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Policies for basic food commodities **2003–2004**

POLICIES FOR BASIC FOOD COMMODITIES 2003-2004

Commodities and Trade Division
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FOREWORD

This third review of policies for basic food commodities reports the principal policy developments implemented in 2003 and 2004 in production, consumption, marketing and trade of cereals, oilseeds and livestock products. The information has been obtained through policy questionnaires, official and unofficial sources. As in the previous two reports, the main purpose of the issue is to provide a brief description of the most important policy measures introduced by governments during the period under review, rather than to draw their market implications. As a result, the publication mainly lends itself to being a reference text for consultation and historical memory.

The five sectors examined, that is, rice, grains (including wheat and coarse grains), oilseeds (also covering oils and meals), dairy products and meat are among the most important for world agriculture and encompass some of the most sensitive commodities, often subject to frequent government interventions. This held true in 2003 and 2004, which were particularly intense years from a policy standpoint. Indeed, developing countries were still adjusting their policies to meet the commitments they had taken under the Uruguay Round Agreement on Agriculture (AoA), a process they finally completed in 2004. Meanwhile, both developed and developing countries were very much engaged in the new round of multilateral trade negotiations, which saw the active participation of many countries, in particular developing countries. Their deeper involvement in the international trade debate put an end of the bi-polarization that had characterized previous rounds of negotiations, when the contrasting positions of the United States and the European Union dominated the discussions.

Although by the end of 2004 no final agreement had been reached on the modalities that will govern the process of global liberalization under the WTO Doha Round, many governments took the initiative of unilaterally reforming their specific commodity policy regimes in 2003 or 2004. Those reforms were generally directed towards reducing market distorting policies, in particular those related with domestic support to producers. The basic principles underlying the reforms closely followed those devised for the WTO negotiations, with a clear tendency for governments, especially of OECD countries, to curb market-related support to producers classified as "Amber Box". Generally, partial compensation for the related losses was granted to producers through larger direct payments under production-limiting programmes classified as "Blue Box", or under fully production-decoupled or minimally production distorting programmes, classified as "Green Box". These tendencies clearly resulted in a cut in sector-specific support and in an increase of assistance channelled under non-commodity specific programmes.

Many of the new policy measures in 2003 and 2004 were also enacted in response to developments in world markets. Indeed, the period witnessed a tightening of market conditions and stronger world prices in the case of rice, oilseeds, meals and oils as well as dairy products while easier supply/demand conditions and weaker prices tended to prevail on the world wheat and coarse grains markets. For those commodities experiencing surges in world prices, import tariffs were often reduced to stabilize domestic prices as a means to reduce the impacts on consumers. In the case of meat, the leading factor influencing policy makers over the period were disease outbreaks, which led to the establishment or strengthening of control measures to prevent their propagation. Other outstanding developments in the period examined include the EU enlargement to 25 countries and progress in establishing new regional agreements.

It is hoped that the information provided in this report will prove useful 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

Global paddy production fell in 2002 to its lowest level since 1996, reflecting adverse weather conditions in several important producing countries. Although rebounding, production still fell short of consumption in 2003 and 2004, resulting in depleted world rice inventories. Reduced stocks along with a brisk demand for imports sustained world prices, which started recovering by mid-2003 after four years of decline. The international market therefore changed radically, passing from a situation of relatively ample supplies and falling prices in 2002 to a sudden tightening by mid-2003. In 2004, the surging world prices and freight rates started to be felt sharply in some domestic markets, putting pressure on governments to sustain production or to take action through direct price controls and border measures to lessen the impact on consumers.

On the policy front, the international scene has been dominated since 2000 by discussions over the modalities that will govern the process of liberalization of agriculture in the forthcoming WTO Multilateral Trade Negotiations. Meanwhile, developing countries were still implementing the commitments taken under the Uruguay Round Agreement, a process due for completion by end-2004. A number of governments, however, went beyond such commitments and moved forward to further align their national rice policies along the basic WTO principles, by increasingly shifting support to the rice sector away from market distorting measures (classified as amber box), towards production-controlled (classified as blue box) and minimally trade-distorting (classified as green box) measures.

