REVIEW OF BASIC FOOD POLICIES

Commodities and Trade Division
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FOREWORD

This is the second issue of the *Review of basic food policies,* which covers policy developments in production, consumption marketing and trade of cereals, oilseeds and livestock products during the period 2001-2002. The policy information contained in the report is taken from country responses to FAO questionnaires and from publicly available sources.

The period under review was marked by several significant developments, particularly the World Trade Organization (WTO) Doha Ministerial Agreement that launched a new round of multilateral trade negotiations. This Agreement has set in train discussions on agriculture that include a review of experience so far with the implementation of the Uruguay Round Agreement on Agriculture (AOA). Thus it is hoped that the examination of agricultural policies that is contained in this and earlier versions of the Review might be of use to countries in their preparations for the negotiations on agriculture.

The state of world markets for basic foods was difficult in 2001-2002. Depressed international markets and market prices put national policy-makers under pressure, as they sought to alleviate the plight of farmers while adhering to the internationally agreed policy framework that most of them subscribed to under the WTO. By 2001, the developed countries had completed implementation of their AOA commitments while developing countries were well on the way to completion. What stands out in the detailed reviews given below is the re-instrumentation of national production policies largely towards substantially decoupled payments, even though some policies were more decoupled than others. The period also saw very active use of border measures to offer some relief to hard-pressed farmers through the employment of WTO safeguard measures, tariff increases (even though within their bound levels) and an increased use of scientific-based trade measures such as those on SPS and environment grounds. Policy measures to assist exporters that often face WTO compatible export subsidies by other countries on world markets are also reviewed in some detail. A similar policy stance was followed also by non-WTO member countries, which were either in the process of negotiating their accession to WTO or facing special conditions as part of structural adjustment programmes.

An interesting development that is highlighted in two text boxes is the number of import measures on Genetically Modified Organisms. There have been a number of such measures reported in the oilseeds complex and for grains. This is a relatively new policy development that reflects concerns that have sprung up in recent years and will require close monitoring in the future.

One of the expected responses of policy-makers to a period of depressed markets is enhanced efforts to stimulate demand. While several examples are given in the following chapters, two stand out as particularly noteworthy – school milk programmes (which of course represent longer term concerns too) and Bio-diesel use of oilseeds. Both of these are covered in special boxes.

It is hoped that the information provided will be of use to policy-makers, researchers and others concerned with agricultural policy issues. Comments and suggestions are welcome and can be sent to the Chief, Basic Foodstuffs Service, Commodities and Trade Division, FAO, Viale delle Terme di Caracalla, 00100 Rome, Italy, or by e-mail to: esc-registry@fao.org.

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I. RICE POLICY DEVELOPMENTS

Despite declining global paddy production since 1999, weak import demand and abundant supplies in some major exporting countries have kept international rice prices below their long-term declining trend in 2000, 2001 and 2002. That depressed market environment influenced national rice policies, as many governments remain committed to stabilizing paddy and rice domestic prices.

Production Policies

Rice is a critical crop for food security and a mainstay for the rural population in many countries. Because only a relatively small volume of rice production is traded internationally[1], high levels of self-sufficiency are generally pursued as the preferred strategy to secure adequate supplies, especially in those countries relying on rice as the main staple. Governments have accordingly supported the sector, through research in new varieties and the provision of irrigation, subsidized credit, basic inputs and extension. In addition, as rice is one of the few commodities still widely subject to market stabilization measures, such as state procurement and minimum producer prices, governments intervened actively in 2001 and 2002 to prevent farm prices from deteriorating further, thereby limiting the transmission of depressed international prices on to domestic markets.

[1] World rice trade accounts for about 6 percent of global rice production, against 12 percent for coarse grains and 18 percent for wheat.

Table I-1: Paddy support prices in selected countries

Countries	Currency	Local currency per tonne						US$ per tonne		
		Nominal Prices			Real Prices (deflated by CPI 1995/96=100			Nominal Prices		
DEVELOPING		**2000/01**	**2001/02**	**2002/03**	**2001/01**	**2001/02**	**2002/03**	**2000/01**	**2001/02**	**2002/03**
Exporters										
China: Semi-late crop	Yuan	1080	1060	1040	...	...	...	131	128	126
Late crop	Yuan	1160	1080	1020	...	...	...	140	131	123
Egypt	Pound	340[1/]	500[1/]	...	276	397	...	92	111	...
India: common	Rupee	5100	5300	5500	3552	3591	3567	110	110	114
grade A	Rupee	5400	5600	5800	3760	3794	3761	116	117	120
Pakistan: Irri	Rupee	5125	5125	...	3640	3522	...	90	82	...
Basmati	Rupee	9625	9625	...	6836	6615	...	169	155	...
Thailand: 5% broken	Baht	5185	5235	...	4233	4168	...	120	119	...
Fragrant	Baht	6495	6500	...	5302	5175	...	151	148	...
Importers										
Bangladesh	Taka	8167	8204	...	6371	6267	...	160	144	...
Brazil	Real	139[2/]	132[2/]	132[2/]	98	87	81	76	56	52
Costa Rica	'000 Colón	85	85	...	47	42	...	275	258	...
Indonesia	'000 Rupiah	1400	1519	1519	633	628	548	187	149	154
Iran, Rep. Of	'000 Rial	1856[3/]	2700[3/]	4000[3/]	761	994	1292	1052	1540	610
Korea, Rep. Of	'000 Won	1452	1510	1510	1208	1194	1162	1274	1165	1230
Malaysia	Ringgit	798[4/]	798[4/]	798[4/]	686	675	666	210	210	210
Philippines	Peso	9000	9000	...	6461	6061	...	211	175	...
Sri Lanka	Rupee	7420	7420	...	5041	4347	...	102	86	...
Turkey	Million Lira	330	480	700	20	19	20	497	326	415
DEVELOPED	**Currency**									
EC	Euro	298	298	298	265	257	252	260	272	293
Japan	'000 Yen	252[5/]	245[5/]	238[5/]	248	243	238	2243	1924	1977
United States	US$	143[6/]	143[6/]	143[6/]	127	123	121	143	143	143

p provisional … not available

[1/] Guaranteed price for medium grain paddy rice.

[2/] Paddy long grain rice, South, Southeast, Northeast and Centre West Regions

[3/] For variety Nemata and Neda

[4/] Including a production subsidy of RM 250 per tonne of paddy delivered to a licensed mill or drying facility.

[5/] Husked rice basis

[6/] Marketing Assistance Loan Rate

Developing Countries

In ***Asia*****, Bangladesh** has, in the past two years, increased the participation of the private sector in rice production, especially in irrigation and in the production, import and marketing of rice seeds, including hybrids. Regulations to diminish the negative impacts of fertilizer applications on the environment were also passed. For rainfed rice production the Government promoted supplementary irrigation in drought-prone areas and the development of high-yielding varieties suitable to rainfed conditions. Producer support prices were raised slightly in 2000/01 (Table I-1) and the level of procurement purchases by the Government rose markedly in the past three years.

Table I-2 Bangladesh Government Rice Procurement (000 tonnes, milled equivalent)

1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
353	513	401	495	797	823	726

Under the Second Socio-Economic Development Plan (SEDP-II) for the 2001-2005 period, **Cambodia**[2] increased budgetary allocations to agriculture by 17 percent in 2002 and concentrated on the development of the rural and irrigation infrastructure, with the assistance of external donors. These measures will mainly have a bearing on rice, as the crop accounts for some 90 percent of cultivated area. The Government plans to extend by some 200 000 hectares the irrigated rice area.

In the face of the large surplus stocks that were accumulated in previous bumper crop years, **China** started reducing its support to the sector in 1999. In 2000, "protective purchase" prices, which set the floor for state procurement, were eliminated for early rice and lowered further in 2001 and 2002 for the semi-late and late rice crops. Under the WTO accession agreement in December 2001, China accepted a *de minimis* exemption for product-specific support of 8.5 percent of the value of that product output (less than the general 10 percent granted to developing countries under the Agreement on Agriculture) and forfeited the right to exclude investment and input subsidies to poor farmers from domestic support reduction commitments. Nonetheless, the country remained committed to a high degree of rice self-sufficiency, with much emphasis placed on the development and promotion of high-yielding hybrids varieties, especially focused on quality production.

Upon accession to WTO, in January 2002, the Taiwan Province of China announced its intention to cut rice plantings by 9 percent in 2002, a measure consistent with the opening of the country to imports and the new restrictions regarding the use of export subsidies. To limit the negative effects of these measures on paddy producers, the budgets associated with the Guaranteed Purchase and the Guidance Purchase Schemes, the two official programmes for procurement at guaranteed prices were increased.

Although **India** embarked on agricultural reforms in 2001 and 2002, it did not take production-limiting measures to ease the problem of excessive rice stocks. Moreover, support prices for rice were raised again in 2001 and 2002 (Table I-1) and state procurement levels increased from 17.3 million tonnes in 1999/00, to 19.1 million tonnes in 2000/01 and 20.9 million tonnes in 2001/02. Under its 2002/03 budget, however, the Government announced a 5 percent reduction in the fertilizer subsidy, which was reported to have entailed an expenditure of Rs 129 billion (US$ 2.8 billion) in 2000/01.

Under the 1999-2003 National Guidelines, **Indonesia** adopted an agriculture development strategy revolving around an agribusiness approach. Nonetheless, the country remained committed to raising paddy production through intensification and extensification programmes, the latter focusing on an expansion of cultivation in Kalimantan and Sumatra. Incentives to grow rice were provided through an 8 percent increase in support prices in 2001, (Table I-1), partly to compensate for the higher production costs associated with a withdrawal of input subsidies, in particular fertilizers, as of mid 2001. Support prices were left unchanged in 2002, but a 14 percent increase was announced for 2003.

[2] Cambodia liberalised domestic rice procurement and marketing in 1989

Under the 2001-2005 Development Plan, **the Islamic Republic of Iran** decided to cut State intervention in agriculture while encouraging the private sector to play a greater role in the distribution of fertilizers and pesticides and in the commercialization of the final products. However, recurrent drought in 1999-2001 prompted the Government to heighten its support to the sector. Accordingly, public investments in water management and irrigation infrastructure were substantially stepped up and paddy support prices raised by some 45 percent in 2001 and by 48 percent in 2002 (Table I-1).

In view of the build-up of large rice inventories and the preparation of the new round of trade negotiations, the Government of the **Republic of Korea** released in April 2002 a "Comprehensive Plan for the Development of the Rice Industry" for the stabilization of rice supply and demand from 2002. The Plan aims to (i) narrow the difference between production and consumption, (ii) improve the efficiency of the sector, (iii) stabilize producer incomes and (iv) diminish intervention by the Government in the sector. The Plan envisaged a cut in the area under rice of 166 000 hectares in 2002, to be increased to 212 000 hectares by 2005. In addition, yields are to be curtailed by requiring that farmers diminish nitrogen applications. Some of proposed strategies were already implemented in 2001, when the Government started to promote a diversification out of paddy production. At the same time, however, it raised producer prices by 4 percent in 2001 and left them unchanged in 2002, while procurement was downscaled to keep support to the rice sector and to overall agriculture within the WTO ceilings. As of 2002, state procurement was restricted to high quality rice, following the setting of new standards for government purchasing programmes. Rice producers started to receive direct payments of Won 200 000-250 000 (US$ 150 - 195) per hectare in 2001 and twice that level in 2002.

Malaysia's current rice strategies sprang from the Third National Agricultural Policy programme, covering 1998-2010, which set the objective to achieve 65 percent self-sufficiency in rice by 2010, down from 70 percent in 2002. With such an aim, the Government has provided direct technical assistance and supported research into varietal improvements using both conventional and bio-technologies. It also implemented a reform of the rice supply chain based on the enlargement of production units, the development of commercially viable rice farms and a programme to enhance the sector's productivity and competitiveness. In particular, the Government has designated eight special zones or "granaries" in Peninsular Malaysia, where paddy production is to be enhanced by raising yields to 5.5 tonnes per hectare and crop intensity to 185 percent by 2010. The country is set to identify suitable areas in Sabah and Sarawak, in East Malaysia, for large-scale commercial paddy production by the private sector. Such moves should coincide with the phasing out of unproductive paddy areas and their conversion to other agricultural activities. In addition, the country has engaged in an ambitious infrastructural investment programme to entice the private sector to play an active role in upstream (input deliveries, mechanization services, etc.) and downstream (milling, storage, packaging etc.) activities. Meanwhile, producers have continued to benefit from subsidies on fertilizers, estimated at US$ 52 per hectare in 2002 and from minimum producer prices. These, however, have been unchanged since 1998 at RM. 550.0 per tonne for long grain paddy and at RM. 516.9 per tonne for medium grain, plus a supplement payment of RM.250 per tonne for paddy delivered to licensed mills or drying facilities (Table I-1).

Myanmar's agricultural development strategy is to boost paddy production to generate surpluses for export by promoting the reclamation of forests and multiple cropping.[3] Producers continued to be subject to a compulsory paddy delivery to the state procurement agency of 12 baskets of paddy per acre (about 620 kg per hectare), at prices well below prevailing market levels. In 2002, farmers were reportedly paid Kyat 380 per basket of paddy (around Kyat 18.2 per kg), compared with market prices of Kyat 1400 per basket.

Nepal's rice marketing is almost entirely privately run. The Nepal Food Corporation now procures only for distribution in the deficit zones in the hilly and mountainous parts of the country and for reserves.

[3] Cropping intensity was officially reported to have risen from 133 percent in 1996-97 to 147 percent in 2000-01.

Table I-3: Rice Domestic Procurement by the Nepal Food Corporation

Fiscal Year	Paddy	Rice
	(……..tonnes……..)	
1996/97	31 442	17 912
1997/98	16 628	1 715
1998/99	4 771	19 442
1999/00	10 550	22 789
2000/01	5 478	2 134
2001/02	2 776	10 264

Source: Nepal Food Corporation

In **Pakistan** increased finance was provided for the installation of tube wells and improved quality IRRI seeds were made available to rice producers facing drought in 2001. The Government also allowed duty exempt imports of equipment and machinery for the modernization and development of irrigation and water management. Rice remains subject to the support price mechanism, managed by the Pakistan Agricultural Storage and Services Corporation Limited, although no paddy intervention purchases by this organization have been reported since 1995/96. Nonetheless, paddy support prices, which provide a floor for market transactions, were raised in 2000-01 by 10.8 percent for IRRI rice and by 10.0 percent for Basmati rice, but both were left unchanged in 2001-02 (Table I-1).

Under the Medium-Term 2001-2004 Development Plan, **the Philippines** allocated Pesos 20 billion (US$ 392 million) to the agriculture sector for irrigation development and rehabilitation, post-harvest facilities, rural infrastructure, agricultural credit, and research and development. In addition, fearing a recurrence of "El Niño" by mid-2002, Pesos 51 million (US$ 1 million) were assigned to emergency operations. In December 2001 the Government announced a plan to raise yields through hybrid rice technology on 135 000 hectares in 2002, progressively rising to 300 000 hectares by 2004[4]. Paddy support prices under the two tiered price mechanism operated by the National Food Authority were left unchanged in 2002 at Pesos 9 000 (US$ 175) per tonne for the wet season paddy and at Pesos 10 000 (US$ 194) per tonne for dry season paddy, with an additional Pesos 500 (US$ 10) per tonne granted to members of farmer cooperatives.

Assistance to agriculture in **Sri Lanka** has been channelled through government investment in irrigation, subsidized fertilizer distribution and concessionary credits to producers. Minimum producer prices have remained unchanged in nominal terms since 1993 (Table I-1), and intervention has been limited since the demise of the Paddy Marketing Board in 1996. Since then, the Cooperative Wholesale Establishment (CWE) and District Secretaries have been responsible for paddy purchases at guaranteed prices. In 2002, Rs 990 million (US$ 10.6 million) were reportedly provided as a revolving fund for paddy purchases. In addition, farmer production loans granted for the 1999/00 Maha and the 2001 Yala crops below Rs 20 000 were written off to provide relief to farmers affected by drought.

In both 2001 and 2002, **Thailand** supported paddy producer prices through large-scale market intervention programmes, based on the paddy pledging scheme, operated by the Bank for Agriculture and Agricultural Co-operatives (BAAC), in collaboration with the Public Warehouse Organization (PWO) and the Marketing Organization for Farmers (MOF). In 2001/02, the procurement scheme was extended to the highest-grade fragrant rice and the overall quantities targeted for intervention were substantially increased. Guaranteed prices were kept unchanged between 1999 and 2001, and raised marginally in 2002 (Table I-1). However, as market prices fell below the guaranteed levels, the volume of paddy pledged rose considerably in 2001, reaching 6.1 million tonnes, of which only 973 000 tonnes were redeemed. As a result, 5.1 million tonnes, equivalent to some 2.7 million tonnes of milled rice, were added to government stocks in that year. Also in 2001, the Government announced a new five-year national rice strategy (2002-2006), aimed at lifting producer household incomes, through yield increases of 20 percent over the period. Of the Baht 90 billion (US$ 2 billion) budget, three-quarters of which should be granted in the form of loans, 44 percent are for market price

[4] Paddy area in the Philippines was of the order of 4 million hectares by 2000.

stabilization, 38 percent for the construction of silos and 13 percent for research, development and promotion.

In **Turkey** rice is a controlled commodity, subject to government minimum purchase prices. Although these have been raised in the past two years, they have stagnated in real terms (Table I.1). Furthermore, the volume purchased by the procurement agency dropped from some 40 000 tonnes in 2000 to 19 000 tonnes in 2001. Government subsidies on credits and fertilizers were abolished in 2001.

In **Viet Nam,** concern over falling producer prices warranted the introduction of a 1 million tonne procurement scheme in 2001, at a minimum paddy procurement price of VND 1.3 million (US$ 89) per tonne. Low returns also induced the Government to reduce irrigated paddy cultivation in 2001 from 4.3 million to 4.0 million hectares by encouraging producers to shift to more remunerative crops and aquaculture, especially in the Mekong River Delta. This measure contributed to a contraction in overall paddy area from 7.7 million hectares in 2000 to 7.5 million hectares in 2001. In order to overcome some quality problems it faced on export markets, the country also launched in 2001 a plan to develop about 1.3 million hectares for production of high quality rice for export. As prices were still low in 2002, poor farmers were exempted from paying either all or half the agricultural land use tax in 2002, while intervention at guaranteed prices was stepped up. Yet the objective of a medium-term expansion in output, based on large gains in productivity remains. Indeed, under the 2000-2005 Agricultural Development Programme, emphasis was placed on the dissemination of high quality rice varieties, including hybrid seeds, and related technologies. The plan also called for the establishment of closer relationships between producers and agri-business and for improvements in market information.

Many countries in ***Africa*** have identified lowlands and inland valleys as potential areas for extension of paddy cultivation. Others have also concentrated on the rehabilitation of irrigation schemes. However, although most governments in the region pursue high rates of rice self-sufficiency to reduce import dependency, there was little specific support to the sector in the past two years. Furthermore, a general drive towards privatization dominated, notwithstanding growing recognition that the private sector in the region had not succeeded in taking over the functions that had been under the general responsibility of state marketing boards.

Benin currently concentrates on the rehabilitation of existing rice lands to enhance the production potential and reduce import dependency, with the goal to raise rice self-sufficiency from the current 30 percent to 54 percent in 2012 and 100 percent by 2017.

The **Democratic Republic of the Congo's** National Rice Programme hinges on productivity enhancement, area expansion and on improvements in post-harvest activities. The first relied on the seed multiplication programme, supplemented with the distribution of improved seeds to farmers on credit terms. The expansion in cultivation mainly targets the lowlands, where most of the country's potential lies. The country is also focusing on the rehabilitation of drying, milling and storage infrastructure and encouraging local authorities to repair and maintain roads.

In 1997, the **Côte d'Ivoire** launched a new Rice Development Programme aimed at stimulating production and reducing imports by 80 percent by 2005. The increase in production was planned to stem from a 40 percent expansion of rainfed rice and from a four-fold increase in irrigated paddy cultivation between 1996 and 2005. Yields were also set to rise from 1.50 tonne to 1.94 tonne of paddy per hectare over the period.

Egypt's rice production policy concentrates on the development of short duration, high yielding varieties and on the distribution of seeds and provision of the associated technologies to producers. Irrigation water is provided free of charge. Although usually not enforced, cultivation remains subject to a ceiling of 450 000 - 500 000 hectares, to save water. In the period under review, paddy producers benefited from credits at a preferential rate of 5.5 percent per annum and from a strong increase in

guaranteed paddy prices. In 2001/02, these were set at LE 500 (US$ 111) per tonne for medium grain rice and LE 450 (US$ 100) per tonne for long grain, up 47 percent and 50 percent, respectively, from their 2000/01 levels.

Although the Government of **Ghana** aims to reduce rice imports, the commodity was not included among the 10 priority crops selected for accelerated growth in the country's Agricultural Services, Sector Investment Programme. Currently, the strategy to sustain paddy production relies mainly on improving farmer access to quality seeds and on promoting paddy cultivation in low valley bottoms and under irrigation. Although the private sector was encouraged to provide mechanization services following the withdrawal of government subsidies on mechanization, the response has not met expectations.

In the past few years, **Mali** has largely focused on the rehabilitation of the irrigated schemes and on the promotion of small milling equipment through the "Office du Niger", which administers about 60 000 hectares under irrigation. In 2001, the Government launched a special programme to boost secondary rice crop production.

In 2001, **Mauritania** announced a new development strategy to 2015, which enhanced the role of the private sector. Accordingly, in the past two years, the country concentrated in transferring to producers the responsibilities for the management and maintenance of large irrigated schemes previously held by Sonader. Priority was also given to rehabilitating existing irrigated schemes with the Government contributing 50 percent of the costs, if units were operated by cooperatives, and 25 percent in the case of individual farmers. This rehabilitation has been accompanied with the publication, in 2000, of norms for the re-organization of the consolidation of the small plots into larger, more competitive units.

In January 2001, **the Niger** launched a project for the construction of 100 small dams, the first of which was constructed in Bankor. In 2002, the country also started a programme to promote simple irrigation technologies for implementation by the private sector.

In **Nigeria**, fertilizer subsidies were removed in February 2000, when the Government completely liberalized procurement, trade and distribution of agricultural inputs. As a result, assistance to paddy producers is now largely limited to the provision of extension services under the "Special Rice Project", which is executed jointly by the Federal and all of the 36 State governments, and of micro-credits at concessional interest rates of below 10 percent. The "Special Rice Project" aims at disseminating improved rice technologies and upgrading rice processing capacity. In 2002, the general stance towards market liberalization of the sector was softened and the Government set up a Presidential Committee on Rice to explore the strategies to make the country self-sufficient by 2005 and a net exporter by 2007.

Under the 2001 Action Plan, **Senegal** extended the "Quality Rice" programme, which aims at promoting local rice by improving the competitiveness of production through the dissemination of improved technological packages and land plot consolidation.

The policy environment in ***Latin America*** and the ***Caribbean*** region varies substantially, with a number countries relying almost exclusively on market forces, especially in the southern cone, while elsewhere governments have continued to play an active role to support the sector.

Rice producers in **Argentina** were affected by the financial crisis that beset the country in 2002. In April, the Government decided that, following the devaluation of the national currency, debts incurred by farmers with the suppliers of basic inputs in US$ equivalent would be converted into national currency at the new free market exchange rate, increasing the debt burden faced by producers.

Paddy producers in **Brazil** benefit from a number of institutional programmes, including pledging schemes, which enhanced their access to rural credit. These programmes provide a floor price to

producers, which was in the range of R$ 7.61 to R$ 8.37 per 60 kg bags (US$ 53.7 – 59.2 per tonne) for long grain paddy rice in 2000/01. It was cut by 5 percent to R$ 7.95 and R$ 7.23 per 60 kg bags in 2001/02 and left unchanged in 2002/03.

Costa Rica raised the guaranteed producer price by 6 percent in 2000 to Colón 85 000 (US$ 275) per tonne, but the rise was marginal in 2001. In November 2002, the Government agreed to use earnings from import duties to support minimum prices at US$ 260 per tonne for producers cultivating up to 200 hectares, including the payment of US$ 20 per tonne to millers buying paddy locally. The plan was estimated to entail a transfer of US$ 9 million per season to producers.

In the past two years, the **Dominican Republic** made progress in implementing an agrarian reform, with the provision of legal ownership titles to the beneficiaries, to facilitate the development of a land market and improve producer access to credits and other services. In 2001, RD$ 947.2 million (US$ 55.9 million) were made available to producers in the form of short term credits for the seeding of 44 985 hectares, which compares with RD$ 663.4 million (US$ 40.4 million) and 44 843 hectares in 2000. Until 2000, the National Committee on Rice Policy fixed minimum purchase and maximum selling prices for rice, as a way of keeping prices stable. A paddy-pledging scheme was introduced in 2001 to help producers to fetch better prices for their rice and to get immediate payment from millers upon delivery of their product. On the other hand, millers were given access to loans for up to 70 percent of the value of the product, with the government bearing the costs.

Guatemala implemented a plan for land registry and territory codification. It also launched a campaign to reduce agricultural producer vulnerability through an insurance programme and sales on market futures. In addition, the Ministry of Agriculture made fertilizers available at 50 percent of market price to rice producers.

Honduras instituted a National Fund for complementary loan guarantee, to give producers larger access to credit, especially in the aftermath of the Hurricane Mitch, which had caused damage to rice production infrastructure.

Since 1993, **Mexico** has provided fixed payments per hectares at planting time to producers of rice and other crops, under the Procampo Programme, which is scheduled to last until 2007/08. Payments were raised from Pesos 708 for the spring/summer crop in 1999 and for the autumn/winter crop in 2000/01 to Pesos 778 per hectare for the following two crops. In 2002 and 2002/03, the rate was reported at Pesos 873 per hectare. Since August 2002, producers have also been allowed to use their entitlements to future payments as a guarantee to obtain loans from banks. In November 2002, before the prospect of a complete removal of tariffs on trade with the United States as of January 2003, the Government announced its intention of reintroducing price support to basic grains and launched a very ambitious farm programme to help producers stand competition from subsidized US farmers.

Like other countries in the region, **Panama** proceeded with a land proprietorship programme. In June 2001, the country granted subsidized loans to assist farmers who were affected by adverse weather conditions. Direct financial assistance and credits were also earmarked for rice processing through the establishment of a new fund for agro-processing in June 2001.

Venezuela launched a new Agricultural Development Plan in 2000, which designates rice as a strategic product. The plan set a five year production growth objective of 137 percent by 2004, as a means of curbing the country's dependence on wheat imports.

Developed Countries

Rice remains a highly protected commodity in most developed countries. Since the completion of their WTO obligations in 2000, there has been little progress in reducing overall support to producers. During the period, there was, however, an intense process of review of national policies and several proposals of reforms were made within the context of the new round of multilateral trade negotiations.

Rice production in the **European Union** (EU) is subject to area ceilings established at the national level, as a condition for receiving compensatory payments. Such payments are made on the basis of an historic[5] national base area and yield. The payment per hectare was raised between 1997/98 and 1999/2000, to compensate for the 15 percent reduction of minimum support prices implemented over the period. Since then, the minimum paddy procurement price has been kept at € 298.35 per tonne and payments have been unchanged, averaging € 329 per hectare, equivalent to about € 52 per tonne. However, overshooting of the area ceiling by Spain resulted in a reduction in the per unit payments to Spanish producers of 44 percent in 1999/00, 45 percent in 2001/02 and 35 percent in 2001/02 respectively.

Table I-4: EU - Compensatory Rice Payments

	Historic yield	Base Area	Payments per hectare		
			1997/98	1998/99	1999/00
	tonnes/hectares	hectares	(…….€/hectare……)		
Italy	6.04	239 259	106.00	212.00	318.01
Spain	6.35	104 973	111.44	222.89	334.33
Greece	7.48	24 891	131.27	265.55	393.82
France	5.49	24 500	96.35	192.77	289.05
Portugal	6.05	33 000	106.18	212.36	318.53
French Guiana	7.51	5 500	131.80	263.60	395.40
EU - Total	6.32	432 123	109.96	219.90	328.98

On 10 July 2002, the EU Commission submitted a new reform proposal of the Rice Common Market Regime, which envisages a once-for-all cut of 50 percent in the intervention price to € 150 per tonne in 2004/05. Compensation for 88 percent of the drop would be provided through an increase in the direct payment to producers from € 52 per tonne to € 177 per tonne, inclusive of a single farm payment of € 102 per tonne, paid on the basis of historical rights and subject to the current maximum guaranteed areas, and a crop specific aid of € 75 per tonne. Aids to private storage are planned whenever market prices fall below the intervention level for two consecutive weeks, while safety net purchases would be triggered when they fall to € 120 per tonne.

Although rice production in **Hungary** has dwindled in recent years, producers were eligible for a fixed payment, which in both 2001 and 2002 was set at Ft 35 000 (US$ 125 – US$ 127) per hectare. In addition, due to serious drought, a subsidy for sprinkling water of up to 400 cubic meters per hectare was given at a rate of FT 13 per cubic meter in 2001. This was withdrawn in 2002.

Since the implementation of the "Basic Law on Food, Agriculture and Rural Areas, in July 1999, there have been few changes in **Japan's** rice policies, which have continued to rely on a production adjustment programme, to balance the country's rice production with falling domestic demand. In both 2001 and 2002, the target for diversion of paddy land was set at 1.01 million hectares, or 40 percent of the total paddy area, and further raised to 1.06 million hectares for 2003. In November 2001, additional incentives were offered to farms surpassing their production diversion targets. Guaranteed rice producer prices were reduced by 2.7 percent in 2001 and by a further 2.8 percent in 2002. However, failure to solve the rice surplus problem led to the proposal for a new adjustment programme for implementation in 2003, which would divide the targeted production volume, rather than the targeted area, among participating producers. In August 2001, Japan also announced a "Priority Plan for a Stable Food Supply and Aesthetic Land Development", which called for a structural reform of agriculture and an expansion in farm size, with the aim of raising the competitiveness of the sector. Under the plan, specialized rice farms accredited as target management units will be the main farms responsible for supplying rice to the market, while the other farms will mainly focus on the maintenance and management of agricultural resources. The Plan also suggests introducing an insurance-type scheme as a new instrument for income stabilization.

