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## COMMITTEE ON COMMODITY PROBLEMS

## JOINT MEETING OF THE INTERGOVERNMENTAL GROUP ON OILSEEDS, OILS AND FATS (30TH SESSION) INTERGOVERNMENTAL GROUP ON GRAINS (32ND SESSION) AND INTERGOVERNMENTAL GROUP ON RICE (43RD SESSION)

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# FOLLOW-UP TO THE GUIDELINES FOR INTERNATIONAL COOPERATION IN THE OILSEEDS, OILS AND OILMEALS SECTOR IN 2006-2009

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# I. INTRODUCTION

1. The Intergovernmental Group adopted Guidelines for International Cooperation in the Oilseeds, Oils and Oilmeals Sector in 1980. The main purpose of the guidelines is to help harmonise national policies in the light of agreed objectives aimed broadly at promoting a balanced expansion of production, consumption and trade in the sector while taking due account of the interests of producers and consumers in exporting and importing countries, with special attention to sustaining the expansion of the sector in developing countries. The Group agreed to regularly review progress in achieving the objectives of the guidelines.

# II. POLICY DEVELOPMENTS[1]

2. The following document provides a review of policies implemented during 2006-2009 which includes the exceptionally high prices of 2007-08 that followed on several seasons of depressed world market prices. The policies implemented during this period reflected the efforts of governments to adjust to the pronounced changes in global market conditions, albeit within a general framework of longer term economic reform and liberalization. The Group may wish to examine in some detail the factors that made it impossible to achieve the overall objectives of stability and balanced growth in the oilseeds sector.

## A. PRODUCTION POLICIES

3. The review of production policies indicates that the oilseeds sector has not been an exception to the widespread progressive withdrawal of the public sector from direct market intervention in agriculture. During the review period there was a continuation of the longer term general tendency in developed countries to gradually substitute price support schemes with policies intended to make production more responsive to market signals. While income support measures decoupled from output (in use especially in developed countries) still had the effect of maintaining producer incomes and production at higher levels than would have prevailed in their absence, other factors had an overriding influence during the review period. In particular, spiraling oil and energy prices raised the profitability of area planted to agricultural crops for the biofuel market even though production cost were also inflated. The price shock from the oil market gave added impetus to developments already underway in response environmental pollution and climate change concerns and related national policies to encourage the production of energy from renewable sources. Direct support to oilseeds producers in terms of price guarantees and public stock operations continued to be relatively limited in absolute and historic terms and relative to other basic food crops perceived to be of greater strategic importance. And in developing countries, market signals alone tended to be insufficient to provide the necessary incentives for steady expansion of oilseeds production. Following the price peaks of 2007-08 several developing countries reinforced longer term oilseeds development plans aimed at reducing their vulnerability to international market fluctuations while enhancing domestic employment and incomes.

4. Among the countries seeking to curtail direct support to oilseeds cultivation, in the **United States** relevant policies have been in place for more than a decade. The former system of target prices for individual crops, deficiency payments and area set-aside requirements was replaced by *income support* in the form of fixed producer payments, decreasing over time, which were not

[1] Document CCP: OF-GR-RI 09/3 Supp.1 contains the Guidelines as well as tables providing details on selected national policy measures.

dependent on production levels. Thus, planting decisions were increasingly determined by market conditions. The key provisions affecting oilseeds remained largely unchanged under the Food, Conservation and Energy Act of 2008 which established the legislative base for farm policies during 2008/09-2012/13. A new feature was the possibility that farmers may opt for Average Crop Revenue Election (ACRE) payments as an alternative to receiving counter-cyclical payments (CCP) which are linked to price shortfalls relative to given fixed targets. The new income stabilization provision guarantees income at a level based on a moving average of recent market prices. As such it provides protection against sudden shortfalls in revenue, whatever the cause (e.g. sudden price, yield or cost variations).

5. During the review period, actual outlays for support measures were reduced for both soybeans and groundnuts mainly because in 2007-08 market prices were above the trigger level for CCP payments.

