in Senegal. This McGovern-Dole project is using vegetable oil, textured soy protein, and barley to feed nearly 18,000 primary school children and 1,800 preschool children over a 3–year period. The proceeds from the monetization of soybean oil are being used to improve school sanitation, repair schools, and improve skills of teachers. The project includes a maternal and a child health component, which provides take-home rations to needy mothers with young children. We certainly appreciate the strong support this program has received from Members of Congress.

This year, several food assistance issues will come to the forefront. USDA and USAID share the concerns of stakeholders interested in improving the quality of food aid commodities. The quality and formulation of food aid products are crucial to delivering safe, wholesome products to the undernourished populations, particularly vulnerable groups, including infants and young children, women of childbearing age, and people living with HIV-AIDS.

Currently, we are examining options to review the nutritional quality and cost effectiveness of commodities being provided as food assistance. Our goal will be to have consultations with nutritionists, scientists, commodity associations, the World Food Program, the PVO community, and SUSTAIN to make sure all viewpoints are heard. We want to ensure that food aid that we provide is of the highest caliber. We will also continue our efforts of reviewing existing contract specifications used to obtain food aid commodities and in improving our post-production commodity sampling and testing regime based upon sound scientific standards.

The administration's farm bill proposal recommends a policy change in food aid programs, providing the option to use up to 25 percent of PL–480 Title II annual funds to purchase commodities grown in regions experiencing an emergency situation. The principal reason for the proposal is to save lives. This ability would only be used in cases where the speed of our response was dictated by unforeseen natural or manmade disasters that could not be addressed by delivery of U.S. commodities.

A few days ago, the Government Accountability Office shared with us the results of a study on efficiency and effectiveness of the U.S. Government's efforts to deliver food aid. The GAO has asked that we respond by March 29, and we will.

As Administrator of USDA's Foreign Agricultural Service, I am proud of our efforts to improve foreign market access for U.S. products, build new markets, and improve the competitive position of U.S. agriculture in the global marketplace, and provide food aid and technical assistance to foreign countries.

This concludes my statement. I look forward to answering any questions. Thank you.

[The prepared statement of Mr. Yost can be found on page 151 in the appendix.]

Senator CHAMBLISS. Thank you very much.

Mr. Hammink?

STATEMENT OF WILLIAM HAMMINK, DIRECTOR, OFFICE OF FOOD FOR PEACE, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, WASHINGTON, DC

Mr. HAMMINK. Mr. Chairman, I am very pleased to be here today with you to examine the performance of the U.S. Title II food aid program.

The Title II Food for Peace Program, as you know, is a 53–year-old institution that has saved the lives of millions of people around the world. It is an institution that Americans across the country recognize and can be extremely proud of. However, like any 53–year-old institution or program, we need to continue to look for ways to improve what we do, how we do it, and the impact that it makes.

I would like to focus my short remarks on two main areas: First, the changing world situation affecting Title II food aid; and second, how we can continue to improve the overall efficiency and effectiveness.

The frequency, magnitude, and unpredictability of major food crises are increasing due to growing chronic vulnerability. Over the last decade, we have seen large population groups, for example, pastoralists in East Africa, poor farmers in the Sahel, HIV-AIDS affected populations in Southern Africa, whose lives and livelihoods are at severe risk. Continuous and overlapping crises are leaving more and more people defenseless, chronically vulnerable to major food crises.

Second, there is evidence and understanding that food aid alone will not stop hunger. Today, despite the investments and progress made over the past 50 years, globally, an estimated 850 million people are still food insecure. Giving food to people, while it does save lives and address short-term hunger needs, will not by itself save livelihoods or end hunger. In cases of widespread vulnerability, food aid must be used strategically, such as in a national safety net program, and planned along with other U.S., other donor, and recipient country resources to attack underlying causes of food insecurity.

How can we improve? Food aid programs need to be able to respond quickly and flexibly to support increasingly more vulnerable and desperate populations, and also food aid programs must be integrated with other resources to more effectively halt the loss of livelihoods and address the multiple causes of this vulnerability.

Let me quickly discuss seven areas that are more discussed in my written testimony that we are focusing on to improve food aid programs.

First is local procurement. As mentioned by Mr. Yost, the most important change from our point of view that the administration has been seeking is the authority to use up to 25 percent of Title II funds for the local or regional purchase of food to assist people threatened by a food crisis. Let me assure you that our U.S.-grown food will continue to play the primary role and will be the first choice in meeting global needs. If provided this authority by the Congress, we would plan to use local and regional purchases judiciously in those situations where fast delivery of food assistance is clearly critical to saving lives.

Second is strengthening assessments. Accurate assessments and well-targeted use of food aid are critical for responsible food aid planning. USAID has expanded its support to partner PVO's and to WFP to assist them in strengthening assessments. We are also expanding the role of the famine early warning system network to allow us to do better early warning and, therefore, to understand when the next food hunger situation is coming up.

Third, we are pre-positioning emergency food aid. That helps reduce the response time needed and it has been successful through pre-positioning sites in U.S. ports and also overseas. Pre-positioning is an important tool and could be expanded, although there are logistical and other limits to pre-positioning. Pre-positioning is not a substitute for local procurement authority.

Fourth, the Bill Emerson Humanitarian Trust. The Emerson Trust is the mechanism we all use to respond to major food aid emergencies and clearly complements Title II. One concern is that the releases from the trust have exceeded the statutory limit on its annual replenishment.

Fifth is prioritization. USAID is strategically focusing non-emergency food aid resources in the most food insecure countries. Resources that were historically spread across 30 countries will be concentrated in about half that many in order to achieve maximum impact on chronic food insecurity issues.

Sixth is integration. Under the U.S. Foreign Assistance Framework, USAID and the State Department are working to integrate all foreign assistance resources toward a number of objectives designed to set a given country on a sustainable path toward development. For the first time, starting in fiscal year 2007, Title II non-emergency programs will be integrated in country programs with other funds to achieve maximum impact on food insecurity.

Seven, monitoring. The GAO has recommended that USAID increase the monitoring of Title II programs. We fully support this recommendation. USAID currently uses multiple sources of funding to cover monitoring costs for Title II programs. Statutory restrictions on the use of Title II resources limit the current level of monitoring.

Food aid programs are complex and the problems and issues that U.S. food aid must address are increasingly complex. USAID is committed to ensuring that Title II food aid is managed in the most efficient and effective manner possible to decrease costs, increase impact, and continue the 53 years of proud experience in using U.S. food aid to save lives and protect and improve livelihoods of vulnerable populations.

We look forward to continued discussions with Congress on how the farm bill can best allow the United States to respond to new food aid challenges to reduce global hunger and poverty. Thank you very much.

[The prepared statement of Mr. Hammink can be found on page 71 in the appendix.]

Senator CHAMBLISS. Thank you.

Mr. Melito?

STATEMENT OF THOMAS MELITO, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE TEAM, U.S. GOVERNMENT ACCOUNTABILITY OFFICE, WASHINGTON, DC

Mr. MELITO. Mr. Chairman and members of the committee, the United States is the largest provider of food aid in the world, accounting for over half of all global food aid supplies intended to alleviate hunger and support development in low-income countries. However, the number of food and humanitarian emergencies has more than doubled in recent years due in large part to conflicts, natural disasters, and worsening poverty around the world. Despite the increasing demand for food aid, rising transportation and business costs have contributed to a 43 percent decline in average tonnages delivered over the last 5 years. For the largest U.S. food aid program, these costs now account for approximately 65 percent of expenditures, highlighting the need to improve the efficiency and effectiveness of food aid.

My testimony is based on a report that was requested by the majority and minority of this committee that we expect to issue in April of 2007. My statement today will focus on the need to increase the efficiency of U.S. food aid by improving the amount, timeliness, and quality of food provided. In addition, I will highlight the importance of efforts to monitor U.S. food aid programs in order to enhance their effectiveness.

In the first finding, we identified several factors that hindered the efficiency of U.S. food aid programs. First, existing funding and planning processes increased delivery costs and lengthened timeframes. These processes make it difficult to schedule food procurement and transportation to avoid commercial peaks in demand. This often results in higher prices than if these purchases were more evenly distributed throughout the year.

Second, current transportation and contracting practices often differ from commercial practices, increasing food aid costs. For example, food aid contracts commonly hold ocean carriers financially responsible for delays when food aid is not ready for loading or when the destination port is not ready to receive the cargo. Ocean carriers factor these costs into their freight rates, driving up the cost of food aid.

Third, legal requirements within the food aid program result in the awarding of food aid contracts to more expensive providers. For example, cargo preference laws require 75 percent of food aid to be shipped on U.S. flag carriers, which are generally more costly than foreign flag carriers. DOT reimburses certain transportation costs, but the sufficiency of these reimbursements varies.

Fourth, coordination between U.S. agencies and stakeholders to track and respond to food delivery problems has been inadequate. For example, while food spoilage has been a longstanding concern, USAID and USDA lack a shared, coordinated system to track and respond to food quality complaints systematically.

However, U.S. agencies have taken measures to improve their ability to provide food aid on a more timely basis. Specifically, USAID has been pre-positioning commodities for the past several years and is in the process of expanding this practice. Additionally, in February 2007, USAID and USDA implemented a new transportation bid process in an attempt to increase competition and reduce procurement timeframes. Although both efforts may result in food aid reaching vulnerable populations more quickly in emergencies, their long-term cost effectiveness has not yet been measured.

I will now turn to the second main finding. Despite the importance of ensuring the effectiveness of food aid to alleviate hunger, U.S. agencies' efforts to monitor food aid programs in recipient countries are insufficient. Ensuring that food aid reaches the most vulnerable populations, such as poor women who are pregnant or children who are malnourished, is critical to enhancing its effectiveness and avoiding negative market impact. However, USAID and USDA do not sufficiently monitor food aid programs, particularly in recipient countries. This is due to limited staff availability, competing priorities, and restrictions in the use of the food aid resources. As a result, U.S. agencies may not be sufficiently accomplishing their goals of getting the right food to the right people at the right time.

In our draft report, which is under review by U.S. agencies, we recommend that USAID, UDSA, and the Department of Transportation work together to improve the efficiency and effectiveness of U.S. food aid by, one, improving food aid logistical planning; two, modernizing transportation contracting practices; three, minimizing the cost impact of cargo preference regulations; four, systematically tracking and resolving food quality complaints; and five, improving the monitoring of food aid programs.

Mr. Chairman, this concludes my prepared statement. I will be happy to address any questions you or the members of the committee may have. Thank you.

[The prepared statement of Mr. Melito can be found on page 90 in the appendix.]

Senator CHAMBLISS. Thank you very much, Dr. Melito.

Mr. Yost, let me start with you. There has been a news report that the Office of Inspector General at USDA will issue a report on the Foreign Agricultural Service's trade promotion operations. In that report, the IG found that FAS has not developed a marketing strategy to address the decline in the U.S. share of global agricultural exports. Can you briefly comment on the findings of that report?

Mr. YOST. We tend to disagree with the OIG report. We have a strategy. It is called the Unified Export Strategies. We are also with our new reorganization working on country and regional strategies to address an overall goal, expanding the marketplace for U.S. agriculture products and food. We also—I think our record speaks for itself. As I stated earlier, we will have $78 billion in food and agriculture exports this year. I also believe that breaking down our new organization into our new organization that we will be able to better monitor what is going on overseas and overall have a more effective implementation of our MAP programs.

Senator CHAMBLISS. Going a little further there, FAS recently underwent one of the most comprehensive reorganizations in its history. By aligning the agency by policy, program, and support functions, we hope FAS can improve market access for U.S. agriculture products and address technical barriers to trade. Compared to the previous organizational structure, describe the most significant change and how USDA hopes the realignment will better address the problems of today and challenges of tomorrow, and does FAS have the necessary resources to fully implement the reorganization, and are you fully staffed in all critical positions?

Mr. YOST. We underwent and implemented our reorganization this past year. We migrated to the new organization in November of 2006. We went from five deputy administrative areas to eight deputy administrative areas. Some of the more significant changes were the development of the Office of Science and Technical Affairs, which will now handle all SPS issues that were piecemealed across the agency in the previous structure.

We also have an Office of Country and Regional Affairs, as I mentioned previously. We will develop country and regional strategies to implement all of our programs and handle our issues.

We have the Office of Negotiations and Agreements that is broken down by multilateral, bilateral, and regional trade issues. Also, we have monitoring of existing trade agreements, an entire branch devoted to that.

The Office of Global Analysis will now analyze everything that comes into our agency, from the impact of a trade agreement to the impact of a fruit fly infestation in California and how that would affect exports for the respective commodities.

The Office of Trade Programs will handle the supplier guarantee programs and all the MAP and FMD and other related trade programs.

The Office of Capacity Building will focus on developing capacity, trade capacity building in lesser-developed countries, something that needs to be done. We need to focus on getting those countries to establish their import and export requirements based on international standards, not by politics. They also will handle food aid.

We also have a new Administrative Directorate Area that will handle all the overarching administrative issues that go with our agency.

I think our new structure better reflects 21st century agriculture. It is the most significant reorganization we have done in our 53 years. If we get the President's budget in a timely fashion, we will be able to carry out our mission.

We are currently staffed at 80 percent of what we would like to see here in Washington.

Senator CHAMBLISS. Mr. Hammink, in recent years, food aid has been funded at around $2 billion per year. However, the administration's budget proposal does not ask for this amount and instead has relied upon supplemental spending bills to make up the difference. As you stated in your testimony, the need for food aid has been constant and is, in fact, growing. The GAO report suggests that a more predictable funding stream would allow the food dollar to stretch further by preventing the bunching effect of purchases. How does the administration intend to address this recommendation?

Mr. HAMMINK. Mr. Senator, the President's budget for at least Title II food aid reflects a careful prioritization among competing demands for international humanitarian assistance and supports the U.S. commitment to address the most severe and critical emergency food aid needs. Our mantra at Food for Peace on Title II is "prevent famine."

Emergency food aid needs are difficult to predict far in advance, especially the evolution of these increasingly complex ongoing conflicts and complex emergencies. We do use the Bill Emerson Humanitarian Trust as an additional resource to meet unanticipated needs when appropriate.

If I could add, what we are doing also is putting a lot more energy and resources into early warning and assessments of emergency food aid needs that we may see coming up so that we are looking not only next month, but 6 months, 9 months down the line to see where these needs might be so that we can get a better handle on what the emergency needs are, even though others are unpredictable.

Senator CHAMBLISS. Does USAID currently have the ability to make cash purchases of foreign commodities during a food crisis, and if so, how much has been obligated out of that fund?

Mr. HAMMINK. USAID Title II does not have any authority to purchase food other than in the United States, and so we have not purchased any food overseas. Other resources for emergency purposes have purchased especially therapeutic food, again, to save lives in emergency situations. I am sorry, I don't know the amount.

Senator CHAMBLISS. What is that fund? Where does that come from?

Mr. HAMMINK. I am pretty sure it comes through the Office of Foreign Disaster Assistance.

Senator CHAMBLISS. Senator Salazar?

Senator SALAZAR. Thank you very much, Senator Chambliss. I want to thank you and Senator Harkin for continuing the work on the reauthorization of the farm bill.

These programs we are talking about today, of course, help millions of people worldwide and they are vital humanitarian and public diplomacy tools for the United States of America. I want to thank the witnesses for your work and for the work of the agencies and organizations you represent.

I also want to underscore the importance of U.S. foreign aid food programs. Our country remains the largest provider of food aid in the entire world. We know that we have provided a benefit to over 70 million people worldwide in fiscal year 2006 alone. That is a large number and one that we should be very proud of. As the world's most powerful economic nation today, we also always need to remember that there is still another 850 million people around the world that are currently malnourished, and many of them are children. It is a crisis of conscience when we think about these numbers and one in which the United States has the ability and resources to help address.

I am concerned today about the findings of the testimony submitted by the GAO. According to that draft report, despite the growing international demand for food aid, rising transportation and business-related costs have increased the average tonnage of food aid by 43 percent over the last 5 years. The government of the U.S. should ensure the resources dedicated for foreign food aid programs should go to hungry mouths and not to overhead and I hope that we can figure out a way of addressing those issues in the weeks ahead.

I am encouraged by the opportunities that the 2007 farm bill gives us on this committee to craft legislation that promotes U.S. agriculture abroad while still keeping to our commitments under the WTO. I am pleased the administration has also shown attention to the trade title in its farm bill proposal. Many of my constituents have expressed their support for the Market Access Program proposal, especially as it seeks to increase parity between program crops and specialty crops. Indeed, we must ensure that all commodities have the opportunities and resources to compete in global markets.

I am also pleased that the administration addresses non-tariff barriers to trade in its proposal. Colorado is home to a robust cattle industry as well as numerous specialty crops. These products should be able to compete on an equal playing field in the marketplace, unburdened by the dubious scientific and technical barriers to trade. The 2007 farm bill presents a rare opportunity to enhance the competitiveness of our producers.

I have a question to both Michael Yost and to Mr. Hammink. One of the recommendations that came out of the GAO report is that the Administrator of USAID work more closely with both the Secretaries of Agriculture and Transportation to develop a more coherent approach to how we deliver the food so that we don't end up creating the inefficiencies that apparently the GAO has found here. My question to all of you is do we currently have that coordination underway between Transportation, Agriculture, and USAID, and assuming we do, how can we enhance the coordination between those three agencies? Mr. Yost?

Mr. YOST. Senator Salazar, we meet regularly with USAID to work on issues of mutual concern. We have the Food Aid Policy Coordinating Committee. That is one of our formalized venues that we work through. We are working currently on developing proposals to review quality of food aid. We have this overarching issue of how we are going to address high transportation costs. We are going to review the GAO report. We—at this point in time, I have more questions than answers on how we are going to respond to that.

Senator SALAZAR. Is it a formal coordination that you have going on among the three agencies, or do you just meet to discuss issues ad hoc as they come up? How do you ensure that there is coordination between Agriculture, Transportation, and USAID?

Mr. YOST. We meet with USAID formally with the FAPC, F-A-P-C, and informally, we talk nearly every day, every week, people on our staffs, as we address issues and problems that are coming up.

Senator SALAZAR. And Mr. Hammink?

Mr. HAMMINK. Yes, Senator Salazar. We very much share your concern. In fact, in 2006, the percentage of our overall Title II going for purchase of commodities has continued to decrease, to about 36, 37 percent. We work, as Mr. Yost mentioned, almost on a daily basis with colleagues from USDA in Kansas City and here in Washington, looking at how we can improve and commercialize, if you will, our practices.

We appreciate the GAO comments and we will work very closely with them to continue to look for ways to decrease costs, but it is important to note that we are not in the normal commercial competitive environment, so within those rules, we definitely need to continue to work with USDA, also with our partners, PVO's and WFP, who do a lot of the contracting for transportation.

Senator SALAZAR. My time is up. Thank you very much.

Senator CHAMBLISS. Senator Brown?

Senator BROWN. Thank you, Senator Chambliss.

I am sorry, Mr. Hammink, I did not hear your testimony. I read your written testimony, especially the part about your interest and comments you made about local procurement and what you do with local economies.

Obviously, you all pointed out the difficulty with transportation and gathering the food and the response time to disasters, getting food aid into a country, into a region, into a community. Talk, if you will, just generally, Mr. Hammink, about how we use food aid, particularly local farm purchases, to strengthen economies, because I think sort of my understanding, and not being an expert on this, over the years, we have thought of food aid, particularly the Food for Peace of a half-a-century ago, getting the food to starving people. We know sometimes how that disrupts, as we learn more and more, disrupts local economies, especially farm economies.

Just talk through, if you would, what we can do in our delivery of food aid and what we can do with our delivery of ability to purchase food locally and how we build stronger communities that can then respond to their own situations better in the future.

Mr. HAMMINK. I guess there are two parts to the question. First, our food aid is mainly used for, right now, emergency reasons, and so when it goes into a country, for example, Sudan, where we are feeding three million people, it doesn't have a major impact on the market there, especially since we are bringing in commodities, most of which are not grown there.

If we get the authority to purchase up to 25 percent for local procurement in emergency situations, we would work with organizations that already have quite a bit of experience doing local procurement, including U.S. PVO's and WFP, to put together requirements to make sure there is not going to be a negative impact on the market.

In terms of looking for ways to have a positive impact and support farmers locally, that would not be the primary reason for this request. The primary reason for this request for local procurement is speed and getting food in quickly in order to save lives.

Senator BROWN. Well, should it become, if not a primary reason, should it become a major consideration in the way we deliver food, in the way we make those decisions on local procurement?

Mr. HAMMINK. The impact on local markets is already an important factor in terms of how we deliver food from the United States and we are required to do, for all non-emergency programs, a very detailed Bellmon assessment, looking at local markets.

In terms of the request for emergency up to 25 percent local procurement, again, impact on local farmers and markets would not be our major consideration. Our major consideration would be in those cases where we need to get food quickly to people to save lives.

Senator BROWN. Dr. Melito, are we doing that well, taking into account the local procurement situation?

Mr. MELITO. We find that in emergency situations, local market impact is minimal, because generally speaking, these are markets with very—they are very short of grain, so potentially the price is going to rise. So we may be helping, actually, stabilize it.

We have some concerns with non-emergency assistance monetization, where potentially we are adding grain to a market that might already be mature. That issue is not a part of my testimony, but it is part of our upcoming report.

Senator BROWN. And I think someone on the second panel is going to talk more about the monetization. Good. Thank you very much. Thank you, Mr. Chairman.

Senator CHAMBLISS. Senator Thune?

Senator THUNE. Thank you, Mr. Chairman, and thank you very much, gentlemen, for joining us today to discuss with us this very important subject as it pertains to the farm bill and the work that we are currently undertaking in drafting a new bill.

Since their inception in 1954, international food aid programs have had a very direct impact on humanitarian efforts and the fight against world hunger. Programs have also had a very strong influence, I think, on how other countries around the world perceive the United States as a nation of abundance, prosperity, and generosity. And also, of course, international food aid programs provide a significant market for our agricultural products, and I use the 2002 farm bill as an example. Since the enactment of that bill, the U.S. delivered an average of four million metric tons of agricultural commodities per year overseas. Any changes to food aid programs in the 2007 farm bill, in my view, should not undermine the productive relationship between our producers and the need for international aid.

The United States, of course, has for a long time been the world leader in humanitarian food aid, and in the period between 1995 and 2005 has contributed almost 60 percent of total global food aid. Over the life of the 2002 farm bill, the United States has spent an average of $2 billion per year in international food aid programs, and in 2006, these programs benefited over 70 million people through emergency and development-focused programs.

The, I guess, challenge we face in the current budgetary environment with regard to the next farm bill, it is going to be, I think, critical that we try and find savings and improve the efficiency of the programs in every part of the farm bill, and international food aid programs are no exception, especially since program such as MAP and the Food for Progress Program rely on CCC funding, which is the same pot of money that funds many of our domestic programs.

According to testimony provided by Mr. Melito of the Government Accountability Office, there are several areas where our foreign food aid programs can be more efficient and effective, and so I have a couple of just questions in that vein. One has to do with, Mr. Melito, your testimony, in which you stated that certain foreign humanitarian organizations are far more efficient in food delivery than the U.S. Government, and specifically the issue of transportation costs, which account for 65 percent of U.S. food aid expenditures, and our freight costs average about $170 per metric ton whereas other international food aid organizations average about $100 per metric ton and transportation costs account for about 20 percent of their total costs.

I guess my question is, how can we lower the transportation costs that are associated with our food aid programs, and if the GAO recommendations are enacted, how much would we save in our international food aid budget?

Mr. MELITO. Thank you. There are several things we can do to lower transportation costs. The bunching issue, which we referred to earlier, is an important one, and there are two components to that. One would be more certain funding. That would allow for better planning. But even with the uncertain planning environment that we currently have, the agencies can do a much better job of planning. They are in a situation where there are a lot of emergencies, but these emergencies in many ways are not so unforeseen, since they are generally coming in similar regions and these countries have had problems year after year, Sudan being one notable one. So I think the agencies can do a better job of planning, which will help with the transportation issue.

We also highlight the non-commercial aspects of the current transportation system. The transportation terms of the contract put much more risk on the ocean liners than a commercial situation. This raises the cost. The freight operators have to pass the costs on somehow. They are passing them on to the program.

The third way we outline is actually the system we have in place to partially compensate USAID and USDA for transportation costs through the Department of Transportation. The Memorandum of Understanding dates back to 1987. The situation has changed quite a bit since then. Pre-positioning wasn't envisioned at that time. The age of the fleet has gotten—the fleet has gotten much older. And there are situations now where there are no foreign bids on certain contracts. So the Memorandum of Understanding should be renegotiated and that potentially will increase the amount of resources for food aid.

Senator THUNE. Are there any legislative barriers to any of the things you are talking about, or are those all accomplished by MOUs with USDA or AID, and maybe Mr. Hammink and Mr. Yost could comment on that, as well. Are these recommendations that we can implement?

Mr. MELITO. There are—mostly, yes. There is some uncertainty on pre-positioning. There is a disagreement between USAID, USDA, and the Department of Transportation about whether prepositioning requires a change in the legislation. GAO is outside of that because clearly the two agencies are going to have to work this out, and maybe they need legislative help. I think everything else can be done within existing authorities.

Senator THUNE. Any comment on that from either of our other panelists?

Mr. HAMMINK. We received the GAO report, and we are happy to get it, just last Friday, so our experts now are looking at this and we will be responding, as Mr. Yost said, to the GAO by March 29. We will be looking to work very closely with them, with USDA, and with Transportation at how we can implement these, but we share that same concern.

Senator THUNE. I see my time has expired. Thank you, Mr. Chairman.

Senator CHAMBLISS. Senator Klobuchar?

Senator KLOBUCHAR. Thank you, Mr. Chairman, and thank you, Mr. Chairman, for these peanuts. You have put Senator Harkin to shame now. I assume he is going to be bringing some corn.

[Laughter.]

Senator CHAMBLISS. We will match peanuts against corn any day.

Senator KLOBUCHAR. I asked Senator Brown, since he has so much experience in Congress, if I should eat them, and he said, no, this isn't a baseball game——

[Laughter.]

Senator KLOBUCHAR [continuing]. But then I noticed that Senator Nelson was eating them, and so now I plan to do the same.

Senator CHAMBLISS. Georgia's most recent contribution to food aid.

[Laughter.]

Senator KLOBUCHAR. Thank you to all three of you, and just to give you a little background on our State, Minnesota, we rank fifth in the Nation with agricultural exports after California, Iowa, Texas, and Illinois, and we exported nearly $3 billion worth of farm products just in 2005. At the same time, we also have trade concerns with our sugar industry with CAFTA and NAFTA and what has happened there. Our dairy producers want to see Congress address a trade loophole that allows virtually unlimited imports of milk protein concentrates, and then our cattle producers are also eager to see all of our former export markets fully restored.

We also are big supporters of the Food for Peace Program. The program sent Minnesota commodities to Iraq, Afghanistan, Sudan, and Haiti to fight food shortages in those countries, and so my first question was just along those lines.

Mr. Hammink, the GAO report says that on the food aid programs, it says that USAID had only 23 Title II workers monitoring food aid to 55 countries. I am just wondering how USAID can make sure that this food is truly getting to the most vulnerable in these countries with that number of people monitoring it.

Mr. HAMMINK. Thank you for the question. The GAO statistic only covers those food aid monitors who are funded by Title II program funds. We have a restriction whereby we can only use Title II program funds for monitors in emergency programs, and so we use other sources of funds for funding monitors, including development assistance and operating expense, to fund monitors and food aid specialists in other countries. We actually have somebody covering food aid in all 55 countries where we have—I am not exactly sure of the number, but we have over ten U.S. direct hire Foreign Service officers who are food aid officers in these countries, as well.

Senator KLOBUCHAR. Do you feel satisfied that the food is getting to where it needs to go, or are there some issues with the programs?

Mr. HAMMINK. As I said in my statement, we agree that we need increased monitoring, and that is something we will continue to work toward. For the most part, we are satisfied. We do rely on PVO reports and reports from WFP, but we do have people in these countries who get out into the field and we send people from Washington on a regular basis to go to these countries. Two weeks ago, I was in Darfur also taking a look at our food distribution.

Senator KLOBUCHAR. It would be nice to get, adding those people in, what the numbers truly are——

Mr. HAMMINK. Right.

Senator KLOBUCHAR [continuing]. And I wouldn't expect you to have it now, but if we could maybe send you a letter and get the information——

Mr. HAMMINK. That will be part of our response to the GAO, as well.

Senator KLOBUCHAR. OK. Very good. Second, I had just a question relating to the implementation of the Dairy Export Incentive Program. USDA did not implement this program for the last 2 years. This is for Mr. Yost. We have heard from our own dairy community in our State that aggressive use of dairy export incentives keeps pressure on other nations to negotiate a reduction of dairy export subsidies. So my question is whether or not USDA plans to resume implementation of this program.

Mr. YOST. Senator Klobuchar, at this time, we have no plans to implement this program. I believe last year, if my memory serves me correctly, we exported $1.7 billion worth of dairy products. We are doing quite well in the international marketplace.

Senator KLOBUCHAR. Thank you.

Senator CHAMBLISS. Senator Nelson?

Senator NELSON. Thank you, Mr. Chairman, and thank you as well for the peanuts, a nice little mid-morning snack.

Administrator Yost, I want to go to another area. With regard to sanitary and phytosanitary matters, I notice that USDA is requesting funding to better address SPS problems for U.S. exporters. The recent actions involving U.S. beef serve as a strong reminder about the way some of our trading partners misuse SPS and other alleged safety concerns and health concerns as cover for unfair trade practices. If an ounce of prevention is worth a pound of cure, are the

SPS issues being properly addressed in advance of problems arising from the agreements?

In other words, based on your experience and that of FAS, are we getting good trade agreements that contain sufficient and effective enforcement mechanisms that are worked out and understood before we sign the agreement so that we are not expending resources unnecessarily to fight unfair usage of SPS and food safety issues by our so-called trading partners after the agreements are in place?

The Korean beef situation specifically comes to mind, since they are violating the agreement. We have a case over their interpretation of deboned beef and we have been unable to do very much about it except work with the Ambassador on a weekly basis getting promises that it will be fixed at some point. Maybe you can help me understand this.

Mr. YOST. Well, we literally have an SPS issue of the week at our agency. We call them the new trade barrier. I think we are all in agreement on that, Senator.

We are working very hard on the beef issue. The entire Department is. It is extremely frustrating, as I am sure you are frustrated and your producers are, also.

Senator NELSON. Yes, the——

Mr. YOST. That is a bit of an understatement.

Senator NELSON. Yes, it is an understatement.

Mr. YOST. At this moment, Ambassador Crowder is working for you, negotiating both the clean FTA and getting beef back into the marketplace. We are pushing hard for these countries, whether it is Japan, China, Korea, or any other major importer, to base their importing standards on the OIE designation. We look to get to a favorable designation on BSE from the OIE.

We continue to try to put more teeth into agreements as they are negotiated. Our agency is spending more and more time monitoring existing trade agreements to make sure that they are enforced. We also are requesting funds to expand those efforts in the next farm bill proposal. It is a difficult task when you mix science and politics in these other countries. I don't see a silver bullet to solve these issues, but we have to continue to work on them and continue to force countries to build their import and export standards on international standards that are science-based and governed by international bodies.

Senator NELSON. I would hope we would be able to do that. It makes one wonder, and I have supported every Free Trade Agreement. I have insisted that we include another word, "fair," and now I am moving toward free, fair, and balanced trade agreements so that we are not at the mercy of a trading partner violating the agreement and leaving us with very little—few options, if any, to move forward. And by the time you do move it forward, in many cases, the damage is already done to our market. Cattle producers reduce the size of their herds because they don't want to have an oversupply without a demand. So I am very, very concerned about that.

There is another area with Director Hammink that I would like to raise and that is the growing concern, for example, from wheat growers about the cash only aid as opposed to commodities and food. I don't understand the administration's move toward giving cash only as opposed to giving our commodities in lieu of cash as a matter of trade. Maybe you can explain to me why this makes sense.

Mr. HAMMINK. What we are looking at, Senator, is basically the authority to use up to 25 percent of Title II in truly emergency situations where by buying food locally we can save lives and get food in quicker for emergency situations. The——

Senator NELSON. Excuse me. Is it limited to emergency situations?

Mr. HAMMINK. That is what is in the administration's request.

Senator NELSON. We will have to look at the definition of an emergency, I guess.

Mr. HAMMINK. That is something we will be glad to work with Congress, on putting that together.

Senator NELSON. OK. My time is up. Thank you, Mr. Chairman.

Senator CHAMBLISS. Before we leave that issue, has there been any situation that has come about that truly would be characterized as an emergency situation where the lack of the ability to purchase food at the local level versus shipping U.S. products has come into play?

Mr. HAMMINK. We can point to a few instances where if we had had this authority, we might have used it. For example, Iraq in 2003, the tsunami response in 2004, Niger and Southern Africa in 2005, and again, Lebanon and East Africa in 2006.

Senator CHAMBLISS. Well, I understand you might have used it, but have there been any lives lost as a result of not having U.S. products shipped over there versus having money to buy local products?

Mr. HAMMINK. That, I wouldn't be able to know.

Senator CHAMBLISS. Senator Lincoln?

Senator LINCOLN. Thank you, Mr. Chairman.

I guess just following up on that, Mr. Hammink, if the farm bill were to contain provisions that would authorize that local cash purchase, either as a pilot program or, as you said, the 25 percent, that 25 percent would be of Title II funding, is that correct? That has been proposed by the administration.

Mr. HAMMINK. Up to 25 percent.

Senator LINCOLN. But it comes out of Title II, right?

Mr. HAMMINK. That is correct.

Senator LINCOLN. I guess our concern would be, you know, how would it be possible to make sure that those commodities would be purchased in the recipient or the neighboring—I am assuming, and maybe you have already discussed this, but how it would be produced in neighboring countries rather than our U.S. export competitors, in the E.U., Australia, and why is it necessary to divert funds from Title II for the local cash purchase rather than establishing a new funding source, if that is what you want to do?

Mr. HAMMINK. Well, what we would look at in using this authority is some clear procedures and rules. We would most likely rely on partners, PVO's and WFP, who already have significant experience in local procurement. For example, last year, WFP purchased $200 million in Africa alone. There is a lot of experience there to make sure we are not impacting on markets.

In terms of your second question——

Senator LINCOLN. What about the first one? I mean, I understand you are going to use the local folks that have experience in terms of doing that——

Mr. HAMMINK. Right.

Senator LINCOLN [continuing]. But how does that ensure to us that what you are purchasing is not coming from competitors but coming from local countries or the neighboring country?

Mr. HAMMINK. Good question. We fully expect that we will only purchase food from less-developed countries. We would not purchase food from any of our major—any of our European competitors. So that is something that is a commitment from the administration.

Senator LINCOLN. OK. And the reason you are taking it from Title II as opposed to new funding?

Mr. HAMMINK. The Title II, right now, the mandate is to prevent famine, to save lives, and that is where this would fall under.

Senator LINCOLN. Which is, I am assuming, similar to your answer to Senator Brown earlier, which is not to encourage the development of industry or the economics of the local community.

Mr. HAMMINK. In highly food insecure countries, USAID, USDA, and others have programs to support agriculture development.

Senator LINCOLN. Right.

Mr. HAMMINK. The purpose of this would be truly mainly to save lives and to get food in quickly.

Senator LINCOLN. Well, the concern I think many of us have is that, unfortunately, we can get very little attention to agriculture, both in terms of needs as well as resources when it comes to budget times, and so unfortunately, all we get offered is robbing from Peter to pay Paul in the different programs that we have, which we all think are very necessary, whether it is feeding the hungry across the globe or whether it is making sure that our farmers have the kind of safety net programs that allow them to be competitive. But we don't usually get—so it is hard when folks make suggestions but it comes out of an existing program which we have already fought hard to get the few dollars we have in there.

Dr. Melito, your testimony describes both Afghanistan in 2002 and Iraq in 2003 as situations requiring emergency responses. But in both instances, the Department of Defense probably knew some time in advance, I suppose, that war was likely and that these emergency food aid needs might be met. Mr. Hammink talks about Iraq being one of those places where this program of being able to take up to 25 percent locally would happen or would have been helpful. Were food procurement procedures initiated in advance under some of those circumstances?

Mr. MELITO. I will leave that to Mr. Hammink, but I will say that Afghanistan and Iraq, especially Afghanistan, were very difficult environments to move food aid.

Senator LINCOLN. Right.

Mr. MELITO. So that is a large contributor to the logistical burden and the high cost of food aid in those countries. I am not sure——

Senator LINCOLN. All the more reason why procurement procedures would have been wanted to be initiated earlier rather than later, right?

Mr. MELITO. Agreed.

Senator LINCOLN. Did that come about?

Mr. HAMMINK. Senator, if I can just add, in the situation in Iraq, procurement procedures were initiated and we had quite a few boats of food on the way to Iraq when it was needed. So that was started early because we knew the food aid would be needed.

Senator LINCOLN. So it was started, the procurement and the——

Mr. HAMMINK. Correct.

Senator LINCOLN [continuing]. Processes were started way before?

Mr. HAMMINK. Correct.

Senator LINCOLN. OK, thanks. Mr. Yost, the President's fiscal year 2007 budget recommended zeroing out the fund for funding for P.L. 480 and Title I and Congress went along with it, and then no funding was requested by the administration for Title I in 2008. Yet the proposal that USDA sent us in their farm bill did not recommend repealing Title I program authority. Can you shed some light on that? And I apologize. I came late. I hope you haven't already discussed this, but maybe just shed some light on why the administration has presented it in P.L. 480 this way and why they have not requested funding for Title I.

Mr. YOST. Senator Lincoln, the major reason we did not request funding for P.L. 480 Title I is we have only had three agreements last year on government-to-government food aid and we are seeing less and less interest in it all the time. It is mainly done to subsidize interest rates and the interest rates are coming lower and lower and commercial transactions are taking its place.

Senator LINCOLN. Because they are more competitive?

Mr. YOST. They are equally competitive and you don't have to go through government red tape.

Senator LINCOLN. What is the criteria that your agency does to determine if a particular market for a given commodity has kind of graduated from the eligibility for funds under either Market Access Programs or the Foreign Market Development Program? Is there a criteria?

Mr. YOST. If a market has graduated? I don't know what——

Senator LINCOLN. Graduated from those programs. When you graduate from those programs, is there a criteria that you use?

Mr. YOST. I don't know if there is a—perhaps I am not understanding your question correctly, Senator, and I apologize for that.

Senator LINCOLN. Access to those funds, eligibility.

Mr. YOST. We review the cooperators programs that come in with us, the various groups, and we look for the effectiveness, what they can do to enhance not only market access, but also expand the market period and commercial terms. It is competitive and we review it and we send back our comments on it and it basically is a give and take between the cooperator on who has the best proposals, how they should change their proposals, et cetera, et cetera. So it is kind of an ongoing process.

Senator LINCOLN. So you would describe it more as a competitive-type loan program, grant program, as opposed to a——

Mr. YOST. For market access—for MAP funds, it is a grant program and it is a competitive process. Who has the best proposals? Who has the best track record?

Senator LINCOLN. Just a last one for Mr. Yost. In your testimony, you do point to the fact that our total U.S. agricultural exports are up, and yet we also know that our total share of global agricultural exports has declined from 22 percent to 9.7 percent during the time period from 1984 to 2005. I just kind of wanted to get your perspective on how we ensure that our agricultural products are competitive globally and that we are maximizing these new market opportunities. Are there any steps that the FAS hopes to take to address the decline in our global share, and obviously our global share has a great deal to do with our competitive ability there, and to what extent does FAS conduct outreach to the U.S. agricultural groups to identify trade constraints? Is there something that you all do in your outreach?

Mr. YOST. First of all, I would contest that it went down from 22 to 9.7 percent. That was an OIG report. It didn't take into account—I think they had an apples and oranges report there. They talked about—didn't talk about, rather, the expansion of the European Union. They counted interstate trading within the European Union. They didn't take into account the value of the dollar versus the euro. They didn't take into account BSEs, other SPS issues, which are very significant in trade.

I think we are doing very well in the marketplace. The $78 billion is a record. I think we do a good job working with our MAP cooperators in reaching out, particularly through State and regional trading groups. They work exclusively with small businesses, mainly within their States. We have some very good success stories, very innovative success stories, and we, I think, had $36 million of MAP funding that went to those groups last year. I think we are doing a credible job. We are getting good feedback.

Senator LINCOLN. I would love to hear some of your stories, so I hope that you will share some of those with us in terms of your outreach and, as you said, your outreach particularly with——

Mr. YOST. We can supply some of those to you.

Senator LINCOLN. Please do. That is helpful.

Mr. YOST. We certainly will, Senator.

Senator LINCOLN. Thank you. Thank you, Mr. Chairman.

Senator CHAMBLISS. Senator Roberts?

Senator ROBERTS. I am going to yield to Senator Crapo in that I have arrived late and I am still trying to assimilate what the heck it is I am going to say.

[Laughter.]

Senator CHAMBLISS. Everything is normal, so Senator Crapo?

[Laughter.]

Senator ROBERTS. Mr. Chairman, did something happen that I am not aware of?

[Laughter.]

Senator CHAMBLISS. Obviously, you slept in this morning, but——

[Laughter.]

Senator ROBERTS. Do I have to go back to the Intelligence Committee? That is what I really want to know.

[Laughter.]

Senator CHAMBLISS. Senator Harkin unfortunately had a death in the family and couldn't be here.

Senator ROBERTS. I am very sorry to hear that. I am very sorry to hear that. Senator Crapo, you are recognized.

[Laughter.]

Senator CRAPO. Well, thank you very much, Mr. Chairman and Mr. Chairman.

I also arrived late, so I apologize if these questions have already been covered, but Mr. Yost, as has been indicated by Senator Lincoln's comments, the fiscal year 2008 budget seeks no funding for Title I and yet a certain amount of the funding for the Food for Progress Program comes from Title I. Is the failure to seek funding for Title I going to have a significant negative impact on our ability to fund the FFP program?

Mr. YOST. It will have, Senator Crapo, it will have some effect on it. We have some MarAd reimbursements that will go back into the Title I fund. We also will be doing some reconciling. It will be a certain amount of money that will be available to go into the Food for Progress Program from Title I for this coming year.

Senator CRAPO. So overall, can we get any kind of a feel for you, even on a percentage basis, as to what kind of an impact we could see in terms of the funding for the FFP program as a result of the——

Mr. YOST. As a result of the——

Senator CRAPO. Yes.

Mr. YOST [continuing]. Not final funding? It will take us a while until we get to the exact reimbursement amounts. We certainly can get those to you, but I would——

Senator CRAPO. Do you think it would be significant differences, or are we talking small——

Mr. YOST. I don't believe it will be great.

Senator CRAPO. All right. If you could get some details to us——

Mr. YOST. I certainly will, Senator.

Senator CRAPO.—I would appreciate it.

Mr. Hammink, I want to talk for a minute with you about the question of basically pre-positioning. I noted that in your testimony, you indicated that you didn't really think pre-positioning is a substitute for local procurement. I am very concerned about our efforts to go to cash rather than in-kind utilization of products. It seems to me that efforts like the pre-positioning at Lake Charles and at Dubai are going to give us an ability to continue to rely more heavily on our in-kind food aid programs rather than going to commodity purchases. Do you disagree with that, and if so, why?

Mr. HAMMINK. We think that the pre-positioning has been very successful. In fact, we just signed a new contract, I think it says in the GAO report, in Djibouti, for warehouse space there. What we are saying is that pre-positioning is not the answer for what we might need the local procurement for, to save lives in emergency situations. It may be—it is yet another tool that we have and that we are using successfully to get food quickly to where it is needed. Local procurement would allow us to have that additional flexibility when pre-positioning is not available or when it is not appropriate, because pre-positioning right now is only processed food.

Senator CRAPO. All right. Well, thank you. I appreciate that explanation and I would just encourage you to focus as aggressively as you can on pre-positioning because if we are aggressive in utilization of that tool, then we have fewer circumstances where there may be an unavailability of in-kind food aid.

Mr. Melito, in your testimony, you indicate that USAID and USDA don't sufficiently monitor effectiveness of food aid programs. What, in your opinion, is needed for sufficient monitoring? The question I am kind of getting at, or the aspect of this question I am kind of getting at again is the issue as to whether cash donations or cash for purchases wouldn't exacerbate this problem.

Mr. MELITO. To answer the last part first, we did not look at the cash purchase issue. Our study was limited to ways to improve U.S. food aid within existing authorities. That was in the actual request letter and we abided by that.

The monitoring issue is a longstanding concern. In the last farm bill, 2002, AID was asked to make an assessment of its resource needs in this area and has yet to actually report out. The IG has reported several times, USAID and USDA, on their need to improve monitoring. The agencies themselves are recognizing this issue.

Right now, a lot of the information coming from the implementation of the program is coming from the implementors, the PVO's, World Food Program. This is just an issue of independence. You like to have someone not involved in actually implementing the program giving you an independent view of how it is working and there is not a sufficient resource on that at the moment.

Senator CRAPO. Thank you. I appreciate your explanation that you haven't evaluated the cash donation issue since you are going under current law, and if you don't have an opinion on this, that is fine. I would like to know, though, if just intuitively whether you would expect that moving to cash donations or cash for purchases would exacerbate the issue of monitoring.

Mr. MELITO. That is not something I have thought about, so I wouldn't want to speculate.

Senator CRAPO. All right. Thank you very much. That is all my questions, Mr. Chairman.

Senator CHAMBLISS. Senator Roberts?

Senator ROBERTS. Dr. Melito, you just said something about the World Food Program. Would you repeat that again, please?

Mr. MELITO. What I said was the USDA and USAID have relied heavily on reports coming from the implementors in the field, and the two implementing bodies are either World Food Program or the PVO's. The World Food Program does implement programs in the field and they do report back to our agencies on how well it is going.

Senator ROBERTS. You are satisfied with that?

Mr. MELITO. No. We would like additional resources for the agencies to independently monitor. So we think there is too much reliance on reports from the implementors and not enough independent view on how the programs are working.

Senator ROBERTS. Do you have any concern that the World Food Program is not being implemented properly?

Mr. MELITO. No. The World Food Program is very experienced in this issue. They have been doing it for years. There is no reason to doubt their abilities, but it just a truism of monitoring that there should be independence in this.

Senator ROBERTS. AID at one time, or the administration at one time, wanted to take the World Food Program in terms of funding away from the Department of Agriculture and put it in AID. I guess Mr. Hammink would be a better person to ask about that. One hundred Senators signed a letter and said no and indicated that it should still come from the Department of Agriculture. I know there is discussion to take the money from CCC and make it mandatory. I don't think that is possible and I don't think that is desirable under the circumstances, but I am worried about the funding for the World Food Program.

Let me just say that WFP is feeding close to 100 million people a year and their NGO and other international partners feed another 100 million. There has been significant progress made in fighting poverty, especially in China and India, but we are losing ground in the battle against hunger.

It became obvious to me that with the World Food Program, when you had the World Food Program, i.e. the McGovern-Dole, or if you are in Kansas the Dole-McGovern World Food Program, you set up and even have schools underneath trees and on a hilltop. The families in these developing nations are an emergency situation country or a country wracked by all sorts of troubles, including terrorist activity. This particular event occurred about 2 weeks after I was in Colombia, followed up by the mercenaries. During that period, they held school and the families involved in that particular area sent a young woman to that school because they were being fed. If you don't feed them, they don't go.

And you can replicate that. I have somewhere here a list of five countries with the worst rate of hunger, all either caught up in war or emerging from long years of conflict—Burundi, Eritrea, the Democratic Republic of Congo—I should just say the Congo, there is nothing democratic there—Ethiopia, Sierra Leone, and then I could just multiply that around the world.

So in terms of fighting terrorism to allow young women to go to school, when they do go to school and they have one, two, three, possibly 3 years—in Africa, that would be about the best that you could do—I think that is the best long-term answer to win this war against terrorism. You educate young women around the world and they are not going to put up with seventh century servitude and they are also going to insist on reforms in their country that I think would make a big difference.

So I am a very strong support of the WFP program. I apologize again for being late.

Senator LINCOLN. [Presiding.] That is OK, but that last comment came as the father of some very strong and smart women. I can tell he has got good daughters out there.

Senator ROBERTS. At least two.

[Laughter.]

Senator ROBERTS. We had $100 million in the school feeding program, the Dole-McGovern Program. It went up to $300 million in 2001 under President Clinton. It went down to $50 million. It was supposed to be $100 million and then we had the rescission down to $98 million. I just don't think this is enough to even start to get the job done.