[5] Average in 1992/93 – 1994/95 for Spain and Portugal, 1993/94 – 1995/96 for the others.

During 2001 and most of 2002, the rice sector in the **United States** was regulated under the 1996 legislation of the FAIR Act. As a result, producers holding rice production flexibility contracts (PFC) were eligible for (decreasing) fixed payments. In addition, under the Market Loss Assistance Programme (MLA), they received supplementary payments to help them weather the impact of low market prices (Table I-5). It is estimated that some US$ 119 per tonne in 2000 and US$ 99 per tonne in 2001[6] were transferred as decoupled payments to farmers holding rice base production entitlement rights under the PFC and the MLA, independently of whether they grew rice during the season or didn't. In addition to these fixed payments, producers actually growing rice benefited from a minimum price under the Marketing Assistance Loan and the Loan Deficiency Payment programmes, of US$ 143.3 per tonne of paddy, unchanged since 1989. In the aggregate, direct support under the rice commodity programme was reported to have entailed an outlay of US$ 1 774 million in 2000, US$ 1 423 million in 2001. Preliminary estimates for 2002 and 2003 indicate somewhat lower expenditures, at US$ 1 058 million of US$ 1 029 million, respectively.

Table I-5: United States: Rice Production Flexibility Contracts and Marketing Loan Programmes

Average market	Season paddy price	Paddy loan rate	Marketing loan/ certificates	Direct Payments [1/]		
				(…Per unit of paddy…)		Total payment
				PFC	MLA [2/]	
	US$/ tonne	US$/tonne	US$ Million	US$/tonne	US$/tonne	US$ Million
1996/97	220	143.3	0	61	-	455
1997/98	214	143.3	0	60	-	448
1998/99	196	143.3	14	64	32	717
1999/00	131	143.3	401	62	62	932
2000/01	124	143.3	598	57	62	897 [3/]
2001/02	92	143.3	670 [3/]	46	53	350 [3/]
2002/03	82-88	143.3	n.a.	45	n.a.	n.a.
2003/04 [4/]	n.a.	143.3	n.a.	52	31 [5/]	n.a.

Source: USDA
[1/] Includes payments under the Production Flexibility Contracts and Market Loss Assistance Programmes.
[2/] Counter Cyclical Payments in 2003/4
[3/] Forecast as of 12 June 2001
[4/] Under the 2002 Farm Bill
[5/] If world price remains below the loan rate (in milled equivalent)

On 13 May 2002, the United States passed "The Farm Security and Rural Investment Act of 2002", the new Farm Bill which establishes the bases of federal farm programmes from 2002 to 2007. Under the new bill, the rice loan rate[7] remained at US$ 143.3 per tonne but the rice direct payment rate for production flexibility contracts (DP or PFCs) was raised from US$ 45.2 to US$ 51.8 per tonne. One major difference from the FAIR Act is the re-introduction of target prices, fixed at US$ 231.5 per tonne, which will be used to calculate counter-cyclical payments (CCPs) to producers whenever the effective[8] producer price falls below the target level. The introduction of target prices has been estimated to provide an additional US$ 31 per tonne to rice PFCs holders[9]. CCPs replace the emergency transfers that were made to eligible farmers under the Market Loss Assistance Programme. The counter cyclical programme has been fixed for the next 6 years, providing a reliable income guarantee to producers that did not formally exist under the *ad hoc* Market Loss Assistance

[6] PFC and DP are made on 85 percent of the producer's rice contract area times the rice programme yield on the farm.
[7] Base for the calculation of marketing loan benefits, defined as the difference between the loan rate and the loan repayment rate (for rice the US-defined prevailing world price) times actual production of each farm. Payable only when the world price falls below the loan rate.
[8] defined for rice as: the sum of 1) the higher of the US defined world price level or commodity loan rate plus 2) the direct payment rate;
[9] CCP = 0.85 {target price- [Max (world price, loan rate) + direct payment rate]} (base contract prod.)
Thus, producers with rice production flexibility contracts will receive counter cyclical payments of up to:
0.85 x [231.5 – (143.3 + 51.8)] = US$ 30.94 per tonne of their base contract production.

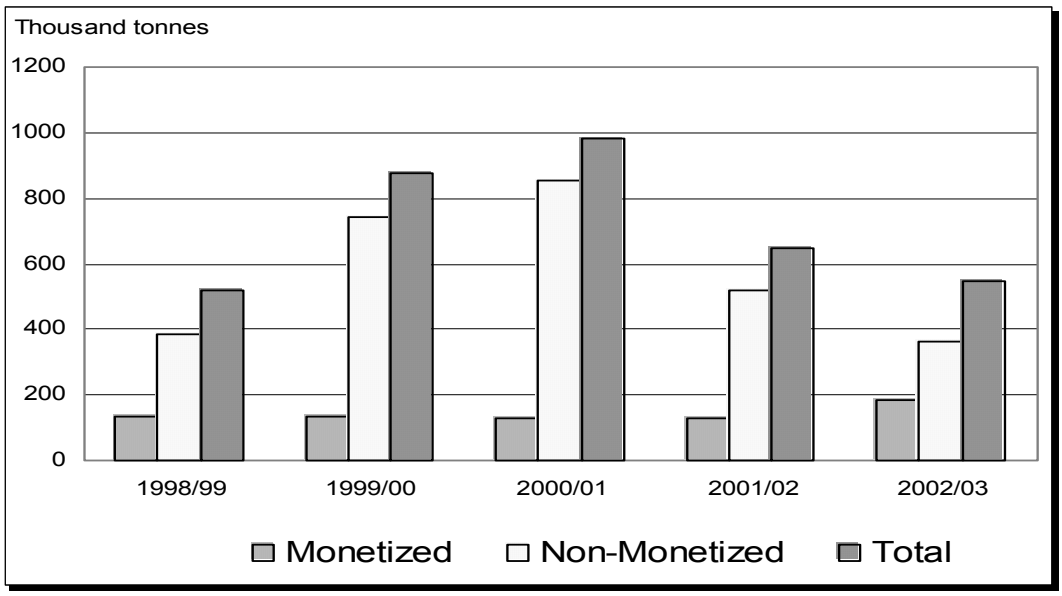
Programme. The Bill gives producers the possibility of updating their base area for the purpose of calculating the subsidies under the direct and counter cyclical payments. For the purpose of calculating counter cyclical payments, farmers that updated the base area are also entitled to update yields for part of the increase experienced between the early 1980s and 1998-2001. However, producers are subject to payment ceilings per person, per year of (i) US$ 40 000 for loan deficiency payments, (ii) US$ 65 000 for counter cyclical payments and (iii) US$ 75 000 for marketing loan gains and loan deficiency payments. Producers with gross proceeds exceeding US$ 2.5 million will forfeit their loan deficiency payments.

Consumption, Marketing and Stock Policies

Rice is one of the few food commodities still subject to widespread domestic marketing restrictions and to government wholesale or retail price controls. Over the past two years, there was a tendency to further deregulate post-harvest activities and efforts made to shift some functions traditionally carried out by government organizations, such as stock holding, to the private sector. Furthermore, governments moved to concentrate their food distribution programmes on vulnerable and special population groups.

Bangladesh abolished the official distribution of rice in July 1993 when it dismantled the Rural Rationing and Statutory Rationing Channels. However, the Government continued to distribute rice under poverty alleviation programmes and to maintain food security reserves of about 1 million tonnes. Under the public food distribution system (PDFS), the open market sale prices in rural and urban areas have been kept unchanged at Taka 12 000 (US$ 236) per tonne since 1999/00. In 2000/01, the volume of rice channelled through the PDFS reached its highest level in 10 years, at close to 1 million tonnes, but has declined since then. Moreover, in 2002/03, there was a marked shift in the distribution channels, which saw the share of rice distributed under the monetized system rise to 34 percent of the total, compared with 20 percent in 2001/02 and 13 percent in 2000/01.

Figure I-1: Bangladesh: Rice channelled through the Public Food Distribution System



China relaxed controls over domestic grain marketing in the past two years. In particular, in 2001, the country liberalized grain procurement and distribution in six grain-deficit southern provinces and developed areas[10], which were classified as "Consumption Provinces". The deregulation of grain

[10] Zhejiang, Jiangsu, Shanghai, Fujian, Guangdong, Hainan, Beijing and Tianjin.

markets was also extended to all grain-deficit provinces in 2002, while provincial governments in "surplus" or "producing" provinces retained control over rice procurement and distribution. In the past three seasons, the country has drawn down its grain reserves to bridge the gap between consumption and production. Unofficial sources in China estimated the release from stocks from all sources (farmers and public reserves) since 2000/01 at close to 30 million tonnes, in milled equivalent. The cut in rice inventories coincided with the implementation of an ambitious grain warehouse construction programme launched in 1998, for completion by the end of 2002, to increase the grain storage capacity by 50 million tonnes. In addition to the central state grain reserves, China continued to require provincial government to hold grain stocks for food security, equivalent to three month consumption in grain-surplus provinces and to 6 month consumption in grain-deficit provinces.

Hong Kong SAR continued to apply a "rice control scheme" which imposes a minimum holding by importers, proportional to their import entitlements. Since January 2000, the overall size of the stock has been set at 40 000 tonnes.

In **India**, the distribution and internal trade of rice have been regulated under the Essential Commodities Act since 1955. In February 2002, the Act's restrictions on inter-state grain movements were lifted, paving the way for the establishment of a single national cereal market. Requirements for trading licenses and limitations on cereal storage by private agents were also eliminated. On the other hand, India maintained its subsidized rice distribution system, but raised substantially the issue rice prices in 2000/01, by 30 percent in the case of rice sold to above poverty line (APL) customers, and by close to 69 percent in the case of below poverty line (BPL) consumers. However, in 2001/02, APL prices were lowered by 30 percent, while the reduction of BPL prices was much smaller, at only 4 percent.

Table I-6: India - Rice Central Issue Price

	Above Poverty Line	Below Poverty line	Above Poverty Line	Below Poverty line
	(…….Rs per 100kg……)		(……..US$ per 100kg……)	
1997-98	650	350	17.9	9.7
1998-99	700	350	16.5	8.3
1999-2000	905	350	20.8	8.1
2000-01	1180	590	25.5	12.7
2001-02	830	565	17.3	11.8

Source: Union Ministry of Consumer Affairs, Food and Public Distribution – Report on Long-Grain Policy

Although rice is considered a strategic commodity in **Indonesia**, various programmes were launched in 2002 to diversify consumption towards other domestically produced staples, such as sago, cassava and other roots and tubers, in an attempt to reduce the country's dependence on rice imports. Stabilization of domestic producer and consumer rice prices has constituted the principal mandate of Bulog, the Indonesia's National Logistic Agency since it underwent a major overhaul in 1998[11]. Since then, the private sector has been encouraged to engage in domestic rice marketing, while Bulog's responsibility for supplying rice to the whole domestic market has been discontinued and distribution of rice at subsidized prices become more targeted. In particular, under the Special Rice Market Operation Programme (SRMOP), 20 kg of rice per month were made available to poor families, at a subsidized price of Rupiah 1 000 (US$ 0.10) per kg, or less than 50 percent of market prices. In 2002, this programme was renamed "Rice for the Poor". Overall, Bulog targeted distribution benefited about 12.5 million families in 2002, up from 7.5 million in 2001, and absorbed 60 percent of the total volume marketed by that organization.

Japan reduced the price of rice sold to wholesalers, from Yen 289 (US$ 2.6) per kg in 2000 to Yen 286 (US$ 2.2) per kg in 2001 and Yen 283 per kg (US$ 2.4) in 2002. Faced with overhanging rice surpluses, the Government continued its programme for supply disposal and decided to remove 100 000 tonnes of old rice for use as feed grain in 2001. Japan's rice reserves, which are managed to

[11] In 1998, Bulog lost its State Trading Enterprise status, its rice import monopoly and the tax exemption privileges on rice imports it had enjoyed till then.

fluctuate around 1.5 million tonnes, are in principle designed to be sufficient to cope with two consecutive years of shortfalls.

Under the "Comprehensive Plan for the Development of the Rice Industry", **the Republic of Korea** announced a series of initiatives to stimulate domestic rice consumption, in an attempt to slow down the long term declining trend in demand, through the launching of the "Rice for Breakfast" campaign, provision of rice for school lunches, distribution to military and public institutions and the establishment of a food stamp programme for vulnerable groups. In addition, the volume of rice targeted for processing into starch and alcohol, etc. was raised from 66 240 tonnes in 2001 to 115 200 in 2002, to be achieved by substituting rice for imported materials such as maize and dried cassava chips.

In **Malaysia**, rice procurement, distribution and stock management are under the responsibility of BERNAS, a privatized state trading company, which also holds a rice import monopoly. The Government continues to impose a ceiling on retail prices for Standard rice (US$ 0.26-0.27 per kg), Premium (US$ 0.27-0.29 per kg) and Local Super Grade rice (US$ 0.43-0.47 per kg), unchanged since 1993. However, retail prices for higher qualities, including Local Super Special Grade, specialty and fragrant rice were freed in 2001. Based on the special agreement between BERNAS and the Government, the trading organization has the obligation to maintain a minimum rice stockpile of 92 000 tonnes.

Since June 2002, **Pakistan** has been committed to enhance private sector participation in the marketing of agricultural commodities, including storage. Accordingly, incentives for the private sector to invest in post-harvest activities were given through tax exemptions and reduced import duties on equipment and installation of facilities for grain handling and storage.

Under its 2002-2006 five-year Rice Strategic Plan, **Thailand** earmarked Baht 34.5 billion for infrastructural work, including silos, 17 percent of which will be provided through public funding, and the rest under loans to the private sector.

Further to the 1999 reforms giving full rights of land use to farmers, **Viet Nam** lifted the requirement for farmers to sell a contracted amount of rice to the state. As part of its efforts to reduce public sector involvement in rice marketing, the country promoted the establishment of direct contracts between producers and trading firms in 2001. In 2002, this initiative was extended to contracts between producers and agro-processing firms. In both cases, partner firms were expected to provide a secure outlet for producers, but also to facilitate their access to capital, basic equipment and technical assistance. Traders holding such contracts with producers were granted preferential access to meet government export deals while for processing firms, the incentive was in the form of financial assistance and tax rebates. In 2002, the authorities in key producing regions let farmers use state-owned storage facilities to keep their paddy. In addition, farmers were allowed to use their stocks as collateral for borrowing from banks.

In ***Africa***, retail prices are subject to government stabilization measures in **Egypt**, where the target consumer price was set at about US$ 0.25 per kg in 2001. Since 2000, **Ghana** has made available, through the Agricultural Development Bank, a special loan facility to private traders, to purchase paddy, mill it and distribute it on local markets. The volume of purchases that used this facility was reported to be small. In 1999, **Mauritania** embarked on the liberalization of paddy procurement and domestic marketing. In particular, the Government eliminated the fixing of official paddy prices, suspended the provision of subsidized credits for paddy procurement and supported the empowering of cooperatives to take over marketing functions.

In Latin America and the Caribbean, **Brazil's** National Supply Company, CONAB, which is responsible for distributing, storing and setting minimum prices for major food commodities, initiated a restructuring process in 2002 aimed at reducing its storage capacity by two thirds. The restructuring did not diminish the company's responsibility to set producer prices and to run policy programmes.

Colombia continued to grant subsidies for storage of rice for up to 6 months, which were reported to amount to Pesos 16 000 (US$ 7.2) per tonne of milled rice in early 2001. These were lowered to pesos 13 340 per tonne (US$ 5.6) in the September 2001 to February 2002 period. Rice is the last food still subject to wholesale and retail price ceilings in **Costa Rica**. In November 2000, the maximum consumer prices for rice with 21-25 percent broken were set at Colon 190 per kg and lowered to Colon 172 per kg as of October 2002. **St Lucia** still controls the prices of a number of basic commodities. For rice, the price ceiling was reduced between 2000 and 2001 by 7 percent in the case of parboiled rice and by 8 percent for raw white rice. The Government of **Venezuela** undertook to promote rice consumption in the past two years, as rice was classified as a strategic product under the new Agricultural Plan. For instance, rice had to be blended with maize flour for government food programmes. Campaigns to promote rice consumption were also carried out in public schools.

International Trade Policies

The year 2000 marked the conclusion of the implementation of the AoA by the developed countries and the middle point of the process for the developing countries, which should meet their full commitments by 2004. The past two years also saw the accession of China and the Taiwan Province of China to WTO and the launching, in November 2001, of a new Round of Multilateral Trade Negotiation, the "Doha Round". In parallel, many countries moved forward to strengthen trade links under bilateral and regional agreements. For instance, in 2001, free trade agreements (FTAs) were signed between Canada and Costa Rica, between Egypt and Iraq, between The Syrian Arab Republic and several other Arab countries. ASEAN members also signed a Closer Economic Partnership with Australia and New Zealand. The process did not lose momentum in 2002, with Chile signing FTA with the EU, the Republic of Korea and United States, and Japan with Singapore. In addition, a large number of FTA negotiations were launched, often involving trading blocs, e.g. Mercosur with the Andean Community. A number of countries belonging to the South Asian Association for Regional Cooperation (SAARC) also pledged in January 2002 to prepare a draft treaty for the formation of a free trade area.

Import Measures

Global rice imports in the past three years remained high compared to the pre-1998 levels, reflecting production shortfalls but also the openness of trade regimes, especially in Africa. However, low international prices prompted several governments to raise protection to protect farmers and to delay the planned liberalization of their import regimes. Although a very important development for the world rice market, China's accession to WTO failed to give the expected boost to global imports.

Asia remains the main destination of rice trade, with about half of global imports in 2000-2002. Major importers in the region, however, maintained a high degree of external protection. State trading enterprises, in particular, continued to play an important role, although a move toward privatization of rice trade gained momentum in several important countries.

Bangladesh liberalized trade in rice and lifted all import restrictions on rice as per import policy order 1997-2002. By 2000/01, 69 percent of the total imports were in private hands. However, the Government also continued to import to meet the quantity targeted for rice distribution under safety-net programmes and for emergency reserves. Trade policies have been widely used in recent years, to stabilize domestic prices. More specifically, *ad-valorem* duties on all rice types except seed passed from zero in 1999 to 5 percent in 2000. In 2001 they were further raised to 25 percent for husked and milled rice. A further 10 percent regulatory tax was applied on imported rice as of August 2001. In addition, in May 2001 the country imposed a temporary ban on rice imported from India at all but one entry point.

Under **China's** accession agreement with the WTO in December 2001, tariffs on rice products were bound at 65 percent by the end of the implementation period, in 2004. However, the country granted a 1 percent duty preferential tariff quota, for 4 million tonnes of rice in 2002, half of which for long

grain Indica rice and the other half for short and medium grain rice. The country retained the right to let the China National Cereals, Oil & Foodstuff Import and Export Co, a state trading enterprise import directly 50 percent of the preferential quota, with the other half reserved for private traders. In addition, provisions were taken to reallocate to them the unused part of the quota held by the state trading agency.

Table I-7: China's WTO Market Access Commitments for Rice

	Unit	2002	2003	2004
Tariff rate quota, total	000 tonnes	3 990	4 657	5 320
Long grain	000 tonnes	1 995	2 328	2 660
Short and medium grain	000 tonnes	1 995	2 328	2 660
In-quota tariff	percent	1	1	1
Over-quota tariff	percent	74	71	65
Share of quota under non-state trading	percent	50	50	50

The **Taiwan Province of China** formally joined WTO on 1 January 2002. Under its accession agreement, it was allowed to keep non-tariff barriers on rice in exchange for a wider opening of its market under the WTO special treatment provisions of market access. It, accordingly, lifted the ban on rice imports and opened a 144 720 tonnes free-of-duty quota in husked rice equivalent in 2002. For subsequent years, the rice preferential access will be re-negotiated.

In January, **the SAR of Hong Kong** relaxed existing restrictions on the private sector from carrying out simultaneously rice import and wholesale activities. In 2002, the Government announced the full liberalization of its rice trade regime from 1 January 2003. By that date, all quantitative restrictions on imports and entry requirements would be eliminated.

In **Indonesia**, import tariffs have been kept at Rupiah 430 per kilo since 2000 (equivalent to some 30 percent[12] of the import unit value). Although imports are subject to tariffs, weak enforcement of tariff payment induced the Government to introduce additional import requirements as of May 2002. From that date, only traders registered at the Ministry of Industry and Trade have been granted import licenses.

Rice imports by the **Republic of Korea** are also subject to the WTO special treatment provisions of market access and are all made under a 5 percent tariff quota, the volume of which has been progressively increased from 102 614 tonnes in 1999 to 153 921 tonnes in 2002, in line with the WTO commitments.

Under the **Philippines'** WTO obligations, private traders may import special, fancy or glutinous rice subject to a 50 percent duty under a tariff quota. In 2001, however, only 20 000 tonnes out of a total 134 395 minimum access volume were authorized and, practically, all rice imports were made by the National Food Agency, either through government-to-government deals or through public tenders. However, the Government announced in March 2002 it would authorize producer groups and cooperatives to be responsible for rice imports as of 2003.

For several years, imports of rice by **Sri Lanka** have been subject to a 35 percent tariff, which the Government waived when supply shortages occurred. In July 2001, however, the Government reacted to an import surge by banning further imports. By 1 November 2001, the Cooperative Wholesale Establishment, a government-sponsored enterprise, and private traders were allowed to import 60 000 tonnes of rice free of duty. In the light of continued high domestic prices, further imports were authorized until the end of the 2001 at half of the normal 35 percent duty. Early in 2002, the *ad valorem* duty was converted into a specific duty of Rs 7 000 (US$ 75) per tonne.

[12] This is substantially below the WTO ceiling of 160 percent.

In October 2001, faced with a surge in rice shipments, **Turkey** raised the rate of the import duty from 27 percent to 39 percent, in the case of paddy, and from 35 percent to 46.5 percent for milled rice.

Similarly, in an attempt to arrest an inflow of rice from neighbouring countries, **Viet Nam** increased tariffs from 30 percent to 40 percent on all rice, except seeds, in November 2001. In 2002, however, the country allowed the import of 5 000 tonnes of glutinous rice from The Lao People's Democratic Republic at half the 40 percent duty.

Africa has been a major growth market for rice in the past decade, absorbing some 28 percent of world trade in 2000-2002. Rice imports into the region rose by one million tonnes, or 16 percent, over that period, spurred by a strong growth in domestic demand, which outpaced gains in production. The rice inflow to the region was also facilitated by the openness of the markets.

For instance, eight countries in western Africa, **Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, the Niger, Senegal and Togo**, implemented in January 2000 the Common External Tariff (CET) of the West African Economic and Monetary Union (UEMOA), which for several of them entailed a substantial reduction in border tariffs. Under CET, milled rice imports from third countries are subject to a 10 percent import duty. Under the UEMOA provisions, two additional duties could be added on a temporary basis to ease the impact of the lowering of external tariffs on local producers and to shield the market from excessive low prices. According to the original schedule, however, the maximum additional duty could not exceed 15 percent in 2000, 10 percent in 2001 and 5 percent in 2002 and was to be abolished as of 1 January 2003.

Table I-8: UEMOA common external tariff and other duties[1/]

Category	Ad-valorem Tariff	Statistical Tax	Solidarity Tax
1. Essential social products	0	1	1
2. Basic consumption products (**paddy/seeds**)	5	1	1
3. Intermediate consumption products (**all other rice**)	10	1	1
4. Final consumption products	20	1	1

Source: UEMOA
[1/] Applicable to c.i.f. value

In 2000, **Kenya** set the duty it applied on rice imports at 25 percent or Kenyan Shilling 7.50 per kg (US$ 98 per tonne), whichever the higher, and changed it to 35 percent or Kenyan Shilling 4.20 per kg (US$ 53 per tonne) in 2001.

Consistent with the general liberalization of the rice sector ongoing in **Mauritania** since 1999, the country abolished the "pool system", which obliged agents to purchase paddy domestically in order to get import licenses.

Nigeria, one of the world's leading rice importers, raised rice import duties from 50 percent to 75 percent in January 2001[13]. In 2002, further increases brought the rate first to 100 percent and, by the end of the year, to 110 percent.

Table I-9: Nigeria's Rice Import tariff

1986-95	1995	1996	1997	1998	1999	2000	2001	2002
General Import Ban	100%	50%	50%	50%	50%	50%	75%	100%

Imports into ***Latin American*** and ***Caribbean*** countries have stagnated in the past decade, accounting for less than 11 percent of total trade in 2000-2002. The stagnation reflected a slowing down in demand and increases in production especially in the southern part of the continent. In

[13] Nigeria maintained a rice import ban between 1986 and 1995

addition, import barriers such as discretionary import licensing, variable duties arising from price band import mechanisms or phytosanitary bans also dampened import growth. As a result, a large part of rice imports into the region were made under preferential access conditions, such as WTO tariff quotas, or from partners of regional agreements, such as the Andean Pact, Caricom, Mercosur or NAFTA.

For instance, **Brazil** imports rice mainly from other Mercosur members (Argentina, Paraguay and Uruguay) free of duty. Purchases from non-members were charged, under the Mercosur Common External Tariff, between 11.5 percent and 13.5 percent in 2002, 1 percent less than in 2001. However, in 2002, the country introduced new phytosanitary requirements on the imports of rice and other agricultural products, obliging non-Mercosur suppliers to submit pest risk assessments.

Under the **Andean Pact**, which comprises **Bolivia**, **Colombia**, **Ecuador**, **Peru** and **Venezuela**, imports from non-members are authorized when supplies are not available from other Andean countries. Purchases from non-members are subject to the Andean Community Price Band Mechanism, which is based on a floor and ceiling prices, established by the Andean Board of Directors every year, and on an external reference price, adjusted every two weeks by the Board. In April 2002, the floor price was set at US$ 278 per tonne and the ceiling at US$ 352 per tonne, lower than the US$ 319 per tonne floor and at US$ 387 per tonne ceiling that were applied in 2001.

Although rice imports within the Andean Community are free from licenses and duties, **Colombia** has tagged rice as an exception and made rice imports from other members subject to quotas. In addition, the country has resorted to an Andean Pact safeguard to regulate the flow of rice from Ecuador and Venezuela. In November 2002, although the Andean Pact ruled that Colombia's restrictions on imports from Ecuador were not warranted, they were not lifted. Imports by Columbia from third countries, on the other hand, are subject a "crop absorption" system, under which licenses are granted only to traders demonstrating they had purchased two tonnes of paddy on the local market for each tonne requested for import. Since 2001, licenses have been also issued to importers buying local rice on futures market at predetermined prices. Although, under the Colombia's agreement with WTO, the crop absorption system was to be discontinued in January 2000, the country was allowed to extend it for another four years.

From December 1999 to February 2002, **Costa Rica** applied a WTO price-based Special Safeguard of 19 percent on husked rice imports bringing the overall rate of duty to 54 percent. In February 2002, the country replaced it with a safeguard based on Article 19 of GATT 94[14], which raised the overall rate of tariff to 71 percent until 26 September 2002. In October 2002, a 22.5 percent price-based safeguard was again invoked, which brought the tariff down to 57.5 percent. Simultaneously, however, the phytosanitary charges on rice imports were raised from US$ 10 to US$ 19 per tonne.

Following the passage, in the United States, of legislation allowing food sales to **Cuba** in 2000, Alimport, Cuba's state food agency, started to import rice from the United States in 2002.

Imports by the **Dominican Republic** are mostly carried out by producer organizations and cooperatives under a tariff quota. This is subject to a 20 percent duty and was equal to 13.0 thousand tonnes in 2001 and 13.6 thousand tonnes in 2002.

Decisions on the volume to be imported in **Guatemala** are made in consultation with a multi-sectorial committee. In 2000, the tariff quota was set 33.4 thousand tonnes. It was raised to 43.2 thousand tonnes in 2001. In-quota tariffs were reduced from 18 percent to 16.2 percent for milled rice but remained at zero percent for paddy, which constitutes the bulk of imports. The duty applied on out-of-quota rice imports was also lowered from 36.0 percent to 32.4 percent between 2000 and 2001.

[14] Emergency Action on Imports of Particular Products

Imports by **Mexico** from the United States were subject, under the North American Free Trade Agreement (NAFTA) to tariffs ranging from 2 percent to 4 percent in 2001. They were halved in 2002 and are to be eliminated in 2003. In June 2002, NAFTA ruled on an anti-dumping complaint made by the Mexican Rice Council (originally filed in October 1999) against a number of United States' exporters of long-grain white rice to the country. The ruling allowed the imposition of a 10.18 percent compensatory duty on rice supplied by most exporting companies from the United States. Mexico also suspended in 2001 a ban on imports from Thailand that had been introduced in 1993 on phytosanitary grounds. In late 2002, however, Mexico, along with several countries in Central America[15], re-introduced the prohibition on rice from China, India, Myanmar, the Philippines, Thailand and Viet Nam, again for phytosanitary reasons.

In **Nicaragua**, import duties were raised between 2000 and 2001 from 55 percent to 62 percent for milled rice sourced in WTO member countries and from 65 percent to 72 percent for non-WTO-members. The higher duties in 2001 were compensated by the opening of a 100 000 tonnes tariff quota for paddy, established after an agreement was clinched between rice producers and millers, which committed the latter to purchase paddy domestically at a pre-determined price. As a result, while all paddy imports faced a 20 percent duty in 2000, the following year only those imported within the quota were subject to this rate, while those exceeding the quota paid 45 percent. The tariff quotas was extended to 2002 for the same quantity.

After consultation with WTO, **Panama** agreed to open a 5 000 tonnes (in milled equivalent) tariff quota in 1997 and to increase it by 523.5 tonnes a year until 2006. Accordingly, the quota increased from 6 047 tonnes in 1999 to 7 618 tonnes in 2002, in milled equivalent. While the in-quota tariff was set at 15 percent, out-of-quota imports were charged an ad-valorem duty of 130 percent in 2000, subsequently lowered to 123 percent in 2001 and to 116 percent in 2002.

