

REVIEW OF BASIC FOOD POLICIES

Commodities and Trade Division
FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
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FOREWORD

The aim of this new publication is to present in one volume a comprehensive review of agricultural policy developments relating to basic food commodity markets. This first issue of the *Review of basic food policies* covers policy changes in the production, consumption, marketing and trade of cereals, oilcrops and meats. The report, to be produced on a yearly basis, replaces the annual *Cereal policies review* which covered policy changes for wheat, rice and coarse grains. The policy information contained in the report is taken from country responses to FAO questionnaires and from publicly available sources.

It is hoped that the information provided will be of use to policy-makers, researchers and others concerned with the broader issues of agricultural development and food security.

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INTRODUCTION

In Chapters I and II, information on national **rice and grains** policies, respectively, that were implemented or announced during the 1999/2000 season are presented in line with the reporting on changes in cereal policies during previous years in the *Cereal Policies Review*. For Chapters III and IV, this will be the first time that agricultural policy changes in **oilcrops and meats** are presented in this format, although policy changes have been reported regularly to the respective FAO Intergovernmental Groups in the past. Because there were no previous published reports for these commodities, an extended period from 1998-2000 is covered to provide some background material on major policies for these commodities. Although the format is similar for each chapter, the four commodity chapters are designed to stand on their own. The final chapter combines those policy changes that relate to more than one commodity group.

The policies are presented by type for each commodity chapter, i.e. production, consumption, marketing and stock holding, other domestic programmes with relevance for national commodity sectors, and international trade policies, including bilateral and multilateral trade arrangements. Changes in policies with respect to a country's implementation of its commitments under the Uruguay Round Agreement on Agriculture (URAA) are also reported. In general, most changes in national commodity policies during the past three years have focused on international trade and production. There are three basic reasons for this policy focus: a) consumer food subsidies and state marketing and stockholding have been reduced, in part, in response to structural market reforms since the 1980s; b) the advent of the URAA in the mid-1990s further limited government options for direct support to commodities; and c) developments in the international markets in recent years led to growing surpluses and falling international prices for most of the commodities covered in this report.

Therefore, faced with depressed prices and fewer policy options, some governments, mostly among the developing countries, attempted to protect farmers against low prices through border measures, largely by raising tariffs

and/or applying non-tariff barriers. Other governments, with sufficient financial resources, chose to protect the incomes of domestic producers by increasing farm supports through direct payments and subsidised inputs. Some of these same governments also increased their support to exports to reduce domestic surpluses.

I. RICE POLICY DEVELOPMENTS

The international rice market has been characterised in the past two years by ample supplies, following record world production in 1999, faltering import demand and a marked drop in world prices. These features were in sharp contrast with those witnessed in the 1998 season, when brisk import demand had lifted the volume of trade to a record high and had sustained prices. This transition prompted substantial changes in national rice policies in the period under review, as their focus shifted from securing affordable and stable rice supplies for consumers to guaranteeing reasonable incomes to producers. As a result, many governments intervened in support of producers through large procurement purchases, direct income transfers, import restrictions or export incentives. However, commitments under the Uruguay Round Agreement on Agriculture (URAA) or structural adjustment programmes disciplined the use of these and associated measures.

PRODUCTION POLICIES

Given the thinness of the international rice market,¹ a small production shortfall in an important rice producing country often results in a surge in import demand and triggers a sharp rise in international prices, seriously hindering importers' ability to secure affordable supplies on the world market. Thus, most countries where rice is an important staple food have traditionally pursued a high degree of rice self-sufficiency to achieve food security. This policy approach did not change in the past two years, despite the substantial fall in international prices. Thus, many countries maintained expansionary rice production policies, especially traditional importers, such as Bangladesh, Brazil, Colombia, Indonesia, the Philippines and Nigeria, but also net exporting countries, such as Cambodia, India and Myanmar.

Rice is a highly sensitive product in many parts of **Asia**, where it constitutes the principal staple for consumers and a mainstay for the farming population.

¹ International trade in rice accounts for only about 4 percent of global production, compared with 12 percent for maize and 18 percent for wheat.

Despite the general drift towards market liberalisation, rice has remained among the most protected agricultural commodities, with the sector often subject to direct government intervention in domestic marketing, through state trading agencies, as well as high tariff and non-tariff barriers.

Since the introduction of major reforms in **Bangladesh** in the early 1990s, the Government has reduced its direct intervention in the rice sector. However, it has kept rice self-sufficiency as a target under the National Development Plan adopted in May 1999. Government strategy to achieve that objective relies on an intensification of the rice sector; investments in irrigation infrastructure, which contributed to a surge in the dry season Boro Crop; the provision of subsidised credit, especially to poor farmers, and the distribution of improved rice varieties. The Government accordingly authorised hybrid seed imports in 1998 and launched a National Water Policy in April 1999. Support prices for rice, the only crop together with wheat that benefits from minimum producer prices, were raised in both 1999 and 2000 in line with inflation. In addition, as domestic market prices fell below those levels, the Government substantially stepped up its paddy purchases in 2000.

Cambodia has been engaged in a process of reform since the early 1990s to facilitate the transition from a centrally planned to a market oriented economy. Rice self-sufficiency is identified as the principal way to ensure food security, a goal the country is pursuing through the intensification of production and improvement in marketing infrastructure, especially transport and processing. Against this background, the Government launched in 1999 an investment programme for the construction of water reservoirs and other irrigation projects, part of which is to be financed by the Asian Development Bank.

Since the mid-1990s, **China** has been committed to the objective of raising farmers' incomes while maintaining high levels of self-sufficiency in cereals under the "Governors Grain Bag responsibility system". In 1998, concerns over the financial burden associated with large stock holding, the poor quality of rice procured and falling cereal market prices, culminated in the adoption of the "Four Separation, One Perfection" reform,² which relaxed the country's expansionary stance in respect of cereal policies. Since 1999, additional measures have been taken to cut production of low quality rice. Accordingly, the Government first reduced "protective prices" for early rice varieties (considered inferior quality rice) in 1999 and subsequently removed such

² For more details, see *Follow-up to the Guidelines for National and International Action on Rice in 1996-99*, CCP:RI 99/4.

varieties from the basket of commodities subject to minimum price support. Although the Government still strives to achieve a high degree of rice self-sufficiency, the emphasis is now on improving the sector's efficiency and the quality of the rice produced to keep abreast of changing consumer preferences.

In July 2000, **India** announced a new National Policy on Agriculture, which had the objective to tap the sector growth potential, strengthen rural infrastructure, promote value addition, create employment in rural areas, discourage migration to urban areas and prepare the sector to face the challenges arising from economic liberalisation and globalisation. Despite a large drought-induced production shortfall in 2000, the country has been confronted with large rice inventories following three bumper crop seasons and falling exports. Nonetheless, the country has continued to raise paddy support prices (Table I-4) and has intensified procurement purchases by the Food Corporation of India (FCI) and other government procurement agencies. As a result, the volume of procured rice surged to some 17.3 million tonnes in 1999/2000, 5.4 million tonnes more than in the previous season, and is expected to rise further to some 18.5 million tonnes in 2000/01. In 1999/2000, the Government launched a "National Agricultural Insurance Scheme", with premiums varying between 1.5 percent and 3.5 percent of the value insured. The scheme provides special incentives to small and marginal producers, in the form of a 50 percent subsidy on the premium, funded equally by the Central and State Governments, but is to be phased out over a five-year period.

After three years of heavy reliance on imports to meet domestic requirements between 1996 and 1998, **Indonesia** intensified its rice production policy to achieve rice self-sufficiency. This renewed emphasis was reflected in marked increases in support prices and large domestic purchases of paddy rice by Bulog, the National Logistic Agency in 1998, 1999 and 2000.

In January 2000, the **Republic of Korea** passed a new Agriculture Law, which emphasises the development of a sustainable agriculture and the maintenance of a high degree of rice self-sufficiency. Rice producers continued to benefit from attractive support prices, which were further raised by 5 percent in 2000. However, the quantities procured by the Government were lower in 1999 and 2000 than in the preceding years, to keep aggregate support to agriculture within the URAA limits, since rice accounts for over 90 percent of the total. The Government efforts to boost productivity concentrated on research and the promotion of high yielding hybrid, short maturity rice varieties.

Table I-1: Republic of Korea official rice purchases

1996	1997	1998	1999	2000*
(.....thousand tonnes.....)				
1,267	1,224	928	876	906

Source:USDA

* Provisional

The Peoples Democratic Republic of Laos has supported paddy production, mainly through the promotion of the cultivation of a dry season crop under irrigation. This endeavour resulted in the increase in the dry season area from 18 000 hectares in 1996/97 to 87 000 hectares in 1999/2000. The target for the 2001 season is set at 120 000 hectares.

Malaysia has applied in recent years a policy consistent with a rice self-sufficiency target of 65 percent. In 2000, the target was raised to 70 percent and direct assistance to farmers was intensified. In particular, an ambitious programme focusing on productivity increases and quality improvements was announced at the end of 2000. The country, however, has kept the level of price support to rice farmers unchanged since 1998, resulting in a 6 percent decline in real terms by 2000.

Late in 1998, **Myanmar** adopted a two-pronged strategy to revitalise domestic paddy production, based on land reclamation and large-scale irrigation schemes. The new plan aims at expanding the paddy land base from 5.8 million hectares to 7.3 million hectares. Unlike in previous plans, the private sector is expected to play a key role in achieving these objectives. To stimulate private investments in rice production, the Government has offered 30-year long land leases, free provision of irrigation infrastructure and tax and tariff exemptions on machinery and equipment imports. In addition, large-scale producers were granted the right to export directly up to 50 percent of their output. Since 1998, the private sector has also been called upon to participate in the import and distribution of agricultural commodities and basic inputs. However, small paddy producers continued to pay land leases in kind, through compulsory rice sales, which, on average, have accounted for 12 percent of output. In 1998/99 the price paid for those deliveries was reportedly 50 percent below farm gate market prices.

In **Pakistan**, much of the Government intervention in rice production and marketing was eliminated in the mid-1990s. However, the Government still plays an active role in financing research and extension activities in order to

encourage the expansion of hybrid rice cultivation and promote a more efficient use of basic inputs. Minimum producer prices are also announced every year, but mainly for indicative purposes. In 1999/00, support prices were raised by about 6 percent. In 2000/01, the increase was even more pronounced, being on the order of 15 percent. In late 2000, a dip in market prices well below the target levels prompted the Government to purchase paddy through the Pakistan Agriculture and Storage Supply Corporation, for the first time since 1995. However, only 25 000 tonnes were procured, as the Government was reluctant to intervene directly into rice market. Instead, it opted for giving indirect assistance to the sector by promoting exports through government-to-government deals.

The **Philippines** has pursued an active policy to raise rice production and reduce dependence on imports, through extension, promotion of high yielding hybrid varieties and irrigation. Consistent with this approach, new guidelines were issued on “agricultural land inactivity and premature conversion” in 1999 to prevent a diversion of agricultural irrigated land to other uses. The renewed emphasis placed on rice production was reflected in the announcement of a new target for hybrid rice cultivation, which is to be expanded from 600 000 hectares in 2000 to 1 million hectares in 2001, and a 12 percent increase in support prices in 1999, after three years of no change. In 1999, the paddy support price system was modified based on a two-tiered mechanism, depending upon the cropping season. As of January 2000, the National Food Agency (NFA), the state agency responsible for domestic rice marketing and international trade, was also empowered to pay an additional *pesos* 0.50 per kilo (US\$ 12.4 per tonne) for paddy delivered to the agency. The premium was paid in kind, through fertiliser deliveries. From July 2000, it could also be exchanged for certified seeds. The quantities of rice officially procured soared in 1999 and 2000 as prices started falling, exceeding the previous peak of 1990.

Table I-2: Philippines official paddy procurement

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
(..... thousand tonnes)										
572.2	555.1	419.6	155.1	60.7	7.8	124.3	101.0	58.8	560.5	602.8

Source: Philippines National Food Authority

Price support to paddy producers in **Thailand** continues to be based on a paddy mortgage scheme (Table I-3) operated by the Bank for Agriculture and Agricultural Co-operatives. Under the scheme, participating farmers receive

loans at preferential credit rates for up to 90 percent of the value of the paddy mortgaged at the official support price. Although the volume of rice pledged fell substantially between the 1996 and the 2000 seasons, it rebounded in 2001.

Table I-3: Thailand's paddy mortgage scheme

Quantity	Value		
	thousand tonnes	million Baht	US\$ million
1995	677.3	4,229.4	168.1
1996	697.8	3,938.7	154.1
1997	786.4	2,968.7	65.6
1998	865.1	2,938.7	81.0
1999	1,026.1	3,262.8	85.5
2000	1,181.3	3,286.4	76.3
2001	1,402.9	5,132.4	118.7

Source: Bank for Agriculture and Agricultural Co-operatives

Since 1999, the mortgage scheme has been broadened to allow farmers to deliver milled rice, in addition to paddy, as loan collateral to the Marketing Organization for the Farmers and the Public Warehouse Organization. In 2000, each of these organizations was empowered to procure 500 000 tonnes of milled rice at the loan rate. In addition to the above mortgage scheme, 1.9 million *Baht* (US\$ 44.1) were allocated to a number of public institutions for the purchase of about 380 000 tonnes of paddy rice, for subsequent milling and local sale. Although the volume of rice that received price support through the above systems was substantially raised, the level of official or “target prices” remained unchanged in the last two seasons. Further measures to assist rice producers were adopted with the approval, in September 2000, of a commodity insurance scheme covering rice and maize and the allocation by the Budget Department of one billion Baht (US\$ 24.3 million) for the programme. The plan insures producers against natural disasters such as floods or drought and will compensate farmers only for the cost incurred within a ceiling of 1000 Baht per rai (US\$ 152 per hectare) for the first rice crop and 1 500 Baht per rai (US\$ 228 per hectare) for the second. In 2000, the premiums, to be shared equally by the farmer and the Government, were set at 59 Baht per rai (US\$ 9.0 per hectare) for the first rice crop and at 30 Baht per rai (US\$ 4.6 per hectare) for the second.

Since **Sri Lanka** has largely deregulated its domestic rice market and considerably limited the responsibilities of the Paddy Marketing Board, support to the rice sector mainly concentrates on promoting hybrid rice cultivation

through the provision of basic irrigation infrastructure and fertiliser subsidies. Although the Government does not usually intervene to sustain producer prices through market operations, it continues to announce official paddy prices for indicative purposes. These official prices were raised by more than 50 percent between 1998/99 and 2000/01 in real terms.

Up until 1999, **Vietnam** was mostly concerned with the conversion of paddy fields to other uses. Consequently, the Government fixed the pool of irrigated paddy land at 4.2 million hectares and promoted the rehabilitation of eroded or hilly fields within that pool. In June 2000, against the background of low domestic prices and a relatively poor export performance, the Government cut the area reserved to irrigated rice cultivation to 4 million hectares, with the provision to allocate the diverted 200 000 hectares with lower productivity to other agricultural commodities. Preferential credit conditions were also offered to paddy producers in 1999 and 2000. In 1999, the maximum credit granted to paddy producers for production, without collateral, doubled to 10 million *Dong* (US\$ 720). In the face of low producer prices, in March 2000 commercial banks were asked to reschedule old debts and to extend new loans to paddy farmers. In addition, interest rates on investment loans were cut from 9 percent to 7 percent per year. In June 2000, a “Credit Guarantee Fund” was set up to offer loans to farmers, small enterprises and co-operatives at preferential rates. The Government also gave credit subsidies for the purchase and storage of rice by traders, in an attempt to lift prices (see trade section).

Among other Asian countries, the **Islamic Republic of Iran** promotes rice production through research, distribution of basic inputs and a support price system. In 1999, support prices were raised by 12 percent. The increase was even sharper in 2000, varying between 35 and 40 percent depending on the variety, as the country was confronted with a large production shortfall following recurrent droughts. The country reported to have distributed 300 tonnes of improved variety seeds in 1999, compared with 200 tonnes in the previous year.

In recent years, **Africa** has dramatically increased its dependence on imports to meet its domestic requirements. In the major rice producing and consuming countries, assistance to the sector has dwindled since the dismantling of commodity marketing boards in the 1980s and 1990s. The modest support now provided is mostly confined to infrastructure development, often financed with international assistance, and to limited distribution of basic inputs to poor

farmers. Official controls on domestic prices and market intervention are seldom practised in the region and border protection is relatively low.

Burkina Faso conducts a policy of limited assistance to rice producers, with most aspects of production and marketing liberalised. Under its second Structural Adjustment Programme, the country launched a plan of action for the organization of agriculture, which sets specific targets for the rice sector. Under the land conversion plan, 800 hectares of low-lying rice fields for cultivation under rainfed conditions were developed in 1998, 1000 hectares in 1999 and 1000 hectares in 2000. The plan envisages the development of a further 4000 hectares between 2001 and 2006. Similarly, Benin promotes the expansion of rice production in inland valleys. Since the market for rice and basic agricultural inputs has been liberalised, the Government only provides short-term production credits to poor farmers.

In 2000, **Mali** started implementing a programme to develop the rice sector with the goal of achieving rice self-sufficiency in 2002. The programme envisages the development of 30 000 hectares of new land for rice cultivation. The Government also plays an active role through the "Office du Niger" in developing irrigation facilities and supplying water irrigation at subsidised prices.

Egypt has traditionally imposed limitations on rice cultivation through area quotas to save irrigation water, currently provided free-of-charge. At the same time, the country has supported the intensification of the sector, principally through research and the distribution of high yielding hybrid varieties, which have boosted yields to a world record. In addition, the country launched a 20 yearlong land reclamation programme to expand the area of arable land. The programme comprises an ambitious "New Valley" irrigation project in the south-western desert, which will rely on the construction of a pumping station and of a 72 kilometres-long irrigation canal from Lake Nasser, and a project in the western desert that will draw on underground water to irrigate 100 000 hectares.

One major form of support to cereal producers in **Nigeria** has consisted of high subsidies on fertilisers, until they were abolished in 1998 as part of a wider market liberalisation programme. In May 1999, fertiliser subsidies were reintroduced and government agencies were instructed to purchase fertilisers domestically. The new policy entails purchasing 120 000 metric tonnes of fertilisers at 2 904 million (US\$ 28.75 million) for sales to farmers, at

25 percent subsidy. The country has also announced the constitution of new state commodity marketing companies.

In **Latin America and the Caribbean**, domestic rice markets have been widely liberalised and border protection constitutes the dominant form of protection to the sector. In many countries in the region, rice producer organizations have reacted to the disengagement of the public sector by taking over many of the functions previously held by governments including development and information activities.

In **Costa Rica**, rice remains a strategic commodity and producer (as well as consumer) prices continue to be subject to direct government control. Producer support prices were raised both in 1999 and 2000, but trailed behind inflation, resulting in a 5 percent decline in real terms.

In the **Dominican Republic**, the National Rice Commission fixes minimum and maximum purchasing and selling prices and intervenes in the market through a price stabilisation agency, INESPRES. In May 1999 this agency procured some 41 000 tonnes of paddy at a minimum price of US\$ 330.67 per tonne.

In 2000, **Guyana** lifted all sale taxes on basic inputs such as fertilisers and pesticides and increased the volume of seeds it distributes to farmers through the Rice Board. Efforts also concentrated on large infrastructure works in the rice producing areas under an extensive programme of rehabilitation of the drainage and irrigation systems.

Mexico is one of the few countries in the region that currently implements a programme of de-coupled payments to producers, under "Procampo". Since 1998 this programme has been supplemented with direct price support under a "Marketing Support Programme" covering a volume of 308 000 tonnes of paddy rice, about three quarters of the national output. Under the scheme, rice producers received a premium on the volume they marketed equal to *pesos* 150 (US\$ 17) per tonne for the winter crop in 1998 and *pesos* 250 (US\$ 26) per tonne for the winter and summer crops in 1999 and 2000.

Brazil continues to operate various price support schemes, including a loan system that allows farmers to pledge their rice as collateral, valued at a minimum guaranteed price. Following a recovery in production and falling prices in mid-1999, the volumes of rice offered under the programme increased substantially, which prompted the Government to allocate funding in August 1999 to store an additional 500 000 tonnes of rice.

Colombia's Government does not directly intervene in the rice market through purchases or sales. However, in recent years, the Government has required millers and processors to purchase all domestic rice supplies at a predetermined price before releasing import licenses. A similar scheme is reportedly in operation also in Ecuador, Honduras and Peru.

Table I-4: Paddy support prices in selected countries (price per tonne)

Countries	Prices in National Currencies							Prices in US dollars		
	Currency	Nominal prices			Real prices (deflated by CPI 1995/96=100)			1998/99	1999/00	2000/01
		1998/99	1999/00	2000/01	1998/99	1999/00	2000/01			
Developing										
Exporters										
India: common	Rupee	4400	4900	5100	3454	3590	3552	104	113	110
grade A	Rupee	4700	5200	5400	3690	3810	3769	111	120	116
Myanmar	Kyat	16774 1/	16774 1/	n.a.	7600	6285	...	2713	2712	n.a.
Pakistan: Irri	Rupee	4375	4625	5125	3376	3426	3640	95	89	90
Basmati	Rupee	8250	8750	9625	6366	6481	6836	179	169	169
Thailand	Baht	5460 2/	5460 2/	5460 2/	4509	4531	4457	151	143	127
Importers										
Bangladesh	Taka	7588	7913	8250 p	6541	6423	6435	164	163	162
Costa Rica	Colón	74837	80000	84783	51223	49689	47444	291	280	275
Indonesia	'000 Rupiah	1000	1400	1400	701	629	633	103	158	187
Iran, Rep. of	'000 Rial	1181	1323	1856	666	612	761	674	755	1052
Korea, Rep. of	'000 Won	1309	1376	1452	1111	1161	1208	992	1147	1274
Malaysia	Ringgit	800 3/	800 3/	800 3/	726	699	688	214	211	211
Philippines	Peso	8000	9000	9000	6369	6711	6461	198	237	211
Sri Lanka	Rupee	7420	10000	12000	5361	6906	8108	119	145	164
Turkey	Million Lira	145	240	330	23	23	20	527	529	497
Developed										
EC	Euro	316	298	298	293	272	265	365	313	260
Japan	'000 Yen	263 4/	259 4/	252 4/	256	253	248	2240	2520	2243
United States	US \$	143 5/	143 5/	143 5/	134	131	127	143	143	143

p provisional n.a. not available

1/ Myanmar Agriculture Produce Trading Company (MAPT) average of procurement prices

2/ Paddy, 5% broken

3/ Including a production subsidy of RM 250 per tonne of paddy delivered to a licensed mill or drying facility

4/ Husked rice basis

5/ Marketing Assistance Loan Rate

In April 2000, **Japan** approved three basic goals of the country's agricultural policies in the medium term, i.e. the stability of food supplies; the development of a sustainable agriculture; and the promotion of the multi-functional potential of agriculture. As part of its policy to reduce paddy production, Japan continued to implement a land diversion programme, and reduced producer prices by 1.8 percent in 1999 and by 2.7 percent in 2000. However, since the measures implemented were not sufficient to prevent the accumulation of large rice inventories, the Government adopted a special emergency package in September 2000. As part of the measures announced, the paddy area subject to diversification was increased by 100 000 hectares³ to 1 063 000 hectares, or 22 percent of the total paddy area; farmers' compensatory payments for land diverted from paddy to forage crops were raised from Yen 730 000 to Yen 930 000 per hectare (US\$ 8 530), applicable in 2001 only; the Government also announced emergency purchases of 400 000 tonnes from the 2000 crop, of which 150 000 tonnes to replace old publicly-held stockpiles that will be used for feed; a reserve of 750 000 tonnes for external food aid was established.

