

U.S. WHEAT LETTER



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October 26, 2005

EU attempts to force cut of U.S. food aid

The Doha round of negotiations in the World Trade Organization stand at a crucial juncture, with the Hong Kong ministerial coming up in December and agricultural issues taking center stage. An issue of major concern to the U.S. wheat industry is food aid, which is under attack by the EU.

In a desperate effort to preserve their ability to respond to global hunger and malnutrition, a coalition of humanitarian organizations is vigorously opposing the EU position.

“Many countries are currently pointing to the EU as the problem in the Doha agriculture trade talks,” explained the Coalition for Food Aid executive director Ellen Levinson in a letter to congressional leaders. “So, as feared, rather than capitulate, the EU will go after programs that are important to the U.S., and food aid is one.”

According to speaking notes posted on the European Commission web site, EU agriculture commissioner Mariann Fischer Boel has stipulated that the EU would only phase out their export subsidies “to the extent of a parallel elimination of the trade distorting effects of export credits (US), State Trading Enterprises ‘STEs’ (Canada, Australia and New Zealand) and of disguised food aid (US).”

In urging the U.S. to hold firm in its support of food aid, Levinson pointed out several practical — and immensely negative — implications of the “cash only” and “emergency only” food aid proposals that have been put forward by the EU. The most eye-opening argument is the EU record.

“Since the EU changed its food aid program to allow more ‘cash’ food aid (e.g. purchases of food in or near the recipient country), the amount of food aid provided by the EU dropped by 40 percent,” Ms. Levinson wrote.

The EU has claimed that they want to impose limitations so they can be sure that the U.S. would not use food aid to displace commercial sales of other countries. There is no argument about the goal, since no one -- including the U.S. wheat industry -- wants to displace commercial trade, but recipient countries have asked for a reasonable approach which would ensure that food aid is based on the needs of a recipient country.

In agricultural negotiating sessions since April, recipient countries have opposed the EU position.

“However, recipient countries and poor countries are not at the table at the current stage of the negotiations, and some are not even members of the WTO,” Ms. Levinson pointed out.

Earlier this year, Mongolia proposed substantive food aid language that would answer concerns about commercial displacement while still allowing “an adequate and predictable amount of food aid.” (See final page for a reprint of the Mongolian proposal.)



Photo courtesy of the World Food Programme

U.S. wheat has been a crucial component of food aid programs since the 1950s. Almost half a million tons have been donated to the Afghans since the war.

From World Vision: Trade negotiators could starve the hungry

The following reprint is a letter written to U.S. Trade Representative Robert Portman, from World Vision president Richard Stearns.

October 17, 2005

The Honorable Robert J. Portman
United States Trade Representative
600 17th Street, NW
Washington, DC 20508



Re: Trade Negotiators Could Starve the Hungry

Dear Ambassador Portman,

As one of the world's largest privately funded relief organizations working in nearly 100 countries for over half a century, we well understand hunger. We believe eliminating in-kind food aid, as suggested by recent proposals at the WTO, could jeopardize the lives of 850 million of the world's hungry, who live in chronically food insecure or food deficit countries where food aid is the only option.

These well-meaning but misguided proposals, presented at the Special Session on Agriculture at the Doha Development Round, would either eliminate these vital food aid programs altogether, limit food aid to only certain emergency cases, or create unnecessary hurdles to implementing desperately needed relief programs. Obviously, these proposals would sharply threaten the worldwide availability of food assistance.

I urge you to be cautious of the assumptions of those who dismiss outright the efficacy of in-kind food aid and argue cash aid is always better merely on the basis of efficiency.

Indeed, our vast experience and pragmatism teaches us that a variety of options for food aid and a tailored program can best meet the specific context and needs of recipients. Program options must include both in-kind commodities for targeted distribution as well as cash for local purchase and program support.

Consider the many benefits of a prudently administered food aid program. Food aid serves a wider role than providing relief during emergencies, helps lessen chronic food insecurity resulting from poor economies and structural injustices compounded by corruption, meets the nutritional requirements of those affected by HIV/AIDS, and saves millions of people who are barely meeting their daily food needs.