Imports of rice in **Peru** face a 20 percent tariff plus a supplementary tax of 5 percent. In June 2001, however, the country introduced a price band mechanism on the imports of various products, including rice, which resulted in a variable duty system. The variable duty is calculated based on an external reference price and on a basic floor price, set twice a year, on 1 January and 30 June. The resulting levy on imports was reported to be of the order of US$ 220 per tonne in the first quarter of 2002. The country continues to apply a phytosanitary ban on rice originating from several Asian countries.

Rice in **St Lucia** is mainly imported directly by the Ministry of Commerce, which sources it principally from other Caricom country members free of tariff and consumer taxes. Rice from other origins is subject to a 25 percent duty and to a 5 percent consumer tax. Imports of rice packaged in bags of less than 25 pounds are subject to an import license.

Developed countries account for less than 15 percent of world imports. Since they had already completed their commitments on market access, there were few changes in access in the past three years, although the EU offered some limited opening under preferential schemes.

Since the implementation of the AoA, **EU's** rice imports have been subject to variable tariffs that were tied to the official level of procurement prices[16]. While between 1997/98 to 1999/2000, the reduction of these prices led to a fall of the rice variable tariffs, that influence ceased in 2001. Other factors affected tariffs, including the steady slide in external reference prices and variations in the US$/€ exchange rates, which made them fluctuate widely, around € 200- € 270. The tariffs applied on rice imports under the ACP preferential scheme were much lower, of the order of € 80 – € 90 per tonne between end-1999 and end-2002. In addition to the preferential access schemes, which already account for about 40 percent of its rice imports, the EU opened in 2001 an additional free-of-duty quota for least developed countries[17] under the "Everything but Arms" (EBA) programme. The

[15] Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.
[16] For a more detailed description of the EU rice import regime, see the Review of Basic Food Policies, 2001
[17] All ACPs, plus Afghanistan, Bangladesh, Bhutan, Cambodia, Laos, Maldives, Mauritania, Myanmar, Nepal and Yemen.

amounts allowed for import under the scheme will be restricted until access becomes unlimited (except for rules of origin, etc.) in 2009/2010.

Table I-10: 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	5063	5 823	6 696

Consistent with its WTO obligations, **Hungary** reduced tariffs on rice imports in 2001. The country also opened a 25 percent tariff quota of 19 433 tonnes in 2001 and 2002. In addition, under an agreement with the EU, paddy rice seeds from the EU have been allowed to enter the country duty-free since 1 July 2000, with no limitation on the volume. Hungary also opened a 40 000 tonnes import quota free-of-duty, for imports from the EU, between 1 July 2000 and 30 June 2001.

Since 1999, **Japan** has discontinued the special treatment it had applied on market access and implemented a tariff system on imported rice, with the duty originally set at Yen 351.17 per kg (US$ 2 900 per tonne), falling to Yen 341.0 per kg (US$ 2 850 per tonne) in 2000, the last year scheduled for reductions. Following this tariffication, the import permit system and the obligation to sell all imports to the Food Agency were eliminated. In accordance with its new WTO obligations, Japan established minimum access quota at 770 000 tonnes (husked equivalent) in 2001 and 2002. However, in 2001, the country cut the import volume channelled through the simultaneous buy-and-sell system by 20 000 tonnes to 100 000 tonnes, for the first time since 1995. Japan also invoked the volume-based safeguard for pellets of rice from 1 July 2001 to 31 March 2002, and the price-based safeguard on milled rice on 31 May 2002.

Export Measures

The world rice market is relatively concentrated, since five countries[18] account for about three quarters of world exports. Competition for market share intensified in the period under review as depressed market conditions generally prevailed. For instance, governments played a growing role in securing rice export deals, with several of them granting special sale conditions and price subsidies to boost sales. At the same time, a number of governments promoted sales of higher quality rice, as a means to arrest the contraction in rice export earnings.

In ***Asia*** under the terms of **China's** accession to WTO, the Government retained its authority to decide over cereal exports, which remained under state trading control. At the same time, however, the country agreed to eliminate all export subsidies.

In **India**, exports of grains, including rice, are subject to export restrictions under the Essential Commodities Act. Faced with excess supplies, in May 2001 the Government lowered the FCI selling price of rice for export from Rs 6750 (US$ 144) per tonne to Rs 5650 (US$ 120) per tonne, the same level as the FCI issue price to Below Poverty Line consumers. Although FCI prices of rice for export have been subsequently raised in 2002 and 2003, they remained highly competitive,[19] enabling the country to position itself as the second largest rice supplier to the world market in 2002.

In March 2002, India announced a new five-year Export/Import (EXIM) policy covering the 2002-2007 period and lifted quantitative restrictions on the export of non-Basmati rice. Basmati rice exports, however, became subject to advisory minimum prices set by major Basmati exporters under the aegis of the Export Development Authority (APEDA). Under the new policy, Basmati rice exported at price below the minimum established level became subject to compulsory inspection. The advised minimum Basmati prices hovered around US$ 450 -500 per tonne FOB in the first half of 2002.

[18] Thailand, Viet Nam, India, Mainland China and the United States.

[19] Although India is not entitled to use export subsidies on rice under its agreement with WTO, it appears to have resorted to the developing countries exception under Article 9 of the AoA, which allows them to subsidize internal transportation and processing.

Table I-11: India - FCI Rice[1/] Sale Prices for Export

Date of Implementation	Raw Rice		Parboiled Rice	
	Rs/ tonne	US$/ tonne	Rs/ tonne	US$/ tonne
April 2001	6750	144	6 750	144
May 2001	5650	120	6 000	128
April 2002	5760	118	6 115	125
August 2002	5910	122	6 265	129
January 2003	6 260 (old crop)	131	6 615	138
	6 510 (new crop)	136	6 865	143

[1/] Non-Basmati rice, with 25 percent broken

In November 2000, **Pakistan** eliminated the minimum export price for IRRI rice. In May 2001, it allowed the private sector to issue quality and grading specifications as a way of improving the quality of rice, especially Basmati, and boost exports. The Government also played an active role in promoting rice export deals with Indonesia, the Islamic Republic of Iran, Iraq, the Philippines, Kenya, Zimbabwe and South Africa.

Under the proposed 2002-2006 rice strategic plan, **Thailand** set the country's export target at 7.5 million tonnes in 2006, a level already achieved in 2001. However, the plan also aimed at increasing the share of premium grade rice in the total, from 23 percent in 2001 to 60 percent by 2006. To that end, the country tightened the specifications and standards of the high quality and fragrant rice for export. In view of the depressed international market conditions, Thailand made various attempts in 2001 and 2002 to clinch an agreement for co-operation among major rice exporters to stabilize world prices. Eventually, a ministerial meeting was held in Thailand on 9 October 2002, with the participation of China, India, Pakistan, Thailand and Viet Nam. Thailand's Government also intensified its direct involvement in export activities through the promotion of Government-to-Government deals. In 2002, this was achieved by allowing credit sales to major importers (e.g. Indonesia, the Philippines and the Islamic Republic of Iran) and through the implementation of a counter trade mechanism (e.g., with the Philippines and Indonesia) and of an account trade system with Malaysia. In addition, sales of rice from public stocks to the private sector through the Public Warehouse Organization and the Market Organization for Farmers were allowed for determined quantities at a special price, for exclusive sale abroad. Exports of paddy rice from the country continue to be forbidden.

In April 2001, **Viet Nam** lifted most restrictions on rice exports under the new Export-Import Management Mechanism for 2001-2005. This removes quantitative limits on exports and allows all economic agents holding agricultural commodity trade licenses to engage in rice exports. However, provisions were made to ensure that state-trading enterprises would remain responsible to negotiate export deals with the most important trade partners. In an attempt to boost sales, the Government also intensified its attempts to establish barter trade arrangements with importers such as Malaysia and promoted Government-to-Government contracts with Indonesia, Iraq and Cuba. It also established offices in potential growth markets in The Russian Federation and Iraq. Furthermore, it allowed exporting agencies to grant credit of up to 720 days on sales of at least 30 000 tonnes and launched in 2001 an exporter bonus programme, which set a premium of Vietnemese dong 180 (US$ 0.012) for each dollar of export value, excluding, shipments made on barter terms, foreign assistance and government deals. These exceptions were lifted in 2002 to help exporters cover losses incurred on government-to-government contracts. By the end of 2001, however, in the wake of production shortfalls, supplies were released from public stocks and exporters urged to suspend rice shipments until February 2002.

In ***Africa***, the only country with a sizeable export record is **Egypt**. The country was reported to have made use of export subsidies between July and September 2001 to bolster sales abroad, to a tune of LE 100 (US$ 22) per tonne, for medium grain, and LE 200 (US$ 45) per tonne, for long grain rice.

In ***Latin America*** and the ***Caribbean*****, Argentina** introduced a 10 percent export tax on rice exports and other agricultural products in March 2002, following the devaluation of the national currency. Unlike for wheat and coarse grains and other agricultural products for which the rate was increased to 20 percent in April 2002, the rice export tax remained at 10 percent. Although exporters continued to be eligible to the refund of indirect taxes paid on exported rice, these were halved in the wake of the currency devaluation. **Bolivia** undertook to update its norms and standards for rice as a measure to promote rice exports. Although **Ecuador** has turned out as a net rice exporter in recent years, in 2002 exports were hindered by the safeguard applied by **Colombia** under the Andean Pact, which limited the rice inflow from Ecuador to 18 000 tonnes, in paddy equivalent[20]. Under its WTO agreement, Colombia was allowed to subsidize rice exports in 2002 for close to 17 000 tonnes and US$ 96 million. However, following a correction in its notification where the country informed that it had included tax rebates in its calculation of the base subsidies, Colombia forgeited its export subsidy rights on rice.

Exports accounted for about 17 percent of world trade in 2000-01. With the exception of the EU, which continued to make use of its export subsidy entitlements, most exports from those countries were made on commercial terms or under food aid programmes.

Among ***Developed countries***, the **United States,** promoted rice exports essentially under export credit guaranteed programmes since direct export price subsidies granted under the Export Enhancement Programme have not been used since 1996. Assistance to rice exporters was conveyed through export credit guarantee Programmes (GSM-102 for credit of up to three years and GSM-103 for credits of up to 10 years). In 1999 and 2000, more than 200 000 tonnes were reported to have benefited from such guarantees. This information was not available for the latest period. In addition, the level of rice shipped under Food Aid programmes fell in 2001 and 2002 compared with the previous two years, representing 8 percent and 11 percent of country's rice exports

Table I-12: United States - Volume of rice export shipped under special programmes

	1997	1998	1999	2000	2001	2002*
	(……'000 tonnes……..)					
PL 480	115	183	515	216	144	253
Other Food aid	14	11	46	178	87	128
Total Food aid	129	194	561	394	231	380
Share of Food aid in total exports	5%	6%	18%	12%	8%	11%

*provisional
Source: USDA – Rice Situation and Outlook Yearbook, November 2002

Under the WTO Agreement, the **EU** committed to cut in 1999/2000 the volume and budgetary expenditure on rice subsidized exports to a maximum of 139.3 thousand tonnes (milled equivalent) and € 40.4 million, respectively. In 2000/01, the last year due for reduction, the ceilings were set at 133.4 thousand tonnes and € 36.8 million. According to EU's notification to WTO, in 1999/2000, 140.4 thousand tonnes were effectively exported with subsidies, entailing an expenditure of € 26.4 million. In addition 63.5 thousand tonnes were shipped under food aid programmes. In 2000/01, the level of rice exports with refunds fell to 132.3 thousand tonnes but the expenditure rose to € 32.3 million. The level of food aid shipments, on the other hand, dropped substantially to 21.2 thousand tonnes.

Based on its notification to WTO, **Japan** increased substantially the volume of rice it granted as food aid in 2000/01, when it reached 706 830 tonnes, up from 218 928 tonnes in the preceding year.

[20] The application of the safeguard by Colombia was ruled to be illegal by the Board of the Andean Pact.

Conclusions

In 2001 and 2002, governments reacted to low international rice prices by adopting less expansionary **production policies**, departing from the stance generally maintained in the preceding two years. This shift coincided with greater emphasis on better quality rice cultivation, especially in major exporting countries in Asia.

Although a number of governments promoted the opening of new lands to boost rice production, much support has been channelled through yield-enhancing measures, such as varietal improvements and extension, subsidies on basic inputs, irrigation and credit. Particular efforts continued to be made to disseminate high-yielding varieties, especially hybrids, but a growing number of governments also showed interest in the development of genetically-modified rice. Large public investments in irrigation appear to have lost appeal, except in a few selected countries where rice is still predominantly grown under rainfed conditions. In Africa, emphasis was on inland valley rice cultivation, with partial water control, but most of the region remained dependent on external assistance for the realization of land development projects and for the rehabilitation of existing irrigation schemes. In Africa and, especially in Latin America and the Caribbean, several countries made inroads in the consolidation of land reforms and provision of ownership titles.

Concerns over the impact of lingering low prices on producer incomes prompted governments to implement market stabilization measures, for instance by activating large procurement schemes, and to adopt debt alleviation programmes. However, direct price support to producers was minimal in Africa and much of Latin America and the Caribbean, where market protection was mostly conveyed indirectly through border measures. In general, although many developing countries had large scope for increasing domestic support to rice producers within their WTO commitments, the provision of additional assistance to the sector was constrained by a lack of budgetary resources. The situation was different for the developed and middle-income countries and several of them raised compensatory or emergency payments to assist their farmers to weather the impact of depressed market conditions. As a result, production in those countries remained fairly stable**.**

Although rice remains subject to **domestic marketing** restrictions or retail price controls in several countries, distribution of rice at preferential prices was often scaled down and targeted to special population groups. The responsibility of state marketing enterprises in rice distribution also tended to be reduced and several incentives were introduced to entice the private sector to play a greater role in the various phases of the rice commodity chain. The thrust towards privatization persisted in Africa despite past evidence that the private sector did not succeed in taking over the functions previously fulfilled by public agencies.

Regarding stocks, the two major rice producers engaged in a large scale reduction of public rice inventories. However, while China adopted production-cutting measures and released reserves domestically to bridge the gap with consumption, India reduced its stock overhang by boosting exports. Many countries, especially in Asia, remained committed to maintain a minimum level of stocks for food security and market stabilization purposes.

As to **rice trade**, developing countries continued to lower their WTO bound import tariffs and to increase the size of their tariff quotas in compliance with their WTO commitments. In several instances, the private sector was also allowed to play a more active role in rice imports. The prevalence of low international prices, however, encouraged several importing countries to raise tariff and non-tariff barriers to protect domestic producers. Recourse to safeguard clauses also seems to have increased in 2001 and 2002. Some countries also resorted to phytosanitary measures.

In the field of exports, government interventions intensified as international competition for markets stiffened. As a result, a large number of transactions were conducted under government-to-government or barter trade deals in the past two years. Several among the major exporting countries tried to form a coalition to sustain rice quotations, an initiative that was already launched in 2000. The major trade development over the past two years, however, was the surge of exports from India, boosted by low priced sales from government stocks. Finally, many countries and country grouping made progress in the negotiation of free trade agreements, either on a bilateral basis or with major trading blocs.

Thus, overall, while there has been evidence that national rice policies have evolved in 2001 and 2002 towards reduced government intervention and more open trade regimes, the rice sector still appears to be very much protected and highly subject to market stabilization measures, reflecting the special role rice continues to play for food security and income generation.

II. GRAIN POLICY DEVELOPMENTS

This chapter reviews changes in national grain policies that were implemented or announced over the 2001-02 period. Generally speaking, there was no major departure from the recent trend in policy direction, but the majority of initiatives involved adjustments within the same policy framework adopted in the past. Nevertheless, some new policy reforms were also introduced in a number of countries.

In line with further market deregulation, many countries undertook or announced new policy measures in favour of less government intervention, while in some other countries such reforms were checked by falling grain prices and losses in farm incomes. Likewise, domestic grain market conditions, such as excess supply, had influenced policy decisions in numerous countries worldwide.

Production Policies

In developing countries, the general trend of increasing incentives to grain producers continued, as governments sought to expand domestic grain production and reduce their reliance on imports. In many developed countries, by contrast, grain support prices were reduced or even abolished, with these policies, however, generally being replaced by policies of direct payments. Also, in several cases, support to producers came in the form of assistance measures in response to adverse weather conditions and depressed market prices.

Developing Countries

Among **North African** countries, **Egypt** increased its 2001/02 wheat procurement price slightly in an attempt to stimulate farmers' sales. In addition, the Government continued to provide production loans to farmers at relatively low interest rates. **Morocco**, in response to three years of consecutive drought, decided to implement new emergency assistance measures in 2001. Repayment of agricultural loans were extended over a period of 15-20 years, while debts of small farmers hardest hit by the drought were reduced by 40 percent. In October 2001, in an attempt to improve national grain yields, the Government introduced a subsidy for imported seeds set at 2 650 dirhams (US$ 233) per tonne for durum wheat and 2 400 dirhams (US$ 211) per tonne for barley. This was in addition to the subsidy on certified local seeds (650 dirhams or US$ 57 per tonne).

Elsewhere in **Africa**, in **Kenya**, due to financing problems, the National Cereals and Produce Board (NCPB) initiated, in early 2002, an in-kind payment scheme to support small-scale maize farmers. Instead of cash, farmers receive seed, fertilisers and fuel in exchange for their products. Owing to a balance of payments deficit, the Government of **Swaziland**, in 2001, decided to stop providing farmers with free maize seeds and scrapped the subsidy on fertilizers. By contrast, in **Zambia**, the Government announced in 2002 measures to provide free seeds and fertilizers to farmers in a move to stimulate maize cultivation and also diversify the economy away from copper production, while in **Zimbabwe** the maize procurement price by the Grain Marketing Board (GMB) was more than doubled in 2001/02 to Z$ 8 500 (US$ 154) per tonne, in order to encourage farmers to expand maize cultivation and also help them cope with rising production costs.

Table II-1: Grain support prices in selected countries (prices per tonne)

Countries	Currency	Local currency per tonne						US$ per tonne		
		Nominal Prices			Real Prices (deflated by CPI 1995/96=100)			Nominal Prices		
		1999/00	2000/01	2001/02	1999/00	2000/01	2001/02	1999/00	2000/01	2001/02
DEVELOPED										
EU [1/]										
Grains	Euro	119.2	110.3	101.3	112	102	91	127	101	90
Hungary										
Wheat	Forint	18 000	16 000	17 000	9 809	7 944	7 734	76	57	59
Maize	Forint	14 000	14 000	14 000	7 629	6 951	6 369	59	50	49
Japan										
Wheat	Yen	148 217	147 067	144 833	145 026	144 894	143 733	1 301	1 365	1 192
Barley	Yen	127 780	126 680	124 800	125 029	124 808	123 810	1 122	1 175	1 027
Norway										
Wheat	Krone	2 248	2 310	2 310	2 068	2 063	2 002	288	262	257
Rye	Krone	--	2 150	2 150	--	1 920	1 863	--	244	239
Barley	Krone	1 893	1 850	1 850	1 741	1 652	1 603	243	210	206
Oats	Krone	1 702	1 850	1 850	1 566	1 652	1 603	218	210	206
Poland										
Wheat	Zloty	450	480	510	272	264	265	113	110	125
Rye	Zloty	320	330	355	194	181	185	81	76	87
U.S. [2/]										
Wheat	Dollar	94.8	94.8	94.8	87	84	82	95	95	95
Maize	Dollar	74.4	74.4	74.4	68	66	64	74	74	74
Sorghum	Dollar	67.3	67.3	67.3	62	60	58	67	67	67
Barley	Dollar	73.5	73.5	75.8	67	65	65	74	74	76
Oats	Dollar	79.9	79.9	83.4	73	71	72	80	80	83

Table II-1: Grain support prices in selected countries (prices per tonne) cont..

Countries	Currency	Local currency per tonne						US$ per tonne		
		Nominal Prices			Real Prices (deflated by CPI 1995/96=100)			Nominal Prices		
DEVELOPING		**1999/00**	**2000/01**	**2001/02**	**1999/00**	**2000/01**	**2001/02**	**1999/00**	**2000/01**	**2001/02**
Brazil										
Wheat	Real	185	205	225	138	143	147	102	112	95
China [3/]										
Wheat	Yuan	1 240	1 132	1 132	1 139	1 037	1 034	150	137	137
Maize	Yuan	863	911	940	792	834	858	104	110	114
Egypt										
Wheat	Pound	665	660	667	552	534	527	196	190	168
India										
Wheat	Rupee	5 500	5 800	6 100	3 974	4 028	4 086	128	129	129
Maize	Rupee	4 450	4 450	4 850	3 215	3 090	3 248	103	99	103
Barley	Rupee	3 850	4 300	5 000	2 780	2 986	3 349	89	96	106
Jordan										
Wheat	Dinar	135	150	155	119	131	133	190	211	218
Barley	Dinar	87	95	95	76	83	81	123	134	134
Republic of Korea										
Barley	000 Won	1 026	1 067	1 109	864	878	877	863	943	859
Maize	000 Won	529	580	580	445	477	459	445	513	449
Tunisia										
Wheat	Dinar	285	295	295	250	252	247	239	215	205
Barley	Dinar	250	260	260	219	222	218	210	190	181
Turkey										
Wheat [4/]	million Lira	80	102	164	8	6	7	191	163	134
Barley	million Lira	60	82	131	6	5	5	143	131	107
Maize	million Lira	68	92	156	7	6	6	162	147	127
Oats	million Lira	56	77	123	5	5	5	134	123	100
Rye	million Lira	56	71	123	5	4	5	134	114	100
Zimbabwe										
Maize	Zim. Dollar	4 200	4 200	8 500	1 394	894	1 024	110	95	154

Source: official reports and OECD

[1/] intervention prices

[2/] loan rates

[3/] average prices in the major producing provinces

[4/] based on Anatolian Hard Red Wheat support prices

In ***Asia***, the Government of **India** raised the Minimum Support Prices (MSP)[21] for grains for the 2001/02 marketing season, with the largest increase for barley (16 percent), followed by maize (9 percent) and wheat (5 percent) (Table II-1). In April 2002, the wheat support price was raised further to 6 200 rupees (US$ 127) per tonne. **The Islamic Republic of Iran** increased the 2001/02 wheat purchase price by 25 percent to US$ 150 per tonne to encourage domestic production and reduce its reliance on imports. The country's medium-term plan is to become self-sufficient in wheat by expanding production to 17 million tonnes. In **Jordan**, the wheat intervention price in 2001/02 was raised slightly to 155 dinars (US$ 218) per tonne, while the barley price was unchanged at 95 dinars (US$ 134) per tonne. However, as part of its market deregulation effort, the Government decided to suspend the announcement of grain procurement prices before planting.

In the **Republic of Korea**, the 2001 barley support price was raised by about 4 percent from the previous year to 1 109 thousand won (US$ 859) per tonne, while the maize price was left unchanged at 580 thousand won (US$ 449) per tonne. **Thailand**, in response to falling maize prices in the domestic market, implemented, in August 2001, a six-month intervention scheme setting the maize base prices at 4 000 baht (US$ 90) per tonne. Furthermore, to protect maize and rice farmers from losses caused by natural disasters, the Government endorsed the creation of a crop insurance programme. Farmers who choose to participate must pay a premium of 151 baht (US$ 3.5) per hectare in order to receive 2000 baht (US$ 45) in compensation for crop damage. Although **Turkey** raised the 2001/02 support prices for wheat, barley and oats by 61 percent, and those of rye and maize by about 70 percent, inflation was about 62 percent. However, due to the lira depreciation against the US dollars, all grain support prices dropped in US$ terms. In the longer-run, the Turkish Grain Board (TMO) was expected to make grain purchases directly through commodity exchanges. In addition, a direct income support (DIS) scheme was initiated in 2001 under the Agricultural Reform Implementation Project (ARIP), providing all farmers with an area payment of 100 million lira (US$ 81) per hectare limited to 20 hectares per farmer.

Within the ***Latin America*** and ***Caribbean*** region, the Government of **Brazil** initiated a national programme to increase wheat production in 2002, with the goal of improving the country's self-sufficiency in wheat. As part of the plan, and in an attempt to boost wheat cultivation in non-traditional growing states, the Government raised support prices and also introduced regional prices. Accordingly, the 2002 minimum wheat price in the southern states[22] was set at 285 real (US$ 120) per tonne, while that in the other regions was fixed at 300 real (US$ 126) per tonne, compared to a national minimum price of 225 real (US$ 95) per tonne in 2001. To expand maize production, **Colombia** implemented a programme in 2001 under which nearly US$ 1 million was planned for investment in yellow maize. The programme aimed at using improved seeds to develop yellow maize cultivation and also at bringing additional land under this crop. Also, as part of the incentive package, a minimum procurement price scheme was introduced. Farmers were guaranteed US$ 192 per tonne of yellow maize during the 2001/02 crop year. Support prices in subsequent years will be based on market prices during the six-month before planting. In **Mexico**, per hectare crop payments under PROCAMPO (Programa de Apoyos Directos al Campo) were increased by 10 percent in 2001 to 778 pesos (US$ 83) for the autumn/winter crops and 829 pesos (US$ 89) for the spring/summer crops. In addition, to support small-scale farming, producers with less than one hectare could receive payments for one full hectare before planting. The Government also initiated in 2001 a direct area payment programme in some states to convert land from wheat, maize and beans to barley and oats.

[21] The MSP is the price at which the Food Corporation of India (FCI) procures grains from farmers.
[22] The three southern states of Rio Grande do Sul, Santa Catarina and Parana account for over 90% of Brazil's total wheat production.

Developed Countries

In **Australia**, the policy of using input subsidies as the main form of support continued in 2002[23]. Thus, the Diesel Fuel Rebate Scheme (DFRS) and the Diesel Alternative Fuels Grants Scheme (DAFGS), providing grants to reduce on-road transportation costs, were renewed to mid-2003. In farm aid, the Government decided to extend the 2000 federal flood assistance programme for a second year, benefiting severely affected wheat growers in northern New South Wales and southern Queensland. In May 2002, the Government decided to allocate up to *A$* 24 million (US$ 13.1 million) in "Exceptional Circumstances" assistance to wheat growers in certain parts of Western Australia. This came in response to sharp losses in farm incomes in these regions, estimated at over 40 percent in 2000/01 and a further 60 percent in 2001/02, due to prolonged droughts.

Canada, in a measure to assist grain farmers in cases of significant crop damage, established a new grade for wheat in August 2001, allowing the sale of No. 4 Canada Western Red Spring (CWRS). The new grade has a slightly lower test weight (68 kg per hectolitre) and higher sprout damage tolerance rate (5 percent). The Government also extended for two more years the Spring Credit Advance Programme (SCAP), introduced in 2000 to assist grain growers to finance their planting activities. In addition, the maximum limit for the interest-free, government guaranteed loans was increased from CAN$ 20 000 (US$ 12 900) to CAN$ 50 000 (US$ 32 290).

The **European Union (EU)**, as part of the Agenda 2000 reforms[24] of the Common Agricultural Policy (CAP), reduced the 2001/02 intervention price for cereals[25] by a further 7.5 percent from a year earlier. However, to partially compensate for the reduction, the cereals direct area payment and the set-aside rate were each increased from € 58.7 (US$ 54.1) to € 63 (US$ 56.4) per tonne. Similarly, the 2001/02 grass silage area payment, authorized only in Finland and Sweden, was raised to € 63 per tonne. In support of small-scale farming, the EU decided, on June 2001, to launch a new pilot aid programme targeting farmers who receive less than € 1 250 per year in aid payments through the CAP support system. Under the new scheme, eligible farmers are entitled to receive a payment during the 2002-05 period based on the amount of aid received in 1999-2001.

In the **United States**, the 2001 national loan rates for wheat, maize and sorghum were unchanged from the previous year, while the loan rate for oats was raised by 5 percent to US$ 83.4 per tonne and that of barley up 3 percent to US$ 75.8 per tonne (Table II-1). In August 2001, the Government approved the allocation of about US$ 5.5 billion in supplemental assistance payments, with the bulk to be used in the form of Market Loss Assistance (MLA) payments. Producers of grains, especially maize, were among the main beneficiaries. Also, during the same month, the USDA announced an assistance programme to compensate wheat growers, handlers and others in the industry for losses incurred due to Karnal bunt. The compensation ranged from US$ 22-66 per tonne, depending on the region.

The main development in the United States was the approval of the Farm Security and Rural Investment (FSRI) Act in May 2002, replacing the Federal Agricultural Improvement and Reform (FAIR) Act of 1996. Support for eligible crops remains to be provided through three programs: direct payments, counter-cyclical payments and marketing loans[26]. However, several changes were made to the FAIR Act. The direct payment rates in the FSRI Act are fixed by law, while under the FAIR Act a per-unit payment rate was calculated annually for each contract commodity. In the counter-cyclical payments, the major change was the introduction of target prices to play the role of "price triggers", as opposed to the *ad hoc* supplementary emergency assistance payments authorised under the FAIR Act.

[23] According to OECD, input subsidies in Australia represented two-thirds of producer support in 2001.
[24] See *Cereal Policies Review*, 1998/99 for the main highlights of the CAP reform for cereals.
[25] Common wheat, durum wheat, rye, barley, oats, maize, grain sorghum, buckwheat and millet
[26] The crops eligible for support are wheat, feed grains, rice, upland cotton and oilseeds.

Counter-cyclical payments, as a result, will be made whenever the effective price[27] is less than the target price. In the marketing loan programme, under the new Act, the loan rates are fixed in legislation and the requirement that the producer must enter into an agreement for direct payments to benefit from the loan programme was eliminated. The loan rates for grains under the FSRI Act are higher than those under the FAIR Act, with the largest increases for sorghum and barley (Table II-2).