Under the 1996 FAIR Act, rice producers in the **United States** receive government assistance through Production Flexibility Contracts (PFC), which entitle eligible producers to receive fixed but declining income payments per hectare, based on a 1996 producer contract area. From 1998 to 2000, rice PFC holders benefited from supplementary payments under the emergency farm assistance legislation. As a result, overall Government outlays to rice producers under the PFC and emergency marketing assistance programmes rose from some US\$ 700 million in 1998 to around US\$ 900 million in 1999 and 2000, twice as much as in 1996 and 1997 (Table I-5). Besides income transfers, the FAIR Act provides direct price assistance to rice producers, under the marketing loan programme, which compensates farmers for the difference between a "world" price and a national loan rate equivalent to US\$ 143 per tonne for paddy. Since market prices exceeded the loan rates up until 1998, little payments were made under the loan programme for the first two years of the Act. However, as world prices started to fall in 1999, loan payments to producers rose from US\$ 14 million in 1998 to US\$ 395 million in 1999 and to US\$ 415 million in 2000. Under the Emergency Supplementary Appropriation Act of 2001, the US\$ 75 000 per person overall limit on marketing loans was also doubled to US\$ 150 000. As of 2000, the rice sector also benefited,

³ To be reduced to 50 000 hectares, in case of crop failure.

together with other crops, from an insurance reform, which allocates US\$ 8.2 billion in five years, partly to finance increases in premium subsidies of the order of 80 percent to 90 percent.

Table I-5: United States rice policy under the Production Flexibility Contracts and Marketing Loan Programmes

Season	Paddy loan rate	Marketing loan/certificates	Contract Payments ^{1/}	Total payment
average paddy market price				
US\$/tonne	US\$/tonne	US\$ Million	US\$/tonne	US\$ Million
1996/97	220	0	61	455
1997/98	214	0	60	448
1998/99	196	14	64	717
1999/00	131	395	62	932
2000/01	125 ^{2/}	415	57	897 ^{3/}

^{1/} Includes payments under the Emergency Marketing Assistance Programmes

^{2/} From August 2000 to March 2001.

^{3/} Forecast as of July 12, 2000.

Source: USDA

In line with the CAP reforms launched in 1992 and the 1994 URAA, the **European Community (EC)** amended its rice policy regime from 1997/98 to 1999/2000. The changes were based on compensatory area payments in return for a 15 percent reduction in intervention prices, implemented through annual cuts of 5 percent between 1997/98 and 1999/2000. As a result, the rice intervention price dropped from *Euro* 351.00 per tonne in 1996/97 to *Euro* 298.35 per tonne in 1999/2000. Producers were compensated through a three-fold increase in the area payment between 1997/98 and 1999/2000, within a maximum national guaranteed area. For instance, Italian producers received *Euro* 318 per hectare in 1999/2000, up from *Euro* 106 per hectare in 1997/98. However, in Spain, a 7.3 percent overshooting of the rice area ceiling resulted in a 44 percent cut in eligible payments in 1999/00, from *Euro* 334.33 per hectare to *Euro* 187.89 per hectare.

A fall in rice market prices in member countries over the past two years led to an increase in EC intervention purchases and growing intervention stocks. To tackle the structural market surpluses, which have arisen since the opening of the market to imports and the cut in subsidised exports, the EC Commission released, on 7 June 2000, a proposal for a rice policy reform for implementation in the 2001/2002 crop season, which hinged on an abolition of the support prices and the system of mandatory intervention purchases and the application of a land set-aside (Box I-1). However, as major EC producing

countries did not agree to the elimination of the intervention system, the proposal has been temporarily shelved.

Box I-1

Proposed Change in EC Rice Policy

EC CURRENT RICE POLICY REGIME	EC COMMISSION REFORM PROPOSAL
PRODUCTION POLICY	
<p>Since 1999/2000, support intervention price is set at 298/35 <i>Euro</i>/tonne for paddy rice</p> <p>Mandatory intervention purchases. By 1 September 2000, intervention stocks had reached 699 000 tonnes, of which 373 000 tonnes of Indica rice and 308 000 tonnes of Japonica rice</p> <p>Compensatory area payments set at 52.65 <i>Euro per tonne</i> multiplied by the average regional yield. On average, EC producers were eligible to receive 328.98 <i>Euro</i> per hectare in 1999/2000, within the base area</p> <p>No provision for compulsory set aside</p>	<p>Support intervention price to be abolished in 2001/2002</p> <p>Public intervention system to be abolished and replaced with private storage aids</p> <p>Payments to be raised to 63 <i>Euro</i> per tonne (same level as for grains)</p> <p>Rice to be subject to compulsory set-aside. The application of the 10% set-aside currently in place for grains would lower production by an estimated 150 000 tonnes</p>
IMPORT REGIME	
<p>Since July 1995, imports of paddy rice and brokens have been subject to URAA bound tariff rates (211 <i>Euro</i>/tonne for paddy and 128 <i>Euro</i>/tonne for brokens in 2000/01)</p> <p>Under footnote 7 of the US/EC Blair accord, the duty-paid import price for husked Indica and husked Japonica rice cannot exceed by more than 80% and 88% respectively the effective buying-in price for intervention for those qualities. For milled Japonica and milled Indica rice, the difference cannot exceed 167% and 163% respectively.</p> <p>Husked Indica rice imports were subject to a duty of about 208 <i>Euro</i>/tonne at the beginning of the 1999/2000 rice season.</p> <p>Basmati rice imports are subject to a reduction of Euro 250/tonne of the applicable duty.</p>	<p>No change</p> <p>In absence of an intervention price, the current method to estimate import duties for husked and milled rice cannot be applied. It is not clear whether the removal of the intervention price will result in the application of the URAA bound tariff, as is the case for paddy and broken rice.</p> <p>URAA bound tariff for husked rice was 289 <i>Euro</i>/tonne in 1999/00, much higher than the levy effectively applied. The change in the system of determination of the levy is likely to require negotiation under Article XXVIII of GATT 1994 (Modification of Schedules).</p> <p>Subject to re-negotiation with the interested parties, principally India and Pakistan.</p>
EXPORT REGIME	
<p>Subsidised exports subject to quantity and value ceilings</p>	<p>No change</p>

CONSUMPTION, MARKETING AND STOCK POLICIES

Because of the strategic importance of rice as a major staple food commodity, governments used to intervene to guarantee affordable supplies to consumers through market operations and wide-scale public distribution systems. Since market liberalisation in the 1980s and 1990s, much of this intervention has been eliminated or diminished, especially in Africa and South America. On the other hand, state trading organizations have retained much responsibility in domestic rice marketing in several countries in Asia.

Since 1995, the movement of rice across provinces in **China** has been restricted and individual provinces encouraged to produce enough cereals to meet their requirements. The 1998 reform introduced further restrictions on marketing as private traders were forbidden to purchase rice directly from farmers and were allowed to buy only from state grain agencies. This paddy procurement arrangement appears to have been relaxed in various provinces in the past two years. Following five years of bumper cereal crops, the level of rice kept in national stocks is estimated to have risen considerably, a large part of which is stored in public grain facilities. In order to reduce the associated financial burden on provincial governments and improve the quality of the rice procured, the grain bureaux have limited their purchases, reduced prices and adopted more stringent quality specifications for procurement. In 1999, the country launched a major investment plan to expand its cereal storage capacity by 20 million tonnes to reduce the losses associated with the holding of grains in poor storage conditions.

India maintains direct government controls over the domestic grain sector, under the 1955 Essential Commodities Act, which contains provisions to limit cereal holding by the private sector and to restrict cereal movements across provinces. Despite efforts in 1997 to scale back the responsibilities in domestic marketing and international trade of the Food Corporation of India (FCI), the public food distribution agency continued to play a dominant role in rice procurement⁴ and distribution. In an attempt to reduce the large budgetary

⁴ Farmers are not obliged to sell to the Government agencies but often do so, as market prices do not generally exceed the support level. However, procurement agencies get the bulk of their supplies directly from millers, who must sell to these agencies a share of their production, ranging from 50 percent in Andhra Pradesh to 75 percent in Punjab and Haryana, at an established "Levy price". This price, which

outlay of the FCI, in 2000 India raised the prices of rice sold throughout the Public Distribution System (PDS). Issue prices went up by 25 percent for “Grade A” rice ⁵ sold to consumers above the poverty line and by 61 percent for “common” rice sold to the below-poverty line group. In early 2001, the Indian Government launched a new rice distribution programme targeted to the very poor through the disposal of some of its surpluses. As a result, the public distribution system is currently divided into three categories of consumers: those belonging to the “above-poverty line” group, who can buy unlimited quantities of rice at *rupees* 11.3 per kg (US\$ 0.25 per kg), low-income consumers “below the poverty line”, who can purchase up to 20 kilos per month per household at *rupees* 5.65 per kg (US\$ 0.12 per kg), and, finally, a new category of the “poorest among the poor” who are offered up to 25 kg ⁶ per month per family at *rupees* 3 per kg (US\$ 0.07 per kg).

In an attempt to rationalise FCI activities, the Government passed a new national food grain storage policy in 2000, with the purpose to modernise the grain basic marketing infrastructure and to increase its efficiency. In particular, the law envisages a greater participation of the private sector in the storage and handling of bulk cereals and considers the privatisation of a large part of the storage facilities currently owned by the FCI. To facilitate the transition, the Government is offering a five-year tax exemption on private investment in cereal storage and transportation infrastructure, to be followed with 30 percent tax rebates.

In 1998, **Indonesia** initiated a market liberalisation process under a structural agreement with the IMF, which diminished the role of BULOG, the National Logistic Agency, in domestic food crop marketing and imports. Since 1999, the agency’s authority to procure rice has been restricted to paddy, which it purchases through local logistic agencies, “DOLOG”, while it abstains from purchasing milled rice from millers. Moreover, under the 1998 reform, the agency is to rely on banking credits at market rates to finance its operations. BULOG has, nonetheless, kept the responsibility to stabilise the domestic rice market through supply releases from stocks and to operate a Government subsidised rice distribution scheme to the needy. Under this programme, low-income households were entitled to receive 10 kilos of rice per month, per

varies from state to state, is linked to the level of support prices and milling costs. The rice procured is then distributed through the PDS.

⁵ Includes fine and super fine rice types.

⁶ This quantity can be taken either in the form of rice or wheat.

person, at *rupees* 1000 per kilo (US\$ 0.14 per kilo) in 1999. The agency also sells rice to military and civil servants as part of their salaries. In 1999 and 2000, the agency is estimated to have released some 4.8 million tonnes of rice on the domestic market, half of which under its special programmes and half as regular market operations, carried out through DOLOG local agencies.

Japan reduced in 1999 and 2000 the price of rice sold to wholesalers (Table I-6). The cut, which applied to both domestic and imported rice, was most pronounced in 2000 at 6 percent. Japan also took steps to reduce the level of rice stocks by shifting supplies to feed under a “rice for feed scheme”. In 1999, some 170 000 tonnes were allocated for feed use by the Government. Under the 2000 emergency programme, the amount has been targeted at 150 000 tonnes.

Table I-6: Japanese Government resale prices of domestically produced rice (fiscal year)

1990	1995	1996	1997	1998	1999	2000
Yen per tonne						
306,450	302,050	305,050	301,683	297,183	294,100	289,383

Source: FAO and USDA

In an endeavour to raise the competitiveness of its producers, the **Republic of Korea** launched several initiatives in 2000 to improve the marketing of rice. As part of this programme, the Government set up an Internet site, to improve information exchange. It also announced a plan for the construction by 2004 of 360 rice processing centres, with drying, milling and storage facilities.

In July 2000, **Malaysia** restricted the movement of rice from the Kelantan State, in an attempt to curb illegal imports of rice from Thailand. This measure was subsequently lifted in August.

In the **Philippines**, the National Food Agency (NFA), which has the responsibility to stabilise the domestic rice market through rice distributions in deficit areas and urban wholesale markets, lowered the level of its sale prices in October 1999, but restored them to their previous levels in January 2000. Following the extension of its mandate to other commodities, the NFA introduced “the Enhanced Retail Access for the Poor” (ERAP) programme in 1999, a move that might be indicative of a progressive shift from wide-scale rice distribution to more targeted sales to low-income groups.

Syria, which also used to sell limited quantities of rice at highly subsidised prices, announced the suspension of that programme from November 2000.

Expansion in rice production and large fluctuations in domestic prices in recent years have induced **Thailand** to allocate some US\$ 205 million to expand the country's grain storage capacity to sustain its rice mortgage scheme. The new warehouses, to be located in the main paddy growing regions, would also work as milling and packaging centres to boost the quality and marketability of the product. The country was also reported to have promoted a new scheme through the Bank for Agriculture and Agricultural Co-operatives to improve access of producers to market information, including through Internet.

Consistent with the policy to raise the quality of the rice marketed, **Vietnam** presented a draft programme in early 2000 to enhance its food processing system over the next 20 years. Measures specific to the rice sector include an expansion in the rice drying, husking and storage capacity. By 2005, the plan envisages to raise the rice drying potential by 6 to 7 million tonnes through the provision of small machinery to farmers, and the country's husking capacity by up to 6 million tonnes per year.

As of January 2000, the Government of **Sudan** abolished marketing taxes and fees on agricultural products, including rice, to increase private sector's participation in domestic marketing.

Costa Rica maintains control on the marketing prices of rice through the imposition of price ceilings on sales to wholesalers, retailers, and consumers. Although those prices changed several times since 1998, the marketing mark-ups were kept at 3 percent from the wholesaler to retailer and at 10 percent from the retailer to consumer (Table I-7).

Table I-7: Costa Rican maximum sale price for rice (20 percent broken)

Implementation date	Miller to wholesaler	Wholesaler to retailer	Retailer to consumer
		<i>Colon per kilo</i>	
28/09/98	146.68	151.09	166.00
10/06/99	137.54	141.67	156.00
03/09/99	157.68	162.41	179.00
28/11/00	168.57	173.63	191.00

Source: Oficina Arroz, Informe Annual de la Actividad Arroceras, 1999-2000.

While the rice sector operates in a widely liberalised environment in **El Salvador**, the Government promoted, in August 2000, a strategic coalition among all private sector participants. This “alliance” seeks to stabilise market supplies and domestic prices, so as to stimulate demand for domestically produced rice. It is based on the introduction of guidelines and standards for rice market transactions at the country’s agricultural products market exchange, BOLPROES, as the main instruments to enhance market transparency and competition.

In **St Lucia**, rice was kept among the basic commodities subject to Government wholesale and retail prices ceilings, under the Price Control Order 1999, which replaced the Price Control Order of 1984.

OTHER RELATED DOMESTIC POLICIES

Concern over the negative impact of rice production on the environment intensified in 1999 and 2000, and several countries adopted measures to reduce paddy cultivation in fragile ecosystems. In general, these called for the withdrawal of eroded or marginal land from paddy production and increases in productivity, through an intensification of production and a wider use of improved varieties in areas suitable for the crop. The environmental impact of diverting land out of rice in traditional producing areas has caused concern in some developed countries, which fear, in particular, the surge of soil salinity or erosion problems and the endangering of wild bird habitats. Several other countries reported measures to control excessive application of fertilisers and pesticides or the adoption of water-saving technologies.

In **China**, subsidies in the form of rice distributions and income compensation were reportedly given in fragile ecosystems, especially in the Western regions, to farmers willing to abandon rice cultivation and return the

land to pasture or forests. Under the programme, farmers along the Yangtze River were given 2 250 kilo of paddy per hectare of land returned, as well as a cash payment. In the upper and middle reaches of the Yellow River, the reported subsidy in kind was 1 500 kg of paddy per hectare. Compensation to farmers is to be maintained for five to eight years. **Vietnam** also removed 200 000 hectares of highly eroded lands from its paddy land base, through primarily in an attempt to rationalise production. In **Mexico**, rice cultivation was seriously reduced in Sinaloa, under the regional water conservation programme. **Burkina Faso** has strengthened its control over the environmental impact of rice production, to ensure its sustainability. Accordingly, rice production projects are increasingly subject to environment impact analyses. In addition, the country is promoting water-saving schemes and the planting of trees around rice fields to preserve bio-diversity. Among the developed countries, **Japan** implemented a programme to promote sustainable production methods among paddy producers, to reduce nutrients in drainage water and lower methane emissions.

INTERNATIONAL TRADE POLICIES

Although international trade in rice continues to account for only a small share of global production, some 4 percent in 2000, it has risen considerably, volume-wise, since 1995,⁷ a period which coincides with the beginning of implementation of the URAA. The new international policy environment, however, contributed only to a small extent to that trade dynamism. Rather, growth was driven by a surge in import demand, following weather-induced production shortfalls in several important producing/consuming countries, and large availabilities in traditional exporting countries.

Import Measures

Trade in rice in **Bangladesh** has been liberalised since the early 1990s and the private sector undertakes the bulk of imports. As of 1 January 2000, the country reintroduced a 5 percent duty on rice imports it had lifted in 1998, when the country was facing a production shortfall. However, imports

⁷ From 16.5 million tonnes in 1994 to a record 27.5 million tonnes in 1998 and to 22.2 million tonnes in 2000.

remained exempt from a 2.5 percent infrastructure tax applicable to other products.

In **China**, the Government currently exercises full control over international trade in rice and other cereals. Decisions on the volume of imports and exports⁸ are taken by the State Planning and Development Commission in consultation with the State Council. The Ministry of Foreign Trade and Economic Co-operation (MOFTEC) then administers cereal trade, while actual transactions are carried out by a state trading enterprise, the China National Cereals, Oils and Foodstuffs Import and Export Company (COFCO). In 1999 and 2000, the level of rice exports remained high compared with previous years, consistent with government's policy to reduce the size of state inventories.

Rice imports into **Hong Kong, SAR** are carried out autonomously from China mainland. They are currently regulated through a licensing and import quota system but are duty-free. Quotas have traditionally been allocated to a number of registered firms according to fixed proportions. To enhance market competition, this system was relaxed beginning in 1997, when authorised traders were allowed to increase their allocation by applying for an "optional" quota. Initially, the aggregate volume of imports under the optional quota could not exceed 30 percent of overall import requirements. This share was raised to 40 percent in 2000.

Fiji regulates rice imports through duties of 27 percent applied on milled and broken rice and 10 percent on paddy/husked rice shipments. In late 2000, the Government announced the re-introduction of a licensing system for husked rice, under which only companies holding a quota license will be permitted to import.

Since 1997, the private sector in **India** has been allowed to import rice with more than 50 percent broken, free-of-duty. Following tariffication under the URAA and the removal of the quantitative restrictions that had been in place for several decades under the GATT Balance-of-Payment provisions, bound tariffs on rice were revised from 0 percent to 70-80 percent in 2000. On 1 April 2000, the country raised the level of applied tariffs up to the bound level of 80 percent for husked rice and broken rice and 70 percent for milled or semi-milled rice.

⁸ China usually exports rice of medium to low quality, while importing high quality fragrant rice.

Following the 1998 reform, **Indonesia** relaxed Bulog's rice import monopoly and allowed rice imports by the private sector for the first time in 1999. However, private imports were initially restricted to high quality rice of no more than 5 percent broken and were charged a 25 percent import duty. The quality restriction was withdrawn in January 2000 and a tariff of Rupees 430 per kilo (US\$ 58 per tonne), equivalent to a 30 percent ad-valorem duty, was imposed on all imports, whether private sector or BULOG.

Following a bumper crop in 2000, **Malaysia** strengthened its border controls to prevent unauthorised movements into the country and suspended, early in 2001, the issuance of import licenses on rice by-products.

Although the National Food Agency (NFA) continues to handle the bulk of imports in the **Philippines**, private traders have been authorised since 1997 to import special, fancy or glutinous rice, subject to a 50 percent duty, under a preferential access quota. In 1999, private traders were also permitted to import ordinary rice. Under the URAA, the country has committed to expand access under this quota by 20 000 tonnes per year, from 59 000 tonnes in 1996 to 239 000 tonnes in 2005.

Faced with rice shortages in 1999, **Sri Lanka** temporarily lowered the duty on rice imports from 35 percent to 10 percent during the last quarter of the year. The tariff was brought back to its previous 35 percent level as of January 2000, a move that preceded the announcement of a suspension of new import licenses in August 2000.

Although a major rice exporter, **Vietnam** imports some rice from neighbouring countries, in particular Cambodia. In April 1999, the country raised import levies from 10 percent to 20 percent for all types of rice, except paddy, which remained duty-free. A further rise to 30 percent was implemented in July 2000.