Therefore we urge the Administration to:

- Support the July 5, 2005 proposal submitted by Mongolia, with the support of many developing countries, which would ensure access to adequate amounts of food aid for both chronic and emergency needs and support the use of various forms of appropriate food aid instruments such as local purchase, in-kind commodities, cash, and monetization.
- Keep the lives of millions of hungry people at the center of the discussion. Do not allow in-kind food aid to be treated as a bargaining chip.
- Continue to fight for eliminating the causes of poverty that create the demand for food aid, such as unfair trade rules.
- Reject proposals that would limit the ability of a donor country to enter into an agreement directly with a humanitarian organization to provide food assistance.
- Preserve access to these resources and allow flexibility to develop programs that meet local needs based on context.

This approach will make great strides in addressing the structural injustices that continue to work against the world's poor. Thank you for your attention to this most urgent matter.

Sincerely,

Richard Stearns
President

Food for Peace director leaves USAID

Lauren Landis will be “moving on” from the U.S. Agency for International Development’s food aid office, effective October 31. Ms. Landis achieved a great deal in her three and a half years at the agency, where she strove to ease famines in Ethiopia, Southern Africa and Darfur, facilitated U.S. food aid to Iraq following the war, and increased the timeliness of U.S. food aid efforts.

“The challenges for the Office of Food for Peace will continue as budgets continue to tighten, WTO negotiations on food aid intensify, and discussions on the new Farm Bill begin,” Ms. Landis wrote in an email to USW and others. “However, as committed as I am to the work and the mission of the office, it is time for me to move on to new opportunities and to spend more time with my daughter and husband.”

Ms. Landis is leaving as USAID faces funding problems affecting their ability to deliver promised services. The fiscal year 2006 appropriations being considered by Congress are below what is needed, and new Title II programs are being canceled due to lack of funding. These programs include some in Africa’s most vulnerable countries, such as Malawi and Niger.

U.S. Wheat Associates offers our appreciation for Ms. Landis’ dedication to helping the world’s hungry, and for her efforts to improve the reliability of USAID’s food aid programs.

Ukraine winter wheat production could fall by more than 50% in 2006/07

by Joe Sowers, USW market analyst

Fall planting of winter wheat has concluded in the Ukraine with acres planted reduced by 26 percent from last year according to initial estimates by the Ukraine Ministry of Agriculture. A severe drought, along with low wheat prices and high input costs have swept through the Ukraine, causing a 4 million acre (1.6 million hectare) decline in winter wheat area.

In addition to the lower acreage, lower than normal yields are anticipated as a result of the persistent dryness and other unfavorable conditions, such as sub-optimal timing for seeding increasing the risk of winterkill. Ukraine’s deputy minister of agriculture was reported by Reuters this week as saying he expects the winter wheat harvest to be between 7 to 9 million metric tons (MMT) in 2006/07, down from 18 MMT this year. Local commodity analysts have pegged total 2006/07 wheat production between 11 to 11.5 MMT, down from 20 MMT this year. A significant increase in spring wheat plantings, which accounted for less than 8 percent of total wheat production this year, would be necessary to achieve that level of production.

Contradicting statements made earlier this year, Ukraine’s government said this week it will consider limiting grain exports in the second half of the 2005/06 marketing year because of the expected production decline in 2006/07. In fact, at least one oblast government has issued a verbal moratorium on wheat exports. Blocking exports would put negative pressure on prices, reducing producer incentives to plant spring wheat, thereby further reducing next year’s production.

According to agriculture officials, 50 percent of the Ukraine harvest is typically milling quality wheat. With domestic food use exceeding 10 MMT and an expected harvest of milling quality wheat under 6 MMT, many analysts expect some milling wheat imports by Ukraine in 2006/07. USDA currently pegs exports from the Ukraine at 6 MMT in 2005/06. During recent years with similar production problems, 2000/01 and 2003/04, Ukraine did not export wheat.