6. National policies in support of biofuel consumption include tax credits extended to blenders of vegetable oil-based biodiesel, and provision for mandatory use of biodiesel fuel starting in 2009. These measures have encouraged a significant expansion in biodiesel production capacities and output. Biofuel policies have also placed additional demands on supplies of other raw materials, in particular maize grown as feedstock for ethanol production. During 2007, the unprecedented increase in maize prices provided strong incentives to shift land out of soybeans, thereby driving up world oilseed and oilmeal prices.

7. In the **EU**, following the 2003 reform of the Common Agriculture Policy (CAP), in 2005 the per ton payment of 63 euros granted to producers of arable crops including oilseeds, was replaced by the Single Farm Payment Scheme (SPS) which replaced most of the previous direct aid payments with a single income support payment designed to improve market orientation in agricultural production. Maximum ceilings for total aid payments set for each member state were subject to mandatory decrease from 2007 onwards as the funds are reallocated to rural development measures and agro-environmental schemes. For olives, production aids and target prices were discontinued in 2006 and the sector was integrated into the SPS. Only for butter, state purchases of predetermined amounts for public storage remained in effect. The energy crop payment of 45 euros per hectare (used primarily for rapeseed) will be discontinued from 2009/10 as the biofuel industry was judged to no longer require support. In late 2008, new commitments were agreed among EU member states to further improve market orientation through a timetable for phasing out remaining coupled aid and intervention schemes and to shift funding from individual income support to rural development programmes.

8. In **Japan** production support for all crops and farm households was replaced in 2007 by a system of direct payments for target crops, including soybeans, granted to larger farms to encourage consolidation and high productivity. The payments are composed of both decoupled and coupled elements aimed at ensuring that local production is remunerative. In addition, compensation is provided for price fluctuations to help stabilize incomes.

9. In **Mexico**, soybeans continued to benefit from PROCAMPO decoupled payments. Since 2004 soy and rapeseed participated in the Target Income Programme that provides temporary payments to supplement producer incomes. Target incomes were raised in 2009 by 30 percent for rape and 40 percent for soy, and these targets will remain valid until 2013.

10. Measures of a more general nature aimed at *stabilizing incomes* of oilseeds producers were also implemented in a number of other major producing countries. In **Canada**, a new set of programmes in place since 2008 aimed at improving response to changing market conditions, enhancing risk management and reducing the government's regulatory role. Support included measures to help covering farm income declines and promotion of production insurance. Revenue insurance programmes were also strengthened in the **United States**. Subsidized crop insurance schemes were reinforced in **Brazil** and in **China** the scheme launched on a trial basis for oilseeds in

2007 was continued and expanded. Also in the **Russian Federation**, oilseeds were included in such programmes from 2007 onward.

11. *Price supports* were maintained in several countries, including some of the largest developing producing countries. Often, however, such prices did not keep pace with the strong inflationary pressures, especially during the 2007-08 period of high oil prices and spiraling costs. Moreover, oilseeds do not generally benefit from the same levels of support as granted to crops, such as wheat and rice, perceived to be crucial for food security purposes. Finally, procurement measures remained constrained by budget limitations. In **Brazil**, the guaranteed minimum price for soybeans was increased by 60 percent in 2009 after being unchanged for five years. Traditionally, there are no government purchases and the private sector operates the price guarantee, receiving a premium to cover the difference between the guaranteed and market prices. The subsidization of production credits remained a central tool to support small and medium size soybean producers in Brazil. During the review period, access to these schemes and the conditions applied were improved several times. In **India**, minimum prices for oilseeds continued to be set, but market prices tended to be well above the support levels. Government procurement was limited to rapeseed. In **China**, the difficulties experienced in achieving target production growth (see below) led to the implementation in late 2008 of a state stock/reserve plan. The purchase price for soybeans was set more than 30 percent above import prices, with target purchases amounting to 20 percent of domestic production. A similar scheme was implemented for rapeseed.