In Africa, member countries of the **West African** Economic and Monetary Union (Union Économique et Monétaire de l'Afrique de l'Ouest - UEMOA),⁹ applied in January 2000 a common external tariff (CET), while allowing free movement of goods within the region (Table I-8). The mechanism applied to imports from non-member countries distinguishes four categories of commodities, subject to a fixed tariff rate; introduces a system of permanent tariffs and taxes common to all members; and sets temporary tariff and taxes, which can be optionally applied by individual countries.

⁹ UEMOA members are Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo.

Table I-8: UEMOA common external tariff and other duties ^{1/}

Category	Ad-valorem tariff	Statistical tax	Solidarity tax
		percent	
0	0	1	1
1 (paddy/seeds)	5	1	1
2 (all other rice)	10	1	1
3	20	1	1

Source: UEMOA

1/ Applicable to c.a.f. value.

These temporary tariffs and taxes can be introduced under two optional schemes that give country members the possibility of introducing additional protection. The first, which is designed to compensate the loss of protection ensuing from the application of the CET, consists of a declining tariff until 2003 (Table I-9). The second allows countries to shield their markets from world price fluctuations through the application of a 10 percent duty on a “trigger price”.¹⁰

Table I-9: UEMOA optional tax on extra-regional imports

Period	Low tax	High tax
	percent	
from 01/07/99 to 31/12/99	10	20
from 01/01/00 to 31/12/00	7.5	15
from 01/01/01 to 31/01/01	5	10
from 01/01/02 to 31/01/02	2.5	5
from 1/01/03	0	0

Source: UEMOA

As a result of the implementation of the CET, **Benin** raised, in January 2000, the rate applied on husked or milled rice from 5 percent to 10 percent, while the tariff applied on paddy and rice seeds imports remained at 5 percent. A value-added tax of 18 percent continued to be applied on imports.

The application of the CET in **Cote d'Ivoire** in 1999 resulted in an increase in the applied external tariff from 5 percent to 10 percent for husked rice, while it lowered the rate applied on rice with 15 percent or less broken from 25 percent to 10 percent, and that of rice with over 15 percent broken from 15

¹⁰ In Senegal, the trigger price was reported to be a weighted average of the international price (30 percent) and domestic production costs (70 percent).

percent to 10 percent. Imported rice is also subject to a value-added tax of 20 percent.

Late in 1999, following a sharp increase in rice shipments, **Kenya** introduced a new levy of 25 percent, or 7.50 Kenyan shillings per kilo (about US\$ 100 per tonne), whichever is the highest, in addition to the 50 percent duty already applied.

In January 1999, **Nigeria** eliminated a 25 percent tariff rebate on cereal imports it had granted since 1995, and re-applied the full 50 percent custom tariff rate on rice imports. As of November 1999, it also re-instated the inspection of import shipments and, early in 2001, announced a further increase in the rice import tariff to 75 percent, as a means to protect farmers from external competition.

Sudan was reported in January 2001 to have temporarily lifted all duties on rice and other cereal imports until the start of the new season in October, to ease temporary supply shortages.

In the **Latin American and Caribbean** region, **Costa Rica** raised, in March 1999, the tariffs it applied on husked rice from 20 percent to 35 percent, similar to the rate already applied to milled rice and equal to the URAA bound level. At the same time, however, the country authorised the import of 60 000 tonnes of husked rice at a 10 percent tariff rate, for delivery between April and June 1999. As the prevailing low international price situation persisted, the country resorted to a one year special price safeguard on imports of husked and milled rice in December 1999, which resulted in an additional 6 percent duty.

Following renegotiations of tariff bindings with the WTO for key agricultural products, the **Dominican Republic** revised its rice tariff ceiling from 40 percent to 111.5 percent in 2000. The country also committed to open a 12 410 tonnes quota at a 20 percent tariff rate in 2000. The size of the preferential quota will be expanded progressively to 15 262 tonnes in 2005. By that time, the out-of-quota applied tariff will be lowered to 99 percent.

In October 1999, **El Salvador** raised the import tariffs on all types of rice to 40 percent.¹¹ Previously, the rate was set at 20 percent for paddy and 35 percent for the other rice products. At the same time, the country opened a duty-free tariff quota of 25 000 tonnes to cover a production shortfall, for delivery between 1 January 2000 and 31 August 2000.

¹¹ Except for rice products falling under the HS code 1904 -90- 90, which were subject to a 15 percent tariff.

In 1999, **Honduras** raised the tariff applied to milled rice imports from 30 percent to 45 percent, while maintaining at 20 percent the rate for husked rice. Following a five-year agreement between producers and importers that committed the latter to domestic rice purchases at a predetermined price, the Government lowered the tariff for husked rice from 20 percent to 1 percent. However, only imports made between March and August, when the market tends to be in short supply, could benefit from the lower tariff.

In 2000, **Mexico** included milled rice in the list of commodities subject to a "Customs Guarantee Account" system, which established a minimum import price for tariff calculation purposes. Under this system, rice imported below the predetermined floor price is subject to a deposit equivalent to duties applied on the price difference. Such a deposit is returned to the importer after six months.

Following negotiations at the WTO, **Panama** raised the level of bound tariffs on rice imports from 60 percent to 130 percent from October 1999 until December 2000. The bound rate will fall every year until it reaches 103 percent in 2004. Under its URAA commitments, the country also expanded the size of its preferential quota from 5 524 tonnes in 1998 to 6 048 tonnes in 1999 and 6 572 in 2000.

Faced with a surge in stocks and falling prices, **Brazil** introduced a ban on imports of rice from Argentina and Uruguay in April 2000, which was removed in June 2000. Instead, Brazil entered into an agreement with these two MERCOSUR members to restrict their exports to Brazil to 550 000 tonnes in 2000. **Chile** lowered the tariffs applied to rice products from 11 percent in 1998 to 10 percent in 1999 and 9 percent in 2000. The country's programme of tariff reduction involves further cuts of one percent per year until 2003, when the tariff will be kept at 6 percent.

Under the **Andean Pact**, movements of milled rice between Andean partner countries¹² are free of duty. Imports from outside the region are authorised when supplies cannot be made available internally. Under the Andean Community price band system, imports of rice (excluding paddy) from third countries are subject to a variable import duty. This is determined on the basis of a floor and ceiling prices, set in April each year by the Andean Board of Directors, and a reference price, adjusted every two weeks by that Board.¹³ In

¹² Bolivia, Colombia, Ecuador, Peru and Venezuela.

¹³ If the reference price falls between the floor and ceiling prices, the variable duty is calculated at 20 percent of the reference price, independently of the true value of the import. If the reference price falls below the floor price, the variable duty is calculated at 20 percent of the floor price plus the difference between the

1998, the floor and ceiling prices of the rice price band were set at US\$ 336 per tonne and US\$ 390 per tonne, respectively. The floor price was raised to US\$ 358 per tonne in 1999.

Colombia only releases import licenses when all domestic supplies have been sold at a pre-determined price. These licenses are issued to millers and processors in a fixed proportion of their local purchases, reportedly 1 tonne of import every 2.5 tonnes of domestic rice in 2000. Rice imports by **Colombia** are subject to ad-valorem duties of 20 percent for milled rice and 15 percent for paddy rice. As member of the Andean Community, however, the country has imposed additional import duties under the price band mechanism. Its operation resulted in a duty of US\$ 73.4 per tonne in late 1998. The surcharge was much higher in August 1999 at some US\$ 135.6 per tonne. It rose to US\$ 143 per tonne in March 2000 and to US\$ 162 in April 2001.

Like Colombia, **Ecuador** operates a complex trade import regime linked to the Andean Price Band System, based on an ad-valorem tariff, a variable duty and a supplementary safeguard duty. For the past three years, the ad-valorem tariff was kept at 20 percent, but the rice variable duty increased substantially, from 1 percent in 1998 to 26 percent in 1999 and 40 percent in 2000. In addition, the county imposed a safeguard duty, which rose from 5 percent in 1998 to 10 percent in both 1999 and 2000. As a result of these measures, the overall import duty rose from 26 percent in 1998 to 56 percent in 1999 and to 73 percent in 2000, remaining however within the bound URAA ceiling.

Following the tariffication of rice trade barriers in 1998, **Japan** renounced to apply the URAA provision on special treatment in respect of rice. This had the effect of slowing down the opening of the domestic market from the original 0.8 percent of the base-year consumption to 0.4 percent. As a result, the duty free import quota expanded from 644 000 tonnes in 1999 to 682 000 tonnes in 2000. In parallel, the out-of-quota import tariff was reduced from *Yen* 351.17 per kilo (US\$ 2 943 per tonne) in April 1999, to *Yen* 341 per kilo (US\$ 3 334 per tonne) in April 2000.¹⁴

Based on the United States/EC Blair House Accord, which was embodied in the **EC's** URAA commitments, imports of husked and milled rice into the Community have been subject to a variable levy since 1995, while paddy rice

reference and the floor prices. When the reference price exceeds the ceiling price, the surcharge is set at 20 percent of the ceiling price, minus the difference between the reference and the ceiling prices.

¹⁴ Based on an exchange rate of 119.33 Yen per US\$ on 1 April 1999 and of 102.28 Yen per US\$ on 1 April 2000.

and broken have been applied fixed duties within the URAA bound limits (Table I-10). The variable levy on milled and husked rice, which account for the bulk of EC's rice imports, are based on the difference between an external reference price and a ceiling derived from the prevailing intervention price. This system prevents the duty-paid import price¹⁵ to exceed the effective buying-in intervention price by more than 80 percent for husked Indica rice, 88 percent for husked Japonica rice; 163 percent for milled Indica rice; and 167 percent for milled Japonica rice. Its application has resulted in a fall in the variable levies imposed on husked and milled rice imports in the last three years, partly reflecting the drop in the intervention price over the period. For instance, the duty applied on husked Indica rice imported from third countries (excluding imports entering under preferential access schemes) fell from of *Euro* 235.9 (US\$ 266.05) per tonne at the beginning of the 1998/99 season,¹⁶ to *Euro* 207.76 (US\$ 220.50) per tonne in 1999/2000. It dropped to *Euro* 203.83 (US\$ 181.06) per tonne in 2000/01, much less than in the previous two years, partly because the intervention price was no longer subject to reductions. Likewise, duties applied to the rice imports that entered the Community under preferential access quotas (accounting for some 40 percent of total shipments) fell over the period under review. Finally, duties applied to paddy and broken rice, which are subject to fixed rates, also fell in the past two years, in line with the provisions of the URAA.

Table I-10: URAA bound import duties on EC rice products (Euros per tonne)

	Base	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
Paddy	330	311	291	271	251	231	211
Husked	413	388	363	339	314	289	264
Milled	650	611	572	533	494	455	416
Broken	200	188	176	164	152	140	128

Source: AgraEurope

The 2000 Commission rice reform proposal (see Box I-1) may have important implications for the estimation of the duties applied on imports of milled and husked rice, since the elimination of the official rice intervention price, would make the current system for the calculation of import levies on husked and milled rice unworkable. This could mean that the duty on those

¹⁵ Based on five, reference standard rice c.a.f. prices, loose, EC ports.

¹⁶ The rice season in the EC runs from 1 September to 31 August.

products would have to be based on the URAA bound tariffs, as is presently the case for paddy and broken rice. However, that change would have to be negotiated under Article XXVIII of GATT 1994 (Modification of Schedules) with interested WTO partners.

The EC Commission launched another proposal in September 2000, which was subsequently endorsed by the member countries in February 2001; to open up the European market to all commodities, except weapons, from 48 least developed countries.¹⁷ While this “Everything but Arms” (EBA) initiative gives unlimited and unrestricted access to most agricultural commodities produced in the beneficiary countries, rice was singled out, together with sugar, as one of the sensitive products subject to a transition period (Table I-11). Accordingly, only limited rice volumes would be allowed under the duty-free scheme until 2009.

Table I-11: EC duty-free rice import quotas under the EBA preferential access scheme (tonnes)

2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
2 517	2 895	3 329	3 829	4 403	5 063	5 823	6 696

Source:EC

Export Measures

Since 1998, **China** has pursued an active rice export policy and large inventories held by public grain enterprises allowed the country to maintain a high level of shipments even in 2000, when the country faced a marked production shortfall and a shrinking world market.

In late 2000, **India** attempted to boost sales abroad by offering rice for export at FCI public tenders. However, no exports were reported under those tenders, due to the relatively high minimum sale prices. Moreover, counter to the tendency prevailing in other exporting countries, India lifted, in 2000, the tax refund system that had allowed rice exporters to get compensation for the local taxes paid on the procurement of basic inputs.

During the past two years, the Trading Corporation of **Pakistan** provided increased support to private rice exporters through the negotiation of government-to-government rice deals. In addition, it sponsored the

¹⁷ All ACPs, plus Afghanistan, Bangladesh, Bhutan, Cambodia, Laos, Maldives, Mauritania, Myanmar, Nepal and Yemen.

establishment in 2000 of a quality review committee to give foreign customers guarantees over the quality of rice delivered by Pakistan.

Assistance to exporters in **Thailand** has usually been in the form of subsidised credits. In 2000, *Baht* 20 000 million (US\$ 487 million) were earmarked for that purpose through an “Export Support Fund” operated by the EXIM Bank. In that same year, exporters were requested to purchase one million tonnes of domestic rice at the prevailing market prices and to keep them in storage pending a price recovery. In exchange, the Government provided interest-free credit to back the purchases and covered the storage costs.

Between 1998 and 2000, **Vietnam** continued to manage exports through a system of minimum export prices and quotas, which it allocated to authorised export enterprises, both public and private. In 1998, the Government established a quota of 4 million tonnes, of which 70 percent for export by provincial firms, and 30 percent by national firms. Subsequently, the quota was set at 3.9 million tonnes in 1999 and at 4.2 million tonnes in 2000, while the number of authorised export firms was raised from 19 to 41 in 1999 and to 52 in 2000. However, because of the weakness of the international market, actual exports fell considerably short of the Government target in 2000. Minimum export prices also had to be repeatedly adjusted downward to keep abreast of international price changes. As a means to sustain the market, the Government also gave credits to exporters to purchase one million tonnes of rice at a minimum price. In addition, the country has started a programme to establish paddy farms specifically oriented towards high quality rice production for export, in an attempt to bolster the country’s competitiveness and gain improved access to the most remunerative markets.

In December 2000, following a bumper crop, **Egypt** lifted the ban on paddy rice exports. In the rest of Africa, exporters have seen barriers on exports between country members of the **UEMOA** lifted.

Uruguay’s rice export assistance is limited to the restitution of indirect taxes paid during the production process. The restitution is calculated at 4.50 percent of the FOB export value for husked rice and 4.25 percent for most of the other rice products. Similar to Uruguay, **Argentina** limits its assistance to exporters to the reimbursement of taxes, ranging from 6.8 percent to 12 percent. Similarly, a 5 percent refund is given to rice exporters in **Peru** as restitution of ad-valorem tariffs paid on basic inputs.

In the **United States**, subsidies that used to be granted under the Export Enhancement Programmes have not been used since 1997, and export

incentives are mostly conveyed through Export Credit Guarantee programmes (Table I-12). The volume of exports that benefited from the later fell from 499 thousand tonnes in 1998 to 192 thousand tonnes in 1999 and 225 thousand tonnes in 2000 (still provisional). Overall, about 25 percent of the United States' rice exports were shipped under food aid or credit guarantees programmes in 1999 and 19 percent in 2000, well above the share of 12 percent reached in 1996 and 1997, when world prices were relatively high.

Table I-12: United States rice export programmes

	1996	1997	1998	1999	2000*
	thousand tonnes				
Food aid	212	218	195	584	401
Credit Guarantee	141	80	499	192	225
Total	353	298	694	777	626
Share of total exports	12%	12%	21%	25%	19%

* Provisional

Source: USDA – Rice Situation and Outlook Yearbook, November 2000.

Bilateral trading arrangements

As governments of exporting countries intensified their efforts to secure rice sales, a large number of transactions were made under government-to-government agreements, often in the form of barter trade arrangements. Recourse to such arrangements were made between exporters, such as **Myanmar, Pakistan, Thailand and Vietnam**, and importers such as the **Malaysia, Indonesia, the Islamic Republic of Iran, Iraq, the Philippines and Sri Lanka**. Only one multi-year agreement was reported, which committed **Egypt** to supply **Libya** with some 100 000 tonnes of rice per year until 2003.

In September 2000, **Thailand** and **Vietnam** signed a memorandum of understanding, under which each country committed to contribute 100 000 tonnes of 25 percent broken rice to a pool, for sale at a minimum price of US\$ 152 per tonne. The purpose of the scheme is to keep export prices from falling by preventing the two partner countries from undercutting each other's prices in international transactions. However, the quantities earmarked and the number of countries involved were too small to render it effective. While China and India have shown an interest in the initiative, they have not officially joined the agreement.

CONCLUSIONS AND ISSUES

In the past two years, changes in rice **production** policies have been only partly consistent with the depressed price situation that prevailed in domestic and world markets. In fact, few countries took steps to cut production and most maintained expansionary rice production policies. Moreover, price support was raised in many countries, either through increases in the level of support prices or larger volumes of purchases by public procurement agencies. This behaviour denoted, in the case of many large rice producing /consuming countries, lingering concerns over a growing dependence on imports to meet domestic requirements, as well as the need to improve incomes of their farming population to temper urbanisation pressure. Notwithstanding the intensification of public rice procurement purchases, developing countries were not always successful in protecting producers from the effects of low prices since they could not afford large-scale intervention programmes or safety nets. On the other hand, developed countries complied with their URAA obligations to cut price support and to implement production-limiting schemes. However, these measures were often ineffective in curbing excess production because of strong gains in yields and the large compensatory payments made to producers, which have tended to offset the effects of falling prices.

The review of the period points to a growing use of indirect forms of assistance to production. More specifically, governments intensified their contributions to research, extension and investment in infrastructure. Subsidies to insurance programmes also appear to have made inroads as an instrument of support to farmers in both developed and developing countries.

The disengagement of the public sector from direct rice production and marketing activities, a process that was initiated more than one decade ago, appears to have triggered contrasting responses across regions. In LAC, there is evidence that producer organizations have taken over important functions previously under the responsibility of state bodies, especially input distribution, extension and even research. On the contrary, in many countries in Africa, the private sector appears to have failed to replace public commodity boards in the marketing of basic inputs and final products, credit supply, etc.

The number of governments exercising direct control over wholesale or retail prices continued to decline during the period reviewed. Moreover, income growth and low prices favoured a general shift by **consumers** towards better quality rice, which, in turn, is triggering production adjustment towards higher

quality rice varieties and investment in milling and storage infrastructure. In addition, as low retail prices have eroded the benefits of special distribution programmes, several governments took advantage of that favourable environment to mitigate the burden of those programmes on public finances, by raising selling prices or narrowing public distribution programmes. In this connection, the pressure has mounted, either internally or from international financing organizations, to re-examine the functions of state trading agencies in rice procurement, domestic marketing and international trade, possibly with the view to downsizing their activities and sharing some of their responsibilities with the private sector. While large intervention purchases boosted the volume of **public stocks**, the slide of market prices encouraged some governments to scale back publicly held inventories in an attempt to reduce financial costs and to overcome storage space problems. Nonetheless, various countries continued to maintain **minimum rice reserves**.

Concerns over the **environment** appear to have gained importance in a number of developing countries facing problems of soil erosion, salinity or desertification. The measures introduced to address those problems might denote a more balanced and sustainable approach in the pursuance of food security objectives in the longer run.

As regards **international trade**, WTO member countries have generally complied with their URAA obligations to open up their rice markets through preferential tariff quotas and to reduce export subsidies. Moreover, the URAA was effective in preventing several countries from discharging their rice surpluses onto world markets at below domestic prices. While a few countries have made wide use of export credits to boost exports; the extent to which they have provided an implicit subsidy to exporters is still subject to controversy. The URAA provisions on market access did not impede widespread tariff hikes, mostly because the bound tariffs were set high enough to give governments ample margin for variation.

Against this background, several recent policy developments deserve particular attention, since they might have potential implications for the future of the world rice economy:

- The changing nature of state trading enterprises – most of these organizations are undergoing a restructuring process that may substantially weaken their role in rice procurement, domestic marketing and international trade. These reforms will likely give scope to increased

private sector participation in those fields, but not necessarily improve access to national rice markets.

- China's forthcoming accession to WTO – the impact on the world rice market may be rather small in the medium term, notwithstanding the country's commitment for large minimum access quotas. Indeed, the Government is not expected to relax its policy of high rice self-sufficiency, given the nature of the international rice market. Moreover, although the country is expected to face growing resource constraints, it appears to have still ample scope for productivity increases through technological breakthroughs. The removal of inefficiencies in domestic marketing would also lift the competitiveness of domestically produced rice relative to imports.
- The EC's "Everything But Arms" initiative – this opens the EC's rice market, albeit only in 2009, to 48 least developed countries, including several large rice producers. The long transition period might entail serious erosion of the potential gains to the beneficiary countries, especially if a reform of the EC rice policy results in the abolition of intervention prices, as this would reduce the gap between the EC domestic prices and international rice prices. The narrowing of the price premium would indeed make the EC market far less attractive to the beneficiary countries, especially those facing relatively high production or marketing costs. From that perspective, the proposed reform of the EC rice policy regime may have more pervasive implications for the world rice market than EBA.
- The export agreement between Thailand and Vietnam – the scheme does not appear to have been effective in preventing rice prices from falling in 2000. However, since China, India and Myanmar have shown interest in the agreement, it may become a factor influencing the market in the next few years, should these countries decide to adhere to the initiative. Nonetheless, the chances for success of the scheme appear rather dim, given the nature of the world rice market¹⁸. Moreover, WTO members might also challenge such an export agreement.
- Although it has largely fallen beyond the scope of the present review, one specific area likely to pose growing challenges to policy makers in the

¹⁸ The chances for success are highly dependent on the share of the rice market accounted for by exporters participating in the scheme, the elasticity of world import demand and the elasticity of supply in non-member countries.

medium term is associated to the coming into the market of genetically modified rice varieties. Such developments will merit a close attention as they might have substantial implications for the structure of trade and prices.