In Africa, one person in three is malnourished. Well, let us just try the Southern Command, where we have 31 countries, 360 million people, average age of 14, and a lot of malnourishment, and Mr. Hugo Chavez doing his best imitation of Castro, which I think is a big problem. I think the World Food Program can play an integral part in regards to offsetting that danger for millions of people in the crisis in the Sudan, which everybody has heard about, the Horn of Africa, the Democrat Republic of Congo again, Niger, and other countries.

HIV-AIDS is worsening, drought, declining government, civil strive. Eight million farmers have died of AIDS in the past two decades. Twenty-five million AIDS orphans are expected by 2010. Now, these orphans are going to be sitting on the top of some madrassa with an AK–47 unless we are able to help provide the proper education, infrastructure and everything combined. But the key to it, I think, again, is if you feed people, you provide an important incentive for families to send their young women to school.

Basically, I guess my question is, I think we need more money in the World Food Program and I think we need to get at it. I would ask Mr. Hammink, who is our resident officer of the Food for Peace. Now, you have heard my rant. Would you care to comment, sir?

Mr. HAMMINK. Just two quick comments. One——

Senator ROBERTS. I think the answer is yes and we can move right on, but go ahead.

[Laughter.]

Mr. HAMMINK. Yes, we think WFP is doing an excellent job.

Senator ROBERTS. I appreciate that, but would you want to add anything in regards to the funding?

Mr. HAMMINK. The Dole-McGovern or McGovern-Dole school feeding program is, as you know, implemented by USDA, something that we support where we have programs in the same countries and trying to have synergy there. But we continue to work closely with WFP in terms of especially targeting and assessment, because we do give them a lot of money, a lot of food every year, and we want to continue to make sure that food gets to those who are the most in need in the countries where they work.

Senator ROBERTS. We will follow up, and I am already two-and-a-half minutes over time. I need to talk with you, Senator Lincoln, about this whole area. I think a lot more can be done and I thank you, and I thank the witnesses for coming and the job that you are doing. And again, I apologize for being late and somewhat disorganized.

Senator LINCOLN. You have been a valuable addition to this committee and we appreciate you being here this morning. Thank you, Senator Roberts. I am prepared to get busy and work with you on it because I do think it is a critical issue.

Senator Coleman, are you ready?

Senator COLEMAN. Absolutely. Thank you, Madam Chair. I agree with the ramblings that I heard of my colleague.

Senator ROBERTS. You don't have to call it ramblings.

[Laughter.]

Senator COLEMAN. I also serve on Foreign Relations and have been to South Africa, Mozambique, and Botswana and worked very closely to look at the AIDS issue, worked very, very closely with the African Development Corporation, which is trying to do sustainability projects in Africa.

One of the concerns I have is the emergency portfolio, emergency needs squeezing out some of the developmental needs. I look at this as a long-term sustainability. You know, you teach the food insecure how to fend for themselves. You teach somebody to fish rather than feeding them, you have got a better opportunity down the road. Perhaps a little provincial self-interest, we have Land O'Lakes in Minnesota that has been doing, I think, some very, very good things. One of their projects in Zambia is providing technical assistance, so I am aware of that. Again, reduce food insecurity by increasing rural incomes. It all fits together.

My question, then, is the concern about emergency needs taking over the Title II portfolio and squeezing out developmental needs, and I don't know if this was addressed. The Title II program has a minimal level for non-emergency programs of 1,875,000 metric tons. This year, the USAID waived the minimum requirement and provided, I think, only 760,000 metric tons. My concern, then, is these programs build self-reliance in vulnerable communities. They are buffeted by economic downturns, weather, et cetera, et cetera.

Are there changes that have to be made in Title II to ensure that developmental programs are properly funded? How can we be assured that USAID will make the increases unless we require it by law? How do we kind of ensure the commitment to developmental even as we deal with clearly some of these emergency issues out there? I would go to anybody, Mr. Hammink, probably to you. I guess it would be your area.

Mr. HAMMINK. Thank you very much for the question. We have those same concerns. I spent 23 years overseas with USAID and see the absolute importance of these long-term programs focused on chronic issues. As I said in my testimony, giving food away only helps the immediate hunger issues.

We prioritize funding on a regular basis and looking at what the emergency needs are. It is a tough call because there are urgent needs, pipeline needs, needs for getting food out under the development programs quickly as well as the emergency programs. But when faced with the dilemma of saving lives today or improving long-term food security, we save lives today.

What we are trying to do, though, is become much more predictable in terms of the funding, especially the food aid for our PVO partners under the development food aid program. We can share with you several areas that we have started, that we are carrying out to improve that predictability.

Senator COLEMAN. Mr. Yost, let me ask you a Food for Progress question, and I apologize if this may have been addressed before. Again, what you have, it is a minimum level of 400,000 metric tons per fiscal year is required. I understand there is a cap on administrative and transportation funding and USDA is not providing the full 400,000 tons. So you have Title I funding phased out, not being able to afford Food for Progress for over 2 years. Are the caps on transportation and administrative costs the main restraint in reaching that 400,000 metric ton minimum or are there some other issues that we need to be aware of?

Mr. YOST. Senator Coleman, the $40 million cap on transportation is the limiting factor.

Senator COLEMAN. And if the cap wasn't there, what would be the level that would be needed to meet the 400,000 tons?

Mr. YOST. Well, we did about 175,000 tons last year—I have to look it up—so you can start to extrapolate from there. It depends on where it is going and, you know, some places are more difficult to get to in terms of costs, and what overall freight rates are going to be.

Senator COLEMAN. If it is possible, if you could take a look at that and provide——

Mr. YOST. I certainly will, Senator.

Senator COLEMAN [continuing]. A better sense of what it is that we need to do what we said that we were going to do.

Mr. YOST. We will do so.

Senator COLEMAN. Thank you, Madam Chair.

Senator LINCOLN. Thank you, Senator Coleman.

Just one last question, I guess really for all of you. I was going to ask Mr. Yost, but I think any comments you may have, and I do want to complement my colleague, Senator Roberts, for having so much confidence in what women can do if we can keep them educated and fed.

There are 121 million hungry children that are not attending school. The potentially really to feed and educate more children through the McGovern-Dole Program, which has been very successful, is clear. We know we have budget constraints that we face. Do any of you all have ideas about the ways that we could, with existing resources, leverage further either that program or the—that is really our business up here, I suppose, is to think outside the box and figure out how we can leverage the resources we have. You are more on the ground. You are certainly more aware. I hope that if there are any ideas in your minds, or if it is just going to always be that we simply need more resources. If that is the answer, certainly shoot it my way, but my hope is that those of you that are on the ground and you realize this enormous need and you understand our constraints, what ideas you would have for leveraging the resources we have in a greater way. Any suggestions, Mr. Yost?

Mr. YOST. Senator Lincoln, that is a very good question. I don't have any ready answers for that. Clearly, I have seen the program in action. It is the most compelling thing I have ever seen in my life. I think anyone that has seen it would agree. It is so difficult when you are working in some of these areas where there are so few resources. I mean, typically, you reach out to the local governments, parents' groups, things like this, but in that case, there is——

Senator LINCOLN. They don't have them.

Mr. YOST [continuing]. There is nothing there, so it is real difficult to reach out. I guess you would have to reach out to contributions from the private sector unless it is government funding.

Senator LINCOLN. Mr. Hammink?

Mr. HAMMINK. Three quick thoughts. One is that WFP and UNICEF are spearheading what they call an "Ending Child Hunger and Undernutrition Initiative," and that is something that we support. They are looking at increasing advocacy, increasing the use of resources already in countries to focus it much more at child hunger, the kinds of things you mentioned, Senator. That is first.

Second is that we are looking under the new foreign assistance framework whereby the Title II funds for development programs are coming to a country where the Ambassador, the USAID Mission Director, and other development people are getting together to look at how best to use it together to achieve these objectives, and in highly food insecure countries, they are looking at objectives that are focused on the chronic food insecurity issues and they are linking up resources like child survival resources with our food aid whereby we are using food in clinics in some countries for the children and they are providing training for mothers and for the nurses through other funding sources.

Senator LINCOLN. So they are doubling up.

Mr. HAMMINK. And we are doing the same with HIV-AIDS, as well, whereby food is our resource and we can provide food, and OGAC and others are providing some funding in specific situations to alleviate the food needs for people who are on HIV-AIDS——

Senator LINCOLN. Maximize the exposure?

Mr. HAMMINK. Correct.

Mr. MELITO. The upcoming GAO report contains nine recommendations on ways to improve both effectiveness and efficiency of the existing program. This is not thinking about new programs, but the existing programs, so I think that is a real starting point.

Senator LINCOLN. That is great. That will be very helpful. Thank you.

Mr. YOST. Senator Lincoln, if I may add, we are looking at, even though we have small quantities, using some forfeited CCC stocks to supplement the McGovern-Dole Program.

Senator LINCOLN. Oh, that is good. OK. Thank you so much. You have been wonderfully patient with all of us coming and going. We appreciate that. More importantly, we appreciate your hard work and look forward to continuing to work with you to meet that ultimate objective of making sure that just the most basic needs of our fellow man are met. Thank you very much.

We will call up the second panel now. If I can ask our witnesses to take their seats, we will welcome to the panel Mr. Charles Sandefur, Chairman of the Alliance for Food Aid and President of ADRA International; Mr. Timothy Hamilton, the Executive Director for Food Export Association of the Midwest USA and Food Export USA-Northeast; Mr. David Kauck, Senior Technical Advisor for CARE USA; and Mr. Joel Nelsen, who is President of California Citrus Mutual.

Thank you all, gentlemen, for joining us today. We appreciate your willingness to be here and certainly being a further resource to us as we move through not only the budget, but the farm bill and multiple other areas that we deal with here.

Mr. Sandefur, we will begin with you. I believe you have 5 minutes for your testimony.

STATEMENT OF CHARLES SANDEFUR, CHAIRMAN, ALLIANCE FOR FOOD AID, AND PRESIDENT, ADVENTIST DEVELOPMENT AND RELIEF AGENCY INTERNATIONAL

Mr. SANDEFUR. Thank you, Madam Chairman. My name is Charles Sandefur. I am the President of Adventist Development and Relief Agency, ADRA, and the Chairman of the Alliance for Food Aid. The Alliance is comprised of 14 private voluntary organizations and cooperatives that conduct international assistance programs. ADRA has participated in U.S. food programs for nearly 50 years. We thank you, Madam Chairman, for your unrelenting commitment and support for food aid over the years.

The first millennium development goal calls for cutting hunger in half by the year 2015. But since 2000, the number of hungry people has actually increased by 5 percent, from 800 to 842 million people. Food aid is our nation's principal program to combat hunger and its causes. In the 2007 farm bill, we ask the committee to make a renewed commitment to these programs with improvements.

Most important is assuring predictable levels for both chronic and emergency needs and reversing the downward trend in funding for multi-year development programs. Making adequate funds and commodities available at the start of the fiscal year will support good program planning and allow timely procurement, delivery, and implementation. We also believe that some improvements are needed in program procedures, commodity quality, and targeting. Detailed recommendations are provided in my written statement, but I would like to call your attention to four key recommendations.

First, we urge you regularly replenish the Bill Emerson Humanitarian Trust so that it is readily available for emergency needs. Currently, the commodities and funds held in the trust are used as a last resort, causing a drain on other funds. For emergencies, early and timely response is critical for saving lives. The commodities and funds in the trust should be immediately available when Title II emergency funds are insufficient.

Second recommendation, establish a safe box for at least 1.2 million metric tons of commodities for non-emergency Title II programs each fiscal year. This amount would not be subject to waiver. Title II allows PVO's to develop multi-year programs to address the underlying causes of hunger. These are called non-emergency programs and they give us the greatest chance to make a lasting impact and change in lives. But these programs are now endangered because of the loss of Section 416 surplus commodities and other budget pressures.

In recent years, most Title II resources have been shifted from non-emergency to emergency programs. As a result, non-emergency programs are being phased out in 17 countries and cut back in others. The amount available for non-emergency programs has effectively been frozen at 750,000 metric tons, which is 60 percent less than the minimum required by law. We believe this is counterproductive, because development food aid improves people's resilience, gives them the means to improve their lives, and helps stabilize vulnerable areas.

Let me give you an example. ADRA Food for the Hungry and several other PVO's are conducting Title II programs in Bolivia to enhance household food security. The commodities we distribute as payment for work, as conservation projects, as take-home ratios for families with young children, the commodities we distribute include corn, soy blend, lentils, green peas, soy-fortified bulgur, wheat-soy blend, and flour. Funds for this program mainly come from the monetization of wheat flour. We also receive a small cash grant from Section 202(e) of Title II.

ADRA's program has 35,000 direct beneficiaries. Over 70 percent of the population is extremely poor. Infant mortality rates are high, 116 per 1,000 births. Communities must rely on their own agricultural production. The roads are terrible. I have traveled on them. And most people lack means of transportation.

After 3 years, midway through the project, chronic malnutrition amongst children between the ages of two and five had decreased by 25 percent. Exclusive breast feeding of infants under 6 months nearly doubled to 90 percent. And the farmers who participated in the agricultural development programs doubled their household incomes.

We could give additional examples, and we give those in our testimony, of Guinea and Kenya and my own favorite country, Rwanda. Non-emergency programs in those countries have this in common. They and 14 other countries are being eliminated and phased out in terms of their non-emergency program funding. That is why the safe box to protect Title II non-emergency programs is necessary. Without it, the capacity of PVO's to serve these vulnerable areas will deteriorate, which will make it even more difficult to provide aid when crises occur.

Third recommendation, continue recognizing that monetization is an important component of food aid programs. We support its continued use, where appropriate, based on clear market analysis. Choosing a commodity that has limited or no production in the recipient country helps ensure that programs will not create disincentives to local production. There are sound methods for avoiding disruption of commercial sales, such as bringing in small amounts compared to total imports and spreading out the sales.

Indeed, well-planned monetization prevents the bunching that was referred to earlier, creates multiple benefits in poor food deficit countries. A commodity that is in short supply in the country is provided for sale in the market where there is unmet demand. The proceeds are kept in the country and are used for development programs. In addition, some programs use monetization to help improve local marketing through small lot tenders and using food aid commodities to stimulate local processing.

My fourth and last recommendation, lift the transportation cap on funds for USDA Food for Progress programs so that we can increase commodity levels up to 400,000 or 500,000 metric tons. This is a good program. Last year, we and our partners made 116 proposals, but only 14 of those proposals were able to be approved within the existing budget.

Those are my four recommendations. Thank you, Madam Chairman. We look forward to your questions.

[The prepared statement of Mr. Sandefur can be found on page 137 in the appendix.]

Senator LINCOLN. Thank you.

Mr. Hamilton?

STATEMENT OF TIMOTHY HAMILTON, EXECUTIVE DIRECTOR, FOOD EXPORT ASSOCIATION OF THE MIDWEST USA AND FOOD EXPORT USA-NORTHEAST, CHICAGO, ILLINOIS, ON BEHALF OF THE COALITION TO PROMOTE U.S. AGRICULTURAL EXPORTS

Mr. HAMILTON. Thank you, Madam Chairman. Good morning. My name is Tim Hamilton and I am with the Food Export Association of the Midwest USA and Food Export USA-Northeast, which are regional trade organizations that offer services to help U.S. food and agricultural companies to promote their products in foreign markets. Today, I am testifying on behalf of the Coalition to Promote U.S. Agricultural Exports, of which we are a member. We commend you, Madam Chairman and members of the committee, for holding this hearing to review our agricultural trade programs and wish to express our appreciation for the opportunity to present our views.

The Coalition to Promote U.S. Agricultural Exports is an ad hoc coalition of over 100 organizations representing farmers and ranchers, fishermen and forest product producers, agriculture cooperative, small businesses, regional trade organizations, and the 50 State Departments of Agriculture. We believe that the U.S. must continue to have in place policies and programs that help maintain the ability of American agriculture to compete effectively in a global marketplace that is still characterized by highly subsidized foreign competition.

Farm income and agriculture's economic well-being depend heavily on exports, which account for 25 percent of U.S. producers' cash receipts. It provides jobs for nearly one million Americans and makes a positive contribution to our nation's overall trade balance. In fiscal year 2007, U.S. agricultural exports are projected to be $78 billion, up $9.3 billion over last year. However, exports could be significantly higher if it were not for a combination of factors, including high levels of subsidized foreign competition and crippling trade barriers.

U.S. agriculture's trade surplus is also expected to be $8 billion this year, which is up $4.7 billion over last year, but unfortunately is a huge decline from the roughly $27 billion agricultural surplus that we ran in fiscal year 1996.

Members of our coalition strongly support and utilize the Market Access Program, or MAP, and the Foreign Market Development Program, or FMD, which are administered by the USDA's Foreign Agricultural Service. Both programs are administered on a cost-share basis with farmers and other participants required to contribute up to 50 percent of their own resources. These programs are among the few tools which are specifically allowed in unlimited amounts under WTO rules to help American agriculture and American workers remain competitive in a global marketplace still characterized by highly subsidized foreign competition. By any measure, they have been tremendously successful and extremely cost effective in helping maintain and expand U.S. agricultural exports, protect American jobs, and strengthen farm income.

A recent independent cost-benefit analysis of the MAP and FMD programs was prepared for USDA by Global Insight, Incorporated, which is the world's largest economic analysis and forecasting firm. That report illustrates the benefits of these vital market development programs. According to the study, total public-private spending on market development has grown 150 percent in the past decade, to over $500 million projected for fiscal year 2007. Three-hundred-million dollars of this comes from industry and $200 million from government. Over this period, industry contributions have grown twice as fast as those from the government side under MAP and FMD. Industry funds are now estimated to represent almost 60 percent of the total annual spending, more than double that level in place in 1991, which strongly represents industry commitment to this effort.

The Global Insight study clearly indicates the following benefits of increased funding for market development and promotion through MAP and FMD authorized in the 2002 farm bill, combined with the increased contributions from industry.

No. 1, the U.S. share of world agricultural trade since 2001 grew by over one market share point, to 19 percent, which translates into $3.8 billion in agricultural exports. That level was at 18 percent, but has grown to 19 percent in the past year.

No. 2, for every additional dollar spent on market development, $25 in additional exports results within three to 7 years.

No. 3, farm cash receipts have increased by $2.2 billion during the 2002 farm bill period due to the additional exports from market development. Higher cash receipts increased annual farm net cash income by $460 million, representing a $4 increase in farm income for every additional $1 increase in government spending on market development.

In recent years, the EU, the Cairns Group, and other foreign competitors devoted approximately $1.2 billion on various market development activities to promote their exports of agriculture, forestry, and fishery products. A significant portion of this is carried out here in the United States. As the EU and our other foreign competitors made very clear, they intend to continue to be aggressive in their export promotion efforts.

For this reason, we believe that the administration and Congress should strengthen funding for MAP and other export programs as part of a strong trade component in the new farm bill and also ensure that such programs are fully and aggressively utilized. It should be noted that MAP was originally authorized in the 1985 farm bill at a level of $325 million, and the coalition strongly supports returning the program to that authorized level of funding from its currently level of $200 million per year. We also urge that no less than $50 million annually be provided for the Foreign Market Development Program for cost-share assistance to help boost U.S. agriculture exports. For the FMD program, this proposed increase reflects approximately the 1986 level of funding, adjusted for inflation.

In addition to the success stories attached and further to your earlier question, Senator, there are approximately 20 success stories attached to my written submitted testimony, and if it meets your approval, I would like to include one additional story from the Northwest Cherry Growers Council.

I would like to describe one way that my organization uses the MAP program to help U.S. food producers to get started exporting and to promote our country's value-added exports. The 50 State Departments of Agriculture participate in MAP through four State regional trade groups. These groups coordinate the export promotion efforts of the States and focus on assisting particularly smaller food and agricultural products producers and farmer cooperatives.

We identify three levels of assistance for smaller exporters. No. 1, educating them on exporting. No. 2, helping them get established in the new market. And No. 3, growing their export sales in those markets once they are established.

We have our program called our Branded Program, which offers cost-share assistance through which we support 50 percent of the costs of a variety of marketing and promotional activities for small companies. This helps companies to expand their marketing efforts and stretch their marketing dollars twice as far as they otherwise could. We routinely hear from small companies that they would simply not be exporting were it not for this program.

One example of that is the American Popcorn Company, which is located in the Midwest. It has used these Branded Program funds to expand their marketing efforts in Eastern Russia and Saudi Arabia. Since starting those promotions, the company has achieved a market leading share in Saudi Arabia and experienced a 20 percent increase in sales during its first year. The minimal cost of promotion in these markets has brought long-term gains to this company and to the producers that supply it.

Last year, about 200 small companies in our programs made their first export sale of U.S. agricultural products, and nearly 250 companies generated sales increases over 20 percent above their prior year. None of this would have been possible without the MAP program.

American products are seen worldwide as high-quality products, safe products. Selling higher-quality products requires promotion and the MAP is an investment in promotion that pays off.

As world trade increases, so does competition. It is essential that we increase funding for MAP and for FMD in order to continue to build our export programs for U.S. agriculture.

I appreciate the opportunity to testify in support of these programs and look forward to any questions.

[The prepared statement of Mr. Hamilton can be found on page 48 in the appendix.]

Senator LINCOLN. Thank you, Mr. Hamilton.

Mr. Kauck?

STATEMENT OF DAVID KAUCK, SENIOR TECHNICAL ADVISOR, CARE USA, RICHMOND, VERMONT

Mr. KAUCK. Madam Chairman, thank you for this opportunity to present CARE's views on U.S. international food aid programs. I am a specialist in food security. I have worked for CARE for 16 years, most of that time in sub-Saharan Africa.

There are approximately 820 million undernourished people in the developing world. The situation is particularly acute in sub-Saharan Africa, where for at least the last three decades, hunger has steadily worsened, becoming more widespread and persistent over time. Across the African continent, growing numbers of people have fallen into such extreme and intractable poverty that they lack the means to rebuild their lives following disasters. This helps to explain the increased frequency and severity of humanitarian emergencies and also the exploding demand for emergency food aid. In many parts of Africa, events that would not have triggered major emergencies 25 years ago do so today.

While humanitarian crises have increased, the funding needed to adequately provide food assistance has not kept pace. Controlling for inflation, food aid budgets have declined by nearly half since 1980. We recognize that these resource constraints will not be easy to resolve in the current budget environment. Therefore, our main interest here today is to urge improvements in the efficiency and effectiveness of the Title II program so that we can achieve the greatest possible benefit with the resources that we have.

With these concerns, CARE recommends several specific changes in current Title II policies.

First, CARE endorses increasing procurement flexibility so that food may be routinely purchased locally or regionally in developing countries. Having a local purchase option can reduce delays and therefore save lives. This approach must be undertaken carefully. If it is not managed properly, local purchase can trigger price spikes that are harmful to poor people who must purchase food in order to meet their basic needs. CARE believes that a pilot program would be a useful and prudent way to introduce this innovation.

Second, CARE recommends that Congress consider alternative methods to make cash available. Experience has shown that cash-supported activities are critical to the success of food assistance programs. But the practice of purchasing commodities here in the U.S., shipping those resources overseas, and then selling them to generate funds for food security programs is far less efficient than the logical alternative, simply providing cash for these programs.

To improve efficiency, we recommend increasing Section 202(e) funding levels to at least 25 percent of the overall Title II budget and expanding 202(e) flexibility to permit the use of these funds for program-related costs. This would substantially improve cost effectiveness and it would eliminate a source of unnecessary controversy that hangs over U.S. food assistance. Economic research supports the view that open market sales of imported food can sometimes be harmful to local farmers and traders. It also shows that monetized food tends to replace commercial imports. As a result, monetization has become an especially contentious issue during WTO negotiations.

Madam Chairman, for the reasons just mentioned, CARE has made an internal decision to phaseout of monetization. This transition should be completed by the end of fiscal year 2009. In the future, we will confine our use of food commodities to acute emergencies as well as targeted distribution to the chronically hungry under non-emergency programs.

Third, CARE recommends changes in the Bill Emerson Humanitarian Trust. The trust was intended to function as a reserve of food and funding that can be drawn upon quickly to address rapid onset emergencies. Unfortunately, at present, the trust is difficult to access and is usually deployed as a last resort rather than a first response.

Two changes would help the trust function as it was originally intended. First, to make it more accessible, the conditions for releasing food and funds should be clarified in law. Second, we recommend modifying current law to ensure replenishment of commodities as part of the normal annual appropriation process.

Finally, chronic hunger is often the result of multiple deeply rooted causes. Combating the causes of hunger will require common goals and coordinated action across programs and agencies. Within the U.S. Government, there are several such initiatives underway. One example that we have direct experience with is the government of Ethiopia's Productive Safety Net Program. Under this program, multiple donors, including the United States, engage in coordinated planning action. They use a combination of food and cash resources, all working toward a common goal, to reduce hunger. We ask the committee members to consider this example as an encouraging model for coordinated action.

Madam Chairman, members of the committee, thank you again for this opportunity. I look forward to answering your questions.

[The prepared statement of Mr. Kauck can be found on page 79 in the appendix.]

Senator LINCOLN. Thank you.

Mr. Nelsen?

STATEMENT OF JOEL NELSEN, PRESIDENT, CALIFORNIA CITRUS MUTUAL, EXETER, CALIFORNIA

Mr. NELSEN. Thank you, Senator, and other members of the committee, for allowing us the opportunity to testify with respect to phytosanitary trade issues. These are vitally important to specialty crop growers around our nation. I wish to commend the committee for holding this hearing on a very important topic.

First, I would like to note that specialty crop growers produce nearly 50 percent of the farmgate value of total agricultural crop production in the United States. We look forward to working with Congress in the development of a farm bill that fully addresses the many issues confronting specialty crop growers in today's rapidly changing global markets.

U.S. trade policy is critically important to our industry. Unlike many of the other agricultural crops, specialty crops face a significant trade imbalance with our trading partners. Between 1995 and 2005, imports of specialty crops more than doubled, to $10.1 billion, while U.S. specialty crop exports have increased only modestly. As a result, the fruit and vegetable trade surplus in 1995 of over $600 million is now a trade deficit of $2.3 billion. This trade deficit is a manifestation of the many difficulties that specialty crop growers now confront in order to remain competitive in global markets.

One of the primary reasons for the trade deficit in specialty crops is that access to foreign markets for our commodities has often been blocked due to phytosanitary trade barriers. In May of 2005, a report by the Department of Agriculture's Foreign Agricultural Service identified 36 phytosanitary barriers that serve as obstacles to our exports in various markets. While some of these issues may have been legitimate or justified, many are not and some should be overcome with a sound scientific approach.

When the Uruguay Round Agreement was implemented more than a decade ago, it was our hope and expectation based upon promises made by government officials that specialty crop growers would gain access to foreign markets as a result of that agreement. Unfortunately, while the U.S. market welcomes imports from our trading partners, U.S. growers have not received access to many foreign markets. This is largely due to the continued existence of phytosanitary barriers.

It is imperative that Congress take action in the 2007 farm bill to address the problem of phytosanitary trade barriers. California Citrus Mutual has been an active member of the Specialty Crop Farm Bill Alliance, and this coalition has developed many recommendations for how the farm bill can address this situation. Some of these provisions will be included in legislation that is expected to be introduced in the Senate by Senators Stabenow and Craig, and believe me, we greatly appreciate their strong leadership and the other cosponsors that will come forward for this piece of legislation.

These recommendations, which are discussed in detail in my written statement, include the following. Increased funding for the Technical Assistance for Specialty Crops Program. This has been extremely successful in helping to remove phytosanitary barriers. Unfortunately, it is over-subscribed. Increased coordination of phytosanitary trade policy between Federal agencies, such as USDA and USTR. Ensure that APHIS has the resources needed to process phytosanitary export petitions in a timely manner. We believe the implementation of these recommendations would help remove phytosanitary barriers and thus provide our growers with the opportunity to maximize their export opportunities.

Another critical issue for our industry is the need for the Federal Government to protect U.S. agriculture against invasive pests and diseases. Once we are quarantined, we cannot ship. We cannot export. With the large increase in international trade over the past decade, the threat of invasive pests and diseases to U.S. agriculture has grown significantly.

We recommend several initiatives for inclusion in the farm bill to minimize and manage this risk so we can maximize our export opportunities. First, we recommend that the farm bill direct APHIS to develop a program that clearly identifies and prioritizes foreign invasive species threats to specialty crops.

Second, we believe the farm bill should contain language that directs the Secretary to provide access to funding for emergency response and eradication programs needed to combat the invasive species in a timely and effective manner.

Finally, we are very concerned with the effectiveness of the Department of Homeland Security in protecting our nation's borders from the introduction of these invasive species. Citrus Mutual is recommending that the farm bill require the transfer of our border inspection responsibilities back to APHIS. We believe this would more effectively protect the specialty crop industry and other U.S. interests against the increasing threat of foreign invasive species.

Senator we wish to thank you for this opportunity to testify on trade issues of importance to our industry and I would be pleased to answer any questions that you may have.

[The prepared statement of Mr. Nelsen can be found on page 130 in the appendix.]

Senator LINCOLN. Thank you, Mr. Nelsen.

Thanks to all of you gentlemen for taking time to be with us.

I will just offer up a few questions here to begin with, and to any of you all on the panel, last year, both the Foreign Agricultural Service and the U.S. Agency for International Development underwent major reorganizations in an effort to improve their efficiency. We all know that Rome wasn't built in a day, but how would you rate those agencies' success in achieving their goals thus far?

Mr. NELSEN. Well, Senator, I am a member of the Fruit and Vegetable ATAC Committee at USDA and Administrator Yost has come in and briefed us on a couple of occasions. I would be less than honest if I didn't tell you that we had reservations about that reorganization. Having said that and running our own organizations, we are mindful of the fact that a manager should have the ability to change and reorganize if he thinks more efficiencies can be developed. We are willing to give him that opportunity, but be mindful that the specialty crop industry is going to monitor it very closely.

Senator LINCOLN. Great. Any other recommendations?

Mr. HAMILTON. Senator, I would like to concur with Mr. Nelsen's comments, but I also would like to recognize Administrator Yost for his degree of collaboration and communication with the industry in terms of undergoing that reorganization and kind of the long-term need for change within the agency.

We are also concerned about the lack of resources in terms of staff. As he testified earlier, they are only staffed at 80 percent, and we would certainly like to see those numbers increase as the resources allow in order to fill a lot of these new positions and new kind of functions that they have created.

Senator LINCOLN. Do you other gentlemen have any comments or oversight?

Mr. KAUCK. I would only comment that we would like to acknowledge the collaboration and the consultations that we have had with the Office of Food for Peace throughout all of this. That is a very constructive relationship.

Senator LINCOLN. Great.

Mr. SANDEFUR. We also have benefited from that relationship. I do want to register, though, some concerns about the F process and acknowledge that in the F process, which is a restructuring of aid, to make sure that food for development does not lose in that process. We note that while the F process is going on——

Senator LINCOLN. Non-emergency?

Mr. SANDEFUR. Or non-emergency, especially. We note again that there has been this reduction from 32 to 15, then bumped back up possibly to 18 countries that are focused, and that reduction in food aid is of extreme concern to us.

Senator LINCOLN. So collectively, you seem to have been engaged, at least, or included in the conversations of how reorganization happens and you want to continue that, obviously.

Mr. SANDEFUR. Yes.

Senator LINCOLN. Great. Thank you. Mr. Sandefur, if this committee went along with the Alliance's recommendation to increase the cash payments to cover the logistical costs to the 10 percent of program level, can you give us any kind of a ballpark guess or estimate as to what share of the PVO monetization activity that would replace?

Mr. SANDEFUR. Our desire is to keep monetization intact and not to see it reduced, which is why we are calling for a 1.2 million safe house so that we don't have that reduction. Our concern would be if 202(e) is increased to the level that it is seen as a substitute for monetization. There are times when we believe there needs to be cash, just the situation demands it, and we think that in bumping it up from the current 5 percent usage up to 10 percent will more than take that into account.

Senator LINCOLN. How many years should any individual pilot project that you might—because I think you recommended earlier that you would see it as a pilot project first, is that correct?

Mr. SANDEFUR. Yes.

Senator LINCOLN. Or maybe that was somebody else's testimony, but anyway, how many years should any individual pilot project, usually local or regional cash purchase, be conducted in order to get an accurate picture of how a broader program might perform? What is going to give us a best estimate in terms of how the long term would work, or what diminishing problems we might have for long term?

Mr. SANDEFUR. I am just the President of ADRA. I am not the technical expert. But it is going to take several years. You know, we have got all the ups and downs and the fragility of local economies have to be taken into account. We have got to go through some of the seasonal disruptions. And so the more longitudinal that is, the better it will be and we will get better economic analysis, which is sorely needed. That is one of the reasons we are suggesting pilots. While some PVO's have had experience, the World Food Program obviously has had experience, sometimes it has produced spikes, we need to do careful economic analysis and that will take time. It will take multiple years.

Senator LINCOLN. Dr. Kauck, I know you had expressed some concerns about the monetization and certainly from CARE's standpoint. Maybe both of you all would like to answer if there is an independent organization that you would recommend to perform any kind of overall evaluation of the effectiveness of local and regional cash purchase pilot programs. I mean, who do we go to to give us that evaluation? I know you mentioned Food for Peace, but if one were going to be adopted in the farm bill, who would that be? Who do we look to for giving us that guidance?

Mr. KAUCK. For the technical work?

Senator LINCOLN. Yes.

Mr. KAUCK. I think that there are probably a number of different candidates. One would be the International Food Policy Research

Institute. There are a number of university-based agriculture economics programs that also have the capacity to do that work.

Senator LINCOLN. Dr. Kauck, much of the real decline in food aid funding worldwide since 1980, and I think it was you that mentioned that, has been due to less being provided by the United States. I guess how much, if you were to compare, how much is due really to less being provided by us and how much of that decline is attributable to other donor countries? Are our neighbors in the global community keeping up with us?

Mr. KAUCK. For a specific answer, I would have to get back to you with written testimony. But to be sure, food aid from other countries has declined over the years, certainly European.

[The following information can be found on page 212 in the appendix.]

Senator LINCOLN. Well, we know that certainly everybody does what they can and that proportionately it has to do with how large your country is and how well off your country is. But just, I guess, in terms of the percentages that they have been giving from the 1980's on, I would be interested if you have any information on that. We definitely want to make sure, whether it is climate change or world hunger, that we are really encouraging our global neighbors to do all that they can, as well, because it diminishes what we do if they don't keep up, obviously. Any light you can shed on that for me is good.

Senator Coleman? I have got a lot more questions, but I am going to move to you.

Senator COLEMAN. I just have a few, Madam Chair.

I do want to follow up on the question of monetization. I am familiar with the Land O'Lakes program. I was reviewing their analysis and I listened to Dr. Kauck's concerns, and your testimony indicates economic research supports the view that open market sales of imported food may in some cases create market distortions and harm for the local farmers and traders and economies. It also shows that monetized food tends to displace commercial imports, both from the U.S. and other countries. So clearly, that is a contentious issue, the monetization issue.

In Land O'Lakes, in their kind of analysis of their program, they talk about the Zambia team and they are talking about monetization of up to 11,000 metric tons of wheat result in a substantial disincentive, interference with domestic production due to the structure of Zambia's commercial wheat market, the structure of wheat and wheat products, et cetera, et cetera. It ends by saying, in order not to compete with locally produced wheat, it should have a relatively high protein content which is normally mixed in with locally produced low-protein wheat to make baked goods. In other words, they are kind of looking at this issue and trying to analyze is there a distortion.

So I want to second the Chair's sense that we need to take a look at this and figure out whether it is going to have some sort of disincentive, whether it is going to create interference that is harmful, and whether, in fact, it is something that if you look at local conditions you can avoid that. In the end, we all want to do good.

The nice thing about the Emerson Humanitarian Trust, and I just hear good things about it and good things about what is being done, and I just want to make sure if we make any change that we are not going to be doing more harm than good. So I would second the Chair. If we could follow up and get some objective analysis of this, I think it would be very, very helpful.

Mr. Sandefur, in your testimony about that, you talk about the trust and talk about safe box. I think I understand the concept. Are what we looking at here is going to be the issue that I raised before, to make sure that the emergency programs don't take away from the long-term non-emergency? I am looking for sustainability here. So is a safe box, would that provide the kind of sustainability that I am looking for in these programs?

Mr. SANDEFUR. Yes, we think it would. The current law calls for 1.875 million metric tons for non-emergency programs with the allowance for their being a waiver, and the result has been that more than a million tons, then, has walked out of the development door and moved through the emergency door and we need to protect that. So the safe box is to ask for a 1.2 million guarantee and create that safe box, enlarge and increase, which we all agree with the Bill Emerson Humanitarian Trust, and to be able to trigger that sooner to help with emergency programs.

The lack of consistency, depending upon supplementals, creates a lot of chaos in our community and that instability and needing then at times to hibernate and cut back programs just ricochets through the countries that we are trying to serve. And so creating a safe box would bring lots of stability to us and allow us to smooth over our programs, and it would also help with monetization. We wouldn't be caught potentially with spikes in monetization. We would be able to market that more consistently seasonally with the commodities, the right quantity at the right time.

Senator COLEMAN. Mr. Hamilton, the President's farm bill, I think, recommends an increase of funding for MAP to $225 million, and MAP is a program which I don't think I have ever heard anything bad about. People are enthusiastic, very, very positive. You talk about the economic benefits, additional exports, the impact on market development, et cetera.

The question I have is are we making this increase in funding adequate? Is there a number that we should be looking at that is different from the President's number?

Mr. HAMILTON. The Coalition supports going back to the number that was originally authorized in the 1980 farm bill, which was $325 million, which is obviously in excess of the administration's proposal. One of the advantages of the program is that there is no limit to it under the WTO because this is considered a marketing program, so it is entirely green box. So there is no limitation on that side from it.

Senator COLEMAN. Let me just go back to Mr. Sandefur for one last question. You talk about lifting the transportation cap. Again, is this a dollar issue?

Mr. SANDEFUR. Yes.

Senator COLEMAN. A funding issue?

Mr. SANDEFUR. Yes. If we increase that funding, we are going to be able to have more tonnage in Food for Progress.

Senator COLEMAN. Again, the issue that I raised in the first panel, if we could get some sense of the dollar amount that we are talking about so we have a target to shoot at, that would be helpful.

Mr. SANDEFUR. We are asking—I can't remember exactly how many millions of dollars, but we are asking for a set—it needs to be consistently replenished and capped so that—what is it, 16 to 20? Sixty million, there we go. Erase 16 and go to 60.

Senator COLEMAN. I think that is all I have, Madam Chair. Thank you.

Senator LINCOLN. Thanks, Senator Coleman. Well, this is the week that we debate the budget, so there is a lot of erasing and changing and robbing Peter to pay Paul, quite frankly, in this theoretical document that we put together.

Dr. Kauck, back on CARE's, I think, very thoughtful decision to phaseout the monetization by the end of 2009, I guess my question is, because we are dealing with the budget and it is a very fluid process and a very fluid discussion, will CARE continue to try to reach that objective if—will it continue to be carried out even if the recommendation that you have made on increasing the share of cash available to undertake the programming through Section 202(e) is not adopted? I mean, is it contingent?

Mr. KAUCK. CARE's decision is not contingent. We will phase out of monetization, regardless of whether additional funding under section 202(e) becomes available.

Senator LINCOLN. You will?

Mr. KAUCK. Yes.

Senator LINCOLN. OK. Mr. Hamilton, you have talked about—I was telling the staff, I don't think we have ever been told that there is enough money in MAP, ever. I have seen the evidence of it being a very effective program and the taxpayers invest $235 million annually in the trade promotion efforts. Can you give us any idea cumulatively how much the trade associations, the cooperatives, and those small companies that you work with that participate in that program typically provide in their cost share? I know you mentioned that 50 percent of the resources, but is that kind of the cost share there, or——

Mr. HAMILTON. The legislation requires that there be a 50 percent match by the trade associations, and in the numbers in the recent Global Insight study that was completed, their assessment is that currently it is 60 percent. So based on the MAP program, which is at $200 million, they estimate that there is a, if my numbers are right, $300 million is contributed by industry and $200 million by government, so that as the funding for the MAP program has increased, the contribution from the private sector has actually increased at double the rate that the public investment has had.

Senator LINCOLN. OK, great. We like leveraging those dollars, that is for sure.

You also, when you mentioned the Global Insight study, you said that it relies significantly in its results on the so-called "halo" effect.

Mr. HAMILTON. As I understand it, and again, I am not an author of the study, but when they refer to the halo effect, they are referring to kind of what might be described as the downstream effect, not just the farmgate income but the benefits that accrue to processors, to labor, to transportation, to packaging, and to other kind of supporting and related industries.

There is also a kind of a downstream effect over a period of time that in market development and export promotion, what happens is there is a very immediate effect in terms of building relationships and building sales, but even more so, there is a long-term effect that can take anywhere from three to 7 years to really accrue and it becomes very difficult to measure those results on kind of a short-term basis. But their estimation is that over three to 7 years is the true effect of the program.

Senator LINCOLN. So definitely sustainability, as well, is important, is inherent in what you are trying to do, because it is the longevity of that that really in the end is productive, is that right?

Mr. HAMILTON. Exactly. They are just capturing data in a very short term, but in fact, the effect is really much longer term.

Senator LINCOLN. Mr. Nelsen, are you aware of the specific foreign SPS barriers affecting specialty crop exports which were put forward by the industry as potential dispute settlement cases under the WTO but that were not carried forward by the Office of U.S. Trade Representative?

Mr. NELSEN. Not for the whole industry, Senator. No, I can't speak to that. I can speak to those that are more applicable to California citrus quite candidly because that is my area of expertise.

Senator LINCOLN. Right.

Mr. NELSEN. I can tell you that better than a decade ago, we had reached an FTA with India, as an example, in which we were going to gain access to that country with our lemons. Last year, we probably moved a whole pallet of lemons. That is not much growth in 10 years.

We are about ready to reach the aggravation point with one of our largest trading partners in South Korea. We have approached them about changing some protocols based upon some scientific evidence that has been developed by the University of California and our industry to modify what we have to do to satisfy their concerns. That has not been met with much satisfaction to date. There are stories in other commodities that we can relate to, the lettuce industry.

The question becomes, Senator, is how much can a commodity like ours spend in an effort such as you are describing. We felt that we had ample evidence, as an example, for an EU situation, a competitor that was unfair as it related to us and our inability to access their market while we were allowing their product here. It became an expenditure of somewhere around budgeted of $1.5 million after an initial study that we conducted. You run out of resources eventually, and as a consequence, commodities like ours can't take full advantage of that program under its present structure.

Senator LINCOLN. Well, the specialty crop industry has experienced a lot of that for years. I have some specialty crops in Arkansas and they are growing, but we are mostly the larger commodities on the world market. I have got to say, it is starting to follow suit even in those areas, too, and we are recognizing, as you said, the cost of dealing with those types of issues. I think it is as if even when we negotiate these agreements, it seems like they know our trade laws better than we do and all of a sudden they wear us down to where the costs of trying to push forward, our rights or certainly what we feel like is due to our growers are gone.

Mr. NELSEN. Senator, I couldn't agree with you more. We are an industry of about 3,500 family farmers and it is a question of resources.

Senator LINCOLN. That is right.

Mr. NELSEN. We are in business to help them generate revenue, and if people such as myself or colleagues beat our heads against the wall for too long a period of time, we can't access other markets and open those up so that we can make revenue. It gets very aggravating at times.

We have no choice as an industry, specialty crop industry, during this debate on trade and farm bill activity to be more aggressive because what we do in the next 365 days, or probably maybe a little bit longer, is going to dictate our ability to compete in the next decade. So we have no choice to participate, and we will.

Senator LINCOLN. You are right. It is going to be an interesting at least next 6 months.

Just one last one for Mr. Nelsen. Would you say that the problems with the transfer of plant protection and quarantine responsibilities to the Department of Homeland Security stem largely from the lack of appropriate training and timely knowledge on the part of inspectors or coordination of activities within DHS? I know your final statement was a very affirmative, please go back to APHIS. But what is the root of the problem, the coordination of activities between DHS and USDA, or is it just that there is a silo over there at Homeland Security that doesn't connect with the groups over at USDA that it is really serving?

Mr. NELSEN. Well, Senator, we are going to have a long discussion on that when two agencies get kind of upset with my summation here. But the problem is a mindset. When the transfer was made to the Department of Homeland Security, their focus was on some very important activities. The agricultural inspection program was an afterthought. A prime example of that is it took them almost a year to put an administrator in charge of that program and then several months after that to give him any support staff to assist in managing the agricultural inspection program.

I kind of get this. I understand what is going on. I have been a student of the GAO and Congressional Research reports on this particular subject. And as a result, you had more vacancies created as a result of the transfer, fewer trained people, the tools that they have at their disposal, less accurate in their implementation of the program, and greater infestation of invasive species.

I think there is a willingness to try. The people on the line work hard.

Senator LINCOLN. They do.

Mr. NELSEN. But unfortunately, we have lost our expertise and institutional knowledge and those charged with understanding, appreciating, and protecting agriculture lie over at the Department of Agriculture. That is where the program administration should take place. That is where the program should be.

Senator LINCOLN. I had great reservations about moving it to Homeland Security and I think you are right. Obviously, it has not only done a disservice to the agricultural industry, but it has done a disservice, I think, ultimately to the objective of what Homeland Security really wanted to and should be doing in terms of production safety and the commodities coming in safe and going out——

Mr. NELSEN. With all due respect, it is not just an agricultural issue. We have got urban blight taking effect because of bark beetles affecting parks, golf courses. These invasive species are not totally specific to agricultural commodities. They come in on plant products in urbanization efforts across this country. There are examples across the board. If we as a nation are going to better protect our borders as it relates to some of these invasive species and diseases, we have to move that program back to the Department.

Senator LINCOLN. Particularly folks that understand it. Thank you very much.

Thanks to the panel for your very thoughtful insight and your hard work in the field. I think, ultimately, we all want very, very much to end hunger, poverty globally, and I think there are some very tough questions for all of us to answer, but more importantly, the fact that you are still at the table and you want to talk about it and work to make it happen, I think is the most evident of success.

So thank you very much for joining us and we will be continuing to look to you for thoughtful answers and concerns as we move forward.

The committee is adjourned.

[Whereupon, at 12:00 p.m., the committee was adjourned.]

APPENDIX

MARCH 21, 2007

STATEMENT OF SENATOR TOM HARKIN, CHAIRMAN
SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
EXAMINING THE PERFORMANCE OF U.S. TRADE AND FOOD AID PROGRAMS
March 21, 2007

Today's hearing examines our nation's agricultural export and international food assistance programs within our Committee's jurisdiction, which together make up the core of the farm bill's trade title.

Trade in food and agricultural products is vitally important to the U.S. agriculture sector. Since the 2002 farm bill was enacted, U.S. agricultural exports have increased by 30 percent, with the past three years each setting a new record. Agricultural imports are increasing even more quickly, with the annual net trade balance shrinking to less than $5 billion in the past two years. And from 1984 to 2005, the U.S. share of global agricultural exports has fallen. In a nutshell, those figures illustrate both the potential and the stiff challenges in trade for U.S. agriculture.

The United States has historically been the world's most dependable food donor nation, accounting for more than half of total food donations globally in the last several years. Our basic standing food assistance program, long known as Food for Peace, or P.L.480, was enacted over 50 years ago. Over the years, the nature of the problems faced in developing countries has changed, and so we need to consider how we should change our food aid programs better to address today's circumstances. For that reason, Senator Chambliss and I asked the Government Accountability Office to examine our existing food aid programs to see how their efficiency and effectiveness can be improved. The full GAO report will be released next month, but the key recommendations will be presented in testimony today.

USDA's farm bill proposal recommends additional funds for the largest trade promotion program, the Market Access Program. It also calls for new initiatives mostly targeted at enhancing export opportunities for specialty crops. The proposal also includes modest changes to various export credit programs and elimination of the Export Enhancement Program, which has not been used in more than a decade. Our Committee will take a serious look at these ideas, and a number of them may eventually be incorporated into the new farm bill.

There are longstanding discussions and disagreements over the ramifications of U.S. food aid in developing countries and international markets. Some have argued for eliminating in-kind shipments of food aid and converting this form of assistance to grants of money. The administration has proposed allowing up to 25 percent of our P.L.480, Title II, funding to be used for cash purchases instead of for buying and shipping U.S. commodities for donation. Congress has not embraced this idea previously, in large part because not much is known about how it would work in practice. Our Committee will carefully consider this proposal and examine the likely consequences should it be adopted.

I thank our witnesses for appearing today and look forward to their comments concerning trade and food aid and their recommendations for the new farm bill.