12. In an effort to meet rising demand for edible oil as well as biodiesel market needs, **Thailand** intensified incentives for palm oil production. Following the provision of low interest loans for various production and yield-increasing measures, minimum prices were established for purchases by refiners and provision was made for government purchases at subsidized prices. Soybean farmers benefited from the requirement that traders absorb domestic output before being allowed to import.

13. The **Islamic Republic of Iran** maintained government procurement at guaranteed prices for rapeseed. Production subsidies and public procurement for sunflower in **Morocco** continued, and in 2006 the system was extended to some other oilseeds, including rapeseed. The **Ukraine** established minimum purchase prices for sunflower seed from the 2005/06 season, but state purchases were constrained by limited resources. Since 2006 support payments have been provided to farmers growing rapeseed for biodiesel.

14. In numerous countries, rising concern about exposure to price volatility and potential threats to national food supplies stimulated the formulation of *longer term development plans* to promote sustained growth in the oilseeds sector. These plans are generally underpinned by production improvement measures, rather than by price or income support measures, particularly in developing countries constrained by resource limitations. Under such conditions, incentives to increase output continue to be vulnerable to low priced import surges. In **China**, the fall in production of all main oil crops during the review period, together with heavy dependence on imports, led to the formulation, in 2007, of a strategic plan for the sector for 2008-15. The output targets include 15.8 million metric tons of soybeans and 19 million metric tons of rapeseed to be achieved through various technical improvement measures and the extension of areas. Storage and marketing facilities are being improved and sales of planting material are subsidized.

15. Similarly in **Indonesia**, efforts to lessen dependence on soybean imports following the sharp rise in import prices during 2007-08 led to the establishment of production targets and incentives. As to oil palm, incentives are being granted in the form of preferential loans and land concessions for new, sustainably managed plantations, while in the short run replanting is being encouraged to promote balanced growth. For coconut, the estate crop programme for 2006-10 calls for both replanting and new plantings. In **Malaysia**, the government is committed to achieving growth via replanting with high-yielding varieties rather than through area expansion. Increasing emphasis is also given to environmentally sustainable and socially responsible forms of production. Support for replanting, often used as a means of temporarily reducing output to alleviate low prices,

was strengthened in late 2008. For 2006-15 the government has also committed to providing support for the revival of the coconut industry. In 2006 the **Philippines** embarked on a long term coconut development programme that included planting/replanting, improved agricultural practices and inputs and modernized processing, and in 2008 massive multi-year and multi-component programmes were initiated to revitalize the sector and protect farm income. Similar initiatives were pursued in **Sri Lanka**. **Myanmar** launched an oil crop development programme in 2008 to reduce reliance on imports.

16. In **Pakistan**, the provision of improved seed at subsidized prices continued, and while there is no public procurement or formal price support, the Oilseed Development Board negotiates with crushers about minimum procurement prices that are both attractive to the industry and remunerative for growers. Production plans and targets for oilseeds have been developed also in **Egypt**. A Vegetable Oil Development Programme was launched in **Nigeria** in early 2006, with the development and rehabilitation of oil palm areas being supported by the subsidized sale of planting material, fertilizer and agrochemicals. In **Senegal**, groundnut production benefited from similar measures. In **Argentina**, farmers were offered subsidized production inputs when agricultural prices weakened from mid-2008. Furthermore, to prevent rises in food prices, compensation for high marketing/transport costs was provided. Many countries also made available various types of government loans at favourable interest rates to promote investment in agriculture in general and in the oilseeds sector in particular. In **Colombia** oil palm continued to benefit from a Development Fund.

17. Governments of several countries continued to be responsive to *emergency needs* of agricultural producers, including of oilseeds, adversely affected by weather or by other adverse developments. In 2009 producers affected by drought in **Argentina** were allowed to defer various tax and other payments, while in recent years the government of **Australia** has offered drought relief payments. In **Brazil**, emergency assistance was extended in 2005 and 2006 through increased subsidized credit and deferred debt repayment to compensate for drought, disease outbreak and the appreciation of the Real versus the US dollar which eroded farmers' earnings. Emergency assistance was also granted to farmers affected by natural calamities in the **Dominican Republic**, **Turkey** and the **United States**.