II. GRAIN POLICY DEVELOPMENTS

The majority of domestic policy initiatives concerned with the grains sector during the 1999-2000 season were, in general, in response to low international grain prices, high input costs and weather problems. In many developing countries, attempts to increase incentives to producers through price support continued, although, at the same time, a number of economic influences tended to create upward pressure on input prices and weather-induced crop failures reduced producer returns. In the developed countries, new policy initiatives for grains reflected adjustments within broad policy programmes previously adopted by countries, including the EC's Common Agricultural Policy (CAP) and the FAIR Act in the United States. Within these programmes, the most significant policy change involved a shift from price support measures to direct fiscal transfers designed to support farm incomes.

Under the URAA, the trend toward reducing barriers to trade, together with a general tendency to liberalise domestic market activities has continued in many countries. An additional feature of trade policies over the past year, including those affecting grains, has been the progress toward strengthening regional trading agreements.

PRODUCTION POLICIES

In many countries, production support policies followed the established pattern of recent years; both in improving price, credit, and debt relief measures, on the one hand and, in increasing direct income transfers, on the other. However, in areas experiencing intense civil conflicts and weather problems, the pace of reform was stalled. In several countries, the increased support was geared toward enhancing farm income adversely affected by bad weather, low international grain prices and high-energy costs.

In **Africa**, many countries continued to strengthen producer support policies and, in some cases, to re-align them to make them more compatible with ongoing structural reforms. However, countries had various responses to short-

term developments, depending on their economic circumstances. **Morocco**, experiencing the worst drought in over a decade, allocated about US\$ 631 million in March 2000 to improve water supplies to grain producing areas and to help cover the cost of increased imports in 2000/2001. In response to high fuel prices, the Governments of **Mozambique** and **Sudan** increased the price of diesel by 25 and 27 percent, respectively, whereas in **Namibia**, the Government increased the per litre rebate on diesel fuel sold to farmers by 60 percent. In **Tunisia**, to encourage producers to improve yields, the Government, for the first time since 1996, increased producer prices in late 1999 for both durum and common wheat by US\$ 7 per tonne to US\$ 210 and US\$ 185, respectively.

Longer-term solutions were sought by others such as **Egypt**, where the Government launched a project, in 2000, valued at US\$ 87 billion dollars, the first phase of which aims to reclaim 400 000 hectares of agricultural land from desert by 2017. Much of land reclaimed under this project will be utilised for grain cultivation. The Government will provide 25 percent of the estimated cost with the private sector providing the rest.

Among the **Asian** countries, the minimum support prices (MSP) for grains were increased in **India** for the 2000/2001 marketing year (Table II-1). For wheat, the MSP was increased by 5 percent to US\$133 per tonne and for barley by 10 percent to US\$99 per tonne. The MSP is the price at which the government purchase grains from producers. In July 2000, the Government introduced a crop insurance scheme for maize and other crops. The main objective of this scheme is to assist farmers to manage the risk of crop failures. All farmers who have taken loans from financial institutions, including tenant farmers, are eligible for the insurance programme.

In May 2000, the **Islamic Republic of Iran** provided loans of about US\$ 183 million to help farmers (including grain farmers) affected by drought. Government-owned banks were authorised to exercise flexibility on penalties for delays in loan repayments for up to two years. In **Pakistan**, to cushion the effects of rising production costs, the support price for wheat was increase by 25 percent to 7 500 *rupees* (US\$144) per tonne between the 1998/99 and 1999/2000 seasons.

In **Jordan**, which became a WTO member in April 2000, the Government abolished its system of announcing administered prices for wheat and barley prior to the planting season. In **Turkey**, support prices during the 1999/2000 season remained unchanged for most grains, except for durum wheat, which was slightly decreased.

Within the **Latin American and Caribbean** region, the Government of **Brazil**, in August 1999, announced a plan to provide debt relief for up to 80 percent of all loans owed to the government by farmers, including grain farmers. The plan allows for farm debts of up to US\$ 5 000 to be discounted by 30 percent and those of up to US\$100 000 to receive a 15 percent reduction. In late 1999, the Government announced a series of measures aimed at increasing self-sufficiency in maize, including an allocation of US\$ 251 million in loans to help cover input costs. Although sowing of the main crop had already been completed, the loans boosted the area of late sown maize. In addition, a credit facility amounting to US\$ 448 million was extended for 2000, to be followed by the same amount in 2001. The loans are to be repaid over 6-8 years with interest rates of 8.75 -10.75 percent, with the lower rate applying to smaller farms. Income relief measures were announced in 2000 to offset the cost of crop losses, including for grains, due to frost in some parts of the country. Up to about US\$ 690 million in credit was allocated to finance the purchasing of inputs. For producers affected by the frost, the Government relaxed the repayment conditions on all existing farm debts.

The Government of **Jamaica**, in late April 2000, provided about US\$ 2 million to farmers (including grain farmers) hard hit by drought. This amount was in addition to a programme worth almost US\$ 5 million authorised by the Government through the state-owned Peoples Co-operative Banks to re-schedule loan payments of farmers affected by the drought.

Within Europe, the European Community (EC) reduced the intervention price for grains by 7.5 percent as stipulated under its Agenda 2000 CAP reform.¹⁹ However, the monthly storage subsidy payment, which was slated to be reduced from 1 to 0.93 euros per tonne in 2000/2001, was postponed to take effect in the 2001/2002 season. Candidate countries for EC membership²⁰ made significant progress in aligning the policies affecting their agricultural sectors to those of the CAP. However, severe weather problems, high fuel costs and low international grain prices prompted several governments to increase budgetary outlays to support domestic producers.

¹⁹ See *Cereal Policies Review, 1998/99*.

²⁰ The candidate countries for EC accession include Bulgaria, the Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Romania, Slovenia and Slovakia.

Table II-1: Average grain support prices in selected countries (price per tonne)

Countries	Prices in National Currencies							Prices in US Dollars		
	Currency	Nominal Prices			Real Support Prices (deflated by CPI, 1995=100)			1998/99	1999/00	2000/01
		1998/99	1999/00	2000/01	1998/99	1999/00	2000/01			
Developed Countries										
Czech Republic										
Wheat	Koruna	4 000	3 300	3 500	2595.7	1996.4	1879.7	124	94	87
Barley	Koruna	3 804	3 196	3 820	2468.5	1933.5	2728.6	106	80	95
Europ. Com. (a)										
Grains	Euro	119	119	110	111.7	109.2	100.9	133	127	117
Hungary										
Wheat	Forint	15 540	18 000	16 000	9141.2	9549.1	7744.4	66	65	52
Maize	Forint	14 700	14 000	14 000	8647.1	7798.4	6796.1	58	50	46
Japan										
Wheat	Yen	149 000	148 217	147 067	145365.9	145026.4	144608.7	1 141	1 301	1 323
Barley	Yen	128 620	127 680	126 700	125482.9	124931.5	117641.6	983	1 121	1 140
Norway										
Wheat	Krone	1 849	2 248	2 028	1701.0	2047.4	1788.4	230	242	218
Barley	Krone	1 851	1 893	1 743	1702.9	1724.0	1537.0	231	204	188
Oats	Krone	1 657	1 702	1 554	1524.4	1550.1	1370.4	206	184	168
Poland										
Wheat	Zloty	468	428	506	303.7	258.9	271.8	112	94.3	108
Maize	Zloty	500	426	450	324.5	257.7	241.7	120	93.9	96
United States (b)										
Wheat	Dollar	94.8	94.8	94.8	90/0	86.6	86.2	94.8	94.8	94.8
Maize	Dollar	74.4	74.4	74.4	68.1	65.5	65.1	74.4	74.4	74.4
Sorghum	Dollar	68.5	67.3	67.3	62.7	60.3	58.9	68.5	68.5	67.3
Barley	Dollar	71.7	73.5	73.5	65.6	64.3	64.4	71.7	73	73.5
Oats	Dollar	76.5	79.9	79.9	70.0	68.6	70.0	76.5	77.9	79.4
D. ping Countries										
India										
Maize	Rupee	3 900	4 450	4 450	2756.2	2883.9	3077.5	89	92	95
Wheat	Rupee	5 500	n.a.	n.a.	3886.9	4030.6	n.a.	125	129	n.a.
Barley	Rupee	3 850	n.a.	n.a.	2720.8	2988.2	n.a.	88	96	n.a.
Mexico										
Wheat	Peso	1 396	1 416	1 416	742.9	638.5	583.0	147	149	151
Maize	Peso	1 348	1 472	1 472	717.4	616.2	606.0	142	144	156
Tunisia										
Wheat	Dinar	268	278	278	235.3	229.8	236.0	201	196	199
Zimbabwe										
Maize	Zim. Dol.	2 205	4 200	4 200	1159.9	1546.6	2209.4	59	77	76

n.a. not available (a) intervention prices (b) loan rates Source: Official reports and OECD

In August 2000, **Bulgaria's** State Fund for Agriculture provided about 8 million *levs* (US\$ 3.5 million) as income support for grain producers. In **Croatia**, where a large proportion of the land under grain cultivation was declared a natural disaster area because of severe drought in 2000, the Government provided financial incentives to farmers to take out commercial insurance against damage to crops and farmland.

In the **Czech Republic**, as a result of drought which resulted in huge income losses and affected over one million hectares of land, mostly planted with grains, starting 1 April 2000, farmers were eligible for a 60 percent rebate on excise taxes paid on fuel and lubricants purchases, and were granted free water for irrigation. This was financed by a 5 billion *korunas* (US\$ 120 million) compensation package, which was also used to provide preferential interest loans to farmers with economically viable investment projects. In addition, a direct subsidy of 200 million *korunas* (US\$ 5 million) was made available to farmers who provided certified evidence of damage, while their rent on state-owned land was reduced by 10 percent. In its bid to align its agricultural sector to that of the EC, the Government plans to set aside up to 10 percent of all arable land, stating in 2001.

The Government of **Estonia** plans to increase its direct subsidy payments to grain farmers by about 296 million *kroons* (US\$ 16 million) in 2001, reflecting a 25 percent increase over the subsidies granted in 2000. The amount allotted for 2001 will be further augmented by 63 million *kroons* (US\$ 3.4 million) from the EC pre-accession aid scheme.

The Government of **Hungary**, in its 1999/2000 budget allocations, increased the amount of subsidy provided to agricultural producers by about 40 percent compared to that of the previous year to about 140 billion *forints* (US\$ 46 million). The higher subsidy was geared toward farmers affected by drought and high energy prices. Grain producers were offered per hectare subsidy payments based on land size. Payments ranged from 12 000 *forints* (US\$39) per hectare for grain producers with 20 hectares or less, to 4 000 *forints* (US\$13) per hectare for farms over 50 hectares. An additional sum of 90 billion *forints* (US\$ 30 million) was earmarked as subsidy payments in 2001.

In late 1999, the Government of **Lithuania** replaced its system of setting minimum guaranteed prices with one in which prices are generally freely determined by market forces. However, to protect domestic producers from low grain prices, an intervention (floor) price mechanism was introduced as part of this policy. Intervention prices for the 1999/2000 season were set at

430 *litas* (US\$107) per tonne for wheat, 330 *litas* (US\$83) per tonne for rye and 800 *litas* (US\$200) per tonne for buckwheat. These prices were exclusive of the normal value-added tax of 18 percent. Furthermore, the Government introduced a compensation scheme for the interest on loans. Interest rates were reduced by 50 percent on loans granted to purchase farm machinery, which carries an interest of 12 percent or less. For other farm-related loans, the interest rate reductions were up to 30 percent.

In **Poland**, the minimum support prices of bread wheat and rye were lowered by 11 percent to US\$114 and US\$81 per tonne, respectively, between the 1998/99 and 1999/2000 seasons.²¹ In 2000, the Government, in its bid to improve the quality of grain seeds used for planting, increased the seed subsidy by 23 percent to US\$40 per tonne for wheat and by 8 percent to US\$35 per tonne for barley. In addition, to help cushion the effect of higher oil prices on farmers, the Government introduced a special voucher in late 2000 that could be used as partial payment for fuel.

In late 1999, the Government of **Romania** increased the minimum guaranteed prices for wheat by 50 percent to US\$90 per tonne and for maize by about 58 percent to US\$78 per tonne. About US\$ 16 million was provided as direct subsidy to grain producers to help cover fuel costs. The Government expects to recover this amount through taxes on the sales of surplus grains.

Among the **CIS Republics**, in July 2000 the **Russia Federation** announced a package of reforms as a part of its long-term agricultural policy programme, which will run from 2001 to 2010. The main components of the reform measures include the following: (a) the creation of a federal grain reserve and market support mechanism to regulate the market; (b) the establishment of a flexible import duty system to improve customs controls; (c) a federal farm insurance set-aside programme that will retain 5 percent of the total amount of insurance pledges made to the agricultural sector; and (d) a restructuring of all farm debt owed to the state.

In **Norway**, the administered price of rye used for feed was reduced by about one percent to US\$248 per tone for the 1999-2000 season. On the other hand, area payments for all grains were increase by about 3-6 percent in addition to a one-time lump-sum payment of US\$14 per hectare of agricultural land. Excise taxes on nitrogen and phosphorus fertilizers were abolished from January 2000.

²¹ The minimum prices of wheat and rye were increased by 11 and 13 percent, respectively, in 1998. For more details, see *Cereal Policies Review, 1998/99*, p. 5.

The **Australian** Wheat Board (AWB) announced a new funding option, providing immediate relief to wheat growers affected by adverse weather in 2000. The new funding arrangement provided growers with the possibility to extend their 1999/2000 Harvest Payment loan and request up to 75 percent of their estimated remaining equity in the 1999/2000 National Pools. Farmers who delivered wheat into the Australian Hard Pool were eligible for an additional loan of around AU\$16 (US\$9) per tonne. Growers who delivered wheat into the Number Two Pool would receive a higher payment.

CONSUMPTION, MARKETING AND STOCK POLICIES

Most governments continued the trend of liberalising their markets mainly to improve efficiency and stabilise domestic grain markets. Consumption support policies already in place were continued without any significant changes, with a few exceptions.

In **Asia**, the Government of **India**, in trying to reduce a large accumulation of wheat stocks resulting from a good harvest, auctioned about 5 million tonnes of wheat for use in the domestic market, in June 2000. Furthermore, in August of the same year, the Government reduced the selling price for wheat under its open market sales scheme in the northern parts of the country. A price reduction of about 38 percent was in effect for the months of August and September. However, the reduced price was only applicable for wheat purchased from stocks held by the Food Corporation of India (FCI). The Government also increased the number of families eligible for subsidised food distribution from 60 to 65 million and increased the amount of grains supplied to its various welfare programmes, including donations of food aid. In addition, the issue prices for wheat channelled through the Public Distribution System (PDS) was reduced by 8 percent for the population below the poverty line and by 4 percent for those above the poverty line.²²

In February 2000, the **Turkish** grain marketing agency (TMO), in its bid to reduce wheat stocks, introduced a scheme whereby millers were offered a concessionary price if they purchased the wheat equivalent of their previous level of flour exports from the agency. Concern about millers withholding wheat from the domestic market prompted this change. In early 2000, the Government of **Yemen**, as part of an ongoing reform programme, granted license to establish two privately owned flourmills.

²² For more details, see *Cereal Policies Review, 1997-98*, Chapter 3.

In **Latin America and the Caribbean**, the Government of **Argentina** started a national grain registration programme in September 2000, to measure crop quality and quantity in distinct zones of the country. This registry is expected to help improve tax collection and the identification of factors that cause market distortions. In February 2000, **Brazil** announced that a sum of US\$ 1.6 billion was to be allocated to regulate the marketing of 12 million tonnes of grains and oilseeds. Under this package, about US\$ 62 million in official loans were used to finance the purchase of commodities, including wheat, maize and rice, with a further option to spend US\$ 674 million to purchase other food commodities. In late 1999, the Government of **Mexico**, reduced the authority of its state marketing agency, CONASUPO, and allowed the private sector to import, market and to purchase maize directly from producers. However, the allocation of the maize import quota is still under the authority of CONASUPO.

In **Europe**, the Government of the **Czech Republic**, in a bid to stabilise the domestic prices of wheat flour in 2000, bought milling wheat from domestic producers without the application of the value-added tax. A price of 3 300 *korunas* (US\$80) per tonne was offered, which was about 18 percent higher than the intervention price in the previous season. However, prospective sellers were obliged to deliver the wheat at their own expense, but were compensated if the wheat is sold to millers at a price higher than that which they were offered. In July 2000, the Parliament approved a bill that would allow grain producers to use grain delivered to certified warehouses as collateral for bank loans. The warehouse certificates received from storing grains can also be traded on the futures market. For private sector warehouses to be certified under this new law, they must have a minimum capital of 30 million *korunas* (US\$ 730 000).

To help control fiscal expenditure, **Poland** abolished its previous intervention (public storage) programme, which had been in existence since 1992, and instituted a new intervention programme in July 1999. Under this new programme, an intervention price was set for grain procurement with a compensatory direct payment. Farmers who choose to sell their grains to millers and wholesalers selected by the Agricultural Marketing Agency (AMA), in addition to the minimum prices received, were eligible for the AMA's average monthly compensatory payments of US\$22 per tonne for wheat and US\$14 per tonne for rye. However, if domestic market prices exceeded the minimum price, then the AMA compensatory payments were adjusted to reflect

the difference between the average domestic market price and the minimum price.²³ In August 2000, the Government of **Romania**, to offset the effects of a severe drought, offered a bonus of US\$21 per tonne to wheat producers to deliver up to 1.5 million tonnes of milling wheat from their 2000 harvest to licensed bakeries and elevators.

In July 2000, the Government of **Ukraine** authorised the purchase of about 500 000 tonnes of grains from producers, at prices ranging from US\$66 per tonne for maize and rye, to US\$77 per tonne for wheat. This intervention was aimed at stabilising the domestic market and to prevent exports at very low prices. However, producers were given the option to buy back their grain from the State at the same prices, plus the cost of storage, when market conditions permitted.

In **North America**, the Government of **Canada** established a new programme in September 2000, to provide early payments to barley producers, geared toward guaranteeing the delivery of feed barley by the end of 2000 so that sales commitments could be met. In addition, the Canadian House of Commons approved a bill aimed at reforming the country's grain transportation sector. The new legislation establishes a maximum reduction in rail revenues of about C\$ 178 million (US\$ 118 million), reflecting an 18 percent drop in grain freight rates beginning in the 2000/2001 season. The legislation also authorises the Canadian Wheat Board (CWB) to issue tender bids for the logistical services of grain shipments for up to 50 percent of its total grain volume, by 2002/2003. The Government will also provide about C\$ 175 million over 5 years to upgrade its road transport networks.

In February 2000, the **United States** Department of Agriculture (USDA) opened a tender for commodity certificates in a bid to encourage producers to redeem outstanding marketing loans on grains rather than surrender ownership to the Commodity Credit Corporation (CCC). With the certificate, any producer with loans of US\$ 150 000, which is the maximum amount granted, can retain the difference between the selling price and officially calculated local market price for that specific grain. A producer facing the possibility of forfeiting grain pledged as collateral on marketing loan will also be able to purchase a certificate up to the value of the loan. The certificate could then be exchanged for the commodity under loan so that the producer can retain ownership and the loan is redeemed. The redemption price for a certificate will

²³ The minimum prices of wheat and rye were increased by 11 and 13 percent, respectively, in 1998; see *Cereal Policies Review, 1998/99*, page 5, for more detail.

be equivalent to the Posted County Price (PCP) for the location where the certificate was purchased. Exchanges will not be permitted if the PCP exceeds the loan rate. Furthermore, in May 2000, the USDA provided loans to help grain producers upgrade their on-farm storage facilities. Up to 75 percent of the net cost of upgrading the storage facilities were financed by the loans, with a maximum limit of US\$ 100 000 per applicant for each fiscal year. The interest on the loans was set at 6.25 percent and a total amount of about US\$ 350 million was allocated for the first year of the programme.

OTHER RELATED DOMESTIC POLICIES

In early 2000, the Government of **China** offered subsidies to grain farmers in the western parts of the country to convert cultivated lands into forests or grasslands. The policy is designed to counteract environmental damage, especially soil erosion. Participating producers will receive a one-time payment of US\$90 and annual payments of US\$36 per hectare of land enrolled in the programme. The annual payments will be available for 5-8 years, depending on whether the cultivated land is converted into forest or grassland.

In October 2000, the **United States** Government announced an incentive programme worth US\$300 million to expand production of fuels from designated grains and other crops. A ten-year pilot project was also announced to distil alcohol from plant biomass grown on land enrolled in the Conservation Reserve Programme (CRP), which is largely comprised of grains. An area limit of 101 178 hectares was set with individual farmers allowed to enrol up to 20 236 hectares. Furthermore, in May 2000, the USDA announced that an additional 610 000 hectares of farmland would be accepted for enrolment in the CRP,²⁴ which is planned to increase from about 15 million to 16 million hectares. Farmers were offered an average payment of US\$128 for each hectare of land signed up in the programme.

INTERNATIONAL TRADE POLICIES

Depressed international grain prices and weather problems were the main factors underlying the grain trade policy environment during the period under review which prompted several governments to reverse the trend of grain trade liberalisation; however, in some countries facing severe weather problems,

²⁴ See *Cereal Policies Review, 1995-97*.

import tariffs were reduced. At the same time, most governments made significant strides in finalising their commitments under the Uruguay Round Agreement (URAA) and continued to formulate policies to meet further reforms expected during the on-going round of multilateral trade negotiations.

Import Measures

In **Bangladesh**, the Government halted the importation of grains during its fiscal year 1999/2000 (July/June) because of excess grain supplies and huge domestic stocks. The import duty on private grain imports was increased by 5 percent to discourage private traders from importing grain. On 16 June 2000, the Government of **India**, to protect its domestic farmers from lower priced imports, introduced a tariff-rate quota (TRQ) for maize. In the previous year, duty-free maize imports were allowed under an open general license. Under the new scheme, maize imports, whether for use as feed or food, were subject to a quota volume of up to 350 000 metric tonnes, with a duty of 15 percent. Imported quantities above the quota were subject to a 50 percent duty. In the following October, the in-quota volume was increased to 500 000 tonnes. At the same time, the import duties on sorghum and pearl millet were increased from zero to 50 percent.