Table II-2: The United States support provisions for grains under the FAIR and FSRI Acts

	2001: FAIR	2002-03: FSRI	2004-07: FSRI
Marketing loan rates ($/tonne)			
Wheat	94.80	102.88	101.05
Maize	74.40	77.95	76.77
Barley	75.78	86.35	84.97
Sorghum	67.32	77.95	76.77
Oats	83.36	93.01	91.63
Direct payments ($/tonne)			
Wheat	17.42	19.11	19.11
Maize	10.59	11.02	11.02
Barley	9.46	11.02	11.02
Sorghum	12.76	13.78	13.78
Oats	1.52	1.65	1.65
Target Prices ($/tonne)			
Wheat	n/a	141.83	144.04
Maize	n/a	102.36	103.53
Barley	n/a	101.50	102.88
Sorghum	n/a	99.99	101.88
Oats	n/a	96.45	99.21

Source: United States Department of Agriculture (USDA), 2002
n/a: non applicable

In **Japan**, the Government continued its policy of lowering the grain procurement prices in order to narrow the gap between domestic and world prices. Accordingly, the 2001/02 wheat and barley purchase prices were reduced by 1.5 percent. The Government also decided to close the Japan Food Agency (JFA) at the end of March 2003. JFA was established in 1949 as the official buyer of cereals.

Norway, in July 2001, changed its price support policy for grains from guaranteed prices at the producer level to target prices at the wholesale level. The 2001/02 grain administered prices were, however, unchanged from a year earlier. In addition to the price support, the Government provides area and deficiency payments. The levels of support prices and direct payments are revised annually after negotiations between the Government and producer representatives. Under the Area and Cultural Landscape Programme, aimed at promoting environment-friendly farming methods, the 2002 area payment for grains was raised by 50 krones (US$ 5.6) per hectare. In **Switzerland**, as part of the grains market liberalization process, guaranteed prices for bread wheat and rye were eliminated in July 2001. The Government also removed the producer subsidy on coarse grains in a move to stabilize production. A year earlier, the subsidy payment had been reduced by 48 percent from 770 Swiss francs (US$ 456) to 400 Swiss francs (US$ 237) per hectare.

Within **Central and Eastern Europe**, several changes were made in preparation for accession into the EU, while others were in response to domestic market developments. **Bulgaria**, in support of grain producers and to cushion the impact of low local prices, boosted its 2002 soft, short-term credit budget to 29 million leva (US$ 14.5 million). Of this total, 15 million leva (US$ 7.5 million) were allocated to cover subsidies on seeds and fertilisers. Total direct subsidies paid to the farm sector in 2002 totalled 48 million leva (US$ 24 million). **Croatia**, in the autumn of 2002, established new guidelines for its wheat producer subsidy policy in a plan to limit excess wheat production. The main goal of the amendments was to reduce wheat cultivation by small, inefficient farmers. Under the new measures,

[27] The effective price is defined as the sum of the higher of the national marketing year average farm price or the national loan rate plus the direct payment rate for the commodity.

farmers must plant at least 3 hectares of wheat and also submit a signed selling contract in order to receive an area payment of about 1 610 kuna (US$ 216) per hectare.

In 2001/02, the **Czech Republic**, abandoned its policy of fixing intervention prices for wheat before harvest, in order to let market forces play a bigger role in determining prices, but, at the same time, introduced set-aside area payments. In 2001, the Government made total payments of 280 million korunas (US$ 7.4 million) to help farmers meet the costs of high quality seeds of wheat and rapeseed. In **Hungary**, the 2001/02 wheat guaranteed price was raised slightly to 17 000 forint (US$ 59) per tonne, while the maize price was unchanged at 14 000 forint (US$ 49) per tonne. In addition, due to falling domestic grain prices, the Government, in 2001, provided interest free loans and implemented a storage subsidy set at 15 forint per tonne per week. In **Lithuania**, the 2002 intervention prices of wheat and rye were fixed at 400 litas (US$ 113) and 350 litas (US$ 99) per tonne, respectively. Furthermore, in a plan to improve wheat quality standards, growers would receive a premium of 20 litas (US$ 5.6) per tonne for first grade wheat.

In **Poland**, minimum procurement prices for bread wheat and bread rye for the 2002 harvest were lowered to 480 zlotys (US$ 117) and 330 zlotys (US$ 80) per tonne, respectively. However, to offset the cut in procurement prices and to protect farmers' incomes from depressed market prices, the Government introduced a subsidy system. When farmers sell their grains under the intervention programme, they would receive subsidies of 120-140 zlotys (US$ 29-34) per tonne of bread wheat and 90-100 zlotys (US$ 22-24) per tonne of bread rye, depending on the date of sale. In 2001, to cope with the effects of heavy floods, the Government distributed to farmers one tonne of wheat per hectare of flooded area up to 10 hectares and 0.5 tonne per hectare for areas above that. The Government of **Romania** decided, in February 2002, to slash seed prices by 20-50 percent as an incentive to encourage plantings and help farmers deal with rising production costs. As a result, maize seed prices were cut by 28 percent, while seed prices of other coarse grains were reduced by 20 percent. The Government also endorsed, in January 2002, the allotment of 145 billion lei (US$ 4.5 million) to pay its outstanding debt to farmers. The debt followed a decision reached in February 2001 in which farmers were promised to receive a direct subsidy of 1 million lei (US$ 37.3) per cultivated hectare to partially offset the effects of severe droughts.

In the **Slovak Republic**, a policy of direct aid payments and subsidies for crop and livestock production was adopted in January 2002, with compensation payments for grains set at 500 korunas (US$ 10.4) per hectare. Also, in a move to assist domestic farmers, the Government decided to provide 1 billion korunas (US$ 20.8 million) in farm aid in 2002 to be used in the form of agricultural loans and export subsidies. Similarly, the Government of **Slovenia** allocated 5.5 billion tolars (US$ 22.7 million) in 2001 in urgent farm aids to compensate producers for the losses caused by severe weather conditions. In April 2002, it approved an increase in general farm subsidies to 18.7 billion tolars (US$ 73.6 million), up almost 40 percent from 2001. In the **Federal Republic of Yugoslavia**, to prevent domestic maize prices from falling further, the Government, in early 2002, fixed the State Reserve maize procurement price at 6 900 dinars (US$ 102) per tonne.

Among the ***CIS*** countries, **Azerbaijan**, in a move to assist agricultural producers, passed, in November 2001, a law offering tax waivers for a period of 3 years, staring from 1 January 2002. Under the new directive, production companies would be exempt from profit taxes, VAT, property taxes and simplified tax system payments, while individual producers would only be exempt from VAT and property taxes. The land taxes were kept in place. In **Turkmenistan**, in a bid to boost grain production and with a vision of developing the export sector, the Government decided, in 2002, to exempt farmers from the land tax and subsidize production by paying 50 percent of the seed, fertiliser and technical services costs. The Government of **Ukraine**, in January 2001, decided to extend its guaranteed price system to several agricultural commodities, including grains, as a measure to stimulate production and stabilize the domestic market. In addition, it also fixed federal support to the farm sector at a minimum of 5 percent of the total budget and assured farmers that taxes would not increase for four years.

Consumption, Marketing and Stock Policies

The majority of recent policy developments affecting grains consumption, marketing and stocks represented a continuation of previous trends towards privatisation and further market liberalization. Nonetheless, in many countries, falling grain prices during the review period prompted governments to intervene in order to stabilise the market.

Among ***African*** countries, **Algeria**, in early 2002, approved the construction of two cereal storage silos with capacities of 140 000 tonnes of wheat and 20 000 tonnes of soybeans in a plan to expand the country's public storage service. In **Malawi**, in December 2001, the Government banned the private sector from buying imported maize from the National Food Reserve Agency (NFRA), leaving the Agricultural Development and Marketing Corporation (ADMARC) the sole agency authorised to sell imported maize. This action was prompted by rising local maize prices which were regarded as the result of private traders' involvement in marketing.

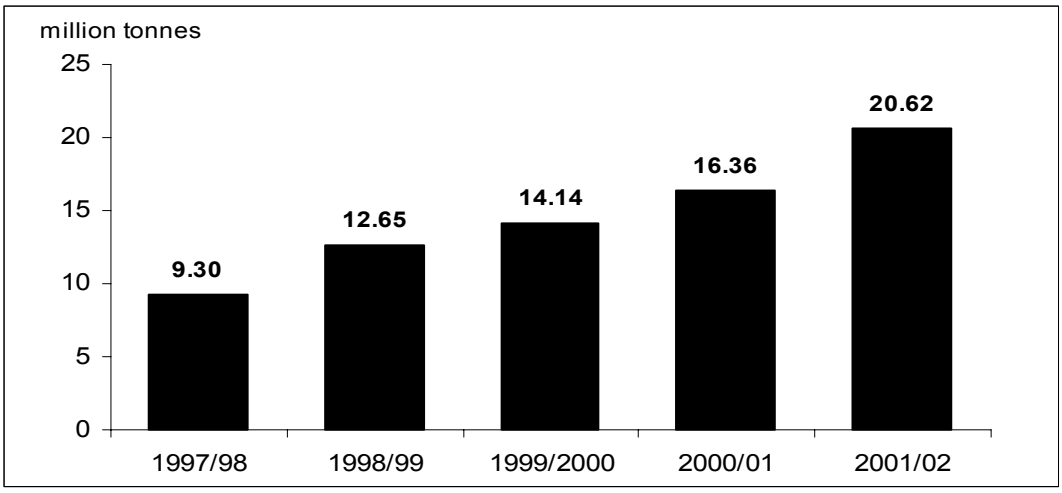
In September 2000, in response to food shortages in parts of the country caused by prolonged drought, **The Sudan** established the Strategic Commodity Reserve Authority (SCRA) with the main functions of market stabilisation, mainly for staple cereals, through imports and local purchases, and the free and/or subsidised distribution of food to vulnerable groups. The Government of **Zimbabwe**, in July 2001, restored the monopoly power of the state-run Grain Marketing Board (GMB) over the purchase of maize and wheat in a move to prevent sharp increases in basic food prices.

In ***Asia***, the Government of **China** waivered in 2002 the value added tax (VAT) and road construction tax on grain exports, to enhance the competitiveness of its maize in the world market.

The Government of **India**, as part of its new agricultural reforms, and in view of the mounting grain stocks in public warehouses, removed, in February 2002, the restrictions on the storage and inter-state movements of several farm products, including wheat and coarse grains. The main goals of the new regulation were to: (i) enable farmers receive the best prices for their products; (ii) achieve price stability in domestic markets; and (iii) ensure availability of food grains in deficit areas. The Government also manages a national grain procurement programme to ensure market stability (Fig. II.1). In early 2002, the Indian Government decreased the sale price of wheat supplied by the Public Distribution System (PDS)[28] to the above poverty line (ABL) families to 5 100 rupees (US$ 105) per tonne in a move to reduce public stocks. The sale price for the below poverty line (BPL) households was unchanged at 4 150 rupees (US$ 85) per tonne, but the monthly allocation of food grains (wheat and rice) to this segment of the population was raised by 10 kg to 35 kg per family[29]. India's food subsidy for fiscal year 2002 (April-March) was set at rupee 212 billion (US$ 4.4 billion), up 20 percent from the previous year.

[28] The PDS evolved as a major policy instrument and a safety net of the Indian Government to ensure availability of food grains to the public at affordable prices and also to enhance food security of poor families.
[29] The monthly food grain entitlement for BPL families was raised from 10 kg to 20 kg per family in April 2000, and further to 25 kg per family in July 2001.

Figure II-1: India wheat procurements for Central pool



(March/April marketing year)

In **Indonesia**, to improve the nutritional value of wheat, the Government introduced in 2001 a new fortification policy for wheat flour, requiring the product to be enriched with iron, zinc, vitamin B and folic acid. Later, it has decided that, from 2 February 2002, all wheat flour for food use must comply with the Indonesia National Standard nutritional regulation issued on 20 November 2001.

In **Japan**, while grain purchase prices were reduced, the Government left its 2001 selling prices of domestically produced wheat and barley unchanged at 36 635 yen (US$ 302) per tonne and 32 000 yen (US$ 263) per tonne, respectively. By contrast, in **Jordan**, as part of a national plan to reduce the fiscal burden of marketing subsidies, the 2002 selling price of wheat to millers was raised from 91 dinars (US$ 128) to 100 dinars (US$ 141) per tonne, while the selling price of wheat flour to bakers was increased from 113 dinars (US$ 159) to 124 dinars (US$ 175) per tonne.

In **Pakistan**, the restrictions on the movements of wheat within the provinces were lifted in May 2001, in an attempt to ensure wide product availability and also to help farmers to market their produce. Also, as part of the Government's ongoing economic reforms, the State Bank of Pakistan allowed for the first time, in 2001, banks to finance the private sector's wheat purchases.

Within the ***Latin America*** and ***Caribbean*** region, the Government of **Brazil**, in early 2002, decided to raise its maize stock holdings to 1.2 million tonnes, in a move to stabilize prices and support local production. **Ecuador**, in response to sharp increases in bread and cereal product prices in the domestic market and in order to combat general inflation, fixed, in early 2002, the ceiling sale price of wheat flour at US$ 16.50 per 50-kg bag (or US$ 330 per tonne). In **Mexico**, the 20-percent sales tax on soft drinks and beverages containing any sweeteners, other than from sugar cane, was temporarily lifted in early March 2002. Reports indicate that following the introduction of the tax on 1 January 2002, the country's production and importation of high fructose corn syrup (HFCS) almost stopped.

Several countries in ***Central*** and ***Eastern Europe*** implemented measures to stabilize the grain market and support farm prices. Thus, the Government of **Bulgaria** decided to buy 200 000 tonnes of domestic wheat in 2002 at 160 leva (US$ 80) per tonne and, also, approved a monthly storage subsidy for grains of 1.5 leva (US$ 0.75) per tonne. In the **Czech Republic,** a new law regarding state purchases, storage and sales of grains was announced in July 2001, allowing grain producers to stock their products in public warehouses until the start of the country's intervention programme. Furthermore, the State Agricultural Intervention Fund (SAIF) decided to purchase 1 million tonnes of

food grade wheat from the 2001 crop. In **Hungary**, in late 2001, the Government announced an intervention plan to procure up to 500 000 tonnes of maize, under which producers could opt to sell up to 500 tonnes of maize at a fixed price of 18 000 forint (US$ 64) per tonne. In 2002, the Government decided to allocate a total of 400 billion forint (US$ 1.44 billion) for the purchase and storage of wheat. The **Lithuanian** Government established minimum grain procurement prices for processors; in 2001/02, with prices set at 390 litas (US$ 98) per tonne for class I wheat, 380 litas (US$ 95) per tonne for class II wheat, 670 litas (US$ 168) per tonne for buckwheat and 340 litas (US$ 85) per tonne for rye. In **Poland**, the Government decided to make intervention purchases of 3.5 million tonnes of wheat at 510 zlotys (US$ 125) per tonne and 0.7 million tonnes of rye at 330 zlotys (US$ 81) per tonne from the 2001/02 crops. In the **Slovak Republic**, the State Intervention Agency (IPA) initiated, in July 2002, a commodity loan programme to ease farmers' financial burden. The new scheme allows farmers to store their grains in public warehouses as collateral for loans, with a minimum of 100 tonnes per commodity to be eligible for the credit.

Elsewhere in ***Europe***, in **Norway**, the VAT on food purchases was cut from 23 percent to 12 percent in July 2001, as a measure by the Government to reduce the differences in food prices that existed with neighbouring countries. The measure was also intended to stimulate domestic consumption.

With the intention of stabilizing the domestic grain market, the **Russian Federation** announced in September 2001 its plan to establish a new procurement programme for wheat, with an initial budget of 2 billion roubles (US$ 68 million). The intervention price was fixed at 2300-2700 roubles (US$ 77-90) per tonne. By the end of November 2001, the Government reportedly had purchased 250 000 tonnes of grade 3 wheat.

In **Australia**, the Australian Wheat Board (AWB) announced total investments of A$ 80 million (US$ 45 million) in 2002 to build new grain collection centres, in a bid to improve the efficiency and effectiveness of the country's transportation and handling system. Each facility would have the capability to receive 8 000 tonnes of grains per day and a storage capacity of 130 000 tonnes. AWB estimates that the new facilities will result in A$ 2-3 per tonne in storage and handling cost saving for grain producers.

Other Related Domestic Policies

In **Hungary**, the Government, in response to growing concerns about food safety and health issues, allocated 100 million forint (US$ 368 thousand) in 2002 to set up a food safety agency charged with the task of monitoring the entire food supply chain. Furthermore, to boost consumers' confidence, a new food labelling law was adopted in April 2002, calling for detailed information on product origin. Similarly, **Turkey**, in 2001, endorsed a new project aimed at improving the country's food inspection services.

In some countries, policies addressing environmental concerns were adopted or extended. For instance, the **EU**, in November 2001, announced a plan to increase biofuel utilization. The goal was to achieve a 20-percent substitution rate of biofuels for diesel and gasoline in the road transport sector by the year 2020. In all member countries, the share of biofuels in total fuel sales would have to reach 2 percent in 2005, rising to 5.75 percent in 2010. In **Japan**, expenditures on programmes promoting environment friendly farming methods and conservation increased by more than 11 percent in 2001 to 38.6 billion yen (US$ 358 million). The **United States**, in December 2000, initiated a new programme to expand ethanol and bio-diesel production from cereals, oilseeds and cellulose crops. Under the new scheme, small biofuel producers – with production below 246 million litres per year – would receive subsidies on 40 percent of the quantities of crops purchased, while for larger producers subsidies would only cover 28.6 percent of purchases. The Government allocated US$ 150 million for 2001 and a similar amount for 2002 to cover the subsidy payments of the programme.

BOX II-1 DEVELOPMENTS IN POLICIES ON GMOS

Several countries implemented new policies that deal with food safety and standards. **Australia** and **New Zealand**, in December 2001, introduced a new law on the commercialisation of GM foods, making labelling mandatory where: (1) genetic modification has significantly altered the nature of the food, (2) there are specific health concerns for some consumers or (3) there is novel DNA protein present in the final food product.

China, in early 2002, issued new regulations for maize. Under the new directive, maize containing any amount of genetically modified organisms (GMOs) would need a special safety certification before being allowed to enter the country. In **Indonesia**, a plan to introduce new regulations on the labelling of products containing genetically modified (GM) materials was announced on March 2002. The new law, when issued, would make labelling of food products with over 5 percent GMO content mandatory. **Japan**, on 1 April 2002, implemented a new law to test for the presence of GM materials in food imports as a way of controlling the entry into the country of GM products that are not endorsed for food use. Furthermore, quantitative tests for approved GM maize and soybean traits would be conducted to ensure full compliance with the Government's mandatory labelling regulations, introduced in April 2001. In the **Republic of Korea**, a new law making the labelling of processed foods containing more than 3 percent of GM ingredients mandatory came into force in July 2001, covering 27 different types of processed products including bread, maize flour and canned maize. Labelling requirements for unprocessed maize, soybeans, bean sprouts and potatoes were introduced earlier. On 1 May 2001, the Government of **Sri Lanka** banned the importation of any food product containing GM ingredients. **Thailand**, on July 2001, approved new regulations on labelling of GM food products. Under the new law, maize, soybeans and related products with a GM content of over 3 percent must have special labels

Among other forms of support, **India**, in April 2002, lowered the import duty on specified farm machinery and equipment from 25 to 15 percent as an incentive for farmers to adopt new technologies and improve their productivity. However, the Government also decided to reduce the fertiliser subsidy by about 5 percent, in line with its effort to deregulate the agricultural sector. In **Turkey**, the subsidy on fertilisers was scrapped in December 2001, while total expenditures on seed subsidies decreased by about 40 percent. The **Islamic Republic of Iran**, in May 2001, endorsed an emergency assistance package estimated to cost 4 trillion rials (US$ 509 million) in response to three consecutive years of drought, while in **Jordan**, the Government decided to re-schedule the repayments of farm loans to ease farmers' financial stress caused by prolonged droughts.

Elsewhere, in **The Sudan**, the Government, in March 2001, adopted further farm policy reforms, including the removal or reduction of most direct and indirect taxes on agricultural production and marketing and a reduction in business profit taxes from 35 to 10 percent for companies engaged in agricultural production, processing and marketing. However, to make up for revenue losses, the Government, in October 2001, increased the petrol tax by 12.5 percent. In 2002, under a national irrigation development plan launched in response to drought problems, **Romania** allocated 1 trillion lei (US$ 30 million) to the expansion and modernization of the country's irrigation systems, aiming to cover 1 million hectares of arable land. In 2001, the Government re-introduced the tractor subsidy scheme, which provides farmers with a 55 percent price subsidy when purchasing locally manufactured tractors.

International Trade Policies

Developing countries, in general, continued to adjust their trade policies in order to comply with their commitments to WTO. Most developed countries, with the year 2000 marking the end of their implementation period of the Uruguay Round Agreement on Agriculture (URAA), maintained their border and domestic support commitments at the 2000 levels.

A very important development for agricultural trade was the decision[30] achieved in Doha in November 2001 which calls for more comprehensive negotiations to improve market access and reduce export subsidies and trade-distorting domestic support. The Doha Declaration also confirmed the need for special and differential treatment for developing countries and recognized the importance of non-trade concerns, such as food security and rural development

Import Measures

Within ***Africa***, **Algeria**, in preparation for accession into WTO, adopted in July 2001 a new tariff system, reducing the maximum tariff rate from 45 to 40 percent and the number of duty categories to three: 5 percent for raw materials, 15 percent for semi-processed products and 30 percent for high value-added products. In addition, the value added tax (VAT) was lowered. However, to protect the domestic seed industry, the Government introduced a 5 percent levy and a 7 percent VAT on barley and maize seed imports, while wheat seeds continued to be tax exempt. The Government also imposed, in March 2001, a provisional ban on grain imports from the EU following the outbreak of the foot-and-mouth disease. In **Morocco**, the customs duty (23 percent) and VAT (7 percent) on barley imports were suspended between July 2001 and March 2002 due to reduced domestic production and also poor pasture conditions. However, the import duties on durum wheat (21 percent), bread wheat (33.5 percent) and maize (17.5 percent) were maintained. In addition to the basic import tax, an additional levy would apply when the declared import price dropped below a threshold price set by the Government. The additional duty (93 percent for durum wheat, 103.5 percent for bread wheat and 57 percent for maize) would be charged on the difference between the two prices.

In June 2000, **Nigeria** announced its decision to lift the import ban on maize, which had been in place since the early 1980s. However, to protect maize producers from a surge in imports, a 70-percent customs duty was placed on maize imports. In March 2002, the Government reduced the import tax on wheat from 15 to 5 percent in order to meet a rapidly increasing domestic demand for wheat-based products. In January 2002, the Government of **Zambia**, in response to the continuing maize shortage in the country, decided to exempt 19 large maize importing companies from customs duties to ease local supply. The imported maize was to be distributed primarily in those areas worst affected by the floods of 2001.

In ***Latin America*** and the ***Caribbean***, the Government of **Brazil**, in March 2001, removed its import ban on Hard Red Winter, Hard Red Spring and Soft Red Winter wheat from the United States. However, the ban remained in force for durum wheat as well as all wheat from the U.S. west coast due to phytosanitary concerns. In August of the same year **Brazil** decided to ban the importation of wheat with more than 2 percent dockage for foreign material, which was previously allowed to enter the country but marketed under the category "Fora de Tipo" (substandard). In addition, the grain maximum humidity content level was reduced from 14 percent to 13 percent. In early 2002, new regulations regarding the importation of barley, rye, maize, sorghum and triticale were announced, requiring all exporting countries, except MERCOSUR members[31], to submit Pest Risk Assessments within 180 days from the import date. In a plan to protect local maize farmers and boost domestic production, **Colombia** issued new regulations on maize imports for industrial use in 2001. In order to be allowed to import maize, companies must submit proof that they have purchased locally produced

[30] The full text of the Declaration on agriculture can be accessed at: http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm#agriculture

[31] Argentina, Brazil, Paraguay and Uruguay

maize, sorghum or dried yucca. In July 2001, **Chile** terminated the safeguard tariff on wheat and wheat flour imports, introduced in October 1999, as an instrument to keep the floor price of wheat imports at US$ 194 per tonne.

In **Ecuador**, the International Trade and Investment Council (COMEXI) reduced the import tax on wheat flour from 20 percent to 10 percent in early 2002 and also authorized the importation of 85 000 tonnes of wheat flour in an attempt to prevent further rises in domestic prices of wheat products. In July 2000, the Government replaced its tariff-rate quota for wheat with a tariff-only regime. Import duties on wheat and wheat flour were set at 10 and 20 percent, respectively. The Government of **Venezuela**, in late June 2002, removed its import ban on yellow maize to meet feed demand. The ban had been introduced in September 2001.

In **Asia**, **China**, as part of its WTO membership commitments, introduced a tariff-rate-quota (TRQ) system for grains[32], with some percentages of the TRQs going to non-state enterprises (Table II-3). For barley, which was not included in the TRQ, the Government agreed to give prior notice at least three months ahead of any envisaged increase in the applied tariff, which should then stay unchanged for a minimum of one year. The tariff applied on malt would be bound to that on barley plus 7 percentage points[33]. The Government was reported to have begun issuing grain import quotas in April 2002. In the Taiwan Province of China, as part of the accession agreement in the WTO, the Wheat Stabilization Fund was scheduled to be abolished in June 2002, or six months after the Province joined the WTO. The Fund had been established to shield domestic consumers from sharp increases in world prices. Under the stabilization programme, wheat importers were paid from the Fund whenever import prices exceeded the threshold level of US$ 245 per tonne.

Table II-3: China's tariff rate quotas for wheat and maize

Commodity	TRQ (million tonnes)	Share of state enterprises (%)
Wheat		
2002	8.468	90
2003	9.052	90
2004	9.636	90
Maize		
2002	5.850	68
2003	6.525	64
2004	7.200	60

Source: WTO, *Schedule CLII – People's Republic of China*

The Government of **India**, in June 2000, introduced a TRQ system for maize imports, as part of its agreement with the WTO. The maize TRQ for 2000/01 was set at 350 000 tonnes with a 15 percent in-quota duty. Over-quota imports would be charged a 50 percent duty. **Indonesia**, in March 2002, abolished its 5 percent import tariff on wheat to increase market supplies and protect local millers from rising production costs. In early 2002, the authorities lifted the import ban on Argentina's grains imposed in 2001 amid concerns about the foot-and-mouth (FMD) outbreaks. However, in its effort to curb smuggling activities, the Government introduced, on 6 May 2002, a new law requiring traders of eight farm products, including maize, to register their companies in order to be eligible for import permits, which are valid for five years from the date of issuance.

As part of its market liberalisation effort, **Pakistan**, in July 2001, lifted the ban on private wheat imports which had been introduced in June 1999. However, the 35-percent import duty on wheat and the 10-percent tax on wheat flour were kept in place. Likewise, the **Philippines** in May 2002 decided to cut the over-quota tariff rate for maize imports from the current 65 percent to 50 percent in 2003, while the in-quota duty was left unchanged at 35 percent. The duty on wheat imports will remain at 3 percent until 2004. Meantime, the import tariff on feed wheat was scheduled to be cut from 10 percent

[32] For more information on China's agreements for WTO accession, see *Review of Basic Food Policies*, 2001.
[33] If, for example, the applied tariff on barley is 3 percent, the tariff on malt cannot exceed 10 percent.

in 2001 to 7 percent in the following two years and to 5 percent in 2004. **Sri Lanka** announced in May 2001 that it would allow private firms to import wheat and flour as well as to build new milling plants. The decision came as part of the country's policy to liberalize its wheat sector. In **Viet Nam**, on 15 December 2001, the Government introduced a 5-percent import duty on wheat in an attempt to protect local wheat growers.

Among the ***Near East*** countries, **Bahrain** decided in January 2000 to abolish the import levies on main foodstuffs, including wheat, maize, barley and oats[34]. The decision was taken to protect consumers from rising food prices and also to rebuild the country's food stocks. **Oman**, as of 1 January 2002, reduced its tariff rates on food products from 15 to 5 percent in a move to stimulate imports and ease the food supply situation. In **Saudi Arabia**, the Government reinstituted its barley import programme in June 2001 to help the local livestock industry deal with rising feed prices. As a result, the barley sale price by importers was fixed at 360 riyals (US$ 96) per tonne. However, to stimulate purchases, importers were entitled to a 5-percent rebate of the CIF price plus a lump-sum payment of 54 riyals (US$ 14.40) per tonne to cover transportation and handling costs.

In **Turkey**, the import tariffs on grains were cut in April 2001 as follows: the duty on milling wheat was reduced from 55 to 45 percent, that on durum wheat from 50 to 40 percent, while the maize levy was lowered from 25 to 10 percent. But, in August 2001, the Government reversed its decision on maize and raised the import duty to 40 percent to support domestic prices, as the harvesting season was approaching. In January 2002, however, the maize import duty was lowered again to 10 percent.

In **Europe**, the **EU**, on 17 April 2002, revised its import duties on grains. Tariffs were raised from € 10.32 to € 15.55 per tonne for low quality wheat; from zero to € 5.15 per tonne for medium quality common wheat; and from zero to € 23.38 per tonne for barley, rye and sorghum. On 15 March 2002, the maize import tariff was reduced slightly to € 37.51 per tonne. Earlier, in November 2001, the EU removed the € 10 extra charge imposed on grain imports from the Mediterranean, Black Sea and Baltic countries. The surcharge had existed since 1995 as a way of compensating for higher freight costs from distant shipment origins. In **Switzerland**, the threshold price for feed barley imports was cut by 10 percent in July 2001 to 460 Swiss francs (US$ 273) to help domestic meat and egg producers become more competitive.

Bulgaria, in an attempt to ease local grain supplies and avoid sharp price increases in the domestic market, implemented a temporary import duty-free regime for grains. As a result, import levies were abolished for barley and wheat from January to June 2001 and for maize from January to September 2001. Thereafter, imports were subject to duties of 15 percent for wheat, 20 percent for barley and 15 percent for maize. In June 2001, the Government also removed the import ban on feed grains from nine European countries[35], which had been introduced in March 2001 amid concerns about the foot-and-mouth epidemic.