18. *Aid to developing countries* to develop their oilseeds sectors included that provided by **Australia** for the production of palm oil in Papua and New Guinea and by **Brazil** for the cultivation of soybeans in Cuba.

## B. TRADE POLICIES

### *Measures affecting exports*

19. The pronounced change in the world market price situation during the review period, from the depressed levels of early 2006 to the record highs of 2008, constituted the backdrop against which the major changes in export policies took place. While producers in exporting countries benefited from the pronounced rise in price levels, in many countries the tight market situation and other inflationary forces threatened domestic consumer prices. There was thus a tendency to temporarily impose or raise export taxes on domestically produced products such as oilseeds and oils so as to improve local supply conditions and temper domestic price increases while offering opportunities for the transfer of resources to stabilize general consumer price levels. One positive aspect of the 2007-08 shortage was that very limited recourse was made to quantitative export restrictions that could jeopardize supply security in importing countries. Less reassuring was the fact that world market prices tended to respond to export tax increases with further rises, thus fueling the increases in consumer prices.

20. In **Argentina**, among the various policy initiatives taken to check rising domestic prices, to contain producer/exporter gains and also to channel resources to other sectors of the economy, *export taxes* on oilseeds and products (notably soybean) were progressively increased during the review period. During 2006-07, taxes were raised by about 50 percent, and in early 2008, the tax regime was converted to a system of variable/sliding rates based on changes in export prices. The rate on soybeans reached 45 percent in the first quarter of 2008, subsequently capped at 52 percent in mid-year. In the second half of 2008, the fixed ad valorem system was restored at the rates prevailing in late 2007.

21. **Indonesia** responded to the continued tightening of global supplies and rising domestic prices through a marked rise in the export tax on palm oil and its derivatives in mid-2007. Later in the year the tax was transformed to a sliding scale. The ceiling of this progressive tax was increased from 10 percent to 20 percent in early 2008 in a continued effort to discourage exports of the country's most consumed and heavily export-oriented edible oil. Following the weakening of prices, the tax was progressively reduced and eventually suspended in late 2008. In addition, to help reduce growing domestic stocks, the annual crude palm oil export quota was raised by 50 percent. Also, in **Malaysia**, a combination of policy instruments including export taxes and quotas were used to curtail exports during the peak price period. These were subsequently relaxed following the weakening of world market prices in the last quarter of 2008. In **China**, following a period of increased rebates on value-added taxes to encourage exports, the rebate for soybeans exports was eliminated at the end of 2007 and that on exports of vegetable oils in mid-2008. A temporary export tax was applied to soybeans during 2008.

22. Few and relatively minor suppliers imposed *quantitative export restrictions* during the review period. During 2008-09, **India** temporarily banned bulk exports of edible oils to curtail price increases. Such measures reversed the policy thrust that prevailed in 2005 when credits were provided for exports of soybeans, soy meal and other soy products. To assure domestic market supplies and contain food price increases, export bans were also enforced in **Bolivia**, **Serbia** and **Senegal**. The **Russian Federation** approved a list of essential commodities, including oilseeds and oils, which may be banned from export if needed. Oilseeds remained subject to export duties. Only in the case of rapeseed were export tariffs reduced in order to stimulate exports to the EU for biofuel.

23. During the review period, there was little recourse to *subsidization of exports*, given the tight global market situation. In the **EU**, however, the sharp drop in dairy market prices, led in early 2008 to the reintroduction of export refunds for butter and butter oil, within WTO limits. During 2005-06, **Turkey** provided incentives, within the limits established by WTO, for the export of olive oil in consumer packs.