Coalition to Promote U.S. Agricultural Exports

STATEMENT BY
COALITION TO PROMOTE U.S. AGRICULTURAL EXPORTS
TO THE
COMMITTEE ON AGRICULTURE, NUTRITION,
AND FORESTRY
UNITED STATES SENATE

MARCH 21, 2007

Good morning, Mr. Chairman. My name is Tim Hamilton, and I am Executive Director of Food Export Association of the Midwest USA and Food Export USA—Northeast, which are regional trade organizations that offer services to help U.S. food and agricultural companies promote their products in foreign markets. Today, I am testifying on behalf of the Coalition to Promote U.S. Agricultural Exports of which we are a member. We commend you, Mr. Chairman, and members of the committee, for holding this hearing to review our agricultural trade programs and wish to express our appreciation for this opportunity to share our views.

The Coalition to Promote U.S. Agricultural Exports is an ad hoc coalition of over 100 organizations, representing farmers and ranchers, fishermen and forest product producers, cooperatives, small businesses, regional trade organizations, and the State Departments of Agriculture (see attached). We believe the U.S. must continue to have in place policies and programs that help maintain the ability of American agriculture to compete effectively in a global marketplace still characterized by highly subsidized foreign competition.

With the 2002 Farm Bill, Congress sought to bolster U.S. trade expansion efforts by approving an increase in funding for the Market Access Program (MAP) and the Foreign Market Development (FMD) Program. This commitment began to reverse the decline in funding for these important export programs that occurred over the previous decade. For MAP, funding was increased over the course of the 2002 Farm Bill from $90 million annually to $200 million annually, and FMD was increased from approximately $28 million to $34.5 million annually.

Farm income and agriculture's economic well-being depend heavily on exports, which account for over 25 percent of U.S. producers' cash receipts, provide jobs for nearly one million Americans, and make a positive contribution to our nation's overall trade balance. In FY 07, U.S. agriculture exports are projected to be $78 billion, up $9.3 billion over last year and up $25 billion since 2002. However, exports could be significantly higher if it were not for a combination of factors, including continued high levels of subsidized foreign competition and competition crushing trade barriers. Agricultural imports are also forecast to be a record $70 billion, continuing a 35-year upward trend that has increased at a faster pace recently. If these projections hold, agriculture's trade surplus is expected to be $8 billion, up $4.7 billion over last year but still a huge decline from the roughly $27 billion surplus of FY 96. In FY 99, the U.S. recorded its first agricultural trade deficit with the EU of $1 billion. In FY 07, USDA forecasts that the trade deficit with the EU will grow to $7.6 billion, the largest agriculture deficit the U.S. runs with any market.

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America's agricultural industry is willing to continue doing its best to offset the alarming trade deficit confronting our country. However, the support provided by MAP and FMD (both green box programs) is essential to this effort.

Both MAP and FMD are administered on a cost-share basis with farmers and other participants required to contribute up to 50 percent of their own resources. These programs are among the few tools specifically allowed in unlimited amounts under World Trade Organization (WTO) rules to help American agriculture and American workers remain competitive in a global marketplace still characterized by highly subsidized foreign competition. The over 70 U.S. agricultural groups that share in the costs of the MAP and FMD programs fully recognize the export benefits of market development activities. By any measure, such programs have been tremendously successful and extremely cost-effective in helping maintain and expand U.S. agricultural exports, protect American jobs, and strengthen farm income.

A recent independent cost-benefit analysis of the MAP and FMD programs prepared for the Department of Agriculture by Global Insight, Inc.—the world's largest economic analysis and forecasting firm—illustrates the benefit of these vital market development programs. MAP and FMD are public-private partnerships that use government funds to attract, not replace, industry funds. According to Global Insight, total partnership spending on market development has grown 150% in the past decade to over $500 million projected for FY 07 ($300 million from industry and $200 million from government). Over this period, industry contributions (up 222%) have grown twice as fast as government funding (up 95%) under MAP and FMD. Industry funds are now estimated to represent 59% of total annual spending, up from 46% in 1996 and less than 30% in 1991, which strongly represents industry commitment to the effort.

Another key finding by Global Insight is that two-thirds of market development funding through MAP and FMD is directed at technical assistance and trade servicing, not consumer promotions such as advertising. This category includes trade policy support, which has grown rapidly in recent years, as industry groups use program funds to help address rising levels of SPS barriers that U.S. products face in global markets. Only 20% of program funds are used in consumer promotions, largely for high value products supported under MAP.

The Global Insight study clearly illustrates the following favorable benefits of increased funding for market development and promotion through MAP and FMD that has occurred under the 2002 Farm Bill:

Market development increases U.S. competitiveness by boosting the U.S. share of world agricultural trade.

- The study found that the increase in funding for MAP and FMD authorized in the 2002 Farm Bill--combined with the increased contributions from industry-- increased the U.S. share of world trade since 2001 by over one market share point to 19%, which translates into $3.8 billion in agricultural exports.

Market development increases U.S. agricultural exports.

- As mentioned above, Global Insight found that U.S. agricultural exports are forecast to be $3.8 billion higher in 2008 than they would have been had market development not been increased in the 2002 Farm Bill. Furthermore, export gains will accrue well beyond 2008, reaching $5 billion once the full lagged impacts of market development are taken into account. **For every additional dollar spent on market development, $25 in additional exports result within 3-7 years.** The study also found that 39% of the export benefits of market development accrued to U.S. agricultural products other than those that were being promoted. Known as the "halo" effect, this provides empirical evidence that the program generates substantial export benefits not only for industry partners carrying out the activity (they receive 61% of the total export benefit) but for other non-recipient agricultural sectors as well (that receive 39% of the total export benefit).

Market development improves producers' income statement and balance sheets.

- The income statement is improved by the price and output effect that higher exports have on cash receipts and farm net cash income. Additional cash receipts have increased $2.2 billion during the 2002 Farm Bill due to the additional exports from market development. Higher cash receipts increased annual farm net cash income by $460 million, representing a $4 increase in farm income for every additional $1 increase in government spending on market development.

In recent years, the EU, the Cairns group, and other foreign competitors devoted approximately $1.2 billion on various market development activities to promote their exports of agricultural, forestry, and fishery products. A significant portion of this is carried out in the United States. Market promotion is permitted under WTO rules, with no limit on public or producer funding, and is not expected to be subject to any disciplines in the Doha Round negotiations. As a result, it is increasingly seen as a centerpiece of a winning strategy in the future trade battleground. Many competitor countries have announced ambitious trade goals and are shaping export strategies to target promising growth markets and bring new companies into the export arena. European countries are expanding their promotional activities in Asia, Latin America, and Eastern Europe. Canada, Australia, New Zealand, and Brazil have also budgeted significant investments in export promotion expenditures worldwide in recent years.

As the EU and our other foreign competitors have made clear, they intend to continue to be aggressive in their export efforts. For this reason, we believe the Administration and Congress should strengthen funding for MAP and FMD as part of a strong trade component in the new Farm Bill, and also ensure that such programs are fully and aggressively utilized. **It should be noted that MAP was originally authorized in the 1985 Farm Bill at a level of $325 million, and the Coalition strongly supports returning the program to that authorized level of funding from its current level of $200 million per year. We also urge that no less than $50 million annually be provided for the Foreign Market Development (FMD) Cooperator Program for cost-share assistance to help boost U.S. agriculture exports.** For FMD, this proposed increase reflects approximately the 1986 level of funding, adjusted for inflation.

We appreciate the Administration's recognition of the merit and value of MAP in their 2007 Farm Bill proposals by increasing funding for the program to $225 million annually, although we strongly believe a higher funding level of $325 million annually is needed. Furthermore, we believe that USDA's Foreign Agricultural Service's (FAS) current system of funding based upon the competitive merit of applicants' proposals works well and should not be changed. We do not believe that targeting funds to specific sectors is necessary.

Now, I'll describe how Food Export – Midwest and Food Export – Northeast utilize MAP to help U.S. food producers get started exporting, and to promote our country's value-added agricultural exports. The 50 state departments of agriculture participate in MAP through four state regional trade groups. These groups coordinate the export promotion efforts of the states, and focus on assisting smaller food and agricultural processors and farmer cooperatives.

We identify three different levels of assistance for smaller exporters: Exporter Education and Training, Market Access and Opportunity, and Market Promotion. MAP funds are used in a variety of ways to support these efforts:

Exporter Education and Training

- Export Essentials is our on-line education center that helps companies learn about the complex steps of exporting and how to integrate all the elements of the export transaction. Export Essentials consists of ten modules that can help companies determine their export readiness, research and target their top markets and even create an export marketing strategy. We also publish a regular newsletter, which informs thousands of companies about opportunities and events in the export market.

Market Access and Opportunity

- We offer several programs and services to help companies find importers and distributors overseas. For example, we arrange Buyers Missions where U.S. companies can meet one-on-one with pre-qualified international buyers who are interested in learning more about their products. During these meetings, companies gain valuable feedback about their product's potential in an export market, and often generate actual sales to a market for the companies that participate.

Market Promotion

- Our Branded Program offers cost-share assistance, through which we support 50% of the costs of a variety of marketing and promotional activities for small companies. This helps companies expand their marketing efforts and stretch their marketing dollars twice as far. We routinely hear from small companies that they simply would never have been successful in an export market, if not for this program.

The MAP focuses on value-added products, including branded foods. Overseas consumers, like those here in the U.S., tend to buy products based on brand names. By promoting brand names that contain American agricultural ingredients, we build long-term demand for our products. These value-added products support jobs and encourage investment in our own processing industries.

Here are a couple of brief examples of how companies are benefiting from MAP funds and from participating in the programs I just described:

Each year, we hold a variety of Buyers Missions in various states around the country. Last year, our Northeast Buyers Mission drew key buyers from 20 countries. 88 U.S. companies participated and reported $1.3 million in actual sales as a result of the event. These companies also projected over $17 million in sales. One company, Aladdin Bakers, a Northeast-based company that produces baked goods, started doing a substantial amount of business in Canada because of the connections made at the Buyers Mission. Originally, the company was only sending 1 truckload of bread to Canada every 2 to 3 weeks. After the mission, the company projected it would be sending 100 trucks a year. Agricultural trade not only impacts producers and processors. It also impacts other industries, including packaging and distribution.

Companies, and ultimately the U.S. economy, also benefit from export sales to emerging markets. American Pop Corn Co., located in the Midwest, used Branded Program funds to expand its marketing efforts in eastern Russia and Saudi Arabia. Since starting its promotions, the company achieved a market-leading position in Saudi Arabia and experienced a 20%

increase in sales during the first year. The minimal cost of promotion brought long-term gains to the company.

Last year, about 200 small companies in our programs made their first export sale of U.S. agricultural products, and, nearly 250 companies generated sales increases over 20%. Each of the other cooperator participants has generated additional results. None of this would have been possible without support from the MAP program.

American products are seen world wide as high quality products--safe products. Selling higher quality products requires promotion. The MAP is an investment in promotion that pays off.

As world trade increases, so does competition. It is essential that we retain, and in fact, increase funding for the Market Access Program, in order to continue to build our export markets for U.S. agriculture.

I appreciate very much this opportunity to testify in support of these important agricultural export programs, and would be pleased to respond to any questions you may have.

Coalition to Promote U.S. Agricultural Exports

Alaska Seafood Marketing Institute
American Feed Industry Association
American Forest and Paper Association
American Hardwood Export Council
American Meat Institute
American Peanut Council
American Seed Trade Association
American Sheep Industry Association
American Soybean Association
Blue Diamond Growers
California Agricultural Export Council
California Association of Winegrape Growers
California Dried Plum Board
California Kiwifruit Commission
California Pear Growers
California Table Grape Commission
Cherry Marketing Institute
CoBank
Florida Citrus Commission
Florida Citrus Mutual
Florida Citrus Packers Association
Florida Citrus Processors Association
Florida Department of Citrus
Florida Peanut Producers Association
Food Export Association of the Midwest USA
Food Export USA - Northeast
Georgia Poultry Federation
Ginseng Board of Wisconsin
Gulf Citrus Growers Association
Hop Growers of America, Inc.
Indian River Citrus League
Kansas Livestock Association
Kentucky Distillers' Association
Land O'Lakes, Inc.
Mohair Council of America
National Association of State Departments of Agriculture
National Association of Wheat Growers
National Barley Growers Association
National Cattlemen's Beef Association
National Chicken Council
National Confectioners Association
National Cotton Council
National Council of Farmer Cooperatives
National Grange
National Grape Cooperative Association, Inc.
National Milk Producers Federation
National Oilseed Processors Association
National Pork Producers Council
National Potato Council
National Renderers Association
National Sorghum Producers
National Sunflower Association
National Turkey Federation
North American Millers' Association
Northwest Cherry Growers
Northwest Horticultural Council
Ocean Spray Cranberries, Inc.
Peace River Valley Citrus Growers Association
Pet Food Institute
Produce Marketing Association
Shelf-Stable Food Processors Association
Softwood Export Council
Southern Forest Products Association
Southern U.S. Trade Association
Sunkist Growers
Texas Cattle Feeders Association
The Catfish Institute
The Popcorn Institute
Tree Top, Inc.
United Egg Association
United Egg Producers
United Fresh Fruit and Vegetable Association
USA Dry Pea and Lentil Council
USA Poultry & Egg Export Council
USA Rice Federation
U.S. Apple Association
U.S. Apple Export Council
U.S. Dairy Export Council
U.S. Dry Bean Council
U.S. Hides, Skins & Leather Association
U.S. Livestock Genetics Export, Inc.
U.S. Meat Export Federation
U.S. Wheat Associates, Inc.
Washington Apple Commission
Washington State Fruit Commission
Welch Foods Inc., A Cooperative
Western Growers Association
Western Pistachio Association
Western U.S. Agricultural Trade Association
WineAmerica (The National Association of American Wineries)
Winegrape Growers of America
Wine Institute

P.O. BOX 731 • MCLEAN, VA 22101 • 703-356-4230

COTTON USA SOURCING PROGRAM HOSTS SUCCESSFUL TRADE FAIR

Through the COTTON USA Sourcing Program, and working together with Cotton Incorporated, 16 U.S. manufacturers and USDA's Foreign Agricultural Service (FAS), Cotton Council International (CCI) has developed a robust program of support for U.S. cotton yarn and fabric manufacturers targeted at Mexico, the Andean region and Central America. As one cornerstone to the COTTON USA Sourcing Program, CCI created a new activity – COTTON USA Trade Fairs – to help U.S. companies meet prospective customers for their products.

As one example of such an activity, in June 2006 CCI drew on MAP, FMD and industry funds to host a COTTON USA Trade Fair in the Dominican Republic to increase U.S. cotton yarn and fabric exports to the region. Forty textile and apparel manufacturers from the CBI and Andean Regions met with 15 U.S. retailers and 15 U.S. textile mills at the fair. During the 2 ½ day event, buyers and sellers participated in 600 individual meetings that provided U.S. brands/retailers with sourcing options in the Western Hemisphere that would maximize U.S. cotton yarn and fabric content.

Gathering representatives from the entire U.S.-Central America-Andean textile and apparel supply chain proved to be an effective way of generating business. CBI and Andean participants said they planned to increase their sales of U.S. cotton products by $4.6 million and 10.1 million units the next year as a direct result of the fair.

COTTON USA Trade Fairs are part of a comprehensive export promotion program for U.S. manufactured cotton yarns and fabrics. This COTTON USA Sourcing Program began in 2000 in response to a combination of U.S. trade policy initiatives, market conditions and funding from USDA's Section-108 program. The timing of the COTTON USA Sourcing Program was opportune as the U.S. government was negotiating the CBTPA, a new trade law to give preferential treatment to garments manufactured in the CBI region using U.S. cotton yarns and fabrics. Subsequent trade legislation – ATPDEA, DR-CAFTA and pending Free Trade Agreements with Peru and Colombia – continue to extend benefits to U.S. cotton textile products. The Sourcing Program has been actively supported by the U.S. cotton textile industry, and industry funding has increased from $50,000 in 2000 to 16 companies directly contributing $125,000 in 2006.

With the loss of a significant apparel industry in the U.S., exporting is seen as the key to survival for the U.S. textile manufacturing industry. U.S. mills participating in the COTTON USA Sourcing Program have been able to maintain their U.S. operations and cotton consumption through exporting their products to the Western Hemisphere. Currently, U.S. mills export 75 percent of all of their production. Exports of U.S. manufactured products have increased significantly since the beginning of the COTTON USA Sourcing Program. From 1999 to 2005, U.S. cotton yarn exports increased from $43 million to $540 million, and U.S. knit fabric exports grew from $22 to $421 million.

U.S. WHEAT ASSOCIATES

Building Soft White Wheat Demand in Latin America

March 2007 – A decisively positive trend is evident in export numbers for American soft white wheat. By working closely with Pacific Northwest wheat commissions, as well as federal and independent organizations, Foreign Agricultural Service cooperator U.S. Wheat Associates is opening new soft white wheat markets in Latin America.

In 2004/2005, Latin American countries bought only 23,500 metric tons of white wheat. Sales zoomed to 364,000 tons in 2005/2006—an increase worth at least $50 million. U.S. Wheat Associates is applying available funds to demonstrate the advantages of white wheat to meet consumer demand. A good example is a successful effort to help Central and South American processors meet a growing demand for Asian-style noodles, best made with soft white wheat. U.S. Wheat Associates also helped Guatemala and El Salvador import high quality white wheat by developing unconventional shipping configurations.

This marketing year, U.S. Wheat Associates has accelerated its technical assistance to help Latin American millers improve their productivity to better utilize American white wheat and be more competitive in their dynamic markets. Soft white wheat sales this year are running at three and one half times the rapid pace set last year at this time.

Clearly, U.S. Wheat Associates colleagues in Mexico City and Santiago, Chile, use their resources wisely to provide the support, training and information that help Latin American wheat buyers *and* soft white wheat growers in the Pacific Northwest grow their business.

Working with Latin American millers to develop creative ways to import soft white and hard red spring wheat through the Portland, Oregon, port is one of the ways U.S. Wheat Associates is building markets for American producers.

United States Potato Board

TRAINING FOR PVO's RAISES PROFILE FOR DEHY POTATOES IN FOOD AID

Having previously cleared the way for US dehydrated potatoes to be used in US food aid programs, the USPB is now successfully building an understanding of US dehy benefits among organizations that use these programs. In October 2005, eleven members from six private voluntary organizations attended intensive training in US dehydrated potatoes. This MAP supported activity reached Counterpart International, the World Food Programme, Africare, MARCH, ASON and World Vision. After learning about US dehy from the high quality raw product, through the manufacturing process to end uses and benefits, each PVO was able to take key messages back to their organizations. In a highly significant development, Counterpart International received their first Title II shipment this year, for about 230 MT, with more to come. WFP with their partners in Haiti, MARCH and ASON, were able to start distributing dehy in a demonstration/acceptability project for the first time. Africare requested 70 metric tons of dehy in their Title II AER. World Vision Zambia implemented a demonstration project and is working closely with their C-SAFE partners to have dehy implemented in their multi year activity plans.

KOREA CONTINUES TO PURCHASE US POTATOES DESPITE PHYTOSANITARY ISSUES

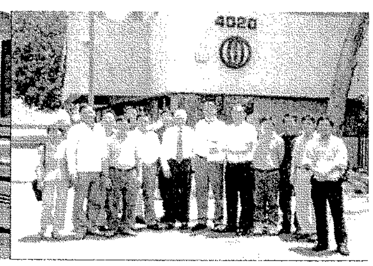
Korea has been a strong growth market for U.S. fresh chipping potatoes. Yet after steadily rising in recent years – up 2665% from 119 MT in MY01/02 to 3290 MT in MY04/05 – U.S. exports hit a snag last year because of a Columbia Root Knot Nematode (CRKN) find. To address this, the USPB worked closely with Korean manufacturers to help them continue using US chip-stock potatoes and with the US industry to resolve problems. In the US, the USPB worked with growers to implement a more vigorous inspection process to eliminate shipping potatoes with CRKN. In Korea, snack manufacturers and the USPB worked to get processing protocol implemented that would enable US chipping potatoes to enter the market despite CRKN issues, if they were processed into potato chips and all waste was destroyed. In order for Korean snack manufacturers to take advantage of the processing protocol they had to ensure their facility was set up with the proper equipment. This safeguard system encouraged the major snack manufacturers to make commercial contracts again for the next marketing year. Korean manufacturers that were not able to make change to their production facilities began purchasing finished chips in bulk from the US as a way to supplement their production. Thanks to this collaboration of efforts, US exports of fresh chipping potatoes fell only 39% to 1,995 MT last year, and are poised to continue growth in the coming year.

Chinese Trade Team Visits US

Dr. Yu Yu, Regional Director, Asia

Since 1997, the National Renderers Association (NRA) has been funded by USDA (MAP) to invite key players from the Chinese feed, broiler, hog and aquaculture industries, and protein and fat traders to visit the US for first-hand understanding of the US rendering industry and its products. This team visit, in June, included feed, and meat packing plants, leading animal production research institutions, and an international livestock exhibition. This year's trade team included decision makers from China's top livestock, pet food and protein trading companies. Thanks to the hospitality of six NRA members; the team had a full appreciation of the quality, application and value of US non-ruminant protein meals. With the domestic price (China) at US$1,000/ton of imported fish meal, the team members were all eager to place orders and sign contracts for US products, for obvious economic value and proven animal performance as fish meal substitutes. Stops at the World Pork Expo, University of Arkansas, and United Feeds allowed the team to learn the latest technologies for improvement in productivity and efficiency in hog and broiler production. This will undoubtedly stimulate the desire to make changes at their organizations for competitiveness guided by science and technology. The busy 10-day visit was also lightened by R&R at Washington DC, Los Angeles and Las Vegas. "Work hard and play hard" is good for people all over the world. At the end of the journey, all team members realized that for animal proteins, China and the US are perfect complimentary partners, and this is what the Association has been striving toward during the past decade!

Mountain View



Baker Commodities

University of Arkansas

U.S. Dairy Export Council Success Story

Sports nutrition mission spurs WPC80 exports to Brazil

Background: A Brazilian bar manufacturer attended a USDEC-sponsored sports nutrition mission and seminar that was conducted at Cal Poly University. USDEC promoted the mission and seminar to U.S. dairy suppliers as an opportunity to learn how to incorporate whey proteins such as texturized whey into protein and energy bars.

Goal: Increase U.S. market share for WPC-80

Strategy: Introduce the Brazilian food supplement industry to U.S. suppliers and help manufacturers understand how best to incorporate whey proteins in sports nutrition and energy bars. Assist USDEC members with documentation issues and other regulatory information.

Tactics:
- Act as a liaison between the Brazilian food supplement industry and U.S. suppliers through trade servicing activities
-Support USDEC members in South America markets

Results: With knowledge obtained through the mission, the Brazilian company was able to re-launch a better tasting sports nutrition bar that contained whey proteins. The Brazilian manufacturer also will soon launch a new beverage using WPI from the United States. **The company purchased 20 tons of instant WPC-80, with an approximate value of \$5.5/kg. It expects to import about 240 tons in 2006 from the United States, at an approximate value of about \$1,320,000.**

U.S. Dairy Export Council Success Story

Arkansas, Colorado, Georgia, Idaho, Indiana, Iowa, Kansas, Kentucky, Minnesota, Mississippi, Nebraska, Ohio, Pennsylvania, South Carolina and South Dakota:
New Commodity Cheese Imports to Japan

Impacted States:	A company that benefited from this program has members in the following states: **Arkansas, Colorado, Georgia, Idaho, Indiana, Iowa, Kansas, Kentucky, Minnesota, Mississippi, Nebraska, Ohio, Pennsylvania, S. Carolina and S. Dakota, among others**
Background:	U.S. suppliers of cheddar have had difficulty penetrating the Japanese market due to competitive pricing from New Zealand and Australia.
Goal:	Increase awareness and market share of U.S. commodity cheese
Strategy:	Educate Japanese traders and importers about the Cooperatives Working Together program which offers price parity with international competition and allows product trial.
Tactics:	Continuous trade visits
Results:	During the first half of 2006, a major Japanese company imported 300 metric ton of cheddar from a U.S. supplier through the CWT program. These transactions amounted to approximately $840,000. The company has committed to import an additional 200 metric tons of cheddar from the same U.S. supplier by the end of the year.

Asian Market Diversification

The California Walnut Industry has actively engaged in marketing programs in Asia since the mid-1990's. Utilizing MAP funds, the **California Walnut Commission** (CWC) entered the Japanese and Korean markets through targeted activities in the trade sector to create demand for California walnuts as a bakery/pastry/confectionary ingredient while also generating consumer awareness and purchase of walnuts and walnut inclusive products. The concentrated efforts in the bakery sector continue to yield favorable results as over 80% of the customer base in Japan remains concentrated in this sector while in Korea it accounts for 35%.

Continued growth in these markets has been demonstrated through diversification within the marketplace. In Korea, high trade awareness and success with walnut inclusive products lead the CWC to develop relationships with manufacturers outside the baking sector. Keen interest from ice cream manufacturers, confectioneries and beverage manufacturers lead the CWC to conduct one-on-one meetings introducing possible applications customized for each company's needs, provided technical assistance in developing new products using California walnuts, and invited key product development managers to California to assure quality and food safety of California walnuts. MAP funds were utilized to engage in these activities while fostering the relationships.

As a result, an all-time best selling ice cream bar product was launched by a leading Korean ice cream manufacturer, Haitai, which brought a 30 percent market growth by a single item in the launching year of 2003/04. Thanks to the great success of this item, the same company launched various products with the same concept and brand name, i.e. ice cream in cup, cone, soft candy and sweet bar in the marketing year 2004/05. This actually made a big boom of "walnut" in the confectionery industry, and in the marketing year 2004/05, many other leading confectioneries and bread manufacturers like Lotte, Orion, Samlip and Crown were developing new California walnut items. Among them, two items- brownies and cookies using California walnuts – were launched by Orion in the beginning of the marketing year 2005/06, and one steamed bun item with California walnut stuffing was launched by Samlip. All these new items from the end of marketing year 2003/04 and marketing year 2004/05 almost doubled the California walnut market in Korea over the last two years, growing from 3.2 million pounds in the 2002/03 crop year to 6.8 million pounds in 2004/05. This accounts for a value increase of 130% from $6.7 million to $16.1million over the over the past two years, making the dairy/ice cream sector now 20 percent of the total market in Korea.

The success of the above items has lead manufacturers to export some of the products developed in addition to sparking interest in other markets, such as Japan in developing walnut inclusive products, to achieve the success seen in Korea. In the 2005 marketing year the first ice cream bar including walnuts launched in September followed by line extensions planned for later in the year. The CWC looks forward to the growth that mimics that of Korea, should the launches achieve the success intended.

The Asian market continues to evolve despite unjustified duties in both markets - 30% in Korea and 10% in Japan. The potential for these markets to continue to evolve would be even greater if the duties were lifted. The CWC continues to work with USTR and in-country partners to remove barriers to trade. Further, MAP funding continues to be of vital importance to support the industry's efforts to overcome barriers to trade, as well as develop and evolve markets. Many of the tactics utilized would not be possible without MAP.

Food Export Association of the Midwest USA
309 W. Washington St., Ste.600
Chicago, IL 60606
312.334.9200
Fax: 312.334.9230

Food Export USA Northeast
150 S. Independence Mall West
Public Ledger Building 1036
Philadelphia, PA 19106
215.829.9111
Fax: 215.829.9777

PENNSYLVANIA WOOD COMPANY GROWING STRONG WITH BRANDED PROGRAM

Before Kuhns Bros. Log Homes applied for the Branded Program four years ago, they had one international distributor and were doing about $150,000 in exporting sales to Canada only. Today they've added distributors in Ireland, the UK, Germany, India, the Netherlands, and Cypress, as well as expanded their business in Canada. "In the four years that we've participated in the Branded Program, our export sales have grown 400%. The Branded Program has been a very important part of our growth," explained Scott Seylar, Director of International Markets for Kuhns Bros.

The Pennsylvania company has used the cost share program to travel to and participate in international tradeshows and to create international marketing materials that are now offered in five languages. The company has also had success with advertising in international magazines, the cost of which was partially reimbursed through the Branded Program. "I highly recommend the Branded Program to small to mid-size companies entering the exporting market to get the support they need to have initial success and build a foundation for future export success. We've had a very positive experience working with Food Export USA – Northeast."

Kuhns Bros. learned about the Branded Program through a local government export development agency. "Food Export USA – Northeast offered funding opportunities for pre-fabricated wood buildings. We were just beginning to market internationally and it seemed like a very helpful program," added Mr. Seylar.

Kuhns Bros. Log Homes, Inc. is a leading manufacturer of log homes, annually delivering more than 350 homes across the United States and abroad. Kuhns Bros. encompasses more than 135 acres, employs more than 200, and produces greater than 14 million board feet of eastern white pine lumber each year.

Food Export Association of the Midwest USA and Food Export USA – Northeast are private, non-profit associations of Midwestern and Northeastern state agricultural promotion agencies that use federal, state, and industry resources to promote the export of Midwestern and Northeastern food and agricultural products. Food Export – Midwest and Food Export – Northeast administer many services through Market Access Program (MAP) funding from the USDA, Foreign Agricultural Service.

National Sunflower Association

Mexican Baker Creates New Bread

Using Foreign Market Development (FMD) funds, grower check-off and industry dollars the **National Sunflower Association** (NSA) has aggressively pursued improved market opportunities in Mexico. NSA has been aggressively promoting the use of confection sunflower kernel in bakery products in Mexico for the last four years. As a result of this promotion, the largest Mexican baker is using confection sunflower kernel in two of its breads. The breads are being distributed nationwide in all major supermarkets. The baker has imported 350 MT of confection sunflower kernel valued at $420,000 in the past six months of this marketing year. Sales of the breads are expected to double in the next year. In the past four years, as a result of these activities, the value of U.S. confection sunflower product exports has averaged over $5,700,000 per year.

MAP Increases Spanish Imports of U.S. Sunflower Seeds

Spain is currently the largest export market for U.S. confection sunflower seed. The primary use of sunflower seeds in Spain is for snacks. Five years ago using Market Access Program (MAP), grower check-off and industry dollars, and in partnership with key Spanish snack roasters, the **National Sunflower Association** (NSA) kicked off a national point-of-sale (POS) campaign to promote U.S. confection sunflower seeds. NSA developed and printed POS materials and our Spanish partners distributed and maintained them. The POS materials were placed at points of sale in supermarkets, kiosks, and nut shops throughout Spain. The display materials highlighted the fact that participating Spanish roasters' products use USA confection sunflower products that are high quality and fun-to-eat at a low cost. Red, white, and blue colors and our 'Pipas USA' logo were used in all materials to show USA origin. Since the inception of the campaign, exports of U.S. confection sunflower seeds have grown from just over $13,000,000 to $25,350,000 and now account for 52 percent of the total U.S. confection sunflower seed exports.

Exported sunflower seed and kernel are value-added products with processing facilities located in rural locations of North Dakota, South Dakota, Minnesota and Kansas accounting for approximately 3,100 jobs in these states. The economic impact of the confection sunflower seed industry was estimated at $693 million per year in a NSA-sponsored study.

Technical Support To Latin America Livestock Producers

American Soybean Association-International Marketing (ASA-IM) activities funded by USDA Foreign Agricultural Service (FAS) developed a program to provide technical support to Latin America livestock and poultry producers and feed mill operations. This program divided the work into three sections: farm and feed mill visits, field days and seminars, and feed formulation and the development of feeding programs. Poultry, swine, tilapia, dairy, beef farms, as well as feed mills, were visited in different Latin American countries under this program. The purpose of these visits was to teach animal producers different new nutrition and management techniques, and as a result of this servicing, animal operations will have implemented modern management practices and will have improved their technical skills and use more soybean products. Participating farms were used as an example for other producers, encouraging them to implement the new technology and thereby impact the consumption of soybean meal. This program was complemented with the presentation of conferences, congresses, seminars and field days showing the importance of using high quality soybean meal in animal diets, as well as different techniques to improve animal performance. Furthermore, a 24 hour on-line program was offered to animal producers for the development of feeding programs and diet formulations to improve the use of U.S. soybean meal in livestock and poultry diets, as well as animal performance.

The most important effect was the great amount of diets that were formulated. It was interesting to observe how each day animal producers are more interested to use well balanced diets, using corn and soybean meal as the main ingredients. Every day the concept of buying ingredients on the basis of the cost per unit of nutrient is adopted by more animal producers. In many places, the concept of buying by price has changed to buying by quality. Feed mills are adopting laboratory techniques to evaluate feed ingredient quality and in the case of soybean meal, analytical technique procedures for determining protein solubility values, urease activity and total trypsine inhibitors were discussed with the quality control staff of the more important feed mills in Latin America.

In relation to animal performance improvement, the recommendations presented during the seminars and congresses, as well as the effect of the changes in the feeding programs, have produced good results in the livestock operations. Higher weight gain and feed conversions were reported for pigs, broilers and beef cattle. Increments in milk production and reproductive efficiency in dairy cattle and higher percent egg production and egg weight in layers were also reported. Most of the monogastric producers attributed this improvement in performance to the use of the "Ideal Protein Concept", which uses as a base the digestible amino acid content of the different feed ingredients. Big differences between the cost of diet and the effect on performance were found when diets are formulated based on digestible amino acid content.

March 2007

U.S. Hide, Skin and Leather Association

The biggest export market for U.S. bovine hides is China. Exports to China have grown from $640 million in 2005 to $875 million in 2006.

There are a number of reasons for this, but one that has been singled out by some of the US hide exporters is the Foreign Market Development (FMD) program that U.S. Hide, Skin & Leather Association (USHSLA) participates in.

Through funding provided by the U.S. Department of Agriculture' Foreign Agricultural Service (USDA/FAS) and matching dollars put up by about a dozen member companies of USHSLA, we have participated in two shows in China over the last couple of years - one in Hong Kong and the other in Shanghai. Both shows bring in hide buyers from all over the world but primarily from the industrializing Asian nations. China is the main importer of hides and remains the most dominant buying presence at both shows. In 2005 these two shows accounted for $46 million in on-site sales. In 2006 the two shows accounted for an increased $74.7 million in on-site sales.

Would USHSLA's member companies have accounted for this increase of $120.7 million if we had not attended the shows? Probably some of this business may have gotten done, but in addition to an increase in sales both shows facilitate networking within the global industry which results in new contacts, new agents signed and additional business throughout the year.

In fact, according to survey's filled out by participating USHSLA companies, over $110.9 million in increased business in 2006 was done as a result of participation in those two shows. That is nearly equal to the increase in hide trade in China over the last two years. In addition to on-site sales USHSLA member companies reported signing 87 new agents at both shows.

USHSLA and USHSLA members plan to attend these same two shows in 2007. The Hong Kong show brings traders, transportation companies, tanners and others from around the world and is the largest hide and leather show in the world. The Shanghai show is more focused on the growing hide and leather industry in solely China. Both shows are a vital part of the growing demand for US hides and leather in Asia. USHSLA's members will continue to attend these shows in the future and plan on similar successful results within China because of opportunities allotted to the U.S. hide and leather industry by participating in the FMD program funded by the USDA/FAS.

WINE INSTITUTE

US Wines Continue to Gain Market Share in the United Kingdom

The United Kingdom is the largest, most competitive market for imported wine in the world. It is also the number one destination for US wines and those from most producing countries.

In 2006, US wines continued to increase market share in the UK according to retail sales monitored by AC Nielsen. Because wines shipped to the UK trade may be bottled in Italy or France or shipped in-bottle from Belgium or The Netherlands, export shipment statistics to a particular country are a poor indication of sales growth in the UK.

During 2006, US wines achieved an off-premise market share of 16.0% by volume (+8.3%) and 16.2% (+8.0%) share by value. This places US wines third in market share behind Australia (22.3% share) and France (16.4% share). Considering current growth rates, US wines should overtake France for second place in the UK during 2007.

In the on-premise market, US wines grew 18% in value and 15% in volume, although market share is considerably less as European wines still dominate this sector.

Southern U.S. Trade Association

Arkansas Agriculture Department Representative Spearheads Successful Market Access Program (MAP) Generic Promotion

From August 14-18, 2006, seven companies from the southern U.S. participated in a trade mission to Costa Rica, Panama and El Salvador as part of a Market Access Program (MAP) Generic promotion conducted by the Southern U.S. Trade Association (SUSTA). MAP Generic promotions represent more than one product or commodity, and allow suppliers to participate in trade shows, in-store promotions and other activities for a reduced cost. The objective of this trade mission was to establish direct contact between SUSTA region producers and Central American buyers of interest.

The Arkansas Agriculture Department was instrumental in co-managing the Central America trade mission, according to SUSTA Generic Program Director Bernadette Wiltz. "Tim Ellison of the Arkansas Department of Agriculture saw this activity as an exploratory mission for him, since Arkansas has had little involvement in our Generic activities in the past," she said. Ellison, along with two other state marketing representatives co-managing the promotion, assisted companies as they showcased products in a tabletop display and participated in pre-arranged one-on-one meetings with buyers. Over the course of the trade mission, a total of 141 buyer-seller meetings took place, and approximately $760,000 in sales are projected for this year.

Georgia Department of Agriculture Organizes Market Access Program (MAP) Generic Promotion in Dubai with Projected Sales of Over $8 Million

Eight companies from the southern U.S. traveled to Dubai, United Arab Emirates in February 2007 to find success at the Gulfood trade show. The Georgia Department of Agriculture organized the Southern U.S. Trade Association (SUSTA) booth, along with booths for eight SUSTA region participants, as a Market Access Program (MAP) Generic promotion. MAP Generic promotions represent more than one product or commodity and allow suppliers to participate in trade shows, in-store promotions and other activities for a reduced cost. The U.S. companies promoted various food products at the show, including fruit juices, rice, processed meat products, popcorn and other snack foods.

Importers and buyers visiting the booth were given the opportunity to meet with U.S. companies, find out more about southern U.S. food products, and even taste products prepared by a chef in the booth. Importers and buyers also expressed interest in making additional contacts with suppliers of nuts, dairy products, honey, confectionery, spices, oils, fresh vegetables, fresh fruits and sauces.

Five companies participating in the MAP Generic promotion conducted by SUSTA at Gulfood reported immediate sales totaling $964,000. Others indicated that they expected orders within the year, projecting sales to reach approximately $8,370,000 as a result of the show.

U.S. Livestock Genetics Export, Inc.

Kentucky Thoroughbred Owners & Breeders, Inc. (KTOB) is the trade association for the Thoroughbred breeding industry in Kentucky. Kentucky has the largest industry in the United States, supplying over 10,000 live foals a year, and is the largest exporter of live horses from the US. Horsemen and women from forty-three countries attend several public auctions each year. Since 2000, KTOB has worked with **US Livestock Genetics Export, Inc.** first through USLGE member Kentucky Department of Agriculture, then in 2002, as a full member, developing new markets for Kentucky-bred horses.

Mexico has emerged as a strong trade partner. The Kentucky industry has worked since 2000 to promote the sale of US horses to Mexico, where trainers and owners at the Hipódromo de las Américas racetrack have experienced local and international success with such horses. The racetrack was closed in 1995, following the Peso Devaluation; in 2000 it reopened. Our industry was able to share technical expertise in a series of MAP-funded seminars covering veterinary, nutrition, training, reproduction, and sales topics. To date, Mexican horsemen have purchased over six hundred horses for $11,600,500.

MAP funds have also enabled Kentucky breeders to engage the growing Thoroughbred racing industry in Korea. Korea has two Thoroughbred racetracks in Busan and Seoul, and a growing breeding industry on the mainland and Cheju Island. US suppliers have faced very stiff competition from suppliers in Australia and New Zealand, who are able to provide travel subsidies to their Korean clients. Korea's dirt racetracks, and their unique condition book, an ascending class system which places improving horses in longer distance races, regardless of age or sex, have proved successful for American horses. Whereas Korean racehorse owners were mainly driven by value to find a cheap, sound horse, some are starting to take a more deliberate approach selecting US-pedigreed horses with strong dirt, speed and distance traits. Recent exports from Kentucky have been very successful, including two horses which captured track records for five and six furlongs, on their first starts.

Exports of breeding stock have also increased. KTOB encouraged the Korea Racing Association to remove restrictions for existing stallions to be imported to Korea. Although the KRA has large investments in their stud farms, Korean breeders were unwilling to purchase quality broodmares to improve their domestic Thoroughbreds. Prior to 2004, Korea restricted import of horses inoculated against Equine Viral Arteritis, which meant stallions had to be imported as horse-in-training. Such horses were expensive to acquire, and proved inefficient. Consequently, Korean breeders did little to improve their broodmare bands. Since this regulation has changed, six stallions from the United States, including five from Kentucky, have been imported to stand in Korea. Korean breeders immediately increased imports of KY-bred broodmares with excellent pedigrees to breed to the new stallions. In 2005, Korean breeders purchased 62 horses for $981,300.

USA Poultry & Egg Export Council - RUSSIA

<table>
<tr><td colspan="4">Constraint: Russia uses veterinary requirements as technical barriers for US poultry
Description: The Russian Veterinary Service (RVS) uses differences in U.S. and Russian standards and risk assessment as technical barriers to limit imports of U.S. poultry</td></tr>
<tr><td colspan="4">Activities:
• Technical Regulations for Poultry Meat
• US-Russian Technical Consulting Center
• Comparative Testing of Poultry Products
• Database of official RVS documents
• HACCP manuals reprinting and mailing (CANCELLED, FUNDS TRANSFERRED FOR AI)</td></tr>
<tr><td>Performance measures</td><td>Benchmark</td><td>Goal</td><td>Current</td></tr>
<tr><td>1. Number of HACCP manuals distributed in Russia</td><td>1,600.0</td><td>2,500.0</td><td>1,600</td></tr>
<tr><td>2. Number of new Russian standards based on the U.S. System</td><td>Chicken products: terms and definitions</td><td>Develop draft of technical regulations</td><td>Analysis conducted, RPU draft blocked</td></tr>
<tr><td>3. Number of translated official documents on poultry meat safety</td><td>24</td><td>50</td><td>41 (1,700+ pages)</td></tr>
</table>

1. USAPEEC started collecting information about development of new technical regulations for poultry. A draft TR initiated by the Russian Poultry Union was translated into English and presented for analysis to US poultry industry specialist, processors, traders and importers.
2. The U.S.-Russia Technical Consulting Center translated 41 official Russian and US technical documents (total of 1,700 pages) regulating poultry production and safety control; sets of docs were copied on CDs, printed as books and distributed in Russia and US. USAPEEC helped organize the US-Russian Meat Safety Conference "A Safe Meat Supply – From Farm to Table" in May. USAPEEC conducted comparative tests of official US and Russian analytical methods for salmonella detection in poultry.
3. Together with the National Association for Consumer's Rights, USAPEEC continued comparative testing of poultry products from foreign and domestic producers. The testing proved adequate quality of the U.S. poultry product compared to other producers, especially Russian ones.
4. A veterinary information agency was contracted to obtain new official documents from the VPSS.
5. 27 articles based on HACCP manuals and U.S. professional print and on-line publications were placed in Russian professional veterinary periodical publications.

California Agriculture Export Council

Working very closely with the US Agricultural Trade Office in Manila, the California Agriculture Export Council (CAEC) conducted a demonstration project for the Philippine vegetable trade, illustrating the long shelf-life that could be achieved for US fresh vegetables (i.e., lettuce, broccoli, etc.). We shipped a container of fresh vegetables via ocean to Manila - which were then held in cold storage - which demonstrated to the Philippine trade that it is possible to source US vegetables at a reasonable shipping cost (vs. air freight), and that, with proper handling, the quality holds for a reasonable period to allow the product to get to the final consumer. We also provided technical training to the trade on proper handling. This initial project, conducted in October of 2005, led to immediate sales of US vegetables. One California shipper reports shipping ten containers of vegetables to the Philippines in 2006, starting from zero sales prior to the activity - and attributes this new market to be entirely the result of this activity.

Western U.S. Agriculture Association

Mexican Businesses say "Bienvenidos" to Yellow Onions

Before WUSATA and the Idaho Department of Agriculture got involved, Yellow Onions had never been very attractive to Mexican buyers, who perceived the yellow onion as lesser quality than the traditional white onion used in Mexican cuisine. However, due to MAP funding provided by WUSATA and various other WUSATA Generic Program promotions, significant quantities of yellow onions are now being exported to Mexico, dispelling the illusion plaguing the yellow onion.

Idaho companies reported that WUSATA funding and information received through seminars held by WUSATA enabled them to effectively promote and market yellow onions through in-store product demonstrations in major retail stores, bringing select buyers to Idaho and Governor Dirk Kempthorne's trade mission to Mexico in October 2003. Since the Mexican buyers and consumers have consistently favored a white onion, the challenge involved educating the wholesalers and retail produce buyers of the availability, quality, variety and similarity of yellow onions to that of the popular white onions.

Since these efforts began in 2003, the growth in sales of yellow onions to Mexico has been tremendous. According to figures from the Idaho Department of Agriculture for 2004, total sales of onions into Mexico surpassed $675,000. Idaho companies participating in the WUSATA promotions acknowledge that their ability to now export thousands of dollars worth of onions to Mexico would not have been possible without MAP funding. "In fact, companies have remarked that they would not be in the Mexican market without the assistance of WUSATA and the Idaho Department of Agriculture," says Idaho Department of Agriculture Bureau Chief Laura Johnson.

Testimony of William Hammink
Director, Office of Food for Peace, USAID
Senate Committee on Agriculture, Nutrition and Forestry
March 21, 2007

Chairman Harkin, Members of the Committee, I am very pleased to have the opportunity to meet with you today to examine the performance of U.S. food aid programs with particular reference to the 2007 Farm Bill discussions. As you know, USAID manages the P.L. 480 Title II program, which includes emergency and non-emergency food aid. The new Farm Bill, which will reauthorize the P.L. 480 Title II program, is extremely important to ensure the increased efficiency and effectiveness of U.S. Title II food aid overseas.

The outgoing Executive Director of the United Nations World Food Programme (WFP), James Morris, told me not so long ago that Office of Food for Peace is much more than an office in USAID. He said that after 52 years of providing U.S. food aid to hundreds of millions of people around the world, savings millions of lives and affecting the livelihoods of millions more, Food for Peace is not just an office but an institution, and one that Americans across the country recognize and can be extremely proud of.

However, like any 52-year institution or program, we need to continue to look for ways to improve the efficiency and effectiveness of how we provide Title II emergency and non-emergency food aid. We appreciate this opportunity to share some thoughts with you. We also appreciate this Committee's request to the GAO to carry out a broad study of U.S. food aid programs. The GAO analysis and recommendations underline much of this testimony.

The U.S. plays a global leadership role in food security and as a humanitarian food aid donor. The U.S. is the largest food aid donor in the world, and the largest single contributor to the World Food Programme. However, procuring, shipping, storing, distributing, monitoring and evaluating approximately 2.5 million metric tons of U.S. food aid each year worth over $1 billion is highly complex, especially as we try to minimize costs. Our primary focus is to get food aid quickly to sudden emergencies to save lives, make better funding decisions, strengthen beneficiary impact of all of our food aid programs, improve predictability of non-emergency food aid resources, expand integration of food aid with other development programs, and concentrate emergency and non-emergency food aid resources in the most food-insecure countries.

As a lead-up to your re-authorization of the Farm Bill, food aid reform is being analyzed and discussed by academics and think tanks, at the World Trade Organization, with UN organizations such as FAO and WFP and with a broad spectrum of Private Voluntary Organizations (PVOs). We are participating in these discussions and listening closely to all of these proposals and ideas. Because the Farm Bill is only taken up approximately every five years, this is an important opportunity to take what we have learned from experience, analyses, and research; and to link lessons learned to better inform changes in U.S. food aid programs.

USAID is also undergoing changes. Last year, Ambassador Randall Tobias was named the Director of United States Foreign Assistance, and serves concurrently as the Administrator of USAID. In this capacity, Ambassador Tobias has developed a new Strategic Framework for U.S. Foreign Assistance, within which the Department of State and USAID are developing a fully integrated process for foreign assistance policy, planning, budgeting and implementation. Under the new U.S. Foreign Assistance Framework, our goal is to ensure that Title II food aid will, in collaboration with all foreign assistance funds in each country context, have an immediate impact – saving lives and protecting livelihoods – while also contributing to longer term objectives, such as enhancing community and household resilience to shocks and reducing future emergency food aid needs.

In reviewing the performance of Title II food aid and considering the new Farm Bill, I would like to focus this discussion on two main areas: 1) the changing world situation and context for the Title II food aid program; 2) how we can improve overall efficiency and effectiveness of Title II food aid programs within that new context, consistent with the GAO recommendations.

The Changing World Situation and Context for Food Aid.

Food aid does not exist within a vacuum. Rather, it addresses needs within an international and local economic and political context, and that context has substantially shifted in recent years. The new Farm Bill will provide us with an opportunity to address these changed conditions with a response that will not just prevent hunger and food crises as they occurred years ago, but as they exist now. To do that, food aid must address two major trends:

First, the frequency and magnitude and unpredictability of major food crises are increasing due to growing chronic vulnerability. Devastating wars, civil strife and natural disasters have often brought in their wake food problems. But over the last five to ten years, we have seen a significant increase in the numbers of people who are affected by these events, who face total destitution, a loss of household assets and livelihoods, and a chronic exposure to even the most minor of these shocks.