Production policies

Rice production policies fall within two broad categories: on the one hand, measures directly impinging on production, including research, extension, investment in irrigation and infrastructure, reclamation of new lands or land diversion programmes in particular; on the other hand, market-related interventions aimed at stabilizing prices through market procurement and stock management. Policies pertaining to the first category generally address long term objectives often integrated in multi-year development plans or strategies. Market-stabilization measures, on the other hand, are subject to much more frequent changes, depending on prevailing market conditions.

Table I-1: Paddy support prices

Countries	Rice types/varieties	Currency	Local currency per tonne Nominal Prices			Real Prices (deflated by CPI 1995/96=100)			US$ per tonne Nominal Prices		
			2001/02	**2002/03**	**2003/04**	**2001/02**	**2002/03**	**2003/04**	**2001/02**	**2002/03**	**2003/04**
Exporters											
China	Semi-late crop	RMB/yuan	1060	1040	1040p	...	...	...	128	126	126
	Late crop	RMB/Yuan	1080	1020	1020p	...	...	...	131	123	123
India	Common rice	Rupee	5300	5300[1/]	5500	3591	3437	3414	110	110	121
	Grade A rice	Rupee	5600	5600[1/]	5800	3794	3632	3600	117	116	128
Pakistan	Irri-6	Rupee	5125	5125	5375	3522	3410	3493	82	87	94
	Basmati 385	Rupee	9625	9625	10000	6615	6404	6498	155	163	174
Thailand	5% broken	Baht	5235	5235	5235	4168	4158	4087	119	121	132
	Fragrant	Baht	6500	6800	7000	5175	5401	5464	148	157	176
United States		$US	143[2/]	143[2/]	143[2/]	123	121	118	143	143	143
Importers											
Bangladesh		Taka	8204	8400	8400	6267	6255	6074	144	145	145
Brazil	Long grain	Real	140[3/]	132[3/]	132[3/]	94	83	71	68	56	38
Costa Rica		'000 Colón	85	85	107[4/]	42	39	45	258	236	269
European Union		Euro	298	298	298	257	252	245	272	293	335
Indonesia	Dry paddy rice	'000 Rupiah	1519	1519	1725	628	546	578	149	154	193
Iran, Rep. of	Nemata and Neda	'000 Rial	2700	4000	4300	994	1292	1189	1540	579	525
Japan	Husked rice	'000 Yen	245[5/]	238[5/]	230[5/]	243	238	231	1925	1949	2134
Korea, Rep. of	First grade, Japonica	'000 Won	1510	1510	1510	1194	1162	1125	1165	1236	1276
Malaysia	Long grain	Ringgit	798[6/]	798[6/]	798[6/]	675	666	657	210	210	210
Philippines	Wet (main) crop	Peso	9000	9000	9000	6061	5859	5689	175	179	169
Sri Lanka		Rupee	7420	7420	7420	4347	3966	3579	86	78	77
Turkey	Long grain, Baldo	Million Lira	480	700	800	19	20	18	326	424	582

p provisional … not available; not applicable.
[1/] Subject to an additional Special Drought Relief (SDR) payment of Rupee 200/tonne.
[2/] Marketing Assistance Loan Rate.
[3/] South, Southeast, Northeast and Centre West Regions.
[4/] Effective from 15/11/2003; it supersedes c. 98370/tonne, in place from 15/06/2003 and US$ 210/tonne, in place from 01/01/2003..
[5/] Government purchase price.
[6/] Including a subsidy of RM 248/tonne of paddy delivered to a licensed mill.

Developing countries

In ***Asia***, rice is of particular importance for food security and rural livelihoods and, for this reason, is one of the few agricultural products still subject to widespread intervention by governments. In 2002 and 2003, in the light of the prevailing low international prices, policies shifted in favour of producers, especially in those developing countries experiencing high per caput income growth, where rice development strategies were also used to address the widening income gap between the urban and rural populations. At the same time, measures were adopted to remove marginal lands out of rice cultivation and to foster a shift towards higher quality, higher priced rice varieties.