24. Other measures were taken to *stimulate exports of value added products* manufactured from domestic raw materials. **Indonesia**, in response to the rising prices of 2007, initially provided incentives to processing, but the prolonged price hikes subsequently entailed border measures to discourage exports (see above). In the **Ukraine**, the underlying objectives of the tariff structure are to limit sunflower seed exports so as to increase the domestic crush, and to encourage exports of value-added oil. The course of these policies was disrupted in mid-2008 by global supply shortages and temporary quotas were imposed for both sunflower seed and oils exports. In late 2008, despite easier supply conditions, the export duty on sunflower seed was maintained.

25. *Export promotion activities* continued to be implemented in the review period. **Indonesia** and **Malaysia** joined forces to foster market expansion and to improve the image of palm oil in Europe and the United States. Following price reductions in 2008, consultations were undertaken regarding possible production adjustment measures. Malaysia continued to offer incentives, for example export tax wavers, to plantation companies and processors to invest in joint activities in importing countries so as to strengthen trade links with overseas buyers.

26. In the **United States**, various export programmes are in place to promote the sale of oilseeds and to develop trade. Several export assistance programmes, already largely inactive, were abolished in 2008, but two, GSM-102 and the Dairy Export Incentive Program, were extended. In addition the Foreign Market Development Program and the Market Access Program remained active during the review period. In **Canada**, rapeseed continued to benefit from export promotion programmes.

27. *Government-to-government transactions*, generally more prevalent in periods of ample domestic supplies, were few during the review period. Barter trade agreements involving palm oil were reported from **Malaysia** and **Indonesia**.

28. Information of *food aid* shipments of oilseeds and products are not systematically available to the Secretariat at present. It is estimated that the overall volume and the supply pattern of concessional trade has not undergone significant changes.

### *Measures affecting imports*

29. Changes in import regimes reflected responses to the sharp variations in global supply conditions and prices. The price weakness of 2005-06 had led to more restrictive import policies designed to sustain domestic producer prices and also to shield national processing industries from low-priced imports. Thus, despite the overall trend towards a progressive reduction of tariff and non-tariff barriers to trade in products of the sector, policy instruments continued to be employed to allow growth in domestic production via the protection of local producers.

30. However, with the peak prices of 2007 and early 2008, a widespread relaxation in import tariffs occurred as governments of importing countries sought to contain internal prices of edible oils and meals and also facilitate the importation of raw materials required for domestic crushing industries. While the market remained relatively tight in 2008, a significant easing of prices occurred during early 2009. Consequently, although still too early to tell, there is a danger that lower prices in the oilseeds sector, combined with the prolonged global economic recession, may result in raised trade barriers to protect domestic production and employment. In particular, in the wake of recent price experiences, net importing countries seeking to develop their domestic sectors, may be unwilling to take the risk of continued and growing dependence on oversees suppliers and of the disruptive effects of low-priced import surges.

31. The *reduction or removal of tariffs* and related duties affecting imports of oilseeds and oilseed-based products appears to have been mainly of a temporary and exceptional nature, with some restoration of previous levels occurring already in early 2009. In **China**, the import tariff on soybeans, the key imported oilseed, was temporarily reduced in late 2007, only to be restored in late 2008 when international prices eased again. Under WTO obligations, all tariff rate quotas (TRQs) for soy, palm and rape oil were phased out in 2006 and replaced by a single ad valorem tariff which resulted in reduced protection for the domestic crushing industry. While the tariff on soy oil remained unchanged throughout the review period, in mid-2008 import tariffs on other oils and meals were lowered to encourage imports in order to meet increasing domestic demand and alleviate rising internal market prices. During 2007, state imports of soy oil were also undertaken to replenish state food reserves.

32. In **India**, a number of measures restricting imports were removed from 2007 onward. Import tariffs for most edible oils and their respective tariff values (import reference prices used to establish effective duty rates) were reduced. By early 2008 import duties for soy, palm, sunflower and other crude oils were at zero. Despite declining world market prices, the reduced levels still prevailed during the first quarter of 2009 as priority was given to maintaining consumer prices low.