Take drought, for example. There have been droughts periodically for thousands of years. And while they have sometimes been deadly, the communities involved have generally been able to absorb that shock, restructure their livelihoods, and then begin to grow again.

But now, droughts in Africa appear to be more frequent. Where they used to come once every ten or twenty years, they have recently begun appearing several times in a ten-year period, and more recently still, to possibly as little as every two or three years. With that level of frequency, a community's full recovery from a drought is difficult at best. In many cases, herders' animals die and the herder sells still more animals for food, further shrinking the herd. A farmer who loses his crop and food supply may sell his hoes and harrows for food, and then hope to find seed to begin again. Each successive drought may find many communities increasingly characterized by a deeper and more widespread poverty, deteriorating landscapes, drying lakes and rivers, an ever poorer agricultural base, no market to sell to or buy from, hampered further by poor governance and governmental policies.

Over the last decade, we have seen large population groups – pastoralists in East Africa, poor farmers in the Sahel, HIV/AIDS-affected populations in southern Africa – whose lives and livelihoods are either disappearing, or are at severe risk of destruction. Continuous and overlapping crises can leave more and more people defenseless, chronically vulnerable to major food crises that may be triggered by small changes in rainfall, or food prices, or the rising cost of fuel.

Often, war or civil strife occurs within these same populations, or grows out of the conditions they live in. Entire generations in some countries have grown up in an atmosphere of extreme poverty overlaid by civil unrest, if not armed conflict. Portions of these conflict-ridden societies, like in Sudan and Somalia, subsist by receiving significant amounts of food aid and other humanitarian support to sustain their poor economies, perpetually disrupted by poverty, insecurity and war. In Sudan alone, WFP is supporting the food needs of almost two million internally displaced people (IDPs) in Darfur and another million of people living near the IDP camps in Darfur who are affected by the crisis. To date, the U.S. has borne a disproportionate share of this food aid burden, providing about 475,000 metric tons per year for Sudan and Eastern Chad. Last year the U.S. contributed half of the assessed food aid needs and over 65 percent of all the food donated to Sudan.

Second, there is evidence and understanding that food aid alone will not stop hunger. Today, despite the investments and the progress made over the past 50 years, globally an estimated 850 million people are still food insecure. While providing food will feed people today, it will not, by itself, lead to sustainable improvements in the ability of people to feed themselves. Giving food to people will save lives and address short term hunger needs, but it will not save livelihoods or end hunger. In cases of widespread vulnerability, food aid must be used strategically, such as in a national safety net program, and planned along with other U.S., other donor and other recipient-country non-food development resources, to attack the underlying causes of food insecurity, such as lack of rural credit, markets, infrastructure and off-farm job opportunities; or environmental degradation, poor agricultural productivity, and poor governmental policies. With respect to Title II non-emergency food aid programs, co-operating sponsors can monetize some of the food aid commodities that they receive and use the proceeds to implement activities that support the broader Title II food aid program.

How Can We Improve our Food Aid Programs within that New Context?

Emergency food aid needs are increasing and becoming less predictable, as conflict and natural disasters afflict and undermine the survival of a growing number of destitute and chronically food insecure people, who are often subsistence farmers, or herders and pastoralists. Because of this, food aid programs need to be adapted to these new conditions. They need to be able to respond more quickly to increasingly more vulnerable and desperate populations. They must be more effectively aimed at halting the loss of livelihoods that is the consequence of even small shocks. And they must be combined with other U.S., other donor, and other recipient-country non-food development resources so that the multiple causes of vulnerability can be addressed together. Here are some areas where we are considering improvements to food aid implementation.

Local Procurement: First, the most important change that the Administration has been seeking in recent appropriation requests and in the Administration's Farm Bill proposals, is the authority to use up to 25 percent of the Title II funds for the local or regional purchase and distribution of food to assist people threatened by a food crisis.

The long lead-time required to order and deliver U.S. food aid – normally up to four months – means that we often need to make decisions well before needs are known. In some cases, the need is sudden, such as during a flood or an outbreak of fighting. In other cases, there is an unanticipated break in the flow of rations to beneficiaries (pipeline break), or even a short-lived cease fire allowing aid agencies to enter places previously inaccessible because of security issues where, typically, we find people that have been cut off from food for some time.

In the case of drought we are also challenged to get food to people on time. There have been great advances in the ability to predict and track rainfall, undertake post-rain harvest assessments, and follow changing prices, resulting in better early warning. While we can often predict the impact of poor rains on crops, it is difficult to predict its impact on the ability of people to purchase enough food to eat. In the Sahel in 2005, for example, merely below-average rains and a marginally weak harvest, known well in advance, resulted in an unexpected major crisis because these conditions were compounded by unpredictable changes in trade flows among neighboring countries. This drew food away from regions with very poor populations, causing price spikes and an urgent need for food aid.

While it is impossible to predict the location and extent of emergencies that would require local procurement each year, the Administration might have considered using this authority for the immediate response to Iraq in 2003, to the Asian tsunami in 2004, in southern Africa and Niger in 2005, in Lebanon in 2006 and in East Africa in 2006 and 2007. We anticipate that purchases would occur in developing countries (in accordance with the OECD Development Assistance Committee List of Official Development Assistance recipients).

Let me assure you that our U.S-grown food will continue to play the primary role and will be the first choice in meeting global needs. If provided this authority by the Congress, we would plan to use local and regional purchases judiciously, in those situations where fast delivery of food assistance is critical to saving lives.

We ask that you seriously consider our proposal and the critical role this authority could play in saving lives of the most vulnerable populations. We are willing to work with you to address your concerns in order to move forward to provide for urgent needs.

Strengthening Assessments: Accurate assessments and well-targeted use of food aid are critical for responsible food aid. USAID is therefore giving considerable on-going attention to working with the WFP and partner PVOs to assist them in strengthening emergency food needs assessment and response systems and capabilities. Specifically, USAID is actively involved with other donors in providing guidance to WFP at the Executive Board on policy and program topics related to emergencies, providing technical and advisory input to the UN "Strengthening Emergency Needs Assessment Capacity" (SENAC) activity, and providing resources to strengthen the assessment capacities of P.L. 480 Title II partner non-governmental organizations. USAID fully supports the GAO recommendation to enhance needs assessment methodologies and donor and host government collaboration; and can use and is using WFP, SENAC, the USAID Famine Early Warning System (FEWSNET) and other mechanisms to do so.

Pre-positioning Emergency Food Aid: To help reduce the response time needed, for many years, USAID has pre-positioned processed food aid, both at U.S. ports and overseas. These efforts have been very successful. Pre-positioning processed food in warehouses not far from major emergency areas allows us to get this food to the beneficiaries at risk of starvation faster. Over 60% of the processed food sent to the pre-position sites overseas is redirected to meet unanticipated emergency needs and never makes it to the pre-position warehouses. While pre-positioning could usefully be expanded, the current Farm Bill has a ceiling on how much can be spent on pre-positioning. There are also significant logistical and other limits to pre-positioning food aid. For example, processed foods are the main commodities that can be successfully stored near emergencies. In addition, there are severe limits to the availability, cost, and quality of warehouse space and services near major emergencies, and problems certifying the condition of food withdrawn from these warehouses. Consistent with the GAO recommendation, we will examine the long-term costs and benefits of pre-positioning. But, while we want to expand pre-positioning, we do not expect to be able to do much more than we are currently. To be clear, pre-positioning is not a substitute for local procurement authority, particularly given the limits to pre-positioning with respect to the amount and types of commodities that can be stored, as well as speed.

Bill Emerson Humanitarian Trust: The Administration needs to ensure that it responds appropriately to major food aid emergencies. The primary means of funding large, unanticipated emergency food aid needs is the Bill Emerson Humanitarian Trust (BEHT). The BEHT is an important resource that assists the U.S. to meet major urgent humanitarian food aid needs. The BEHT complements Title II by providing resources to address unanticipated emergency food aid needs. However, one concern is that the releases from the BEHT have exceeded the statutory limit on its annual replenishment. As a result, the BEHT as a resource is shrinking.

Prioritization: In 2005, USAID issued a new Food Aid Strategic Plan for 2006 - 2010. This plan seeks to make the best use of Title II food aid resources by allocating resources to the most vulnerable people in order to help build resiliency and enable them to withstand the next drought or flood and, therefore, decrease dependency on food aid in the future.

We are strategically focusing the food aid resources available for non-emergency programs on the most food insecure countries. Resources that were historically spread across over 30 countries will be concentrated in about half as many countries in order to achieve maximum impact. Through addressing the most pressing food security needs with focused resources (especially in the countries that continue to need emergency food aid) we will work to reduce the need for emergency food aid over time.

To address the underlying causes of food insecurity in these priority countries, we need to increase integration of Title II and other funding sources in programming. For example, in Haiti USAID uses Child Survival and Health funds to train health care workers to monitor the growth of young children who are receiving food aid under the Title II program. In Mozambique, Development Assistance funds are used, in conjunction with Title II funds, to support road rehabilitation and help farmers get their products to market more quickly and for fair prices.

Integration: Under the U.S. Foreign Assistance Framework, USAID and the State Department are working to integrate all foreign assistance resources toward a number of objectives designed to set a given country on a sustainable path towards development. We have wrapped funding, goals, and performance indicators into one system that will be able to tell you who is spending the money, what it is being spent on, and what we expect to get from spending it. This information will come together in an annual Operational Plan submitted to Washington for each country where foreign assistance funds are provided. For the first time, starting with FY2007 funds, Title II non-emergency programs will be integrated in country programs to achieve maximum impact. By bringing U.S. foreign assistance resources together in a strategic and integrated fashion, the U.S. Foreign Assistance Framework allows the U.S. Government to implement more-effective and multi-sectoral interventions that address the overlapping themes of poverty and hunger and the underlying factors that cause them, country by country. Programs are thus more comprehensive in scope and complementary in nature, with food aid serving as only one tool of many working together to address the chronic causes of poverty and hunger in the most food-insecure countries.

Rationalizing Program Expenses: As we focus on the most food-insecure countries and integrate food aid programs with other programs focused on food insecurity objectives, we need to review our own regulations on non-food resources, such as 202(e) authority, to ask whether it needs updating. There was a time when the distinction between two main non-freight authorities – internal transport, storage and handling (ITSH), on the one hand, and 202(e) administrative expenses on the other – made sense. After all, that latter category was viewed as overhead that should be limited to ensure that as much food aid went to beneficiaries as possible. We are considering whether consolidating these funding authorities would lead to a more streamlined, cost-effective operation by having needs, and not funding categories, determine expenditures.

Another area of food aid resources that deserves a closer look is monetization. As the Committee knows, in recent years, monetization has generated a significant amount of debate both globally and in the U.S. food aid community based on differing views of the impact that monetization has on local markets and commercial imports. At the same time, we know that monetization can have development benefits and can be appropriate for low-income countries that depend on imports to meet their food needs. While the U.S. Government strongly supports monetization, many in the food aid community are concerned that monetization may be lost as a tool in the Doha World Trade Organization negotiations and continue to press for its use. Others are prepared to look for alternative means to address the causes of hunger and poverty. FFP agrees with the GAO recommendation to establish a database on monetization to record costs and proceeds, in order to inform this debate and seek improvements.

Monitoring: The GAO has recommended that USAID increase the monitoring of Title II programs in the countries where the food is monetized and distributed. We support the recommendation to conduct more monitoring. USAID currently uses multiple sources of funding to cover current monitoring costs for Title II programs. Statutory restrictions in the use of Title II resources limit the current level of monitoring.

Food Aid Quality: USDA and USAID share the concerns of stakeholders interested in improving the quality of food aid commodities. Some shared concerns include delays in updating existing contract specifications, whether current contract specifications result in the acquisition of desired products, and adequate testing procedures.

The quality and formulation of food aid products are crucial to delivering safe, wholesome products to undernourished populations, particularly vulnerable groups including infants and young children, women of child-bearing age and people living with HIV/AIDS. Currently, we are reviewing options to review the nutritional quality and cost-effectiveness of commodities being provided as food assistance. Our goal will be to have consultations with nutritionists, scientists, commodity associations, the World Food Program, the PVO community, and SUSTAIN to make sure all viewpoints are heard. We want to ensure that the food aid we provide is of the highest caliber to meet the nutritional requirements necessary to address chronic hunger

Partnership: Finally, I would like to comment on our commitment to increase and improve our consultative partnership with our partners and to increase public-private partnerships related to food aid and reducing food insecurity. For example, the Food Assistance Consultative Group (FACG), mandated in the Farm Bill, has not been as participative as USAID and our partners would like to see. We plan to propose changes to the structure of the FACG in order to improve the consultative nature of discussions and to focus again on specific issues that should be solved through a broader consultative process. These changes do not require any legislation.

Food aid programs are complex, and the problems and issues that U.S. food aid must address are increasingly complex. The Administration is committed to ensuring that Title II food aid is managed in the most efficient and effective manner possible, to decrease costs, increase impact and continue the 52 years of proud experience in using U.S. food aid to save lives and protect and improve the livelihoods of vulnerable populations. We look forward to continued discussions and debates with Congress on how the Farm Bill can best allow the United States to respond to new food aid challenges to reduce global hunger and poverty. Thank you.

STATEMENT OF DAVID KAUCK
SENIOR TECHNICAL ADVISOR
CARE USA

BEFORE THE U.S. SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

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March 21, 2007

Examining the Performance of U.S. Trade and Food Aid Programs

Mr. Chairman and members of the committee, thank you for this opportunity to present CARE's perspectives on the performance of United States international food assistance programs. Ensuring that our nation's food assistance programs achieve success at reducing hunger around the world is a critical challenge for all of us. CARE shares your commitment to combat hunger by providing effective and accountable programming wherever it is needed. CARE would like to express its great appreciation for all the support that Chairman Harkin, Senator Chambliss, the ranking member from Georgia, CARE's home state, and this Committee have given to programs using food aid.

CARE has been a cooperating partner of the Food for Peace program since it was established in 1954. Over the past 53 years, CARE has programmed more than 18.5 million tons of food from Food for Peace (valued at over $7.4 billion) to reach more than 200 million people. CARE operates food assistance programs today in twenty-two countries in Africa, Latin America, and Asia[1]. In the half-century or so that U.S. food aid programs have existed in their current form, our work together has helped to save countless lives, and protect and improve the health and well-being of millions of people living on the edge of disaster. CARE is proud to be a part of this great effort.

CARE's approach to food assistance has evolved over the years. We began by focusing on the provision of food and other assistance to people facing the threat of famine. We still use food in this way, but we have learned that food resources alone, although valuable, are not enough to address hunger. To improve people's lives, we developed multi-year programs that combine food assistance with other resources. These programs target the neediest people, often before a humanitarian emergency is apparent. They are designed to address the underlying causes of hunger and to strengthen poor peoples' capacity to cope with misfortune.

When it uses food aid, CARE's central focus is on helping poor people overcome hunger. Our objectives are always to save lives and protect livelihoods – while minimizing any unintended harmful consequences that might result from the use of food resources.

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[1] In FY 08, CARE will program Title II non-emergency resources in about 12 countries. This reduction is primarily due to the Office of Food for Peace's decision to focus its non-emergency resources in 15 countries. CARE was consulted by the Office of Food for Peace before this decision was made. CARE supports FFP's efforts to concentrate its non-emergency programs in those countries that are the most food insecure.

CARE strives to use food only when and where it is appropriate[2]. Well-managed food aid continues to be an important component of a global strategy to reduce hunger.

While acknowledging the important contribution of U.S. food assistance programs, we also accept the challenges that we still face, and they are daunting. There are currently approximately 820 million undernourished people in the developing world.[3] Many of these people are now so poor that they lack the means to rebuild their lives following natural disasters or other humanitarian emergencies. These problems are particularly acute in sub-Saharan Africa, where, for at least the last three decades, hunger has steadily worsened, becoming more widespread and persistent over time. The growing numbers of highly vulnerable people who have fallen into extreme and intractable poverty helps to explain the increased frequency and severity of humanitarian emergencies, and the exploding demand for emergency food aid. In parts of the Horn of Africa, the Sahel, and southern Africa, events that would not have triggered major humanitarian emergencies twenty-five years ago do so now.

While humanitarian crises have increased, the funding needed to adequately support food assistance demands worldwide has declined by nearly half in real terms since 1980[4]. We recognize that these resource constraints will not be easy to resolve in the current budget environment. This is why everything possible must be done to improve the efficiency and effectiveness of food aid practices so that we can achieve the greatest impact possible with the resources that we have. One important way to achieve this is to improve the timeliness and targeting of food aid. Food aid is especially valuable when it arrives on time and reaches the people who need it most. If it is late or poorly targeted, essential food aid can be wasted. Worse yet, untimely deliveries and poorly targeted food aid can have unintended, and sometimes harmful, economic consequences.

With these concerns in mind, CARE recommends several specific changes to current policies affecting U.S. food assistance programming.

Local Purchase

CARE endorses increasing procurement flexibility in the Title II program so that food may be routinely purchased locally or regionally in developing countries. Under the right circumstances, having a local purchase option can reduce delays and improve program efficiency and effectiveness, and therefore save lives.

Although local purchase can be a useful tool under the right conditions, this approach must be undertaken carefully. If not managed properly, local purchase can trigger price spikes that are harmful to poor people who must purchase food in order to meet their basic needs. This is why we feel that a carefully monitored pilot program would be a useful way to introduce this innovation.

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[2] CARE-USA, "White Paper on Food Aid Policy", 2006.

[3] Food and Agricultural Organization of the United Nations, "The State of Food Insecurity in the World: Eradicating World Hunger – Taking Stock Ten Years After the World Food Summit", (Rome: FAO Information Division, 2006)

[4] Christopher B. Barrett, "The United States International Food Assistance Programs: Issues and Options for the 2007 Farm Bill", February, 2007.

Better Strategies are Needed to Provide Cash Resources for Food Security Programs

In addition to direct distribution of food, there is a need for a reasonable level of cash assistance for complementary activities intended to reduce hunger. Experience has shown that cash-supported activities are often critical to the success of food programs. Although current law provides authority for limited cash assistance, CARE recommends that Congress increase the total amount of cash assistance provided within the Title II program and consider new strategies on how best to make those resources available.

Currently, the Title II program provides three conduits for distributing in-country cash support: (1) Section 202(e) funds, provided primarily for administrative and operational costs; (2) funding for Internal Transport, Storage and Handling for logistics-related support; and (3) proceeds from the sale of monetized commodities made available for costs associated with enhancing the effectiveness of Title II programs. The practice of purchasing commodities here in the United States, shipping those resources overseas, and then selling them to generate funds for food security programs is far less efficient than the logical alternative – simply providing cash to fund food security programs.

As a step towards improving the efficiency and effectiveness of non-emergency food aid programs, we recommend: (a) increasing Section 202(e) funding levels to at least 25% of the overall Title II appropriation; and (b) expanding Section 202(e) flexibility to permit the use of funds to enhance the effectiveness of program efforts._ Not only would this substantially improve the cost-effectiveness of non-emergency programs, it would also eliminate a source of unnecessary controversy that hangs over U.S. food assistance. Economic research supports the view that open market sales of imported food aid may in some cases create market distortions that are harmful to local farmers, traders and economies. It also shows that monetized food tends to displace commercial imports, both from the U.S. and from other countries. For this reason, monetization became an especially contentious issue during recent WTO negotiations.

Mr. Chairman, for the reasons just described CARE has made an internal decision to phase out of monetization. This transition should be completed by the end of fiscal year 2009. In the future, CARE will confine its use of food aid to emergency and safety net programs that involve targeted distribution to the chronically hungry.

The Bill Emerson Humanitarian Trust

The Bill Emerson Humanitarian Trust was intended to function as a reserve of food and food-associated assistance funding that can be drawn upon quickly to address unanticipated, rapid onset humanitarian crises. Unfortunately, at present the trust is difficult to access and is usually deployed a last resort, rather than a first response. Two changes would help the trust function as it was originally intended. First, to make the Trust more accessible, the conditions for releasing food and funds should be clarified in law. Second, we recommend modifying current law to ensure replenishment of commodities as part of the normal, annual appropriations process. CARE is eager to work with the committee to strengthen the statutory provisions affecting the Bill Emerson Humanitarian Trust in order to make this vital assistance tool as effective as possible.

Addressing the Underlying Causes of Food Insecurity and Hunger

Chronic hunger is often the result of multiple, deeply rooted causes. In the long term, achieving a lasting reduction in the incidence of chronic hunger will require: improvements in agricultural productivity; greater access to information, capital, basic education, health services, and technical training for the poor; and changes in the status of women and girls. This ambitious list obviously goes well beyond the mandates set forth in the Farm Bill. Indeed, it is beyond the means of any single donor government. But this crucial, broader objective is not impossible, and it is fully consistent with the values of the American people to help others help themselves.

Addressing the underlying causes of hunger will require setting common goals and promoting coordinated action across programs and agencies, as well as with national governments, implementing partners and other donors. Within the U.S. government, there are several such initiatives underway. One example that CARE has direct experience with is Ethiopia's Productive Safety Net Program. Under this program, multiple donors, including the United States, engage in coordinated planning and action. All are working toward a common goal to reduce levels of food insecurity in a country where conditions for its poor have not improved, in spite of extraordinary levels of food aid since the 1980s. While food aid plays an important role, the program does not rely on food aid alone. Program objectives include building infrastructure, expanding markets, diversifying and expanding the assets of poor households, and increasing the Government of Ethiopia's capacity to provide sustainable safety nets for chronically vulnerable citizens. We ask the Chairman and Committee members to consider this example as an encouraging model for coordinated action.

In closing, we must push ourselves to make food aid a more effective tool for reducing poverty and hunger.

CARE welcomes this opportunity to communicate our perspectives on U.S. food assistance policy at this important moment in the Committee's work. The intolerable crisis of 820 million hungry people worldwide represents a moral and ethical challenge to us all. But with your help, Mr. Chairman, I am convinced that we have both the will and the means to make a difference. CARE looks forward to working with the Committee in the months ahead to further strengthen the U.S. response to the problem of international hunger.

Mr. Chairman and members of the committee, thank you again for the opportunity to present our views. I look forward to answering your questions

White Paper on Food Aid Policy
CARE-USA

CARE International Vision:
We seek a world of hope, tolerance and social justice, where poverty has been overcome and people live in dignity and security. CARE International will be a global force and a partner of choice within a worldwide movement dedicated to ending poverty. We will be know everywhere for our unshakeable commitment to the dignity of people.

June 6, 2006

Introduction

Food aid has indisputably assisted and, in many cases, saved the lives of millions of people in the half-century or so that it has existed in its current form. CARE has long been associated with food distribution programs and can be justifiably proud of some of the accomplishments achieved through food aid programming in assisting poor, vulnerable, and crisis-affected people throughout the world. CARE believes that, if it is well managed, food aid continues to be an important component of a global strategy to reduce vulnerability and food insecurity. At the same time however, it is clear that many of the practices of procurement, distribution and management of food aid—as well as the politics of allocating resources for food aid—are not always compatible with the CARE International Vision and Mission Statement, adopted by the organization in 2001.

This paper is part of an ongoing effort to ensure that CARE-USA's policies for use of food resources are aligned with the organization's vision, mission and programming principles. In reviewing our policies, the CARE has sought to develop an understanding of the challenges and trends associated with food aid; to identify key policy options and their potential risks and implications; and to outline strategic directions that will position CARE to use food resources even more effectively. This paper briefly summarizes our analyses, options and directions.

Rationale for CARE's Food Policy Review

Recent analysis has shown that under some circumstances food aid can harm local production and markets, undermining long-term food security. Studies have also shown that food aid is often not the most efficient use of resources for alleviating poverty. These findings oblige CARE to review our food aid policies and management practices in order to ensure that our strategies and practices are consistent with our goals and values.

Food aid has recently become the focus of important policy debates in the US and abroad:

- Many features of the current system of food aid management have been challenged in the current round of trade negotiations at the World Trade Organization (WTO).

- In Washington, budget constraints in a time of increased demand for emergency food aid have resulted in inadequate funding, particularly for non-emergency food aid.

- The authorizing legislation for US food aid—the Farm Bill—is soon to be renegotiated in Washington. The legislative process will provide another arena for debate about food aid.

These factors have important implications for how CARE approaches humanitarian response and other programs using food resources. They may also have important operational and budgetary consequences for some of our country offices.

In short, the rules of the game are changing with regard to food aid. CARE's Food Policy Review is part of its effort to actively engage in the food policy debate in order to encourage the evolution of food aid management towards being a more flexible and appropriate resource, while also being aware of the possible consequences of changes in food aid on our policies, programming, and budgets.

Principles for Food Aid Management

CARE adheres to its own six Programming Principles in all of its operations[1], but specifically two principles guide our use of food resources:

1. When it uses food aid, CARE's central focus is on helping poor and vulnerable people overcome food insecurity and vulnerability. Our objectives are to save lives, protect livelihoods, reduce vulnerability, and address underlying causes of poverty—while monitoring for and minimizing any potential harm from using the resource.

2. CARE is committed to maximizing efficiency and impact, and minimizing unintended harmful consequences. CARE will use food aid only when and where it is appropriate. In CARE's view, appropriate roles for food aid include emergency response programs, safety net (asset protecting) programs, and a more limited role in asset building programs. CARE takes responsibility for managing food aid appropriately and will:
    - Improve its understanding of local markets and patterns of vulnerability, so that it can make appropriate food aid management decisions.
    - Target the right kind of assistance to the right people at the right time and in the right place.
    - Ensure that when food is used, appropriate non-food complimentary requirements are also met.
    - Ensure the flexibility to choose between food and other resources depending on local conditions. CARE will actively advocate for this flexibility with donors.
    - Follow appropriate, internationally-accepted guidelines and codes of conduct, including the SPHERE Guidelines and the NGO Code of Conduct on Food Aid and Food Security.

Specific Policy Decisions

In its food aid review, CARE USA has focused on four major policy areas that affect the overall effectiveness of the food aid system and have potential implications for CARE programs. These are: local and regional purchases of food; monetization; US Department of Agriculture (USDA) programs; and international trade, agricultural subsidies and food aid. After careful analysis, the following decisions have been made:

1. Local/Regional Purchase

CARE supports making funding available to purchase food locally or regionally in developing countries. The two main justifications for local and regional purchases of food supplies are (i) to reduce costs, delays and market distortions brought about by "tying" food aid to domestic procurement programs in the donor country and (ii) to increase procurement flexibility while providing economic opportunities for small farmers in countries where purchases are made.

[1] CARE's Programming Principles are: Promote empowerment; Work with partners; Ensure accountability and promote responsibility; Address discrimination; Promote non-violent resolution of conflicts; and Seek sustainable results.

CARE recognizes that local purchase is a complex undertaking. A greater understanding of local markets and potential risks and unintended consequences is necessary before engaging in local purchase on a significant scale. CARE will support efforts to increase the provisions for local purchase in donors' budgets. Some donors (especially the European Commission (EC) and Canada) have already moved towards more local/regional procurement.

Our reasoning:

1. Currently, most food aid (including virtually all US food aid) must be sourced from the donor country (i.e. in WTO language, it is "tied aid"). This means that:
   - Food aid deliveries can be slow and expensive. The average time for delivery of Title II emergency food aid from call forward to arrival in-country is five months.
   - Food aid is nominally tied to the export and surplus disposal objectives of the exporting country.
   - Imported food aid can cause commercial displacement, causing harm to traders and local farmers.
   - The cost of tied food aid has been shown to be significantly higher—in many cases 30-50% higher—than alternative, non-tied sources of food aid.[2]

2. The local purchase option will increase procurement flexibility. In countries (or regions) where food supplies are adequate and where markets function properly, shifting from imported food aid to local purchase has the potential to significantly reduce delays and delivery costs. It can also provide important economic opportunities for small farmers in countries where food purchases are made. However, certain caveats need to betaken into consideration:
   - Most humanitarian organizations have only recently begun to experiment with local purchase. Experiences to date are still being assessed, and no broad consensus has yet emerged about when to resort to local/regional purchase and how to best manage it.
   - It is clear that local purchase is a complex undertaking. It brings significant operational challenges and risks, as does the use of imported food aid.
   - The appropriateness of local purchase will depend on various factors, including highly variable local market conditions.
   - If not managed properly, local purchase can cause harm. Of particular concern is the possibility that local purchase, in places where markets do not function effectively, will trigger price spikes for basic food stuffs. Surging prices can be very harmful to poor people who must purchase food in order to meet their basic needs. New analytical procedures are required to predict and monitor the impact of local and regional purchases

2. Monetization.

By September 30, 2009, CARE will transition out of monetization -- that is, the sale of food aid to generate cash for humanitarian programs. The only exceptions will be where it can be clearly demonstrated that monetization can be used to address the underlying causes of chronic food insecurity and vulnerabilities with reasonable management costs and without causing harm to markets or local production. CARE will use monetization only when it is sure that the food which is monetized reaches vulnerable populations and has effective

[2] OECD (2005) "The Development Effectiveness of Food Aid: Does Tying Matter?" Paris: OECD.

targeting of poor people with limited purchasing power. This will result in minimum or no displacement of domestic production.

CARE's transition away from monetization will take into consideration the project cycle in our country offices, replacement of lost revenue by alternative sources, and any other adjustments needed in our country offices and headquarters. It also means that all country offices submitting Multi-Year Activity Plans (MYAPs) for USAID/Food for Peace in the current fiscal year will need to ensure that their programs do not have a monetization component after September 30, 2009.

CARE recognizes that the elimination of monetization will probably lead to a reduced stream of cash resources for some country offices. CARE will seek ways to replace some monetization proceeds, in part, by advocating for the conversion of monetization funds to cash accounts and for the allocation of additional resources to address underlying causes of food insecurity.

CARE will advocate the adoption of a principled approach by the US Government and Private Voluntary Organizations (PVOs) that addresses the potential harm to markets and local production as well as the high management costs associated with monetization.

Our reasoning:

For many years, monetization has been a useful source of funding for programming to protect and enhance the livelihoods of poor people. However, there are three major problems with monetization:

1. Experience has shown that monetization requires intensive management and is fraught with risks. Procurement, shipping, commodity management, and commercial transactions are management intensive and costly. Experience has shown that these transactions are also fraught with legal and financial risks.

2. Monetization is economically inefficient. Purchasing food in the US, 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.

3. When monetization involves open-market sale of commodities to generate cash, which is almost always the case, it inevitably causes commercial displacement. It can therefore be harmful to traders and local farmers, and can undermine the development of local markets, which is detrimental to longer-term food security objectives.

3. US Department of Agriculture (USDA Programs)

Most of the food resources programmed by CARE come from the PL 480 Title II (USAID/ Office of Food for Peace). Occasionally, CARE has utilized other resources, managed by the USDA, including food resources from Title 1 and Section 416b, whose stated objective is to support US farmers, and Food for Progress, whose stated purpose is to promote free enterprise and competition in agricultural economies.

CARE takes the position that food aid should not be used to enable a donor to establish an unfair commercial advantage and must not create disincentives to local production and markets. CARE believes two USDA programs, Title I (concessional sales) and Section 416 (b) (surplus disposal) are inconsistent with its position and therefore will phase out of participation in these programs. Regarding a third program, Food for Progress, CARE's stance is more complex. In many contexts, the goal of Food for Progress Programs is compatible with CARE's focus on addressing the underlying causes of poverty. However, in recent years past, some of the food aid provided under Food for Progress has come from Title I or Section 416(b), and much of it has been monetized. CARE will not accept Food for Progress Resources that originate from those resources; nor will CARE monetize from this (or any other) program.

In practice, these policies are likely to mean that CARE will receive little support from Food for Progress.

Our reasoning:

1. The USDA food programs under Title 1 and Section 416b: Title 1 programs involve concessional (subsidized) sales of food for the stated purpose of promoting export market development for US goods. Section 416b programs involve disposal of surplus production.
   - Evidence shows that these programs actually have no measurable effect either as strategies to promote the development of export markets or as price support mechanisms.
   - However, tying food aid to domestic agricultural priorities makes it difficult to maximize the cost-effectiveness and minimize the unintended harmful consequences of food aid.

2. Food for Progress: While the goal of this is broadly compatible with CARE's focus on the underlying causes of poverty:
   - Some of the resources programmed under Food for Progress come from Title 1 and Section 416b.
   - Much of the food aid programmed under Food for Progress is monetized.

<u>4. International Trade, Agricultural Subsidies and Food Aid</u>

Generally, CARE supports free and fair trade as far as it does not increase food insecurity and vulnerability of poor and marginalized populations. By focusing on the impact of that trade liberalization, CARE believes that it can make an important contribution in this area to the trade debate. Of particular interest is the possibility that the proposed reduction of agricultural subsidies and trade barriers may be linked to reform of the food aid system, a development that could lead to the elimination of safety nets at a time of rising commodity prices, thus causing the erosion of poor people's purchasing power and access to food.

CARE will enhance its capacity to understand how the poor are likely to be affected by trade liberalization. In order to do this, it will build on and improve CO capacity to document and analyze patterns of vulnerability and to assess the impact of changes in trade policy. It will also work in partnership with research organizations that have expertise in economic analysis and vulnerability assessment. Finally, it will carry out a series of case studies in a small number of countries to document the effects of trade liberalization on poor people.

Our reasoning:

Current debates about food aid are, to some degree, linked to a much larger discussion about international trade and agricultural subsidies. In the Doha Round negotiations of the WTO, European negotiators have demanded stringent restrictions against tied food aid, in-kind food aid, and non-emergency food aid (including monetization) in exchange for substantial reductions in European agricultural subsidies. In short, achieving dramatic reductions in agricultural subsidies may in the end be offset by dramatic changes in the way food aid is currently organized and managed.

The potential impacts of these policy changes are complex. A significant reduction of agricultural subsidies in developed nations is expected to cause international agricultural commodity prices to rise. Broadly speaking, this trend will lead to uneven development, producing economic opportunities for some and harmful consequences for others. The rise of commodity prices is expected to create economic opportunities for households, firms and countries that produce and sell agricultural commodities. At the same time, households and countries that must purchase food in order to meet basic needs will have to cope with rising commodity prices. This can be expected to erode purchasing power and deepen patterns of poverty amongst the urban poor. In rural areas, the impact will be mixed. Rising commodity prices can be expected to provide benefits for small farmers and traders. However, many poor households whose food production is insufficient to meet basic needs may find that a higher percentage their income must go for food purchases.

Some have argued that reforming the food aid system in exchange for the reduction of agricultural subsidies is a good deal for poor farmers. Others have pointed out that eliminating subsidies will cause hardship for poor people who purchase food, and that linking the reform of the food aid system to economic liberalization would have the effect of eliminating safety nets precisely at the moment when they are most needed.

United States Government Accountability Office

GAO

Testimony
Before the Committee on Agriculture, Nutrition, and Forestry
U.S. Senate

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FOREIGN ASSISTANCE

U.S. Agencies Face Challenges to Improving the Efficiency and Effectiveness of Food Aid

Statement of Thomas Melito, Director
International Affairs and Trade

GAO
Accountability * Integrity * Reliability

GAO-07-616T

March 2007

FOREIGN ASSISTANCE

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Highlights

Highlights of GAO-07-616T, a testimony before the Chairman and Ranking Minority Member, Senate Committee on Agriculture, Nutrition, and Forestry

U.S. Agencies Face Challenges to Improving the Efficiency and Effectiveness of Food Aid

Why GAO Did This Study

The United States is the largest provider of food aid in the world, accounting for over half of all global food aid supplies intended to alleviate hunger. Since the 2002 reauthorization of the Farm Bill, Congress has appropriated an average of $2 billion per year for U.S. food aid programs, which delivered an average of 4 million metric tons of agricultural commodities per year. Despite growing demand for food aid, rising business and transportation costs have contributed to a 43 percent decline in average tonnages delivered over the last 5 years. For the largest U.S. food aid program, these costs represent approximately 65 percent of total food aid expenditures, highlighting the need to maximize the efficiency and effectiveness of food aid. To inform Congress as it reauthorizes the 2007 Farm Bill, GAO examined some key challenges to the (1) efficiency of delivery and (2) effective monitoring of U.S. food aid.

What GAO Recommends

In a draft report that is under review by U.S. agencies, GAO recommends that the Administrator of USAID and the Secretaries of Agriculture and Transportation work together to enhance the efficiency and effectiveness of U.S. food aid, by instituting measures to improve logistical planning, transportation contracting, and monitoring of food aid programs, among other actions.

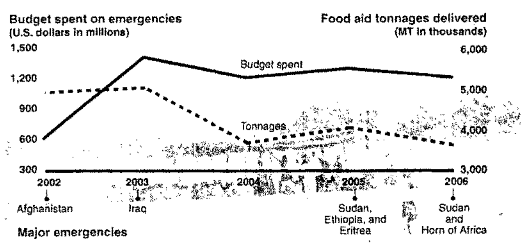
www.gao.gov/cgi-bin/getrpt?GAO-07-616T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Thomas Melito (202) 512-9601 (MelitoT@gao.gov).

What GAO Found

Multiple challenges combine to hinder the efficiency of delivery of U.S. food aid by reducing the amount, quality, and timeliness of food provided. These challenges include (1) funding and planning processes that increase delivery costs and lengthen time frames; (2) transportation contracting practices that create high levels of risk for ocean carriers, resulting in increased rates; (3) legal requirements that can result in the awarding of food aid contracts to more expensive service providers; and (4) inadequate coordination between U.S. agencies and food aid stakeholders in systematically addressing food delivery problems, such as spoilage. U.S. agencies have taken some steps to address timeliness concerns. USAID has been stocking or prepositioning food commodities domestically and abroad and USDA has implemented a new transportation bid process, but the long-term cost effectiveness of these initiatives has not yet been measured.

Selected Trends in U.S. Food Aid, Fiscal Years 2002 to 2006



Source: GAO analysis of USAID and USDA budget data
Note: Emergency funding reflects USAID only

Given limited food aid resources and increasing emergencies, ensuring that food reaches the most vulnerable populations—such as poor women who are pregnant or children who are malnourished—is critical to enhancing its effectiveness. However, USAID and USDA do not sufficiently monitor the effectiveness of food aid programs, particularly in recipient countries, due to limited staff, competing priorities, and restrictions in the use of food aid resources. For example, although USAID has some non-Title II staff assigned to monitoring, it had only 23 Title II-funded staff assigned to missions and regional offices in just 10 countries to monitor programs costing about $1.7 billion in 55 countries in fiscal year 2006. As a result of such limitations, U.S. agencies may not be sufficiently accomplishing their goals of getting the right food to the right people at the right time.

Chairman Harkin, Ranking Member Chambliss, and Members of the Committee:

I am pleased to be here today to discuss ways to improve the efficiency and effectiveness of U.S. food aid. The United States is the largest provider of food aid in the world, accounting for over half of all global food aid supplies intended to alleviate hunger and support development in low-income countries. Since its last reauthorization of the Farm Bill in 2002, Congress has appropriated an average of $2 billion per year in annual and supplemental funding for U.S. international food aid programs, which delivered an average of 4 million metric tons of agricultural commodities per year. In 2006, U.S. food aid benefited over 70 million people through emergency and development-focused programs. However, about 850 million people in the world are undernourished in 2007—a number that has remained relatively unchanged since the early 1990s, according to United Nations (UN) Food and Agriculture Organization (FAO) estimates.[1] Furthermore, the number of food and humanitarian emergencies has doubled from an average of about 15 per year in the 1980s to more than 30 per year since 2000, due in large part to increasing conflicts and natural disasters around the world. Despite growing demand for food aid, rising transportation and business costs have contributed to a 43 percent decline in average tonnages delivered over the last 5 years.[2] For the largest U.S. food aid program, Title II of the Food for Peace program, these costs now account for approximately 65 percent of expenditures, highlighting the need to maximize the efficiency and effectiveness of U.S. food aid.

My testimony is based on a report that we expect to issue in April 2007. Today, I will primarily focus on the need to improve the efficiency of delivery of U.S. food aid. I will also focus on the importance of efforts to monitor U.S. food aid programs in order to enhance their effectiveness. In addition to these issues, our April report will address monetization, assessments, targeting, and commodity quality and nutritional standards.

[1]According to FAO's 2006 *The State of Food and Agriculture* report, conditions in Asia have improved while those in Africa have worsened.

[2]While we acknowledge that commodity prices also affect tonnages, there has been no clear trend in total average commodity prices for food aid programs from fiscal year 2002 to fiscal year 2006.

We conducted the work for the forthcoming report and this testimony between April 2006 and March 2007 in accordance with generally accepted U.S. government auditing standards.

Summary

Multiple challenges combine to hinder the efficiency of delivery of U.S. food aid by reducing the amount, timeliness, and quality of food provided. These challenges include

- funding and planning processes that increase delivery costs and lengthen time frames. These processes make it difficult to time food procurement and transportation to avoid commercial peaks in demand, often resulting in higher prices than if such purchases were more evenly distributed throughout the year.
- transportation and contracting practices that differ from commercial practices and create high levels of risk for ocean carriers, increasing food aid costs. For example, food aid transportation contracts often hold ocean carriers responsible for costly delays that may result when food aid cargo is not ready for loading onto an ocean vessel, or when a destination port is not ready to receive cargo. Ocean carriers factor these costs into their freight rates, driving up the cost of food aid.
- legal requirements that result in the awarding of food aid contracts to more expensive providers and contribute to delivery delays. For example, cargo preference laws require 75 percent of food aid to be shipped on U.S.-flag carriers, which are generally more costly than foreign-flag carriers. The Department of Transportation (DOT) reimburses certain transportation costs, but the sufficiency of these reimbursements varies.
- inadequate coordination between U.S. agencies and stakeholders in tracking and responding to food delivery problems. For example, while food spoilage has been a long-standing concern, the U.S. Agency for International Development (USAID) and the U.S. Department of Agriculture (USDA) lack a shared, coordinated system to systematically track and respond to food quality complaints.

However, to enhance the efficiency of delivery of food aid, U.S. agencies have taken measures to improve their ability to provide food aid on a more timely basis. Specifically, USAID has been stocking food commodities, or prepositioning them, in Lake Charles (Louisiana) and Dubai (United Arab Emirates) for the past several years and is in the process of expanding this practice. Additionally, in February 2007, USAID and USDA implemented a new transportation bid process in an attempt to increase competition and reduce procurement time frames. Although both efforts may result in food aid reaching vulnerable populations more quickly in an emergency, their long-term cost effectiveness has not yet been measured.

Despite the importance of ensuring the effective use of food aid to alleviate hunger, U.S. agencies' efforts to monitor food aid programs in recipient countries are insufficient. Given limited food aid resources and increasing emergencies, ensuring that food reaches the most vulnerable populations, such as poor women who are pregnant or children who are malnourished, is critical to enhancing its effectiveness and avoiding negative market impact. However, USAID and USDA do not sufficiently monitor food aid programs, particularly in recipient countries, due to limited staff, competing priorities, and restrictions in the use of food aid resources. For example, although USAID has some non-Title II staff assigned to monitoring, it had only 23 Title II-funded staff assigned to missions and regional offices in just 10 countries to monitor programs costing about $1.7 billion in 55 countries in fiscal year 2006. USDA has even less of a field presence for monitoring than USAID. As a result, U.S. agencies may not be sufficiently accomplishing their goals of getting the right food to the right people at the right time.

In our draft report, which is under review by U.S. agencies, we recommend that the Administrator of USAID, the Secretary of Agriculture, and the Secretary of Transportation take actions to improve the efficiency and effectiveness of U.S. food aid. These actions include (1) improving food aid logistical planning; (2) modernizing transportation contracting practices; (3) minimizing the cost impact of cargo preference regulations on food aid transportation expenditures; (4) tracking and resolving food quality complaints systematically; and (5) improving the monitoring of food aid programs.

USAID, USDA, and DOT reviewed a draft of this testimony statement and provided us with oral comments, including technical comments that we have incorporated as appropriate. We also provided DOD, State, FAO, and WFP an opportunity to provide technical comments, which we have incorporated as appropriate.

Background

Food aid comprises all food-supported interventions by foreign donors to individuals or institutions within a country. It has helped to save millions of lives and improve the nutritional status of the most vulnerable groups, including women and children, in developing countries. Food aid is one element of a broader global strategy to enhance food security[3] by reducing poverty and improving availability, access to, and use of food in low-income, less-developed countries. Donors provide food aid as both a humanitarian response to address acute hunger in emergencies and as a development-focused response to address chronic hunger. Large-scale conflicts, poverty, weather calamities, and severe health-related problems are among the underlying causes of both acute and chronic hunger.

Countries Provide Food Aid through In-Kind or Cash Donations, with the United States as the Largest Donor

Countries provide food aid through either in-kind donations or cash donations for local procurement. In-kind food aid is food procured and delivered to vulnerable populations,[4] while cash donations are given to implementing organizations for the purchase of food in local markets. U.S. food aid programs are all in-kind, and no cash donations are allowed under current legislation. However, the Administration has proposed legislation to allow up to 25 percent of appropriated food aid funds for purchase of commodities in locations closer to where they are needed. Other food aid donors have also recently moved from providing less in-kind to more or all cash donations for local, regional, or donor-market procurement. While there are ongoing debates as to which form of assistance is more effective and efficient, the largest international food aid organization, the World Food Program (WFP), continues to accept both.[5] The United States is both the largest overall and in-kind provider of food aid, supplying over one-half of all global food aid.

Most U.S. Food Aid Goes to Africa

In fiscal year 2006, the United States delivered food aid to over 50 countries, with about 78 percent of its funding allocations for in-kind food donations going to Africa, 12 percent to Asia and the Near East, 9 percent

[3]Food security exists when all people at all times have both physical and economic access to sufficient food to meet their dietary needs for a productive and healthy life.

[4]In-kind food aid usually comes in two forms: non-processed foods and value-added foods. Non-processed foods consist of whole grains such as wheat, corn, peas, beans, and lentils. Value-added foods consist of processed foods that are manufactured and fortified to particular specifications, and include milled grains such as cornmeal and bulgur, and fortified milled products such as Corn Soy Blend (CSB) and Wheat Soy Blend (WSB).

[5]WFP relies entirely on voluntary contributions to finance its humanitarian and development projects, and national governments are its principal source of funding. More than 60 governments fund the humanitarian and development projects of WFP.

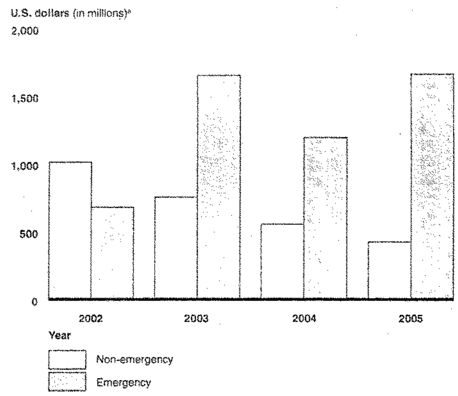
to Latin America, and 1 percent to Eurasia. Of the 78 percent of the food aid funding going to Africa, 30 percent went to Sudan, 27 percent to the Horn of Africa, 17 percent to Southern Africa, 14 percent to West Africa, and 12 percent to Central Africa.

Emergencies Represent an Increasing Share of U.S. Food Aid

Food aid is used for both emergency[6] and non-emergency purposes. Over the last several years, the majority of U.S. food aid has shifted from a non-emergency to an emergency focus. In fiscal year 2005, the United States directed approximately 80 percent or $1.6 billion of its $2.1 billion expenditure for international food aid programs to emergencies. In contrast, in fiscal year 2002, the United States directed approximately 40 percent or $678 million of its $1.7 billion food aid expenditure to emergency programs (see fig. 1).

[6]WFP defines emergencies as "urgent situations in which there is clear evidence that an event or series of events has occurred which causes human suffering or imminently threatens human lives or livelihoods and which the government concerned has not the means to remedy; and it is a demonstrably abnormal event or series of events which produces dislocation in the life of a community on an exceptional scale."

Figure 1: Emergencies Represent an Increasing Share of U.S. Food Aid Funding from Fiscal Year 2002 to Fiscal Year 2005



Source: GAO analysis of USAID data.

[a]These data represent all food aid programs administered by USAID and USDA.