Bangladesh continued to support rice production, with the goal to achieve self-sufficiency. While past efforts concentrated on the development of a modern irrigated production sector and on the introduction of high-yielding varieties, principally for the winter Boro rice crop, growing attention is being paid to the promotion of rainfed rice production through the development of suitable, drought-resistant varieties. In 2003 and 2004, the private sector was allowed to take over programmes for hybrid rice production, but rice seeds remained subject to price and import controls. In 2004, the government allocated Taka 1 billion (US$ 100 million) to support farmer's adoption of new technologies through the provision of high quality seeds, irrigation, training and extension.

Public market intervention in Bangladesh is limited to the procurement of the rice needed for the public food distribution programmes. Government purchases for that end are either made locally or on the international market, depending on relative market conditions. The volume procured on the domestic market has hovered around 700 000 – 800 000 tonnes (milled equivalent) since 2001/02 and is forecast to reach some 650 000 tonnes in 2004/05. Producer support prices were raised by 2 percent in 2002/03, but were kept unchanged in 2003/04.

Table I-2: Bangladesh Government Rice Procurement (000 tonnes, milled eq.)

1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
756	823	726	816	828	650

Source: WFP – Bangladesh Food Grain Digest – July 2004

In **Cambodia**, the implementation of the Second Socio-Economic Development Plan (2001-2005) is under progress. Within that framework, the Asian Development Bank approved a grant of US$ 30 million to finance the Agricultural Sector Development Programme, which seeks to boost agricultural production, quantity and quality-wise, and to promote its transformation into high value-added products. Upon joining WTO in 2004, the country committed to lift all restrictive measures on imports of fertilisers and agro-chemicals.

Following five years of bumper crops between 1995 and 1999**, China (mainland)** shifted to less supportive grain production policies in 2000, in an attempt to curb the large surpluses that had accumulated in the preceding years. The market situation became much tighter in second half of 2003, resulting in sharp increases in domestic prices. The grain price surge combined with a widening gap between rural and urban incomes prompted the Central Government to take a number of initiatives in 2004, aimed both at stimulating grain cultivation and at sustaining rural income growth. These included the elimination, within five years, of a 5 percent agricultural tax, a measure that was followed by the immediate removal of the tax in 25 provinces, municipalities and autonomous regions. The Government also allocated budget of Yuan 11.6 billion (US$ 1.41 billion) to finance direct payments to grain producers, to the tune of US$ 18 per hectare, and Yuan 2.8 billion (US$ 341 million) to subsidize improved seeds in 13 provinces. In addition, the Government re-instituted protective prices for early Indica paddy rice, at 1,400 Yuan (US$ 169) per tonne and at 1,500 Yuan (US$ 181) per tonne for Japonica paddy rice.[1] In July 2004, the procurement price for early Indica rice was further raised to 1,440 Yuan (US$ 174) per tonne. Under the new rules, however, government agencies must engage in

[1] Protective prices for early Indica rice were abolished in 2000 in all provinces. In 2002, all provinces except Jiangxi also abolished the protective prices of late Indica rice.

procurement as last resort buyers, only when prices fall to unacceptably low levels. The re-introduction of minimum prices ran parallel to the liberalization of domestic rice marketing, as a series of experimental reforms conducted since 2001 in selected states were extended to the whole country in 2004. Under the new policy, rice farmers are no longer subject to mandatory rice production and quota purchase plans, and are free to take their own decisions on what to produce on their plots[2].

With the accession of the **Chinese Province of Taiwan** to WTO, in January 2002, and the resulting opening of the market to rice imports[3] under a minimum access quota, additional measures were implemented to cut back production surpluses. This was done under the "Rice Paddy and Upland Crops Adjustment Diversion Programme", through the removal of 32 000 hectares of rice fields to fallow. To sustain prices, the Government continued to implement the voluntary "Guaranteed Purchase Programme" and the "Price Guidance Programme", under which rice farmers were paid a minimum support price of up to US$ 635 per tonne, subject to a ceiling per hectare. In addition, as market prices fell below a five-year average in 2002 following the opening of the market to imports, the Government allocated NT$ 2 billion (US$ 62 million) under a third "Import Relief Purchase" Programme, to procure an additional volume per hectare from farmers (Table 3).