U.S. wheat crop conditions poor in some areas

The condition of the U.S. winter wheat crop, as of the week ending October 23, is generally not as good as it was at this stage last year. conditions were rated 9 percent excellent and 48 percent good, compared to last year’s 20 percent excellent and 56 percent good. The 3 percent very poor and 7 percent poor rating is worse than 2004, when the crop was only 2 percent poor.

The weekly Weather and Crop Bulletin, which includes crop progress and condition surveys assembled by the USDA National Agricultural Statistics Service (NASS), reports some problems in Arkansas’ soft red winter wheat areas, in Oregon’s white wheat crop, and in the hard red winter wheat area in Texas.

Wheat emergence and growth has been slowed in Arkansas because of dryness, so that 29 percent of the crop is rated either very poor or poor. In Oregon, 25 percent of the winter wheat crop is rated poor, and 28 percent of the Texas crop is rated very poor or poor. Despite the rain delivered to Texas by Hurricane Rita, the crop still needs additional moisture.

All NASS reports are available by email subscription, free of charge, at http://usda.mannlib.cornell.edu/ess_emailinfo.html.

USW demonstrates superior baking functionality of American wheat

The three countries commonly referred to as the East African Community — Kenya, Tanzania and Uganda — are experiencing a growth in milling, and the U.S. wheat industry is paying attention. Several U.S. Wheat Associates staff and consultants recently demonstrated the value of U.S. wheat to nearly a hundred millers and bakers in Uganda and Tanzania.

“When East African markets privatized in the mid-1990s, flour mills sprouted like wild flowers,” explains USW regional vice president Dick Prior. “Their wheat import demand increased from 400,000 metric tons to nearly a million metric tons.”

U.S. wheat initially had the largest market share, but cheaper alternative sources took over as milling became increasingly competitive. Russian wheat is being used a lot these day.

To demonstrate how U.S. wheat provides value, which can be more important to profitability than cheap supplies, USW compared the baking functionality of four classes of U.S. wheat (hard red spring, hard red winter, hard white and soft white wheat), Russian wheat, and some of the local flour used in each market. The sessions combined discussion of formulations and product chemistry with demonstrations of dough mixing, molding, proofing. The participants evaluated the final products. Photos show that not only did the U.S. hard wheats outperform the Russian wheat, but even the U.S. soft white wheat — not normally sold for leavened bread making — did better than the Russian wheat.



“A better loaf of bread, with more volume, means better profits for the baker and, therefore, for the miller,” Mr. Prior says. “Superior quality and performance can often offset price differences found in these very competitive markets.”

“Thanks to help given by the local industry, we successfully demonstrated the superior value of American wheat.”

These demonstrations can very difficult to organize in less mature markets. Uganda does not yet have a flour mill or bakery equipped with the smaller mixers and ovens that are used in classroom situations, but USW/Cairo found an equipment supplier who was very helpful. In Tanzania, the largest miller had an excellent lab with small baking equipment, and they not only made the lab and a lecture room available, but also allowed the other millers to attend.

Freight rates decline

USDA’s Agricultural Marketing Service reported last week that average ocean freight rates for major grain routes declined during the 3rd quarter 2005. According to their weekly Grain Transportation Report, the U.S. Gulf to Japan rates declined 30 percent and the Pacific Northwest (PNW) to Japan rates declined 22 percent. The U.S. Gulf to Rotterdam rates declined 35 percent. These rates compare to 2nd quarter declines of 9, 19 and 11 percent, respectively.

The Grain Transportation Report, a weekly publication, is available at <http://www.ams.usda.gov/tmdtsb/grain/>. The report covers developments affecting the transport of grain, both in the domestic and international marketplace. Information includes the latest volume and price data for barges, railroads, trucks, and ocean vessels involved in the transport of grain.

Thanks to Liliana Bachelder, FAS marketing specialist

The USDA Foreign Agricultural Service senior marketing specialist responsible for supervising and guiding U.S. Wheat Associate’s work for the past six years is leaving the position, much to the regret of USW. Starting October 31, Liliana Bachelder will be detailed to Export Credits, program development for Asia. USW thanked Ms. Bachelder for her support.

