



## Rent-Seeking Behavior in US International Food Aid Programs

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This study outlines the evolution and history of US food aid programs including the Food for Peace program and provisions in recent farm bills. Early in their existence, these programs provided rents to interest groups through cargo preference requirements and purchasing requirements for in-kind aid. These requirements, along with monetization, shift program dollars toward commodity producers, shipping companies, and nongovernmental organizations in the United States, raising program costs. The result is that these programs are not efficiently achieving their goals of increasing US soft power and alleviating global hunger.

Effective and efficient humanitarian aid programs can dramatically improve the trajectory of the lives of millions of desperately poor people facing exceptionally dire circumstances: famine, the aftermaths of devastating earthquakes and hurricanes, or the tragic consequences of violent conflicts. They also play an important national security role as vehicles through which a country exercises soft power, building positive relationship with the peoples and leaders of developing countries in strategically important regions throughout the world. Arguably, allowing rent-seeking by special interest groups to dissipate the resources allocated for such aid by the US government has severe adverse consequences, both for the populations that otherwise would be helped and for the long-run national security of the United States.

Nevertheless, a substantial share of the funds allocated for humanitarian aid end up benefiting US special interest groups, including private shipping companies and some agricultural and agribusiness

interest groups. This study therefore examines the recent history and structure of US humanitarian aid programs, including efforts to reform the programs, efforts by special interest groups to increase the benefits they obtain from the programs, and the impacts of these rent-seeking efforts on the programs' efficiency and effectiveness.

### The Evolution of US Humanitarian Aid Programs

Understanding the history of long-standing public policies, including the rationales used for their introduction and structure, typically yields insights about some of the idiosyncrasies and incongruities embedded in their current structures. The Agricultural Trade Development and Assistance Act of 1954 (Public Law No. 480) was the first federal program to regularly authorize international food aid.<sup>1</sup> Since a major objective of the legislation was to dispose of large agricultural commodity stocks

<sup>1</sup> The legislation was formally renamed the Food for Peace Act in the 2008 Farm Bill.

that had accumulated in the United States, the program was required to purchase only commodities produced in this country. Less than two months later, Congress amended the Merchant Marine Act to mandate a food aid cargo preference (FACP) that required at least 50 percent of all US federal food aid be carried by US-flag vessels. Previously, such requirements had applied only to the overseas movement of military personnel and related cargo.

Both requirements, food aid sourcing and FACP, were imposed to benefit stakeholder groups—specifically farmers, food processors, and US commercial shipping companies—at the inception of this program 64 years ago to secure political support for the provision of international food aid. Over time, those groups have gained considerably from the market distortions created by these restrictions.

The 2002, 2008, 2014, and 2018 US Farm Bills made modest reforms to US food aid programs. The main thrust of these relatively minor changes was to streamline program administration and expedite delivery of assistance on the margin. However, the fundamental constraints of the FACP and domestic food aid sourcing remain in place, due primarily to the advocacy of the stakeholder groups that have a vested interest in maintaining their ability to capture economic rents from these programs. This status quo imposes high costs, both in terms of less efficient use of US taxpayer dollars and in helping substantially fewer hungry people in developing countries.

## **The Shifting Food Aid Policy Environment**

In the mid-1950s, when Public Law No. 480 and the associated sourcing and cargo preference requirements were enacted, agricultural food aid exports constituted a substantial share of overall US shipments. Over the past several decades, food aid programs have been broadly supported by a coalition of three groups with a vested interest in how they are operated. Those groups, described as the “iron triangle of food aid” (Barrett and Maxwell 2005), are US agricultural commodity groups and

related agricultural and agricultural business lobbies, US-based nongovernmental organizations (NGOs) that implement US food aid programs in recipient countries, and the US maritime industry and related maritime trade unions.<sup>2</sup>

Between 1954 and the mid-1970s, food aid shipments were seen as an effective vehicle for disposing agricultural surpluses created by US domestic price and other support programs. Between 1954 and 1964, the volume of “government-sponsored” wheat exports (primarily through the Food for Peace program) exceeded commercial exports of that crop in every year (Riley 2017). Until the Agriculture and Food Act of 1981 was enacted, the US Department of Agriculture (USDA) was required to draw food aid commodities from government stocks. The requirement that the secretary of agriculture affirm that quantities of food aid commodities were in surplus of domestic and commercial export needs was not eliminated until the passage of the Federal Agriculture Improvement and Reform Act of 1996 (ERS 1996).