Table I-3: China's Province of Taiwan - Rice Procurement Programmes

	Paddy Procurement Price				Procurement/hectare	
	Japonica		Indica		Spring	Autumn
	NT$/kg	US$/tonne	NT$/kg	US$/tonne	kg/ha	kg/ha
Guaranteed Purchase Programme	21	635	20	605	1920	1440
Price Guidance Programme	18	544	17	514	1200	800
Import Relief Purchase Programme	16.6	502	15.6	472	2360	

Source: USDA

Rice producers in **India** continued to benefit from high government subsidies on inputs, in particular fertilizers[4], power and irrigation[5], but also from procurement at minimum support prices. In February 2001, public agencies were exempted from procuring all the rice offered for sale by farmers at the minimum support level but this obligation was reinstated by India's Supreme Court in August 2003, a move that prompted the Government to propose in September 2003 the introduction of a farmer crop insurance scheme to cover the difference between the minimum support and market price levels. Despite concerns over bulging grain inventories, the Federal Government kept paddy support prices unchanged in 2002 and raised them in 2003. In 2004, they were increased by another 100 rupees. On the input side, the controlled price of urea was raised by 5 percent in 2002/03 and by a further 2 percent in 2003/04, in response to rising oil prices.

Consistent with its latest agricultural development plan, **Indonesia** pursued rice self-sufficiency both through an intensification and extensification of the sector. Consequently, improvements in productivity have been fostered through the dissemination of high yielding varieties and improved access to credits, while the extensification programme focused on an expansion of paddy cultivation in Kalimantan and Sumatra. The supportive production policy stance coincided with a large increase in minimum producer prices in 2003. In addition, the government lowered the subsidized price of urea by 10 percent in February 2003 and reinstated the subsidy on non-urea fertilizers in August 2003. However, with the change of status from a para-statal into a state-owned enterprise as of January 2003, Bulog has been relieved from the obligation to intervene in producer price support. Nonetheless, it has continued to procure rice locally or internationally to meet its supply requirement for domestic distribution and stock reserves.

[2] However, tight restrictions still apply to the conversion of basic farm land to non-agricultural uses.
[3] A volume of 144 720 tonnes (on a brown rice basis) was agreed to be imported in 2002 under the minimum import quota, duty-free.
[4] Fertilizer subsidies are estimated to cost the Government some Crore 12 500 (US$ 2.8 billion) per year.
[5] It has been estimated that the pricing of canal water only covers about 20 percent of operation and maintenance costs in most States and none of the capital investment.

In its 2000-2004 Development Plan, the **Islamic Republic of Iran** drew the bases for a sharp reduction of direct State intervention in agriculture. Against that backdrop, in September 2004 rice started to be traded in the agricultural stock market along with saffron, maize, sugar, oilseeds and sesame seeds. Nonetheless, the country continued to heavily support the sector, mainly in response to the three-year lingering drought which affected rice production between 1999 and 2001. Since then, the Government has maintained relatively high minimum rice producer prices and has promoted the dissemination of high-yielding varieties. In 2004, the Government announced that it would introduce further incentives to producers with the view to attaining self-sufficiency, in an attempt to replicate the success achieved for wheat.

The Government of the **Republic of Korea** released in April 2002 a "Comprehensive Plan for the Development of the Rice Industry". The Plan aims to stabilize the domestic market by reducing the cultivated area from 1 083 000 hectares in 2001 to 953 000 hectares by 2005, but also to improve the quality of the final product and to enhance the competitiveness of the local industry. This led to the introduction, as of 2003, of a 27 500 hectares land diversion programme, which qualified farmers to receive direct payments for three years, at an annual rate of Won 3 million (US$ 2 400) per hectare. In addition, to encourage farmers to grow higher quality rice, the Government restricted its procurement programme to 18 rice varieties in 2004. The same year, the Government announced it would allocate Won 4 trillion (US$ 3.43 million) to raise yields of "specialised" rice farms. Despite Government proposals to lower guaranteed producer prices in 2003 and again in 2004, their level has remained unchanged since 2001.