“Throughout six years of exemplary work with us, Liliana always represented USDA — and the American taxpayer — with the highest levels of professionalism, sincerity and compassion,” said USW president Alan Tracy. “On behalf of USW staff around the world who have great respect for her insights, we are genuinely sorry to see her leave this position.”

5 July 2005 Mongolia draft text (from front page story)

DRAFT REPLACEMENT FOR ARTICLE 10.4 OF THE AGREEMENT ON AGRICULTURE: FOOD AID

1. Members recognize the role of international food aid (hereinafter, “food aid”) as a critical resource in alleviating hunger and contributing toward food security. Members also recognize that the commitments made in the Food Aid Convention play an important role in assuring an adequate and predictable amount of food aid is available to developing countries and people in need. The following provisions are therefore not intended to limit the role of food aid for such humanitarian and development purposes, but to ensure that such aid is not used as a disguised means to circumvent export subsidy commitments and does not have the effect of disrupting the domestic markets of recipient Members or commercial exports of other Members. The provision of food aid should therefore be driven by the needs of the recipient country and the commodity or commodities provided should not be linked to export market development efforts of donor countries.
2. The provision of food aid shall be based on a needs assessment carried out by one or more competent authorities, such as international or intergovernmental organizations, humanitarian or developmental nongovernmental organizations, or appropriate donor or recipient country ministries.
3. The provision of food aid shall not be tied directly or indirectly to a separate agreement or arrangement for commercial exports of agricultural products or other goods and services to recipient countries.
4. Member donors of food aid, whether provided in-kind or in the form of financial grants to be used to purchase food for or by the recipient country, shall ensure that:
 - a. In the case of food aid to address emergency or critical food needs (hereafter, “emergencies”) arising from natural disasters, crop failures, warfare, or other humanitarian crises, such aid may be provided to mitigate the potential impact of such emergencies, to respond during such emergencies, and in the aftermath of such emergencies and shall be based on appeals or assessments by specialized United Nations food aid agencies, other relevant regional or international intergovernmental agencies, non-governmental humanitarian organizations, private charitable bodies, or appropriate donor or recipient country ministries; and
 - b. In the case of food aid for chronic needs and development purposes, such aid shall be based on a needs assessments conducted by specialized United Nations food aid agencies, other relevant regional or international intergovernmental agencies, non-governmental humanitarian organizations and private charitable bodies, or appropriate donor or recipient country ministries and shall be used in programs or projects conducted by recipient country ministries, United Nations agencies, non-governmental humanitarian organizations or international charitable bodies; provided that the needs assessment and the commodity types and quantities are notified to the FAO Consultative Committee on Food Aid Transactions.
5. The FAO shall establish a “Consultative Committee on Food Aid Transactions” as the successor to the “Consultative Subcommittee on Surplus Disposal.” It shall be is comprised of both donor and recipient countries and shall permit observation and input by non-governmental organizations. Such Committee shall *over the implementation period to be agreed*:
 - a. develop a new set of principles for food aid transactions as a successor to the “Principles of Surplus Disposal and Consultative Obligations,” taking into account the supply and demand situation of the recipient country and other economic factors in order to develop principles to provide for the needs of recipient countries while preventing commercial displacement; and
 - b. develop notification requirements for needs assessments and planned food aid transactions.
6. Members shall ensure that, subject to the provision paragraphs 1-5 and 7, their food aid transactions are carried out in accordance with the procedures under the FAO Consultative Committee on Food Aid Transactions. *[How a Member may raise a matter relating to donor compliance shall be determined.]*
7. Members that are recipients of food aid undertake not to re-export such food aid, except where it is an integral part of a food aid transaction initiated by a specialized United Nations agency or nongovernmental humanitarian organization.
8. *[Issue of fully grant form – to be developed]*
9. Members undertake to eliminate food aid transaction practices not in conformity with the provisions under paragraphs 1-8 above by *date to be determined* and thereafter, not to maintain, resort to, or revert to such practices.