In February 2001, the Government of **Hungary** lifted its ban on feed maize exports, which had been introduced in early November 2000 in response to rising feed grain prices and expectations of a domestic maize shortage. In order to encourage grain imports and increase domestic availabilities affected by the drought of 2000, **Poland** decided, in early 2001, to permit the duty-free importation of 500 000 tonnes of coarse grains: 200 000 tonnes of maize and 300 000 tonnes of barley, oats and rye. This was in addition to prior permissions for the importation of 420 000 tonnes of wheat from the EU, 90 000 tonnes of wheat from the Czech Republic and 155 000 tonnes of maize from Hungary at a reduced tariff rate of 15 percent. The **Slovak Republic** suspended import tariffs on feed grains between October 2000 and May 2001 in an attempt to boost imports and prevent shortages in the country.

[34] The import duty on packaged maize was maintained at 20 percent, CIF basis.
[35] Austria, Belgium, Denmark, Greece, Finland, Norway, Spain, Sweden and Switzerland

In July 2001, the Government of **New Zealand**, eliminated the customs duties on all food imports originating from Least Developed Countries as an incentive to encourage the exports of agricultural products from these countries.

Export Measures

Argentina, in order to raise government revenues following the steep fall in the *peso* against the US dollar, introduced exports taxes on agricultural products – not used since 1991 except on unprocessed oilseeds. The export tax on grains was initially set at 10 percent before being raised to 20 percent in April 2002.

In **Australia**, following a National Competition Policy (NCP)[36] review conducted by an independent committee in 2000, the Government decided, in April 2001, to maintain the single desk export under the authority of the Australian Wheat Board Limited (AWB Ltd). However, the Government asked the Wheat Export Authority (WEA) to revise its export consent system in order to reduce the frequency of export permission requests, to increase exporters' confidence and to help establishing new export markets. For barley, Victoria completed the deregulation of its barley export market in July 2001, while single desk trading was maintained in all other states. In October 2001, AWB Ltd announced its three-year investment plan for the durum wheat industry. The goals were to create a national structure to represent the durum wheat industry and help it to expand its export market share.

In September 2001, the Government of **Zambia** banned the exportation of maize and maize meal. The move was prompted by serious domestic shortages of maize due to the sharply reduced local harvest in 2000/01.

In April 2002, in response to the depreciation of the rupee against the US dollar, the Government of **India** raised the sale price of wheat for export to 4 310 rupees (US$ 88.10) per tonne, and increased it further in October 2002 to 4 600 rupees (US$ 94.70) per tonne for the 2002 crop and 4 560 rupees (US$ 93.85) per tonne for the 2001 crop. Wheat was initially offered by the Food Corporation of India (FCI) for export in November 2000 at 4 150 rupees (US$ 88.70) per tonne, in a move by the Government to help liquidate parts of the mounting food grain stocks. In addition, the Government decided in early 2002 to allow the exportation of wheat from the new crop in a bid to improve the country's image in terms of quality standards and to promote exports. **Pakistan**, prompted by ample domestic supplies and also as part of its efforts to deregulate the wheat trading sector, decided to allow private traders to export wheat in May 2001.

As part of the country's policy to liberalize the trade sector, the Government of the **Czech Republic** suspended the use of licences for grain exports as of 1 October 2001. In June 2002, **Hungary**, in anticipation of a bumper crop, decided to remove export licences for maize. Further, in July 2002, the Government announced an export subsidy for wheat of 1 800 forint (US$ 7.25) per tonne, applied to a total of 400 000 tonnes, as a measure to offset the appreciation of the forint. Also, as part of the incentives to encourage wheat exports, traders would be entitled to receive an export rebate.

Bilateral and Multilateral Trade Arrangements

During 2001-02, several bilateral trade agreements involving grains were reached. The **EU** granted the **Czech Republic** an annual duty-free import quota of 200 000 tonnes of wheat, effective 1 July 2002. The **EU** also lowered import duties on **Lithuania's** processed farm products by 10 percent, effective 1 February 2002. In return, **Lithuania** agreed to reduce its customs duties charged on **EU** products by 1 percent per year until its accession to the EU. The Government of **Bulgaria** decided to

[36] NCP is an agreement between the Federal and State Governments which requires any monopoly to generate a net public benefit in order to remain in place.

temporarily suspend the import duties on a number of agricultural products originating from the **EU**, including wheat (1 January-30 June 2002) and maize (1 January-30 September 2002).

As a result of continuing bilateral trade negotiations between the EU and the Maghreb countries, the **EU** and **Algeria** concluded an Association Agreement in December 2001 calling for the elimination of tariffs for certain Algerian farm products and the use of TRQs for more sensitive products. Both parties also agreed to reduce tariffs on processed foods. Similarly, under a bilateral agreement, **Tunisia** agreed to grant the **EU** preferential import quotas for grains starting in January 2001. The annual import quotas were specified as follows: 17 000 tonnes of durum wheat at a 17 percent tariff rate; 230 000 tonnes of bread wheat at a duty to be reduced in five equal instalments from 17 percent to zero percent on 1 January 2005; and 12 000 tonnes of barley at a 17 percent duty.

In January 2002, the **MERCOSUR** countries lowered their common external tariff (CET) rates by one percent. As a result, the import duty on wheat from non-MERCOSUR countries was down to 11.5 percent, while the duty applied to maize and sorghum imports dropped to 9.5 percent.

BOX II-2 THE "DOUBLE PROFIT" TRADE DEAL

The "double profit" deal between the **EU** and Central and Eastern European Countries (**CEECs**)[1] extends the "double zero" agreement of 2000 in terms of further trade liberalization and product coverage[2]. Whereas trade concessions on some products, including pig and poultry meat and certain fats and oils, were already reached under the "double zero" agreements, "double profit" covers more sensitive products including wheat, maize, rye, oats, beef, sheep meat and dairy. In addition, tariff-quotas would be expanded and all in-quota tariffs would be removed. The agreements also abolished the use of export refunds.

Under the "double profit" terms of the agreement, the EU would offer zero-tariff quotas for 2 percent of its aggregate domestic consumption to imports of cereals, beef and dairy products from CEECs, based on average levels during 1997-99. In exchange, and under the same conditions of the deal, the EU would export the equivalent of 2 percent of the consumption of each product in each of the CEECs.

As of May 2002, the **EU** concluded "double profit" agreements with **Estonia**, **Hungary**, **Lithuania** and **Latvia**. The new "double profit" agreements were scheduled to go into force on 1 July 2002.

[1]The ten CEECs candidate countries for accession into the EU are Bulgaria, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Romania, Slovenia and the Slovak Republic.
[2] See *Review of Basic Food Policies*, 2001, for more information on the "double zero" agreements

Conclusions

Based on the review presented in this chapter, the broad trend towards less government intervention and a more market oriented grain sector continued. In many countries, support to grain market prices was reduced or replaced with an income support payment system. The latter was introduced partly to compensate farmers for depressed cereal prices. Similarly, adverse weather conditions prompted certain governments to adopt emergency assistance measures or continue input subsidy schemes in order to partially compensate farmers for income losses. Crop insurance programmes were also initiated or extended in some countries.

Marketing and stock policies in general continued within the same line of market liberalisation adopted previously. Similarly, with the view that privatisation improves market efficiency, some countries granted the private sector a bigger role in the marketing and trading of grains. However, in several cases, the pace of further policy reforms was disrupted by changes in domestic market

conditions. In response to consumer concerns, an increasing number of countries introduced new regulations for imports and marketing of food products containing GM materials.

With regards to trade policy developments, most countries continued their efforts to reduce trade barriers in compliance with their WTO commitments, whereas others revised their policies in preparation for WTO accession. However, in many cases, government decisions were also influenced by domestic supply/demand conditions. While some countries relied on export subsidies to promote the sale of excess supplies, others restricted exports, though temporarily, to ensure domestic availabilities. Meantime, bilateral and multilateral trade agreements continued to play a role in further trade liberalisation.

III. OILSEEDS, OILS AND MEALS POLICY DEVELOPMENTS

During the period under review, market developments in the oilseeds, oils and meals sectors had important implications for the implementation of policies. Until the end of 2001, the international market for oilseeds and derived products were oversupplied relative to demand, which resulted in above average stocks and downward pressure on prices. In certain countries, increased support was provided to help producers. In 2002, by contrast, production growth declined, and global stocks were drawn down leading to a partial recovery in international prices and less policy support. As to global consumption of and trade in oilseed products, growth rates during the entire period 2001-02 fell below the levels recorded in previous years. Over the period, national policies continued to be driven by one or more of the following objectives: promotion of exports, import substitution, farm income support, stimulation of production, and boosting value added production. The selection of specific policy instruments and their actual design was to a large extent determined by the countries' individual Uruguay Round commitments and by on-going discussions on further trade and agricultural policy reforms within the WTO. Policy activity in the areas of genetically modified organisms and of bio-fuels has become more evident.

Production policies

Despite the trend towards liberalization in numerous countries, oilseed production continued to be influenced by production support policies. While some countries continued to rely on price support programmes to protect farmers' incomes, the number of countries that shifted to direct forms of income support for oilcrop producers has further increased. To stimulate oilcrop production and increase the sector's productivity, various indirect forms of support (such as input subsidization) were also used.

Producer Price Support and Procurement Schemes

Producer price support for oilcrops continued to be applied in some countries (see Table III-1) with a view to protecting farmers' income and to providing sufficient supplies for domestic markets. Among developing countries, guaranteed price guarantee and public procurement schemes remained in place in only a few of them, typically net importers of oilseeds. In general, in countries where support prices were applied, these were increased in nominal terms but did not keep pace with inflation. Yet, in many cases (eg. **India, Brazil, Pakistan** and the **Republic of Korea**), farmers preferred to sell their oilseeds on the open market, as state-administered prices tended to be below domestic market prices. As to public procurement of oilseeds, such schemes have been virtually abandoned, mainly due to budgetary constraints; where purchases did occur, the volumes involved were insignificant compared to total supply.

In some major producing countries, the trend in support policies described above contributed to reduced investment in oilseed crops and has led to a stagnation of yields and domestic production, resulting in a widening of the domestic supply gap in oilseed products. Concurrently, reliance on the importation of oilseeds and derived products - a relatively attractive option considering the weakness of international prices for these commodities over the last few seasons – has increased.

Table III-1 Oilseeds, oils and fats support prices in selected countries

Commodities/ Countries	Currency	Local currency per tonne								US$ per tonne			
		Nominal Prices				Real Prices (deflated by CPI 1995/96=100)				Nominal Prices			
		1999	2000	2001	2002	1999	2000	2001	2002 d/	1999	2000	2001	2002
Copra													
India	Rupee	31 000	32 500	33 000	33 000	22 399	22 569	22 103	21 526	720	723	699	676
Groundnuts (unshelled)													
India	Rupee	11 550	12 200	13 400	13 550	8 345	8 472	8 975	8 839	268	271	284	278
USA [a/]	US$	672	672	672	disc.	615	595	578	disc.	672	672	672	disc.
USA [b/]	US$	145	145	145	disc.	133	128	125	disc.	145	145	145	disc.
USA [c/]	US$	-	-	-	391	-	-	-	334	-	-	-	391
Olive Oil													
EU	Ecu/Euro	3 838	3838	3 838	3 838	3 617	3 537	3 448	3 667	4 089	3 536	3 434	3 546
Rapeseed													
India	Rupee	10 000	11 000	12 000	13 000	7 225	7 639	8 037	8 480	232	245	254	266
Pakistan	Rupee	12 500	12 500	12 500	12 500	9 191	8 809	8 538	8 401	254	233	202	208
USA	US$	205	205	205	205	188	181	176	181	205	205	205	212
Soybeans													
Brazil	Real	159	162	170	183	119	113	111	113	88	89	72	68
India (black)	Rupee	7 550	7 750	7 950	7 950	5 445	5 382	5 325	5 186	175	172	168	163
India (yellow)	Rupee	8 450	8 650	8 850	8 850	6 105	6 007	5 928	5 773	196	192	188	181
Pakistan	Rupee	10 250	10 250	10 250	10 250	7 537	7 223	7 001	6 888	209	191	165	171
Rep. of Korea (grade 2)	000 Won	1 739	2 087	2 296	n.a.	1 464	1 718	1 816	n.a.	1 463	1 845	1 778	n.a.
USA	US$	193	193	193	184	177	171	166	157	193	193	193	184
Sunflowerseed													
India	Rupee	11 510	11 700	11 850	11 950	8 316	8 125	7 937	7 795	267	260	251	245
Pakistan	Rupee	12 560	12 500	12 500	14 000	9 235	8 809	8 538	9 409	256	233	202	233
USA	US$	205	205	205	212	188	181	176	181	205	205	205	212
Butter													
EU	Ecu/Euro	3 282	3 282	3 282	3 282	3 093	3 025	2 949	2 879	3 497	3 024	2 937	3 032
USA (grade A)	US$	1 433	1 448	1 701	1 956	1 339	1 311	1 281	1 672	1 433	1 448	1 701	1 956

n.a. = not available
disc. = discontinued
[a/] prices for production within marketing quota
[b/] prices for production additional to marketing quota
[c/] in 2002, quota related support prices for groundnuts have been replace by a unified loan rate
[d/] values are preliminary because at the time of writing indices available did not yet cover the entire year.

In **India**, price support and procurement schemes provided little or no incentive to expand oilseed production. The tendency to announce support prices at harvest time and not before sowing resulted in a reduced influence planting decisions. Furthermore, oilseed support levels have typically been below those of other crops, in particular cereals, pulses, fruits and vegetables, while state procurement operations have been very limited in the case of oilcrops. As a result, the bulk of oilseed cultivation is confined to rain-fed land and average crop yields remain below the 1 ton/ha mark. At the same time, the rice-wheat cropping pattern continued to expand under the influence of more attractive support prices and irrespective of the concomitant surge in public stocks.

The loss of comparative advantage in India's domestic oilseed production and the resulting steep rise in edible oil imports in recent years is of increasing concern to the government. Reportedly, momentum is gathering for a policy shift which would partly redirect public resources from surplus crops like wheat and rice to oilcrops. The only concrete step taken so far has been the temporary freezing of support prices for rice, coarse grains and cotton in late 2002, which, however, was accompanied by only very marginal increases for some rain-fed oilcrops and a zero increase (in nominal terms) in the support price for soybeans.

In **China**, government intervention in production and marketing of oilcrops remained limited when compared to the main staple food crops which continued to be at the centre of the government's food security policy. Although Jilin province has been reported to subsidize soybean purchases at guaranteed prices by a main crusher in 2002, the price support and procurement schemes backed by the central government have not been operational since 2000. This situation has contributed to the reallocation of farm resources from soybeans to maize and wheat, and large soybean imports became necessary to satisfy the rising demand for edible oils and meals. Concerned about the country's increasing dependence on imports, a multipronged programme to encourage domestic soybean production is currently under consideration by the Government. Measures contemplated include (i) the reduction in cereal support prices and procurement volumes; (ii) the introduction of forward contract prices for soybean farmers so as to guarantee a fixed minimum price at harvest; (iii) the improvement of the country's transportation and marketing infrastructure, as weaknesses in the latter are seriously hampering the development of domestic markets for oilseeds and products; (iv) support for research on high-yielding varieties and other measures to increase profitability in oilcrop production.

In **Thailand**, to support farmers' incomes and stabilize market prices, the government may, at times, impose minimum purchase prices at which crushers have to buy oil palm fruit branches from producers. While this form of support was provided in 2001, no such intervention occurred in 2002 as domestic prices rose. **Turkey** plans to phase out direct subsidization of oilcrop production, switching from its traditional system of support prices and production premia to direct income support payments and thereby ending state involvement in producer co-operatives. The objective is to end government intervention in the marketing of oilseeds. Assistance would be provided to help farmers adjust to market conditions and to facilitate restructuring of the sector.

In **Japan**, the deficiency payment policy for soybeans was replaced in 2000 by a programme that supports soybean producer incomes by providing a subsidy when market prices fall below a target price which reflects the country's high costs of production. There are no limits to the amount of production subsidized. Total government outlays for soybean production subsidies (including payments for programmes mentioned in section c) below) have grown regularly since 1994, and the incentive offered through these policies appear to be the major factor behind the strong growth in soybean planted area since the mid 1990s.

Among developed countries, the **EU** continued to the support production of butter and olive oil with specific reference support prices. Support to the olive oil sector was mainly provided in the form of production aid for growers, with public storage and export subsidization playing a limited role. Although a system of maximum guaranteed quantities remained in place, most producing countries continued to exceed their thresholds, irrespective of the resulting cuts in the level of production aid granted to their producers. While the level of support granted by tonne of olive oil will remain

constant until 2003/04, recent amendments introduced to the support regime aim at tighter control over the distribution of payments and at ensuring that groves planted after 1998 do not qualify for support.

In the **United States**, the government purchase price for butter was increased in both 2001 and 2002 with a view to bringing support prices more in line with prevailing domestic prices. Marketing loans for oilseeds and other loan eligible arable crops, with an impact comparable to that of coupled deficiency payments, continued to be provided with a view to minimize potential loan forfeitures and subsequent government accumulation of stocks. Separate loan rates apply to soybeans, groundnuts and the so-called 'other oilseeds'. For 1996 through to 2001, loan rates were determined according to the 1996 Federal Agricultural Improvement and Reform Act. From 1997 to 2002, the soybean loan rate was maintained at the statutory maximum, and was not adjusted downward in response to falling market prices as allowed by legislation. When producer prices for soybeans fell below the respective loan rate in 1999, marketing loans became very attractive and government outlays under the programme registered a significant rise (see Table III-2). In essence, the loan programme protects producer incomes from the impact of low market prices and, as the soybean loan rate was more attractive than the rates offered for the two main competing crops, maize and wheat, a steady expansion of soybean plantings occurred. The resulting supply expansion contributed to price depression as the marketing loan programme prevented the accumulation of public stocks. On May 13, 2002, a new Farm Bill, the Farm Security and Rural Investment Act came into effect (see separate box below), but its impact on that year's plantings was limited as loan rates were not known to producers before the crops were planted.

Table III-2: USA soybeans - marketing and policy parameters

	US Price for soybeans (US$ per tonne)	Soybean loan rate (US$ per tonne)	Soybean area (million ha planted)	Public outlays for soybean programmes (in particular marketing loans) (million US$)*	
marketing year				fiscal year	
1992/93	204	184	24.0	1992	-29
1993/94	235	184	24.3	1993	109
1994/95	201	181	25.0	1994	-183
1995/96	247	181	25.3	1995	77
1996/97	270	183	26.0	1996	-65
1997/98	238	193	28.3	1997	5
1998/99	181	193	29.1	1998	139
1999/00	170	193	29.8	1999	1 289
2000/01	176	193	30.1	2000	2 840
2001/02	161	193	30.0	2001	3 281
2002/03	-	181	29.5	2002**	3 600
2003/04	-	181	-	2003	-

* Minus indicates a net receipt (excess of payments or other receipts over gross outlays of funds).
**Offical estimates (July 2002), including the impact of the new Farm Bill enacted in May 2002.
Source: Various USDA publications

BOX III-1: FARM INCOME SUPPORT UNDER THE 2002 US FARM BILL

The Farm Security and Rural Investment Act (the 2002 Act) was passed into law, replacing the Federal Agricultural Improvement Reform Act of 1996 (the 1996 Act). The new Act provides a framework for farm and commodity programmes for the period 2002-2007; it amends various existing laws and introduces some new programmes. A summary presentation of the provisions that are of particular relevance to the oilseed sector follows, whereby particular reference will be made to soybeans as the country's prime oilcrop.

The 2002 Act continues (with slight modifications) to offer to farmers flexibility in deciding on which crop to plant, provided land is kept in an approved agricultural use and the farmer complies with certain conservation and wetland provisions. While oilcrop producers continue to remain eligible for marketing loans and subsidized crop and revenue insurance, some important changes have been introduced by the 2002 Act (see box table on oilcrop specific parameters): (i) farmers with a recent history of oilseed production are now eligible for the first time for annual fixed direct payments; (ii) new counter-cyclical payments covering oilseeds and other arable crops have been introduced; and (iii) the regime for groundnuts has been completely redesigned.

The marketing loan programme remains basically unaltered: in essence, when the prevailing local market price falls below a fixed price (the loan rate), farmers receive the difference. The respective loan rates have been fixed for the entire period. The soybean rate has been set 5 percent below the rate in effect since 1997, while the rate for "other oilseeds" under the 2002 Act - sunflower, rape, safflower, mustard and flax seed - will be close to the 'historic' level, except for the period 2002-2003 when it will be increased by about 3 percent. The Direct payment programme continues the Production Flexibility Contract payments introduced in 1996 and now includes also oilseeds. Direct payments are granted regardless of current prices and are meant to assist farmers in adjusting to a market-oriented environment with less direct government intervention in markets. The newly introduced counter-cyclical payments replace and regularize the Market Loss Assistance payments authorized since 1998 through supplemental ad hoc legislation, thus adding an additional safety net mechanism to the regular US farm programme. Under this scheme, subsidies are paid when a crop's "effective price" falls below a fixed target price. The "effective price" is defined as the higher of the national average marketing year price or the loan rate for the commodity plus the fixed direct payment rate. Target prices have been set in such a way that the "other oilseeds" included in the marketing loan programme do not qualify for counter-cyclical payments. Both counter-cyclical and direct payments are calculated using historical yields and are granted on 85 percent of a farmer's base acreage, which is determined on the basis of average plantings in the 1998-2001 crop years - a period during which oilcrop plantings increased strongly, partly because of the high level of support afforded to soybean producers. Direct and counter-cyclical payments (when triggered) are granted on base acreage, and not on the area planted in that year. In practical terms, from 2002 onward, a farmer whose base acreage includes soybeans will be eligible for a fixed annual payment (based on a rate of US$ 16 per ton in the case of soybeans), marketing loan benefits when the average local market price for soybeans falls below US$ 184 per ton, and counter-cyclical payments when the soybean market price falls below US$ 197 per ton (ie. a target price of US$ 213 less direct payment of US$ 16 per ton). These are applied to the farmers appropriate base yield to render a total payment which is independent of current production. As under the 1996 Act, certain payment limits will apply to individual farmers by crop year under the individual programmes. The groundnut regime has been changed from a price support scheme with marketing quotas designed to uphold domestic prices to a programme with marketing loans, counter-cyclical payments and direct payments like for the other oilcrops and a quota buyout under which former quota owners receive compensation for the loss of their quota.

USA oilseed sector support under the FSRI Act 2002-2007

	Direct Payments	Counter-Cyclical target price	Marketing loan rate
		US$ metric per ton	
Soybeans	16	213	184
Other oilseeds	18	2002-03: 216 2004-07: 223	2002-03: 212 2004-07: 205
Groundnuts	40	546	391

- figures have been rounded and all refer to metric tons. The exact figures referring to crop-specific units of measurement are contained in the FSRI Act.
- Rates shown apply to 2002-2007 unless otherwise specified.
Source: Own calculations based on official USDA material.

By changing the relative level of support for individual commodities, in particular regarding commodity loan rates, the balance among crops competing for arable land will be affected. While the loan rate for soybeans has been lowered, those for wheat, maize and several other grains have been raised. Consequently, the new parameters will no longer favour soybeans over competing crops. Relative support for maize and some other crops could be higher than for soybeans, which would reduce the marginal revenue per hectare for soybeans but increase that for competing crops. Therefore, depending on the prevailing market conditions, some shift of resources out of soybeans and into maize, wheat and other feed grains may occur in the short to medium term, which would halt or reverse the significant expansion in soybean plantings observed in the last few seasons. The change introduced to the groundnut regime will eliminate the difference in prices between confectionary groundnuts produced for domestic consumption and groundnuts destined for export or domestic crush. As production will no longer be influenced by quotas the share of local production in domestic supplies may increase at the expense of imports.

The 2002 Act continues the policy orientation of the previous farm legislation by combining the following two elements: (i) absence of direct supply control and reliance on market forces to manage supply and demand, including minimal public stock holding and no mechanism to prevent market prices from falling; and (ii) focus of assistance on direct income support, with particular emphasis on measures guaranteeing minimum revenues when prices fall. But the Act reverts to the previous use of target prices. Based on past experience, this policy may reduce farmers' response to market signals, possibly leading to levels of production (at least for certain crops) higher than would be the case without the income guarantees and, potentially, to downward pressure on market prices.

The 2002 Act represents an increase in potential government outlays compared to the 1996 Act. However, actual government outlays will depend critically on price dependent measures and can not be anticipated. Based on preliminary official budget appropriations for the medium term, the level of outlays for the various commodity programmes are likely to be higher than foreseen under the 1996 Act, but lower in the near term than the record level attained in overall payments (including emergency measures) during the last few years. Although the classification of the individual support measures according to WTO rules is still unknown, annual outlays are expected by the United States to respect the current WTO ceiling for agricultural trade-distorting domestic support programmes which has been set at US$ 19.1 billion per year.

Example for Soybeans

Target		US$ 213
Direct Payment	Regardless of price	US$ 16
Countercyclical payments	Depends on price	US$ 197
Loan rate	Deficiency payment for prices below loan rate	US$ 184

Direct Income Support

Under the influence of the 1995 Uruguay Round Agreement on Agriculture (URAA) and of on-going negotiations within the WTO regarding further liberalization of agricultural markets, several countries, in particular developed ones, preferred to rely on measures that are exempt from reduction commitments, in particular income support payments that are not directly linked to production levels or market prices.

In the **EU**, farmers continued to receive the direct income support payments introduced in 1992, though the following modifications were introduced in 2000: (i) the income stabilizing mechanism adjusting payments upward when market prices for oilseeds fell was discontinued; (ii) the coverage of the scheme was extended to include also small producers; and (iii) over the 2000-2002 period, oilseed payments were to be gradually reduced and eventually aligned with those offered for cereals and other arable crops. Starting in 2002, area payments are thus harmonized across major land uses - a change that aims at reducing the influence of differences in monetary incentives on the farmers' production choices while increasing the role of market forces. This realignment of support payments has resulted in short-term shifts in the allocation of resources between crops. While the support levels established in 1992 had favoured oilcrops, contributing to an expansion of oilseed production during the 1990s, the downward adjustment in oilcrop payments has made oilseed production less profitable vis-à-vis other arable crops, in particular cereals, and is the main factor behind the recent drop in EU oilseed production. As to production limiting measures, mandatory set-aside of 10 percent of cultivated land continued to apply to all arable crop producers applying for direct income support. Furthermore, the ceiling imposed since 1994 on the EU's total oilseed area remained in place. While this threshold was surpassed and led to penalties in previous years, the total area under oilcrops has remained below the ceiling since 1999, largely as a result of the gradual reduction in compensatory payments for oilseeds after that year.

During 2002, discussion about further reform of the EU's arable crop regime has been initiated among EU members, driven by the Community's enlargement plans and related budgetary considerations and the new round of WTO negotiations. The EU Commission has submitted a proposal that aims at guaranteeing farmers – through a single, unified annual income payment per farm not requiring any production – a stable income, while the allocation of resources would be driven primarily by market forces. Besides being fully decoupled, payments would be made conditional on environmental, food safety and other standards as well as to modulation, which implies ceilings and progressive reductions on total payments per farm. Based on initial reactions by EU member countries, the final form and timing of further reforms remains however uncertain.

In the **United States**, in three consecutive years, 1999, 2000 and 2001, direct income payments have been granted to oilseed farmers through emergency ad hoc assistance bills. The purpose of these payments, which where largely decoupled from current production levels, was to assist producers experiencing poor market conditions. In 2002, this assistance has been incorporated in new farm legislation that covers the period until 2007. While this confirms the emphasis on decoupled income support measures, it is important to note that, in the new Act, part of the income support payments are linked directly to the development of domestic market prices when these fall below established target prices. (see above box for details). Similar to the United States, in 2001, **Canada** approved an emergency aid package meant to compensate farmers (irrespective of what crop they produced) for low prices and high input costs that lowered producer incomes in that year. The country's traditional, decoupled and non-crop-specific income stabilization schemes remained in place. For the medium term, the Government is planning renewed investment in agriculture and agri-food industries, with particular emphasis on drought adjustment measures, effective risk management, technical skills, food safety, environmental aspects and scientific innovation.

In **Mexico**, farmers with a history of soybean production continue to receive direct payments, which have been adjusted upward in 2001 and 2002. These payments are not linked to current production levels. The scheme that will last until 2007 now also offers farmers the option of obtaining all future payments in one amount – an offer meant to stimulate investment in production diversification and market-oriented ventures. At the end of 2002, the Government approved a new aid package that will offer, during 2003, additional income support, subsidised loans and discounts on agricultural inputs to producers of selected crops, including rapeseed and soybeans. Reportedly, this decision is related to the forthcoming removal of tariffs on most farm products under the North American Free Trade Agreement, which is considered by Mexico to put domestic production at a disadvantage in competing with subsidised production from trading partners in the region.

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 **Croatia**, **Hungary, Lithuania, Poland** and other countries in Central Europe, where such policy changes are related to plans for accession to the EU or other regional trade blocs. In Hungary, small farm holdings have been excluded from oilseed area payments and the upper farm size ceiling used under the scheme has been gradually raised. The shift to per-hectare based programmes also has been made in the **Republic of Korea** and **Switzerland**, but they are mainly designed to stimulate domestic oilseed production.

Other Production Support Measures

Various indirect forms of production support continued to be used, mostly to stimulate productivity and total output of certain oilcrops, thus raising a country's self-sufficiency level in oilseed products (and reducing import dependence) and/or increasing exportable surpluses. Often such schemes have been implemented in combination with measures limiting importation.

During the period under review, the use of improved seed material and other agricultural inputs as well as oilseed R&D programmes continued to receive support in numerous countries including **Indonesia**, **India**, **Malaysia**, **Romania**, **Mexico**, the **Slovak Republic**, **Pakistan** and **Sri Lanka**). Furthermore, in several countries (including **Bulgaria**, **Brazil**, **Colombia**, **Malaysia**, **Nigeria**, the **Philippines**, **Poland**, the **Russian Federation**, and **Turkey)** oilseed producers continued to be granted tax exemptions and/or received subsidised credit (seasonal credit as well as loans for storage and various on-farm investments). In **Poland**, **Romania** and the **Slovak Republic**, where expansion of oilseed production tends to be hampered by lack of storage facilities, financial support has been provided for on-farm or other forms of storage. Also in **India**, public support was earmarked for the storage and transportation sectors.