In 2004, the **People's Democratic Republic of Laos** promoted the rehabilitation and upgrading of 30 community-based irrigation schemes, drawing on a US$ 10 million loan from the Asian development Bank. At the same time, the government encouraged farmers to reduce their dependence on rice farming, which currently accounts for about 40 percent of agricultural GDP, through a diversification towards livestock and alternative crops, especially in upland areas.

Malaysia continued to implement the 1998-2010 National Agricultural Policy programme, which outlines a two-pronged rice development strategy geared mainly to enhance domestic rice competitiveness while protecting the livelihoods of traditional producers. Accordingly, the Government phased out some unproductive paddy areas and designated eight special zones, or "granaries" in Peninsular Malaysia. The country is also set to identify suitable areas in Sabah and Sarawak, in East Malaysia for large-scale commercial paddy production by the private sector. At the same time, traditional paddy producers have continued to benefit from high fertilizer subsidies and minimum producer prices, although these have been unchanged since 1998.

Myanmar remains committed to boost rice production, through the reclamation of new lands, multiple cropping, and the expansion of irrigation. In April 2003, a radical reform of the country's domestic rice policy was implemented, which entailed the elimination of both production quotas and public rice procurement. Until then and for the past 40 years, farmers had to comply with compulsory quota deliveries to the Myanmar Agriculture Produce Trading (MAPT). In 2002, the delivery quota was set at 12 baskets[6] per acre (some 620 kg per hectare, or about 20 percent of average yields). In 2002, the official purchasing price, at 320 kyat per basket, represented only a fraction of the reported market price, entailing a heavy tax for producers. On liberalizing procurement, farmers were permitted to sell all their rice on the market place. The move toward the liberalization of the rice domestic market was, however, partially reversed at the beginning of 2004, when the government reacted to a surge in domestic prices by re-establishing a ban on exports.

In **Pakistan,** efforts concentrated on increasing productivity of rice producers, by fostering cooperation in rice genomics, breeding and transfer of technologies. Provisions were taken to exempt fertilizers from taxes, while increased finance was provided for the installation of tube wells and dissemination of certified seeds, boosting their use by 75 percent in 2003. Confronted with increasing

[6] 1 basket of paddy equal to 20.9 kg

water scarcity problems, the government promoted the cultivation of high value Basmati rice in the Punjab to replace IRRI rice varieties, and also encouraging a shift away from IRRI rice in favour of cotton in Southern Punjab and part of the Sindh and Bolchistan. The Government ceased to administer support prices for paddy in 2003 but continued to announce them for indicative purposes. In 2004, they were redefined as “rescue prices”, to be implemented by the Pakistan Agricultural Storage and Supplies Corporation (PASSCO).

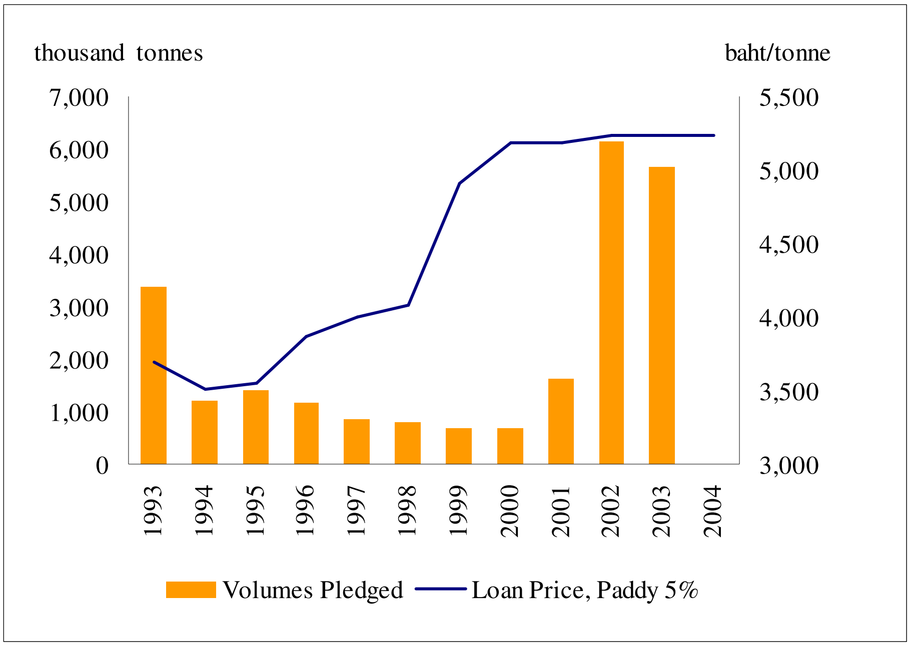
The **Philippines** remains firmly committed to achieving rice self-sufficiency in the next few years and the Government continued to uphold the sector, especially through the promotion of hybrid rice cultivation. A 50 percent subsidy on certified seeds and fertilizers was granted for that purpose in 2003, with the scheme covering 540 000 hectares of irrigated land, or 13 percent of rice cultivation. In 2004, the National Food Agency (NFA) launched a new procurement strategy to sustain prices to farmers located in remote areas by employing mobile procurement teams. Partly to compensate for a surge of input prices, especially fertilizers, procurement prices for the main (wet) paddy crop were raised from Pesos 9 000 to Pesos 10 000 (US$ 180) per tonne, effective as of December 2004.