Since the merchant marine lobby successfully inserted a provision into the Food Security Act (the 1985 Farm Bill) to increase FACP to 75 percent, US international food aid has increasingly been distributed through direct donations under Title II (through the World Food Program or NGOs) and Title III (through recipient governments) of the Food for Peace Act instead of through the Title I concessional credit programs, under which the USDA sold commodities under very generous credit terms, which then had to be used for development activities. Title II shipments accounted for a substantial majority of all US food aid shipments through the mid-1980s.

Many countries that used Title I in its first few decades eventually found the reporting requirements and other restrictions added by Congress in the 1980s and 1990s to be too burdensome and stopped using the program. These restrictions included barring reexport or transshipment of commodities acquired under Title I (Vellianitis-Fidas and Manfredi 1977; Riley 2017). With the advent of what became the GSM-102 and GSM-103 export credit guarantee programs established in the 1985 Farm Bill, importers

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<sup>2</sup> Barrett and Maxwell (2005) attribute the phrase to unnamed industry insiders.

of US agricultural commodities had more options.<sup>3</sup> Shipments made under the export credit guarantee programs were deemed to be commercial transactions and thus exempt from the cargo preference mandate, and those shipments faced no restrictions on the use of the commodities. Consequently, Title I loan programs eventually ceased to be used or funded as of fiscal year 2006.

The change in the composition of assistance provided under the Title II program over the past few decades has also affected the efficiency of program operations. As a result of a significant number of small but persistent armed conflicts in Africa and the Middle East and a large number of natural disasters in the developing world since the early 21st century, use of Title II to provide commodities for emergency feeding has overtaken that program's use for nonemergency development assistance (Schnepf 2016). While the estimated four-to-six-month period associated with procuring, processing, and delivering in-kind assistance has only a modest impact on most nonemergency projects, such delays are more problematic in providing emergency assistance to hungry people, often leading to food arriving toward the end of the "hungry season," putting more lives at risk (GAO 2007).

Congress has authorized the US Agency for International Development (USAID) to "preposition" more food aid commodities at overseas facilities as a work-around to mitigate lengthy delivery delays, beginning with the 2002 Farm Bill. However, this flexibility comes at a cost, estimated by USAID as an additional \$56 per tonne as compared to food aid shipments delivered directly (but less expeditiously) to recipient countries (Lentz et al. 2017). Using data for fiscal year 2015, this added cost represents a 38 percent increase in the average cost per tonne of shipping food aid internationally through prepositioning warehouses as compared to shipping directly to recipient countries.

Since the late 1990s, annual US food aid spending has ranged between \$1.5 billion and \$2 billion. In recent years, perhaps especially after 2007 when

domestic and world prices for many agricultural commodities increased substantially, the overall tonnage accounted for under the various aid programs has further declined. In the 1960s, annual food aid shipments exceeded 15 million tonnes. By 2015, the volume of US food aid shipments had fallen by over 90 percent to 1.45 million tonnes.<sup>4</sup>

As a result, food aid shipments now account for a negligible share of total US agricultural exports. On average between 2013 and 2015, food aid accounted for more than 5 percent of total US exports in only one broad food category: pulse crops (10.6 percent), which include dry beans, dry peas, and lentils (USAID various years; FAS 2018). Further, all major food aid commodities are traded on global markets in which, for the most part, global supply and demand determines the prices paid to farmers in US markets, and US food aid exports play a negligible role in determining those prices. For example, between 2012 and 2015, annual food aid shipments of US wheat were less than 0.2 percent of world production, corn food aid shipments accounted for a negligible share, and rice food aid shipments were 0.02 percent of world production (Janzen, Brester, and Smith 2014a and 2014b).

## Protection and Distortion in the US Maritime Industry

Private US shipping companies and the sailors who operate their ships have directly benefited from legislative mandates for over 100 years. The ongoing congressional rationale for intervening in these markets has been to guarantee assured access to sufficient shipping capacity for the country's military needs in times of international conflict, in terms of both US company-owned vessels and US Merchant Marine sailors.