33. Elsewhere in Asia, during 2007-08 countries were torn between the need to satisfy growing domestic demand for edible oils and calls to provide protection to their local oilcrop industries. Eventually, temporary reductions in import duties were implemented in **Indonesia** (soybeans), the **Philippines** (palm oil) and **Sri Lanka** (all vegetable oils) in an effort to meet domestic market requirements. In most cases, duties were restored at their original level in early 2009. In **Thailand**, where import policies constitute an integral part of domestic price stabilization measures, unlimited amounts of soybean and meal imports were allowed at low duty rates. Such imports were, however, subject to the condition that importers/traders first purchase all supplies available on the domestic market at government set prices. Temporary duty reductions for oilseeds and/or derived products were also enacted in **Bangladesh**, **Egypt**, the **Republic of Korea**, **Saudi Arabia** and **Vietnam**.

34. In **Turkey**, import tariffs have fluctuated in response to global market conditions: following temporary increases during 2005-06, by late 2007 import duties on sunflower seed and vegetable oils experienced hefty cuts. Soybean tariffs were also reduced temporarily to counter price rises due to drought-induced supply shortage. **Morocco** suspended import duties and taxes on imports of oilmeals in support of its drought affected livestock sector. Among other countries of Africa, changes in tariffs and fiscal policies affecting imports of oilseeds and oils were of a more general nature (applicable to a wide range of products) in order to counter rising domestic prices. Countries concerned included **Ghana**, the **Ivory Coast**, **Burkina Faso**, **Zimbabwe** and **Senegal**.

35. In Latin America and the Caribbean, several countries, in particular the **Dominican Republic**, **Mexico** and **Peru**, recently reduced or removed tariffs and related duties to contain domestic price rises. In **Argentina**, adjustments in import regulations were mainly designed to sustain domestic processing industries and promote re-exportation of soybean once processed into oil/meal.

36. Among countries in transition, the **Russian Federation** granted temporary duty exemptions for bulk vegetable oils in late 2007. However, in early 2009 a temporary tariff was introduced on soy meal to favour the domestic production and processing sector. As to developed countries, no important changes in tariff policies for oilseeds and derived products were reported.

37. Other measures affecting the conditions under which trade of oilseeds and oil is conducted include sanitary and phytosanitary regulations, licensing requirements, GMO regulation etc. In addition, trade is increasingly influenced by the provisions of preferential trading arrangements as well as bilateral and multilateral trade agreements establishing common external tariffs and allowing free trade among member countries. With respect to *GMO regulations*, during the review period further approvals for import of new GMO varieties were granted by **China** (in 2006 for several soybean and rapeseed varieties for processing) and in the **EU** (in 2008 for soy and in 2009 for rapeseed varieties, again for processing only). From 2006, soy oil imports into **India** were subject to the requirement of pre-approval for biotech/GM products, but implementation was postponed indefinitely due to domestic refiners' needs, poor domestic production and rising domestic prices. Also in **Malaysia** biosafety legislation was enacted requiring regulatory approval and mandatory labeling.

## C. OTHER POLICIES AFFECTING THE OILSEEDS SECTOR

38. In the light of the acute shortages and sharp price rises during the review period, there was extensive resort to *policies aimed at facilitating consumption and improving domestic market availabilities* from 2007 onward. In some cases, the supply shortage was not perceived until relatively late, thereby accentuating the subsequent need for major and urgent adjustments. However, measures to contain domestic prices were of limited effectiveness in the absence of government leverage on the volumes made available in the market. Often, export restrictions had the opposite effect of stimulating price increases in both the international and local markets. Eventually, in late 2008, consumption support policies were generally reversed giving way to renewed measures to assist producers in the wake of growing supplies and deteriorating prices. While governments made every effort to contain the adverse effects of the exceptionally high prices on consumers, the overall effects on the oilseeds production and manufacturing sectors of these stop-and-go measures are difficult to determine.