After two decades of conflict, **Sri Lanka** signed a ‘cease-fire’ agreement in February 2002. Since then, to facilitate both the resumption of agriculture in the war-affected areas in the North and East of the Island and the resettlement of the displaced populations and vulnerable farming households, quality rice seeds have been distributed. In an attempt to foster rice productivity increases, urea price subsidies were maintained in recent years, but price increases were allowed for the other fertilizers. The Government continued to “recommend” paddy price levels for purchases by the public sector, but these have been usually very small.

Thailand is currently implementing the 2002-2006 national rice strategy, which earmarked Baht 90 billion (US$2 billion) for the construction of silos, research and development promotion and market price stabilization.[7] As for the latter, the Government was active in sustaining paddy market prices, through increases in the minimum producer prices associated with large intervention purchases under its paddy mortgage scheme. Market intervention was particularly intense in 2002 and 2003, when the low market prices prompted large farmer’s sales of paddy to the procurement agencies at minimum support levels. Quantities of the main crop mortgaged by farmers were in the order of 1.6 million tonnes in 2001, 6.1 million tonnes in 2002 and 5.6 million tonnes in 2003. Procurement prices for the main crop rice were again raised in 2004, to Baht 6 500 (US$ 156) per tonne in the case of paddy 5% broken, and to Baht 9 000 (US$ 215) per tonne in the case of Jasmine fragrant rice. The latter was increased further to 10 000 Bath (US$ 239) in November 2004, following the announcement of a fragrant rice production shortfall in the North.

[7] Three-quarters of which to be granted in the form of loans

Figure I-1: Thailand paddy mortgage scheme



In November 2004, the government established a National Rice Office, which brought together all agencies responsible for rice cultivation, trade and research. Thailand's Ministry of Agriculture and Cooperatives also initiated a new five year rice strategy (2004-2008), mainly oriented towards boosting farm productivity and lowering producing costs with the ultimate goal of raising farmers' incomes. The programme, which rests on the distribution of high quality seeds and improved use of pesticides, also envisages a zoning of the rice lands, to prevent mixing of varieties, and an extensive development project for fragrant rice in Thung Kula Rong Hai, in the North-East.

The Government in **Turkey** has supported the rice sector principally through high guaranteed prices, by international standards, with paddy intervention prices raised substantially since 2002, reaching an equivalent of US$ 582 per tonne in 2003. In addition, the country operates a "crop absorption system", which makes the granting of import licenses conditional to domestic purchases of grain from Government reserves and, since 2004, directly from producers. However, in pursuance with a stand-by agreement with the WTO in 2001, the country reportedly reduced subsidies on basic inputs and agricultural credit in 2002.

Viet Nam proceeded along a rice sector development strategy aimed at enhancing rice yields and quality, while fostering a diversification of marginal lands out of rice. The intensification process relied on the stabilization of the area under rice and on the development and promotion of new rice varieties. Since 2002, producers have been encouraged to establish direct links with processors and exporters, under delivery contracts at pre-determined prices. In 2003 and 2004, the Government through state-controlled exporting firms, bought paddy from farmers at agreed minimum price levels[8]. In 2003, about VND 1170 billion (US$ 76 million) in preferential loans were allocated for that purpose.