In October 2000, the Government of the **Philippines** allowed millers to import high quality maize at a lower import tariff of 35 percent instead of the normal duty of 65 percent. Heavy rains during the preceding months, which damaged and in some cases prevented drying of maize, prompted the move. Similarly, between March and June 2000, **Thailand** allowed maize imports above its monthly quota of 53 543 tonnes and waived the import surcharge of US\$4.70 per tonne, to boost domestic supplies. However, the normal import duty of 76.2 percent was still applied. The Government of **Saudi Arabia** announced in May 2000, that the current unloading fee of US\$1.60 per tonne for imported barley would be abolished until March 2001. In January 2000, the Government of **Vietnam** provided a list of commodities and their tax rates for the implementation of the agreement on Common Effective Preferential Tariffs (CEPT) of the ASEAN group of countries.²⁵ For wheat, including durum, and maize seeds, both the preferential and CEPT tariffs were abolished, while for rye, barley and oats, they were set at 3 percent. For maize, other than seed, the

²⁵ The ASEAN members are Brunei, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

rate was set at 5 percent. Tariffs on value-added grain products ranged from between 5 and 20 percent.

The Government of **Brazil** lifted its import ban on two types of US wheat (hard red spring and soft red winter) in November 2000. The ban had been in place since 1996 because of the risk posed by TCK smut, a fungal disease. Wheat imported from countries outside the MERCOSUR²⁶ region carries a duty of 13 percent. In September 1999, the Government of **Colombia** reduced the import duty on maize under the Andean Community price band system from 80 percent to 37 percent due to rising feed and food costs.²⁷

In late 1999, the Government of **Malawi** finalised its reform programme for grains by abolishing the import duty on farm machinery and allowed local private companies to compete in the input supply market with international companies. In addition, the Government replaced its price band system for maize with an indicative price system, to reflect domestic market conditions. Previously, prices of all grains had been liberalised, except maize, which was still subjected to a price band mechanism.

In late 2000, because of shortages caused by a severe drought, the Government of **Bulgaria** announced plans to abolish its import duties on wheat and barley from January to June 2001. After this period, the normal import tariff for barley would be reduced by 5 percent to 15 percent. The import tariff on durum wheat would be lowered from 18 to 15 percent and for maize, from the normal 20 to 15 percent specifically during October to December 2001.

In compliance with its URAA obligations, the **Czech Republic** adjusted its import duties for grains as follows: the import duty was reduced from 21.8 percent in 1999 to 21.2 percent in 2000 for common wheat, rye, barley and oats. The duty on maize (other than for seed, which is now duty-free) was reduced from 17.5 percent in 1999 to 17 percent; and for durum-wheat, the duty was reduced from 3.7 percent in 1999 to 3 percent in 2000.

In January 2000, the Government of **Poland** revised its tariff-rate quota regime for common wheat by reducing its above-quota tariff and (URAA) bound tariffs by 6 percent to a level of 64 percent, or 100 *euros*, whichever is lower (Table II-2). The in-quota tariff rate of 25 percent was unchanged. Furthermore, the 20 percent tariff applied for durum was reduced to 3 percent until the end of December 2000 for imports from non-EC countries. For EC

²⁶ The member States of MERCOSUR are Argentina, Brazil, Paraguay and Uruguay. Bolivia and Chile are associate members.

²⁷ See *Cereal Policies Review, 1993-94*, Chapter 2.

member states, the tariff was set at 1.5 percent. At the same time, the preferential rate of 15 percent was maintained for wheat imports from Slovenia, Romania, Bulgaria and Lithuania, under the Central European Free Trade Association (CEFTA).²⁸ However, to lessen the impact of low international grain prices on the domestic market, the Government invoked the Special Safeguard clause (SSG)²⁹ in March 2000 and set import threshold prices at the following levels: for wheat, US\$149 per tonne; barley, US\$112 per tonne; rye, US\$128 per tonne; and oats, US\$48 per tonne.

In addition, Poland established country specific import quotas for some of its EFTA trading partners. In May 2000, tariff rate quotas were set for the import of 130 000 tonnes of wheat from Hungary and the Czech Republic. The Government also set up a specific import duty for the importation of 40 000 tonnes of wheat and 17 000 tonnes of maize from Slovakia.³⁰ At the same time, faced with an acute shortage and rising prices of maize, the Polish Government established generalised grain import quotas. A duty-free quota was established for 135 000 tonnes of maize to be imported by the end of December 2000. Furthermore, in August 2000, the Government allowed imports of around 800 000 tonnes of wheat duty free, equally divided between the public and private sectors, following huge export sales from intervention stocks during the previous season. A duty-free import quota was also set for 100 000 tonnes of rye, while 200 000 tonnes of other grains (mostly maize) were allowed to be imported duty-free by private sector importers.

Under the “double-zero” agreement between the **EC** and the ten **Central and East European** countries reached in 2000 (see Box IV-2), the EC and Poland agreed to initially establish a duty-free quota of 10 000 and 40 000 tonnes of flour and wheat, respectively. The quota will be raised by 10 percent annually.

²⁸ CEFTA members are Bulgaria, The Czech Republic, Hungary, Poland, Romania, Slovenia, and Slovakia.

²⁹ See: *The Results of the Uruguay Round of Multilateral Negotiations: The Legal Text*, pp 315-324.

³⁰ The duty was set at 15 percent for wheat but maize imports were duty-free.

Table II-2: Poland's tariff-rate quota scheme for grain imports, 1999-2000

Commodity	Tariff quota (metric tonnes)		In-quota tariff rate (% ad valorem)		Above-quota rate (ad valorem or euros/tonne)		URAA bound rate (% ad valorem or euros/tonne)	
	1999	2000	1999	2000	1999	2000	1999	2000
Common wheat	388 000	388 000	25%	25%	70% or 110 euros/t	64% or 100 euros/t	70% or 110 euros/t	64% or 100 euros/t
Durum wheat			3% max.	3% max.	20%	20%	27.5%	25%
Rye	0	30 000	0	0	20%	20%	55.8% or 110 euros/t	51% or 100 euros/t
Barley	0	40 000	0	0	20%	20%	55.8% or 110 euros/t	51% or 100 euros/t
Oats	0	30 000	0	0	20%	20%	41.7%	38%
Reciprocal agreements with the EC								
Common wheat	0	40 000	0	15%	0	64% or 100 euros/t	70% or 110 euros/t	64% or 100 euros/t
Maize	80 000	165 000	0	0	20%	20%	14% or 110 euros/t a/	12.8% or 100 euros/t a/

a/ The maximum of the two rates.

Source: Polish Government.

In late 2000, **Romania** waived its import duties on up to 500 000 tonnes of feed maize until the end of June 2001. The duty-free imports were aimed at rebuilding stocks and helping to ease the tight supply situation in the feed market. In the **Ukraine**, because of a bumper maize crop, the Government announced in late 2000, that it would limit maize imports to 500 000 tonnes until the end of the year.

The Government of **Canada** imposed a provisional anti-dumping and countervailing duty of C\$66 (US\$4) per tonne on imports of maize from the United States. The preliminary results of a special investigation indicated that US maize was on offer at prices considered to be, on average, below profitable levels. The Customs and Revenue authorities would make a final decision on dumping and subsidisation early in 2001 and the final determination on injury by the Canadian International Trade Tribunal will be made thereafter.

Export Measures

Bangladesh, in an attempt to dispose of its huge wheat stocks, announced in early 2001 plans to allow private firms and co-operatives to export wheat through tender bids.

In late 2000, the **Czech** Government increased its export quota for bread wheat from 50 000 to 200 000 tonnes. Restrictions on exports had been imposed earlier in the year to prevent an expected shortfall of wheat on the domestic market. As a result of poor grain harvests, **Hungary** banned the exporting of maize and instituted duty-free import quotas for barley and oats in November 2000 for up to 100 000 tonnes of oats and 20 000 tonnes of barley.³¹ However, in early 2001, the ban on food maize export was lifted, but feed maize exports were still prohibited.

The **United States** announced a programme, in November 1999, to assist exporters to provide samples of their products to potential buyers in foreign markets. The Quality Samples Programme (ASP), valued at US\$ 2.5 million, focused on non-branded products, including processed or semi-processed grains and other agricultural products that are not in ready-to-eat form. The ASP participants must purchase and export commodity samples and provide technical assistance on their use to importers. When the project is finalised, the Government will reimburse the costs of buying and exporting the sample.

CONCLUSIONS

From the review presented in this chapter, the main factors that drove policy responses in the grains sector over the past year were low international prices, high energy costs and adverse weather. However, most countries continued the trend toward liberalising their domestic grain markets in accordance with commitments already made under structural adjustment reform programmes and the URAA.

Over the past year, in the face of depressed grain prices, many governments increased budgetary outlays to provide relief to producers in the form of higher support prices, input subsidies, expanded credit facilities and direct income transfers. In some countries, crop insurance programmes were also given renewed emphasis to assist farmers to manage production-related risks. Among other countries, reforms were stalled as a result of the market conditions noted above. Overall, policy responses over the review period varied, depending on the grain supply situation in the respective countries. For countries with excessive grain supplies, the policy responses were along the following lines: price discounts were offered in the domestic marketing of grains; import duties

³¹ The normal rate of import duty for barley is 32.8 percent and 32 percent for oats, whereas the preferential rates for CEFTA members are 18 percent for barley and 15 percent for oats.

were increased and temporary import bans were enacted; tariff-rate-quota schemes were established with tight quota quantity and/or higher quota tariffs; increased private sector participation in grain trade and increased expenditure outlays to stabilise domestic grain markets were provided. For countries facing grain shortages, policies were enacted to ease import controls and/or to restrict grain exports.

III. POLICIES AFFECTING THE OILSEEDS, OILS AND MEALS SECTORS

This chapter reviews government policies affecting the oilseeds, oils and fats and oil cakes and meals sector. The focus is on measures adopted and policy changes introduced during the period 1998-2000 in the fields of production, consumption, marketing and international trade. In general, during the period under review, the past trend towards the gradual reduction of potentially market distorting, direct government intervention in production, marketing and international trade of oilseed-based products continued. However, during the last two years, specific developments in the global market for oil-based products induced a few important producing as well as trading countries to reappraise their policies. A number of exporting countries decided to step up direct support to domestic producers and to increase export promotion efforts, while major importing countries tended to raise border protection in an effort to shield domestic industries from international competition. In supporting the oilseeds sector, WTO member countries adhered to the commitments made under the Uruguay Round Agreement on Agriculture (URAA).

PRODUCTION POLICIES

While some countries continued to rely on price support programmes to protect farmers' incomes, usually in conjunction with procurement schemes to assure domestic supplies, others shifted to more direct income support for oilcrop producers. Other policies were also applied, including restrictions on land use to control oilcrop production, usually in tandem with price support schemes, and input subsidies to support oilcrop production.

Producer price support and procurement schemes

These policies for oilcrops continued to be applied in some countries (see Table III-1) in order to protect farmers' income and to provide sufficient

supplies for domestic markets. Among developing countries, guaranteed prices and state procurement schemes remained in place only in a few of them, in particular **India**, **Pakistan**, and the **Republic of Korea** - all net importers of oilseeds. In general, in developing countries where support prices were applied, these were increased in nominal terms but did not keep pace with inflation. In most cases, farmers preferred to sell their oilseeds on the open market, as state-administered prices tended to remain below domestic market prices. Regarding state procurement of oilseeds, the volumes involved were limited, mainly because of general cuts in public spending. In **India**, purchases of oilseeds by state agencies occurred during 2000, but the amount procured remained small compared to overall crop supplies. As a result, price support and procurement schemes provided little or no incentives to expand oilseed production. In **China**, government intervention in production and marketing of oilseeds remained limited when compared to other food and feedcrops. Price support continued to be offered for soybeans, but at an unattractive level compared to the major competing food and feed grains – a situation which contributed to the reallocation of farm resources from soybeans to maize, wheat and rice, i.e. commodities considered of relatively greater strategic importance. Mandatory procurement of soybeans at fixed quota prices remained in place but affected only a small part of total production. Overall, the policies applied in India and China contributed to the widening of the domestic supply gap in oilseed products in recent years. As a result, reliance on the importation of oilseeds and derived products - a relative attractive option, considering the fall in international prices for these commodities over the last few seasons - tended to increase. In **Thailand**, to promote palm oil cultivation, the Government continued imposing minimum purchase prices at which crushers had to buy oil palm fruit branches from producers.

Table III-1: Oilseeds, oils and fats support prices in selected countries (price per tonne)

Commodities/ Countries	CURRENCY	Prices in national currencies						Prices in US dollars		
		in nominal terms			in real terms			1998	1999	2000
		1998	1999	2000	(deflated by CPI 1995=100)					
1998	1999	2000	1998	1999	2000	1998	1999	2000		
Copra										
India	Rupee	29000	31000	32500	21936	22399	22707	703	720	723
Groundnuts (unshelled)										
India	Rupee	10400	11550	12200	7867	8345	8524	252	268	271
USA a/	US\$	672	672	672	628	615	595	672	672	672
USA b/	US\$	145	145	145	135	133	128	145	145	145
Olive Oil										
EU	Ecu/Euro	3838	3838	3838	3570	3489	3373	4599	4094	3546
Rapeseed										
India	Rupee	9400	10000	11000	7110	7225	7685	228	232	245
Pakistan	Rupee	11250	12500	12500	8614	9191	8873	250	254	237
USA	US\$	205	205	205	192	188	181	205	205	205
Soybeans										
Brazil	Reais	159	159	162	124	119	113	137	88	89
India (black)	Rupee	7050	7550	7750	5333	5445	5415	171	175	172
India (yellow)	Rupee	7950	8450	8650	6014	6105	6043	193	196	192
Pakistan	Rupee	8625	10250	10250	6604	7537	7276	192	209	194
Rep. of Korea (grade 2)	'000 Won	1512	1739	n.a.	1284	1464	n.a.	1079	1463	n.a.
USA	US\$	193	193	193	180	177	171	193	193	193
Sunflowerseed										
India	Rupee	10600	11510	11700	8018	8316	8174	257	267	260
Pakistan	Rupee	11250	12560	12500	8614	9235	8873	250	256	237
USA	US\$	205	205	205	192	188	181	205	205	205
Butter										
EU	Ecu/Euro	3282	3282	3282	3159	3141	3087	3676	3501	3033
USA (grade A)	US\$	1433	1433	1448	1339	1311	1281	1433	1433	1448

n.a. not available

a/ Prices for production within marketing quota

b/ Prices for production additional to marketing quota

Among developed countries, the **EC** continued to support production of butter and olive oil on the basis of specific reference support prices. Support was actually provided in the form of production aid, public storage and export subsidisation. Following a reform of the EC olive oil regime in 1998, production aid was lowered, support to small producers was discontinued and public intervention at guaranteed prices was replaced by private storage aid. In the **United States**, public marketing loans for oilseeds, with loan rates having an impact comparable to that of support prices, continued to be applied. The loan rates for soybeans, groundnuts and the so-called 'minor oilseeds' were set within the ranges established under the 1996 Federal Agricultural Improvement and Reform (FAIR) Act, which regulates support to the agricultural sector until 2002. Changes introduced under the FAIR Act regarding the application of the loan schemes, contributed to a significant rise in payments in 1999 and 2000 when producer prices for soybeans fell below the respective loan rates. While these payments partly insulated producer income from the impact of low market prices, the high soybean loan rate relative to that for competing crops also contributed to the steady expansion of soybean plantings from 1999 onward.

Direct Income Support

Under the influence of the URAA, as well as on-going discussions within the WTO regarding agricultural support policies, several countries, in particular developed ones, tended to increasingly rely on direct income support payments that were not directly linked to production levels or market prices. In the **United States**, non-crop specific income payments (known as Production Flexibility Payments) introduced in 1996 remained in place, though the gradual reductions in total payments envisaged for the 1996-2002 period were applied. In the **EC**, farmers continued to receive the oilseed specific direct income support payments introduced in 1992. However, during 2000-2002, oilseed payments are being reduced in order to gradually align them with those offered for other arable crops. Initially, the alignment of support payments is likely to make oilseed production less profitable vis-à-vis other arable crops, in particular cereals. In **Canada**, with the termination (in 1997) of various transitional programmes that were to cushion the impact of the phasing out of the Western Grain Transportation Act in 1995, support to producers of grains, including some oilcrops, was drastically reduced.

Several other countries have undergone or are considering undertaking a shift from production-related support to direct income payment on a per-hectare basis. These countries include the **Czech Republic**, **Hungary** and **Lithuania**, where such policy changes are related to EC accession plans, as well as **Japan**, **Mexico**, **Switzerland** and **Turkey**, where such schemes are mainly designed to stimulate oilseeds production.

In addition to the forms of support described above, during the period under review, some developed countries intensified the use of income safety net programmes for farmers. As payments under these programmes are generally of a non-crop specific nature, these measures are discussed in more detail in chapter V of this document.

Area and/or production limits

Principally designed to reduce the unwanted effects of price support schemes or other crop specific programmes, area limits remained in place in the **EC** for oilseeds and olive oil. In 1998, the respective thresholds were surpassed, which triggered penalties in the form of reduced support payments to both oilseeds and olive oil farmers. The threat of further penalties contributed to containing oilseed plantings in 1999 and 2000. Furthermore, in order to receive income support payments, oilseed producers continue to be obliged to set aside part of their land. From 1999 onward, the set aside rate was 10 percent. Subsidised land set-aside was recently introduced in the **Czech Republic**, in the context of policy adjustments leading up to EC accession. In **Malaysia**, measures to slow down the expansion of domestic oil palm cultivation were introduced, in an attempt to control production during a period when the country was increasingly faced with excess stocks. For the same reason, the government has offered incentives to power plants and industries for using diesel fuel derived from palm oil.

Other Production Support Programmes

Various indirect forms of production support continued to be used in developing countries to stimulate arable crop production, including that of oilseeds, thus raising self-sufficiency levels in agricultural commodities (or reducing import dependence), and/or to produce exportable surpluses, often in combination with measures limiting importation. In some cases, support

measures were specifically aimed at increasing productivity in oilcrop production. Use of high performance seed material, other technology transfer and research and development programmes received support in numerous countries including **India, Pakistan, the Philippines and Thailand**. In other countries (including **Colombia, India, Indonesia, Kenya, Malaysia, Slovak Republic and Venezuela**), producers were granted tax exemptions and/or received subsidised credit (seasonal credit as well as loans for storage and various on-farm investments), though, in general, outlays for such schemes appear to have decreased in recent years. Furthermore, during the review period, several governments, including those of **India, Indonesia and Mexico**, supported land privatisation schemes, creation of producer organizations, foreign investment projects and the establishment of commodity exchanges. In **Mexico and India**, government supports for crop insurance programmes continued.

Attracted by high productivity levels in oil palm production, several countries in Asia, Africa and Latin America launched support programmes to foster the development of oil palm cultivation and marketing, both to improve domestic availability of vegetable oils as well as to supply the steadily expanding world market for palm oil.

MARKETING AND CONSUMPTION POLICIES

Following past trends, during the period under review, public sector intervention in markets for oilseeds products has been re-appraised in a number of countries, particularly among developing nations in Asia and Africa. Numerous governments introduced or continued implementing general market liberalisation and deregulation reforms. These comprised the privatisation of state-owned oilseed production and processing facilities and the termination of state monopolies in the marketing of oilseeds and derived products. While progressively withdrawing from direct market intervention, several governments shifted efforts towards measures that contribute to an orderly and efficient operation of markets, such as setting up information systems, supporting the establishment of commodity exchanges and offering quality control/certification and other regulatory services. In general, also direct intervention in consumer prices for oilseed-based products was reduced compared to previous years. In addition to widespread market reforms, also the

steady fall in world market prices for oils and fats registered during 1999-2000 contributed to more limited market intervention in favour of consumers.

Marketing Policies

In **India**, most restrictions on domestic trade, storage and export of major oilseeds and derived products were removed by 1998, except that *ghee* manufacturers were instructed to cover part of their raw material requirements through the domestic market rather than through imports. With regard to commodity exchanges, the Indian Government's decision to permit futures trading resulted in futures contracts being launched for all major oilseeds, oils and meals, and possibilities of on-line trading are also under consideration.

In a number of **CIS Republics**, state- controlled marketing enterprises remained in place but started operating alongside private traders; i.e. they were not allowed to retain their monopoly in oilseed product markets. In the **Ukraine**, the termination of strict state control over the market for oilseeds led to the reorientation of the domestic sunflowerseed sector towards the export market. In **Indonesia**, all barriers to investment in palm oil were removed, international trade in oilcrop products started to be deregulated and restrictions on the wholesale and retail sectors were gradually lifted. However, following the country's recent economic crises, the pace of some of these reforms was reduced, in particular to protect consumers from potential price increases.

On the other hand, some countries continued or augmented state intervention in oilseed markets. In **Thailand**, for instance, while phasing out import restrictions, the government continued to set the prices for certain oilcrop products on the domestic market. Local prices were set at levels that would stimulate domestic production and/or maintain domestic products competitive vis-à-vis imported goods. In the **Republic of Korea**, state-trading enterprises retained their monopoly over the marketing of imported as well as domestically produced soybeans. And in **Malaysia** and the **Philippines**, for the first time in many years, state agencies resorted to intervention buying of respectively palm oil and copra, in an effort to stem the unprecedented fall in world prices, which hit their export-oriented industries during 2000. In Malaysia, government enterprises also continued to handle most of the country's palm oil export operations.

Consumption Policies

In 1998, as **Indonesia** embarked on an IMF-backed reform programme introducing wide-ranging market liberalisation, the state-controlled agency BULOG was deprived of its monopoly on the importation and domestic distribution of foodstuffs including oilseeds and derived products. The sale of imported soybeans and cooking oils at highly subsidised prices (geared towards stabilising consumer markets) was gradually phased out. In **India**, the Government re-directed its attention towards regulatory tasks such as the introduction of packaging requirements and setting up quality control mechanisms. In the **EC**, along with the reform of the olive oil regime introduced in 1998, payments in support of olive oil consumption were discontinued.