U.S. Food Aid Is Delivered Through Multiple Programs with Multiple Mandates

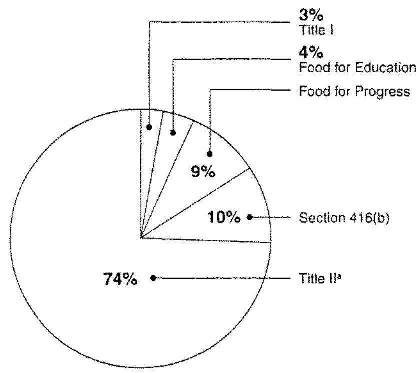
U.S. food aid is funded under four program authorities and delivered through six programs administered by USAID and USDA,[7] which serve a range of objectives including humanitarian goals, economic assistance, foreign policy, market development and international trade (see app. I).[8] The largest program, Public Law (P.L.) 480 Title II, is managed by USAID

[7]The authority for these U.S. international food aid programs is provided through P.L. 480 (the Agricultural Trade Development and Assistance Act of 1954, as amended, 7 USC § 1701 et seq.); the Food for Progress Act of 1985, as amended, 7 USC § 1736o; section 416(b) of the Agricultural Act of 1949, as amended, 7 USC § 1431; and the Farm Security and Rural Investment Act of 2002 (P.L. 107-171). Funding sources for U.S. international food assistance other than these six USAID- and USDA-administered food aid programs include (1) the Famine Fund and (2) State's Bureau of Population, Refugees, and Migration. (See app. I for a description of these sources of funding.)

[8]See GAO, *Food Aid: Experience of U.S. Programs Suggests Opportunities for Improvement*, GAO-02-801T (Washington, D.C.: June 4, 2002).

and averaged approximately 74 percent of total in-kind food aid allocations over the past 4 years, most of which funded emergency programs (see fig. 2). In addition, P.L. 480, as amended, authorizes USAID to preposition food aid both domestically and abroad with a cap on storage expenses of $2 million per fiscal year.

Figure 2: Average Shares of Total Funding for U.S. International Food Aid by Program Authority from Fiscal Year 2002 to Fiscal Year 2006 (Dollars in Millions)



Source: GAO analysis of USAID and USDA data

[a]This includes the Bill Emerson Humanitarian Trust.

U.S. food aid programs also have multiple legislative and regulatory mandates that affect their operations. One mandate that governs U.S. food aid transportation is cargo preference, which is designed to support a U.S.-flag commercial fleet for national defense purposes. Cargo preference requires that 75 percent of the gross tonnage of all government-generated cargo be transported on U.S.-flag vessels. A second transportation mandate, known as the "Great Lakes Set Aside," requires that up to 25 percent of total food aid tonnage be allocated to Great Lakes ports each month.[9] Other mandates require that a minimum of 2.5 million metric tons of food aid be provided through Title II programs, and that of this amount, a "sub-minimum" of 1.825 million metric tons be provided for non-emergency programs.[10] (For a summary of congressional mandates for P.L. 480, see app. I.)

Multiple U.S. Government Agencies and Stakeholders Participate in U.S. Food Aid Programs

U.S. food aid programs involve multiple U.S. government agencies and stakeholders. For example, USAID and USDA administer the programs, USDA's Kansas City Commodity Office (KCCO) manages the purchase of all commodities, and the U.S. Maritime Administration (MARAD) of DOT is involved in supporting their ocean transport on U.S. vessels. These and other government agencies coordinate food aid programs through the Food Assistance Policy Council, which oversees the Bill Emerson Humanitarian Trust, an emergency food reserve.[11] Other stakeholders include donors, implementing organizations such as WFP and NGOs, agricultural commodity groups, and the maritime industry. Some of these stakeholders are members of the Food Aid Consultative Group, which is led by USAID's Office of Food for Peace and addresses issues concerning the effectiveness of the regulations and procedures that govern food assistance programs.

Multiple Challenges Hinder the Efficiency of Delivery of U.S. Food Aid

Multiple challenges reduce the efficiency of U.S. food aid, including logistical constraints that impede food aid delivery and reduce the amount, timeliness, and quality of food provided. While agencies have tried to expedite food aid delivery in some cases, the majority of food aid program expenditures is on logistics, and the delivery of food from vendor to village is generally too time-consuming to be responsive in emergencies. Factors

[9] P.L. 104-239, 110 Stat. 3138. See GAO, *Maritime Security Fleet: Many Factors Determine Impact of Potential Limits on Food Aid Shipments*, GAO-04-1065 (Washington, D.C.: Sept. 13, 2004).

[10] Due to increasing emergency food aid needs, USAID has not met this sub-minimum requirement since 1995 and has regularly requested and received a waiver from Congress.

[11] The Bill Emerson Humanitarian Trust, a reserve of up to 4 million metric tons of grain, can be used to help fulfill P.L. 480 food aid commitments to meet unanticipated emergency needs in developing countries or when U.S. domestic supplies are short. The Secretary of Agriculture authorizes the use of the Trust in consultation with the Food Assistance Policy Council, which includes senior USAID representatives. The Trust, as presently constituted, was enacted in the 1998 Africa Seeds of Hope Act (P.L. 105-385) and replaced the Food Security Wheat Reserve of 1980.

that increase logistical inefficiencies include uncertain funding and inadequate planning; transportation contracting practices that disproportionately increase risks for ocean carriers (who then factor those risks into freight rates); legal requirements; and inadequate coordination to systematically track and respond to logistical problems, such as food spoilage or contamination. While U.S. agencies are pursuing initiatives to improve food aid logistics, such as prepositioning food commodities, their long-term cost effectiveness has not yet been measured.

Food Aid Procurement and Transportation are Costly and Time-Consuming

Transportation costs represent a significant share of food aid expenditures. For the largest U.S. food aid program (Title II), approximately 65 percent of expenditures are on inland transportation (to the U.S. port for export), ocean transportation, in-country delivery, associated cargo handling costs, and administration. According to USAID, these non-commodity expenditures have been rising in part due to the increasing number of emergencies and the expensive nature of logistics in such situations. To examine procurement costs (expenditures on commodities and ocean transportation)[12] for all U.S. food aid programs, we obtained KCCO procurement data for fiscal years 2002 through 2006. KCCO data also suggest that ocean transportation has been accounting for a larger share of procurement costs with average freight rates rising from $123 per metric ton in fiscal year 2002 to $171 per metric ton in fiscal year 2006 (see fig. 3).[13] Further, U.S. food aid ocean transportation costs are relatively expensive compared with those of some other donors. WFP transports both U.S. and non-U.S. food aid worldwide at reported ocean freight costs averaging around $100 per metric ton— representing less than 20 percent of its total procurement costs.[14] At current U.S. food aid

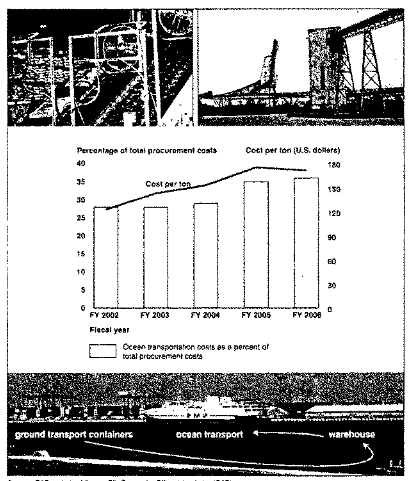
[12]Inland transportation costs are included in commodity and ocean transportation contracts.

[13]In addition to rising fuel prices and greater global demand for shipping, one factor contributing to the rise in freight rates is the rising share of U.S. tonnage sent to Africa, which had a slightly higher average cost of $180 per metric ton in 2006.

[14]World Food Program, *WFP in Statistics*, July, 2006 and *Review of Indirect Support Costs Rate*, Report WFP/DB/A.2006/6-C1 (Rome, Italy: May 2006).

budget levels, every $10 per metric ton reduction in freight rates could feed about 1.2 million more people during a typical hungry season.[15]

Figure 3: U.S. Food Aid Ocean Transportation Costs



Sources: GAO analysis of Kansas City Commodity Office data; photos (GAO)

Note: Total procurement costs include commodity and ocean transportation costs. Costs incurred to transport the cargo to the U.S. port for export are included in the commodity and ocean transportation costs, dependent on contract terms.

Delivering U.S. food aid from vendor to village is also a relatively time-consuming task, requiring on average 4 to 6 months. Food aid purchasing

[15]In this testimony, we use USAID's estimate that 1 metric ton can feed approximately 1,740 people per day. Given that the current average U.S. program cost for 1 metric ton of food aid is $585, if that average cost had been reduced by $10 per metric ton through a reduction in ocean transportation freight rates, the fiscal year 2006 food-aid budget could have funded an additional 62,500 metric tons—enough to feed approximately 1.2 million people for a typical peak hungry season lasting 3 months.

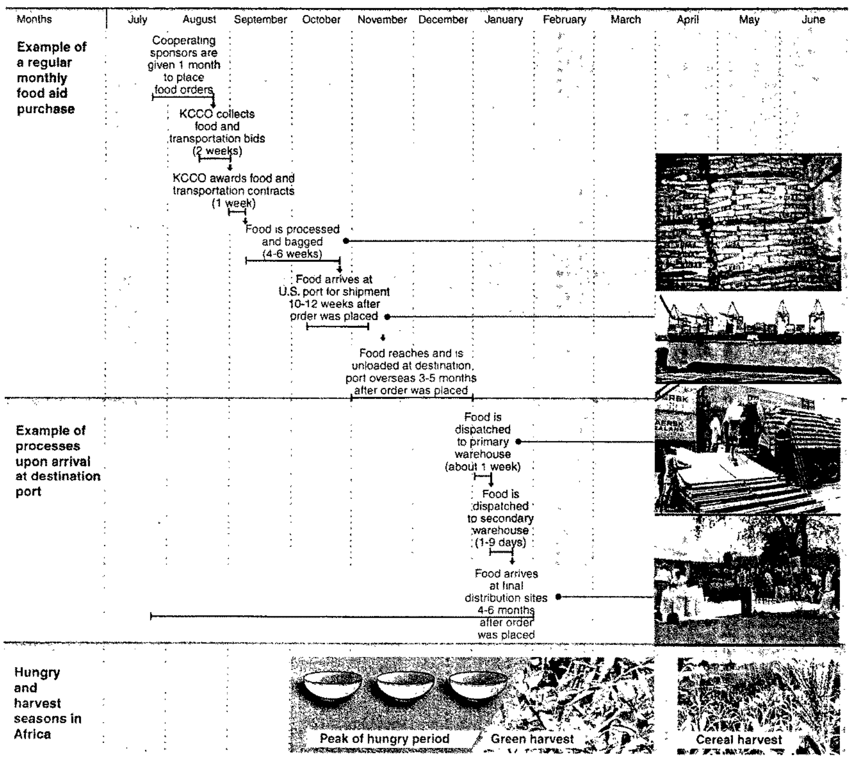
processes and example time frames are illustrated in figure 4. While KCCO purchases food aid on a monthly basis, it allows implementing partners' orders to accumulate for 1 month prior to purchase in order to buy in scale. KCCO then purchases the commodities, receives transportation offers, and awards transportation contracts over the following month. Commodity vendors bag the food and ship it to a U.S. port for export during the next 1 to 2 months.[16] After an additional 40 to 50 days for ocean transportation to Africa,[17] for example, the food arrives at an overseas port, where it is trucked or railroaded to the final distribution location over the next few weeks. While agencies have tried to expedite food aid delivery in some cases, the entire logistics process often lacks the timeliness required to meet humanitarian needs in emergencies and may at times result in food spoilage. Additionally, the largest tonnages of U.S. food aid are purchased during the months of August and September. Average tonnages purchased during the fourth quarter of the last 5 fiscal years have exceeded those purchased during the second and third quarters by more than 40 percent. Given a 6-month delivery window, these tonnages do not arrive in country until the end of the peak hungry season (from October through January in southern Africa, for example) in most cases.[18]

[16]KCCO data suggest that there is some variation in the time required from the contract award date until the commodity reaches a U.S. port for export. For example, for fiscal years 2002 through 2006, this time period varied from less than 30 days for several shipments to more than 90 days for several others.

[17]Ocean transportation time frames may include loading and unloading of vessels.

[18]GAO has previously reported on the poor timing of food aid delivery. See *Famine in Africa: Improving U.S. Response Time for Emergency Relief*, GAO/NSIAD-86-56 (Washington, D.C.: Apr. 3, 1986).

Figure 4: An Example of a U.S. Food Aid Purchase and Its Delivery from Vendor to Village



Sources: GAO analysis of USAID and USDA information; photos (GAO).

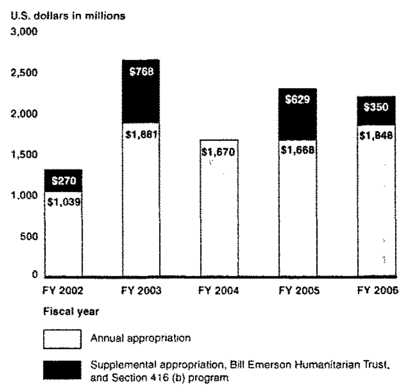
Various Factors Cause Inefficiencies in Food Aid Logistics

Food aid logistics are costly and time-consuming for a variety of reasons. First, uncertain funding processes for emergencies can result in bunching of food aid purchases, which increases food and transportation costs and lengthens delivery time frames. Many experts, officials, and stakeholders emphasized the need for improved logistical planning. Second, transportation contracting practices—such as freight and payment terms, claims processes and time penalties—further increase ocean freight rates and contribute to delivery delays. A large percentage of the carriers we interviewed strongly recommended taking actions to address these contracting issues. Third, legal requirements such as cargo preference can increase delivery costs. Although food aid agencies are reimbursed by DOT for certain transportation expenditures, the sufficiency of reimbursement levels varies. Fourth, when food delivery problems arise, such as food spoilage or contamination, U.S. agencies and stakeholders lack adequately coordinated mechanisms to systematically track and respond to complaints.

Funding and Planning Processes Increase Costs and Lengthen Time Frames

Uncertain funding processes, combined with reactive and insufficiently planned procurement, increase food aid delivery costs and time frames. Food emergencies are increasingly common and now account for 80 percent of USAID program expenditures. To respond to sudden emergencies—such as Afghanistan in 2002, Iraq in 2003, Sudan, Eritrea, and Ethiopia in 2005, and Sudan and the Horn of Africa in 2006—U.S. agencies largely rely on supplemental appropriations and the Bill Emerson Humanitarian Trust (BEHT) to augment annual appropriations by up to a quarter of their budget. Figure 5, for example, illustrates that USAID supplemental appropriations have ranged from $270 million in fiscal year 2002 and $350 million in fiscal year 2006 to over $600 million in fiscal years 2003 and 2005. Agency officials and implementing partners told us that the uncertainty of whether, when, and at what levels supplemental appropriations would be forthcoming hampers their ability to plan both emergency and non-emergency food aid programs on a consistent, long-term basis and to purchase food at the best price. Although USAID and USDA instituted multi-year planning approaches in recent years, according to agency officials, uncertain supplemental funding has caused them to adjust or redirect funds from prior commitments.

Figure 5: Funding for U.S. Food Aid Programs, Annual and Supplemental Appropriations, Fiscal Year 2002 to Fiscal Year 2006 (Dollars in millions)



Source: GAO analysis based on USAID budget data

Agencies and implementing organizations also face uncertainty about the availability of Bill Emerson Humanitarian Trust funds. As of January 2007, the Emerson Trust held about $107.2 million in cash and about 915,350 metric tons of wheat valued at $133.9 million—a grain balance that could support about two major emergencies based on an existing authority to release up to 500,000 metric tons per fiscal year and another 500,000 of commodities that could have been, but were not, released from previous fiscal years. Although the Secretary of Agriculture and the USAID Administrator have agreed that the $341 million combined value of commodity and cash currently held in the trust is more than adequate to cover expected usage over the period of the current authorization, the authorization is scheduled to expire on September 30, 2007. Resources have been drawn from the Emerson Trust on 12 occasions since 1984. For example, in fiscal year 2005, $377 million from the trust was used to procure 700,000 metric tons of commodities for Ethiopia, Eritrea, and Sudan. However, experts and stakeholders with whom we met noted that the trust lacks an effective replenishment mechanism—withdrawals from the trust must be reimbursed by the procuring agency or by direct appropriations for reimbursement, and legislation establishing the Emerson Trust capped the annual replenishment at $20 million.[19]

Inadequately planned food and transportation procurement reflects the uncertainty of food aid funding. As previously discussed, KCCO purchases the largest share of food aid tonnage during the last quarter of each fiscal year. This "bunching" of procurement occurs in part because USDA requires 6 months to approve programs and/or because funds for both USDA and USAID programs may not be received until mid-fiscal year (after OMB has approved budget apportionments for the agencies) or through a supplemental appropriation. USAID officials stated that they have reduced procurement bunching through improved cash flow management.[20] Although USAID has had more stable monthly purchases in fiscal years 2004 and 2005, food aid procurement in total has not been consistent enough to avoid the higher prices associated with bunching. Higher food and transportation prices result from procurement bunching as suppliers try to smooth earnings by charging higher prices during their peak seasons and as food aid contracts must compete with commercial demand that is seasonally high. According to KCCO data for fiscal years 2002 through 2006, average commodity and transportation prices were each $12 to $14 per metric ton higher in the fourth quarter than in the first quarter of each year.[21] Procurement bunching also stresses KCCO operations and can result in costly and time-consuming congestion for ports, railways, and trucking companies.

While agencies face challenges to improving procurement planning given the uncertain nature of supplemental funding in particular, stakeholders and experts emphasized the importance of such efforts. For example, 11 of the 14 ocean carriers we interviewed cited that reduced procurement bunching could greatly reduce transportation costs. When asked about

[19]Additionally, Congress can appropriate funds to augment the Trust. The Emergency Wartime Supplemental Appropriations Act, 2003 (Pub. L. 108-11) appropriated $69 million for that purpose.

[20]USAID has taken steps to improve its management of (1) committed and anticipated cash outflows for development and emergency programs, prepositioning, and other accounts; and (2) anticipated cash inflows from annual and supplemental budgets, DOT reimbursements, and other carryover accounts. However, according to a KCCO study, though both USDA and USAID experience an upsurge in purchasing at the end of the year (particularly in September), USDA's is more pronounced.

[21]These figures exclude prices for non-fat dry milk and vegetable oil.

bunching, agency officials, stakeholders and experts suggested the following potential improvements:

- **Improved communication and coordination.** KCCO and WFP representatives suggested that USAID and USDA improve coordination of purchases to reduce bunching. KCCO has also established a web-based system for agencies and implementing organizations to enter up to several years' worth of commodity requests. However, implementing organizations are currently only entering purchases for the next month. Additionally, since the Food Aid Consultative Group (FACG) does not include transportation stakeholders, DOT officials and ocean carriers strongly recommended establishing a formal mechanism for improving coordination and transportation planning.

- **Increased flexibility in procurement schedules.** USAID expressed interest in an additional time slot each month for food aid purchases. Several ocean carriers expressed interest in shipping food according to cargo availability rather than through pre-set shipping windows that begin 4 weeks and 6 weeks after each monthly purchase. Although KCCO has established shipping windows to avoid port congestion, DOT representatives believe that carriers should be able to manage their own schedules within required delivery time frames.

- **Increased use of historical analysis.** DOT representatives, experts, and stakeholders emphasized that USAID and USDA should increase their use of historical analysis and forecasting to improve procurement. USAID has examined historical trends to devise budget proposals prepared 2 years in advance, and it is now beginning to use this analysis to improve timing of procurement. However, neither USAID nor USDA has used historical analysis to establish more efficient transportation practices, such as long-term agreements commonly used by DOD.[22] Furthermore, WFP is now using forecasting to improve purchasing patterns through advanced financing but is unable to use this financing for U.S. food aid programs due to legal and administrative constraints.

[22]Several years ago, USAID asked DOD to calculate the cost for a sample set of food aid shipments using long-term transportation agreements managed by DOD. This analysis indicated a lack of potential savings. However, DOD and DOT officials subsequently found that the analysis contained flaws and they recommend that a new analysis be conducted. DOD officials suggested that USAID conduct a pilot program using DOD's Universal Service Contract. DOT officials indicated that cost savings could be realized if USAID were to manage its own contracts, and that they had offered to assist USAID in doing so. DOT also provided examples of contracts that would not discourage cargo consolidation or reduce competition.

Transportation Contracting Practices Increase Delivery Costs and Contribute to Delays

Transportation contracting practices are a second factor contributing to higher food aid costs. DOT officials, experts, and ocean carriers emphasized that commercial transportation contracts include shared risk between buyers, sellers, and ocean carriers. In food aid transportation contracts, risks are disproportionately placed on ocean carriers, discouraging participation and resulting in expensive freight rates.[23] Examples of costly contracting practices include:

- **Non-commercial and non-standardized freight terms.** Food aid contracts define freight terms differently than commercial contracts and place increased liability on ocean carriers.[24] For example, food aid contracts hold ocean carriers responsible for logistical problems such as improperly filled containers that may occur at the load port before they arrive. Food aid contracts also hold ocean carriers responsible for logistical problems such as truck delays or improper port documentation that may occur at the discharge port after they arrive. Further, several carriers reported that food aid contracts are not sufficiently standardized. Although USAID and USDA created a standard contract for non-bulk shipments, contracts for bulk shipments (which currently account for 63 percent of food aid tonnage delivered) have not yet been standardized. To account for risks that are unknown or outside their control, carriers told us that they charge higher freight rates.
- **Impractical time requirements.** Food aid contracts may include impractical time requirements, although agencies disagree on how frequently this occurs. Although USAID officials review contract time requirements and described them as reasonable, they also indicated that transportation delays are a common result of poor carrier performance and the diminishing number of ocean carriers participating in food aid

[23]Various factors distinguish food aid shipments from commercial shipments, making freight rates between these activities not directly comparable. Nonetheless, KCCO data suggest that average food aid freight rates from the Gulf of Mexico to Djibouti, East Africa were over $150 per ton in 2006. Average commercial freight rates for grain shipments from these ports were about one-third the price at $55 per ton.

[24]International commercial terms (InCo terms) are internationally accepted terms defining responsibilities of exporters and importers in shipments. InCo terms define free alongside ship ("FAS"), for example, as a contract where cargo is placed at the load port under the seller's responsibility and any vessel loading charges, freight, and other costs incurred including "detention and demurrage" (costs for detaining vessel or equipment at a discharge port longer than specified in the contract) are the buyer's responsibility. For food aid programs, FAS contracts specify that cargo is loaded and discharged at the carrier's time, risk, and expense.

programs.[25] Several implementing organizations also complained about inadequate carrier performance. WFP representatives, for example, provided several examples of ocean shipments in 2005 and 2006 that were more than 20 days late. While acknowledging that transportation delays occur, DOT officials indicated that some contracts include time requirements that are impossible for carriers to meet. For example, one carrier complained about a contract that required the same delivery date for four different ports. When carriers do not meet time requirements, they must pay costly penalties. Carriers reported that they review contracts in advance and, where time requirements are deemed implausible, factor the anticipated penalty into the freight rate.[26] While agencies do not systematically collect data on time requirements and penalties associated with food aid contracts, DOT officials examined a subset of contracts from December 2005 to September 2006 and estimated that 13 percent of them included impractical time requirements. Assuming that the anticipated penalties specified in the contracts analyzed were included in freight rates, food aid costs may have increased by almost $2 million (monies that could have been used to provide food to an additional 66,000 beneficiaries).

- **Lengthy claims processes.** Lengthy processes for resolving transportation disputes discourage both carriers and implementing organizations from filing claims. According to KCCO officials, obtaining needed documentation for a claim can require several years and disputed claims must be resolved by the Department of Justice. USAID's Inspector General reported that inadequate and irregular review of claims by USAID and USDA has also contributed to delayed resolution.[27] Currently, KCCO has over $6 million in open claims, some of which were filed prior to fiscal year 2001. For ocean carriers, the process is burdensome and encourages them to factor potential losses into freight rates rather than pursue claims. Incentives for most implementing organizations are even weaker given that monies recovered from claims reimburse the overall food aid budget

[25]We reported in 2004 that, between fiscal years 1999 and 2003, there was an annual average of 108 U.S.-flag vessels participating in U.S. food aid programs (see GAO-04-1065). According to DOT estimates, fewer than 90 U.S.-flag vessels participated in food aid programs in fiscal year 2006. Due to fleet changes, USAID officials estimate that there are now even fewer U.S.-flag vessels available to carry U.S. food aid.

[26]Various stakeholders questioned whether penalties are effective. USAID officials emphasized that penalties are their most practical tool to compel ocean carrier performance because FAR regulations make it very difficult to suspend carriers from participating in food aid programs due to poor performance.

[27]See USAID, Office of Inspector General Report No. 4-663-04-002-P (Washington, D.C.: Nov. 21, 2003).

rather than the organization that experienced the loss.[28] According to KCCO and WFP officials, transportation claims are filed for less than 2 percent of cargo. However, several experts and implementing organizations suggested that actual losses are likely higher. In 2003, KCCO proposed a new administrative appeals process for ocean freight claims that would establish a hearing officer within USDA and a 285-day timeframe. While DOT and some carriers agreed that a faster process was needed, DOT officials suggested that the process for claims review should include hearing officers outside of USDA to ensure independent findings. To date, KCCO's proposed process has not been implemented.

- **Lengthy payment time frames and burdensome administration.** Payment of food aid contracts is slow and paperwork is insufficiently streamlined. When carriers are not paid for several months, they incur large interest costs that are factored into freight rates. While USDA now provides freight payments within a few weeks, several ocean carriers complained that USAID often requires 2 to 4 months to provide payment. USDA freight payments are timelier due to a new electronic payment system, [29] but USAID officials said this system is too expensive, so they are considering other payment options. In addition, a few carriers suggested that paperwork in general needs streamlining and modernization. The 2002 Farm Bill required both USDA and USAID to pursue streamlining initiatives that the agencies are in the process of implementing. KCCO officials indicated that they are updating food aid information technology systems (to be in place in fiscal year 2009).

Through structured interviews, ocean carriers confirmed the cost impact of food aid transportation contracting practices. For example, 9 (60 percent) and 14 (100 percent) of the carriers reported that "inefficient claims processes" and "liabilities outside the carriers' control" increase costs, respectively. To quantify the impact, two carriers estimated that non-standardized freight terms increase costs by 5 percent (about $8 per metric ton) while another carrier suggested that slow payment increases

[28]WFP handles food aid claims independently through an insurance program.

[29]This system is entitled "PowerTrack" and is also currently used by DOD. According to DOD, PowerTrack has provided the government with visibility of payment history, reduced administrative and handling costs and expedited vendor payments. However, ocean carriers are responsible for paying transaction fees and USAID officials believe these fees – which are a percentage of the contract value –may be too expensive for large contracts. They are researching whether they can find a similar service with a fixed transaction fee.

costs by 10 percent (about $15 per metric ton). Over 70 percent of the carriers strongly recommended actions to address contracting practices.

Legal Requirements Can Increase Delivery Costs and Time Frames

Legal requirements governing food aid procurement are a third factor that can increase delivery costs and time frames, with program impacts dependent on the sufficiency of associated reimbursements. In awarding contracts, KCCO must meet various procurement requirements such as cargo preference and the Great Lakes Set Aside. Each requirement may result in higher commodity and freight costs. Cargo preference laws, for example, require 75 percent of food aid to be shipped on U.S.-flag carriers, which are generally more expensive than foreign-flag carriers by an amount that is known as the ocean freight differential (OFD). The total annual value of this cost differential between U.S.- and foreign-flag carriers averaged $134 million from fiscal years 2001 to 2005. Additionally, since only a relatively small percentage of cargo can be shipped on foreign-flag vessels, agency and port officials believe that cargo preference regulations discourage foreign-flag participation in the program and result in delays when a U.S.-flag carrier is not available. DOT officials emphasize that USAID and USDA receive reimbursements for most if not all of the total OFD cost—DOT reimbursements varied from $126 million in fiscal year 2002 to $153 million in fiscal year 2005. [30] However, USAID officials expressed concern that the OFD calculations do not fully account for the costs of cargo preference or the uncertainties regarding its application. For example, OFD reimbursements do not account for the additional costs of shipping on U.S.-flag vessels that are older than 24 years (approximately half of these vessels) or shipments for which a foreign-flag vessel has not submitted a bid.[31] USAID officials estimate that the actual cost of cargo preference in fiscal year 2003 exceeded the total OFD cost by about $50

[30]The Food Security Act of 1985 requires DOT to reimburse food aid agencies for the portion of the OFD cost and for ocean transportation costs that exceed 20 percent of total program costs. Reimbursement methodologies are governed by a 1987 interagency memorandum of understanding. According to DOT officials, the OFD cost was relatively low in fiscal year 2005 due to high global demand for freight services and relatively high foreign-flag freight rates. These factors raised ocean transport costs as a percentage of program costs, however, such that DOT's total reimbursement was higher as well.

[31]USAID and USDA are required to apply cargo preference regulations for vessels of any age. However, total OFD costs are based on an average OFD for vessels that are 24 years or younger. USAID officials argue that the cost difference between U.S.-flag and foreign-flag rates is larger for older vessels. Further, since opportunities for foreign-flag participation are limited, USAID argues that they are not reimbursed for the higher cost of shipping on a U.S.-flag vessel when foreign-flag bids are not received. Using KCCO data, we found that 14 percent of food aid commodity requests in fiscal year 2005 received no foreign-flag bid.

million due to these factors. Finally, USAID and DOT officials have not yet agreed on whether cargo preference applies to shipments from prepositioning sites.

Inadequate Coordination Limits Agencies' and Stakeholders' Response to Food Delivery Problems

U.S. agencies and stakeholders do not coordinate adequately to respond to food and delivery problems when they arise. USAID and USDA lack a shared, coordinated system to systematically track and respond to food quality complaints, and food aid working groups and forums are not inclusive of all stakeholders.[32] Food quality concerns have been long-standing issues provoking the concern of both food aid agencies and the U.S. Congress.[33] In 2003, for example, USAID's Inspector General reported some Ethiopian warehouses in poor condition, with rodent droppings near torn bags of corn soy blend (CSB), rainwater seepage, pigeons flying into one warehouse, and holes in the roof of another. Implementing organizations we spoke with also frequently complained about receiving heavily infested and contaminated cargo. For example, in Durban, South Africa we saw 1,925 metric tons of heavily infested cornmeal that arrived late in port because it had been erroneously shipped to the wrong countries first. This food could have fed over 37,000 people. When food arrives heavily infested, NGOs hire a surveyor to determine how much is salvageable for human consumption or for use as animal feed, and destroy what is deemed unfit.

When such food delivery problems arise, U.S. agencies and food aid stakeholders face a variety of coordination challenges in addressing them. For example:

- KCCO, USDA and USAID have disparate quality complaint tracking mechanisms that monitor different levels of information. As a result, they are unable to determine the total quantity of and trends in food quality problems. In addition, because implementing organizations track food quality concerns differently, if at all, they cannot coordinate to share

[32]Food quality pertains to the degree of food spoilage, infestation, contamination and/or damage that can result from factors such as inadequate fumigation, poor warehouse conditions, and transportation delays.

[33]In a report accompanying H.R. 5522, the 2007 Department of State, Foreign Operations, and Related Programs Appropriations Act, the Senate Foreign Relations Committee stated its concern for reports that food aid distribution overseas had been disrupted, suspended and in some instances rejected due to quality concerns, and supported efforts by USAID and other agencies to investigate these concerns. S. Rept. 109-277, p. 61. GAO has also reported on food quality issues. See *Foreign Assistance: U.S. Food Aid Program to Russia Had Weak Internal Controls*, GAO/NSIAD/AIMD-00-329. (Washington, D.C.: Sept. 29, 2000).

concerns with each other and with U.S. government agencies. For example, since WFP—which accounts for 60 percent of U.S. food aid shipments—independently handles its own claims, KCCO officials are unable to track the quality of food aid delivery program-wide. Agencies and stakeholders have suggested that food quality tracking and coordination could be improved if USAID and USDA shared the same database and created an integrated food quality complaint reporting system.

- Agency country offices are often unclear about their roles in tracking food quality, creating gaps in monitoring and reporting. For example, USAID has found that some missions lack clarity on their responsibilities in independently verifying claims stemming from food spoilage, often relying on the implementing organization to research the circumstances surrounding losses. One USAID country office also noted that rather than tracking all food quality problems reported, it only recorded and tracked commodity losses for which an official claim had been filed. Further, in 2004, the Inspector General for USAID found that USAID country offices were not always adequately following up on commodity loss claims to ensure that they were reviewed and resolved in a timely manner. To improve food quality monitoring, agencies and stakeholders have suggested updating regulations to include separate guidance for complaints, as well as developing a secure website for all agencies and their country offices to use to track both complaints and claims.

- When food quality issues arise, there is no clear and coordinated process for seeking assistance, creating costly delays in response. For example, when WFP received 4,200 metric tons of maize in Angola in 2003 and found a large quantity to be wet and moldy, it did not receive a timely response from USAID officials on how to handle the problem. WFP incurred $176,000 in costs in determining the safety of the remaining cargo, but was later instructed by USAID to destroy the whole shipment. WFP claims it lost over $640,000 in this case, including destruction costs and the value of the commodity. Although KCCO established a hotline to provide assistance on food quality complaints, KCCO officials stated that it was discontinued because USDA and USAID officials wanted to receive complaints directly, rather than from KCCO. Nevertheless, agencies and stakeholders have suggested that providing a standard questionnaire to implementing organizations would ensure more consistent reporting on food quality issues.

While Agencies Have Taken Steps to Improve Efficiency, Their Costs and Benefits Have Not Yet Been Measured

To improve timeliness in food aid delivery, USAID has been prepositioning commodities in two locations and KCCO is implementing a new transportation bid process. Prepositioning enabled USAID to respond more rapidly to the 2005 Asian tsunami emergency than would have been otherwise possible. KCCO's bid process is also expected to reduce delivery time frames and ocean freight rates. However, the long-term cost effectiveness of both initiatives has not yet been measured.

Prepositioning and Transportation Procurement Could Improve Timeliness

USAID has prepositioned food aid on a limited basis to improve timeliness in delivery.[34]

USAID has used warehouses in Lake Charles (Louisiana) since 2002 and Dubai (United Arab Emirates) since 2004 to stock commodities in preparation for food aid emergencies and it is now adding a third site in Djibouti, East Africa. USAID has used prepositioned food to respond to recent emergencies in Lebanon, Somalia, and Southeast Asia, among other areas. Prepositioning is beneficial because it allows USAID to bypass lengthy procurement processes and to reduce transportation timeframes. USAID officials told us that diverting food aid cargo to the site of an emergency before it reaches a prepositioning warehouse further reduces response time and eliminates storage costs.[35] When the 2005 Asian tsunami struck, for example, USAID quickly provided 7,000 metric tons of food to victims by diverting the carrier at sea, before it reached the Dubai warehouse. According to USAID officials, prepositioning warehouses also offer the opportunity to improve logistics when USAID is able to begin the procurement process before an emergency occurs, or if it is able to implement long-term agreements with ocean carriers for tonnage levels that are more certain.[36]

Despite its potential for improved timeliness, prepositioning has not yet been studied in terms of its long-term cost effectiveness. Table 1 shows that over fiscal years 2005 and 2006, USAID purchased about 200,000 metric tons of processed food for prepositioning (about 3 percent of total

[34]P.L. 480 authorizes USAID to preposition food aid both domestically and abroad with a cap on storage expenses of $2 million per fiscal year.

[35]Purchases for the Lake Charles prepositioning site must reach the warehouse and may not be diverted in advance.

[36]USAID representatives suggested they might consider pursuing a long-term transportation agreement for prepositioned tonnage to Djibouti. KCCO officials suggested that, as part of such a program, earlier purchases of food could also reduce commodity prices.

food aid tonnage), diverted about 36,000 metric tons en route, and incurred contract costs of about $1.5 million for food that reached the warehouse (averaging around $10 per metric ton). In addition to contract costs, ocean carriers generally charge higher freight rates for prepositioned cargo to account for additional cargo loading or unloading, additional days at port, and additional risk of damage associated with cargo that has undergone extra handling. USAID officials have suggested that average freight rates for prepositioned cargo could be $20 per metric ton higher.

Table 1: USAID Tonnage and Costs for Prepositioning, Fiscal Year 2005 to Fiscal Year 2006

	Lake Charles	Dubai
Tonnage purchased for prepositioning sites	99,630 MT	100,520 MT
• Tonnage shipped to prepositioning site	99,630 MT	64,606 MT
• Tonnage diverted before reaching prepositioning site	0 MT	35,644 MT
Contract costs for storage and cargo handling services	$839,380	$715,668

Source: USAID

In addition to costs of prepositioning, agencies face several challenges to their effective management of this program, including the following:

- Food aid experts and stakeholders expressed mixed views on the appropriateness of current prepositioning locations.[37] Only 5 of the 14 ocean carriers we interviewed rated existing sites positively and most indicated interest in alternative sites. KCCO officials and experts also expressed concern with the quality of the Lake Charles warehouse and the lack of ocean carriers providing service to that location. For example, many carriers must move cargo by truck from Lake Charles to Houston before shipping it, which adds up to an extra 21 days for delivery.
- Inadequate inventory management increases risk of cargo infestation. KCCO and port officials suggested that USAID had not consistently shipped older cargo out of the warehouses first. USAID officials emphasized that inventory management has been improving but that limited monitoring and evaluation funds constrain their oversight

[37]USAID chooses prepositioning locations based on three factors: (1) storage and warehouse costs; (2) technical criteria such as the port's plan of operations and personnel capacity, and the frequency of service provided by ocean carriers; and (3) past performance.

capacity.[38] For example, the current USAID official responsible for overseeing the Lake Charles prepositioning stock was able to visit the site only once in fiscal year 2006—at his own expense.

- Agencies have had difficulties ensuring phytosanitary certification for prepositioned food because they do not know the country of final destination when they request phytosanitary certification from APHIS.[39] According to USDA, since prepositioned food is not imported directly from a U.S. port, it requires either a U.S.-reissued phytosanitary certificate or a foreign-issued phytosanitary certificate for re-export. USDA officials told us they do not think that it is appropriate to reissue these certificates, as once a food aid shipment leaves the United States, they cannot make any statements about the phytosanitary status of the commodities, which may not meet the entry requirements of the country of destination. USDA officials are concerned that USAID will store commodities for a considerable period of time during which their status may change, thus making the certificate invalid. Although USDA and USAID officials are willing to let foreign government officials issue these certificates, U.S. inspection officials remain concerned that the foreign officials might not have the resources or be willing to recertify these commodities. Without phytosanitary certificates, food aid shipments could be rejected, turned away, or destroyed by recipient country governments.

- Certain regulations applicable to food aid create challenges for improving supply logistics. For example, food aid bags must include various markings reflecting contract information, when the commodity should be consumed, and whether the commodity is for sale or direct distribution. Marking requirements vary by country (some require markings in local language), making it difficult for USAID to divert cargo. Also, due to the small quantity of total food aid tonnage (about 3 percent) allocated for the prepositioning program, USAID is unable to use the program to consistently purchase large quantities of food aid earlier in the fiscal year.

New Transportation Bid Process Could Reduce Procurement Time Frames

In addition to prepositioning, KCCO is implementing a new transportation bid process to reduce procurement time frames and increase competition between ocean carriers. In the prior two-step system, during a first

[38]USAID is considering building inventory management into warehouse contracts and establishing standard operating procedures.

[39]A phytosanitary certificate is a document required by many states and foreign countries for the import of non-processed, plant products. As specified by the importing country or state, exported products must meet various plant health requirements pertaining to pests, plant diseases, chemical treatments and weeds.

procurement round, commodity vendors bid on contracts and ocean carriers indicated potential freight rates. Carriers provided actual rate bids during a second procurement round, once the location of the commodity vendor had been determined. In the new 1-step system, ocean carriers will bid at the same time as commodity vendors. KCCO expects the new system to cut 2 weeks from the procurement process and potentially provide average annual savings of $25 million in reduced transportation costs. KCCO also expects this new bid process will reduce cargo handling costs as cargo loading becomes more consolidated. When asked about the new system, many carriers reported uncertainty as to what its future impact would be, while several expressed concern that USDA's testing of the system had not been sufficiently transparent.

Various Challenges Prevent Effective Monitoring of Food Aid

Despite the importance of ensuring the effective use of food aid to alleviate hunger, U.S. agencies' efforts to monitor food aid programs are insufficient. Limited food aid resources make it important for donors and implementers to ensure that food aid reaches the most vulnerable populations, thereby enhancing its effectiveness. However, USAID and USDA do not sufficiently monitor food aid programs, particularly in recipient countries, due to limited staff, competing priorities, and legal restrictions in use of food aid resources.

U.S. Agencies Do Not Sufficiently Monitor Food Aid Programs

Although USAID and USDA require implementing organizations to regularly monitor and report on the use of food aid, these agencies have undertaken limited field-level monitoring of food aid programs. Agency inspectors general have reported that monitoring has not been regular and systematic, and that in some cases intended recipients have not received food aid or the number of recipients could not be verified. Our audit work also indicates that monitoring has been insufficient due to various factors including limited staff, competing priorities, and restrictions in use of food aid resources.

USAID and USDA require NGOs and WFP to conduct regular monitoring of food aid programs. USAID Title II guidance for multi-year programs requires implementing organizations to provide a monitoring plan, which includes information such as the percentage of the target population reached, as well as mid-term and final evaluations of program impact. USDA requires implementing organizations to report semi-annually on commodity logistics and the use of food. According to WFP's agreement with the U.S. government, WFP field staff should undertake periodic monitoring at food distribution sites to ensure that commodities are distributed according to an agreed-upon plan. Additionally, WFP is to provide annual reports for each of its U.S.-funded programs.

In addition to monitoring by implementing organizations, agency monitoring is important to ensure targeting of food aid is adjusted to changes in conditions as they occur, and to modify programs to improve their effectiveness, according to USAID officials. However, various USAID and USDA Inspectors General reports have cited problems with agencies' monitoring of programs. For example, according to various USAID Inspector General reports on non-emergency programs in 2003, while food aid was generally delivered to intended recipients, USAID officials did not conduct regular and systematic monitoring.[40] One such assessment of direct distribution programs in Madagascar, for example, noted that as a result of insufficient and ad hoc site visits, USAID officials were unable to detect an NGO reallocation of significant quantities of food aid to a different district that, combined with late arrival of U.S. food aid, resulted in severe shortages of food aid for recipients in a USAID-approved district. The Inspector General's assessment of food aid programs in Ghana stated that the USAID mission's annual report included data, such as number of recipients, that were directly reported by implementing organizations without any procedures to review the completeness and accuracy of this information over a 3-year period. As a result, the Inspector General concluded, the mission had no assurance as to the quality and accuracy of this data.

[40] USAID Inspector General, *Audit of USAID/Madagascar's Distribution of PL 480 Title II Non-Emergency Assistance in Support of its Direct Food Aid Distribution Program*, 2003. See also *Audit of USAID/Ghana's Distribution of P.L. 480 Title II Non-Emergency Assistance in Support of Its Direct Food Aid Distribution Program*, 2003; and *Audit of USAID/Ethiopia's Distribution of P.L. 480 Title II Non-Emergency Assistance in Support of Its Direct Food Aid Distribution Program*, 2003.

Limited Staff Constrain Monitoring of Food Aid Programs in Recipient Countries

Limited staff and other demands in USAID missions and regional offices have constrained their field-level monitoring of food aid programs.[41] In fiscal year 2006, although USAID has some non-Title II staff assigned to monitoring, it had only 23 Title II-funded staff assigned to missions and regional offices in just 10 countries to monitor programs costing about $1.7 billion in 55 countries.[42] For example, USAID's Zambia mission had only one Title-II funded foreign-national and one U.S.-national staff to oversee $4.6 million in U.S. food aid funding in fiscal year 2006. Moreover, the U.S.-national staff only spent about one-third of his time on food aid activities and two-thirds on the President's Emergency Plan for AIDS Relief program.

USAID regional offices' monitoring of food aid programs has also been limited. These offices oversee programs in multiple countries, especially where USAID missions lack human-resource capacity. For example, USAID's East Africa regional office, which is located in Kenya, is responsible for oversight in 13 countries in East and Central Africa, of which 6 had limited or no capacity to monitor food aid activities, according to USAID officials.[43] This regional office, rather than USAID's Kenya mission, provided monitoring staff to oversee about $100 million in U.S. food aid to Kenya in fiscal year 2006.[44] While officials from the regional office reported that their program officers monitor food aid

[41]As part of the 2002 Farm Bill, the Congress directed USAID to streamline program management as well as procedures and guidelines, including "information collection and reporting systems by identifying critical information that needs to be monitored and reported on by eligible organizations." In its report to the Congress in 2003, USAID identified actions to help achieve legislative directives, which included a re-examination of its staffing and human resources requirements to ensure timeliness and efficiency, especially due to the workload imposed by a $1.4 billion Title II program. However, USAID did not conduct a systematic assessment of its workload and staffing requirements for the Office of Food for Peace to determine appropriate levels to monitor its operations in over 50 countries.

[42]In addition to Title II-funded positions, USAID missions and regional offices have positions that are funded through other sources such as development assistance or operating budgets for these offices. Although these staff may monitor food aid programs, they would also be responsible for monitoring other programs.

[43]In 2005, USAID's East Africa regional office had oversight responsibilities for $1.3 billion in food aid distributed in the region, including about $377 million from the Bill Emerson Humanitarian Trust to meet emergency needs in Ethiopia, Eritrea, and Sudan.

[44]In contrast, while USAID's mission in Ethiopia also comes under the purview of USAID's East Africa regional office, it has its own staff to monitor its food aid programs. Specifically, 2 U.S.-national and 4 foreign-national staff manage and monitor U.S. food aid programs in Ethiopia, funded at $143 million in 2006.

programs, according to an implementing organization official we interviewed, USAID officials visited the project site only 3 times in 1 year. USAID officials told us that they may have multiple project sites in a country and may monitor selected sites based on factors such as severity of need and level of funding. In another case, monitoring food aid programs in the Democratic Republic of Congo (DRC) from the USAID regional office had been difficult due to poor transportation and communication infrastructure, according to USAID officials. Therefore, USAID decided to station one full-time employee in the capital of the DRC to monitor U.S. food aid programs that cost about $51 million in fiscal year 2006.

Limited Resources and Restrictions in Their Use Further Constrain Monitoring Efforts

Field-level monitoring is also constrained by limited resources and restrictions in their use. Title II resources provide only part of the funding for USAID's food aid monitoring activities and there are legal restrictions on the use of these funds for non-emergency programs. Other funds, such as from the agency's overall operations expense and development assistance accounts, are also to be used for food aid activities such as monitoring. However, these additional resources are limited due to competing priorities and their use is based on agency-wide allocation decisions, according to USAID officials. As a result, resources available to hire food aid monitors are limited. For example, about 5 U.S.-national and 5 foreign-national staff are responsible for monitoring all food aid programs in 7 countries in the Southern Africa region, according to a USAID food aid regional coordinator. Moreover, because its operations expense budget is limited and Title II funding only allows food monitors for emergency programs, USAID relies significantly on Personal Services Contractors (PSCs) —both U.S.-national and foreign-national hires—to monitor and manage food aid programs in the field.[45] For example, while PSCs can use food aid project funds for travel, USAID's General Schedule staff cannot. Restrictions in the use of Title II resources for monitoring non-emergency programs further reduce USAID's monitoring of these programs.

USDA administers a smaller proportion of food aid programs than USAID, and its field-level monitoring of food aid programs is more limited than for USAID-funded programs. In March 2006, USDA's Inspector General

[45]USAID hires U.S. and foreign nationals under personal service contracts to complement its workforce of U.S. foreign service and civil service personnel. These personal service contractors, or PSCs, serve in USAID's overseas offices or missions and are generally considered to be more cost-effective by the agency.

reported that USDA's Foreign Agricultural Service (FAS) had not implemented a number of recommendations made in a March 1999 report on NGO monitoring. Furthermore, several NGOs informed GAO that the quality of USDA oversight from Washington, D.C. is generally limited in comparison to oversight by USAID. USDA has fewer overseas staff who are usually focused on monitoring agricultural trade issues and foreign market development. For example, the agency assigns a field attaché—with multiple responsibilities in addition to food aid monitoring—to U.S. missions in some countries. However, FAS officials informed us that in response to past USDA Inspector General and GAO recommendations, a new monitoring and evaluation unit has been established recently with an increased staffing level to monitor the semiannual reports, conduct site visits, and evaluate programs.

Without adequate monitoring from U.S. agencies, food aid programs are vulnerable to not effectively directing limited food aid resources to those populations most in need. As a result, agencies may not be sufficiently accomplishing their goals of getting the right food to the right people at the right time.