Congress first authorized a broad-based cargo preference rule in 1904, when the requirement was applied to all supplies carried for the various branches of the US armed services. Subsequently, cargo preference was extended to any other "government-

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<sup>3</sup> The GSM-102 program—the general sales manager (GSM) is the official in the USDA's Foreign Agricultural Service who oversees the program—currently provides loan guarantees of up to 18 months for overseas purchasers of US agricultural commodities. The GSM-103 program, which had a loan length of up to 10 years, was repealed in the 2008 Farm Bill.

<sup>4</sup> These figures reflect tonnage shipped under all US food aid programs, including the Food for Peace program, Food for Progress starting in 1985, and the McGovern-Dole program starting in 2001.

impelled” cargo and, in 1954, specifically to food aid programs.<sup>5</sup> A second form of cargo preference support for the US Merchant Marine fleet was established by the Merchant Marine Act of 1920 (Public Law No. 66-261), widely known as the Jones Act. The Jones Act requires that all cargo moved by vessels between US ports and from US ports to overseas US territories be carried by ships built in the United States and owned and crewed primarily by US citizens. Currently, the Jones Act fleet is estimated to consist of more than 38,000 vessels, most of which are barges and tugboats, which operate in rivers or coastal waters (MARAD 2018).

In 2015, 167 US-flag, oceangoing, self-propelled vessels were eligible to carry any form of cargo preference shipments of defense materiel, food aid, other government agency cargoes, and Jones Act cargoes.<sup>6</sup> However, between 2011 and 2014, only 74 (less than half) of those ships carried any FACP food aid shipments (Ferris and Thomas 2015). In addition, to place the role of FACP in generating cargoes for US-flag vessels in a broader context, in 2011, US domestic waterborne trade covered by the Jones Act involved more than 800 million tonnes of cargo. Those Jones Act cargoes—which included a substantial volume of transoceanic shipments from the US mainland to Hawaii, Alaska, Puerto Rico, and other overseas US territories and possessions<sup>7</sup>—were about 400 times greater than the volume of FACP cargoes shipped annually for 2010–14.

In addition to the cargo preference requirement for government shipments and the Jones Act mandate, the US Merchant Marine fleet benefits from a third government program. The Maritime Security Program, established in 1996, is operated by MARAD. The program provides an annual subsidy, currently \$5 million per vessel for up to 60 ships, to support the availability of military-useful US-flag ships for sustained military sealift. The subsidy’s stated purpose is to cover the gap in operating costs between US-flag ships and foreign-flag ships. According to MARAD, which estimates that US

vessel daily operating costs are 2.7 times higher than for foreign-flag vessels, that gap is substantial (MARAD 2011).

The estimated gap in daily compensation for the ships’ crew accounts for 105 percent of the daily cost differential between US-flag and foreign-flag vessels. The costs of stores, lubrications, maintenance, and repair in the MARAD report are actually lower for US-flag ships. A portion of the operating cost gap is due to the higher wages paid to American sailors and officers. However, it also stems from the congressionally mandated crew-size requirements for US-flag ships that date back to 1915, and those requirements have not updated since, despite significant changes in technology on ships and reductions in the total work demands required from a ship’s crew (Frittelli 2015).

Despite these subsidies and the other forms of market intervention, the US maritime industry has continued to decline, in both the numbers of ships and its role in international shipping. Between 1960 and 2016, the US share of the global oceangoing fleet fell from 16.9 percent to 0.7 percent and, as of 2015, carried only 1.5 percent of total international trade cargoes (Buzby 2018). A 2015 Congressional Research Service report asserted that “it appears that preference cargo now accounts for almost all of the revenues of the US-flag international fleet” (Frittelli 2015).

In fact, the protective umbrella of cargo preference provides incentives for companies with US-flag ships not to improve their ability to compete with foreign-flag ships for commercial freight (Bertho 2011). For example, in 2017, \$57 billion worth of passenger vehicles were traded internationally, and a significant share of those vehicles were shipped by oceangoing vessels (OTM 2018). Automotive companies prefer to use vessels specifically designed to carry cars and light trucks. However, the US military prefers to use more flexible, so-called RoRo (roll on, roll off) vessels, which can carry a different

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<sup>5</sup> Military Cargo Preference Act of 1904, 10 USC § 2631.