On the other hand, a number of countries continued to support consumption of oilseed-based products, particularly of oils and fats intended for human consumption. Main objectives were to raise consumption from domestic sources and/or reduce dependency on imports. In a few countries, retail prices for vegetable oils continued to be either set or controlled closely by government bodies (e.g. **India, Thailand** and the **Russian Federation**). In other cases, government controlled agencies and public retail outlets were directed to sell vegetable oils and fats (procured on the national or international market) at prices below market levels. Countries where governments continued to be involved in the sale of cooking oil at subsidised prices include the **Islamic Republic of Iran, Malaysia, Morocco** and **Peru**. However, in an attempt to limit market distorting effects, most of the above mentioned operations were applied on a temporary basis only. Furthermore, it appears that efforts were made to tune consumer support measures to actual price movements on the domestic and international market and to better co-ordinate such operations with trade policy measures.

OTHER RELATED DOMESTIC POLICIES

A number of countries continued to support research and development programmes to find new end-uses for specific oilseeds and derived products, both for food and non-food uses. Examples include the **Philippines** (coconut oil), **India** (oilcakes and meals), the **United States** (soybeans and soybean products), **Malaysia** (palm oil) and the **EC** (rapeseed oil). In particular,

countries encouraged the production of bio-diesel from oilcrops as an environmentally friendly alternative to fuels produced from non-renewable resources. However, the regular provision of subsidies and/or tax breaks to refiners continued to be necessary to guarantee the economic viability of bio-diesel production from oilcrops. The overall objectives pursued by governments in developing bio-diesel applications included: (a) developing further the domestic oilseed production potential, (b) addressing problems of oversupply in oilcrop markets, and (c) meeting specific environmental targets. Such targets were applied in the **EC** and the **United States**, while the **Czech Republic**, **Hungary** and **Poland**, as candidates for EC membership, increased their efforts to obtain a specific percentage of their energy requirements from renewable resources, especially oilcrops.

INTERNATIONAL TRADE POLICIES

In general, the tendency of governments to withdraw from direct intervention in domestic markets seems to have intensified the use of trade policy measures in pursuance of domestic production and consumption policy goals. On one hand, under the influence of the URAA, changes in trade policies for oilseed-based products led to increased market transparency, progressive reduction of non-tariff barriers and more open export competition, which, in general, helped bring domestic prices for oilseeds and derived products more into line with variations in world market prices. On the other hand, control over import access remained in place in several countries and, during the period under review, international trade in oilseeds and derived products was affected by intensive use of tariff measures.

Import Measures

As opposed to previous years, when a tendency towards a reduction in tariffs and other import barriers affecting trade in oilseed products was observed, during 1999-2000 numerous countries, in particular developing nations, resorted to import control measures. One of the main reasons for this shift was the general decline in world market prices for oilseed products, which strongly stimulated imports of developing countries, thus affecting adversely oilseed producers and crushers. Faced with foreign exchange constraints and rising import dependence, several countries stepped up their efforts to shield domestic

industries from greater international competition. Some governments increasingly relied on import control measures as a complement to production policy measures because - under the influence of the URAA as well as other factors - the use of price guarantee schemes, government procurement and other forms of direct market intervention was reduced.

During the period under review, the main policy instrument affecting imports were tariff measures, as numerous countries had converted non-tariff barriers into tariff duties. Where applicable, individual countries' tariff policy measures were implemented in compliance with country-specific URAA commitments. During the period under review, some developing countries raised actual tariff rates to levels close to the URAA bound limits.

Among countries that resorted to increased tariffs and related duties was **India**, one of the world's major importers and consumers of vegetable oil. Before mid-1999, import policies in India were determined by general trade liberalisation reforms, which included the progressive elimination of long-standing quantitative import restrictions as well as licensing requirements for oilseeds, oils and meals. Through these measures, and through reductions of import duties for oils and meals, the Government was able to enhance capacity utilisation in the domestic oilseed processing industry and managed to stabilise domestic prices that had surged as a result of poorly performing local oilseed production. During 1999, however, a situation of oversupply developed, because of better harvests and, more importantly, the unprecedented surge in cooking oil imports triggered by a sharp decline in world prices. Tumbling domestic producer prices and under-utilised oil processing capacities induced the Government to introduce a number of measures to restrict imports, in particular higher import duties on refined vegetable oils. To stem the flow of imports and, thus, restore domestic price levels, tariff rates for vegetable oils were raised several times during 1999-2000, as the persistent decline in world prices tended to neutralise the impact of the various tariff increases. In this process, the government tariff escalation also occurred, so as to encourage the importation of crude oils over refined oils, thus supporting the domestic refining industry. With regard to India's imports of oilseeds, relatively high duties and special import requirements remained in place, continuing to restrict trade.

Other countries where tariffs on oilseeds and products were increased with a view to protecting domestic production and processing interests include **Chile**, **Colombia**, **Lithuania**, **Nigeria**, **Pakistan**, **Sri Lanka** and **Turkmenistan**. In

general, it appeared that increased emphasis was put on aligning tariff rates with changes in the level of world market prices. Furthermore, several importing countries used tariff differentiation in an effort to favour importation of low value products for domestic processing (e.g. refined edible oils were taxed at higher rates than oilseeds and crude vegetable oils) and, thus, contribute to value-addition within the country.

In some countries, protection from imports was achieved primarily through quantitative import restrictions, licensing requirements and other non-tariff measures. In **China**, the Government maintained firm control over the importation of most oilseeds and products through quota and licensing systems as well as tariff measures. Quotas continued to be determined on an annual basis by the Government based on domestic market conditions and various policy considerations. During 1999-2000, import restrictions on vegetable oils were applied to support domestic prices for oils as well as to encourage domestic oilseed production. Regarding oilmeals, in 1999, the overall import charge on imported soybean meal was raised by the reintroduction of a value-added tax. This served the purpose of supporting prices for domestically produced oilmeals and, thus, domestic crushers. As opposed to oil and meal imports, importation of oilseeds was subject to fewer restrictions, again reflecting an effort to assist local crushers and to stimulate expansion in the domestic crushing industry. As a result of these policies, in the last few years, the bulk of the country's import requirements were covered by the purchase of oilseeds as opposed to oils and meals.

Among developed countries, in the **United States**, limitations on the importation of groundnuts and derived products continued to accompany measures in support of domestic groundnut production. However, in line with its URAA obligations, the Government is committed to gradually increase the import quota for groundnuts. Furthermore, import quotas for butter and butter substitutes remained in place. Other countries that strengthened non-tariff barriers on oilseed products during 1999-2000 - in some cases after having relaxed import controls in previous years - include the **Czech Republic**, **Nigeria**, and **Thailand**. Measures applied include quotas and specific requirements with regard to licensing, shipping documentation and country of origin inspection.

As opposed to the trend described above, some countries moved in the opposite direction, lowering import tariffs and/or reducing import restrictions. In such cases, the objectives pursued included: (i) to ensure adequate supplies

during periods of domestic supply shortages and to protect consumers from high prices (**Bulgaria, the Russian Federation, Ukraine, Uzbekistan**); (ii) to assist oilseed crushers and other parts of the industry by improving their access to imported raw materials (**India, the Philippines, Romania, China Province of Taiwan**); (iii) to continue pursuing trade liberalisation reforms (**Indonesia, Japan, the Republic of Korea**); (iv) to honour URAA tariff reduction commitments (**Philippines**); and (v) to respect commitments made under regional trade liberalisation agreements (**Thailand, Argentina, and Andean Pact** member countries).

Tariff rate quotas for oilseeds and derived products, normally introduced during the process of converting non-tariff barriers into tariff measures, were adopted or remained in place in a number of countries including the **Czech Republic, the Republic of Korea, Poland** and **Thailand**. While, in principle, such instruments contributed to increased transparency and market access, problems in the administration and allocation of the quotas sometimes prevented quotas from being fully used.

Export Measures

Compared to previous years, some countries made intensive use of export incentive measures. The main reason for this was that, during 1999-2000, competition between exporting countries increased in certain markets for oilseed-based products due to a steady expansion in global export supply combined with relatively sluggish growth of import demand.

An unprecedented increase in export supplies of palm oil (after two years of relatively tight supply) combined with a slowdown in import demand, induced the two main exporters of palm oil, Malaysia and Indonesia, to implement wide-ranging export enhancing policies. Prior to the year 2000, the Government of **Malaysia** taxed the export sector, with a view to stimulating domestic refining of palm oil. During 2000, however, the palm oil export tax was lowered and temporary tax waivers were introduced, in an effort to stimulate exports and combat the glut in the domestic palm oil market. Furthermore, the Government offered favourable credit and payment conditions to selected importers and increased efforts to penetrate new markets and promote palm oil consumption abroad through joint ventures. These measures were accompanied by moves to reduce the country's output and raise domestic consumption of palm oil. In **Indonesia**, the direction of policies was very much

the same. Prior to 1999, following the surge in palm oil exports caused by the depreciation of the country's currency, measures to limit palm oil exports had been introduced (quantitative restrictions, export taxation and temporary export bans) in an effort to secure domestic supplies and control the rise in local prices. From early 1999 onward, excess supplies and increased competition on export markets led to successive, substantial reductions in Indonesia's export tax on palm oil products. To support exports, Indonesia, as well as Malaysia, also signed barter trade agreements with governments of importing countries, including **China**, **Cuba** and the **Republic of Korea**.

Other countries that decided to temporarily lift or suspend export taxation and licensing requirements in order to stimulate the exportation of oilseed products included **Bulgaria**, the **Czech Republic** and **Tunisia**, while export tax rebate systems remained in force without modification in **Argentina** and **Colombia**.

In the **United States**, several export incentive measures remained in place, although direct government intervention in the export market remained limited. While the Export Enhancement Programme remained unused as far as oilseeds and products are concerned, the provision of export incentives through export credit guarantees continued and actually increased compared to previous years. While outlays for oilseeds, oils and meals under the short term export credit scheme (GSM 102) amounted to about 740 and 895 million US\$ in fiscal years 1996 and 1997 respectively, annual outlays averaged 1095 million US\$ during the period 1998-2000. This programme was used to secure market share for US exports of oilseeds, meals and oils to countries facing financial difficulties, in particular in Asia. Also, outlays on other programmes to promote the development and expansion of export markets for oilseeds and products were increased (Market Access Program and Foreign Market Development Co-operator Program). Similarly, **Canadian** oilseeds and products continued to benefit from export credit guarantee programmes. In the **EC**, export subsidisation programmes, which are confined to butter and olive oil, continued to be used. In **Poland**, in 2000 the Government introduced export subsidies for rapeseed.

Measures to limit exports of oilseeds and products were used by a number of countries, mainly to ensure adequate domestic supplies. In 1999, the **Russian Federation** introduced export licenses and taxation for oilseeds and derived products. Though successful in curbing exports, these measures also depressed production, as exporting companies were reluctant to provide seasonal credit to

oilseed growers. In order to minimise negative effects on production, export surcharges and licensing requirements imposed in **Thailand** (palm oil), the **Slovak Republic** (oilseeds), and the **Czech Republic** (rapeseed) were only of a temporary nature. In the **Ukraine**, following the steady expansion of exports, levies on foreign sales of sunflowerseed were re-imposed in 1999. This measure was aimed at encouraging the exportation of the higher value oil products rather than seed, thus providing support to the domestic crushing industry. In **Indonesia**, differential export taxation for vegetable oils was introduced with a view to discourage sales of crude vegetable oils in favour of exports of refined and other higher value oils.

CONCLUSIONS AND ISSUES

Although the past trend towards the gradual reduction of direct government intervention in production, marketing and international trade of oilseed-based products continued, during the period under review a number of important players in the global oilseed market reappraised their production and trade policies under the influence of specific market developments. In 1998, the world markets for oilseeds and derived products moved from a supply and demand balance to a situation of excess supply. Consequently, during most of 1999-2000, world prices for oilseed products were under considerable downward pressure. As a result of the changed market conditions, several countries introduced policy adjustments. In general, exporting countries decided to step up direct support to domestic producers and to increase export promotion efforts, while importing countries tended to raise border protection in an effort to shield domestic industries from international competition and low prices. In pursuing these policies, governments put increased emphasis on direct income support for agricultural producers, on the one hand, and tariff measures on the other. In general, support provided by WTO member countries in pursuing the various policies remained within the boundaries established under the URAA.

With regard to oilseed **production** policies, several countries shifted towards direct income support payments that were not directly related to production, thus allowing producers more flexibility in responding to global market signals. However, in some developed countries, production of oilseeds continued to expand, partly aided by special support measures. As to developing countries,

policy measures introduced in support of oilseed production seem to have achieved their objectives only to a limited extent.

Regarding domestic **marketing** policies, the general trend was to reduce direct intervention in the domestic production and marketing of oilseeds and derived products. It emerged that, while reducing direct intervention in markets, governments in developing countries took measures aimed at enhancing market transparency and efficiency, so as to enable domestic oilseed industries to develop fully their production and processing potential as well as to protect producers, processors and consumers from excessive price fluctuations.

As to **consumption** policies, several developing countries reduced public intervention in consumer markets. However, as per caput intake of oils and fats remained low in many developing countries, measures to encourage consumption of these products continue to require particular attention.

Under the influence of the URAA, changes in **trade** policies for oilseed-based products led to increased market transparency, progressive reduction of non-tariff barriers and improved export competition. However, during the period under review, trade in oilseeds and derived products was affected by the extensive use of tariff measures in various countries, though these measures fully respected the commitments made by individual nations under the URAA. It would appear that the above mentioned tendency of governments to withdraw from direct intervention in domestic markets has contributed to a more intensive use of trade policy measures in pursuance of domestic production and consumption policy goals.

IV. MEAT POLICY DEVELOPMENTS

Over the 1998-2000 period, some countries reduced government intervention in the meat sector, while improving market access. Low prices over the review period, however, have revealed the tendency of countries to increase market support to meat sectors, particularly those in developed regions. This support took the form of price support schemes and income safety net programmes. Some governments also heightened their reliance on trade policy measures to restrict market access with the goals of maintaining support to domestic producers. In addition to tariff hikes, there has been increasing implementation of counter-veiling duties, tariff-rate quotas and increased recourse to URAA special safeguard clauses.

In addition, the recurring incidence of animal diseases have led countries to impose import bans and stricter sanitary requirements as well as other technical barriers, such as requirements on labelling and animal traceability schemes. Animal disease outbreaks in developing countries have also resulted in increases in support to livestock sectors, both for disease containment/eradication and to facilitate the ability of developing country exporters to adhere to tighter technical restrictions by developed countries. Low prices and animal disease outbreaks have also put pressure on regional trade agreements as countries struggled to respond to greater regional market competition.

PRODUCTION POLICIES

Progress towards restructuring and privatising the livestock sector in many developing countries continued in the 1998-2000 period as reflected in a general movement to reduce government involvement in livestock and meat markets. This trend was disrupted, however, in many developed and transitional economies as low livestock prices and animal disease outbreaks prompted governments to increase market support to producers and expand expenditures on disease containment. Support was provided through a variety

of mechanisms, including higher direct payments, the provision of emergency disaster assistance and government procurement programmes.

The trend of moving away from price support toward direct payments to livestock and meat producers continued over the period, particularly in **Western Europe**. The **European Community (EC)** beef reform measures as implemented under Agenda 2000 in July 2000 (see Table IV-1 and Box IV-1) are prime examples. In other Western European countries, the transition to direct income support has been accompanied by animal headage payments and animal density requirements that support the transition towards a more extensive animal production system. Countries moving to direct producer payments include **Iceland** where direct payments for sheepmeat were based on historical entitlements, pushing up payments by 7.2 percent in 1999. In **Norway**, sheepmeat producers' returns were strengthened as the support price of sheepmeat was increased by 11 percent in 1999 and marketing levies were also reduced by a third. Meanwhile, a new regional deficiency payment for poultry was introduced while animal headage payments were increased for most species, mainly ruminants.

Table IV-1: EC support to the beef sector

			2000 1/	2000/2001	2001/ 2002	From 2002/2003
			Euro/tonne			
INTERVENTION PRICE 4/ 5/	Announced		3475	3242	3013	n.a.
	Effective (84%) 2/		2919	2723	2531	1560 5/
	Safety net (78%) 3/		2711	2529	2350	n.a.
PRIVATE STORAGE AID 6/	Basic price		n.a.	n.a.	n.a.	2224
			1999	2000	2001	From 2002
			Euro/head			
Special premium 8/	Young bulls	Total, maximum	n.a.	205	270	285
		EC	135	160	185	150
		National (maximum)	n.a.	45	85	135
	Steers	Total, maximum	n.a.	244	272	420
		EC, 9 months old	108.7	122	136	210
		EC, 19 months old	108.7	122	136	210
Suckler cow premium 8/		Total, maximum	n.a.	205	220	230
		EC	145	155	170	180
		National	n.a.	50	50	50
Slaughter premium 9/		Adult (<8 months)	n.a.	27	53	80
		Calves (>7 months)	n.a.	17	33	50

n.a. not available

1/ From January 1-June 30, 2000

2/ Two separate conditions have to be met: EU market prices below 84% of intervention prices, and prices within a member state must be below 80% of intervention price.

3/ Two separate conditions have to be met: EU market prices below 78% of intervention prices, and prices within a member state must be below 60% of intervention price.

4/ The above intervention procedures will cease to exist from 1 July 2002, replaced with private storage aid scheme.

5/ Only recourse to intervention buying after 30 June 2002 will be under extreme market conditions.

6/ From 1 July 2002, private storage aid only operates subject to meeting of certain market requirements.

7/ Rights to premia are subject to national and per farm ceilings.

8/ Payment of the special and suckler cow premiums subject to a combined maximum of two livestock units per hectare, per year. If the density does not exceed 1.4 livestock units per hectare and if animals are grass-fed, an additional 100 Euros per head premium will be granted.

9/ New program, introduced in 2000. Additional member state payments can be made on a headage or area payment. These cannot exceed 210 Euros per head in 2000, 280 Euros in 2001 and 350 Euros in 2002.

Box IV-1**POLICY REFORMS IN THE EC BEEF REGIME**

The EC beef reforms, as implemented under the Agenda 2000 in January 2000, continued a trend of replacing price supports with direct payments. The main features of the reform are the reduction of beef price supports over three years, with compensation in the form of higher direct payments, or “premia”, under existing programmes and the creation of two new slaughter premia (Table IV-1). These beef policies are aimed at avoiding the accumulation of surpluses that were expected to arise from the elimination of restrictive BSE animal slaughter guidelines. However, since the reforms were implemented, outbreaks of BSE in previously BSE-free member states have resulted in supplemental support for the beef industry.

Intervention prices for beef, that is, the prices which trigger the operation of government support buying, would be cut by 20 percent over three years, starting from 1 July 2000. The intervention buying is subject to an annual EC-wide limit of 350 000 tonnes. At the end of this period, private storage aid will be the main market intervention measure, with private traders paid by the Commission for their storage costs when average domestic market prices drop below *Euro* 2 291 per tonne (US\$ 2 455). However, the option will remain for additional safety-net procurements when average bull/steer prices drop to *Euro* 1 560 per tonne (US\$ 1 404).

To compensate producers for potentially lower market prices, existing premia were increased and two new slaughter premia, for adult cattle and calves, were introduced. These new payments would be made directly to the farmer upon proof of slaughter or export to a non-EC country, but would be subject to national ceilings. Under existing programmes, the special beef premium (paid only for male animals of beef breeds) and the sucker cow premium (paid annually on cows of beef breeds kept to rear beef calves) would be increased in three annual increments, starting in 2000. The number of these animals on which a producer can claim a supplemental payment is limited by a stocking density of two livestock units/forage hectare which, combined with the increased premia, encourages extensive animal production. In addition, funding from member states, for direct aid to the sector has been increased to allow member states the flexibility to compensate for regional differences in production practices.

In anticipation of the new policy, the EC progressively brought down intervention stocks from the BSE-induced peak in 1996-97, with a nearly 30 percent estimated decline in outlays for this budgetary item (Table IV-2). These savings were partially offset by higher expenditures on direct payments to producers. Additional expenditures were incurred to support the EC livestock sector, when access to the private storage scheme was opened for pigmeat in late 1998 in response to low pig prices; but access was discontinued in late 1999. The anticipated decline in EC budgetary expenditures for intervention stocks dissipated in late 2000 as a result of the emergence of BSE in countries previously considered BSE-free.

In response to the BSE crisis, the European Commission is operating two schemes designed to support the beef sector. The first, in place until 30 June 2001, is the “purchase for destruction” scheme which is designed to compensate producers for animals more than 30 months old which are not tested at slaughter for BSE. The second, introduced for implementation from 1 July 2001, ensures that all animals aged over 30 months must be BSE tested at slaughter and allows member states to store meat from such animals via a tendering scheme. The Community will finance 70 percent of the price of meat purchased under this scheme, whilst the member states will finance the remaining 30 percent.

Structural adjustments continued to characterise the livestock sectors in **Eastern Europe and the Baltics**, with prospects of EC accession prompting a general movement to reduce Government involvement in livestock/meat sectors while moving towards harmonising national regulations with those of the EC. However, overall support for the livestock sector, particularly the pigmeat sector, increased in 1999 and 2000 in response to low meat prices, partially caused by the collapse of the region's traditional export market, Russia. The **Czech Republic** increased market price support for pigmeat; however, support for the cattle sector declined with subsidies focused on promoting extensive production systems. In **Poland**, the Government tried to maintain prices through the purchase and subsequent sale of 123 000 tonnes of pork for export; these interventions continued through June 2000. Pig farmers and slaughterhouses in **Hungary** received additional support from the Government through direct payments for quality bonuses, intervention purchase payments and interest write-offs for investment. In **Lithuania**, a subsidy from the Rural Support Fund was paid for every pig sold in 1999; this contrasts, however, with declining support to the cattle sector. Since the beginning of 2000, subsidies for cattle in Lithuania were reduced and on 4 April 2000 they were eliminated. In **Slovakia** and **Romania**, most agricultural producer support was concentrated in the livestock sectors, with producers receiving over 70 percent of total transfers in those countries. An emergency temporary plan to stabilise pork prices in **Cyprus** was introduced in 1999. The plan provided for export subsidies of pig meat for a certain number of animals with a total of *Cpounds* 450 000 (US\$ 230,000) paid as subsidies to pig farmers through the Pig Producer Association.