39. In **China** a state edible oil reserve comprising both domestic and imported supplies was established in 2007, and releases were made in each year between 2007 and 2009 to thwart consumer price rises. In late 2008, a national reserve of domestically produced soybeans was established, mainly to encourage production, but also to be released in case there was a need to check domestic price hikes. In **Argentina**, revenue from increased soybean export taxation contributed to subsidizing end-sales of basic foodstuffs, while in **Mexic**o, **Senegal** and the **Russian Federation** temporary price controls were implemented on selected products, including vegetable oils. In **Thailand**, price controls were maintained for cooking oils and other staples, but intervention agency imports were needed to supplement supplies available to refiners. Subsidized distribution of edible oils to target populations was undertaken in numerous countries, including **Egypt**, **India**, **Indonesia**, **Malaysia**, **Pakistan**, the **Philippines** and **Tunisia**. In India state-run trading firms and associated agencies were directed to increase edible oil imports for subsequent domestic release, and maximum limits were imposed on stocks of oilseeds and edible oils to ease supplies.

40. While the above food consumption policies were largely reactive to developments in the global oilseeds and oils markets, measures to promote non-food industrial use of vegetable oils were reflective of broader concerns, including calls to foster the use of renewable sources of energy. Environmental considerations and continued vulnerability of production, manufacture and transport systems to fluctuations in prices of crude oil induced numerous countries to search for alternative sources of energy. In particular, the trend towards encouraging new forms of renewable energy recovery has reinforced *policies to promote biofuels* derived from agricultural products such as maize and oilseeds, and the related support measures underpinned demand for the raw materials concerned. The 2007-08 hike in prices of crude oil lent additional impetus to demand, contributing to exceptional commodity shortages and price rises.

# CONCLUSIONS AND RECOMMENDATIONS

41. In relation to the Guidelines for *policies regarding production, processing and stability of supplies*, Guidelines C (i) to C (v), the review period was characterized by major difficulties in achieving and maintaining reasonably stable prices, remunerative to growers and equitable to consumers. During the early part of the period, surplus production weighed on the market while most of the remainder was characterized by exceptionally high international market prices that caused spikes in consumer prices, impacting heavily on vulnerable low-income groups. Producers in countries that operate income support programmes were partly shielded from the depressed prices, while benefiting from the high prices of 2007-08. In these countries direct support to production has been reduced and the impact of market signals strengthened, but supplies entering international markets are still greater than would be the case in the absence of such policies, implying some distortion in the conditions of international competition. On the other hand, income support systems help to sustain investment in the sector and offer assurances of continuity of supplies which, in conjunction with appropriate stocking/public reserves, provide safeguards against production shortfalls that can occur in annual crops such as oilseeds.

42. In countries where oilseeds producer price guarantees and government procurement were in place, support prices generally remained below the prevailing market prices. Moreover, support measures were constrained not only by overall resources limitations, but also by the higher priority attached to crops of special significance for national food security, in particular rice and wheat.

43. Aside from production policy factors inherent in the oilseeds economy, external factors contributed to the lagging production and market instability. Policies to promote biofuels derived from crops such as maize and oilseeds, have underpinned demand for the raw materials concerned. The 2007-08 hike in prices of crude oil lent additional impetus to demand which spilled over into the commodity markets concerned contributing to the severe shortages and price rises. In many developing countries, particularly net importing countries, such developments adversely affected access to supplies of consumers, particularly vulnerable low-income groups. In the light of the 2007-08 experience, there is a need to better understand the interactions between prices and policies for food commodities and biofuels within the context of changing conditions in energy markets.

44. In the longer run, the continuing concentration of production growth in certain regions has given rise to concerns regarding environmental sustainability. It is likely that policy responses will increasingly involve production restrictions in environmentally sensitive areas, certification requirements and preferential treatment of sustainably produced products. Furthermore, in many instances production growth will be inextricably connected to increased yields through *inter alia* the introduction of new varieties and genetically improved planting materials. In parallel, improvements in planting material designed to enhance nutritional properties or meet other aspects of consumer needs are likely to have a growing influence on the supply chain. Thus, attention will increasingly focus on the regulatory aspects of production, consumption and trade of genetically modified crops, as well as on the need to ensure that access to the relevant materials and technologies are made available to all countries, and in particular developing countries.