In **Mexico**, **India** and **Canada,** governments continued to support crop insurance programmes. Also in the **United States**, oilseed producers continued to benefit from state subsidized revenue as well as

crop yield insurance; in 2001, for instance, three quarters of total US soybean area was covered by such insurance programmes. In **Japan**, to encourage domestic oilseed production, the subsidized income stabilization programme that was introduced in 2000 to compensate soybean and rapeseed farmers for market price drops remained in place. In addition, soybean production continues to be encouraged under a rice diversion programme that aims at shifting land from rice to crops where the country is highly import-dependant. Under this programme, farmers converting land to soybeans, wheat and feed grains qualify for the highest premia. Finally, soybeans are also eligible for a government supported yield insurance scheme. Reportedly, in 2001, also the **Republic of Korea** introduced measures to encourage the conversion of rice land to cash crops such as soybean, importation of which has increased markedly in recent years. In **Romania**, the introduction in 2002 of direct payments to sunflowerseed and soybean producers aimed at the diversification of arable crop production away from major cereals towards higher value crops.

Faced with a general deterioration of market prospects, the coconut industry continued to receive special attention in major producing countries. In **Indonesia**, support measures tended to emphasize intercropping, rehabilitation measures and product diversification. In the **Philippines**, in 2001, coconut producers have been included in the public food distribution scheme with a view to protect farmers from the impact of declining prices for coconut products. A number of accompanying rural development programmes aim at providing alternative livelihood opportunities for small coconut farmers.

Attracted by high productivity levels in oil palm production, a number of countries in Asia (the **Philippines**, **Thailand**), Latin America (**Colombia**, **Suriname**) and Africa continued to support programmes to foster the development of oil palm cultivation and marketing, either to raise availability of domestically produced vegetable oils or to supply the steadily expanding world market for palm oil. However, in a move that would reduce production in the short run, to face a period of excess stocks and depressed prices, **Malaysia** offered oil palm growers financial incentives for each hectare of land they replanted, thereby temporarily reducing land under production and thus output. The replanting of nearly 200 000 ha was subsidized, and the corresponding reduction in oil production has been estimated at 540 000 tons, or close to 5 percent of total domestic output.

Marketing, consumption and other related policies

Marketing Policies

During the period under review, production support policies in a number of countries have been accompanied by measures to enhance the commercialization of oilseeds and derived products. Such measures included the provision of loans for downstream commercial operations, transportation and warehouse subsidies, support for product quality control and modern processing techniques and other measures aimed at adding value to the domestic production chain and at enhancing competitiveness of the oilcrop sector.

A number of countries, comprising **Hungary**, **India**, **Nigeria**, **Turkey** and the **Federal Republic of Yugoslavia** have been engaged in market liberalisation and deregulation, which included the privatisation of state-owned oilseed production and processing facilities, the stimulation of private investment through tax exemptions and the termination of state monopolies or other forms of public intervention and control in oilseed markets. In India, the progressive withdrawal from direct market intervention has been accompanied by efforts to guarantee the orderly operation of markets through various regulatory services such as quality control and certification. By contrast, state trading arrangements for butter remained in place in **Japan,** as did the requirement that private crushers maintain emergency stocks of soybeans. And in **Thailand**, to support or stabilize domestic palm oil prices, the Government continues to be ready to carry out palm oil intervention buying at state-determined prices, an option that was last used in 2001, following a significant drop in farm-gate prices for oil palm fruit branches.

Net importing countries faced with declining self sufficiency levels and increasing import bills implemented the following measures. In **China**, the Government collaborated closely with crushers in the development of a forward contract price for soybean farmers to stimulate soybean production. Also **Mexico** and the **Slovak Republic** promoted forward contract purchases and commodity hedging programmes for oilcrops and products. The Slovak Republic also provided subsidies to crushing plants that invested into new technologies. In **Romania**, oilseed support payments were restricted to larger farms that delivered their produce to crushers as opposed to on-farm consumption. Furthermore, oilseed purchases by crushers have been subsidized with a view to raising capacity utilization in the processing industry. In the **Russian Federation**, where on-farm consumption and marketing continues to play an important role, loan policies tried to encourage vertical integration of production, crushing and further processing into higher value added products. In **Malaysia** a number of measures were aimed at encouraging the production of highly processed palm oil products so as to increase trade in finished, high-value consumer goods. Vegetable oil net importers in the **Near East** continued to pursue their efforts to expand domestic crushing and refining capacities so as to shift from final product to raw material importation – a development likely to affect international trade patterns.

In a number of countries, marketing and international trade in oilcrop products was enhanced by promoting the use of commodity exchanges. Countries that relaxed previous restrictions on such exchanges and/or supported the introduction of new futures contracts for oilcrops and products include **India**, **China**, **Argentina** and **Indonesia.**

Consumption Policies

A number of countries continued to support the use of oils and fats intended for human consumption. While the overall goal of such policies was to improve the nutritional status, specific measures were also related to domestic market and trade policy goals such as raising consumption from domestic sources and reducing dependency on imports or ensuring adequate supplies in countries where domestic production is primarily export oriented.

India's food subsidy bill includes provisions for distribution of vegetable oil below market prices. Reportedly, new schemes have been added and some changes introduced so as to ensure that the subsidy reaches the target beneficiaries. Faced with stagnating domestic oilcrop production, **Romania** has released vegetable oil from state reserves in order to prevent retail prices from surging.

In **Argentina**, where exports were strongly stimulated by a marked currency devaluation at the beginning of 2002, vegetable oil export charges were raised with a view to protect consumers from domestic shortages and consequent price surges. Similar measures have been taken by the Russian Federation, where the share of domestic sunflower production entering trade has been increasing steadily in recent years.

Consumption of oilcrop products has been promoted in **China** (soymilk and other soy-based food) and the **EU** (olive oil). To protect consumer interests, the EU also introduced legislation to improve quality control of olive oil. Health considerations also played a role in **Lithuania's** oilseed support policy, which, among other objectives, tried to achieve a shift away from animal fats to vegetable oils.

Other Related Policies

Several countries continued to support R&D programmes on new end-uses for oilseeds and derived products, in particular for non-food purposes. Of particular relevance at both the policy as well as the market level are the production of bio-diesel from oilcrops and the development of new oilcrop varieties and products through genetic modification.

BOX III-2 BIO-DIESEL FROM OILCROPS

An increasing number of countries, both developed as well as developing, are introducing policies that encourage the production of bio-diesel from oilcrops. The rationale for supporting bio-diesel programmes is threefold: (i) biofuels are an environmentally friendly alternative to fuels produced from non-renewable resources; (ii) biofuels from agricultural feedstocks such as oilcrops offer new outlets for products confronted with increasingly saturated markets; and (iii) domestic bio-diesel production can help in reducing dependency on imported petroleum. It should be noted that, under the prevailing market conditions, regular provision of public subsidies and/or tax breaks to oil refiners are required to guarantee the economic viability of bio-diesel production from oilcrops. However, in a number of countries, the commitment to meet specific targets regarding the reduction of greenhouse gas emissions has increased the interest in bio-diesel production.

The **EU** includes some of the world's leading producers of bio-diesel, a result of fiscal concessions and other national support programmes. With regard to Community level legislation in this area, environmental concerns are playing an increasingly important role. An alternative fuels directive currently under consideration would establish minimum levels of biofuels as a proportion of all sales of petrol and diesel from 2005 onward. The current cultivation of energy crops on compulsory set-aside land would not be sufficient to meet the proposed medium term biofuel goals. Currently, about 1 million ha of arable land are being used to grow crops - primarily rapeseed - for bio-diesel production. Reportedly, 2010 projections would require between 2 and 4 million ha if all bio-diesel were to come from energy crops, or less - but still more than 1 million - when also recycled cooking oil and other products were used as feedstock. In its latest review of agricultural policy, the EU Commission has proposed the introduction of a 'carbon credit' which would function like a non-crop specific aid for energy crops. Aid would be paid to farmers who enter into contracts with biofuel processors. The proposed maximum supported area is 1.5 million ha.

In the **United States,** where soyoil is the preferred feedstock for bio-diesel, the production and consumption of biofuel is encouraged under several programmes. Support measures include tax exemptions, loan guarantees, direct subsidies for the construction of refineries and purchasing requirements for certain state and federal agencies. Under the 2002 Farm Act, a programme educating government and private entities as well as the public about the environmental benefits of bio-diesel use has been introduced. Legislation about future mandatory utilization of renewable fuels is currently under debate. Private investment into (and output of) oilcrop-based bio-diesel is reported to have increased substantially in recent years.

Encouraged by supportive government policies, production and use of bio-diesel was also reported from the **Republic of Korea**, **Thailand**, and **Switzerland**, whereas the following countries started to support research on vegetable oil-based fuels and/or are considering the introduction of legislation promoting biofuel utilization: **India**, **Viet Nam**, **Mexico**, **Australia**, and **Brazil**. Production of oilcrops for industrial uses and investment into bio-diesel production is also encouraged in **Poland**, **Hungary** and other Eastern European states, although, for the time being, a limited domestic production base and relatively high costs of production clearly favour the traditional uses of oilcrops.

In **Malaysia**, **Indonesia** and the **Philippines**, research into the production of diesel from palm and coconut oil continued to be supported by the government and the private sector is encouraged to invest into specialized processing plants. Palm oil diesel production is reported to generate some valuable by-products that could contribute to the self-financing character of these operations. Future plans to use palm oil diesel as fuel in power plants could provide an important additional market outlet for palm oil.

BOX III-3 GENETICALLY MODIFIED OILCROPS AND RELATED POLICIES

In recent years, also government policies on the production and sale of genetically modified organisms (GMOs) have moved to the centre of attention. Domestic and international markets for oilcrops and the respective oils and meals are increasingly affected by this development because, for crops like soybean and rapeseed, the share of global supply derived from genetically modified varieties has expanded strongly. To meet consumer concerns about the safety of GMO products for humans and the environment numerous governments have introduced regulations to control the release of GMOs as well as the sale of products derived from GMOs. In the absence of a binding international treaty to govern domestic legislation in this area, approval criteria, testing methods, identity preservation and labelling requirements differ from country to country, and exporting countries are concerned that national regulations could be used to restrict imports under the guise of food safety concerns.

The **EU** has taken a particularly strict stand on GMO matters: although a number of GM soybean and rapeseed varieties have been approved and can be imported without restriction, several others can not be imported as a de facto moratorium has prevented approval of new GMOs after 1998. In October 2002, the EU modified the legislation regulating the approval and release of GMOs into the environment (and thus their commercialization). The new regime establishes a more rigorous risk assessment process. In addition, post approval monitoring requirements have been introduced and marketing licenses need to be renewed after ten years. The moratorium on approvals of new GMO products remains in place awaiting the approval of additional legislation on GMO labelling and traceability standards. Other regulations under consideration relate to identity preservation requirements, liability principles, and thresholds for non-approved transgenic material occurring in food and animal feed.

Some of the world's key exporters of oilseeds and products - such as the **United States**, **Canada** and **Argentina**, where legislation has favoured cultivation of GM varieties and domestic oilseed output is now dominated by GMO material, are concerned about the non-approval of new GMO varieties and the introduction of stricter control measures in the EU. However, using the identity preservation mechanism some producers in these countries are able to market GMO free products. Also other countries have introduced or are considering introducing legislation to closely regulate the sale of GMO products. Among them are several large importers of oilseeds and products, notably **China**, **Japan**, **India**, **Indonesia**, **Thailand**, the **Republic of Korea**, **Mexico**, the **Philippines**, **Turkey**, the **Russian Federation** and several Eastern European countries. Some exporting countries are making efforts to gain GMO-free status for certain crops, so as to secure access to markets requiring non-GMO products. Examples for such production and exportation of non-GMO oilseed crops include Brazilian soybeans, Australian rapeseed, and Indian soymeal.

International Trade Policies

Import Measures

In the review period, numerous countries have made active use of import control measures. One of the main factors triggering this development was the general decline in world market prices for oilseed products observed during 1999-2001, which strongly stimulated imports, and adversely affected domestic oilseed production and crushing. Although international prices started to recover towards the end of the period, many countries have continued to make use of trade measures to protect their domestic industries from international competition. However, the recovery in international prices has been rather slow and world markets continued to be distorted by support programmes implemented in some important exporting countries. Reliance on import control policies to protect domestic interests

has been also related to the reduced use of price guarantee and government procurement schemes and other forms of direct market intervention.

The main import policy instrument is tariffs, as the conversion of non-tariff barriers into tariffs mandated by the URAA has now been completed in most WTO member countries. In general, individual countries' tariff policy measures have been implemented in compliance with country-specific URAA commitments, although, during the period under review, several developing countries decided to raise applied tariff rates to levels close to their URAA bound limits. Finally, during the period under review, various technical measures, focusing in particular on food safety issues, have played an important role in the import market for oilseeds and derived products.

Among those countries that continued to rely on high tariffs to protect the domestic industry was **India**, one of the world's major consumers and importers of vegetable oil. In general, the country's increased reliance on tariffs stems from the gradual removal of all quantitative import restrictions, a process that was completed during 2001. In recent years, the country has witnessed a surge in cooking oil imports triggered by relatively low world market prices and by the weak performance of domestic oilcrop production and low efficiency in domestic processing. In an effort to stem the flow of imports and the downward pressure on domestic producer prices, the government has maintained high tariffs on vegetable oils and some other products (coconut and copra), in some cases raising the rates to the maximum level permitted under the country's WTO commitments.

From mid-2001 onward, duties on most oil imports have been calculated using government determined base prices rather than actual trade prices - a system introduced to combat under-invoicing and other irregularities including dumping. For the importation of certain edible oils, tariff rate quotas with reduced in-quota duties continued to be applied. However, these quotas have remained underutilized. Tariff escalation favouring the importation of crude oils over refined oils and thus protecting the domestic oil refining industry remained in place. The overall tariff structure has favoured the importation of oils over that of oilseeds, which also tended to benefit domestic refiners as opposed to seed crushers. Trade also continued to be affected by several non-tariff entry barriers, including strict quarantine regulations for oilseeds, labelling requirements and privileges granted to state trading enterprises. Furthermore, for a short spell in 2001, vegetable oil imports were permitted only through specific, government designated ports, and, more recently, the introduction of special safeguard measures as well as legislation that would ban the importation of oils originating from genetically modified seeds has been considered.

In **China**, trade policies continued to be influenced by self-sufficiency considerations. As in the past, government efforts to control the importation of oilseed products continued to be aimed primarily at the stimulation of domestic soybean production and crushing. However, the country has undergone some important changes in the last few years. Although several import control measures remained in place, imports of oilseeds have increased sharply from 1999/2000 onward and, today, China ranges among the world's top oilseed importers. The main factors responsible for the growing gap between domestic supply and demand include the cessation of production support for oilseeds and poor marketing and transportation infrastructure in a country where key production areas are located far away from the principal consumption centres. Since a powerful, import-dependant soybean processing, feed and livestock industry has developed in the coastal provinces, government policies limiting soybean importation have become more difficult to implement.

China's import policy measures during the period under review can be summarized as follows. During 2001, control over imports continued to be achieved primarily through quantitative import restrictions, licensing requirements and various non tariff measures. Oilseed (soybean) imports continued to be particularly affected by these policies. To support the development of a domestic crushing industry, tariffs were set in a way to favour the importation of oilseeds over that of oils and meals. China's accession to WTO in December 2001 has started a process of gradual trade liberalization, with more transparent policies and less direct government intervention in markets. Regarding oilseeds and derived products, China agreed to freeze its relatively low tariff rates on

oilseeds and meals. Furthermore, the import market for edible oils is to open up gradually. All quantitative restrictions applying to the main imported oils are to be phased out by the year 2006 (see Table III-3). Binding tariff rate quotas have been put in place for the key imported oils. The agreed quotas will be above (and the corresponding tariff rates below) those applied before WTO accession. Over the period 2002-2005, over-quota duties will be progressively lowered, while quota volumes will be raised gradually and phased out altogether in the year 2006, when the in-quota rates will apply to all imports. Furthermore, a proportion of each quota (increasing over time) will be allocated to private traders, eventually ending all previous monopolies of state trading enterprises (STEs). Together, these measures are expected to improve market access for vegetable oils. The ultimate impact of these changes on the country's overall import pattern, on domestic production and on the crushing industry will have to be assessed later.

Table III-3: China's import regime for vegetable oils following WTO accession

Calendar year	Tariff-rate-quota (in million mt)	Ad valorem tariff rate (in %)		Quota allocation (% of total)	
		in-quota	over-quota	STEs	Private traders
Soybean oil					
2002	2.518	9.0	52.4	34	66
2003	2.818	9.0	41.6	26	74
2004	3.118	9.0	30.7	18	82
2005	3.587	9.0	19.9	10	90
2006	none	9.0	9.0	-	-
Palm oil					
2002	2.400	9.0	52.4	34	66
2003	2.600	9.0	41.6	26	74
2004	2.700	9.0	30.7	18	82
2005	3.168	9.0	19.9	10	90
2006	none	9.0	9.0	-	-
Rapeseed oil					
2002	0.879	9.0	52.4	34	66
2003	1.019	9.0	41.6	26	74
2004	1.127	9.0	30.7	18	82
2005	1.243	9.0	19.9	10	90
2006	none	9.0	9.0	-	-

STEs = State trading enterprises
Source: International Grains Council

However, a number of non-tariff entry barriers have remained in place, constraining market access especially for oilseeds. The allocation of tariff rate quotas still requires the issuance of licenses, a process that allows state control over import and tends to create uncertainty among importers. Oilseed imports also continue to be subject to stringent phytosanitary regulations, in particular quarantine inspection procedures. Since early 2002, imports are subject to safety control measures regulating the production, importation and sale of GMOs - a sensitive area as GMO products play a dominant role in several of China's principal foreign suppliers of oilseeds. When new legislation came into effect in March 2002, the trade was given limited time to adjust to some new procedures. Eventually, to meet the needs of the industry and to allow local administration to refine the regulations, an interim agreement postponing the full application of the new legislation to September 2003 was negotiated with trading partners. Uncertainty among exporters and importers resulted in a marked slowdown in import flows during the first half of 2002. In particular imports of soybeans from the United States and Argentina have been affected, while purchases of vegetable oil declared free from GMOs (in particular palm oil) have increased.

Other Asian importers did not report major changes in their import policies. In **Thailand**, tariff rate quotas continued to apply to the key imported oilseeds and vegetable oils. While in-quota duties were attractive and volumes allowed ample, imports remained subject to control through a quota allocation mechanism. In addition, domestic purchase obligations for traders importing oils also remained in place. Soymeal importation has been fully derestricted, although the government remains responsible for the nomination of importers. With regard to technical measures, starting January 2003, exporters

shipping soybeans and soybean meal to Thailand will be required to prove that their products are free from any form of contamination, whereas importers need to apply for import permits in advance. While overall charges on vegetable oil imports remained high in **Pakistan**, the tariff regime for oilseeds has been simplified and duties lowered. This policy is designed to support domestic crushing operations in order to capture the value added of local oil and meal production and to develop a viable industry capable of stimulating local oilcrop production. In **Turkey**, strict licensing requirements allowed the Government to maintain close control over vegetable oil importation. Import duties continued to provide significant protection to domestic production, in particular of sunflowerseed and olive oil. During the period under review, tariff rates have been subject to several up or downward adjustments as the government tried to address the needs of the farmers as well as of processors and consumers. Concerned about the recent surge in soybean imports that risks to adversely affect domestic production, the Government of **Indonesia** is considering means of controlling soybean importation, including the introduction of import duties up to the maximum level allowed under the country's WTO commitments. To allow better monitoring of import flows, since May 2002, traders who wish to import soybeans (and some other products) need to be officially registered.

In the import dependant **Andean Community** nations (Bolivia, Colombia, Ecuador, Peru and Venezuela), third country imports of soybeans, soybean oil and palm oil continued to be subject to variable duties determined through the Price Band System, which is designed to protect both producers and consumers from excessive price movements in the world market. Until mid 2002, the system, which raises tariffs when world prices are low and reduces them when international prices are high, led to upward adjustments in the basic tariff rates. The rise in world market prices in the second half of 2002 implied a return to the base tariff levels. Based on special trade agreements, Argentina, Brazil and Paraguay continued to be granted preferential tariffs, thus remaining the main suppliers of oilseeds and products to Andean pact nations. In some Andean countries, protection of domestic production interests is also provided through absorption requirements, which make the issuance of import licences conditional upon the previous purchase of the entire domestic crop. Imports between Andean partner countries are normally free of duty, but shipments of vegetable oil from Colombia and Peru to Venezuela became subject to tariffs under a safeguard action taken by Venezuela in late 2001. Price band systems and safeguard actions were also introduced by Chile and other countries in the region, in an attempt to limit vegetable oil imports from Argentina. Argentina's subsequent complaint before WTO has resulted in a ruling in its favour. Related to this ruling, Andean Pact members are currently considering reducing the sphere of application of the Price Band System so as to ensure compatibility with other trading commitments.

In **Mexico**, import duties for coconut and palm oil have been raised to the WTO bound rate in an effort to stimulate production of vegetable oil from domestically grown crops. Together with new support payments to producers, this measures aims at increasing the competitiveness of domestic crops at a time when soybean tariffs are been phased out under the North American Free Trade Agreement and when duties on soybean imports from Brazil have been reduced significantly due to a new bilateral agreement.

Among developed countries, **Japan** continued to protect its crushing industry by applying import charges on soybean and rapeseed oil at the maximum level allowed under its WTO commitments, as opposed to oilseeds, which enter the country duty free. Significantly lower rates are applied to tropical oils, which are neither produced in the country nor serve as substitutes for domestically produced oils. In the **EU**, the duty structure for oilseeds and products remained unchanged and the impact of tariffs on the import market continued to be small. With regard to olive oil, preferential import regimes for several Mediterranean basin countries remained in place and were expanded in some cases. Non-tariff measures - in particular sanitary and food safety control regulations - have become increasingly relevant. Stringent laws on the use of meat and bone meal as well as on fishmeal processing have negatively affected trade of these products. Furthermore, the application of strict rules on aflatoxin contamination in groundnuts has led to a temporary halt in groundnut imports from certain origins. Finally, prospects for trade in genetically modified oilseed varieties continue to be affected significantly by EU legislation governing the commercialization of GMO products. In the **USA**,

country-of-origin labelling requirements have been made stricter for selected commodities including groundnuts - a measure that could lead to increased consumption of the domestic product at the expense of imported groundnuts.

In addition to those discussed above, the countries where duties on oilseeds and products have been increased (or maintained at the WTO bound levels) and/or where non-tariff measures have been introduced in an effort to protect domestic production and processing includes **Chile**, **Nigeria**, **Poland**, the **Russian Federation**, **Sri Lanka** and **Ukraine.**

Some countries (in particular **Bulgaria**, **Ecuador**, **Romania**, **Slovak Republic**) were reported to have lowered import tariffs and/or reduced import restrictions either permanently or on a temporary basis. Their objectives were to ensure adequate supplies during periods of domestic production shortfalls, to protect consumers from price increases, or to assist oilseed crushers and other parts of the industry through improved access to imported ingredients.

To overcome the adverse effect of technical measures on specific trade flows, a number of countries have entered bilateral agreements on the mutual recognition of sanitary or related regulations. For example, Brazil and China have reached a joint phytosanitary accord that will facilitate Brazil's export of soybeans into China. Similarly, Peru and China are negotiating an animal/plant sanitary accord that would enable continuation of large-scale fishmeal exports from Peru to China.

Export Measures

During much of the period under review, the world market for oilseed products was characterized by high export availabilities and a below average growth of import demand. As a result, competition for export markets continued to be strong, inducing countries with export-oriented production to maintain and in some cases increase their efforts to promote exportation of oilseeds and products. While use of export subsidization schemes remained limited, exports have been promoted by a variety of other incentives.

Among developed countries, the **EU's** export subsidization scheme for rapeseed, olive oil and butter/butteroil remained in place. However, in recent years, market conditions did not warrant refunds on rapeseed and oliveoil exports. By contrast, exports of butter and butteroil continued to rely on subsidies , although overall outlays have remained well below WTO commitment levels.

Also in the **United States**, butter and butteroil exports enjoyed some subsidization in fiscal year 2000/01 but not in 2001/02. With regard to oilseeds and derived products, the Export Enhancement Program (EEP) continued to remain unused. However, exportation of oilseeds and products continued to be promoted under various other programmes, in particular schemes providing export credit guarantees. Outlays for oilseeds and products under the main programme, GSM-102, which provides medium term export credits were comparable to past years, while expenditures under the short term scheme (SCGP) have doubled in fiscal year 2000/01 and again in 2001/02. Under the new 2002 Farm Bill, the latter scheme has been expanded through an increase in guarantee coverage and by increasing the number of eligible commodities and countries. During the period under review, the oilseeds complex has become the leading commodity group supported by the scheme, with soybean exports benefiting the most. The oilseeds sector also received support through a number of other programmes that aim at the promotion of US agricultural exports, notably the Emerging Markets Program, the Market Access Program, the Foreign Market Development Program and the Quality Samples Program. These programmes have been reauthorized through 2007 under the new Farm Bill, including some increase in funding. As to the EEP, current funding levels will continue to apply, though the definition of 'unfair trade practices' - which would trigger payment of subsidies - has been expanded. Finally, some new programmes have been introduced, including one that aims at reducing the impact of SPS and other regulatory measures on US exports of certain agricultural commodities – for example genetically modified oilseeds.

Export enhancing policies have remained in place also in the world's two leading exporters of palm oil, Malaysia and Indonesia. In **Malaysia**, where palm oil exportation is traditionally charged with various duties and fees, the 5% export tax applying to refined palm oil was removed in September 2001, whereas for the years 2001-2003, a certain amount of crude palm oil was allowed to be exported free of duty. Furthermore, to facilitate export operations, export credit guarantees continued to be provided to selected importers and government-to-government barter contracts were signed with India and China. In addition, programmes to stimulate consumption in importing countries were conducted in various nations in Asia, the Near East and North Africa, and countries interested in improving the competitiveness of their palm oil industry were provided with technical assistance and joint venture capital. In **Indonesia**, export promotion policies concentrated on the negotiation of barter agreements and joint venture initiatives. In addition, the country's export taxes on the various oil palm products have been lowered further from the level established in March 2001, with a view to protect the interests of domestic refiners as well as end-consumers**.**

In **Argentina**, the long-standing export tax rebate regime favouring oilseed complex exports was replaced in 2001 with a similar, though more WTO compatible scheme. Reportedly, net support provided to exporters has remained basically unaffected by this shift. Furthermore, exporters continued to be eligible for value added tax reimbursements. To stimulate exportation of higher value added products, oilseed exports continue to be charged higher taxes than oils and meals. The sharp gain in export competitiveness that resulted from strong currency depreciation at the beginning of 2002 induced the government to temporarily suspend all forms of export support and to introduce additional taxes on all agricultural exports. As a result, total tax burden on oilseed complex exports rose to 20-23 percent. Yet the sector's record performance during the 2001/02 season and the further expansion forecast for 2002/03 clearly indicate that the overall profitability of oil/meal production and exportation has remained unaffected or even improved slightly. In actual fact, Argentina's strong export performance has been one of the main factors behind the increase in global export competition recorded in 2002. No change in export policies has been reported from **Brazil**, where, in contrast to Argentina's policy, the export tax structure continued to favour the exportation of oilseeds over shipments of processed products.

In **China**, as opposed to partial tax rebates granted previously, exporters of soymeal became eligible for full reimbursement of value added tax from March 2002 onward - a measure that was aimed at promoting soymeal exportation and that complemented China's import policies in favour of the domestic oilseed crushing sector.

Direct export subsidization of oilseeds, oil and meal was discontinued in **Hungary**, in compliance with the country's WTO commitments. In **Poland**, by contrast, the export subsidy regime for rapeseed that was introduced in 2000 remained in place, though the volume of exports subsidized and corresponding outlays remain subject to strict, WTO-imposed limits. In the first two years of the programme's operation, subsidization levels have been low, because of problems in the scheme's administration and due to the requirement that exporters, in order to qualify for the refunds, purchase domestic produce at a minimum price that is set by the government in consultation with producers and traders. The programme was reported to push domestic rapeseed prices above world market levels, thus putting pressure on the domestic crushing industry. A number of Eastern European countries where oilseed exportation has expanded in recent years, resorted to export taxation or other forms of export control, mainly reflecting government efforts to increase the level of capacity utilization in domestic crushing operations. In **Romania**, the government imposed temporary bans on the exportation of sunflower seed, whereas for sunflowerseed oil the re-introduction of export subsidies is being considered. In the **Russian Federation**, export duties on oilseeds have been raised in 2001, with a view to guarantee raw material supplies for the domestic crushing industry and thus oil production for the domestic market. The increase in duties led to lower profits in sunflowerseed exportation, eventually acting as a general disincentive to domestic oilseed production. To address this problem, in early 2002 the Government decided to eliminate all licensing requirements for oilseed exports, a measure that contributed to a partial recovery in domestic production and exports. Export taxation of oilseeds was maintained in the **Ukraine**, also to stimulate the exportation of sunflower oil as a higher

value added product. Although the export tax on sunflowerseed was lowered from 23 to 17 percent in 2001, the net impact on exports remained unchanged as certain tax exemptions were eliminated. Exportation of processed products is also encouraged by the reimbursement of value added tax to crushers who export oils and meals.

Conclusions

During the period under review (2001-02), developed countries completed the implementation of URAA related policy reforms, whereas developing nations are expected to complete this process by 2004-05. Although these reforms have curtailed the possibilities for governments to directly intervene in commodity markets, it appears that total levels of domestic support and trade protection have remained high.