In **Asia**, the Government of **Japan** has slowly reduced livestock support prices; in 1999/2000 the floor price of the pigmeat price stabilisation band was reduced by 2.6 percent while most administered prices for calves were frozen at their 1998 levels. In late 1999, however, a pork storage programme was established aimed to bolster wholesale prices. The Government, which maintains deficiency payments for feeder calves, broadened the coverage in 2000 to include two separate breed types: dairy breeds (for beef) and cross breeds (Wagyu-Holstein). Similarly, in June 2000, the **Republic of Korea** introduced a new quality beef production programme which replaced the previous slaughter bonus of several *won*/cwt with a payment of 100 000-150 000 *won* (\$83-125) for each Hanwoo bull calf at time of neutering.

Furthermore, to encourage retention of cows, the Government is awarding farmers 200 000 *won* (US\$ 167) per head for cows giving birth to their third/fourth calf and 300 000 *won*/head (US\$ 250) for cows giving birth to their fifth or more calves. The funding is shared equally between central and regional governments. In addition, a stabilisation programme using deficiency payments to support calf-breeding was put into place in 2000, with an upper limit on the deficiency payment of 200 000 *won*/calf (US\$ 170). This upper limit increased to 250,000 *won* (US\$ 208) in January 2001. Farmers wishing to participate in the scheme must pay a levy of 10 000 *won*/calf (US\$8.3).

In **North America**, low commodity prices prompted supplemental legislative support to the agricultural sector through the provision of emergency and disaster relief. In **Canada**, the Agricultural Income Disaster Assistance (AIDA) was introduced in 1998. This two-year programme, with original national funding of US\$ 606 million, was available for those whose farm gross margin dropped below a certain level. In the **United States**, livestock producers benefited from legislation to fund a US\$ 5.9-8.7 billion multi-year emergency supplemental programme. Of this, some US\$ 500 million was authorised for a Livestock Indemnity program and for emergency livestock assistance; a cost-share assistance for livestock growers who lost feed in natural disasters. Meanwhile, approximately US\$ 150 million was spent under the Small Hog Operation Payment Program to provide US\$ 10 per marketed pig to producers who sold no more than 2500 pigs during the second half of 1998. Payments were limited to a maximum of 500 hogs or US\$ 5,000/producer. In addition, US\$ 80 million was allocated to a special fund used to dispose of animals infected with the swine disease and pseudo-rabies. Meanwhile, compensation to the US lamb industry, in response to implied damage to the industry through increased imports, was provided through assistance totalling US\$ 130 million. In May 2000, USDA began accepting proposals to fund up to US\$ 4 million in competitive marketing and promotion projects designed to increase sales of US lamb.

Support to the livestock sector increased in many countries in 2000 due to animal disease outbreaks. The outbreaks spread through countries in Asia, Africa, Latin America and Europe, with many countries incurring significant costs to contain and eradicate the diseases. These diseases included Foot and Mouth Disease (FMD), African Swine Fever, Hog Cholera, Nipah Virus, Rift Valley Fever, and Bovine Spongiform Encephalopathy (BSE). The support was not restricted to those countries where disease outbreaks were registered,

but also extended to others where precautionary actions were taken to minimise disease risks, particularly those related to BSE and FMD.

In the **EC**, since the re-emergence of BSE concerns in late 2000, the European Commission instituted several BSE-related measures which include the temporary ban on feeding meat-and-bone meal (MBM), mandatory testing on slaughtered cattle over 30 months of age, and the purchase and destruction of all positively-tested animals. Additional EC expenditures would result from schemes designed to support the sector by compensating producers for the slaughter of cattle not tested for BSE (Table IV-2).

The Government of the **Republic of Korea** extended support to the livestock industries in the wake of an FMD crisis in March 2000. Approximately Won 476.6 billion (approximately US\$ 433 million) was allocated to mitigate the effect of the disease on the industry. Some Won 440 billion (US\$ 365 million) was obtained from the Livestock Development Fund and allocated as follows:

- US\$ 257 million--livestock procurement of export quality swine and animal within the quarantine area (approximately 262,000 head). The programme terminated on 18 July 2000.
- US\$ 78 million--support for the operation costs of the farms within the movement restricted area.
- US\$ 32 million--support for emergency fumigation costs.
- An additional US\$ 32 million came from the Government's emergency budget to compensate for the slaughtered animals as a quarantine measure against FMD and to pay for the procurement of disinfectant.

In **Japan**, 4 cases of FMD in April 2000 led to the culling of 740 head of cattle with approximately Yen 332 million (US\$ 3.1 million) paid to producers in compensation for destroyed cattle. In addition, serological surveillance measures were put into place for 28 114 farms and for 52 994 animals, while at the same time reforming the Livestock Infectious Disease Control Law, which promotes more thorough inspection measures.

Other countries not directly affected by disease outbreaks have been adopting policies to minimise, in particular, the risk of BSE and FMD. For example, **Bulgaria** implemented special programmes for testing of cattle at risk for BSE. Additional costs will stem from actions taken to monitor the collection and disposal of high risk materials to prevent the spread of BSE, increased surveillance of live animals, testing of imported cattle, banning MBM, additional measures for internal and border veterinary control, as well as restrictions on livestock, meat and feed imports from EC countries.

Table IV-2: European Agricultural Guidance and Guarantee Fund, expenditure on livestock and meat

	1994	1995	1996	1997	1998	1999	2000	2000 1/
	Million euros 4/							
TOTAL MEAT	6095	6610	8730	10292	7936	6892	6702	8012
Export refunds	2181	2051	1787	1642	926	963	996	719
Intervention 2/	3914	4559	6943	8650	7010	5929	5706	7293
BOVINE MEAT	3532	4091	6796	6675	5160	4578	4539	6245
Export refunds	1708	1761	1559	1499	774	595	661	572
Intervention 2/	1824	2330	5237	5176	4386	3983	3878	5673
Of which:								
Private and Public storage	-209	-215	620	749	145	-37	-83	237
Suckler cow premium	955	1126	1632	1522	1653	1658	1628	1838
Special Bovine premium	657	957	1407	1238	1341	1297	1299	1619
Extensification premium	389	438	507	569	706	714	715	757
Slaughter premium	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	716
Other	32	24	1071	1098	541	351	319	506
OVINE MEAT	1933	2204	1682	1425	1534	1894	1736	1620
Private storage	2		2			3	4	1
Ewe and goat premium	1628	1781	1321	1067	1171	1536	1365	1251
LFA premium	303	423	360	359	364	356	369	369
Other	n.a.	n.a.	-1	-1	-1	-1	-2	-1
PIG MEAT	416	143	125	479	239	327	354	88
Export refunds	259	118	101	72	75	275	262	88
Private storage	22	18	18	n.a.	n.a.	46	92	0
Exceptional market support	135	7	6	407	164	6	0	0
POULTRY MEAT	214	172	127	71	77	93	73	59
Export refunds	214	172	127	71	77	93	73	59

1/ Budgeted (Supplementary and Amending Budget no1/2001)

2/ All expenditure other than export refunds

3/ Prior to 1999, the budget was in ECUs.

Source: European Commission

Many countries have adopted measures towards enhancing the productivity of the livestock sector, through improvements in livestock genetics, management practices and infrastructure. **Turkey** announced a revised Livestock Development Project (allocated about US\$ 70 million) which was to start in 2000. **Indonesia**, in its efforts to help farmers improve cattle breeds, imported 110 head in 2000 that will be used to support artificial insemination technology and embryo transfer. In December 2000, the **Vietnamese** Government approved a new project to improve animal breeding systems in the country. In 2000, 24 projects were proposed at the national level, which will concentrate on researching and generating new breeds of animals. **China** acquired nearly \$200 million in World Bank loans in support of a 4-province

cattle infrastructure project in east central China. The emphasis is on meeting the rising demand for quality beef. In addition to new feeding lots and processing facilities, the project will spend heavily to improve beef herds, particularly through the use of imported genetics, i.e. animals, semen and embryos.

CONSUMPTION AND MARKETING POLICIES

Heightened concerns regarding food safety and animal disease issues have escalated the trend for countries to enact legislation to improve meat quality standards. Many countries moved towards implementing food safety regulations and increased labelling requirements to ensure more strict food quality standards. In many developing countries, this was accompanied by the development of live animal and meat grading standards, the enhancement of certification systems for animal health, increased regulation of domestic meat industries and more strict veterinary and sanitary standards. In addition, the development and implementation of new systems of animal identification and registration has expanded with traceability schemes, originally instituted in response to importer requirements, being increasingly recognised as beneficial to managing animal disease outbreaks.

In **Ethiopia**, the Livestock and Marketing Authority has developed live animal and meat grading standards. Meanwhile, severe drought and animal disease concerns in the East Africa region prompted the development of a common certification system for animal health. This certification scheme, while aiming at improving animal health, will also eventually facilitate the movement of livestock through Kenya, Ethiopia and Somalia, all of which are expected to sign a protocol for the free movement of animals and livestock products across borders. **South Africa** approved an Animal Identification bill in 2000, while in **Botswana** a computer chip animal identification system was institutionalised in January 2000. In Lithuania, a 1999 decree of the Minister of Agriculture established grading standards for cattle and pig carcasses. Meanwhile, Lithuania also set up a traceability system, with animal passports introduced in 2000. In June 2000, **Turkey** announced a regulation requiring all large ruminants to have identification certificates and ear tags. Many countries in eastern Europe, including the **Czech Republic**, are moving towards a new system of identification and registration of animals, compatible with those in the EC. In July 2000, the **Canadian** Food Inspection Agency amended the

Livestock and Poultry Carcass Grading Regulations to permit the application of Canadian grade names to imported beef carcasses. This amendment makes Canadian grade names available to domestic and imported products alike and harmonises Canadian and US grading standards for imports of cattle and carcasses. In addition, a mandatory bovine tagging system was put in place by end of 2000.

Many countries, as a measure to reinforce traceability and address food safety concerns, are implementing labelling regulations. In the **EC**, as of 1 September 2000, member states had to indicate on beef product labels the country of slaughter, country of cutting/de-boning and the reference code of the animal. As of 1 January 2002, the labels would have to indicate the animal's country of birth, and where it was fattened and slaughtered. Third country products would be labelled "non-EC beef" and would mention the country of slaughter. Meanwhile, in **Switzerland**, new labelling regulations applied from January 2000 require that imports of fresh meat and eggs produced with methods that are not allowed in Switzerland to be labelled as such. In particular, the use of hormones or antibacterial growth stimulators in meat production has to be clearly indicated.

Governments are also implementing legislation providing for increased regulation of domestic meat industries. In **Hong Kong, SAR**, increased regulation of the domestic meat industry, under its new Feed and Environmental Hygiene Department, is expected to create stronger growth in trade. In many central and eastern European (CEE) and Baltic countries, governments are funding investment in slaughter houses and processing facilities, in part funded by the EC's Structural Adjustment Programme and Agricultural Rural Development (SAPARD). In **Lithuania**, slaughter houses and meat enterprises which wish to implement EC veterinary and sanitary standards would be allotted state assistance from the SAPARD programme. Meanwhile, the Government, as of 12 July 2000, implemented a new law establishing food standards.

Despite increased government legislation to address food safety concerns, the tendency has continued over the period, particularly in developing countries, towards increased privatisation of slaughter and processing facilities, as well as veterinary services. This is particularly true in Africa; for example, the **Central African Republic** elaborated an Agricultural Plan, which would privatise veterinary services and other services, while **Rwanda** and **Burkina Faso** are instituting similar legislation. In **Turkey**, the privatising process of

the Meat and Fish Authority is underway and some of its meat and fish processing plants have already been privatised. Meanwhile, deregulation of statutory boards continued in late 1999 with the **New Zealand** Pork Industry Board ceasing all activities of pig breeding and selling.

OTHER RELATED DOMESTIC POLICIES

Concern for the negative environmental impact of intensive livestock production has led to measures to curtail some practices. The Hog Environmental Management Strategy introduced in **Canada** in 1997 was replaced in early 2000 by the Livestock Environmental Initiative, a one year programme which allocated US\$ 1 million for research and development, assessment and transfer of technology to the livestock industry, and US\$ 300 000 for an assessment of possible environmental certification systems for the hog industry. In the **Chinese Province of Taiwan**, a four-year Sustainable Management Plan was imposed with the following provisions: after 31 December 2000, strict limits on standards for water discharged from pig farms with more than 20 pigs would apply in the watershed of rivers used as sources of drinking water.

In **Lithuania**, new manure management principles, similar to those established in the EC, have been adopted which, combined with animal density regulations as well as the ecological farm certification program, promotes a more extensive animal production system. The Government of the **Netherlands** has developed a system to reduce the country's manure surplus, called the "minerals accounting system", or MINAS. All farmers will be required to participate in the programme beginning in 2001. In addition, the programme allows pig and poultry farmers to sell their farms to the Government. In November 2000, the first round of the buy-up programme was ended and the Government, at that time, bought a number of farms producing the equivalent of 2.7 million tons of phosphate. The average price paid to the farmers was *Euro* 84 per square meter (US\$ 76), with the total amount available for purchases totalling Euros 305 million (US\$ 294 million).

Increasingly, countries are introducing legislation, which establish animal welfare standards and regulate the use of animals in research. Most of these regulations are enacted in developed countries; however, some developing countries are also planning similar legislation to ensure compliance with developed country standards. In **New Zealand**, an Animal Products Act was

introduced in November 1999. Part 4 of the Act provides for the setting of animal welfare standards that must be met by any animal product intended for trade. A new Animal Welfare Act came into force in January 2000 which establishes welfare standards, regulates use of animals in research and establishes a National Animal Ethics Advisory Committee. In **Botswana**, draft legislation was approved which ensures compliance with EC regulations on animal welfare.

INTERNATIONAL TRADE POLICIES

Import Measures

The Uruguay Round Agreement on Agriculture (URAA) negotiated declines in tariffs, domestic supports and export subsidies. However, meat markets during the 1998-2000 period witnessed a series of tariff hikes, increases in anti-dumping cases, the imposition of countervailing duties and increased recourse to URAA safeguard clauses. These policy changes, in most cases, were enacted to protect domestic producers in a time of extremely low meat prices but did not violate URAA commitments, particularly bound tariff levels. Further sanitary and phyto-sanitary restrictions on market access resulted from the proliferation of animal disease outbreaks around the world in 2000.

In many CEE countries, a series of tariff increases were instituted in 1999 in response to low pork prices and the increased movement of subsidised EC products into these markets. In the **Slovak Republic**, as of 1 June 1999, an additional import fee of 7 percent was applied on meat imports, declining to 5 percent as of 1 January 2000 and being eliminated by the end of 2000. Slovakia also imposed quotas on imports of pigs from the Czech Republic between May and November 1999. In 1999, **Poland**, invoking the URAA special agricultural safeguard clause, applied additional tariffs on pigmeat and poultry meat. Out-of-quota imports were subject to an additional levy. Moreover, first-quarter 1999 preferential tariff rates on pigmeat and poultry meat imports from some CEFTA countries³² were suspended and, in mid-1999, import tariffs for pigmeat were raised to maximum URAA bound levels. **Romania** applied a safeguard duty of 45 percent for pork and poultry imports (normally 15 percent) from Hungary; this expired on 2 July 2000. In May

³² CEFTA members are Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovenia, and Slovakia.

1999, **Switzerland** resorted to the URAA special agricultural safeguard clause and increased tariffs on pigmeat imports.

In **Vietnam**, the Government, in 1999, raised the preferential import rate charged on the importation of pigmeat to 30 percent from 20 percent, reflecting the policy to protect the local swine sector. **India** agreed in 2000 to open up its market to imported poultry meat, replacing import license requirements with a 100 percent tariff. Since August 1999, India has banned imports of live cattle, buffalo, sheep and goats from countries where incidences of TSE (transmissible spongiform encephalopathy) diseases have been reported. The scientific basis of this notification has been questioned by the US and Canada under the auspices of the WTO-SPS committee. In April 2000, **China**, in an effort to safeguard official trading channels, issued a regulation on minimum import prices for poultry meat, which were changed in October 2000 from an ad valorem tariff to a specific duty (based on weight).

The **Dominican Republic** is reported to have required all meat imports to be approved by the Secretary of Agriculture, while legislation was passed to increase import duties on meat products from 25 percent to the URAA maximum allowable bound rate of 40 percent. Protection for the meat sector in **El Salvador** was raised with an increase in tariffs for meat products; duties of bovine meat reportedly were raised from 15 to 40 percent, as were those for pigmeat and sausages. Similarly, in **Suriname**, tariffs on chicken meat were raised from 10 to 20 percent. In **Argentina**, minimum import prices for chicken meat were placed on imports from Brazil as of July 2000, because of an anti-dumping case filed by the local chamber of poultry processors. The previous quota on Brazilian whole chickens (not parts) was replaced by minimum import prices of US\$.92-.98/kilo. Meanwhile, in October 1999, the **Jamaican** cabinet approved a plan to amend the Stamp Duty Act to impose aggregate duties of 86 percent on fresh brisket, mince and boneless beef trimmings, replacing the previously imposed 40 percent tariff.

The use of counter-veiling duties increased over the review period as a means to restrict trade. In **South Africa**, as of July 2000, the Government imposed provisional anti-dumping payments on imports of chicken leg quarters from the United States, varying from *rand* 2.25 to *rand* 7.25/kg (US\$ 316-US\$ 1,020/tonne). This charge was imposed on top of the import duty of \$ 316/tonne. Current ad valorem equivalent duties now range from 70-150 percent. Mexico took additional anti-dumping actions in October 1999, with compensatory duties imposed on imports of US live pigs for slaughter. The

Mexican Government made a final decision on the antidumping case against US exporters of beef and edible beef offal in April 2000 which imposed a complex set of specific import duties on most beef carcasses and cuts with different compensatory duties, depending on product type and US exporter. The final ruling, however, removes the earlier duties on tongues, livers and other edible offal. The **United States**, in 1999, after imposing counter-veiling duties on live cattle from Canada, reversed the decision and eliminated the duties after an investigation found no justification for the earlier decision. Also, in 1999, the US government imposed safeguard measures on lamb imports.³³ A tariff-rate quota was imposed on 31 851 tonnes (product weight equivalent), with a 9 percent tariff on in-quota imports, and 40 percent for out-of-quota imports. The quota increased by 857 tons in 2000, with tariffs reduced to 6 percent for in-quota and 32 percent for out-of-quota duties. Meanwhile, the **EC**, despite the WTO panel ruling in 1999 that the import ban on hormone-treated beef was not based on scientific evidence, has maintained import restrictions, with the United States and Canada imposing retaliatory duties.

Other measures were applied which also affected market access. For example, the **Philippines** on 19 May 2000 established new meat inspection requirements on imported meat that generated delays in issuance of import licenses for all meats coming into the Philippines. In **Nigeria**, while the import ban on poultry was lifted in 2000, duties on poultry imports were raised from 55 to 75 percent.

There were, however, measures to increase market access opportunities as well. For example, in October 2000, **Hungary** officially opened a special duty-free quota for 50 tonnes of high quality North American beef that could expand to 200 tonnes in 2001. Meanwhile, in mid-2000, **Latvia** lifted its pork import restrictions that consisted of a minimum customs duty of 0.5 *lati*/kg (US\$ 1,000/ton). Compensation will be given to the industry by subsidising the pig-breeding sector through funding of one million *lati* (US\$ 600 000). In Latin America, **Guatemala**, as of February 2001, increased its TRQ for poultry meat from 7 000 tons to 39 452 tons, while the in-quota tariff and out-of-quota duty (15 percent and 45 percent respectively) were both reduced to 5 percent. Meanwhile, **Argentina**, in late 2000, lifted a ban, previously imposed for sanitary reasons, on imports of US fresh bone-in pork for further processing.

³³ These restrictions in late-2000 were found to violate URAA safeguard rules. The United States, however, appealed this decision, but the Appellate Body of the WTO which released its findings on 1 May 2001 did not uphold the appeal.

However, this move was linked to an increase in duties for frozen boneless pork to 35 percent (the maximum bound URAA tariff ceiling), up from 13 percent for all types of pork, except fat and bacon which were assessed a 9 percent duty.

In Asia, **Turkey** ended a three-year import ban on breeder cattle in August 2000, but only for farms that raise at least 100 head. However, the ban is maintained on meat and slaughter cattle. Meanwhile, on 1 January 2001, the **Republic of Korea** liberalised its cattle and product markets, replacing a previous system of quotas with tariffs that would decline over the next three years. Reduced government involvement in the market is likely to be accompanied by changing retail practices as a result of a WTO Dispute Settlement Board ruling in 2000 that the operation of a separate beef retail distribution system for imported beef violated its URAA commitments. The **Chinese Province of Taiwan** expanded market access for meat products as a result of bilateral WTO pre-accession agreements with numerous countries. Originally only with the United States, the agreement expanded, as of 1 July 1999, to establish a global quota for 1 160 tonnes of pork bellies, 2 500 tonnes of pork offal, 10 000 tonnes of beef offal and 19 163 tonnes of chicken. In **Bahrain**, import duties were eliminated in 2000 on bovine and ovine meat. In **Nepal**, import duties on meat products are now reimbursed if value-added products are exported within 6 months of importing the required raw product.

Export Measures

The 1998-2000 period marked a sharp increase and then declines in the use of export subsidies, mainly by the EC, but also by some other smaller meat exporters. Low pig prices in late 1998 and restricted purchases by Russia prompted the **EC** to escalate the amount of pigmeat products exported under subsidy. In addition, the use of the roll-over provision under the URAA, which allowed for the carry over of unused portions of subsidy commitments from the previous year (until July 2000), facilitated the EC shipment of an additional 200 000 tonnes of subsidised pigmeat products above the URAA authorised levels in the WTO 1998-1999 year (July-June). Higher EC domestic prices, the weak value of the *Euro*, amidst concerns about adhering to the URAA subsidised export limit, prompted the EC Commission to lower export refunds for subsidised pigmeat and beef in 2000 (Table IV-1). However, the

emergence of the BSE crisis in late-2000, resulting in stalled beef exports and plummeting prices, led to increased export restitution levels.