Objectives, Scope, and Methodology

To address these objectives, we analyzed food aid procurement and transportation data provided by USDA's KCCO and food aid budget data provided by USDA, USAID and WFP. We determined that the food aid data obtained was sufficiently reliable for our purposes. We reviewed economic literature on the implications of food aid on local markets and recent reports, studies, and papers issued on U.S. and international food aid programs. We conducted a structured interview of the 14 U.S.- and foreign-flag ocean carriers that transport over 80 percent of U.S. food aid tonnages. We supplemented our structured interview evidence with information from other ocean carriers and shipping experts. In Washington, D.C., we interviewed officials from USAID, USDA, the Departments of State (State), DOD, DOT, and the Office of Management and Budget (OMB). We also met with a number of officials representing NGOs that serve as implementing partners to USAID and USDA in carrying out U.S. food aid programs overseas; freight forwarding companies; and agricultural commodity groups. In Rome, we met with officials from the U.S. Mission to the UN Food and Agriculture Agencies, the UN World Food Program headquarters, and FAO. We also conducted field work in three countries that are recipients of food aid—Ethiopia, Kenya, and Zambia—and met with officials from U.S. missions, implementing organizations, and relevant host government agencies in these countries and South Africa. We visited a port in Texas from which food is shipped; two food destination ports in South Africa and Kenya; and two sites in Louisiana and Dubai where U.S. food may be stocked prior to shipment to destination ports. For the countries we visited, we also reviewed numerous documents on U.S. food aid, including all the proposals that USDA approved from 2002 to 2006 for the food aid programs it administers, and approximately half of the proposals that USAID approved from 2002 to 2006 for the food aid programs it administers.[46] Finally, in January 2007, we convened a roundtable of 15 experts and practitioners including representatives from academia, think tanks, implementing organizations, the maritime industry, and agricultural commodity groups to further delineate, based on GAO's initial work, some key challenges to the efficient delivery and effective use of U.S. food aid and to explore options for improvement. We took the roundtable participants' views into account as we finalized our analysis of these challenges and options. We conducted our work between April 2006 and March 2007 in accordance with generally accepted U.S. government auditing standards.

Conclusions

U.S. international food aid programs have helped hundreds of millions of people around the world survive and recover from crises since the Agricultural Trade Development and Assistance Act (P.L. 480) was signed into law in 1954. Nevertheless, in an environment of increasing emergencies, tight budget constraints, and rising transportation and business costs, U.S. agencies must explore ways to optimize the delivery and use of food aid. U.S. agencies have taken some measures to enhance their ability to respond to emergencies and streamline the myriad processes involved in delivering food aid. However, opportunities for further improvement in such areas as logistical planning and transportation contracting remain. Moreover, inadequate coordination among food aid stakeholders has hampered ongoing efforts to address some of these logistical challenges. Finally, U.S. agencies' lack of monitoring leaves U.S. food aid programs vulnerable to wasting increasingly limited resources, not putting them to their most effective use, or not reaching the most vulnerable populations on a timely basis.

In a draft report that is under review by U.S. agencies, we recommend that to improve the efficiency of U.S. food aid—in terms of amount, timeliness,

[46]USDA administers Public Law (P.L.) 480 Title I, Food for Progress, Section 416(b), and the McGovern-Dole International Food for Education and Child Nutrition programs. USAID administers P.L. 480 Title II.

and quality—USDA, USAID, and DOT work together and with stakeholders to

- improve food aid logistical planning through cost-benefit analysis of supply-management options, such as long-term transportation agreements and prepositioning—including consideration of alternative methods, such as those used by WFP;
- modernize transportation contracting procedures to include, to the extent possible, commercial principles of shared risks, streamlined administration, and expedited payment and claims resolution;
- seek to minimize the cost impact of cargo preference regulations on food aid transportation expenditures by updating implementation and reimbursement methodologies to account for new supply practices, such as prepositioning, and potential costs associated with older vessels or limited foreign-flag participation; and
- establish a coordinated system for tracking and resolving food quality complaints.

To optimize the effectiveness of food aid, we recommend that USAID and USDA improve monitoring of food aid programs to ensure proper management and implementation.

Agency Comments and Our Evaluation

USAID, USDA, and DOT provided oral comments on a draft of this statement and we incorporated them as appropriate. We also provided DOD, State, FAO, and WFP an opportunity to offer technical comments that we have incorporated as appropriate.

Mr. Chairman and Members of the Committee, this concludes my prepared statement. I would be pleased to answer any questions that you may have.

GAO Contact and Staff Acknowledgments

Should you have any questions about this testimony, please contact Thomas Melito, Director, at (202) 512-9601 or melitot@gao.gov. Other major contributors to this testimony were Phillip Thomas (Assistant Director), Carol Bray, Ming Chen, Debbie Chung, Martin De Alteriis, Leah DeWolf, Mark Dowling, Etana Finkler, Kristy Kennedy, Joy Labez, Kendall Schaefer, and Mona Sehgal.

Appendix I: Program Authorities and Congressional Mandates

The United States has principally employed six programs to deliver food aid: P.L. 480 Titles I, II, and III; Food for Progress; McGovern-Dole Food for Education and Child Nutrition; and Section 416(b). Table 2 provides a summary of these food aid programs by program authority.

Table 2: U.S. Food Aid by Program Authority

	P.L. 480					
Program	**Title I**	**Title II**	**Title III**	**Food for Progress**	**McGovern-Dole Food for Education and Child Nutrition**	**Section 416(b)**
Total funding allocation[a]	$20 million	$1,668 million	0[b]	$195.1 million	$89.5 million	$76.3 million[c]
Managing agency	USDA	USAID	USAID	USDA	USDA[d]	USDA
Year established	1954	1954	1954	1985	2003	1949
Description of assistance	Concessional sales of agricultural commodities	Donation of commodities to meet emergency and non-emergency needs; commodities may be sold in-country for development purposes	Donation of commodities to governments of least developed countries	Donation or credit sale of commodities to developing countries and/or emerging democracies	Donation of commodities and provision of financial and technical assistance in foreign countries	Donations of surplus commodities to carry out purposes of P.L. 480 (Title II and Title III) and Food for Progress programs
Type of assistance	Non-emergency	Emergency and non-emergency	Non-emergency	Emergency and non-emergency	Non-emergency	Emergency and non-emergency
Implementing partners	Governments and private entities	World Food Program and NGOs	Governments	Governments, agricultural trade organizations, intergovernmental organizations, NGOs, and cooperatives	Governments, private entities, and intergovernmental organizations	See implementing partners for Title II, Title III, and Food for Progress programs

Source: GAO analysis based on USAID and USDA data

[a]Funding data are for fiscal year 2005. USDA data represents programmed funding, while USAID data represents appropriated funds.

[b]This program has not been funded in recent years.

[c]This program is currently inactive due to the unavailability of government-owned commodities. Because it is permanently authorized, it does not require reauthorization under the Farm Bill.

[d]USDA administers this programs as stipulated by law, which states that the President shall designate one or more federal agencies.

In addition to these programs, resources for U.S. food aid can be provided through other sources, which include the following:

- the **Famine Fund**, which provides funding for famine prevention and relief, as well as mitigation of the effects of famine by addressing its root causes. Over the past 3 years, USAID has programmed $73.2 million in famine prevention funds. Most of the funds have been programmed in the Horn of Africa, where USAID officials told us that famine is now persistent. According to USAID officials, experience thus far demonstrates that one of the advantages of these funds is that they enable USAID to combine emergency responses with development approaches to address the threat of famine. Approaches should be innovative and catalytic, while providing flexibility in assisting famine-prone countries or regions. Famine prevention assistance funds should generally be programmed for no more than 1 year and seek to achieve significant and measurable results during that time period. Funding decisions are made jointly by USAID's regional bureaus and the Bureau for Democracy, Conflict and Humanitarian assistance, and are subject to OMB concurrence and congressional consultations. In fiscal year 2006, USAID programmed $19.8 million to address the chronic failure of the pastoralist livelihood system in the Mandera Triangle—a large, arid region encompassing parts of Ethiopia, Somalia, and Kenya that was the epicenter of that year's hunger crisis in the Horn of Africa. In fiscal year 2005, USAID received $34.2 million in famine prevention funds for activities in Ethiopia and six Great Lakes countries. The activities in Ethiopia enabled USAID to intervene early enough in the 2005 drought cycle to protect the livelihoods—as well as the lives—of pastoralist populations in the Somali Region, which were not yet protected by Ethiopia's Productive Safety Net program. In fiscal year 2004, the USAID mission in Ethiopia received $19.2 million in famine prevention funds to enhance and diversify the livelihoods of the chronically food insecure.
- **State's Bureau of Population, Refugees, and Migration (PRM)**, which provides limited amounts of cash to WFP to purchase food locally and globally in order to remedy shortages in refugee feeding pipeline breaks. In these situations, PRM generally provides about 1 month's worth of refugee feeding needs—PRM will not usually provide funds unless USAID's resources have been exhausted. Funding from year to year varies. In fiscal year 2006, PRM's cash assistance to WFP to fund operations in 14 countries totaled about $15 million, including $1.45 million for humanitarian air service. In addition, PRM also funds food aid and food security programs for Burmese refugees in Thailand. In fiscal year 2006, PRM provided $7 million in emergency supplemental funding to the Thailand-Burma Border Consortium, most of which supported food-

related programs. PRM officials told us that they coordinate efforts with USAID as needed.

Table 3 lists congressional mandates for the P.L. 480 food aid programs and the target for fiscal year 2006.

Table 3: Congressional Mandates for P.L. 480

Mandate	Description	FY 2006 target
Minimum	Total approved metric tons programmed under Title II	2.5 million MT
Subminimum	Metric tons for approved non-emergency programs	1.875 million MT
Monetization	Percentage of approved non-emergency Title II programs that are monetization programs	15%
Value-added	Percentage of approved non-emergency program commodities that are processed, fortified, or bagged	75%
Bagged in the United States	Percentage of approved non-emergency whole grain commodities that are bagged in the United States	50%

Source: GAO analysis, based on USAID data.

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California Citrus Mutual

Statement of Joel Nelsen
President, California Citrus Mutual

Senate Committee on Agriculture, Nutrition and Forestry
Washington, DC

"Examining the Performance of U.S. Trade and Food Aid Programs for the 2007 Farm Bill"

March 21, 2007

Thank you, Mr. Chairman, for the opportunity to testify with respect to phytosanitary trade issues in the specialty crop industry and how the 2007 Farm Bill can help address these issues. I want to commend you and Ranking Minority Member Chambliss for holding this hearing to review agricultural trade issues, which are extremely important to citrus growers in California and other specialty crop growers all across the United States.

First, I would like to note that specialty crop growers produce approximately 50% of the farm gate value of total agricultural crop production in the United States. However, in the past, this segment of our agricultural industry has received only a very small percentage of federal resources aimed at promoting and sustaining efficient specialty crop production. I hope that will change in the 2007 Farm Bill. I believe strongly that the allocation of resources aimed at addressing issues of concern to specialty crop growers in the 2007 Farm Bill must reflect the value of their production to our economy, as well as the dietary needs of all Americans. We look forward to working with you in the development of a Farm Bill that fully addresses issues confronting specialty crop growers in today's rapidly changing global markets.

Specialty Crop Trade Deficit

U.S. international trade policy is critically important to the U.S. specialty crop industry. Unlike many of the other agricultural crops, fruits and vegetables face a significant trade imbalance with our trading partners. Between 1995 and 2005, imports of fruits and vegetables into the U.S. more than doubled, to $10.1 billion in 2005, while U.S. exports have increased much more modestly. As a result, the fruit and vegetable trade *surplus* in 1995 of over $600 million is now a trade *deficit* of nearly $2.3 billion (see Attachment 1). This trade deficit of $2.3 billion is a manifestation of the many difficulties that specialty crop growers now confront in their efforts to remain competitive in global markets.

512 North Kaweah Avenue • Exeter, CA 93221 • 559-592-3790 • FAX 559-592-3798 • www.cacitrusmutual.com

Phytosanitary Trade Barriers

One of the primary reasons for the $2.3 billion trade deficit in specialty crops, which of course contributes significantly to the total U.S. trade deficit, is that access to foreign markets for U.S. specialty crops has often been blocked due to phytosanitary trade barriers. In May of 2005, a report by USDA's Foreign Agricultural Service, which was mandated by the enactment of the Specialty Crop Competitiveness Act of 2004, identified 36 different phytosanitary barriers that serve as obstacles to specialty crop exports in various international markets. While some of these phytosanitary issues are of legitimate concern, many are not justified with sound science. It is imperative that the 2007 Farm Bill address the problem of phytosanitary trade barriers, which is a major problem of specialty crop growers.

In order to further illustrate this problem, below are several examples of problems with phytosanitary barriers in international markets experienced by the citrus industry:

- In 2006, the discovery of a peach fruit fly in Fresno County created a quarantine that prevented the export of oranges from that county and parts of Tulare. The eradication was conducted successfully and the quarantine lifted. All nations except China concurred in the lifting of the quarantine and it took substantial time, resources and frustration to overcome their scientifically unjustified concerns;

- Recently, industry representatives and APHIS officials traveled to South Korea, our largest export market, to seek modifications to an existing phytosanitary protocol. All of our suggestions were based upon sound scientific data developed by the University of California. However, we were rebuffed by the Korean officials, and we now have limited access to this important market;

- In the late 1990's, a trade agreement was signed allowing lemons to be exported to India. However, a combination of phytosanitary and tariff issues have to date prevented us from accessing this potentially major market.

These are just a few examples from our industry that illustrate this problem, which is widespread in the specialty crop sector.

When the World Trade Organization Uruguay Round Agreement was implemented more than a decade ago, it was our hope and expectation, based on the promises made by government officials, that specialty crop growers would gain access to foreign markets as a result of that agreement. Unfortunately, while the U.S. market welcomes imports from our trading partners, some of whom heavily subsidize their industries, U.S. growers have not received significant market access to these foreign markets. The reduction of tariff rates through multilateral or bilateral trade agreements is completely useless if a phytosanitary trade barrier prevents access to a given market.

The Uruguay Round agreement contained the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) for the purpose of preventing phytosanitary restrictions from being used as non-tariff barriers to restrict trade in agricultural products. Under the WTO SPS Agreement, all phytosanitary restrictions must be based on sound science. Unfortunately, it appears from the experience of specialty crop growers over the past decade that the success of the WTO SPS Agreement is a one-way street. While the U.S. has abided by the WTO SPS Agreement and opened our market to imports of many types of specialty crop products, unfortunately a number of countries have maintained phytosanitary barriers because they interpret the SPS Agreement differently than does the U.S. government.

Obtaining greater access to foreign markets in order to expand exports is critical to U.S. specialty crop growers in order to remain competitive in global markets. Since the negotiation of multilateral and bilateral trade agreements has not resulted in substantial market access for specialty crop growers in large part due to the continued existence of phytosanitary barriers, our government must commit more resources to addressing this problem in order to help specialty crop growers compete in world trade. In order to remove phytosanitary trade barriers, APHIS must conduct the scientific research needed to prove that such a barrier is not warranted. They only way that APHIS can effectively commit to do this is with additional resources.

Recommendations for the 2007 Farm Bill

It is imperative that Congress take action in the 2007 Farm Bill to address the problem of phytosanitary trade barriers that block access to international markets for U.S. specialty crop growers. We have worked with the APHIS and FAS teams on this objective, and to a person they work hard and are knowledgeable, but they are stretched thin. Congress needs to provide more resources and reforms through the Farm Bill to properly address this issue.

California Citrus Mutual has been an active member of the Specialty Crop Farm Bill Alliance (SCFBA), which has developed a number of recommendations for how the 2007 Farm Bill can help increase exports of U.S. specialty crops by implementing measures which facilitate the removal of phytosanitary trade barriers. Some of these provisions will be included in legislation that is expected to be introduced in the Senate by Senators Stabenow, Craig and others. We greatly appreciate the strong leadership of Senators Stabenow, Craig and other cosponsors on behalf of specialty crop growers.

I would now like to discuss these recommendations for the 2007 Farm Bill.

Technical Assistance for Specialty Crops Program

The Technical Assistance for Specialty Crops (TASC) program was established in the 2002 Farm Bill to provide assistance to U.S. growers to engage in research and other activities needed to remove phytosanitary trade barriers. The 2002 Farm Bill provided $2 in mandatory funding annually for TASC. This program has proven to be very successful in removing such barriers, but funding is not sufficient to keep up with demand.

CCM and the Specialty Crop Farm Bill Alliance believe that we should immediately accelerate efforts to increase exports through the removal of phytosanitary barriers by increasing TASC funding in the 2007 Farm Bill to meet demand. We recommend that the existing level of $2 million per year in mandatory funding be increased to $10 million per year (a phased increase of $2 million increments per year). USDA should also ensure that the Foreign Agriculture Service has the personnel available to implement an expanded TASC program. Also, TASC funds not obligated as part of the yearly TASC allocations should be allowed to be carried over for utilization in the next fiscal year.

We believe greater funding for TASC would be an extremely prudent investment that would allow specialty crop growers to significantly expand exports, thus benefiting the U.S. balance of trade.

Coordination of Trade Objectives between Federal Agencies

It is clear that phytosanitary trade issues must be more effectively addressed as part of future trade agreements if significant market access is to be obtained for specialty crop growers in many international markets. CCM and the SCFBA believe that increased coordination between all federal agencies that are responsible for agricultural trade matters would help increase the likelihood for success in removing phytosanitary trade barriers. We therefore recommend that language be included in the 2007 Farm Bill that will require or encourage key agencies, such as USDA and USTR, to work toward increased coordination of export trade objectives and greater transparency on phytosanitary issues.

APHIS Phytosanitary Export Petitions

Another impediment to increasing exports of U.S. specialty crops is that it often takes many years for USDA's Animal and Plant Health Inspection Service (APHIS) to process and approve phytosanitary export petitions that must be granted to growers before they can export to a certain country. This problem greatly limits the ability of U.S. specialty crop producers to expand exports and contributes to the expanding U.S. trade deficit.

To address this problem, Congress directed APHIS, through the Specialty Crop Competitiveness Act of 2004, to reduce the backlog of phytosanitary export petitions that are now pending at the agency. CCM understands that APHIS is moving forward with the implementation of an expedited review process for phytosanitary export petitions, in accord with the mandate provided by Congress in the SCCA of 2004. We want to commend APHIS for moving forward with this effort, and look forward to continue to work with the agency and with Congress to ensure it accomplishes the goal of increasing U.S. specialty crop exports.

Protecting U.S. Agriculture from Invasive Pests and Disease

Equally critical to the objective of increasing foreign market access for agricultural exports is the need for the federal government to protect U.S. agriculture against invasive pests and disease. With the large increase in international trade of agricultural products over the past decade, the threat of invasive pests and diseases to U.S. agriculture has grown exponentially.

Invasive species can and do have devastating economic and environmental impacts on agricultural producers, as well as other industries, such as recreation, fisheries and forestry. A 2004 study by Cornell University researchers estimated the costs of invasive species at $120 billion annually. Given these enormous potential adverse impacts, ensuring that the federal government has programs in place to effectively protect U.S. agriculture from invasive species is one of the highest priorities of our industry.

Given the increased level of risk of introducing invasive species here in the U.S. brought about by increased international trade, CCM and the Specialty Crop Farm Bill Alliance recommend several initiatives that the federal government should implement as part of the 2007 Farm Bill to minimize and manage this risk.

Pest and Disease Threat Identification/Mitigation

First, we recommend that the Farm Bill direct APHIS to develop a Threat Identification and Mitigation Program that clearly identifies and prioritizes foreign invasive species threats to the domestic production of specialty crops. This program would be modeled after the Cooperative Agricultural Pest Survey approach. As a component of this task, APHIS should work with the Agricultural Research Service in developing appropriate domestic mitigation and eradication measures. The goal of this program is to protect the interest of the U.S. specialty crop industry by preventing pest and disease threats from entering the U.S.

Emergency Eradication

Second, CCM and the SCFBA believe that the 2007 Farm Bill should contain language that directs the Secretary of Agriculture to access Commodity Credit Corporation funding for emergency response and eradication programs needed to combat invasive species in a timely and effective manner. The legislation should also grant the Secretary the authority to provide compensation to growers if the Secretary believes this is warranted, and if so, such a program should be administered with existing Farm Services Agency services so it will not dilute APHIS resources needed to accomplish eradication goals.

Transfer of Border Inspectors

Finally, our industry is very concerned with the effectiveness of the Department of Homeland Security in protecting our nation's borders from the introduction of foreign invasive species into the United States. As members of this Committee know very well, some 1,800 agricultural specialists within APHIS were transferred to the DHS as Customs and Border Protection (CBP) employees in 2003. At the request of Congress, the U.S. Government Accountability Office issued a report in May, 2006, which assessed whether this transfer has been carried out effectively. The report contains a number of disturbing findings and identifies several areas where improvements are needed. For example:

- CBP has not developed sufficient performance measures that take into account the agency's expanded mission or consider all pathways by which prohibited agricultural items or foreign pests may enter the country....

- [A]griculture specialists are not consistently receiving notifications of changes to inspection policies and urgent inspection alerts...we estimate that only 21 percent of agriculture specialists always receive urgent alerts in a timely manner...Finally, CBP has allowed the agriculture canine program - a key tool for targeting passengers and cargo for detailed inspections - to deteriorate.

CCM and others in the specialty crop industry have always questioned the re-assignment of agricultural specialists from APHIS to CBP. These agents are on the "front lines" of working to keep plant pests and diseases from entering the country through any of numerous border entry points. The GAO report provides evidence that the original misgivings about the transfer were well founded.

As such, CCM recommends that the 2007 Farm Bill direct the Administration to transfer our nation's border inspection responsibilities back to APHIS. We believe this would more effectively protect specialty crop growers and other U.S. interests against the increasing threat of foreign invasive species being introduced into our nation.

Conclusion

Mr. Chairman and Senator Chambliss, it should be abundantly clear by now that phytosanitary issues are of critical importance to specialty crop growers throughout the nation. Specialty crop growers greatly appreciate your efforts to review this matter through this hearing, and we look forward to working with you on the development of a 2007 Farm Bill that addresses these issues.

Uruguay Round and FTA Effects

U.S. Trade in Fruits, Vegetables and Nuts

Year	Imports	Exports	Balance
1995	$4,546,941,000	$5,155,383,000	**$608,442,000**
1997	$5,277,013,000	$5,362,865,000	**$85,852,000**
1999	$6,528,175,000	$4,916,736,000	**($1,611,439,000)**
2001	$6,850,065,000	$5,330,162,000	**($1,519,903,000)**
2003	$8,184,958,000	$6,048,928,000	**($2,136,030,000)**
2005	$10,142,166,000	$7,846,740,000	**($2,295,426,000)**

Note: Trade data above denotes chapters 7 and 8 of the Harmonized Tariff Schedule.
Prepared by Schramm, Williams & Associates, Inc. using data from the U.S. Department of Commerce

50 F Street, NW, Suite 900
Washington, DC 20001
Telephone 202-879-0835
Facsimile 202-626-8899
E-Mail mail@allianceforfoodaid.com

Alliance for Food Aid

WRITTEN TESTIMONY OF CHARLES SANDEFUR

PRESIDENT

ADVENTIST DEVELOPMENT AND RELIEF AGENCY INTERNATIONAL

and

CHAIRMAN, THE ALLIANCE FOR FOOD AID

Before the

COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

UNITED STATES SENATE

March 21, 2007

Mr. Chairman, thank you for this opportunity to testify before the Committee, today, on U.S. food aid programs. My name is Charles Sandefur and I am the President of Adventist Development and Relief Agency International ("ADRA") and Chairman of the Alliance for Food Aid (AFA or "Alliance"). The Alliance is comprised of private voluntary organizations and cooperatives (jointly called "PVOs") that conduct international food assistance programs.[1] ADRA currently operates in 120 countries and we have provided food aid for nearly 50 years.

PVOs focus on identifying needs of poor communities and working in concert with local organizations and institutions to make improvements in people's lives that will last for the long run. We use technical assistance, training and behavioral change communications and focus on building local capacity, institutions and leaders.

[1] Adventist Development & Relief Agency International, ACDI/VOCA, Africare, American Red Cross, Counterpart International, Food for the Hungry International, Joint Aid Management, International Relief & Development, Land O'Lakes, OIC International, Partners for Development, Project Concern, United Methodist Committee on Relief & Development, and World Vision.

Mr. Chairman, we are grateful for the tremendous support that you and this Committee have provided over many years. Food aid is our nation's principal program supporting food security in the developing world. It contributes to meeting the Millennium Development Goal of cutting hunger in half by 2015, and is critical for saving lives in the face of disaster. Some improvements and upgrades are needed in program and commodity quality and targeting, and greater efficiencies can be built into procurement and transportation procedures. However, most important for the 2007 Farm Bill is assuring predictable levels for both chronic and emergency needs in order to support good program planning and implementation and to reverse the downward trend in multi-year developmental programs.

The Alliance has four core recommendations for the 2007 Farm Bill –

- Assure adequate and timely provisions of emergency food aid by replenishing the Bill Emerson Humanitarian Trust and assuring its early availability to alleviate hunger in the face of food shortages, civil unrest, economic crisis and natural disasters.
- Reinforce efforts to promote food security and to prevent the erosion of health and incomes in communities that suffer from chronic hunger by requiring no less than 1,200,000 metric tons along with sufficient support funds for PL 480 Title II non-emergency programs each year.
- Expand the use of the USDA Food for Progress program to 500,000 metric tons for rural and agricultural development in countries that are instituting economic reforms by lifting the transportation cap.
- Improve efficiency and effectiveness by directing the administrative agencies to approve programs by the beginning of the fiscal year, which will allow the spreading out of orders throughout the year and timely delivery, and to institute upgraded quality control systems and greater transparency in program planning.

Why Change is Needed

Food security is negatively affected by a wide range of issues, including poor agricultural productivity; high unemployment; low and unpredictable incomes; remoteness of farm communities; susceptibility to natural disasters, civil unrest and instability; wide discrepancies between the well-off and the poor; chronic disease; and lack of basic health, education, water and sanitation services. Thus, rather than just distributing food to needy people, US food aid has evolved into a multi-faceted program that addresses the underlying causes of hunger and poverty. This mixture of food and support for local development is the program's strength and was embraced in the 2002 Farm Bill. However, the Administration was given wide berth to set priorities and waive requirements, which has taken food aid down a different road than anticipated in 2002.

Policy changes over the past five years have essentially reduced overall food aid levels (particularly by eliminating Section 416 surplus commodities and Title I appropriations), shrunk development-oriented programs to half their 2002 levels, and exposed the lack of contingency planning for food emergencies. While the 2002 Farm Bill called for increased levels of PL 480 Title II development programs to 1,875,000 metric tons, instead these programs were reduced and are now about 750,000 metric tons. The 2002 Bill also called for upgrades and improvements in governmental management and information systems, but instead the level of programming has become less predictable; program priorities and proposal review processes have become more opaque; the "consultative" nature Food Aid Consultative Group process has deteriorated; Title II procedures are making it more difficult for PVOs to access funding; and commodity quality control systems have not been renovated to modern standards.

Meanwhile, the world's efforts to meet the Millennium Development Goal of cutting hunger in half by 2015 is far from reach – the number of people suffering from chronic hunger increased from 1996 to 2004 from under 800 million to 842 million -- and international appeals for emergency food aid are under-funded. While US food aid alone cannot resolve this sad and complex problem, it is a critical component of an international food security strategy and is particularly effective in countries with chronic food deficits and for vulnerable, low-income populations.

Several food aid statutes set tonnage minimums – to assure that food is provided in times of high prices. These requirements are important, but they need to be updated and supported by sufficient appropriations.

With these factors and trends in mind, we offer recommendations to improve the quality and predictability of food aid, and to assure the United States has a plan and effective methods to address both chronic and emergency needs.

PL 480 Title II – the Core US Food Aid Program

1. Importance of Assuring Adequate Funding and Predictable Tonnage Levels:

We recommend maintaining the Title II minimum tonnage, and urge you to consider increasing the level.

Administered by the US Agency for International Development (USAID), Title II provides food aid donations for development programs and emergency needs through PVOs and the UN World Food Program. Just to maintain minimal levels of food intake in 70 needy countries monitored by the USDA Economic Research Service, annual worldwide food aid needs are 15,200,000 MT. The law sets a minimum tonnage level of 2,500,000 metric tons for Title II, which meets only 16% of annual chronic needs identified by ERS.

From FY 1999 through FY 2002, most emergency food aid was provided through the Section 416 surplus commodity program. However, as the attached funding chart shows, availability of Section 416 surplus commodities diminished since FY 2001. While Title II funding has increased since FY 2001, this increase is insufficient to make up for the loss of Section 416 and cannot maintain adequate levels for both emergency and non-emergency requirements. This has resulted in cutbacks in developmental food aid programs and increased reliance on supplemental appropriations to fill gaps in emergencies.

Increasing the minimum tonnage could help leverage adequate appropriations at the beginning of the fiscal year, rather than waiting for supplemental appropriations. On-time appropriations would allow orderly program planning and more timely and efficient delivery of commodities throughout the year, without program disruptions. When adequate sums are available, more commodities can be pre-positioned off-shore for more timely deliveries if an emergency arises. The procurement can be spread out throughout the year, which will allow USDA to plan its procurement to get the best prices possible for commodity and inland transport.

While some emergencies, such as sudden natural disasters and outbreak of civil war, cannot be predicted in advance and can occur any time during a fiscal year, other emergency needs are ongoing and can be factored into the regular appropriations process. For example, areas such as the Horn of Africa that are prone to drought, flooding, locusts or other natural disasters are monitored through a variety of early warning systems. Other emergencies, such as ongoing conflict in Sudan, are expected to continue until the source of the problem is resolved. Because the Administration does not ask for adequate funding to meet these anticipated emergency needs, funds have been withheld from the nonemergency programs for several months as USAID adjusts its budget and waits to see if there will be supplemental funding. As a result, there are gaps in food aid deliveries for both emergency and nonemergency programs, PVOs must cover local costs while programs are on hold, and some programs are, de facto, cut back.

Based on recent needs, an increase in the minimum level for Title II is reasonable. In several recent years, after supplemental appropriations were provided, actual Title II program levels reached 3,000,000 metric tons.

2. A Safebox for Developmental Food Aid Programs:

We recommend establishing a safebox for at least 1,200,000 metric tons or $600 million for non-emergency Title II programs each fiscal year. This amount would not be subject to waiver.

A consequence of trying to provide all emergency food aid out of the Title II budget is a reduction in non-emergency food aid programs. Section 204(a)(2) of the Agricultural Trade Development and Assistance Act sets a minimum tonnage of 1,875,000 metric tons for Title II non-emergency programs. The law permits USAID to waive this minimum after the beginning of the fiscal year if there are insufficient requests for programs or the commodities are needed for emergencies. However, no attempts are being made by the Administration to seek proposals for 1,875,000 metric tons and preemptively, it is known that it will be waived. The program is effectively being capped at $350,000,000 for the cost of commodities, ocean freight, delivery (called internal transportation, storage and handling, or "ITSH") and related support costs (called "section 202(e) funds"), or about 750,000 metric tons.

As a result, programs that address the underlying causes of chronic hunger, such as mother-child health care, agricultural and rural development, food as payment for work on community infrastructure projects, school meals, take home rations for poor and hungry families, and programs targeting HIV/AIDS-affected communities are being curtailed. Chronic hunger leads to high infant and child mortality and morbidity, poor physical and cognitive development, low productivity, high susceptibility to disease, and premature death.

We believe this is counterproductive, as developmental food aid helps improve people's resilience to droughts and economic downturns. Giving people the means to improve their lives also provides hope for a better future and helps stabilize vulnerable areas.

Reports accompanying appropriations bills for the past 5 years admonish the Administration to meet the Title II non-emergency minimum tonnage and to rely on the Bill Emerson Humanitarian Trust for urgent needs. However, this language has had no perceivable effect.

Therefore, we ask the Committee to create a dedicated amount for these developmental food aid programs by creating a safebox for within Title II. We recommend that the safebox include 1,200,000 metric tons and sufficient funds to support these programs, for a total value of commodities, freight, delivery and support costs of $600 million. The waiver would only be available for non-emergency programs above this level.

We also note with alarm that due to budget constraints, in 2006 USAID established a policy to limit non-emergency food aid to fewer countries in order to "focus" the remaining resources. Under this policy, non-emergency programs are being phased out in 17 countries and cutback in others and programs will be allowed in only 15-18 selected countries. Concentrating food aid resources in areas where there is high prevalence of food insecurity and vulnerability is appropriate and is also anticipated in the USAID Food for Peace Strategic Plan, 2006-2010. However, the current policy eliminates too many areas where chronic hunger is prevalent and was driven by the decision to reduce the budget for non-emergency programs. Many poor, vulnerable populations will be excluded from receiving food aid, even though their needs are as compelling as those populations that will be served.

The capacity of PVOs to serve populations in non-eligible countries will be lost, making it more difficult to respond effectively at the early signs of an emerging food crisis, which runs counter to the intent of the Strategic Plan. As more programs are pushed into fewer countries, areas within priority countries may be targeted that are less food insecure than areas in non-selected countries.

3. Maximize uses of the Section 202(e) Support Funds:

We recommend that 10% of the Title II program level be made available for Section 202(e) support funds and that these funds may also be used for program innovations.

Section 202(e) funds are provided to support program logistics, management and complementary activities. The law permits 5-10% of appropriated levels for this purpose, but in 2005, it was 5% of the program level. These funds are critical for improving program targeting and impact, assuring accountability for resources, covering costs related to implementation and improving program quality through complementary activities. Thus, we recommend 10% of the actual Title II program level be made available for these uses. As innovations are sought in targeting and needs assessments, 202(e) should be available for these purposes as well.

Section 202(e) is not sufficient or intended to replace monetization, but monetization is not appropriate in all target countries and in some countries the ability to monetize varies year-to-year based on the market situation. Thus, in these cases, Section 202(e) funds are important for funding complementary activities that monetization funding often supports, such as materials, technical assistance and training for agricultural, mother-child health, and food-for-work infrastructure programs.

4. Update Food Quality Systems and Product Formulations:

Title II funds should be provided to bring the food aid quality enhancement project to completion over the next 3-4 years.

Both the quality and formulation of food aid products are crucial to delivering safe, wholesome products to undernourished populations, particularly vulnerable groups such as infants and young children, women of child-bearing age and people living with HIV/AIDS. Formulations for the value-added products used in Title II have been static for decades and food aid distribution overseas has sometimes been disrupted due to quality concerns. Through private funding, SUSTAIN (a non-profit that provides technical assistance for food systems and was referenced in the 2002 Farm Bill), has made progress to address these issues in a scientific, systematic and impartial manner. As neither USDA nor USAID has provided funding to support these reforms, we support the use of Title II funds for this purpose.

5. Two Examples of Title II Non-emergency Programs, Kenya and Bolivia:

As the two examples below show, non-emergency food aid programs are often conducted in areas where poverty, unpredictable or unfavorable climate, and remoteness have made it very difficult for people to improve their lives without help from the outside. They also show that these programs leverage resources and create benefits beyond the targeted recipients, increasing the impact per dollar spent. Note that Title II non-emergency programs are being eliminated in both Kenya and Bolivia because they are not on the "Title II Priority Country List" initiated by USAID in the face of limited non-emergency food aid resources.

Kenya: A World Vision Title II program in Kenya targeted 1528 pastoralist families in the Turkana region, an arid environment that is plagued by recurring droughts. Before this program, these families were dependent on emergency food aid nearly every year.

Some of the commodities provided were distributed as payment for participation in training and for working on projects that improved irrigation infrastructure, cultivation techniques and land management. Other commodities were sold through open tenders and the funds generated supported the food for work projects. Within 6 years, even though there had been droughts in between, income increased from a baseline of $235 per year to $800 per year, families could afford to send their children to school, and the communities no longer depended on relief. In fact, the program was turned over to the participants and they have spread their knowledge to 475 other farmer families.

PVOs were hoping to replicate this successful model in other areas of Kenya where pastoralists are still dependent on emergency rations nearly every year. However, USAID is phasing out non-emergency projects in Kenya as part of a larger effort to limit the scope of developmental food aid programs. Meanwhile, Kenya remains a recipient of emergency food aid and pastoralists are particularly at risk.

Bolivia: Adventist Development and Relief Agency International (ADRA), Food for the Hungry (FH) and several other PVOs are conducting multi-faceted, 6-year programs in Bolivia using food distribution (corn-soy blend, lentils, green peas, soy-fortified bulgur, wheat-soy blend and flour) and proceeds generated from the monetization of flour to support individual, community and municipal efforts to overcome development constraints and to enhance household food security.

In the targeted rural areas over 70% of the population live in poverty and infant mortality rates are 116 per 1000 births. These communities must rely on their own agricultural production as they are remotely located, have poor roads and lack transportation.

The current PVO programs focus on addressing their lack of access to markets, health care, schools and social services by increasing production and incomes and improving nutrition among vulnerable groups. Food aid is distributed (1) for Maternal and Child Health and Nutrition (pregnant and lactating mothers, infants and children under five, the most critical stages for cognitive and physical growth) and (2) in conjunction with training and technical assistance for improved agricultural production, diversified crops to improve the diet, and marketing of agricultural products. Concurrent activities included increasing access to clean water, improving health and sanitation practices, natural resource management, building greenhouses, and improving marketing roads and irrigation systems.

In FH's midterm evaluation (2006, three years after the program began, compared to 2002 baseline data), they found a 35% decrease in chronic malnutrition in children (height/weight or "stunting") and household incomes had increased by 270% or more. The direct beneficiaries of the FH program, alone, were 212,292 people and indirectly, 410,000 people benefited. Because of program efficiencies and FH's ability to raise more matching funds after the program began, the number of beneficiaries was 283% greater than originally planned.

Assure Timely Use of the Bill Emerson Humanitarian Trust

To maintain the Trust as a contingency reserve for emergencies replenish the Trust with $60 million per year and assure it is available to respond to emergencies in a timely manner and without interfering with the provision of Title II non-emergency programs each year.

Administered by USDA, the funds and commodities in the Bill Emerson Humanitarian Trust (BEHT or "Trust") are needed to supplement P.L. 480 Title II when there are urgent humanitarian food aid needs. The commodities are provided by the Trust and CCC covers the ocean freight and delivery costs. The Trust can hold up to 4 million metric tons or cash equivalent, but currently only holds about 915,000 metric tons of wheat and $107,000,000 (which is available to buy commodities when needed). Because a diversity of commodities is needed for emergencies, it is best for the Trust to be replenished with funds that can be used to procure the appropriate commodities when needed.

Two mechanisms need to be improved to make the Trust more readily available for emergencies: the "trigger" for releasing commodities and the level of reimbursement. We urge you to make the needed changes in the 2007 Farm Bill.

Trigger: Section 302(c)(1)(c) of the Bill Emerson Humanitarian Trust Act states that a waiver of the Title II non-emergency minimum tonnage is not a prerequisite for the release of commodities from the Trust. Nonetheless, the Administration has taken the stance that it will only use the Trust commodities as a last resort after all other avenues, including the Title II waiver, are considered. This may partially be driven by the 500,000 metric ton limitation on BEHT tonnage that can be provided in any fiscal year, although if the Trust is not used one year the 500,000 metric tons for that year can be added to future year releases. Another reason may be the term "unanticipated" emergencies, which is how the BEHT Act refers to releases for international humanitarian crises versus "emergencies," which is how the BEHT Act refers to releases in case of short supply of a commodity. Thus, we have several recommendations for fixing the language.

First, create safebox for 1,200,000 metric tons (or $600 million) for Title II non-emergency programs that cannot be waived. This takes away the confusion about whether the waiver is used before the Trust can be accessed. Second, eliminate the part of the Trust that refers to "short supply," as it is a vestige of a time when food aid was considered "surplus" and is outdated now that the Trust can hold funds. Third, change the terminology and allow commodities or funds to be released when there are emergency food aid needs. And, forth, allow up to 1,000,000 metric tons to be released in any fiscal year.

Replenishment: Currently, the Trust may be replenished either through a direct appropriation or by capturing $20 million of funds reimbursed to CCC from PL 480 as repayment for previous use of the Trust. The Administration has never requested a direct appropriation, but Congress provided $67 million for replenishment as part of the FY 2003 Iraq supplemental appropriations act. In addition, USDA has twice captured $20 million from PL 480 reimbursements. Thus, the Trust now holds $107,000,000. This amount plus the 915,000 MT of wheat held in storage makes up the total value of the Trust, which is about 1,500,000 metric tons in wheat equivalent prices. To bring the Trust to its full 4 MMT wheat-equivalent level, we urge that the $20 million be raised to $60 million per year.

Expand Food for Progress

Increase the Food for Progress to 500,000 metric tons for programs that improve private sector agricultural, food and marketing systems in developing countries that are implementing market reforms.

The Food for Progress Act directs USDA through the Commodity Credit Corporation (CCC) to provide a minimum of 400,000 metric tons of commodities each year to developing countries that are introducing market reforms and supporting private sector development. These programs may be implemented by PVOs, the World Food Program and recipient country governments. The amount actually provided through CCC falls short of 400,000 metric tons because there is a cap on amount of funds that CCC can provide for delivering the commodities and administering the programs overseas.

USDA has authority to use PL 480 Title I funds in addition to the CCC funds to implement Food for Progress programs. In FY 2006, about 75 percent of Title I funds were used for this purpose. As no funds were appropriated for Title I in FY 2007, and the Administration seeks no funding in FY 2008, this means a cut in funding in Food for Progress.

Many poor, developing countries are undergoing economic reform and, therefore, the demand for Food for Progress programs is great. Forty-six different PVOs apply for Food for Progress programs. For FY 2007, 100 proposals were submitted by PVOs and 16 by governments, but only 11 new proposals were approved and 3 other programs were provided second year funding.

We therefore recommend increasing the minimum to 500,000 metric tons and assuring that this amount is available for proposals submitted by PVOs. To accommodate the additional tonnage the amount available for transporting the commodities and for administrative and management costs would need to be increased proportionately.

Example: International Relief & Development (IRD), Azerbaijan
Commodities: 10,000 MT soybean meal; Total value: 2,125,467 (one year)
Beneficiaries: 26,899

IRD targeted Ganja, Goranboy, and Khanlar in western Azerbaijan, because in these regions there is a high concentration of internally-displaced persons (IDPs), the level of unemployment is close to 70%, and the local farmers and IDPs are poor and are not able to support their basic needs. Soybean meal monetization was chosen because of shortages of feed grains in the country. IRD trained farmers in crop and livestock production and market development and distributed small grants to start-up local businesses. HIV/AIDS awareness was also conducted in the targeted communities.

Results:

- Business development classes were provided for 1,532 farmers, in the town of Ganja and four local regions (Kahnlar, Geranboy, Samukh and Zakatala). As a result, farmers submitted business proposals to IRD, and IRD funded 106 of them.
- IRD published two leaflets, "Raising chickens in your backyard" and "Chicks' diseases and their prevention"; five handbooks on various agricultural topics: "Recommendations for sheep keepers", "Recommendations for cattle keepers", "Recommendations for beekeepers", and "Recommendations for chicken keepers".
- The total number of people who benefited from the small grants was 26,899. The farmers and small entrepreneurs formed several groups that were eligible for receiving grants. Recipients included 16 cattle breeding groups, 22 women poultry groups, 38 sheep breeding groups, two women geese groups, 19 agro-service groups, two harvesting groups, and seven beekeeping groups. Within a year, monthly income of beneficiaries at least doubled. Each of the 19 agro-service groups received approximately $5,090 and in the first year members provided services in their communities valued at $46,421.

Monetization's Continued Contribution

Monetization is an important component of food aid programs and we support its continued use where appropriate, based on market analysis.

Monetization is the sale of commodities in net food-importing, developing countries and the use of proceeds in projects that improve local food security. It can have multiple benefits and is appropriate for low-income countries that must depend on imports to meet their nutritional needs. Limited liquidity or limited access to credit for international purchases can make it difficult for traders in these countries to import adequate amounts of foodstuffs and monetization is particularly helpful in such cases. In all cases, the proceeds are used to support food security efforts or the delivery of food in the recipient country.

Monetization can also be an effective vehicle to increase small-scale trader participation in the local market and financial systems, can be used to address structural market inefficiencies, and can help control urban market price spikes. The commodity can also be integrated into agricultural processing operations, helping to establish and expand feed mills, fortified foods, and other locally-important products. For example, International Relief & Development used bulk wheat and soy flour provided through Food for Progress to establish small noodle production plants in Cambodia and the soy-fortified products were incorporated into school feeding programs. ACDI/VOCA used soybean meal donated by USDA to help reestablish the feed industry in Indonesia after the economic crisis. Both of these activities expanded local enterprise, increased jobs, and had a long-lasting food security benefit.

Market analysis is an important element of all food aid programs, but is more extensive for monetization programs. A "Bellmon Determination" is required for both monetization and distribution to make sure the commodities chosen will not interfere with local production and marketing and that there is adequate storage for the commodities provided. Commodities chosen for monetization are not locally produced, are produced in small amounts or are available only during certain times of the year. Therefore, the likelihood of creating local disincentives to production is small. However, some countries in a region have linked markets, so the analysis must also consider inter-country trade. For example, there is a Bellmon analysis that covers all the countries in West Africa.

As the potential disincentive effect of food aid is oft cited, but little researched, one study worth noting is by Abdulai, Barrett and Hoddinott [October 2005], which looks at disincentive effects of food aid provided in Ethiopia, the largest food aid recipient country in Africa over the 10-year review period. It received food for distribution and monetization. The study found no disincentive effect and note on page 1701 of the article: "In rural Ethiopia, simple test statistics...suggest that the disincentive effects of food aid on household behaviors are many, large in magnitude and statistically significant. *However*, when we take into account household characteristics...--that can affect behaviors and on which food aid is commonly targeted—many of these adverse effects vanish. In fact, there is some suggestion in these data that food aid leads to increases in labor supply to agriculture, wage work, and own business activities."

Save the Children and World Vision prepared a review of the PVO monetization programs under Title II, covering 6 commodities in 30 countries and 48 programs from 2001-2005. They found that the commodity choice and quantities avoided competing with local production and marketing and therefore diminished potential disincentive effects. As the commodity levels provided were small in comparison to needs and required imports, the potential for commercial import disruption was also small.

Example: Africare's PL 480 Title II Development Program in Guinea

Africare began implementation of a five-year *Guinea Food Security Initiative (GnFSI)* in the Prefecture of Dinguiraye in the Upper Region of Guinea in September 2000. This program represents an expansion of a very successful first phase program (1995 – 2000). This multi-sector program is currently operating in 50 of 84 districts of the Prefecture providing support to a population of 107,750 people.

Africare's program focuses on decreasing post-harvest storage losses, improving the nutritional status of children under the age of five, and increasing the capacity of District Development Committees to understand and address the challenges to food availability, access and utilization. Dinguiraye is an area that prior to Africare's intervention, received no outside assistance and limited support from its own governmental ministries. Chronic malnutrition of under-5 children was in excess of 50% and the amount of food available to households was adequate for less than four months per year.

The program's positive impacts due to the introduction of improved storage techniques include adding a month to post-harvest storage without damage to commodities, and doubling the months when adequate food is available in the households.

Working with the Ministry of Health, Africare's nutritional program reduced chronic malnutrition rates from 50% to 21% and the number of caretakers of under-5 children that participate in growth monitoring, food demonstrations and guided health discussions increased to more than 90% of the population. The prospective for these activities to continue under the auspices of the Ministry of Health is strong, because they are low cost and very popular with the beneficiaries themselves. More importantly, the target population has had an active role in improving the methodology by which more nutritious foods are identified and made available.

Monetization: The financial resources for the program are generated by monetization of Title II food commodities (approximately 4,600 MT's of vegetable oil during FY 05 for Africare and two other PVOs). This innovative program promotes private sector development and broadening of local markets, both for producers and consumers, independently of the food security activities funded with the sales proceeds.

Vegetable oil was chosen for monetization because little is produced in country. The amount imported for monetization was small in comparison to import needs, which minimizes the likelihood of interfering with commercial imports. Further, vegetable oil availability is concentrated in the main city, not the outlying areas. Africare therefore arranged for the sales to reach the outlying areas through the sale of small lots to multiple buyers.

Africare worked with the Guinean government and private sector to increase the involvement of small-scale distributors to have access to vegetable oil, which is usually sold at the high end of the local market. A consequence has been the increased distribution of vegetable oil throughout the country, outside of the capital and principal urban markets to key rural areas that had never been served. This methodology included private sector sales techniques (e.g. closed tender bids, bank guarantees reflecting local interest rates and payment of required taxes by the buyer), and generated the following benefits:

1. Higher prices received from the buyers compared to if it was just sold to regular importers, which translates into a larger amount of sales proceeds to support the development activity.

2. Increased sophistication and understanding of commercial business practices by the private sector. especially the small-scale operator who was often unable to participate in these types of transactions (or even the formal financial system).
3. Increased availability of high quality commodities throughout the national market.