<sup>6</sup> To qualify as US-flag vessels eligible to carry preference cargo, ships must be US registered for at least three years, belong to a company with a US address, be manned with crews consisting of at least 75 percent US citizens, and obey all relevant US laws and regulations.

<sup>7</sup> US Virgin Islands, Northern Mariana Islands, American Samoa, and Guam.



mix of vehicles, such as tanks, HumVeers, and MRAPs<sup>8</sup> (Frittelli 2015). Consequently, in 2016 the US-flag fleet included 28 RoRo ships but no car carriers (BTS 2018).

The vessel preferences of the US military also contribute to additional inefficiencies in shipping food aid on US-flag ships. Bulk carriers, which accounted for nearly 600,000 tons of US food aid shipments in 2016, are deemed not military useful by both MARAD and the Department of Defense. As a result, only three such ships are in the US-flag fleet. That limited number and the constraints of cargo preference rules have meant that USAID has sometimes in recent years been forced to ship bulk commodities on vessels that were not designed to carry such products. The result has been higher shipping costs and otherwise unnecessary shipping delays because of the mismatch. When shipments of bagged grain are loaded onto tankers, additional concerns about potential contamination also arise (GAO 2018).

## Rent-Seeking Behavior of Food Aid Stakeholder Groups

Most farm and commodity groups continue to publicly support the current structure of US humanitarian aid programs. For example, Ron Suppes, a Kansas farmer representing the US wheat industry, spoke in favor of both in-kind food aid sourcing and monetization at a hearing held by the House Agriculture Committee in June 2017. He asserted that if food aid recipient countries were a single destination, they would be among the top 10 of all overseas wheat customers (Suppes 2017). Similarly, the USA Rice Federation’s website calls for “ensuring that in-kind commodities, such as rice, remain the USG toolbox” (USA Rice Federation 2018). However, in February 2018, Zippy Duvall, president of the American Farm Bureau Federation, joined Sens. Bob Corker (R-TN) and Chris Coons (D-DE) in calling for modernizing the Food for Peace program in an op-ed in the *Daily Tennessean*. So attitudes in the US agricultural community may be changing.

In the current markets for agricultural commodities, where food aid purchases represent negligible proportions of total US production for crops such as corn, rice, soybeans, and wheat—all of which are traded in global markets—US food aid purchases negligibly affected farm prices. However, there is still scope for intermediary firms operating along the supply chain, such as grain and oilseed processors and freight forwarders, to receive premium prices for their transactions involving food aid shipments.

Many of the US food products handled under food aid programs are manufactured under specifications that limit their appeal to US consumers. For example, the processed product corn-soy blend<sup>9</sup> (CSB) is commonly used in food aid rations provided in humanitarian emergencies—more than 64,000 tonnes of various CSB specifications were shipped in fiscal year 2015—but virtually no sales occurred in the US domestic market. Consequently, only four plants in the entire country manufacture this product, two of which are owned by Archer-Daniels Midland and Bunge Ltd., major multinational agribusiness companies. A 2012 study of US food aid procurement sponsored by the *Guardian* found that these two companies plus Cargill were responsible for selling nearly 70 percent of all US food aid commodities and products to USAID and USDA (Provost and Lawrence 2012). In 2001, four freight-forwarding companies, which handle the logistics of moving products from manufacturing to overseas shipping, accounted for 84 percent of all transactions (Wahlberg 2008).

In addition, while most NGOs engaged in delivering humanitarian aid support the overall US food aid program, until recently the community’s support of significantly reforming these programs has been somewhat uneven. For example, beginning in the mid-1980s, many US NGOs generated a significant share of their revenues from monetization projects: Under both the Food for Peace and Food for Progress programs, NGOs were allowed to sell US commodities in recipient country markets to generate cash for their non-food aid activities. In 2005, the eight largest US-based NGOs brought in nearly \$1.5 billion in gross revenue, and the top

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<sup>8</sup> MRAPs are Mine Resistant Ambush Protected vehicles.