With regard to **production policies**, the use of price support schemes has continued to decline either due to URAA reduction commitments or because such programmes proved to be costly and not particularly effective. Instead, the use of direct income payments and various indirect forms of production support (which tend to be exempt from reduction commitments) has further increased. Production support packages used by some developed countries, tended to insulate oilseed producers from the impact of low market prices, thereby contributing to the continuation and/or expansion of high-cost oilseed production even when prices were relatively low. As reported by the OECD for its member countries, the effective level of support provided to oilseed farmers is only marginally below that recorded in the URAA base period 1986-88. As to non-price based support measures, these were used for a variety of purposes, primarily as a complement to income support schemes (notably in developed countries) or (in developing countries) as the main means of raising productivity and encourage production in developing nations.

With regard to **marketing, consumption and related policies**, a large number of instruments and have been used with differing objectives. In general, governments tended to intervene less in domestic markets or to use more indirect forms of intervention, often emphasizing increased cooperation with the private sector. The main exception to this trend has been the introduction of GMO related policies in numerous countries. The review of national policies also shows that, in developing countries, the coordination of the various government interventions poses particular challenges in that policy-makers have to strike a balance between the diverging interests of oilseed producers, seed crushers, oil processors, and the final consumers of vegetable oils or meals. It appears that in several countries governments tend to emphasize policies that provide protection to the domestic crushing/processing industry. This approach tends to accentuate problems of overcapacity and seems to slow down necessary modernization and adjustment processes in the oil and meal industry as well as in oilseed production. As to consumption policies, traditional measures to raise poor people's vegetable oil consumption have been maintained in a few countries only. By contrast, efforts to stimulate demand for new uses - in particular non-food uses of vegetable oil - have been intensified in numerous countries.

Trade policies continue to be of particular relevance to the oilseeds economy. In general, the tendency of governments to refrain from direct intervention in domestic markets appears to have intensified the use of trade policy measures in pursuance of national production and consumption policy goals. While, in principle, URAA-induced changes in trade policies have led to increased market transparency and improvements in market access, the overall impact of these changes on trade has been rather small. In most developed countries, tariffs on oilseeds and derived products have always been low. In developing countries, bound tariffs have been high, but their applied rates have been much lower, allowing room for increases to further protect markets. Several developing countries, including some of the world's main importers of oilseeds and products, exercized firm control over import access via higher tariffs or other border measures.

A common feature in import policies has been the use of tariff rate quotas. Currently, about 25 countries apply such quotas to oilseeds and derived products often with prohibitively high tariff rates

applied to above-quota imports. In the last few years, the average quota fill rate did not exceed 70%, due to the way the quotas have been administered. Another feature noted across most importing countries was the use of tariff escalation in an effort to favour the importation of lower value products.

During the period under review, technical import barriers have become increasingly relevant for international trade in oilseeds and derived products. Health and environment related consumer concerns have induced governments in both developed as well developing countries to introduce a variety of sanitary, phytosanitary and other technical requirements. In a number of cases, these measures have resulted in reduced market access and, eventually, changes in the overall pattern of trade. Exporting countries are increasingly concerned that trade partners may use such technical measures as a means of protecting domestic markets, given that on-going trade policy reforms have restricted the use of tariff measures in certain countries.

With regard to export policies, the market situation prevailing during 2001-02 has led to increased competition for export markets. While export subsidization continued to play a minor role, major exporters of oilseeds and oilseed products have further increased the use of other export promotion tools.

IV. MEAT POLICY DEVELOPMENTS

The context of the world meat economy in 2001 and 2002 was considerably different to that prevailing at the end of the last decade. The proliferation of animal disease outbreaks dominated policy responses around the globe, the main thrusts of which were to impose import bans, tighten sanitary border control measures, and strengthen domestic regulations, in order to protect animal health and food safety.

Production Policies

Widespread outbreaks of animal diseases in 2000 and 2001 represented major challenges for many countries, and public expenditure in the livestock sectors expanded in many meat exporting countries to meet the cost of disease containment and eradication. **Japan** and the **EU** implemented compulsory testing of all slaughtered livestock and provided compensation packages for producers of disease-affected animals which included outright or partial payment for withdrawal/purchasing of animals at risk, and expenditures for the disposal of meat and bone meal. **Japan** introduced a BSE (Bovine Spongiform Encephalopathy) programme for the financial year starting in April 2002 of 206.5 billion yen (US$ 1.7 billion). These subsidies include minimum prices for carcases, income guarantees for feedlotters, including the labour cost of families, profit guarantees for feedlotters, and minimum prices for the sale of calves. More than 85 percent of the subsidies focus on income stabilisation for farmers and industry.

Many other countries, particularly in ***Eastern Europe*****,** have introduced full disease screening for BSE and traceability schemes. In South America, vaccination and surveillance programmes were set up for Foot and Mouth Disease (FMD). Most governments in developing countries are intensifying mechanisms aimed at the control and eradication of livestock diseases, with the promotion of livestock extension systems complemented by efforts to improve the safety of feeding. However, this has been accompanied in many countries by the implementation of institutional reforms focusing on increasing the privatisation (deregulation) of services to the livestock sector.

In some ***European*** countries, animal disease outbreaks prompted policies to encourage a transition to more extensive agricultural production systems. In the **EU**, this was implemented through policies reducing stocking densities, compulsory per head limits, a reduction in the Beef Special Premiums, new requirements for the Suckler Cow Premium, and an increase in the beef intervention ceiling. In addition, the Commission extended the beef special purchase scheme[37] until March 31, 2002. This BSE-induced scheme allowed Member States to buy and put in storage up to 40 000 tonnes of cow beef from animals over 30 months old that have tested negative for BSE. In the **Slovak Republic,** support for extensively raised beef cows was increased in 2001. Quality bonuses for animals of certain specifications was also provided while the Government, citing the low price of imported pigs in 2002, introduced a measure to grant meat processing companies bonuses for the purchase of domestic pigmeat.

Some progress was made in moving away from price support toward direct payments. The sheepmeat regime in the **EU** was reformed in 2002 through the introduction of a flat rate annual premium which will replace the variable deficiency payment used previously. The level of premium was fixed at euros 21/animal (US$ 21), which is based on the average of the premia from 1993 to 2000. In addition, a supplemental premium of euro 7/animal (US$ 7) is available to producers in areas where sheep and goat production constitutes a traditional activity or contributes significantly to the rural economy. Provision was made also that each member state has a national allocation for sheep, capped in aggregate at Euro 71 million (US$ 71 million), to pay for discretionary extra schemes, such

[37] See *Review of Basic Food Policies 2001.*

as extensification programmes. Member states may decide to supplement the national allocation by reducing the ewe premium by up to one euro; however, payments under this category cannot be linked to fluctuations in market prices.

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Increased integration of markets in Europe has prompted regulatory reforms and legislative changes. Restructuring of the animal sector in Eastern Europe is continuing, prompted and accelerated by prospects for EU integration. Adherence to EU hygiene standards is necessitating reconstruction of many slaughterhouses throughout the region. Registration of farm animals is being implemented in numerous countries while the movement toward production-decoupled forms of support to harmonize policies with the CAP is accelerating. The **Czech Republic** introduced per head payments for sheep and beef cattle in 2000, and support doubled in 2001.

In **Romania**, the Government introduced support of around US$ 41 million to the livestock sector in 2002, providing direct payments to cattle, pig and poultry producers, as well as slaughterhouses. There are two categories of subsidies in place:

1) marketing payments of around US$ 17.2 million with amounts budgeted to cover government procurement of 45 600 tonnes of beef and 160 000 tonnes of pigmeat respectively. Producers received direct payments of around US$ 118/tonnes live weight for live bovine and swine of specific weights, and; 2) support measure of approximately US$ 24.2 million to promote sector productivity. The poultry sector benefited from approximately US$ 8.6 million which were allocated for direct payments of 100,000 tonnes of broiler meat delivered to authorized slaughterhouses.

Price supports and production quotas continue to be used in **Hungary**. However, in 2001, beef payments remained stable and are scheduled to be reduced in 2002. Meanwhile, members of the Poultry Council established a production quota for the first quarter of 2002 with a fee imposed on those exceeding the limits. In the pig industry, the elimination of export subsidies for Hungarian pigmeat depressed domestic prices in 2002, leading to increased support to the sector through higher guaranteed prices for pigmeat. In **Poland**, the Agricultural Market Agency (APR) in 2002 was allocated nearly US$ 200 million for the purchase of 140 000 tonnes of pigmeat. Purchases in 2003 are estimated at 150 000 tonnes. Market support to the livestock sector in other countries also increased in 2000 and 2001. The **Ukraine** has introduced a bonus scheme which cost approximately US$ 22 million in 2001 and is reported at US$ 14 million for 2002, to encourage cattle producers to slaughter cattle at weights higher than 375kg. Payments to producers are US$ 0.14/kg of live weight for dairy and dual-purpose cattle and US$ 0.17/kg of beef cattle

In ***Asia***, the Government of the **Republic of Korea** in 2000 initiated a programme to stabilise calf prices which provides producers with 20-percent higher market prices. This was continued into 2002 with US$ 51 million allocated to the programme, which establishes market floor prices through the provision of up to 250,000 won (US$ 208)/calf. In addition, the Government established a calf production base (US$ 4.8 million) to encourage development of larger farms devoted to cow/calf operations. **Israel**, which supports the extensive raising of beef cattle through per head payments, will shift to direct area payments as of 2003.

In the **United States**, in compensation for the 2001 elimination of tariff-rate quotas (TRQs) for lamb imports, the Government extended the Lamb Meat Adjustment Program through August 2003,

adding US$ 40 million in subsidies to the US$ 100 million already available. Of this amount, US$ 26 million will be allocated to the Ewe Lamb Expansion Programme, with payments for retaining or purchasing qualifying ewe lambs at US$ 18/ewe lamb. This is accompanied by a new lamb levy programme under which assessments of one-half cent a pound on sales of live lambs will be charged and an additional US$ 0.30/head paid by packers for lambs for slaughter. Support for livestock producers in the United States will be provided through US$ 752 million in immediate assistance under a new programme, the Livestock Compensation Programme. Recipients will be producers residing in primary disaster areas due to drought and the payment rate is US$ 18 per animal consuming unit. This programme is in addition to other programmes available to eligible producers that total US$ 1.3 billion; these programmes include a US$ 150 million feed assistance program for cow-calf operators and emergency haying and grazing on Conservation Reserve Programme, valued at US$ 100 million.

Investments in livestock productivity expanded over the period, facilitated by improvements in livestock genetics, management practices and infrastructure. The **Republic of Korea** announced in April 2001 a new multi-year US$ 1.8 billion programme which focuses on the improved quality of Hanwoo beef, accompanied by a US$ 322 million project aimed at increasing self-sufficiency in poultry products. For 2002 the Hanwoo beef programme budget is approximately US$ 20.7 million with another US$ 14.1 million providing support toward the castration of Hanwoo bulls.

Romania has received grants to enhance meat quality while it also disbursed US$ 25 million to support the animal breeding sector. In Africa, limited financial resources have constrained government investments in the livestock sector; however, governments are taking initiatives to obtain funding for breeding facilities and disease eradication programmes. **Benin, Burkina Faso, Cameroon, Côte d'Ivoire and Togo** are among many of the African countries privatising veterinary services while assisting in the provision of veterinary medicines.

The Numerous countries have moved to take action to enhance feed quality. To prevent cattle exposure to contaminated feed, **Canada's** principal feed trade organization, the Animal Nutrition Association of Canada, developed a voluntary Hazard Analysis at Critical Control Points (HACCP)-based Feed Safety Program and began in early 2000 to provide HACCP Certification to individual feed manufacturers. The **Kenyan** government is formulating a feed bill to regulate this sector, while reducing the VAT on inputs into the feed industry, such as oilmeals and maize germ, from 15 percent to 5 percent. A decline in tariffs on imported feed inputs was reported by **Nigeria**. Moving to help cattle breeders during a drought, **Tunisia** introduced in 2002 an emergency plan, including feed barley subsidies and duty-free feedstuffs. As European protein prices adjust to the impact of the BSE crisis, the **French** Government has announced that aid to renderers for production of animal fat will stop with effect from October 1, 2002. This will reduce compensation from 150 euro per tonne (US$ 150) for fats to zero.

Meanwhile the **EU Commission** in late 2001 published two directives on animal welfare, laying down minimum standards for the protection of pigs. From January 2003 for new farms and January 2013 for existing holdings, minimum surface requirements for different categories of pigs have been set up. The Commission is also expected to tighten the rules on animal welfare during transportation.

Countries increasingly are using conversion programmes to protect a wide range of resources. he 2002 Farm Act of the **United States**, under the Environmental Quality Incentives Program (EQIP) provides technical assistance, cost-share payments and incentive payment to assist crop and livestock producers with environmental and conservation improvement on the farm. Sixty percent of annual programme funding of US$ 1.3 billion is targeted at livestock producers for the construction of animal waste management facilities.

Domestic Marketing and Consumption Policies

During the review period, many countries, including developing countries, have instituted measures related to both meat quality and traceability with the aim of ensuring food safety/quality of meat products. New laws and standards were established with **Poland** implementing a law to safeguard against the recurrence of Classical Swine Fever, while **China** issued National Standards for poultry products and the **Republic of South Africa** introduced a Meat Safety Act. The **United States**, in January 2002, allocated an additional US$ 15 million for increased meat inspection activities. **Indonesia** and **Hong Kong SAR** set new standards for veterinary drug usage and maximum residue limits. In June 2002, the **Japanese** government decreed the establishment of a Food Safety Commission.

Major advances were made by **Australia**, **New Zealand**, **Namibia**, and the **Czech Republic** in the establishment of system of identification and certification of cattle. In early 2002, the **Brazilian** Government created the Brazilian System of Identification and Certification of Bovine and Buffalo Origin. The cost, per animal, is estimated at US$ 2.5, which implies total costs of approximately US$ 400 million to implement by 2007. The Australian Government also announced a substantial upgrading of quarantine protection against animal disease risks, with US$ 593 million provided over the next 5 years. The 2002 Farm Act in the **United States** requires retailers to inform consumers of the country of origin for selected commodities which include muscle cuts of beef, lamb, and pork. A US retailer may only use a country of origin label if the product is from an animal that was exclusively born, raised, and slaughtered in that country. Voluntary labelling is allowed until September 30, 2004 at which time labelling will become mandatory. Meanwhile, in other countries, such as **Japan**, the **EU** and the **Czech Republic**, among others, compulsory labelling was strengthened or introduced.

There have been some changes in the statutory boards regulating meat policies. In **Australia**, effective July 2001, the Australian Pork Corporation, the Pig Research and Development Corporation and the Pork Council of Australia were abolished and replaced with a new producer-owned corporation, Australian Pork Limited. The **Canadian** government announced in late 2001 the creation of the Canadian Beef Cattle Research, Market Development and Promotion Agency which will be funded through the proceeds of a national producer levy on beef cattle, including beef and cattle imports.

International Trade Policies

Import Measures

Unlike the 1998-2000 period when countries revealed their tendency to impose market restrictions as a means of protecting producers in the context of low prices, the 2001-2002 period was characterised by a proliferation of import bans and stricter border sanitary requirements in response to the recurring incidence of animal diseases. Additionally, non-disease related food safety issues, such as microbiological contamination of meat or use of antibiotics in feed, led to numerous import bans. The consequential price shocks and trade diversion led some countries to re-evaluate the means of protecting their markets against low-priced imported products, ranging from import licenses to packaging requirements.

Meat markets in 2001 and 2002 witnessed some cases of increased market access. An expansion of tariff concessions and quota levels was reported in the **EU** through the granting of a Hilton (high-quality beef) quota to Paraguay while a one-year provisional additional 10,000 tonne quota was allocated to Argentina. In addition, duty-free access to **Eastern European** pigmeat and poultry was expanded to include beef (approximately 145,000 tonnes) under the Double-Zero Agreement. The Double-Zero Agreement allows for increased bilateral trade flows between the EU and eastern European countries, especially for pork products, through higher quotas and zero in-quota tariffs, and eliminates the use of export subsidies between participating countries. **Romania** reduced duties on pigmeat and beef from 40-45 to 20 percent in August 2001 and these levels were subsequently

extended through 2002. Similarly, **Israel** has progressively reduced its import tariffs for imported cattle for slaughter, down from US$ 1.6/kilo in 1999 to an estimated US$ 1/kilo in 2003.

The **United States**, in November 2001, complied with a WTO ruling and removed the tariff-rate quotas (TRQs) on lamb imports. The beef market in the **Republic of Korea** was liberalised in early 2001, quotas replacing tariffs, and the Government eliminated a decade-old requirement for separate storage and sale of imported beef. Regulatory changes were applied as of September 10, 2001 which removed the requirement for separate distribution systems for imported and domestic beef. Meanwhile, the Government changed its "rule of origin" definition on imported cattle.

Upon WTO accession, in addition to wide-ranging tariff reduction and further relaxation of import controls, the Taiwan Province of China transformed the pre-accession global quotas for pork bellies, pork offal, and poultry into TRQ's. Poultry quotas of 19 613 tonnes were opened on a "first come, first served" basis; this quota volume will expand to 32 577 tonnes in 2003 and 45 990 tonnes in 2004. After 2004, quota restrictions on pork meat, pork offal and poultry will end and tariffs of 12.5 percent, 15 percent, and 20 percent will be applied respectively to these products. Its WTO agreements permit the imposition of Special Safeguard (SSG) tariffs on chicken legs/wings and poultry offal. Meanwhile, imports of beef offals were fully liberalized and tariffs for all qualities of beef were lowered with the intent of equalising tariffs for different types of beef by 2004.

China's accession to the WTO on January 1, 2002 was accompanied by tariff reductions for all meats. Particularly significant was the drop in the tariff for beef muscle products, from 39 percent to 25.2 percent in 2002. At the same time, pork, pork offal and beef offal tariffs all fell from 20 to 15.2 percent in 2002 and sheep and goat meat tariffs dropped from a range of 22-23 percent to 16.4-18.2 percent, depending on the cut. In addition, the Government lowered 2002 VAT rates for pork, beef, and sheepmeat from 17 percent to 13 percent. The tariff rate on frozen chicken was scheduled to drop from 20 to 10 percent. The tariff on chicken products is assessed on a per kilogram basis with tariffs dropping from 1.2-2.7 rmb/kg (US cents 15-33/kg) to 1.0-1.5 rmb/kg (US cents 12-18/kg), depending on the product. While the tariff rate on some products, such as broiler cuts dropped by 44 percent, that on frozen whole broiler was kept the same. While tariffs are reported down between 17-50 percent depending on the product, increased regulations, related to the timely issuance of import inspection permits, may be limiting trade flows.

Over the period, some countries resorted to increased protection of domestic markets through higher tariffs, the imposition of safeguard measures, and counterveiling duties. In 2001, **Argentina** raised import tariffs on ham products originating from countries outside the Mercosur trading area. In addition, in 2000, anti-dumping duties were imposed on chicken imports from Brazil. In response, **Brazil** requested consultations with Argentina under the auspices of the WTO in November 2001; lack of a mutually agreed upon solution led Brazil to request, in April 2002, that a WTO Dispute Panel review the legality of the establishment of minimum import prices for Brazilian poultry exports to Argentina. In July 2002, the **Japanese** Government announced the implementation, in response to a sharp rise in imports of pork and pork products, of safeguard duties which raise the minimum import prices by 20 percent. This policy was effective August 2002 to the end of March 2003.

A Special Safeguard Measures Act was finalized in the **Philippines** for livestock and poultry imports and in September 2002 price-based special safeguard duties were imposed on imports of chicken meat and parts. In **Jamaica**, poultry tariffs increased from 60 percent to 100 percent. Meanwhile, the **Republic of South Africa** made permanent in late 2001 anti-dumping duties on chicken parts from the United States, as well as raising the minimum tariff on imported beef and sheepmeat. Tariffs are now the greater of 40 percent of the value of the products, or Rand 2.00/kg (US$ 192/tonne) and Rand 2.4/kg (US$ 230/tonne) respectively for ovine and beef products. **Nigeria** increased tariff rates for certain livestock products, such as turkey parts and dressed chicken, from 25 percent to 75 percent. The Double-Zero Agreement between certain countries of **Eastern Europe** and the **EU** leading to lower tariffs and increased market access, was extended in 2002 to beef and sheepmeat.

Countries have increasingly restricted import access for food safety or other consumer concerns. **Indonesia** implemented a ban on chicken part imports in September 2000, because of Halal slaughter concerns; meanwhile a 10 percent value-added tax was placed on all imported products. Citing violations of a 1996 poultry protocol, the **Russian Federation** banned imports of chicken from the United States in March 2002. Other **CIS countries,** as well as **Saudi Arabia**, also imposed bans on imported poultry, citing concerns about the use of antibiotics and/or hormones in feed. **Romania,** in 2001, passed regulations forbidding the use of artificial growth promoters by domestic livestock breeders. They also are enforcing measure for comprehensive surveillance and examination for residues in meat and products of animal origin. Both of these restrictions limit access for imported product.

Export Measures

Rising meat prices in 2001 initially led to general reduction in the use of export subsidies while regional agreements, such as the Double-Zero Agreement between the EU and candidate countries for accession, fostered a reduction in inter-regional use of export subsidies for pig and poultry meat. In 2000/2001 (July-June), **EU** subsidies on meat dropped nearly 50 percent from the previous year, (Table VI-1) with aggregate shipments of subsidised products reaching only 60 percent of WTO export subsidy commitment levels. For 2001/02, EU subsidised exports of beef, pigmeat, and poultry are expected to cover 59 percent, 17 percent and 80 percent, respectively, of their WTO allowed volume ceiling. In late 2001, relatively high pigmeat prices in the EU led to a reduction in pigmeat export refunds on all processed pork products by 5 percent and a further reduction of 10 percent in early 2002. However, in late 2001, in an attempt to provide more market balance to the disease-disrupted EU beef industry, export refunds for beef from other than male bovine animals were raised by more than 40 percent. Meanwhile, heightened competition in international poultry markets in 2002 led to a doubling of the EU whole chicken subsidies in 2002, with restitutions for The Russian Federation reaching Euro 590/tonne (US$ 590) in September and restitutions to the Middle East reaching Euro 440/tonne; in addition, in October 2002 subsidies of Euro 50/tonne were re-introduced for cut-up chicken.

Table IV-1: Export subsidy commitment levels and use by product group

Commodity	Beef			Pigmeat			Poultry		
	commitment	notified	%	Commitment	notified	%	Commitment	notified	%
1995	1 633	1 020	62	679	381	56	854	443	52
1996	1 560	1 178	76	654	296	45	913	401	44
1997	1 484	962	65	631	225	36	722	362	50
1998	1 411	729	52	606	748	123	682	370	54
1999	1 237	775	63	585	715	122	666	336	50
2000	966	495	51	461	130	28	336	263	78
2001 [1/]	822	485	59	444	75	17	286	230	80

Source: WTO
[1/] Estimates

Shipments of subsidized poultry meat from the **United States** in the 2000/2001 year (October-September) under the Export Enhancement Programme (EEP) reached 11 524 tonnes, only one half of the total allocation but up 50 percent from the previous year. The EEP was not announced in 2001/02, thus precluding any subsidized exports. Meanwhile, expenditures on meat under the US Export Credit Guarantee Programme (GSM 102/103) and the Supply Credit Guarantee Programme (SCGP) declined 10 percent in 2000/2001 from the previous year. While expenditures to promote meat exports under GSM-102/103 programmes declined by nearly one-third to US$ 124 million, support for meat exports under the SCGP nearly doubled to US$ 53 million, covering 13 countries, and accounting for nearly 25 percent of total expenditures under this programme.

The **Hungarian** Government, after suspending export subsidies in July 2000, temporarily reinstated them in March 2001 for countries other than the EU, with the intention that those for pigmeat would be eliminated in 2002. However, under an aid package announced in August 2002, a total of US$ 3.2 million is allocated to subsidise the export of some 180,000 live pigs (or 20 370 tonnes of pigmeat). The support is approximately US$ 0.11/kg on exports to any country excluding the EU, Czech Republic and the Slovak Republic. An additional US$ 8.8 million will be paid by the Government and the Hungarian Pork Council to boost premium quality exports and cover the direct cost of export operations. In the **Czech Republic**, expenditures on export subsidies for pork products/live pigs were eliminated in 2001; however, those for slaughter cattle jumped dramatically in both 2001 and 2002. In the **Slovak Republic** both export subsidies and direct payments to beef processors increased in 2001. The Agricultural Market Agency (AMA) in **Poland** is responsible for the allocation of export subsidies worth approximately US$ 40 million for pork exports in 2002; these are the first such export subsidies since 1999 in the aftermath of the collapse of the Russian Federation's market.

Viet Nam, as of June 2001, issued a decree authorising export subsidies for pork, amounting to 2.6 percent and 5.9 percent for every US$ 1 value of export earnings from frozen suckling piglets and pork, respectively. Transport subsidies for poultry products destined for export have been proposed by **India** in the Five Year Export/Import Policy announced in late March 2002. In **Australia**, in an attempt to avoid the activation of the US beef quota, the Government initiated management controls on the export of beef to the United States via quotas to exporters based on historical shipments.

In a move to rebuild its cattle herd and control domestic prices, **Colombia** prohibited the export of live bovine animals for a six-month period starting July 2001. Meanwhile, in a move which will facilitate meat product movement to Hong Kong SAR, the **Chinese** Government, in January 2002, phased out export quotas on all meats to Hong Kong SAR, while eliminating the requirement that exporters negotiate product movement through one specific export agent.

Export promotion programmes are being expanded and several countries are looking for strategic alliances to harmonise regional policies. In **Brazil**, in addition to allocations of US$ 2.1 million for the market promotion programme for Brazilian beef in 2001, a promotion programme for pork exports, valued at US$ 3 million, was initiated. Pork producers, traders and associations in **Mexico** are jointly participating in a programme to promote pork and swine exports. In **Central America**, under the auspices of the Central American Farm Council, initiatives are being taken to harmonise regional meat trade policies.

Bilateral and Multilateral Trading Arrangements

New Zealand and the **Islamic Republic of Iran** signed a memorandum of understanding in October 2001 which simplifies access for NZ imports of meat, dairy products, fish, wool, and hides and skins. In **West Africa,** the harmonisation of tariffs and value-added taxes under the West African Economic and Monetary Union (UEMOA) is changing the relative competitiveness of individual countries' livestock industries. Within this context, in **Côte d'Ivoire**, the imposition of a 20-percent VAT on previously exempt feed ingredients led to market disruptions, necessitating suspension of the change. **Thailand**, in early 2002, agreed to allow unlimited imports of soymeal from ASEAN countries at a tariff rate of 5 percent, compared to the 6 percent, plus a special surcharge of 2 519 baht/tonne (US$ 60/tonne), paid by other suppliers. Meanwhile, negotiations on veterinary agreements between the **EU** and accession countries are on-going. These agreements, which only three countries - Slovenia, Hungary and Estonia - have finalised, focus on the adoption, by all accession countries, of EU legislation of food safety and animal health.

Conclusions and Issues

The general trend towards reduced market intervention in livestock and meat markets which characterised the 1995-1998 period has been increasingly disrupted, first by low meat prices over the 1998-2000 period and most recently by animal disease outbreaks and food safety concerns. Market

intervention, in the context of recent market shocks, has increased, despite the general tendency to replace price supports with less production-distorting income payments.

Repeated occurrence of animal diseases and meat-related health scares which dominated the meat economies around the world in the 2000-2002 period resulted in escalating support to disease-afflicted industries in major meat exporting countries. Policy responses by importing countries focused on restricting market access to products from these countries with the goals of protecting human and animal health.

There has been increasing resort to tariff hikes, counterveiling duties/antidumping and special safeguard provisions, with the goal of stabilising domestic markets. Although the Uruguay Round Agreement on Agriculture (URA) and regional trading arrangements have led, over the past few years, to increases in tariff quotas for meat products and a noticeable reduction in the volume of subsidized exports, several countries have heightened their reliance on trade policy measures to restrict general market access.

V. MILK AND MILK PRODUCT POLICY DEVELOPMENTS

The role of government policy in dairy markets remained high during the review period, but has diminished in several countries. The substantial fall of international prices for dairy products from mid-2001 to late 2002 led to several policy interventions by both importing and exporting countries. For countries preparing to join the European Union, adjustments in their national policies to bring them into line with those of the Union was a major element in dairy policy change over the period. Improving quality standards on-farm was another issue where policy changes were introduced in a number of countries. Such changes included both incentives to raise the hygienic quality of the milk, as well as regulations governing the treatment and care of livestock and the environment.

Production Policies

In anticipation of accession to the European Union, a number of applicant countries introduced production quotas similar to those prevailing in the EU. For example, **Poland's** Parliament approved new legislation in January 2002 which mirrors elements of the EU's dairy regime and contains provision for the gradual implementation of similar elements such as a milk quota system, intervention purchases for butter and skimmed milk powder, subsidies for private storage and a subsidy for school milk. In other countries expecting to join the EU, price intervention instruments were adjusted to bring them into line with those prevailing in the Union. For example, in the **Slovak Republic,** at the beginning of 2001, the payment system for milk produced under the country's quota system was changed from one based on fixed prices to one in which minimum prices were specified.

A number of countries in Eastern and Central Europe introduced incentive payments linked to improved milk quality over the period. **Romania's** Government announced that it would increase the milk quality payments to dairy farmers by 20 percent during the period October 2002 to April 2003. The previous rate for top quality milk was 1 800 ROL/litre (US$ 0.06/litre). The subsidy is paid to producers of both cow and buffalo milk. In May 2002, **Poland's** Government introduced a quality incentive of 7 PLZ (US$ 1.8) per 100 litres for farmers supplying the highest quality of milk (of a quality fully conforming to EU standards). In January 2002, **Hungary** raised recommended purchase prices for highest quality milk. In addition, a HUF 5.20/litre (US$ 0.02/litre) producer payment was granted for premium quality milk. In **Bulgaria**, the State Agriculture Fund will double the subsidies to milk producers in 2003. Subsidies currently stand at 0.04 BGN (US$ 0.02) per litre of *extra* quality milk and 0.03 BGN per litre of first quality milk and total 2.3 million BGN (US$ 1.17 million). From 2003, sheep milk will also be subsidised. As regards improvements in milk quality amongst European Union members, **Belgium** introduced legislation in November 2000 to intensify checks on the presence of antibiotics in milk. As a result, during 2001, the number of cases of milk showing the presence of antibiotics dropped by two-thirds. In 2002, the **Netherlands** also approved legislation setting standards for on-farm milk quality.