Pilot Program for Local/Regional Purchase

We recommend a field-based, pilot program for local purchases for famine prevention and relief.

In-kind food aid continues to be the most dependable and important source of food aid. Commodities committed by and sourced directly from donor countries, which have more than adequate production to meet their domestic needs, is required to assure that sufficient levels food aid are available each year. However, there are situations where purchases closer to the area of need could provide more timely response, diversity of the food basket, and benefits to local agricultural development.

The Administration has proposed to provide up to 25% of Title II funds for local or regional purchase for emergencies. Many of the areas where food aid is delivered need additional commodities from imports to meet their needs and there may little room to expand on the local/regional purchase, considering the large amounts that the UN World Food Program is already procuring. Therefore, we recommend assuring adequate US commodities are assured to meet the minimum tonnages under Title II and to add a field-based pilot program for local purchase.

While PVOs have experience using privately-raised funds and, to a limited degree, USAID International Disaster and Famine Assistance account funds for local purchases, information from these programs has not been systematically collected and therefore is inadequate to use for developing appropriate methodologies and best practices for future programs. Thus, as part of the 2007 Farm Bill we recommend a pilot program for local purchases for famine prevention and relief –

(1) Within recipient countries or nearby low-income countries,
(2) In cases where the procurement is likely to expedite the provision of food aid,
(3) Where the procurement will support or advance local agricultural production and marketing, and
(4) Conducted by PVO implementing partners that have experience with food aid programming in the recipient countries.

To assure that accepted practices for food aid programs are followed and to identify appropriate methodologies and best practices for future programs, each PVO implementing a pilot program shall —

(1) Prior to implementing a local purchase program, conduct an analysis of the potential impact of the purchase on the agricultural production, pricing and marketing of the same and similar commodities in the country and localities where the purchase will take place and where the food will be delivered;
(2) Incorporate food quality and safety assurance measures and analyze and report on the ability to provide such assurances;

(3) Collect sufficient data to analyze the ability to procure, package and deliver the food aid in a timely manner;
(4) Collect sufficient data to determine the full cost of procurement, delivery and administration; and
(5) Monitor, analyze and report on the agricultural production, marketing and price impact of the local/regional purchases.

McGovern-Dole Food for Education

The McGovern-Dole Program provides incentives for poor families to send their children to school. Requiring an appropriation of no less than $100,000,000 each year will give certainty that funds are available for multi-year programs. These types of programs used to be included in Title II, but with the establishment of McGovern-Dole in 2002, such programs under Title II are being phased out. Increased funding would allow more multi-year programs, improve program impact, and allow broader use of the authority in the law to support both educational programs and programs for children under the age of five, which is when malnutrition can have its most devastating impact on child development.

Conclusion:

In conclusion, Mr. Chairman, we can see the many benefits US food aid programs are now creating for poor communities, improving incomes, living conditions and nutrition and sowing the seeds for a promising future. Along with my colleagues at ADRA and other PVOs, I deeply wish to see the continuation and expansion of food aid programs so the opportunity for a healthy, productive life can be offered to others.

Mr. Chairman, thank you for supporting these life-giving programs. I would be pleased to answer any questions you may have.

Attachments:

PL 480 Title II Funding Chart, 2001-2008

PL 480 TITLE II: APPROPRIATIONS COMPARED TO ACTUAL EXPENDITURES IN US DOLLARS AND SECTION 416 EXPENDITURES

FY 2001 – 2008

UPDATED: FEBRUARY 5, 2007

	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07 (est.)	FY 08 (Admin. Request)
Title II Appropriations.	835,200,000	945,000,000	1,809,575,000a/	1,185,000,000	1,415,000,000a/	1,632,000,000/a	1,595,000,000/b	1,219,000,000
Title II Actual Program Level (note c)	925,900,000	1,039,100,000	1,881,000,000	1,670,100,100	1,668,000,000	1,773,000,000	1,655,000,000	N/A
Sec 416(b) (note d)	1,103,000,000	773,000,000	213,000,000	173,000,000	147,000,000	20,000,000	0	0

a/ FY 03 Includes supplemental of $369 million; FY 05 includes supplemental of $240 million; FY 06 includes supplemental of $350 million.

b/ FY 07 Final Continuing Appropriations of $1,215,000,000 and assumes FY 07 Supplemental Appropriations request of $350,000,000

c/ Actual levels include appropriations, maritime reimbursement and carry-in funds and represent the amount actually reported as expended by USAID.

d/ Section 416(b) is funded through the Commodity Credit Corporation and is not subject to FY appropriations. It is shown because until FY 03, the commodities were often used for emergencies, supplementing Title II funding.

Statement by Michael W. Yost
Administrator of the Foreign Agricultural Service
U.S. Department of Agriculture
Before the U.S. Senate Committee on Agriculture, Nutrition and Forestry
Washington, DC
Wednesday, March 21, 2007

Mr. Chairman, members of the committee, I am pleased to appear before you today with my colleague from the U.S. Agency for International Development (USAID) William Hammink. I welcome the opportunity to discuss the trade and food aid programs administered by the U.S. Department of Agriculture (USDA).

INTRODUCTION

Since the last Farm Bill was enacted in 2002, the trade programs administered by the Foreign Agricultural Service (FAS) have served to expand new markets and maintain existing markets for U.S. agricultural products. These programs complement our efforts to open markets through trade negotiations and maintain market access through diplomacy and enforcement of trade agreements. To ensure that agricultural interests are well represented at the negotiating table, FAS works closely with the Office of the U.S. Trade Representative (USTR). Last year, we helped successfully conclude trade agreements with Colombia, Panama, and Peru that can provide greater market access for all U.S. agricultural products.

Together, our trade programs and negotiations have contributed to a strong farm economy and high demand for U.S. food and agricultural products. In fact, earlier this month, USDA raised its export forecast to a record $78 billion for fiscal year 2007, due in part to strong commodity prices. This would be an increase of $9.3 billion over last year, the second largest increase on record, and the fourth year of back-to-back records.

Nonetheless, in order to continue these impressive gains, we cannot rest on our accomplishments. We must expand access to overseas markets, where 95 percent of the world's consumers live. We must continue to refine and improve our longstanding programs to ensure that they operate efficiently and effectively.

To do this, the Administration crafted Farm Bill proposals that will strengthen U.S. agriculture's competitive position, while meeting our international obligations. These Farm Bill proposals are not only good farm policy, but good trade policy. They are more predictable, more equitable, and better able to withstand challenges from other countries.

TRADE PROGRAMS

Market Access Program

The cornerstone of the Department's market development efforts is the Market Access Program (MAP) which expires at the end of 2007, as mandated in the 2002 Farm Bill. This program uses funds from the Commodity Credit Corporation (CCC) to create, expand, and maintain long-term export markets for U.S. agricultural products.

Our Farm Bill proposals recommend increasing MAP funding from $200 million to $225 million annually. USDA will apportion this additional funding to help address the imbalance between program crops and non-program commodities. The MAP also uses funds from the CCC to help create, expand, and maintain foreign markets, but it encompasses the full range of U.S. food and agricultural products, including value-added products. MAP forms a partnership between USDA and non-profit U.S. agricultural trade associations, U.S. agricultural cooperatives, non-profit state-regional trade groups, and small U.S. businesses to share the costs of overseas marketing and promotional activities such as consumer promotions, market research, trade shows, and trade servicing.

Technical Assistance for Specialty Crops

As our exports have grown, some of our trade partners have increasingly turned to unscientific sanitary, phytosanitary, and technical barriers to protect their domestic industries and deny market access to U.S. agricultural products. USDA has successfully helped U.S. exporters regain market access for millions of dollars of products from almonds to spinach. To continue these efforts, the Administration's 2007 Farm Bill proposals would increase mandatory funding for the Technical Assistance for Specialty Crops (TASC) grant program by $68 million over 10 years and increase the maximum allowable project award to $500,000.

TASC funds projects to assist U.S. food and agricultural organizations address sanitary, phytosanitary, and technical barriers that prohibit or threaten the export of U.S. specialty crops.

TASC has proven to be very effective in providing support for specialty crop exports. In recent years, TASC funding has been used to gain market access for California nectarines in Japan, harmonize organic standards with Canada and the EU, and create a database of pesticide tolerance levels and standards for more than 300 specialty crops in more than 70 countries. In 2006, USDA funded 26 TASC projects valued at $2.6 million.

Grant Program to Address SPS Issues

To complement the TASC program, the Administration's 2007 Farm Bill proposals include a new grant program focused on sanitary and phytosanitary issues and supported by $2 million in annual mandatory funding. This additional funding would allow us to better address sanitary and phytosanitary issues for all agriculture commodities. The funding could pave the way for international organizations and other governments' regulatory agencies to set new standards, provide U.S. exporters with information on compounds restricted by other countries, and improve other countries' understanding of U.S. safety standards and testing methodologies. It would enable us to tap targeted technical expertise on an ad-hoc basis rather than hire permanent staff.

Technical Assistance to Resolve Trade Disputes

For small agricultural producers and industries, defending their products against unscientific and unfair trade barriers is a complex, lengthy, and time-consuming process. While U.S. industries can pursue unfair trade practices through U.S. trade laws or initiate a case in the World Trade Organization (WTO), industries must pay high legal and analytical costs for extended periods of time—sometimes years. This is particularly challenging for limited resource agriculture industries. Conversely, some U.S. agricultural sectors have themselves been challenged in either the WTO or by other countries' trade laws. USDA, working closely with USTR, helps industries that have been challenged. The Administration is requesting that the Secretary of Agriculture be granted broad discretionary authority to provide limited resource groups with enhanced monitoring, analytical support, and technical assistance if he deems it would be beneficial to U.S. agriculture.

International Trade Standard Setting Activities

USDA works closely with international standard-setting bodies, such as the Codex Alimentarius, the International Plant Protection Convention, and the World

Animal Health Organization, to establish and harmonize multilateral food, plant, and animal health and safety standards. By assigning staff to work with these organizations, we impact their decision-making process and ensure that they design and implement standards for trade in agricultural products that are science-based. When countries ignore these internationally recognized scientific guidelines, we work through the international standard-setting body or through direct bilateral negotiations to resolve the unfair restriction. When these efforts fail, we use the dispute settlement process of the WTO.

The United Nations Food and Agriculture Organization (FAO) works with member governments to place their nationals in FAO staff positions. However, we lack sufficient funding to place adequate numbers of Americans in these positions. For example, out of a total of about 100 positions in the FAO's associate professional officer program, European countries fund about 83 percent of these positions for their nationals, while we only fund one percent for Americans—a major imbalance.

As a result, the EU is in a better position to influence international organizations' policies and programs than we are. USDA needs dedicated funding to strengthen U.S. representation in these organizations. In addition, we are having difficulty hiring seasoned, director-level staff to represent the United States in these organizations because we do not have the funds or the authority to pay salaries and allowances commensurate with those received by international organization employees. For these reasons, the Administration's 2007 Farm Bill proposals request long-term mandatory funding of $15 million over 10 years to enhance our ability to assign USDA staff support for international trade standard-setting bodies.

TRADE CAPACITY BUILDING

Before developing countries can become customers for U.S. agricultural products, they must first become politically, economically, and socially stable. President Bush's National Security Strategy recognizes that a lack of economic development, particularly in fragile and strategic countries and regions, results in economic and political instability which can pose a national security threat to the United States. A productive and sustainable agricultural sector is a critical factor in creating this stability. Only then can these countries and regions more easily integrate into the global economy and reduce hunger and poverty.

USDA works to develop the capacity of local governments in both politically stable and fragile economies to support market-based agriculture. We have provided technical assistance and trade capacity building in markets such as Georgia and Armenia, Kenya and Uganda, and Pakistan and India so they can harness the power of trade and create open, predictable policies and procedures to boost economic growth and reduce poverty.

In recent years, USDA has worked with the Department of State, the Department of Defense, USAID, and the National Security Council to assist in the reconstruction and stabilization of Afghanistan and Iraq. Revitalization of these two countries' agricultural sectors is essential to their development. USDA is conducting trade capacity building and technical assistance activities in Iraq, including a $7.8 million agricultural extension project and marketing education efforts in partnership with U.S. commodity groups.

The Administration's 2007 Farm Bill proposals provide $2 million annually in direct mandatory funding for agriculture reconstruction and extension efforts. This funding would build the capacity of fragile and unstable countries and regions to trade by improving food safety, supporting agricultural extension projects or agricultural knowledge initiatives, and building bilateral partnerships with strategically important countries.

FOOD AID PROGRAMS

In addition to this trade capacity building assistance, USDA administers three food aid programs that jumpstart economic development in countries needing assistance to get on their feet or needing help in a crisis or emergency—the Food for Progress Program, the McGovern-Dole International Food for Education and Child Nutrition Program, and the Public Law 480, Title I (P.L. 480, Title I) Program. These programs support international assistance and development activities that alleviate hunger and improve nutrition, education, and agriculture in some of the world's poorest countries. By using direct donations and concessional sales of U.S. agricultural commodities, we are able to accomplish much. With our budget request for 2008, we will continue these efforts.

Food for Progress Program

During the past two decades, the Food for Progress program has supplied over12 million metric tons of commodities to developing countries and emerging democracies committed to introducing and expanding free enterprise in the agricultural sector. Commodity purchases totaling nearly $3 billion over this period for Food for Progress programming have been handled through the Commodity Credit Corporation (CCC).

During fiscal year 2006, the United States provided more than 215,000 metric tons of CCC-funded commodities valued at about $125 million under this program. This effort supported 19 developing countries that were making commitments to introduce or expand free enterprise elements in their agricultural sectors. Again this year, more than 215,000 tons of commodities will be provided. More than 2 million people in 11 countries, including Afghanistan, throughout Africa, and Central America, will be fed by this program this fiscal year. In fiscal year 2008, the President's budget provides an estimated program level of $163 million for Food for Progress grant agreements carried out with CCC funds.

McGovern - Dole Program

Another highly successful program is the McGovern-Dole International Food for Education and Child Nutrition Program. It helps support education, child development, and food security in low-income, food-deficit countries that are committed to universal education.

This year, we will feed nearly 2.5 million people in 15 developing countries, including Cambodia, Guatemala, and Malawi, with the $99 million appropriated funding level. We appreciate the strong support this program has received from members of Congress. In fiscal year 2008, we are requesting $100 million for the McGovern-Dole program. This amount will be supplemented by an estimated $8 million to be received from the Maritime Administration for cargo preference reimbursements.

In the last five years, the McGovern-Dole program has helped feed more than 10 million children in more than 40 countries. For example, last year, USDA awarded Counterpart International (CPI) a grant to provide more than 9,000 tons of commodities for use in Senegal. This McGovern-Dole project is using vegetable oil, textured soy-protein, and barley to feed nearly 18,000 primary school children and 1,800 pre-school children over a three-year period. The proceeds from the sale of soybean oil are being used to improve school sanitation, repair schools, and improve the skills of teachers. The project includes a maternal and child health component, which provides take-home rations to needy mothers with young children. It also provides a growth monitoring and promotion program, along with a health education and assistance campaign. The leader of one of the villages in which the school feeding project is being conducted told the visiting U.S. Ambassador to Senegal that, "We have already seen immediate results from this program as students are able to stay in school longer and learn more each day." This McGovern-Dole school feeding program provides hot daily meals to students, permitting them to remain in the classroom and learn for longer periods.

The multi-year dimension of this program is vital to address comprehensively the issue of chronic hunger. Moreover, providing meals both at school and through take-home rations provides a powerful incentive for children to remain in school. Government-to-government partnerships coupled with the important resources provided by the private voluntary organizations (PVOs) are vital to sustain these programs and ensure success.

P.L. 480, Title I Program

Historically, the P.L. 480, Title I program has been geared primarily toward countries with a shortage of foreign exchange and difficulty in meeting their food needs through commercial channels. Assistance has been provided on a government-to-government basis by selling U.S. agricultural commodities on credit terms. In recent years, the demand for food assistance using credit financing has fallen, mostly because worldwide commercial interest rates have been relatively low. For example in 2006, we signed only three government-to-government credit agreements compared to seven in 2002. As recently as 1993, 22 Title I agreements were signed, followed by a continuing decline over the past 14 years. We are not requesting any additional funding for P.L. 480, Title I for 2008. The budget recommends that all P.L. 480 assistance be provided through Title II donations.

Bill Emerson Humanitarian Trust

USDA also manages the Bill Emerson Humanitarian Trust, which serves as a backstop commodity reserve for the P.L. 480 program. This reserve is available to meet emergency humanitarian food needs in developing countries, allowing the United States to respond to unanticipated food crises with U.S. commodities. We currently have 915,000 metric tons of wheat in the Trust and $107 million in cash. Cash provides the flexibility we need to purchase appropriate commodities based on availability and the specific need. With commodities, we must pay storage costs. Holding the 915,000 metric tons of wheat is costing more than $9 million each year or about $10 per ton. Finally, cash allows us to respond much more quickly to a food crisis because we can easily purchase commodities, whereas swapping what we have in the Trust for what we need to provide consumes precious time and risks the loss of lives to hunger and starvation.

Upcoming Issues

This year several food assistance issues will come to the forefront in the domestic and international arenas. USDA chairs the Food Assistance Policy Council, which also includes senior representatives from USAID, the Department of State, and the Office of Management and Budget. Over the years, this group has made significant progress in ensuring policy coordination of food assistance programs under the Agricultural Trade Development and Assistance Act and the Food for Progress Act. At a meeting earlier this month, several issues including food aid quality, the Administration's 2007 Farm Bill proposals, and the challenges facing food aid policy in the WTO were discussed.

One of the topics addressed was whether current food aid formulations and product manufacturing practices address the needs of at-risk recipients and reflect the best available science. For more than forty years, USDA and USAID have provided micronutrient fortified food commodities to vulnerable, food-insecure populations. We share the concerns of the large number of stakeholders interested in improving the performance of these food aid programs, most notably the quality of commodities provided under the programs. Some of the shared issues of concern include delays in updating existing contract specifications, whether the use of current contract specifications result in the acquisition of desired products, and adequate testing procedures designed to ensure purchased products meet contract specifications.

In order to address the concerns, we are taking the initiative to do an in-depth review of the types and quality of food products used in the administration of U.S. food aid programs. We would also continue our efforts of reviewing the existing contract specifications used to obtain food aid commodities, and improving our post-production commodity sampling and testing regime based upon sound scientific standards.

We share the belief of the PVO community that both the quality and formulation of food aid products are crucial to delivering safe, wholesome products to undernourished populations, particularly vulnerable groups including infants and young children, women of child-bearing age, and people living with HIV/AIDS. Currently, we are examining options to review the nutritional quality and cost-effectiveness of commodities being provided as food assistance. Our goal will be to have consultations with nutritionists, scientists, commodity associations, the World Food Program, the PVO community, and SUSTAIN to make sure all viewpoints are heard. We want to ensure that the food aid we provide is of the highest caliber to meet the nutritional requirements necessary to address chronic hunger.

On January 31, USDA Secretary Johanns unveiled the Administration's 2007 Farm Bill proposals. These Farm Bill proposals recommend a significant policy change in food aid programs—providing the ability to use up to 25 percent of P.L. 480, Title II, annual funds to purchase commodities grown in the region experiencing an emergency situation. The change would provide the flexibility needed to improve the effectiveness and efficiency of U.S. food aid assistance efforts.

As you are aware, food aid is a subject of discussion in the WTO negotiations. In the negotiations, the United States continues to strongly defend our ability to use food aid in emergency and non-emergency situations. Emergency food aid should not be disciplined because flexibility must be maintained to respond to people in crisis. Non-emergency food aid should only be disciplined to ensure that it does not displace commercial sales. Cash and in-kind food aid should be treated equally in operational disciplines and transparency provisions.

A variety of programming options must remain available to ensure that food aid programs can be tailored to local needs and that sales do not disrupt local markets or displace commercial imports. The monetization of food aid to create funds for supporting projects that result in increased economic activity and thereby directly confront poverty should continue. As the United States has repeatedly stated in these negotiations, we seek to help lift poor families out of poverty by helping governments design projects that are self-sustaining.

A few days ago the Government Accountability Office shared with us the results of its study on the efficiency and effectiveness of the U.S. Government's efforts to deliver food aid. We will give the report careful study in the coming months as we are continually seeking to improve the effectiveness and efficiency of our food aid programs.

CONCLUSION

As Administrator of USDA's Foreign Agricultural Service, I am proud of our efforts to improve foreign market access for U.S. products, build new markets, improve the competitive position of U.S. agriculture in the global marketplace, and provide food aid and technical assistance to foreign countries.

I believe the 2007 Farm Bill Trade Title proposals will make U.S. farm policy more equitable, predictable, and better able to withstand challenge, while ensuring fairness and providing greater export opportunities to farmers, ranchers, and other stakeholders.

This concludes my statement. I look forward to answering any questions you may have. Thank you.

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DOCUMENTS SUBMITTED FOR THE RECORD

MARCH 21, 2007

American Dietetic Association

www.eatright.org | *Your link to nutrition and health*℠

Headquarters
120 South Riverside Plaza, Suite 2000
Chicago, Illinois 60606-6995
312/899-0040 800/877-1600

Washington, D.C. Office
1120 Connecticut Avenue N.W., Suite 480
Washington, DC 20036-3989
202/775-8277 800/877-0877

It is appropriate for the Senate Agriculture, Nutrition and Forestry Committee to hold this hearing on Food Aid Programs. Hunger is intolerable in a world of plenty. Still, more than 1 billion people worldwide currently live in poverty, earning less than $1 per day.[1] As a result of poverty and the related problems in obtaining adequate, nutritious food, about 820 million people in the developing world are undernourished.[2] Hunger and malnutrition have negative effects on cognitive development, growth, and health which then lead to negative effects on labor productivity and a nation's development.

For decades, the United States has played an important role in addressing hunger around the world and our efforts have made it possible for millions of people to have survived famine (more often fanned by civil strife than crop failures). In addition, our food assistance contributions help save lives, lead to the education of children, create pluralism, build societies and forge friendships in our complicated world. International food assistance is far more than providing food – it is the connection of life and opportunity – from those in a position to give to those in a position of need. The benefits to everyone are incalculable – well beyond monetary measurements, although the monetary benefits are significant.

The American Dietetic Association (ADA) commends the committee for considering what our role can and should be in advancing nutrition and health, as well as addressing hunger. ADA is the largest organization of its kind and it is guided by a philosophy based on sound science and evidence-based practice. ADA members are sought-out participants in domestic and international discussions as they work on nearly every aspect of food, nutrition and health.

It is the position of the American Dietetic Association (ADA) that it is a human right to have access to adequate amounts of safe, nutritious, and culturally appropriate food at all times. The Association supports programs and encourages practices that combat hunger and malnutrition, produce food security, promote self-sufficiency, and are environmentally and economically sustainable.[3]

In this farm bill, ADA recommends food should not be used as a sanction against other nations. The American agricultural community has led the fight against "food being used as a weapon." ADA joins them in that stance.

ADA supports the continuation of emergency humanitarian food assistance. Donations should not undermine local food production or marketing systems or distort trade. Similarly, the structure of U.S. domestic programs should not undermine food production or marketing systems outside the United States or distort trade.

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[1] World Bank. 2006 World Development Indicators. Washington, DC: World Bank; 2006.
[2] State of Food Insecurity in the World 2006. Food and Agriculture Organization of the United Nations. 2006.
[3] Addressing World Hunger, Malnutrition and Food Insecurity. J Am Diet Assoc. 2003;103:1046-1057

ADA supports the Dole-McGovern International Food for Education Program for its role in feeding children and encouraging education, and encourages its full funding.

We also bring to the committee's attention that currently, there is no international initiative to deal with the most costly form of malnutrition – that is from ages 0 to 2. In all other stages of life, people can recover from malnutrition, but the impacts of nutrient deficiencies on children in the womb and up to age 2 can never be overcome. They include low birth weight, impaired cognitive development, impaired immunity and reduced earning potential and compromised life expectancy.

ADA encourages this committee to support a global campaign to encourage breast feeding, to educate parents about nutrition and to make certain that every child – from womb to age 2 – has the necessary nutrients to live and grow to full potential. The World Bank and others are proposing such a campaign, drawing together NGOs and companies, foundations and governments in support of action to either supplement or fortify foods with Vitamin A, Vitamin B, Folate, Iron and Zinc. According to the World Bank, the cost for the addition of these vitamins and minerals to food or diet is about $5 billion[4] annually. The payoff is immediate and in the next 10 years, the global economic benefit is between $180 to $250 billion.

As a point of reference, the socio-economic effect of addressing malnutrition in the very young (and in their mothers) is greater than the whole impact of global trade liberalization.

Clearly, there is significant potential benefit in addressing international hunger, nutrition and health issues now, before circumstances deteriorate, and to ameliorate human as well as economic costs. We also encourage the Senate to support U.S. international food assistance programs as part of the 2007 Farm Bill.

For more information, or if you have questions, please contact:
Jennifer A. Weber, MPH, RD
(202) 775-8277
jweber@eatright.org

[4] Fortification is more cost effective than supplements, but both would yield substantial payoffs.

Written Testimony to the Agriculture, Nutrition and Forestry Committee
U.S. Senate
Hearing on the Reauthorization of the Farm Bill

March 21, 2007

Respectfully submitted by
David Beckmann
President, Bread for the World

I appreciate the opportunity to submit written testimony on a subject very close to my own heart and a prime policy interest of Bread for the World.

Founded in 1974, Bread for the World is a Christian, nonpartisan organization supported by 45 denominations and more than 2500 churches that works to bring about public policy changes that address the root causes of hunger and poverty in the United States and overseas. Bread for the World's 58,000 members lobby Congress and the administration to this end, and mobilize a quarter of a million constituent contacts with members of the U.S. Congress every year. Bread for the World helps concerned people learn about policy issues that are important to poor and hungry people, and then helps them turn this knowledge into positive political action.

The dimensions of global hunger are well known: More than 850 million people – half of them children – live in a state of chronic hunger and food insecurity; 25,000 die daily due to hunger and related ailments. We are seeing the Millennium Development Goal of halving global hunger and poverty by 2015 slipping from our grasp. For such demeaning hunger and poverty to persist when we have the technological and economic means of ending it is a moral affront to American values.

Food aid has been an important tool in combating global hunger, and has saved many lives, and the U.S. can rightly feel proud of its role as the world's most generous donor of food aid. Its efforts have saved millions of lives. However, the food aid program has also been burdened with ancillary objectives that undermine its effectiveness and efficiency in meeting the needs of hungry people around the world.

Bread for the World has as its fundamental mission seeking justice for hungry people. And while we appreciate the political argument for maintaining a broad coalition of U.S. support for food aid, we are convinced by our own polling results that ending global hunger is a topic that resonates with the U.S. public. Americans understand that this is fundamentally an issue of social justice, and that meeting the real needs of hungry and malnourished people should be **the** overriding objective of a U.S. food aid program.

The food aid environment has changed significantly from when Food for Peace was initiated over 50 years ago, and changes in the food aid program are overdue. One need is to simplify and clarify the multiple and sometimes conflicting objectives and statutory requirements, which cannot all be met. Specific legislative objectives set for U.S. food aid include, in addition to combating world hunger and malnutrition, "promoting broad-based, equitable and sustainable development," "developing and expanding export markets for U.S. agricultural commodities," "fostering and encouraging the development of private enterprise and democratic participation," and "preventing conflict." On top of these are added operational requirements, including minimum tonnage (generally met), sub-minimum tonnage for non-emergency programs (not met since 1995), and value added (generally not met). It is time to clarify the mandate of food aid, giving unambiguous priority to combating hunger and malnutrition.

Bread for the World favors a transition to demand-driven food aid, based more on the needs and opportunities and less on supply and availability. Food aid is no longer a surplus disposal program, and the volumes involved are too small to affect commodity prices in any but exceptional cases. In fact, food aid tends be pro-cyclical, so that food aid volume tends to decrease in times of high prices – such as the present -- when the food needs tend to be the greatest. This is exactly counter to the stated objective of meeting the nutritional needs of the world's hungriest people.

Bread for the World believes that the farm bill should ensure ongoing and consistent U.S. assistance to people in need of emergency food and nutrition support around the world. This means increasing the authorized funding levels for emergency food aid – especially in light of recent agricultural commodity price increases.

We also need to recognize that commodity food aid is not always the most appropriate response to food insecurity, whether chronic or emergency. One life-affecting consideration is that of timeliness, ensuring the quickest response to emergencies or windows of opportunity. Other considerations include market impact – whether the commodity food aid serves as an incentive or disincentive to local or regional production and commerce -- and commodity composition – i.e., whether the needs are best served by commodities or products available from the U.S. In order to facilitate the most effective and efficient responses to food insecurity, Bread for the World strongly supports providing the Office of Food for Peace with the flexibility to procure food locally or in the region. We think the Administration's request in the farm bill principles for authority to use up to 25 percent of Title II appropriations for local or regional purchase is a step in the right direction, and urge the committee's support. Local and regional procurement is not going to be appropriate in every case and needs to be carefully applied, but there is already sufficient information and experience on the part of the World Food Program, the NGO community and other donors to clearly demonstrate the circumstances under which this instrument can be effectively applied.

Along the same lines, we support loosening the restrictions that mandate the processing ("value added") of food aid and U.S. flag shipping. While these reflect legitimate interests, our main focus should be on meeting needs and saving lives, and employing the most appropriate and efficient means to that end. Surely, other means can be found for ensuring the viability of the U.S. merchant marine than by imposing onerous and costly restrictions on the shipment of food to meet the urgent nutritional needs of hungry people around the world.

The Bill Emerson Humanitarian Trust (BEHT) is another useful weapon in combating global hunger. We support changes that would render the BEHT more efficient and reliable in addressing food crises. These include making use of the BEHT easier and more transparent by clarifying the "trigger" for its utilization relative to Title II; increasing efficiency by directing it to hold reserves in the form of cash or options instead of commodities, thus reducing costs and increasing flexibility and responsiveness; and instituting provisions for regular replenishment.

The new Farm Bill could also open opportunities for poor countries to become more food self-reliant by reducing protectionist forms of assistance to U.S. farmers. Funding within the Farm Bill could be shifted from trade-distorting commodity payments to programs that would be much more helpful for rural America, especially for farm and rural families of modest means, and to nutrition assistance for hungry people in rural and urban America. These reforms, together with reduced protectionism in Europe and Japan, would remove significant obstacles to agriculture and food security for many of the world's poorest people.

Finally, we would like to encourage members of this committee to consider the problem of world hunger from the broadest perspective, recognizing that getting beyond chronic food insecurity requires developing recipient country capacity to produce and trade. Emergency commodity food aid is at one end of a spectrum of responses, and needs to be recognized as a temporary fix at best. The U.S. government, along with other donors, needs to put more resources into effectively addressing long-term food security. International aid for agricultural development has plummeted over the past 20 years, from 11 percent to just 3 percent of ODA. Increased crop yields in developing countries – something achievable with current technologies -- would have a profound and lasting impact on global hunger.

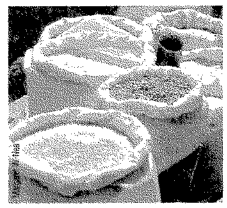
Growth in the developing world would also be good for U.S. agriculture. A 2006 study, commissioned by Bread for the World Institute and conducted by the International Food Policy Research Institute, showed that a seven percent GDP growth rate in the developing world would generate nearly $26 billion in additional U.S. agricultural exports between 2006 and 2020.

We have the obligation and the opportunity to end hunger. We need to take advantage of every means for doing so. The changes to the food aid portion of the farm bill noted above will, I am confident, move the U.S. closer, in concert with the NGO community, the WFP and other donors, toward meeting this urgent objective.

In closing, I would like to call attention to our policy paper on food aid, "Feeding a Hungry World," issued in April 2006, a copy of which is submitted with this testimony. We would be happy to provide further information on any of the above points.

Thank you.

Feeding a Hungry World:
A Vision for Food Aid in the 21st Century

Bread for the World
Institute

50 F Street NW, Suite 500
Washington, DC 20001
1-800-82-BREAD
www.bread.org

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We, the Heads of State and Government, or our representatives, gathered at the World Food Summit at the invitation of the Food and Agriculture Organization of the United Nations, reaffirm the right of everyone to have access to safe and nutritious food, consistent with the right to adequate food and the fundamental right of everyone to be free from hunger.

(Rome Declaration on World Food Security, November 13, 1996)

At the World Food Summit (WFS) in 1996, 186 nations came together and pledged to provide the moral and political leadership needed to alleviate extreme hunger and malnutrition. WFS participant countries pledged to reduce by half the number of undernourished people in the world. Nearly 10 years on, there has been minimal progress toward this historic goal. Globally, undernourishment has declined by 3 percent.[1]

That means that there are presently more than 850 million people who do not have enough food to eat[2] and 2.7 billion people living on less than $2 a day.[3] And in sub-Saharan Africa the situation has actually worsened since the WFS.[4] There, the combination of political unrest, conflict, drought and disease – principally AIDS – and continued high population growth adds up to a grim scenario for the coming years. Despite several renewed commitments to significantly reduce world hunger and poverty since the WFS -- most notably as part of the Millennium Development Goals – it's clear that an enormous amount of work remains to be done.

As countries rich and poor take stock of these tasks, debate continues about the kinds of resources and efforts that will best achieve these goals and the levels required. Part of this debate has focused on food aid. Over the past 50 years, food aid has been one of the principal resources deployed in the effort to end hunger, and a number of donor countries, the United States prominent among them, have channeled billions of dollars' worth of food to developing countries.

There is no question that food aid has been instrumental in saving lives, improving nutrition, and easing the debilitating effects of poverty on human health and development. In places wracked by war or natural disaster, emergency food aid is often necessary to respond to acute human suffering. Food aid has also proven a valuable tool in a variety of development projects, such as school feeding programs and maternal/child health initiatives. These relief and development activities are important initiatives that continue to merit strong international support.

However, concerns have been expressed about the structure and implementation of food aid programs, about whether food aid is really an efficient means of meeting critical food needs, and about the impact of food aid on agricultural prices and production levels in recipient countries – in sum, how efficiently and effectively is food aid meeting human

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1 United Nations Millennium Project (2005) 13.

2 Food and Agricultural Organization of the United Nations (2004) 6.

3 World Bank (2005) 67.

4 United Nations Millennium Development Goals Report (2005) p. 2.

and development needs? These concerns suggest a need to reconsider this special form of aid.

The United States is the world's most generous donor of food aid, and its efforts have saved millions of lives. Yet U.S. food aid is also intended to support domestic agricultural and export trade objectives. U.S. food aid programs seek to "expand international trade" and "develop and expand export markets for United States agricultural commodities,"[5] objectives that may blur the fundamental goal of feeding hungry people.

Concerns have also been voiced about the impact of food aid on other development objectives -- specifically, that the distribution of food aid may undercut development activities aimed at encouraging increased agricultural production in food aid recipient countries. Eighty percent of the world's hungry people live in rural areas, and fully 50 percent rely on farming for their livelihoods.[6] Smallhold and tenant farmers, along with farm laborers, represent the largest group of undernourished people in the world. If the availability of food aid diminishes demand for locally produced food, then providing food aid may depress market prices, decrease agricultural production and reduce income for the neediest segments of the population.

With our mission of seeking justice for hungry people, Bread for the World advocates development assistance that improves food security, reduces hunger and poverty and supports human and economic development. We recognize that a variety of strategies and financial supports are needed to achieve these objectives. From technical assistance to cash aid to in-kind contributions, the task of alleviating poverty and hunger requires a robust, adaptable resource pool. Food aid is one useful tool among many; it must be complemented by efforts to create an environment where individuals are empowered to meet development goals for themselves.

The remainder of this report will focus on the benefits and costs of food aid and set forth recommendations for making food aid more efficient and effective. It is an opportune moment to reflect on how food aid programs, those of the United States in particular, may be strengthened to achieve hunger and poverty reduction more effectively. U.S. food aid programs, authorized through the federal farm bill, are on track to be renegotiated in 2007. The United States is also actively engaged in World Trade Organization (WTO) trade negotiations, which will very likely affect food aid practices. Through the dual avenues of the U.S. farm bill and WTO negotiations, it should be possible to improve developing countries' prospects for food security and sustainable development while strengthening donor support for effective food aid programs.

[5] *Agricultural Trade Development and Assistance*, §1691.
[6] United Nations Millennium Project (2005).

Feeding a Hungry World: A Vision for Food Aid in the 21st Century
Position Paper, Bread for the World Institute

I. Food Aid Definitions and Descriptions

Food aid can be simply defined as the "*international sourcing of concessional resources in the form of or for the provision of food.*"[7] While succinct, this definition requires further unpacking, because food aid takes several different forms and is used for a number of different purposes. Six elements of food aid are differentiated and described below.

1) *Food aid is an international transfer of resources.* Although domestic food and nutrition programs are sometimes referred to as food aid, for our purposes "food aid" involves flows of food (or resources to purchase food) across international borders.

2) *Food aid is provided on concessional terms.* Most food aid is provided in the form of grants. Concessional sales (low interest loans with extended repayment periods) account for a small and declining share of total food aid.

3) *Resources for food aid are provided either as cash earmarked for the purchase of food or as in-kind transfers.* This is a major distinction between food aid programs of the European Union (EU) and those of the United States: Almost all U.S. food aid is in-kind, produced in the United States and shipped to countries around the world. In contrast, the EU mainly provides cash to relief and development agencies, which is then used to purchase food in developing countries. (Individual EU countries also provide food aid, and significant differences often exist between EU-wide policies and the food aid policies of individual EU countries). Canada and Australia, which are also major food aid donors, provide a mixture of in-kind resources and cash for food purchases.

4) *There is no fixed list of commodities used as food aid.* Cereal grains, pulses, blended foods, dried milk, and prepackaged meals-ready-to-eat (MREs) have been donated as food aid. In practice, the vast majority of food aid, more than 80 percent in most years, is comprised of basic cereal grains such as rice and wheat, or soybeans.[8]

5) *Food aid is provided through both bilateral and multilateral channels.* Bilateral food aid can be provided through government-to-government agreements or through agreements between the U.S. government or other sponsoring countries and private voluntary organizations (PVOs). Multilateral food aid means that grants from donor countries are given to international public institutions, mainly the U.N. World Food Program (WFP), which then enters into agreements with PVOs to administer programs within recipient countries.

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[7] Barrett and Maxwell (2005) 5.
[8] World Food Programme (2005a).

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6) *Food aid is used for a variety of purposes.* Some food aid is used for direct feeding programs in emergency situations. Relief and development agencies also use food aid as a resource in their development activities. Finally, a declining volume of food aid is used to assist countries experiencing unfavorable terms of trade. These different types are known as emergency, project, and program food aid.

Emergency Food Aid responds primarily to the immediate humanitarian needs of people affected by man-made or natural disasters, generally distributed among displaced populations or in areas experiencing acute food shortages. But emergency food aid is also provided to communities affected by chronic food crises. The WFP administers the lion's share of emergency food aid, normally channeling it through PVOs who manage its final distribution. In recent years, more than half of total food aid flows have been emergency food aid.

Project Food Aid, provided in the form of grants, is a resource used in a variety of development projects, ranging from rural road construction using food as payment for workers, to school meals or health and nutrition services designed for vulnerable groups. In many instances where food aid is provided in-kind, some or all of it is sold in local markets to generate funds to cover project costs and finance related development activities. This is called monetization.

Most project food aid is provided, directly or indirectly, to PVOs operating in developing countries and countries in transition. CARE, Catholic Relief Services, the Adventist Development and Relief Agency, World Vision and Save the Children are organizations that routinely include food aid as a component of their relief and development activities.

Program Food Aid is given or sold from one government to another. Recipient governments monetize this food aid to generate funds which can then be used to finance domestic initiatives. For many years, the United States has been the major provider of program food aid, on a concessional sale basis. As noted above, this category of food aid is declining in importance. In fact, the president's FY 2007 budget request does not include any funding for program food aid.

These three categories of food aid respond to different needs. Emergency and development food aid have a direct humanitarian or microeconomic focus, while program food aid is generally designed to meet macroeconomic objectives. Using food aid for these various purposes has significant implications, some of which will be explored in the following sections

Feeding a Hungry World: A Vision for Food Aid in the 21st Century
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A major difference among the different types of food aid is how much emphasis they place on targeting -- providing specific food aid to a specific population over a set period of time. For example, feeding programs may be designed to reach the entire population of a refugee camp for the duration of their stay, or may be targeted to expectant and new mothers, infants, and young children in a certain region during a particular season.[9]

Emergency food aid is generally the most targeted type of food aid and program food aid the least. Project food aid falls somewhere in between, depending on how individual projects are designed. Targeting helps assure that the food reaches those most in need, and can also mitigate potential market distortions resulting from competition between food aid and commercially available food. In short, targeting helps make the most of this important aid resource. Its disadvantage is that administrative costs increase because agencies must monitor distribution more closely to ensure that targeted food aid actually reaches the intended beneficiaries.

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[9] Barrett and Maxwell (2005) 139.

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II. Current Food Aid Flows and Historic Trends

The principal international agreement covering food aid is the Food Aid Convention, first negotiated and signed in 1967. Its initial objective was "to carry out a food aid program with the help of contributions for the benefit of developing countries."[10] It set a minimum tonnage level for international food aid (currently 4.95 million metric tons of wheat or the equivalent in other grains), and signatories each agreed to provide a fixed proportion of this. All major food aid donors are signatories to the Food Aid Convention.

The international community has generally met or exceeded the minimum Food Aid Convention commitment, typically providing 10-13 million metric tons annually. In 2004, 90 donors provided 7.5 million metric tons (MT) of food aid to 92 countries. Just 22 countries accounted for the vast majority of donations,[11] and more than half -- 4.2 million MT -- was donated by the United States. Since 1970, the U.S. Government has provided an average of 6 million MT of food per year, or 50 to 60 percent of the total annual food aid flows.[12] In recent years the second-largest donor behind the United States has been the European Union, although Canada, Japan and Australia also provide substantial amounts of food aid.

U.S. Food Aid Programs: Legal Framework and Recent Expenditures

Administered by two different agencies and authorized through several different laws, the United States provides emergency, project and program food aid. The main legal mechanism for food aid is the Agricultural Trade, Development, and Assistance Act of 1954. More commonly referred to as Public Law 480 (PL 480) or Food for Peace, the act contains three titles.

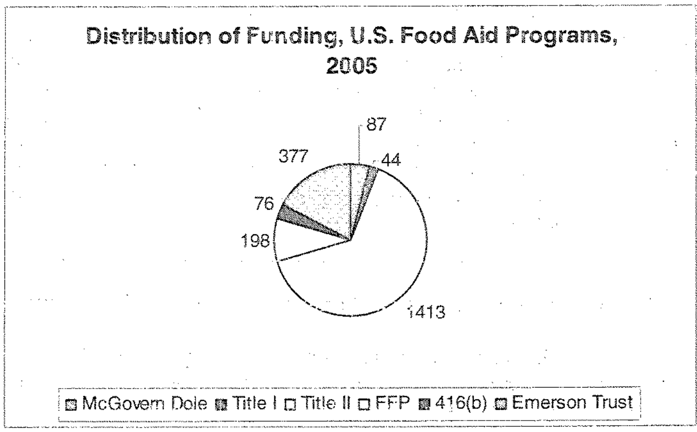
Under Title I, the U.S. Department of Agriculture is authorized to provide program food aid directly to governments through sales on concessional terms. Title I was not funded in 2006, and is not slated for funding in 2007.

Title II of PL 480 is administered by the U.S. Agency for International Development (USAID). Title II authorizes USAID to provide food aid to agencies administering humanitarian aid or development programs. While Congress intended that the bulk of Title II food aid resources be directed to development projects, emergencies have received a larger share of available Title II resources in the past several years.[13] In 2004, in fact, emergency response accounted for 70 percent of Title II funding. In the preceding eight years, the ratio of emergency to non-emergency Title II programming was close to 50/50.

[10] Food Aid Convention, 1967
[11] World Food Programme (2005a).
[12] Lowder and Raney (2005) 4.
[13] *Agricultural Trade Development and Assistance*, §1724(a). The law mandates a 25/75 split in funding for emergency/non-emergency programming, but it also provides for an override at the discretion of USAID.

Title III, administered by USAID, provides for government-to-government grants of food aid. In recent years, this title has not been funded.

Other food aid programs include Food for Progress, the McGovern-Dole Food for Education Program, the 416(b) program, and the Bill Emerson Humanitarian Trust. The 416(b) program is supplied through surplus U.S. government food stocks. More information about the various U.S. food aid programs can be found in Appendix A.



(OMB FY 2007 Budget, Appendix p. 167)

Shifting priorities in food aid programs are reflected in U.S. food aid budget allocations, which currently favor project and emergency food aid. Title II is the United States' largest food aid program, with a budget in 2004 of $1.2 billion.[14] A small amount of money under section 202(e) is available to facilitate the delivery of Title II in-kind food aid, e.g., for payment of local distribution and administration costs. In 2004, these funds totaled $83 million.[15]

A sizeable percentage of U.S. food aid is monetized. In 2004, approximately 70 percent of Title II and 40 percent of Food for Progress and 416(b) food aid allocations[16] were monetized. Monetization has a relatively brief history as a practice specifically authorized under U.S. law. In 1990, Congress revised food aid program law to require that a minimum of 10 percent of non-emergency food aid be monetized, anticipating that monetized food aid funds would be used to cover the costs of internal transport, shipping, and handling of food aid. In 1996, this minimum was raised to 15 percent.

[14] U.S. Agency for International Development (2006).
[15] U.S. Agency for International Development (2006).
[16] Bonnard, P., Haggerty, P., Swindale, A., Bergson, G., and Dempsey, J. (2002) vii; Barrett and Maxwell (2005) 133.

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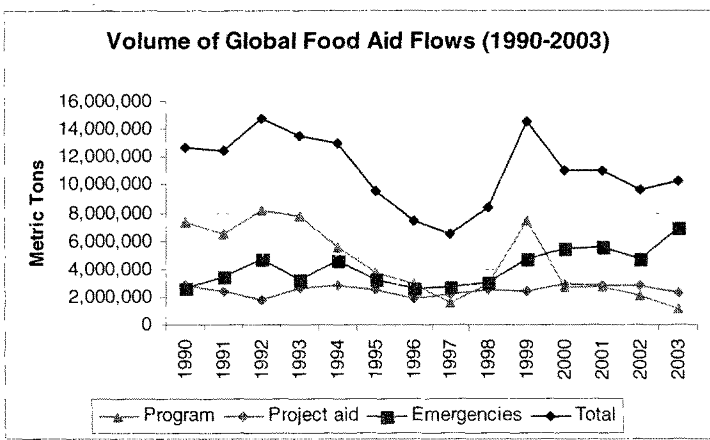
Actual levels of monetization have consistently been well above the minimum. In 2002, 64 percent of all non-emergency Title II food aid was monetized,[17] generating $383 million to support a range of development and food security activities. The monetization of non-emergency food aid, when carefully designed and implemented, can help enhance competition and develop the knowledge and capacity of small-scale traders to participate in commercial transactions.[18] There is a growing body of knowledge that describes best practices for monetization, demonstrating that it can be done well with minimal negative impact on markets.[19]

However, when local market development is not an explicit goal, monetizing food aid is simply a necessary intermediate step to generate operating and administrative funds. While cash grants would be more efficient, monetization is often the only source of funding available to development agencies for such priority activities as rural infrastructure construction.

From year to year food aid flows vary, sometimes substantially. Between 1998 and 1999, for example, food aid almost doubled, jumping from 8.4 million MT to 15 million MT. Seventy-six percent of this change was due to large program food aid contributions. By 2003, food aid flows were less than half the level of 1999.