<sup>9</sup> Corn-soy blend consists of a cooked blend of milled, heat-treated corn and soybeans and is fortified with a vitamin and mineral premix.

three—CARE, Catholic Relief Services, and World Vision—accounted for 80 percent of that amount (Mousseau 2005).

CARE was the first major NGO to step away from the status quo, announcing publicly in 2006 that it would transition out of taking part in food aid projects that required monetizing commodities. CARE took this position because it determined that in most situations the process was economically inefficient and could be harmful to local traders and farmers in recipient countries (CARE 2006). This decision reportedly cost CARE \$45 million in food aid funding (Tady 2007).

Other NGOs eventually followed CARE's example and now largely embrace the full range of proposed reforms of US food aid programs, which include ending monetization, relaxing cargo preference requirements for food aid, and relaxing the US-sourcing requirement for food aid. The NGO community now recognizes a continuing need to use US commodities in emergency situations where adequate local supplies within a country are lacking. In response, they are looking to relax the regulations to allow the US government to respond with the form of assistance that is most appropriate to each unique set of circumstances.

In contrast, the US maritime industry and related trade unions remain actively opposed to any reforms to US food aid programs that would reduce the volume of food aid shipped from the United States or the share of that cargo mandated to be carried by US-flag vessels. In 2007, the US maritime industry collected \$320 million in revenue from its food aid shipments alone (Bertho 2011). Since 2012, when the FACP mandate was lowered to 50 percent, in public and behind closed doors, the maritime lobby has sought to persuade legislators from states or districts with major ports to ratchet that requirement back up to 75 percent to augment the rents they can capture from the program.

The ability of maritime industry and affiliated unions to convince members of Congress to insert legislative provisions that benefit them rests in large part on the political contributions and lobbying activities made in support of their policy preferences. According to an analysis by the Center for Public Integrity, a coalition of maritime companies and associated labor unions donated more than \$750,000 through political action committees to members

of Congress in the 2012 election cycle (Chavkin 2013). More recently, the Center for Responsive Politics database indicated that only eight months into 2018, US-flag shipping companies and mariners unions had already spent nearly \$1.1 million on lobbying (Center for Responsive Politics 2018). Participants in the debate that ended with a narrow defeat of a food aid reform amendment to the House version of the 2014 Farm Bill credited the maritime unions and AFL-CIO affiliates with convincing 94 Democratic members of Congress to vote against reform (Chavkin 2013).

These legislative efforts have been going on for several years. For example, at the request of Rep. Duncan Hunter Jr. (R-CA)—who represented Long Beach, California (a major seaport on the West Coast) and chaired the relevant House Commerce subcommittee on transportation until indicted for campaign finance violations in 2018—an FACP provision was included in an unrelated US Coast Guard reauthorization bill passed by the House of Representatives in April 2014. The same provision was initially included in the omnibus budget act approved by Congress in December 2015. However, in both cases, the provision was dropped after objections from members of the Senate and House Foreign Relations Committees and, in 2014, the Senate Commerce Committee.<sup>10</sup> Public testimony by shipping industry executives at a November 2015 joint hearing of subcommittees of the House Transportation and Agriculture Committees and a June 2017 hearing of the House Agriculture Committee made it clear they will continue to lobby intensively for a substantial increase to their mandated share of food aid shipping.

## Concluding Remarks

Almost alone among developed countries, the United States continues to provide the bulk of its humanitarian assistance in the form of in-kind commodities. The European Union, Canada, and Australia have all shifted toward cash-based assistance in the past few decades (Clapp 2012). The interest groups with a vested interest in maintaining the long-time structure of US international food aid programs have thus far largely prevailed, despite strong evidence of the rent-seeking behavior and resulting cost inefficiencies that they foster.

Proponents of the status quo restrictions on US food aid programs insist that such reforms would lead to a reduction in overall political support for food aid programs and a potential loss in funding. However, recent broad-based, bipartisan support for longer-term agricultural development programs, as reflected in the passage of the Global Food Security Act of 2016 and the Global Food Security

Reauthorization Act of 2018, suggests that US political support for humanitarian programs supporting global food security is robust indeed. In fact, if Congress reforms international food aid programs sometime in the future, such action would represent a further manifestation of high levels of US public support for addressing humanitarian needs in cost-effective ways.

## About the Author

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