In the **United States**, export subsidies for poultry meat, after the resumption of the programme in May 1998, continued with nearly 2 500 tonnes shipped in both Financial Year 99 (October-September) and Financial Year 2000 (around 1 percent of total exports). Approximately US\$ 3 million was spent to subsidise poultry exports in 1999 and 2000, with per unit subsidies estimated at approximately \$US 650/tonne. Additional support to US meat exports was provided through increased funding for the GSM-102 credit guarantee programme. The GSM-102 funding encourages importing countries to expand purchases of livestock and meat from the United States. In 2000, the **Czech Republic** did not subsidise pork exports through the State Fund for Market Regulation. This contrasts to the US\$1.6 million that were used to export 3 400 tonnes of pigmeat in 1999. In **Poland**, the Government, through the Agricultural Marketing Authority (AMA), subsidised the exports of 128 000 tons of pigmeat in 1999. Meanwhile, the Government of **Hungary** overspent its 1999 meat export subsidy budget and used the total 2000 allotment by June 2000.

The **Brazilian** Poultry Exporters Association and the Brazilian Agency for Export Promotion (APEX) implemented in 2000 a new export marketing programme valued at *real* 4.5 million (US\$ 2.5 million) for promotion of Brazilian broiler exports.

Bilateral and multilateral trading arrangements

Numerous bilateral and regional trading agreements were put in place during the period under review with the goal of enhanced trade flows. These arrangements included the Double-Zero Agreements between the EC and candidate countries for accession (see Box IV-2),³⁴ bilateral agreements between China and other countries which recognise national meat inspection systems, and the strengthening of regional trade agreements.

³⁴ This initiative, which went into effect on 1 July 2000, allows for increased trade flows, especially for pork products, through higher quotas and zero in-quota tariffs while eliminating the use of export subsidies between participating countries.

Box IV-2

THE DOUBLE-ZERO AGREEMENTS

In Europe, the “double-zero” agreements went into effect on 1 July 2000. This provision allows for increased bilateral trade flows, especially for pork products, through higher quotas and zero in-quota tariffs, and eliminates the use of export subsidies between participating countries. This initiative, negotiated by the EC with each of the candidate central and eastern European countries (CEE’s)*, is part of the EC strategy to prepare candidate countries for accession. The agreement consists of:

- New import quotas, with zero duties, become effective, calculated on actual shipments recorded over the past three years. These quotas will increase annually for the next few years.
- In-quota duties for products coming from the CEE into the EC are eliminated. Similarly, duties on EC products moving into the CEE are eliminated.
- The subsidies for meat products exported to CEE countries are eliminated.

* The ten CEE countries include Bulgaria, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Romania, Slovenia and Slovakia.

The strengthening of regional trade agreements has led to some regional policy changes affecting market access as well as the comparative competitiveness of individual country’s livestock industries. For example, since January 2000, the **West African Economic and Monetary Union** (Union Economique et Monetaire d’Afrique de l’Ouest - UEMOA) has imposed a common external tariff on imported products coming into the eight member states: Senegal, Burkina Faso, Benin, Togo, Mali, Niger, Guinee Bissau and the Cote d’Ivoire. The tariffs vary from 0-20 percent, with meat being charged 20 percent duty and live animals only 5 percent. To further the objectives of establishing a common market, there is also a move to harmonise value-added taxes (VAT) in all member states around a flat rate of 20 percent for agricultural products and inputs. In some cases, these tariffs and VAT are higher than existing individual country rates and governments are trying to compensate producers by exempting agricultural inputs from the VAT.

Additional bilateral agreements on equivalency in veterinary inspection requirements have been signed to facilitate trade. These agreements allow veterinary inspection requirements to differ from country to country and ensure individual countries the right to establish their own level of public health protection. To date, the **EC** has concluded veterinary equivalency agreements

with **Canada**, the **Czech Republic** and **New Zealand**, and discussions are on going with **Australia**, **Argentina**, **Uruguay** and **Chile**. Meanwhile, **Brazil's** Meat Inspection Service has implemented new procedures for registration of foreign beef plants to export to that country.

In April 2000, the **United States** and **China** signed a bilateral agreement in which the Chinese recognised the US meat certification of meat and poultry, thus permitting imports into China from all USDA-approved plants. This agreement allowed US meat and poultry exports to be sold in normal retail and wholesale channels. On 15 August 2000, **China** and **Denmark** signed a veterinary agreement allowing direct exports of Danish pork to China. **China** and **Canada** signed a Pork Protocol that should result in better access for Canada to the Chinese market, while at the same time Canadian beef plants were approved for export to China. Meanwhile, in 2001 the trade agreement on agriculture between **Switzerland** and the **EC** comes into force, covering speciality meats.

While some strengthening of regional trading links has occurred over the review period, increasing conflicts within existing regional trade agreements have also been witnessed. In particular, **MERCOSUR** countries have had difficulties as a result of financial shocks leading to divergent macro-economic outlooks. This, combined with low prices and livestock industries which are competing in extra-regional markets, have resulted in some trade disputes regarding meat products; for example, counterveiling duties on Brazilian chicken going into Argentina. In addition, regional problems in containing animal disease outbreaks have aggravated already existing tension in the region. Low livestock prices have also pressured meat industries in the **NAFTA** trading block as witnessed by increased numbers of cases of counterveiling duties and anti-dumping cases for livestock and meat products (see trade section).

CONCLUSIONS AND ISSUES

Over the review period, some countries reduced government intervention in the livestock and meat sectors, while improving market access. However, in a period characterised by low meat prices and the proliferation of animal disease outbreaks around the global, the following policy developments have been observed:

- Low prices over the review period revealed the tendency of developed countries to increase support to meat sectors, taking the form of price support schemes and income safety net programmes, accompanied by measures to expand border protection with the goal of protecting domestic producers.
- Animal disease outbreaks in developing countries have also resulted in increases in support to livestock sectors, both for disease containment/eradication and to enhance the ability of developing country exporters to adhere to tighter technical restrictions used in developed countries.
- Governments have heightened their reliance on trade policy measures to restrict market access with the goal of stabilising domestic markets. In addition to tariff hikes, there has been increasing resort to counterveiling duties and URAA safeguards. Recurring animal diseases have led countries to impose import bans and tightened sanitary requirements as well as other technical barriers, such as requirements on labelling and animal traceability schemes in order to better respond to food safety concerns.
- Increasing conflicts within regional trade agreements were witnessed. The growing initiatives, on a regional level, to promote trade through strengthening or expansion of inter-regional trade agreements and the harmonisation of trade policies or regional certification systems for animal health, has come under pressure as low prices result in heightened competition for markets.

V. OTHER AGRICULTURAL POLICY PROGRAMMES

A number policy developments during the past few years have been designed to provide assistance to farmers and/or to the agricultural sector in general. As such they are not commodity specific policies and, therefore, could not be included in the previous chapters, but are likely to have a significant indirect impact on specific commodities. These policies are normally related to income support and/or disaster relief, changes in input subsidy and credit programmes, and on-going structural reforms. International trade agreements are also likely to be of a general nature and affect several commodities.

DOMESTIC FARM SUPPORT

The Government of **Australia**, in its 2000/2001 budget provided about A\$ 309 million (US\$ 182 million) under the Agriculture-Advancing Australia (AAA) programme, first launched in 1997. This programme is targeted at assisting the rural areas to be more competitive, sustainable and profitable.

In **Canada**, from 1998 onward, additional, non crop-specific support was provided to farmers who, for reasons beyond their control (including price instability, competition with subsidised production in other countries, and adverse weather conditions) experienced sudden and severe reduction in their farm income. The Government, in November 1999, extended the coverage of its disaster payments by allocating C\$179 million (US\$ 114 million) to farmers who had negative gross margins in their farm operations over the previous three years (used as base). The new funding was in addition to that allocated under the Agricultural Income Disaster Assistance Programme (AIDA), a two-year national programme open to farmers whose gross margins dropped below 70 percent of the base period. The disaster programme was boosted further by the provision of an additional C\$1 billion (US\$ 670 million) in January 2000 to assist farmers in managing market and production risks. Furthermore, in July 2000, a 3-year programme on farm income safety nets, valued at C\$5.5 billion

(US\$ 3.7 billion) was finalised, with funding provided on a 60:40 percentage basis between the federal and provincial governments, respectively. The programme is intended to offset income losses because of lower prices and bad weather, and is designed so that its potential trade distortion effects are minimal.

The Government of **Poland** reduced its budgetary outlay to subsidise lime fertiliser production by one-third to US\$19 million in 2000, while the excise and value added taxes for diesel fuel were increased. In the meantime, a new value-added tax (VAT) on agricultural inputs was approved by the Polish Parliament. The VAT of 3 percent will apply to all agricultural producers with annual receipts of 20 000 *zloty* (US\$ 4,255) or more.

The **Russia Federation** was able to meet its commitments for all farm incentive programmes, although the budgetary outlay for agriculture was reduced by 32 percent in 2000. An amount of 1.05 billion *roubles* (US\$ 36 million) was provided for its machinery leasing fund; 100 million *roubles* (US\$ 3.5 million) for its seed and crop protection fund; 500 million *roubles* (US\$ 18 million) for soft credits to agriculture and 341 million *roubles* (US\$ 12 million) for a seasonal spare parts fund. The Government is planning to write off about 70 billion *roubles* (US\$ 252 million) of farm debt in 2001 and extend for ten years the repayment period for an additional 50 billion *roubles* (US\$ 180 million) of debt owed by producers.

In 2000, the Government of **Ukraine** allocated about 9 billion *hryvnas* (US\$ 167 million) to support its agricultural sector. Of the allocated amount, about 1.4 billion *hryvnas* (US\$ 26 million) was provided as loans to farmers, of which over one-half that amount was given directly to farmers to make up for losses as a result of drought.

During the period under review, some developed countries intensified the use of emergency and disaster relief programmes. In the **United States**, in addition to regular programme support under the FAIR Act, supplemental and non-crop-specific assistance was granted to farmers in 1999 and 2000, compatible and complementary to existing safety net programmes. The principle objective of these payments was to compensate farmers for losses incurred due to unfavourable market conditions and/or severe climatic conditions faced in those years.³⁵ In June 2000, a bill was approved in the US Congress to provide emergency assistance to producers following a prolonged

³⁵ Funds were made available for a variety of purposes but classifying the support provided by recipients and/or specific crops is problematic.

period of depressed prices, and to restructure crop insurance programmes. Under this bill, a total amount of US\$ 15 billion was allocated, of which about US\$ 7 billion was for emergency relief payments and the rest for crop insurance programmes, expected to run for five years.

STRUCTURAL AND SECTOR REFORMS

Environment

In 1999, the EC issued new regulations on the operations of environment and rural development schemes, which compelled participating farmers to adhere to “good farming practices.” Agri-environmental projects, which, for instance, limit the use of fertilisers or plant protection products, are eligible to a compensatory payment of up to *euro* 600 (US\$ 580) per hectare.

Land Tenure

In **Bulgaria**, in late 2000, the Government proposed that foreign ownership of any proportion of land would be halted for 10 years after the country becomes a full-fledged EC member. Currently, foreign land ownership is permitted (partially) through joint ventures with locally registered companies. In December 2000, the Government of **Kyrgystan** removed the ban on private ownership of land, which had been in place since 1998. Under this new directive, land owned by the private sector must be used only for agricultural purposes and is limited to a maximum of 50 hectares per person. Under this measure, non-nationals are allowed leasehold for up to 50 years.

Farmer Pension

In early 2001, the **Polish** Government announced that it would offer pension payments to farmers of pre-retirement age who give up farming and pass on their holdings to a successor. This new regulation, which is similar to that already in existence in the EC member States, is aimed at attracting the younger members of the population into agriculture. The pension will be paid monthly for five years to ex-farmers between the ages of 60-65 years for men and 55-60 years for women. The amount paid per farmer will be equivalent to 150 percent of the lowest pension paid in the country. However, the Government must fund

the pension scheme by itself until it becomes a member of the EC, after which it will be eligible for 75 percent co-financing from the EC budget.

Taxes

In early 2000, the Government of **El Salvador** introduced a value-added tax (VAT) on food products. Previously, food producers were taxed at a rate of 13 percent for purchases of inputs but consumers had been exempted from the VAT. This VAT is expected to increase the cost of food to the average Salvadorian household by about US\$38 per annum and will augment the Governments' tax receipts by about US\$ 30 million annually. In July 2000, the **Australian** Government introduced a goods and service tax (GST) of 10 percent on the sale price of farm products as well as on sales of farm assets. All farmers with earnings of AU\$ 50 000 (US\$ 30 000) for a 12 month period were required to register for the GST payment. Grain products exempted from the GST include those in which a farmer has added value to and/or exported by farmers themselves, provided the operation is carried out within two months of issuing an invoice or receiving payments.

BILATERAL AND MULTINATIONAL TRADE ARRANGEMENTS

The URAA lead many countries to enact new and, in some cases, strengthened existing bilateral and multilateral trading agreements. In addition, countries seeking to join the WTO have been making bilateral agreements with their principal trading partners. Of particular importance is the agreement between **China** and the **United States**, signed in November 1999, which established many of the agricultural trade commitments that are expected to be in the final protocol agreement for China's accession to the WTO. Similar agreements were subsequently reached with the EC, Australia and other WTO members, to complete China's accession requirements. Box V-1 summarizes the China-US agreement for the commodities covered in this report.

In Eastern and Southern Africa, the 22 nation **Common Market for Eastern and Southern Africa (COMESA)** finalised modalities for the creation of Africa's largest free trade association. (Box V-2 presents the background and summary of this agreement).

In October 2000, **MERCOSUR** member States initiated discussions to develop a framework for Chile's entry into the organization. Chile is expected

to become a full-fledged member by 2002. This meeting was followed by discussions between members of both MERCOSUR and the Andean Pact group for the creation of a regional free trade area. The deadline for the creation of the free trade agreement was set for January 2002. Representatives of MERCOSUR and the **Republic of South Africa** initiated discussions for the formation of a free trade area in late 2000. During the discussions, a proposal was tabled by South Africa to broaden the trade area to include the other member States of the Southern African Customs Union (Botswana, Lesotho, Namibia and Swaziland).

Also, as part of a basic agreement on economic integration between **El Salvador, Guatemala and Nicaragua**, the Government of El Salvador in May 2000 introduced a programme of reforms which involve setting up food import duties of between 15-40 percent, poverty reduction and environmentally friendly programmes.

In late 2000, the **EC** authorised the allocation of 520 million *Euros* (US\$ 520 million) from its budget for rural development programmes (SAPARD) to the ten **Central and East European (CEE)** countries.³⁵ In October 2000, the **Czech Republic, Slovakia and Hungary** signed a pact to further liberalise mutual trade in agricultural products beginning January 2001. Elsewhere, **Russia, Belarus, Kazakhstan, Kyrgystan and Tajikistan** formally signed a treaty establishing a new “**Eurasian Economic Community**” based on a previous Customs Union between the countries. The main objective of this agreement is to harmonise their tax, custom laws and administrative structures.

In May 2000, the **Russian Federation** and the **United States** signed an agreement whereby Russia would export ammonium nitrate fertilisers to the United States at a minimum price of US\$ 85 per tonne. This agreement was aimed at settling a previous anti-dumping dispute in which the United States was imposing an *anti-dumping margin* in the form of cash deposits from Russian exporters. With this agreement, the US waived the anti-dumping levy and Russia committed itself to export up to 690 000 tonnes of fertiliser in annual instalments between 2000 and 2004. Furthermore, in late 2000, the United States restored its credit guarantee programme to Russia that had been cancelled in 1998. An initial guarantee of US\$ 40 million was provided for the purchase of US grains or other farm products.

³⁵ The ten CEE countries include Bulgaria, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Romania, Slovenia and Slovakia.

Box V-1

CHINA'S COMMODITY AGREEMENTS FOR WTO ACCESSION

During bilateral negotiations for China's accession to the WTO, the country agreed to grant a one percent tariff quota of 2.66 million tonnes of **rice** in the first year upon entry into that organization, rising progressively to 5.32 million tonnes in the fifth year (2004). Within-quota imports will be subject to a one-percent tariff, while the above quota tariff would be reduced from 77 percent to 65 percent by 2004. From the first implementation year, the private sector is to be allocated 50 percent of the import quota rights. Private traders will also be assigned the unused portion of the preferential quota held by state trading companies.

As an integral part of this agreement, China agreed to reduce **grain** tariffs and establish a tariff rate quota (TRQ) for wheat and maize and reduced tariffs for other coarse grains. For wheat, the in-tariff quota was set at 7.3 million tonnes, increasing to 9.64 million tonnes by 2004. For maize, an import quota was set initially at 4.5 million tonnes, increasing to 7.2 million tonnes by 2004. The within-quota tariff would be 1 percent for grains and no more than 10 percent for processed grain products. For wheat and maize, the above-quota duty would decline from 77 percent to 65 percent in 2004. Of the total import quota volume, between 25-40 percent will be allocated to the private sector for maize and about 10 percent for wheat during the implementation period. In addition, any unused portion of the quota by the state will be reallocated to the private sector. For barley and sorghum, which are not subject to the TRQ system, China agreed to lower tariffs for barley malt from the current 30 percent (3 percent for sorghum) to 10 percent (2 percent for sorghum) over five years.

Conditions agreed upon for China's accession to WTO would lead to major changes in the country's trade policy vis-à-vis **oilseed** products. Bound tariff rates would be introduced for oilseeds and meals while, for vegetable oils, tariff rate quotas (implying specific in-quota and out-of-quota duties) would be applied. During the first 5 years after accession, the various quotas would be raised gradually while corresponding duties would be lowered, until quantitative restrictions would be phased out all together. A proportion of each quota would be allocated to private sector traders, ending the previous monopoly of state trading enterprises. For soy oil, China committed to a tariff-rate quota of 1.72 million tons in 2000, rising to 3.26 million in 2005. Within-quota imports would be subject to a low duty (9 percent), while above-quota duties would be assessed at 74 percent in 2000, falling to 9 percent in 2006. Private sector trading companies would be allocated 50 percent of the TRQ in 2000, rising to 90 percent in the year 2005. The TRQ system for soy oil would be eliminated by 2006 and converted to a bound 9-percent tariff rate. Furthermore, export subsidisation would be banned definitively. Finally differential taxation of individual oils will no longer be possible.

For **meat** products, China will reduce its tariffs on frozen pork and offal from 20 percent to 12 percent by 2004. China will reduce its tariffs from 45 to 12 percent on frozen beef, and from 45 to 25 percent on fresh/chilled beef. Under the Agreement, China will reduce poultry tariffs from 20 to 10 percent by 2004.

Source: USDA, various reports

Box V-2**COMESA - AFRICA'S LARGEST FREE TRADE AREA**

After almost 16 years of market liberalisation and economic adjustments, the 20 Nation Common Market for Eastern and Southern Africa (COMESA)* finalised the agreement for the establishment of a Free Trade Area (FTA) in October 2000. Earlier in 1984, the member States agreed to give themselves 8 years within which to gradually reduce tariffs (on a selected list of products) to zero to achieve an FTA by 1992. However, this was not achieved by the 1992 deadline due to concerns from some member States about the potential revenue losses. It was then decided to broaden the tariff reduction programme to all goods originating from the member States and extend the programme for an additional 8 years to 2000. With renewed momentum from the Uruguay Round Agreement, the EC-ACP agreement and the on-going WTO trade negotiations, 9 out of the 20 member Nations were ready to join the FTA with the rest of the members formally joining by October 2001.

The establishment of the FTA is an important phase in a more extensive Common Market and complete economic integration of the States belonging to COMESA: by 2004, a customs union with common external tariffs and free mobility of factors will be established, followed in 2025 with a complete economic community similar to that of the European Union. To date, intra-COMESA trade accounts for only about 5-7 percent of the total value of trade of all the member States with intra-COMESA imports of agricultural products less than 1 percent, even with average tariffs already close to the desired zero level. Between 1994-99, the cumulative value of recorded imports of cereals, the main food item, among the members was only about US\$ 165 million. Although the potential exist for this to be highly successful initiative given the huge and diverse resource base and a combined population of about 380 million people, some issues still have to be tackled, including:

- Large share of unreported cross border trade,**
- Intense civil and cross-border conflicts involving some member Nations,
- Inadequate transport, infrastructure and communication systems.

To overcome some of these problems, co-operation programmes have been implemented by COMESA in the industrial, agricultural, energy and transport and communications sectors. A regional food security programme is being developed aimed at ensuring adequate food at all times. In 1997, COMESA Heads of State advocated that the food sector be supported by the immediate implementation of an irrigation plan of action for the region. The Organization also supports the establishment of common agricultural standards and phytosanitary regulations in order to stimulate trade in food crops.

Despite these problems, some countries are already realising benefits from intra-COMESA trade. Egypt reported an increase in intra-COMESA trade by about one-third, from US\$ 78 million in 1998 to US\$ 107 million in the first two quarters of 1999. Other major beneficiaries are Kenya and Zimbabwe, which together account for over half of COMESA's intra-trade. Thus, given an enabling policy environment, including harmonisation of non-tariff and technical barriers to trade among COMESA member States, the realisation of the objectives of this initiative could help create opportunities for regional stability, trade and food security within the region.

* The Member Nations of COMESA are: Angola, Burundi, Comoros, Congo-DPR, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.

** A survey conducted between just two member States (Kenya and Uganda) for one year, estimated the value of unrecorded food imports to be about US\$57 million: See, Chris Ackello-Ogutu and Protase Echessah, Unrecorded Cross-Border Trade Between Kenya and Uganda: Implications for Food Security, Technical Paper No. 59, July 1997, Office of Sustainable Development Bureau for Africa, USAID.