Raising the quality of milk was also an important policy issue in other countries. For example, in September 2002, the **Brazilian** Government published new technical specifications for the production, identification and quality of different categories of milk. The new regulations require that all milk should be cooled on-farm. In addition, the current lowest quality of milk "class C" will be abolished in 2005 in most of the country. In support of this programme, the Government has introduced a fund "Pro-Leite", valued at BRL 200 million (US$ 63.4 million), aimed at increasing milk quality and on-farm productivity. Also in South America, in **Venezuela**, the Government agreed to raise the minimum farm-gate price for milk from VEB 270/litre (US$ 0.2/litre) to VEB 345/litre in August 2002. It was anticipated that this price increase would be passed on to the consumer. The move was in

response to farmers finding that production was uneconomic at the previously specified minimum prices.

Despite the **European Union** having a substantial surplus of milk, and using policy measures such as subsidised domestic disposal, export subsidies, and intervention stocks to regulate the market, additional milk quotas were introduced in April 2000 and 2001 for **Greece**, the **Ireland**, **Italy**, **Northern Ireland** and **Spain**, as a consequence of the *Agenda 2000 Agreement*. Together, the two new allocations of quota represent 1.4 million tons, or an increase of slightly more than 1 percent in the total EU milk quota.

Elsewhere in Europe, in **Norway** in 2001, the Norwegian Agricultural Authority, the sole authorised purchaser of milk production quota rights, reduced national milk production by 1 percent, or 20 million litres. This move was in response to lower domestic consumption and WTO commitments on the maximum level for export subsidies for dairy products. In **Switzerland**, milk quotas were first raised then reduced over the period. In May 2001, the Government increased the national milk quota by 3 percent to 3.3 million tonnes. Subsequently, in 2002, the quota was increased by a further 1.5 percent. The consequent increase in milk supplies led to a sharp fall in domestic prices. As a result, in November 2002, producers agreed to voluntarily reduce milk output by 2 percent. From 2003 onwards, quota levels will be set by the Swiss milk producers association, not by Government: a further fall in quota, perhaps by 4 or 5 percent, is anticipated for 2003.

The Government of the **Republic of Korea** also sought to combat over-production of milk by the introduction in 2002 of a policy to slaughter 10 percent of the nation's dairy herd (30 000 cattle). In **Israel** the national production quota was reduced in 2002, from 1.20 to 1.17 billion litres. This was in line with a four-year process of dairy reform begun in 1999, which aimed at reducing the number of small-scale dairy farms and encouraging farmers to invest in more efficient, larger-scale production. The objective of the reform is to make the Israeli dairy sector more competitive, in the light of increased imports resulting from Uruguay Round Agreement commitments. As part of the process, the annual target price for milk is to be reduced by four percent per year for the period of the reforms. In addition, in order to encourage a more regular supply of milk throughout the year, producers are paid a bonus, equivalent to US$ 0.10/litre, if they shift their in-quota production from winter to summer periods; if production moves in the opposite direction, producers must pay a penalty of US$ 0.10/litre.

In **China**, the Government is seeking to stimulate milk production, with the Ministry of Agriculture's production plan aiming to raise per capita consumption of milk and milk products to 10 kg by the end of 2005; it is currently 7 kg/per person/year. Subsequently, it is planned to raise per capita milk consumption to 16 kg by the end of 2010 and to 23 kg by the end of 2015. In support of the plan, the Government has initiated a programme to improve herd genetics via embryo implantation. In addition, in July 2002, a CNY 400 million (US$ 48 million) dairy development programme was initiated.

In **Canada**, during the period 2000 to 2002, the Market Sharing Quota (MSQ) for industrial milk was adjusted a number of times in the light of domestic market conditions. For example, in May 2002 it was decreased by one percent and subsequently in November 2002 it was increased by 1.5 percent to stand at 46.31 million hectolitres. In February 2002, the target price for industrial milk was set at CAD 58.87 (US$ 37.09) per hectolitre, an increase of CAD 1.01 (US$ 0.64) per hectolitre over the previous year: support prices for skimmed milk powder and butter were raised accordingly. Also in Canada, a Federal dairy subsidy paid to producers was eliminated in January 2002, following a five-year period of phased reduction. In May 2002, the **United States** adopted new farm legislation, which is scheduled to run for a period of six years. Under the new legislation, the United States' previous milk price support programme was extended until 2007 and continued to be set at US$ 9.90 per hundred pounds (US$ 21.83 per 100 kg) of 3.7 percent fat milk. Under the same legislation, a system of direct support payments has been introduced. The system is based on the difference between the prevailing Boston area Class I milk price and a reference price of US$ 16.94 per hundred pounds of milk. Should the Boston price be less than the reference price in any month, producers will receive 45 percent of the

difference. Payments to individual operations are capped at 2.4 million pounds (1.1 million kg) of milk marketed per year. This amount would be equivalent to the average annual production of a herd of 130 to 140 dairy cows. The measure runs from December 2001 to September 2005. In 2002, as domestic prices for milk in the United States were at historically low levels, payments to some farms under this scheme were estimated to have been as much as US$ 25,000 to US$ 30,000. For the 2003 financial year, total payments to farmers under this scheme could exceed US$ 2 billion. Also in the United States, a number of dairy producers received compensation as a result of milk production being affected by drought during 2001 and 2002. Qualifying producers received a fixed payment of US$ 31.50 per dairy cow. Up to the end of November 2002, US$ 100 million had been paid to dairy producers under this programme.

In order to facilitate easier movement of milk within the country and allow milk production to develop more flexibly, **Japan** replaced a system of guaranteed prices for milk and related price support measures with a system of direct payments in April 2001. Producers will in future receive a set annual amount of money based on the previous year's payment and changes in the cost of production. In order to protect producers from low prices, an income stabilisation fund was established (financed by producers and the Government in the ratio of 1:3) to compensate farmers, should average manufacturing milk prices fall below the average for the previous three years. Japan has operated a voluntary quota system for milk production since 1979. Under the 2001 reforms, the number of geographical units to which milk quota is allocated was reduced from 47 to 10.

Animal welfare issues were an important element of policy changes during the period under consideration. For example, in **New Zealand**, the Animal Welfare Act became effective at the beginning of 2000. The Act sets obligations covering animals' physical, health and behavioural needs. Elsewhere, in **Belgium**, a general quality assurance scheme was introduced for the dairy sector in July 2000. The scheme pays particular attention to production conditions including animal health and welfare, the environment and methods of milking. By the end of 2001, over 60 percent of milk delivered to dairies was covered by this scheme. As part of a wide reform of agricultural support introduced in April 2001, **Japan** established a system of direct payments to dairy farmers linked to environmental conservation measures.

In **Indonesia**, the Government regularly imports improved breeding stock which are supplied to artificial insemination and embryo transfer centres located throughout the country. In 2000 and 2001, the number of animals imported (both meat and dairy breeds) were respectively 95 and 1 711 head. In addition, the Government provides a number of reduced cost services to dairy farmers, including credit programmes, subsidised medicines and drugs and an extension service. In **Burkina Faso**, the Government adopted an action plan for the livestock sector in October 2000. Included in the plan are: government involvement in the distribution of veterinary products, a programme to facilitate access to fodder and feedstuffs, an artificial insemination programme and a scheme to introduce tropical milking breeds, such as Azawack and Gir. In addition, the Government encouraged the formation of milk producers organisations, built 30 mini dairies and provided dairy processing training for 250 technicians. In the **Côte d'Ivoire**, one of the Government's priorities is the development of milk production. Interventions include assistance aimed at improving milk collection and distribution, genetic improvements and the development of intensive production systems In **Thailand**, government assistance is provided to improve animal genetics and health, and farm management. In **Bolivia**, the Government began a project to develop milk production in the Altiplano region. The project is financed by Danish aid and has a budget of US$ 4.4 million. A major focus of the project is the genetic improvement of the regional dairy herd.

Consumption and Marketing Policies

In the period under review, the most substantial change in domestic marketing policy occurred in **Australia.** There, policy reform implemented in July 2000 simultaneously removed support measures, a domestic market support scheme and fresh milk market regulations, which regulated domestic milk prices. Subsequently, prices have been determined by market forces. In conjunction with this action, an AUD 1.78 billion (US$ 1.06 billion) package of assistance was introduced via the Dairy Industry Adjustment Act 2000 to allow farmers to choose between adjusting to lower market returns or to leave the industry. The assistance package is funded by a levy on domestic sales of fresh drinking milk of AUD 0.11/litre (US$ 0.07/litre) and will remain in place for a period of eight years. In 2001, the Government announced a Supplementary Adjustment Programme with the objective of assisting farmers whose dairy operations were badly affected by the reforms of 2000 – mainly those who were highly dependent on sales of drinking milk to the domestic market. The programme is funded by the dairy adjustment programme levy and allows for the disbursement of funds up to a maximum of AUD 120 million (US$ 67 million). Also in Australia, the Competition and Consumer Commission granted an interim ruling in 2001 allowing dairy farmers to negotiate collectively with milk processors on the supply and pricing of raw milk. The ruling is set to expire on 1 July 2005.

In the **United States**, in May 2001 the Government reduced the support purchase price of skimmed milk powder by 10 percent, to US$ 1 984 per ton, and increased the support price for butter by 30 percent to US$ 1 844 per ton. Subsequently, in November 2002, prices for these products were further adjusted by increasing the support purchase price for butter to US$ 2 314 per ton and decreasing that for skimmed milk powder to US$ 1 763 per ton. These adjustments were felt to be necessary to bring support prices more in line with prevailing domestic prices, as the previously relatively high price for skimmed milk powder had resulted in a substantial build up of government stocks involving increased export subsidies. In February 2001 and 2002, the **Canadian** Dairy Commission raised the support prices for skimmed milk powder and butter. For 2002, stemming from a hike in the target price for industrial milk, the support price for skimmed milk powder was raised from CAD 4.84 to CAD 4.99 (US$ 3.14) per kg and that for butter from CAD 5.73 to CAD 5.90 (US$ 3.72) per kg. In **Poland**, in July 2002, the Government announced that, in order to support the domestic market, it would make intervention purchases of 10 000 tons of skimmed milk powder and finance a storage programme for 3 000 tons of butter, 40 000 tons of skimmed milk powder and 4 500 tons of cheese. In **Switzerland**, for the marketing year 2002/03 (May-April) the amount of government funds available for market price support for dairy products was reduced by 10 percent to CHF 609 million (US$ 411 million), this followed a reduction of 7 percent in the previous marketing year. Most of the reduction concerned price support for butter; however, support to the domestic price of fresh cheese and cheese export subsidies was also diminished. However, in August 2002, the Government decided to grant exceptional aid, totalling CHF 68 million (US$ 46 million), to a market support fund with the objective of reducing cheese and butter stocks and financing export subsidies for milk powder. In October 2002, it was agreed that Swiss milk producers should increase their contribution to the market support fund to CHF 0.02/kg.

In **Colombia**, the Ministry of Health considered recommendations by the dairy industry in 2002 to ban the use of milk powder for reconstitution as drinking milk. Current regulations allow drinking milk to be composed of up to 30 percent of reconstituted milk. In **Thailand**, the Government introduced legislation requiring detailed labelling, including addition of milk powder, for drinking milk. In October 2002, **Mexico's** Secretariat of Health (SAA) published specifications for a range of dairy products (butter, cream, sweetened condensed milk, fermented and acidified milks, and sweets made from milk) covering chemical and microbiological tolerance levels, allowed additives, labelling, packaging, storage and handling. The standards applied to both domestic and imported products.

In the **United Kingdom**, the Milk Development Council was given approval by the Government to restore a 0.06 pence (US$ 0.09) per litre milk promotion levy, in October 2002. The funds will be combined with monies for the European Union and UK milk processors to provide a fund of GBP 3 million (US$ 4.7 million) for financing generic marketing campaigns for milk and milk products.

There were a number of developments in **school milk programmes and policies** during the period under consideration (see box below). These include the establishment of new programmes, often in countries where they did previously exist, and the adjustment and refocusing of existing programmes to make them more effective. By creating demand, school milk programmes may benefit dairy development, particularly in countries with relatively undeveloped dairy industries.

Other Related Domestic Policies

The two main cooperatives in **New Zealand** (Kiwi and the New Zealand Dairy Group – which jointly accounted for 96 percent of national milk production) merged in 2001 to form a new company: Fonterra. Associated with this development, the New Zealand Government passed the Dairy Restructuring Act in September 2001. Under the Act, the New Zealand Dairy Board became a subsidiary of Fonterra and the Board's monopoly export rights were removed. However, Fonterra retains licensing and tariff rate quota rights in some overseas markets for a period of six years. After this, these rights will be phased out over a further four-year period.

In **India** in February 2002, the Government removed restrictions on private companies establishing new dairy processing plants, an area that had been regulated since 1992. At the same time, the delineation of milk-shed supply areas, which gave preferential access to milk supplies to co-operatives, was abolished. Under the same legislation, the National Dairy Development Board's tax-free status was revoked.

After many years without government intervention, **Argentina's** Secretariat for Agriculture announced in 2002 that it intended to create a Programme for National Dairy Policy. The goal of the programme will be to provide a forum for discussing issues of importance to the dairy sector. Current issues identified for discussion include: domestic taxes, market transparency and support to international trade negotiations. The programme will also work towards establishing medium and long-term policy aims. The idea of establishing a national dairy promotion board is also being considered.

In **Australia**, Federal legislation was passed in 2002 to enable the examination of a proposal put forward by the dairy industry to restructure its support organisations. Under the Australian Dairy Industry Council's proposal, a single, corporate organisation, to be known as Dairy Australia, would replace the current two statutory authorities: the Australian Dairy Corporation and the Dairy Research and Development Corporation.

In **Uruguay**, as a result of general economic difficulties in 2002 and their effects on the milk producers, the Government introduced a US$ 80 million scheme to provide funds to the dairy sector. The focus of the programme is on providing production incentives, improving milk quality and financing stocks of milk powder. In August 2002, **Lithuania's** government granted 11 million LTL (US$ 3.12 million) of financial support to dairy processors. The funds were allocated to try and stabilise the Lithuanian dairy market, which saw milk purchasing prices drop by almost 20 percent during the first half of 2002. In **Chile**, in 2002, there was a court decision that processors must give at least 6 months' notice if they wish to stop taking a producer's milk.

BOX V-1 SCHOOL MILK: SUMMARY OF RECENT DEVELOPMENTS

In **Bangladesh,** through the sale of donated surplus commodities from the United States Department of Agriculture (USDA), the US-based co-operative Land O'Lakes began a school milk programme in 2002. Under the same development assistance, **Indonesia** also began a school milk programme in 2002. An objective of the programme is to work with community-based organizations and local government to create a sustainable school milk system based on national resources. In this regard, in October 2002, responsibility for elements of the programme was assumed by local government.

In June 2001, the Dairy Farmers of Ontario (DFO), **Canada,** hosted the 1st North American school milk conference, with the support of **FAO**. Hosting the conference was an element in the success of DFO in obtaining a CAD 2 million (US$ 1.3 million) grant from the provincial government to develop school milk programmes. In **China**, the school milk programme, which is co-ordinated, but not funded, by the Government, began in 1999 via five demonstration cities (Shanghai, Shenyang, Beijing, Guangzhou and Tianjin). Subsequently, in November 2000, a national programme, supported by seven government ministries, was launched. As a consequence, between May 2001 and May 2002, the number of demonstration cities rose from 5 to 29 and the number of dairies licensed to supply the programme rose from 7 to 47. In **Guyana,** in 2002, FAO provided assistance to set up a small-scale milk processing plant owned by farmers. The project has a pilot nursery school milk nutrition component funded by a United States Agency for International Development (USAID)/Partners of the Americas programme of assistance that provides 250 children with milk.

In **Germany**, following a reduction in the European Union subsidy to school milk in December 2000, local government has provided additional funds to make up the shortfall – as was the case in several other countries in the EU, including **Austria**, **Finland**, **Sweden**, and the **United Kingdom**. In anticipation of membership to the European Union, a number of candidate countries established school milk programmes as, once membership is granted, schemes similar to the one operating within the EU will immediately qualify for subsidies from the Union. For example, in 2001, the Government of the **Slovak Republic** introduced a SKK 4 million (US$ 85 520) subsidy for school milk (0.25 litre/child/day). The subsidy was paid to dairies delivering milk to schools and took the form of reimbursement for pre-agreed lower sale prices. Partially government supported school milk programmes were also established in **Poland** and the **Czech Republic** and is planned for **Slovenia**, in 2003.

In January 2001, the **Islamic Republic of Iran's** Government initiated a two-month pilot school milk programme in selected provinces. After the success of the pilot scheme, the Government decided to implement a country-wide programme which began in November 2001. The programme concentrates on low income provinces of the country. The Government increased the number of children benefiting from school milk to more than 2 million when the second round of the programme began in September 2002. In 2002, the Government of **Jordan** initiated a programme to provide milk and other food to the poorest sections of the country, mainly in the South. The programme represents an attempt to reinitiate the national school feeding programme which began in the 1970's but was suspended in 2001 due to a lack of funds. Non-government organisations and the private sector are trying to assist the Government to expand the revitalised school feeding programme through seeking national and international sponsorship and grants. By this means, it is hoped to double the number of children covered during the 2002/2003 scholastic year. In **Oman,** the country's main milk recombining dairy launched a promotion programme for school milk which will run during the school year from August 2002 to June 2003. While the programme is supported by the Ministries of Health and Education, it is not subsidized by the Government.

International Trade Policies

A fall in international prices which began in mid-2001 and persisted until the last months of 2002, led to a number of trade-related policy measures. For importing countries, these consisted of raising tariffs and introducing other barriers to trade. For a number of exporting countries, low international prices meant that increases in export subsidies were required in order to allow participation in the external markets.

Import Measures

In December 2000, **Brazil** increased its common external tariff for imports of dairy products from non-Mercosur members by 2.5 percent. For the most commonly traded products, milk powder and cheese, this meant that the tariff was raised to 17.5 percent. In June 2001, the Government subsequently applied a 27 percent import tariff on all imports of milk powder and certain types of cheese, including products originating in Mercosur countries. Furthermore, following a ruling of the Brazilian Foreign Trade Board (CAMEX) in 2002 that some countries had been guilty of dumping milk powder on the Brazilian market, additional rates of duty on milk powder ranging between 3.9 and 16.9 percent were applied to specified companies in New Zealand and the EU. The duties will remain in place for a period of five years. Argentina and Uruguay, which had also been cited in the anti-dumping case, negotiated a minimum import price and so were not subject to any additional duties. Subsequently, in August 2002, Brazil included whey powder in the list of products excluded from preferential access for Mercosur members. Consequently, all exporters were required to pay both the Mercosur common external tax of 15.5 percent and the 27 percent import tariff. In **Thailand**, in July 2000, the Government raised the tariff on whole milk powder imports from 5 to 18 percent. Under the WTO, Thailand has a tariff rate quota of 55 000 tons per year for skimmed milk powder, with an in-quota tariff of 5 percent. In 2001, an additional quota of 10 000 tons was granted, in order to meet the requirements of domestic processors. In mid-2002, a request for additional quota was withheld because of adequate domestic supplies of milk.

For the period January 2001 to July 2002, the Government of the Russian Federation introduced new import tariff rates on many items, including dairy products. For example, tariffs on milk powder and yogurt rose from 10 percent to 15 percent, while the tariff for butter fell from 20 percent to 15 percent. Subsequently, as a result of a sharp rise in butter imports, the authorities applied a special protective duty of 20 percent to this product, with a minimum of Euro 0.29 (US$ 0.28) per kg, effective for the period from 24 September to 31 December 2002. In **Colombia**, the Government lowered the international marker prices for milk during 2002. This was accompanied by an increase in the variable level of import duty from 22 percent to 40 percent. The move stemmed from a build-up of stocks of nationally produced milk powder. **Kenya's** Government increased tariffs on imported dairy products from 35 percent to 60 percent in March 2001. The move was in reaction to excess supplies of domestic milk.

On **China's** accession to the WTO in December 2001, tariffs on a number of dairy products were reduced. For example, the tariff on milk powder, which accounts for around 50 percent of China's imports of dairy products, dropped from 25 percent to an average 15 percent. This, combined with low international prices, led to a substantial increase in China's imports of milk powder in 2002.

To meet domestic processors' requirements, **Mexico** announced in October 2002 that it would increase its WTO Tariff Rate Quota (TRQ) for milk powder – set at 80 000 tons/year – by 42 571 tons for 2002. For the additional quantity, an import duty of 7 percent was set, as opposed to zero duty for the standard tariff rate quota. In June 2000, **India** established a tariff rate quota for skimmed milk powder: imports up to 10 000 tons are charged a tariff of 15 percent, while any quantities above this level attract a tariff of 60 percent. Also in India, the Government's 2002 budget reduced the import duty on butter and butter oil from 40 percent to 30 percent. In 2001, India approved standards for food imports, including dairy products, whereby all imported milk products must conform to the standards specified under the Prevention of Food Adulteration Act. In addition, skimmed milk powder, whole

milk powder, condensed milk and infant milk must also conform to standards specified by the Bureau of Indian Standards. Also, all food imports into India should have at least 60 percent of their specified shelf-life remaining. During the period under review, a number of countries, for example the **Philippines** and **Brazil**, introduced more stringent measures for certifying and approving overseas dairy processors wishing to export to their markets.

Under new farm legislation approved in May 2002, the **United States** extended the National Dairy Promotion and Research Assessment (equivalent to US$ 0.15 per hundred pounds of milk, or US$ 0.33 per 100 kg of milk) to imported dairy products.

Export Measures

Following the fall in international prices from mid 2001, a number of countries raised the level of subsidies paid on exports, in order to allow their domestic processing industries to compete on the world market. In the case of the EU and the United States, where levels of export subsidies are adjusted periodically in the light of prevailing international market conditions, subsidies rose significantly (Table V-1). Towards the end of 2002, as international prices increased, the level of export subsidies in both countries fell. Elsewhere, funds for financing export subsidies are frequently allocated on an annual basis. Also here, low international prices meant that a number of countries decided to provide increased subsidies. For example, in **Hungary** new levels of contributions to the Dairy Products Council's intervention fund, which finances subsidised exports, were set at HUF 3.60/litre (US$ 0.02/litre) for both producers and processors in January 2002, representing an increase of HUF 0.60/litre over the previous year. In the **Slovak Republic**, in March 2002, the Agricultural Intervention Agency (IPA) raised export subsidies for whole milk powder from SKK 10 000/ton (US$ 208.2/ton) to SKK 26 000/ton (US$ 541.3/ton) and also increased the export subsidy for skimmed milk powder. The rise was originally intended to last three months, but was subsequently extended for a further period of three months. In **Poland**, in July 2002, the Government announced that it would guarantee export subsidies for 33 700 tons of milk powder. The **Czech** State Agricultural Intervention Fund (SZIF) announced that it would spend CSK 2.2 billion (US$ 61 million) in subsidising the export of milk and dairy products during 2002. This compared with a figure of CSK 0.9 billion in 2001, when international prices were higher. In **Colombia**, in 2002, the Government authorised an increase in producer-financed subsidies for the export of milk powder to Venezuela. The subsidy was increased to approximately US$ 500 per ton, following a fall in international prices, and was financed from the Stabilisation Fund for Milk and Meat, which is managed by the National Cattle Producers Association (FEDEGAN). However, as a result of a surge of such exports, **Venezuela** banned milk powder imports from Colombia in August 2002 – alleging that part of the trade consisted of trans-shipped product from third countries. As of October 2002, the ban was the subject of discussions between the two governments. In **Honduras**, in December 2000, the Government initiated a project, PROLAC, to encourage exports of dairy products – especially local cheeses.

In **Argentina**, following the devaluation which took place at the beginning of 2002 (one US dollar went from one peso to 3.60 pesos); the Government established a "retention tax" on all exports. Commodities in general were subject to 20 % retention tax and dairy products to a tax of 5 %. In late 2002, the dairy industry in Argentina was trying to have this tax removed, as the sector had suffered a sharp decline in output due to the unprofitability of milk production relative to alternatives.

Canada's Special Milk Class Pricing and Pooling System (SMCPP) was changed as a result of a decision of the WTO Dispute Settlement Body in 1999, upholding a claim by the United States and New Zealand that some elements of the SMCCP constituted an export subsidy as they allowed processors to purchase milk for export at a rate, determined by the Government, which was significantly below domestic levels. In response to the WTO's ruling, Canada changed its export pricing system, eliminating government involvement and encouraging producers to contact directly processors interested in supplies for export. The revised system was also challenged by the United States and New Zealand. In June 2002, a WTO compliance panel reaffirmed the judgement that the SMCCP was not in line with Canada's WTO commitments on subsidised dairy exports. Canada

appealed the judgement, but in December, 2002 the panel's decision was upheld by the Appellate Body.

In **Australia**, the *single desk* selling arrangement under which the Australian Dairy Corporation (ADC) managed sales of Australian cheese to Japan for processing and shredding was terminated in June 2002. The move was precipitated by the country's largest dairy processor indicating that it intended to withdraw from the arrangement. No legislative changes were required to implement the decision. Other elements of ADC's single desk selling arrangement – sales of skimmed milk powder and butter to Japan and cheese sales to the EU – have yet to be determined.

Table V-1: EU and USA Export Subsidies for Dairy Products (Euro-US$/Mt)

Valid From	SMP		WMP		Butter		Cheese	
	€	US$	€	US$	€	US$	€	US$
01-Jan-01	150	143	680	647	1 700	1 619	1 060	1 009
24-May-01	50	44	610	534	1 700	1 487	1 060	927
08-Jun-01	50	43	550	474	1 700	1 465	1 060	913
15-Jun-01	50	43	550	474	1 500	1 292	901	776
13-Jul-01	0	0	500	427	1 500	1 282	901	770
16-Nov-01	100	91	600	547	1 600	1 458	901	821
14-Dec-01	200	181	680	615	1 600	1 447	901	815
25-Jan-02	300	268	780	698	1 750	1 566	901	806
01-Mar-02	500	441	915	807	1 750	1 544	901	795
12-Apr-02	650	571	1 030	905	1 750	1 538	908	798
17-May-02	650	587	1 030	930	1 750	1 579	1 039	935
14-Jun-02	715	709	1 078	1 069	1 750	1 735	1 036	1 027
12-Jul-02	850	804	1 209	1 143	1 850	1 749	1 108	1 048
30-Aug-02	850	832	1 209	1 184	1 850	1 812	1 108	1 086
13-Sep-02	850	822	1 209	1 169	1 850	1 788	1 108	1 071
27-Sep-02	850	822	1 100	1 063	1 850	1 788	1 108	1 071
11-Oct-02	850	839	1 100	1 086	1 850	1 826	1 108	1 094
25-Oct-02	760	750	1 100	1 086	1 850	1 826	970	958
15-Nov-02	760	735	1 100	1 095	1 850	1 842	970	966
29-Nov-02	660	657	1 050	1 046	1 850	1 842	970	966
06-Dec-02	540	534	980	969	1 850	1 808	1 108	1 083
13-Dec-02	440	430	930	909	1 850	1 808	1 108	1 083

*Cheese = Gouda

Source: European Commission – Milk and Milk Products Management Committee

Note: Export refunds are set periodically by the European Commission, in consultation with the Milk Management Committee which is composed of the Union's member states. Dates shown represent the day from which a change in export subsidies applied for one or more products. (Conversion of Euro to US$ at exchange rate on 15th of prevailing month.)

USA:

	SMP	Cheese
	US$	US$
Jan-01	58	...
Feb-01	85	...
Mar-01	157	...
Apr-01	58	...
Nov-01	254	...
Dec-01	386	...
Jan-02	465	...
Feb-02	600	...
Mar-02	864	...
May-02	...	728
Sep-02	606	784
Nov-02	329	573

...= no allocation

Source: USDA Dairy Market News

Note: Under the Dairy Export Incentive Program (DEIP), U.S. exporters are paid export subsidies for specified dairy products (skimmed milk powder, butter and cheese) and destinations. Monthly figures represent weighted average allocations of export subsidies (only months when export subsidies were allocated are shown).

Conclusions

For the period under consideration, a number of important policy changes occurred:

- While a number of countries' dairy sectors remain highly regulated by government policy, there is a discernible movement away from direct government intervention in some countries. To cite some diverse examples, the handing over of quota regulation to the dairy farmers association in Switzerland, the removal of restrictions on new private sector investment in processing capacity in India, and the abolition of domestic prices controls on milk in Australia;

- Several countries introduced policy measures with the objective of improving quality standards on-farm. Such changes included both incentives to raise the hygienic quality of the milk, as well as regulations governing the treatment and care of livestock and the environment;

- For countries that are preparing to join the European Union, adjustments in their national policies to bring them into line with those of the Union was a major element in dairy policy change over the period;

- The substantial fall in international prices for dairy products from mid-2001 led to a number of high-cost milk producing countries increasing the level of export subsidies for dairy products. At the same time, low international prices led to some countries raising import tariffs;

- There were a number of instances where the effect of WTO commitments on national dairy policy was evident. These included: a reduction in the milk production quota in Norway in order to meet limits on export subsidies; a reduction in China's import tariffs for dairy products, following WTO membership in 2001; and the management of imports by tariff rate quotas in Mexico and Thailand;

- Within trading groups, for example Mercosur and the Andean Pact, difficulties in domestic markets and lower priced imports, led some countries, for example Brazil and Venezuela, to introduce measures limiting imports of dairy products from other member countries.

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