(WFP, INTERFAIS, *2004 Food Aid Flows*)

There are several reasons for these shifting food aid flows. First, food aid responds directly to global demand. Emergency food aid increases with the number of major humanitarian crises – such as the Asian tsunami of late 2004. Second, the price of commodities determines the amount of aid that can be purchased with a set budget. When prices are high, the volume of global food aid shrinks; when prices are low, the volume

[17] Bonnard, P., Haggerty, P., Swindale, A., Bergson, G., and Dempsey, J. (2002) 27.
[18] Tschirly and Howard (2003).
[19] ACDI/VOCA (2003) and U.S. Agency for International Development (1998).

increases. Commitments under the Food Aid Convention are based on volume rather than monetary value, so the Convention should, in principle, contribute modestly to making food aid counter-cyclical with respect to world grains supplies. In practice, this does not occur. Food aid is closely linked with the size of U.S. harvests and global grain prices. In consequence, food aid tends to be pro-cyclical – supplies go down in times of scarcity and vice versa -- since all donors budget for food aid in monetary terms, rather than tonnage.[20]

Third, for countries that provide in-kind food aid, the level of aid is partly determined by the availability of surplus domestic stocks. Greater carry-over stocks from one year to the next can result in increased food aid levels.[21] In fact, the food aid programs of several major donors, the United States included, were originally designed to help redistribute surplus food stocks accumulated as a result of domestic agricultural price-support programs. Currently, though, only one U.S. food aid program, Section 416(b), is directly tied to government-held surplus food stocks. In recent years, this program has been relatively small, though it's possible that it will continue to serve as a means of surplus disposal. [22]

A closer look at food aid donations during 1999 demonstrates how the presence of large surpluses can drive food aid allocations. That year, Russia experienced a financial crisis that threatened to seriously erode the country's economic and political stability. At the same time, U.S. wheat stocks climbed to an 11-year high, and world wheat stocks remained large as well.[23] In a demonstration of support for the Russian government, the United States donated 1.7 million MT of wheat to Russia under Section 416(b) and provided another 1.8 million MT of food aid under Title I. As one government official concluded, "With the Asian financial crisis, U.S. commercial agricultural exports did not increase as expected, resulting in large surpluses that the government purchased and made available as food aid. These surpluses became a principal inducement for the United States to provide large quantities of food aid to Russia in 1999 and 2000."[24] The vast majority of all food aid received by Russia in 1999 was sold on local markets to generate cash for government expenditures. Only a small portion was directed to feeding programs for vulnerable people.

The fact that the bulk of food aid to Russia in 1999 was program aid illustrates the conjunction between this kind of food aid, the prevalence of surplus food stocks and U.S. foreign policy interests. Indeed, for many years program food aid dominated food aid flows, though as noted above, over the past 15 years it has declined significantly. In 1990, nearly half of all contributions were for program food aid, but by 2004 program

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[20] Hoddinott & Cohen, p. 5
[21] Barrett and Maxwell (2005) 32.
[22] Other objectives for U.S. food aid include enhancing U.S. geopolitical objectives, and developing long-term overseas markets. Per Barrett and Maxwell (p. 49) there is no evidence that food aid has been effective in advancing either.
[23] U.S. Department of Agriculture (1998).
[24] U.S. Government Accountability Office (2002).

food aid constituted only 13 percent of total contributions. This decline occurred at the same time as the United States was seeking to decrease government surplus food stocks.

The recent trend away from program food aid and toward project and emergency food aid suggests a basic -- and appropriate -- shift in orientation on the part of food aid donors. Further rethinking, leading to changes in food aid program administration, could help food aid realize its potential as an important resource to improve nutrition and food security.

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III. Food Aid for Nutrition & Food Security

In considering the appropriate role of food aid, it is helpful to reflect on how food and other resources are used to alleviate hunger and improve food security. When, in 1996, countries pledged to cut hunger and food insecurity in half by 2015, they also agreed to a definition of what this means in real terms: "Food security exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life."[25]

In this view, food security is a multidimensional measure of health and well-being, with the causes of hunger defined in terms of three parameters: availability, access, and utilization. Availability is a simple measure of the quantity of available food and its geographic distribution; access refers to the degree of social and economic constraints that limit the production, purchase, or consumption of healthy food; and utilization reflects not only the practical issues of how food is prepared or stored, but also whether the body is capable of digesting and retaining the food's caloric and micronutrient content.[26]

Some problems related to access, availability, and utilization are national or regional in scope, some must be addressed at the local or community level, and some are household-specific. Improving food security requires strategies that operate at all of these levels.

When availability and access are limited, food aid may be the most efficient means of fighting food insecurity and hunger. During humanitarian emergencies, when local food markets have been disrupted, the direct provision of food aid may be necessary to prevent hunger or starvation. Specially fortified foods donated as food aid and not available on local markets can meet critical health and nutrition needs, especially for women, infants and young children. Direct feeding activities ensure adequate nutrition for vulnerable populations, especially people who are elderly or ill, mothers, infants, and young and school-age children. A growing body of knowledge attests to the nutritional benefits of using food aid in this way.[27] Further, such food aid can be used to develop markets for fortified and specialized foods by demonstrating demand and linking that with sources of supply.

For other food insecurity situations, however, providing food may not be the most effective response. When hunger is chronic, localized food shortages might be better addressed through a combination of increased agricultural productivity, improved transportation and market infrastructure, and increased commercial trade. Access issues may be solved by providing poor people with the means to purchase locally-produced food, which has the dual benefits of shortening the time required to provide the food and providing incentives, through higher prices, for increased local production. Improvements in the quantity and quality of food grown in the developing world will not only alleviate problems of food availability, but can also assist in poverty reduction among smallhold

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[25] Food and Agricultural Organization of the United Nations (Nov. 1996) Para. 1.
[26] U.S. Agency for International Development (May 2005) 11.
[27] Bonnard, P., Haggerty, P., Swindale, A., Bergson, G., and Dempsey, J. (2002) 63.

and tenant farmers, groups that represent a major proportion of the world's hungry and poor people.

Effective nutrient uptake depends as much or more on basic sanitation and health conditions as it does on the quantity of food consumed. To improve utilization, then, complementary investments are needed to ensure that the desired nutritional impact of food aid is realized.

There are other situations where cash would clearly be a preferred alternative to in-kind food aid. Balance-of-payment support provided through program food aid could always be more effectively achieved through the provision of cash. And where PVOs monetize project food aid to generate funds for relief and development activities, the potential benefits of food aid as a source of nutrition may be lost unless the development initiatives are carefully targeted.

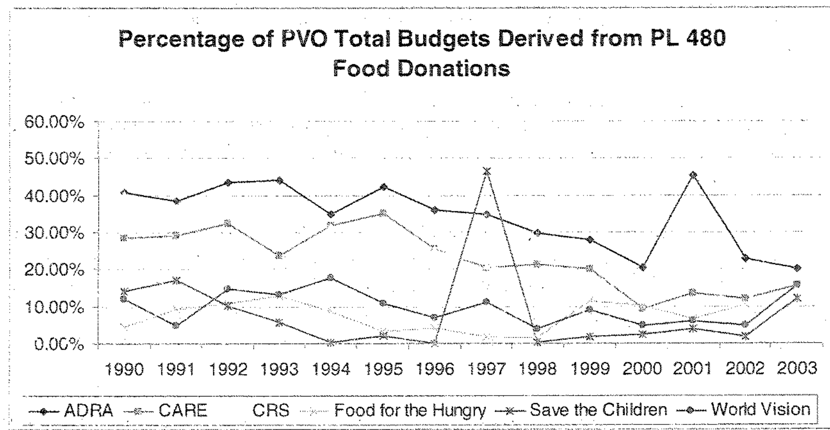
Quite simply, although the provision of food aid can be effective in meeting specific needs, in and of itself it is not sufficient to address all the different facets of food insecurity. Food insecurity is largely a result of poverty, and food aid alone is an inadequate mechanism to address this underlying issue.

The bottom line is that food aid should be one input among an array of interventions used to improve nutrition and food security. Except in the most extreme emergency situations, the goal should not be simply to feed people, but to empower them with the resources and knowledge that will help them achieve food security for themselves.

Private Voluntary Organizations and Food Aid: A Special Relationship

A number of U.S. private voluntary organizations (PVOs) use food aid in their development programming, either in direct feeding programs for vulnerable populations -- especially people who are elderly or ill, mothers, infants, and preschool and school-age children -- or through monetization.

As shown in the following table, food aid has been a vital resource for PVOs who operate relief and development activities. In some years it accounts for more than a third of the total operating budgets of some PVOs. However, a dependence on food aid to fund their work makes the organizations vulnerable to the shifting budget priorities that affect Title II. A recent example from the 2005 budget debate is illustrative.



(USAID *Report of Voluntary Agencies, 1992-2005*)

In 2005, USAID proposed a $300 million reallocation, taking money out of Title II for a new account designated for local and regional food aid purchases during emergencies.[28] Despite the potential benefits in terms of costs and timeliness from such a change (see sec. IV for more on local and triangular transactions), the proposal was opposed by a number of PVOs who feared that the new account would be funded from the existing Title II budget, leading to a funding shortfall for food aid-funded activities that they had already scheduled. American shipping and agricultural interest groups who benefit from the current structure of U.S. food aid programs also objected to the proposed changes. The PVOs instead proposed a smaller account funded outside the existing Title II budget.[29] Ultimately, neither the USAID proposal nor the PVOs' alternative was approved by Congress.

Since then, one major PVO has altered its position considerably. CARE USA now supports efforts to shift Title II funding into local and regional purchases. Additionally, CARE has decided to phase out food aid monetization entirely by 2009.[30] Although the organization recognizes that this could result in reduced overall revenues for its development activities, CARE has concluded that the new policy is more compatible with and supportive of long-term food security objectives.

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[28] Local purchases originate in the country of final destination. Triangular transactions utilize funds from one country to purchase food in a second country for use in a third location.
[29] Coalition for Food Aid to The Honorable Robert F. Bennett (2005) 3.
[30] CARE-USA (2005).

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IV. Food Aid and Food Markets

A look at how food aid affects local food markets in recipient countries reveals two separate but interrelated problems. First, assuming that local markets are in place and functioning, non-emergency food aid may affect the types and quantity of foods that are produced locally. Second, food aid distributions may also affect consumption patterns and consumer purchases.

Food aid should be designed to make the most effective use of an important resource without simultaneously undermining efforts on the part of recipient countries to achieve food security (the ability to produce, or trade for, the food needed to meet requirements on an ongoing basis). Poorly targeted food aid, especially where the total food supply from local production plus the imports matches or exceeds demand, can create downward price pressures and discourage local production. But this is not a clear-cut issue, because consumers benefit from low prices and studies have shown that small farmers are often net buyers of food grains. In such situations the timing of food deliveries becomes critical: food deliveries should be timed to arrive when prices are highest, normally in the months prior to the main harvest, thus maximizing consumer benefit.

Food aid-supported activities aimed at improving nutrition among vulnerable groups – e.g., pregnant and nursing mothers, small children -- will make effective use of the resources while reducing the likelihood that food aid will compete with commercially available food. "Food for education" is another productive use of food aid. Studies attest to the value of school feeding as an inducement for parents to send children -- especially girls -- to school.[31]

In situations where food aid improves health and nutrition or frees up resources that would otherwise be spent purchasing food, the assistance may actually encourage increased production. A healthy labor force with access to capital is vital to increasing labor productivity and output. One study in sub-Saharan Africa found that the effect of food aid on local production was positive. In that study, the distribution of food aid actually corresponded with a slight increase in agricultural production.[32]

The research on the impact of food aid on production and consumption patterns is scattered and frequently contradictory. Conclusive evidence demonstrating the effect of food aid on food markets regardless of time spans, geography, and type of program does not exist and may be impossible to obtain. Rather, while food aid undoubtedly affects production, supply, prices, and consumption, the outcomes depend on features specific to the individual situation.[33]

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[31] IFPRI, *Do Crowded Classrooms Crowd Out Learning, and Guatemala Community Daycare Program*
[32] Abdulai (2004).
[33] Barrett (2002).

Food Aid and Food Markets: The Southern Africa Drought of 2002

There are clear-cut cases where food aid has caused market distortions in recipient countries. One such situation occurred in southern Africa in 2002. That year, a large-scale food crisis emerged involving Malawi, Zambia, Zimbabwe, Lesotho, Swaziland and Mozambique. The crisis was precipitated by poor rainfall, which resulted in lower than normal maize production. Chronic poverty and poor decision-making by government authorities exacerbated the shortfall.

Responding to the acute food shortage, WFP launched an appeal to provide 1.2 million MT of food aid to 15 million people whose health and livelihoods were threatened.[34] Nine months after the launch of the appeal, relief agencies had delivered approximately 750,000 MT of the requested food aid.

Particularly in Malawi, these large-scale food aid donations combined with food imported through commercial channels and informal trade resulted in a surplus of grain on local markets.[35] In 2002, government-held stocks of grain sold for $250 per MT. In 2003, the price had fallen to $100 per MT. The loss to the Malawian government totaled $15 million, and the low prices were disastrous for farmers.

The evidence suggests that the emergency response contributed to downward price pressures. Though there was no systematic study of the net effect on individual growers, the low price for government grain would also have been reflected in the prices that individual growers received in commercial transactions. In the year following the drought, production of staple grains dropped markedly.[36]

Nonetheless, even given the negative effects on local markets, the decision to provide in-kind food aid may have been the most appropriate response to the drought and ensuing crop failure. With well-founded fears of widespread hunger and starvation, there was good reason for relief and development agencies to react to the expected shortfall in cereal availability by providing large amounts of food aid. Without the influx of food, there would undoubtedly have been higher levels of malnutrition, starvation and death.

It is possible to minimize the potentially negative effects of food aid on food markets, even if it is not possible to eliminate them. For example, the United States requires that market studies (known as Bellmon Analyses) be conducted before non-emergency food aid can be shipped. These studies are meant to ensure that food aid imports will not significantly depress prices or displace commercial imports in recipient countries.[37] Such

[34] U.S. Government Accountability Office (2003a) 5.
[35] Ibid.16.
[36] Mousseau (March 2004) 23.
[37] In emergency situations Bellmon Analysis are waived, since this aid is generally delivered to areas where markets are not effectively functioning. Moreover, most emergency food aid is delivered in kind and very little is monetized. This helps mitigate the potential impact food aid might have on local food markets. Where Bellmon Analyses are commonly used, there is some concern that they may not adequately capture all potential market effects, especially at the regional or local level.

market analyses can help ensure that food aid imports do not significantly alter the balance of food availability within a country, a region, or even a village.

A second powerful method of ensuring that food aid does not result in commercial displacement is targeting the aid to vulnerable groups. In theory, perfectly targeted food aid is wholly additional, meaning it does not displace the purchase and consumption of commercially available food. In practice, targeting is never perfect. Some error is inevitable – either providing food to people who should be excluded or not getting food to those who should receive it.

Another important consideration is that for individuals, every dollar of free food received is a dollar that could theoretically be spent on other needs. Since rising income typically outpaces increasing food consumption, a dollar saved through food aid results in less than an additional dollar spent on other food.[38] Thus, some commercial displacement is inevitable. However, since very poor populations tend to spend any additional income primarily on food, these impacts should be negligible. In many sub-Saharan African countries, for example, any costs associated with market displacement caused by well-targeted food aid could well be outweighed by the benefits of improved nutrition and health.

The emphasis on targeting should affect the way food aid donor countries structure their programs. Although monetization allows food aid to be used for a variety of purposes, the potential negative impacts of poorly-targeted food aid on markets and farmer welfare suggest that its use should be carefully planned and monitored. And while targeting is costly and time-consuming, it is necessary given the effects food aid can have on food purchasing patterns and agricultural prices. The shortcomings of targeting are practical ones that can be lessened.

Overall, the evidence on the interrelationship of food aid with markets and the further effect on production is not conclusive either way. The potential for negative impact does make food aid a tool to be used with caution and care. Targeting food aid is one way of mitigating the possible damage and ensuring that food aid is truly "additional" rather than simply taking the place of food from other sources. Additional measures which can increase the efficiency and timeliness of food aid, such as "un-tying" procurement and relying more heavily on local and triangular purchases, are discussed in Section VI.

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[38] Referred to as Engel's law. See Barrett and Maxwell (2005) 71.

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V. Food Aid and World Trade

While our emphasis thus far has been on how commercial displacements caused by food aid might harm farmers in food aid recipient countries, there is also concern that it can affect larger agricultural trade interests. In the past, food aid was not considered in trade negotiations or included in multilateral trade agreements. However, the ground on this issue is shifting. While the U.S. government has argued that the World Trade Organization is an inappropriate forum in which to debate or negotiate food aid policies, the EU was successful in putting the issue on the agenda of the December 2005 WTO ministerial meeting in Hong Kong and incorporating language on food aid into its final declaration. Most food aid recipient countries also seem amenable to including food aid in the current Doha Round of multilateral trade negotiations.

In the context of negotiating an end date for its export subsidies, the EU charged that in-kind food aid amounts to a type of export subsidy and should thus be subject to the same trade disciplines as other, more traditional export subsidies. While agreeing to end export subsidies by 2013, the EU insisted on promises that other forms of export subsidization, in-kind food aid included, would be similarly curbed. The United States, as the main contributor of in-kind food aid, resisted the EU proposals but ultimately accepted the principle of trade disciplines for non-emergency food aid. The final ministerial declaration states:

> On food aid, we reconfirm our commitment to maintain an adequate level and to take into account the interests of food aid recipient countries. To this end, a "safe box" for bona fide food aid will be provided to ensure that there is no unintended impediment to dealing with emergency situations. Beyond that, we will ensure elimination of commercial displacement. To this end, we will agree to effective disciplines on in-kind food aid, monetization and re-exports so that there can be no loophole for continuing export subsidization. The disciplines on export credits, export credit guarantees or insurance programmes, exporting state trading enterprises and food aid will be completed by 30 April 2006 as part of the modalities, including appropriate provision in favour of least-developed and net food-importing developing countries as provided for in paragraph 4 of the Marrakesh Decision.[39]

An appendix to the declaration points out, "There is not yet a common understanding of where emergency food aid ends and other food aid begins.... A fundamental sticking point is whether, except in exceptional, genuine emergency situations, Members should (albeit gradually) move towards untied, in-cash food aid only, as some Members propose but other Members strongly oppose." In short, Members are currently "clinging to fundamentally disparate conceptual premises." Thus, the operational details of this agreement are yet to be worked out and its overall effect on food aid has not been determined, but food aid will likely remain a contentious issue through the remainder of the Doha trade negotiations.

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[39] World Trade Organization (2005) para. 6.

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It is likely that creating a "safe box" for emergency food aid will require agreement on what constitutes an emergency and when emergency food aid is an appropriate response. Poorly defined terms of reference could lead to an unenforceable agreement and, worse, even slower responses to emergencies.

Secondly, the non-emergency categories of food aid – project and program – will need to be designed so as to avoid commercial displacement. Since some commercial displacement is likely whenever in-kind food aid is introduced into commercial markets, WTO disciplines on program and project food aid could lead to a substantial reduction in these forms of aid, especially that provided by the United States, and to pressures to phase out the monetization of food aid. The danger here, though, is that in-kind aid will not be replaced with equivalent cash assistance for local and regional food aid purchases.

Finally, the Hong Kong final declaration's reference to the Marrakesh decision recalls food aid debates during the previous round of trade negotiations. Under the agreement reached during this Uruguay Round, member countries acknowledged that some countries would face rising food import costs as a result of economic liberalization. Donor countries and organizations were encouraged to provide financial assistance, including additional food aid, to offset the cost of liberalization for the poorest countries and those most vulnerable to sharp fluctuations in world commodity prices -- low-income countries (LDCs) and net food-importing developing countries (NFIDCs). However, despite this agreement, no action was ever taken to increase financial assistance or food aid to countries experiencing increased food insecurity as a result of economic reforms.[40]

Invoking the Marrakesh decision to assure LDCs and NFIDCs that they will continue to receive adequate levels of development assistance for food security thus rings hollow. Full implementation should include operational measures and binding commitments to ensure that vulnerable countries receive assistance to help mitigate potential threats to food security.

[40] Murphy, S. (2005) 74.

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VI. Food Aid Program Efficiency

Local purchases and triangular transactions can help improve the effectiveness and efficiency of food aid and, when done well, can both encourage local agricultural production and promote the development of markets. Local purchases originate in the country of final destination, while triangular transactions use funds from one country to purchase food in a second country for distribution in a third. In some instances, triangular transactions occur among a donor country and two neighboring states; for example, the EU may purchase food from Nigeria to redistribute in Niger. In other instances, where food shortages are regional, donors or aid agencies undertaking triangular transactions must procure food outside the region. The emphasis is still on purchasing food in developing countries for use in other developing countries wherever possible, taking into consideration cost, quality and likely market impacts.

For several reasons, local or triangular transactions may be preferable to the delivery of in-kind food aid. These transactions serve as a commercial outlet and incentive for local food production. And by redistributing rather than adding to overall food supplies, local and regional transactions avoid some of the market distortions associated with the delivery of in-kind food aid from donor countries. These transactions can also speed up the delivery and disbursement of food aid.

Purchases made regionally or in the country of final destination are often demonstrably more efficient than aid tied to procurement in the donor country. One recent study of the cost differentials between various food aid deliveries from donor countries versus the hypothetical cost of importing the same food to the same final destination through an internationally competitive commercial transaction found that local purchases were more efficient on average.[41] Triangular transactions were also demonstrated to be more efficient, with costs very close to those of hypothetical commercial transactions.[42] These results apply to open international tenders – not to delivery of food from the United States, with its associated higher transport costs.

However, during periods of acute food shortages – especially region-wide food shortages -- the local or regional purchase of food is not always an appropriate response, as illustrated by the case of Niger in 2005. There, WFP noted that a timely response to the crisis was hampered by "extreme difficulties in procuring food in the region."[43]

Problems with local and triangular transactions may go beyond the issue of availability of food stocks in local or regional markets. Foods produced in the developing world may not be of the same quality or nutritional value, the result of a lack of capacity or market imperfections. Nevertheless, a growing number of donors have demonstrated that these purchases are viable on a fairly large scale. In 2004, local and triangular purchases accounted for approximately one-quarter of all food aid flows. The EU, Germany,

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[41] Clay, E., Riley, B, and Urey, I. (2004).
[42] Clay, E., Riley, B, and Urey, I., (2004) 43.
[43] World Food Program (2005b) para. 7.

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Norway and the United Kingdom sponsor the majority of such purchases,[44] many of them managed by WFP. Over the past several years, WFP has steadily increased the volume of food purchased through local and triangular transactions. In 2004, 69 percent of WFP food purchases, totaling $725 million, originated in low and middle income countries or countries in transition.[45]

This trend among the EU and a number of other food aid donor countries to procure locally or regionally is strongly counterbalanced by the United States. In 2004, less than 1 percent of U.S. food aid was procured through local or triangular transactions.[46] In fact, purchase of food not of U.S. origin is prohibited by U.S. food aid law (although there is waiver authority for emergencies), and a number of regulations regarding how and in what form food aid is delivered further constrain the flexibility of U.S. food aid programs. For example, regulations require that 75 percent of non-emergency food aid be processed (refined, milled, fortified or packaged) prior to shipment.[47]

The practical outcome of this regulation is that large companies which specialize in the processing and marketing of value-added agricultural products win most bids to supply food aid to the U.S. government. Moreover, this small group of processors is paid a premium price for their products. A study of the cost of government food aid transactions with similar commercial transactions (same amount of the same commodity from the same place at the same time) found that food aid purchases by the U.S. government cost 11 percent more than prevailing market prices.[48]

In addition, cargo preference requirements -- essentially a subsidy for the U.S. shipping industry -- require that 75 percent of all food aid be shipped on American-flagged ships, whose cost is usually 25-30 percent higher than shipping on foreign-flag vessels.[49] In 2000-2001, nearly 40 percent of the total U.S. food aid budget was spent on shipping costs.[50] Thus, although supporting U.S. farmers is one of the frequently-cited rationales for maintaining the requirement of U.S. origin for food aid, the major beneficiaries of the current system are not farmers. Food aid procurements are much less than one percent of the total U.S. farm sector production, too small a percentage to have any effect on prices or incomes in any but exceptional circumstances.[51]

In short, tying the purchase, processing and shipping of food aid to U.S. companies drives up the cost of U.S. food aid substantially. As a result, less than 50 cents of every dollar spent on food aid actually pays for the cost of the food.[52] In other words, the same dollar

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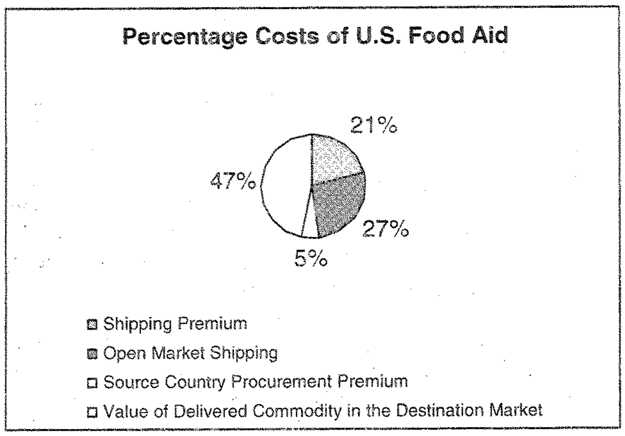
[44] World Food Program (2005aa).
[45] World Food Program (2004a).
[46] World Food Program (2005a).
[47] *Agricultural Trade Development and Assistance*, §1724(b)(1).
[48] Barrett and Maxwell (2005), 92.
[49] Over 90 percent of the ocean freight differential is subsequently rebated to the Food for Peace program by the Maritime Administration. However, the net cost to the U.S. taxpayer remains.
[50] Barrett and Maxwell (2005), 95.
[51] Barrett and Maxwell (2005), 36
[52] Barrett and Maxwell (2005), 166.

amount could fund roughly twice the current quantity of assistance if policies were improved.



[53]

(Barrett & Maxwell, p. 167)

For example, between 1999 and 2002, the United States provided more than 300,000 MT of food to Afghanistan, channeled through the WFP. A government review of the program noted that "as a result of the statutory requirement that U.S. agencies providing food assistance purchase U.S.-origin commodities and ship them on U.S.-flag vessels, assistance costs and delivery times were higher by $35 million and 120 days, respectively, than if the United States had provided WFP with cash or regionally produced commodities. Had the U.S. assistance been purchased regionally, an additional 685,000 people could have been fed for one year."[54]

Thus, in addition to the increased costs, these regulations can slow the response times for food aid shipments. This is an especially serious problem during emergencies, when delayed food aid shipments can literally be a matter of life and death. In the case of the Southern Africa drought, WFP noted that, "in-kind contributions take three to five months from the time donors confirm the contribution to the arrival of food aid at its final distribution sites… [W]hen contributions are made in cash and procurement is done within the region, the process can be reduced to one to three months."[55] The consequences of these delays would have been even worse if pre-positioned U.S. food stocks had not been available for quick deployment. Fortunately, pre-positioned stocks were available to meet some of the short-term needs while a comprehensive response was launched.

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53 Barrett and Maxwell (2005), 167
54 U.S. General Accounting Office (2003b), 1.
55 U.S. General Accounting Office (2003a) 23.

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People who are dependent on food aid may be forced to adopt highly risky behaviors to cope with food emergencies. For example, sudden dramatic declines in the availability of food in a refugee camp in Uganda meant that people had to use a series of negative coping strategies, including "movement in unsafe areas in search of food (risking beatings, rape and even death); the sale of valuable assets and incursion of debt; the depletion of seed stocks and consumption of seeds for cultivation; as well as activities with more socio-political implications, such as theft, prostitution and desertion."[56]

Emergency Food Aid: Improving the Capacity for Rapid Response

In 2004, 4.4 million MT of food aid were delivered for emergency use in the Middle East, Latin America, Eastern Europe and post-tsunami South Asia combined. Sub-Saharan Africa composed the single largest recipient pool for emergency food aid, receiving 2.8 million MT.[57] The largest group of recipients includes more than 9 million people trapped as refugees outside the borders of their country; another 5.4 million remain displaced in their homelands.[58]

Generally, food aid during emergencies depends on a tripartite relationship: donor countries receive requests for food aid through organizations such as the World Food Program (WFP); after procurement and shipping, WFP mostly relies on private voluntary organizations (PVOs) to distribute food to vulnerable populations.

While WFP begins each budget cycle with a request for funding based on expected programmatic needs, it also requests additional funding to meet unanticipated emergency needs. The response to WFP emergency appeals can sometimes be slow, leading to delayed delivery of food aid and serious consequences for nutrition and health.

After reviewing a number of programs where food aid pipelines had broken down, WFP found that the majority of problems resulted from "under-funding, delayed funding or constraints in procurement."[59] One aid agency worker, in a conversation with Bread for the World Institute, lamented how often general rations are only partially filled when various items in the food basket are not supplied. Sometimes the missing item is vegetable oil; at other times it may be a staple grain or source of protein.

Several initiatives exist to help speed the delivery of food aid. The United States, for example, has established a food aid pre-positioning center in the United Arab Emirates, which can be used for rapid responses to humanitarian emergencies. In addition, the U.N. Office for the Coordination of Humanitarian Affairs manages the Central Emergency Revolving Fund (CERF), an account available to U.N. agencies charged with responding

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56 Payne L., (August 1997).
57 World Food Programme (2005a).
58 U.S. Committee for Refugees and Immigrants (2005) 1.
59 World Food Programme (2004b) 14.

to humanitarian emergencies. Food aid is one of a number of critical inputs that can be funded through the CERF.

Another tool is the WFP Immediate Response Account, a cash fund that can be used to address food needs in crisis situations.[60] In 2004, the account was funded at $25 million.[61] The size of this fund is dependent on earmarked donor contributions, and it is clear that at this modest funding level, the account could be exhausted within the first days or weeks of a wide-scale emergency.

A more innovative approach would be to create an international famine fund under the control of WFP. Such a fund could be used to augment the Immediate Response Account and meet other shortfalls in WFP appeals. The benefits of this arrangement would be that WFP could use the fund where and when it was needed without having to rely as heavily on flash appeals, especially in the short term, while governments consider their ability to contribute food and cash. Like the Emerson Trust in the United States, the fund could be a combination of cash and commodities, with the commodities pre-positioned for rapid response.

Development efforts also suffer when food aid arrives at the wrong time. Proper timing is critical to ensuring that food aid meets nutritional needs without compromising markets. If food targeted to arrive during a country's pre-harvest "hungry season" arrives instead during or immediately following the harvest, it can end up in competition with other locally produced commodities. This has very real consequences for farmers, who may see the prices for their goods suffer in a flooded food market.

It is worth noting that the delayed arrival of food aid in emergency situations is not strictly a function of shipping times. Late appeals for assistance, or slow responses to appeals, are often responsible for delays. But regardless of the cause, timeliness in the delivery of food aid is of paramount concern and underscores the need for a greater global reserve, both in cash and commodities, and for increased flexibility in sourcing food to meet emergency needs.

Efficiency and effectiveness are clearly interrelated. Tying food aid to domestic procurement in donor countries drives up costs and can delay delivery. The net result is that too often, the supply of food aid does not appropriately match the needs. The health or even the life of people who rely on food aid to meet their nutritional needs may be threatened. Relief agencies need flexibility to ensure that food aid expenditures result in the maximum possible benefit in terms of lives and resources saved. Ultimately, food aid initiatives must be designed to serve the nutritional needs of vulnerable populations. Hungry and poor people forced to rely on food aid deserve an efficient, effective program.

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[60] United Nations Millennium Taskforce (2005) 149.
[61] World Food Programme (2004c) 139.

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VII. Improving Food Aid to Effectively Fight Hunger

Food aid is a critical form of foreign assistance, particularly in times of emergency. For those living in situations of extreme distress due to natural or man-made disasters, food aid is essential to survival. For others suffering from chronic poverty, poor nutrition and health problems, effective food aid programs can be a development resource that enables them to build a better life.

U.S. food aid is currently used for a variety of purposes in addition to feeding hungry people -- including for balance of payment support and as a second-best alternative to cash assistance. The various objectives may conflict, undercutting the effective delivery of food or development resources to people in need. To maximize its impact, food aid should be focused specifically on meeting critical hunger, nutrition and food security objectives.

The problems with food aid that we've discussed are not insurmountable. The challenge is to make food aid more effective and more capable of meeting the pressing problems of global hunger, malnutrition and food insecurity. According to a recent poll, 81 percent of voters want Congress to increase funding for programs that would help people in Africa and other poor regions reduce hunger, poverty and disease.[62] Respondents also want assistance programs to be more effective and to promote self-reliance, notably by helping farmers in developing countries become more productive. Partly in response to voter attitudes, President Bush and Congress have doubled U.S. poverty-focused development assistance since 2001. They have also demonstrated political commitment to reforming aid delivery -- for example, by establishing and funding the Millennium Challenge Account.

The time seems right for changes that would increase food aid efficiency (more assistance per taxpayer dollar) and effectiveness (sustained, long-term improvements in food security in developing countries, especially those in sub-Saharan Africa). Such changes may well garner administration and congressional support if persuasively presented. Bread for the World's recommendations for improving U.S. food aid policies are:

> ***Increase funding for food aid as part of a larger expansion of nutrition assistance in developing countries.*** Nutrition programs not only meet the most basic needs, but are also a high-return complement to other investments, particularly in health and education. High priority should be given to nutrition assistance for pregnant women and small children and for people living with HIV/AIDS. School feeding programs should also be expanded. The McGovern-Dole vision of a school meal for every schoolchild in the world makes sense. Much, if not most, of the food for such programs can be locally procured, providing additional customers for farmers in the community.

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[62] Alliance to End Hunger poll results, p. 2

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Address acute food shortages by ensuring that adequate response mechanisms exist, including an international famine relief fund. Repeatedly, the world ends up waiting for gruesome famine pictures to be broadcast on TV before an effective response is mobilized. The time needed for appeals, pledges, procurement and shipping slow the international response to crises. The U.N. Secretary General and the World Food Program, in collaboration with national governments, should have more pre-authorized food and funding available to enable timely response to situations of extreme need. Bread for the World supports an international famine relief fund to facilitate response to crises which unfold more slowly.

Within the U.S. government, the Bill Emerson Humanitarian Trust could be expanded and/or granted additional authority to enable it to respond quickly to emergencies. There is certainly a need for the Emerson Trust, but it often does not have sufficient funds available because there is no requirement that its resources be replenished.

Provide additional cash resources to complement the use of food aid in relief and development activities. Selling in-kind food aid to finance development projects or administrative costs ("monetization") sometimes makes sense, and food aid agencies are careful and sophisticated in selling their food in ways that minimize adverse effects on local farmers. But selling food aid to finance development projects or program administration is a second-best strategy that PVOs use in the absence of sufficient grant funds to carry out important work. In almost all cases, cash grants would be more efficient and effective. At a minimum, Congress should provide funding for a pilot program that will give policymakers more information about the market impact, effectiveness and efficiency of cash assistance versus in-kind food aid.

When food aid is used in development activities, careful targeting and timing are needed to ensure that commercial markets are not disrupted and local production discouraged.

Untie U.S. food aid programs so that they are not strictly dependent on the provision of commodities from the United States. U.S. agriculture is marvelously productive and U.S. food has helped many hungry people. But it would often be more helpful and efficient to enable hungry people to buy food in local and regional markets, rather than shipping food from the United States to faraway places. About half of every food aid dollar now goes to pay for shipping – an unacceptably high figure since all available funding is needed to reduce hunger. Although U.S. shipping and agribusiness interests bolster political support for the current program, the first priority should always be to deliver the maximum possible food to the world's hungry people.

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The political commitment to ending world hunger and poverty is stronger than it was five or ten years ago. The stage is set for both the expansion *and* the reform of U.S. food aid. Voters support increased assistance, but they also expect that increased political commitment and funding to reduce global hunger and poverty will be matched by increased efficiency and effectiveness.

Written and compiled by Bread for the World Institute analysts
Eric Munoz and Charles Uphaus
Send comments to: institute@bread.org

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APPENDIX A
United States Food Aid Programs

U.S. Department of Agriculture

P.L. 480, Title I – Trade and Development Assistance
Provides for government-to-government sales of U.S. agricultural commodities to developing countries on credit terms or for local currencies.

Section 416(b)
Provides for overseas donations of surplus commodities acquired by the Commodity Credit Corporation. Donations under this program can be provided to governments, multilateral institutions, or private voluntary organizations for monetization or use in development activities.

Food for Progress
Provides for the donation or credit sale of U.S. commodities to developing countries and emerging democracies to support democracy and expansion of private enterprise.

The McGovern-Dole International Food for Education and Child Nutrition Program (FFE)
Commodities produced in the United States are used in programs designed to improve the nutritional status and learning potential of children.

Bill Emerson Humanitarian Trust
A reserve fund of commodities used to meet the emergency food needs of developing countries.

U.S. Agency for International Development

Public Law 480, Title II, Emergency and Private Assistance
Provides funds for USAID to respond to emergency and non-emergency food needs in developing countries. Non-emergency assistance may only be provided through private voluntary organizations, cooperatives and intergovernmental organizations.

P.L. 480, Title III – Food for Development
Provides for government-to-government grants to support long-term growth in the least developed countries.

Goldthwait Consulting and Management
3522 Porter St. NW
Washington, DC 20016

March 27, 2007

The Honorable Tom Harkin
Chairman
Committee on Agriculture, Nutrition and Forestry
SR-328A Russell Senate Office Building
Washington, DC 20510-6000

Dear Mr. Chairman:

It has come to my attention that your committee may have received somewhat one-sided testimony during its March 21, 2007, hearing, critical of the practice of food aid monetization (practiced under PL 480 Title II, and Food for Progress). I understand that the record remains open for submissions through today, and respectfully request that this letter offering my views be included.

Monetization is perhaps the most controversial of food aid practices. Critics believe it should be eliminated and replaced with additional cash appropriations for developmental assistance, and that emergency needs should be covered with local purchase for cash. I submit that the verdict remains out on whether monetization has the harmful effects some claim. More important, I am highly skeptical that, were food aid for monetization and development to be eliminated, the appropriators would in fact make up for it with dollars.

The arguments pro and con regarding monetization are familiar. Critics claim that local purchase is less expensive; proponents of monetization reply that this is not always the case since commodity prices in the United States are often lower. For emergencies, it is argued that local purchase promotes markets for local farmers. But there are real questions about how much additional demand local markets can bear before rising prices begin to work hardship on consumers. Monetization is also accused of being trade-distorting. But where done with care, the quantities monetized are usually a very small percentage of commercial imports and cause no decline in commercial imports. The fact is that we just do not have enough analysis to make reasoned judgments about these questions. Ending monetization for development, which I have observed to work well and support excellent agricultural development projects, would be premature based on imperfect information.

An equally serious question is whether, absent the additional benefits to U.S. agriculture, the appropriators would in fact replace appropriations for food aid with offsetting appropriations for development assistance abroad. There are many reasons to doubt this. First, when the European Union moved from commodity based food aid to cash, funding fell by at least 40 percent. Further, while food aid has wide public support among voters, foreign aid does not.

Certainly there is room for improvement in our food aid programs, including monetization programs. A pilot program of cash for local purchase in emergencies, so that we can gain experience and better evaluate the concept, would be an excellent idea. Many of the inefficiencies – and risks to local markets posed by monetization – could be avoided in USAID and USDA had sufficient staff to administer the programs without occasional lengthy delays in programming. For PL 480 Title II, setting a minimum level of food aid for development, and including an agricultural development component in all approved activities, would make that program better able to address food insecurity in developing countries.

In closing, I urge that in the upcoming Farm Bill discussion we look for ways to improve our food aid programs including monetization. But not that we discard a tested mechanism based on incomplete analysis and absent assurances that its resources will be replaced with dollar appropriations.

Sincerely,

Christopher E. Goldthwait

Christopher E. Goldthwait
USDA General Sales Manager, 1991-99
US Ambassador to the Republic of Chad, 1999-2004

Statement of the National Corn Growers Association
Senate Committee on Agriculture, Nutrition and Forestry
Russell 328A
Washington, DC
Examining the Performance of U.S. Trade and Food Aid Programs for the 2007 Farm Bill
March 21, 2007

The National Corn Growers Association (NCGA) is a national organization founded in 1957 and represents more than 32,000 members in 48 states, 47 affiliated state organizations and more than 300,000 corn farmers who contribute to state checkoff programs for the purpose of creating new opportunities and markets for corn growers.

The Market Access Program (MAP) and Foreign Market Development Cooperator Program (FMD), both administered by the United States Department of Agriculture's (USDA) Foreign Agricultural Service (FAS), help promote U.S. agricultural products – including corn and corn co-products – in key overseas markets. The U.S. Grains Council represents corn, barley and grain sorghum producers in these markets using funds from these two important market development programs and our growers. Both MAP and FMD expire at the end of 2007, as mandated in the 2002 Farm Bill. These programs use funds from the Commodity Credit Corporation (CCC) to create, expand, and maintain long-term export markets for U.S. agricultural products.

NCGA estimates that U.S. corn distillers dried grains (DDGS) production will reach over 30 million tons by Marketing Year 2010/2011. The U.S. Grains Council is working to ensure the U.S. grain industry can reap maximum benefits from these investments. More markets are discovering DDGS as a result of the U.S. Grains Council's efforts to promote this ethanol co-product worldwide. The results of these efforts are illustrated by the first DDGS shipment of 6,402 metric tons to Egypt, which arrived on April 12, 2006. On the other side of the world, we have seen significant increases in DDGS exports to Southeast Asia. Indonesia, Malaysia, Philippines, Thailand and Vietnam imported a total of 79,640 metric tons between October 2005 and March 2006, an increase of 222 percent compared to the same period the year prior.

DDGS demand has also markedly increased in recent years in Mexico. Between 2002 and 2005, U.S. exports of DDGS to Mexico increased 269 percent to 104,294 tons. U.S. Grains Council has encouraged the use of DDGS in Mexico by conducting feeding trials and educating nutritionists and feed buyers on including it in feed formulations to maximize economic and nutritional value. The results of the Council's 2005 feeding trials conducted in Veracruz, Mexico, are used to promote this ethanol co-product by U.S. Grains Council Mexico staff when they attend national and regional trade shows.

U.S. Grains Council also participates in other important on-the-ground activities. For instance, future sales of some 250,000 metric tons of U.S. corn and co-products were contracted following the Third Southeast Asia – U.S. Agricultural Cooperators Conference, sponsored in part by the U.S. Grains Council. Conference attendees represented a cross section of livestock producers, feed millers and importers. After the seminar, participants noted that both the topics covered during the conference and the opportunity to network with others in the industry – especially U.S. exporters – are what keeps them coming back year after year. "This is the only conference of its kind that bring industry together in a non-competitive environment, allowing them to interact, negotiate, and hopefully go home with some new information or insight provided by the international panel of speakers that we invite every year," said Kimberly Rameker, regional director for Southeast Asia. "That's really the draw for the buyers in Southeast Asia and what keeps them coming back, on their own dime, year after year."

The U.S. Grains Council continues to work diligently to fulfill their mission of developing markets for U.S. grains and co-products. NCGA supports reauthorization of both the MAP and Foreign Market Development (FMD) programs in the upcoming farm bill.

Finally, on a different note, USDA's farm bill proposal includes a request to authorize the provision of technical assistance meant to help agricultural industries resolve trade disputes. While it is true that limited resource agriculture industries may face difficulty when pursuing unfair trade barriers, as Foreign Agricultural Service Administrator Michael Yost has acknowledged, "U.S. agricultural sectors have themselves been challenged in either the WTO or by other countries' trade laws." Our government is charged with defending its constituents and as such, USDA works closely with USTR when agricultural industries have been challenged. However, these challenges have been brought without regard to size and most assuredly are or will be an additional burden to all affected industries.

NCGA supports an overarching concept of discretionary authority for the Secretary of Agriculture that could provide enhanced support and assistance to any agricultural industry facing a trade dispute. However, at present, the Administration seems to intend that size of industry alone be the trigger that allows the question to be asked whether there is benefit to U.S. agriculture in devoting any further assistance towards the particular trade dispute at hand. The trigger instead should be whether or not there is benefit to be gained for U.S. agriculture from the additional assistance.

QUESTIONS AND ANSWERS

MARCH 21, 2007

Questions for Director William Hammink submitted by Senator Tom Harkin, Chairman March 21st Hearing on "Examining the Performance of U.S. Trade and Food Aid Programs for the 2007 Farm Bill"

1. If the farm bill were to contain provisions authorizing use of local cash purchase, either as a pilot program or up to 25 percent of Title II funding as has been proposed by the administration, how would be possible to make sure that the commodities purchased would be actually produced in the recipient or neighboring countries, rather than commodities originally produced by competitors such as the EU or Australia or Thailand but resold in recipient country markets?

2. If the goal of utilizing prepositioned commodities is to reduce the turn-around time for providing food aid in emergencies, why was the Lake Charles facility chosen for storage of these commodities by your Agency if it is not easily accessible to ocean-going transport?

3. I understand that the GAO analysts assigned to the food aid study that Senator Chambliss and I requested visited a warehouse in Dubai where some of our prepositioned food aid commodities are stored by the U.S. Agency for International Development. At that warehouse, they found evidence of spoiled and wasted food. What steps will be taken to improve the management of those commodities so that U.S. food bought for donations reaches its recipients in good condition?

Questions for Mr. Joel Nelsen submitted by Senator Tom Harkin, Chairman
March 21st Hearing on "Examining the Performance of U.S. Trade and Food Aid Programs for the 2007 Farm Bill"

In your testimony, you propose the "re-transfer" of agriculture specialists who work at our nation's borders and ports-of-entry from the Department of Homeland Security back to the Department of Agriculture. The problems cited in audits performed by the Government Accountability Office (GAO) and the Inspectors General (IG) at USDA and DHS on the adequacy of our nation's agriculture inspections directly affect the plant and animal disease prevention efforts of U.S. agriculture.

1. Are there specific instances you can cite – other than the issues highlighted by the GAO and IG reports - where current agriculture inspections at ports of entry do not meet the needs of the specialty crop industry, such as products not being properly inspected, or delays occurring with shipments of agricultural products?

2. How would these situations have been handled differently before the transfer of inspectors from USDA to DHS?

3. How does the specialty crops industry believe the transfer of agriculture specialists from DHS to USDA will improve inspections of agricultural products at ports of entry?

It has been about five years since the transfer of agriculture inspectors to DHS. Since the first year, USDA and DHS note that improvements have been made, and both agencies believe that coordination and performance will continue to improve with time.

4. Would you agree that there have been substantial improvements since the transfer of agriculture inspectors to DHS?

5. If the current structure were kept in place, what steps need to taken to achieve the standard of inspections that the specialty crops industry would like to see?

6. A transfer of inspectors back to USDA's oversight could mean another lengthy transition, where inspections suffer for another few years. Do you have any suggestions on how to mitigate such a possibility?

Questions for Administrator Michael Yost submitted by Senator Tom Harkin, Chairman March 21st Hearing on "Examining the Performance of U.S. Trade and Food Aid Programs for the 2007 Farm Bill"

1. Commercial export programs

a. With respect to the proposal to provide technical assistance to `limited resource' agricultural industries to pursue cases to combat unfair trade practices, how would limited resources be defined for the purposes of this program?

b. The Inspector General's report released in February 2007 raised concerns about the lack of systematic evaluation of the effectiveness of trade promotion funding in individual markets. What steps will you take to remedy the lack of evaluations?

2. Food aid programs

a. While the President's fiscal 2007 and fiscal 2008 budgets recommended zeroing out funding for the Title I concessional credit program, which Congress went along with, the USDA farm bill proposal did not recommend repealing Title I program authority. Specifically, what is the Administration's proposal for the farm bill on Title I?

b. Although the Emerson Humanitarian Trust is authorized to hold up to 4 million tons of commodities for use in food emergencies, its current level is about 900,000 tons, with about $100 million held in cash. This amount is inadequate to address a large-scale, unanticipated disaster, which is why in recent years development assistance programming has been scaled back to free up Title II funds to address emergencies situations.

Will the Administration be submitting a proposal on how we can regularly replenish the Emerson Trust, and if not, why not?

c. The bulk of commodities held by the Trust are located in storage facilities in the Pacific Northwest. In responding to emergencies in Africa, how much does it add to response time, if commodities are in the Pacific Northwest rather than storage facilities accessible to East Coast or Gulf ports?

3. Trade/SPS issues

USDA's Animal and Plant Health Inspection Service is responsible for setting the agenda and policies for agriculture specialists who work at U.S. Customs and Border Protection (CBP), the patrol system that protects U.S. borders and ports of entry.

a. Does the Foreign Agricultural Service provide policy input to the Animal and Plant Health Inspection Service for CBP's agriculture specialists?

As you may know, some sectors of agriculture would like to see a "re-transfer" of agriculture specialists who work at our nation's borders and ports-of-entry from the Department of Homeland Security back to the Department of Agriculture. The problems cited in audits performed by the Government Accountability Office (GAO) and the Inspectors General (IG) at USDA and DHS on the adequacy of our nation's agriculture inspections directly affect the plant and animal disease prevention efforts of U.S. agriculture.

b. What are the Administration's views on this proposal?

Written Response to Questions

On page 99 of the testimony, Senator Lincoln asked: "Dr. Kauck, much of the real decline in food aid funding worldwide since 1980, and I think it was you that mentioned that, has been due to less being provided by the United States. I guess how much, if you were to compare, how much is due really to less being provided by us and how much of that decline is attributable to other donor countries? Are our neighbors in the global community keeping up with us?

CARE's response: During our oral testimony, I remarked that "controlling for inflation, food aid budgets have declined by nearly half since 1980." This remark refers only to US food assistance programs. CARE has not compared levels of food assistance across donor countries. If the committee is interested in conducting a comparative analysis, it could get data from WFP on donor-specific volumes or values.

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