45. With regard to the Guidelines regarding *trade policies, Guidelines D i)* to *D xii)*, which aim at facilitating the growth of trade, during the review period there was a pronounced reduction in tariff and non-tariff barriers, albeit mostly of a temporary nature to encourage the inflow of imports during the period of global shortages. However, exports from many countries were constrained by the temporary imposition/increase of export taxes which in some instances fueled further increases in international prices. Under such exceptional conditions, little progress was made in other areas identified in the Guidelines to expand trade (improved GSP treatment, the promotion of trade among developing countries, compensatory payment arrangements to stabilize developing country export earnings, and support to developing countries to enhance their competitiveness in oilseeds and oils exports).

46. Supplemental to trade policy guideline *D viii)* (which calls for measures enabling developing countries, and particularly low-income developing countries, to obtain their import requirements on reasonable terms, including food aid), guidelines *E i)* and *E ii)* relate to the modalities and consultations regarding *concessional sales and food aid policies*. While food aid consignments continued to be made available during the review period, indications are that the problems encountered during 2007-08 require farther-reaching solutions encompassing production, stockholding, and trade policies.

47. The Guidelines regarding *consumption policies*, *Guidelines F i)* to *F iii),* are geared mainly to alleviating difficulties associated with surplus conditions. Such guidelines were thus of limited relevance during the 2007-08 price rise which translated into severe supply shortages in many net importing countries and resulted in widespread efforts to protect consumers against price hikes. The various forms of intervention, mainly subsidies and price controls, strained government budgets and reduced farmers' incentives to grow more.

48. In the light of the above conclusions, the Group may wish to recommend that:

a) Governments should review their policies affecting the production of oilseeds and related products with a view to obtaining reasonable incomes for farmers and protecting them against excessive fluctuations in world market prices (through *inter alia* long term contracts, insurance schemes and risk management measures);

b) Governments should provide long term incentives for investment in economically viable oilseeds production, particularly in developing countries, to meet future demand at equitable prices;

c) International aid-giving agencies and bilateral donors should assist developing countries in their efforts to improve the efficiency of their production, processing, domestic marketing and regional trade of oilseeds and derived products;

d) Governments and national producer and trade associations should consider what measures might be pursued to improve the stability of supplies, including through state reserves and long-term contracts;

e) Analysis should be undertaken, within available resources, of impacts on the market for oilseeds, oils and meals of policies supporting biofuels. This analysis should take account of cross-commodity relationships, particularly with maize, and should be conducted in cooperation with other organizations/institutions having expertise in this field;

f) While encouraging the development of new end-uses for oilseeds and their products, such as biofuels, Governments should ensure they do not hinder the orderly development of supplies for food use;

g) Trade policy measures should continue to facilitate the expansion of trade, including by keeping tariff and non-tariff barriers low; in addition, when recurring to fiscal and other restrictions on exports, governments are reminded to give due consideration to the effects of such measures on global trade and to possible implications for importing countries' food security.

h) Temporary trade policy measures should be implemented with caution: provisional export restrictions to protect domestic supplies carry the risk of further aggravating price hikes in international and national markets, while the suspension of tariffs to facilitate imports may erode domestic production incentives; furthermore, such *ad hoc* measures may have severely disruptive effects on traders;

i) In the case of exceptional price developments, Governments of exporting and importing countries should undertake consultations under the auspices of the Group and its parent body, CCP, to identify the factors responsible and to provide guidance regarding appropriate policy instruments to be pursued in WTO and other relevant fora;

j) Producing countries should consider promoting production and trading systems that take account of growing market attention to environmental sustainability in oilcrop production;

k) Regulatory measures concerning the adoption of genetically modified crops and their trade should be kept under review, and the developing countries' access to improved materials and relevant technologies should be facilitated as needed so as to satisfy future producer and consumer requirements both nationally and internationally.