Although governments in **Africa** have virtually ceased to intervene directly in their domestic rice markets, many remained committed to increasing national rice production, in an endeavour to reduce

[8] The paddy purchase price was reported at 1.5 million VND (US$ 97) per tonne in 2004.

their growing dependency on rice imports, with efforts concentrated in the promotion of cultivation in low-land valleys.

In **Egypt**, the largest rice producing country in Africa, large public investments have been made in the past twenty years in irrigation infrastructure and in the reclamation of new land in desert areas[9]. As for now, rice cultivation is still concentrated in the Delta, where plantings remain, in principle, subject to a national limit of 1.2 million feddans (504 000 hectares), allocated to the Northern Delta various "governorates". However, the area ceiling has been recurrently surpassed, because of the suspension of fines for violations and relatively high rice production profitability. The Government continued to foster the intensification and productivity gains in rice production. In the past few years, the focus was on the introduction of short-season rice varieties[10] to farmers in the Delta as a means to save water. Although the rice sector largely operates in a free market environment, the government still influences prices by granting subsidized credits to state-owned mills for paddy purchases and by announcing at the beginning of each marketing season, the price at which these mills will purchase from farmers.

In Western Africa, efforts concentrated on expanding rice cultivation in lowlands and inland valleys. Several countries, including Mali and Mauritania, also invested in the rehabilitation of irrigation schemes and made attempts to shift responsibility for their management to farmers. **Cote D'Ivoire**, **Guinea**, **Nigeria** and **Sierra Leone** promoted the adoption of the high-yielding and drought resistant NERICA rainfed rice variety, developed by the African Rice Centre (WARDA). In 2004, assistance was also provided by the World Bank and other international organizations under emergency programmes to fight locust infestations in the sub-region.

Under the Food and Agriculture Sector Development Policy (FASDEP), **Ghana** has been promoting the development and dissemination of improved seed varieties and planting material, as well of "good" cultural practices and post-harvest handling. The policy listed rice as a priority crop, with the distribution of NERICA rice as strategic to enhance household food security. The country is also receiving external support to develop lowland rice production in the Northern Region.

Nigeria launched in August 2002 the "President's Rice Initiative" to improve rice production and processing by enhancing farmers' access to subsidized farm inputs and suitable rice varieties coupled with border protection. Against the backdrop of the celebration of the International Year of Rice in 2004, the Government reiterated its intention to bolster the sector to reach self-sufficiency in 2005, through the diffusion of Nerica varieties and the launching of a "Nucleus Estate Initiative" (NEI). This programme seeks to modernize rice production systems through the provision of machinery and equipment, seeds and agro-chemicals, improved access to technologies and credit. By October, some Naira 7 billion (US$ 54 million) were reported to have been distributed through the Agricultural Co-operative and Rural Development Bank (NACRDB) to small scale farmers to expand rice production.

In **Senegal,** support to the sector is mostly concentrated on irrigation infrastructure, the management of which has been largely transferred to rural communities and producers. However, in 2004, the Government instituted a rotation fund of CFA 400 million (US$ 0.7 million) to finance input purchases, in particular tractors, for the promotion of rice production in the valley of the Senegal River. The country is also considering promoting the cultivation of early-growing, drought-resistant varieties in the Upper and Lower Casamance rainfed areas.

Under the Programme of Action for the Rural Development (PADR), support to the rice sector in **Madagascar** in the past three years focused on the rehabilitation of rural roads, the launching of small storage and transformation units and the provision of simple agricultural equipment. Tax exemption was also granted on imports of fertilizers and other basic inputs. In addition, some progress was made

[9] The Government plans to reclaim 150,000 feddans per year (63 000 hectares) in addition to the 3.4 million feddans (1.4 million hectares) currently under development under the Toshka mega project in the Southern New Valley and about 620,000 feddans (260 000 hectares) in North Sinai.
[10] Varieties with a 120 days cycle were promoted to replace the traditional 180 day varieties.

on the provision of land tenure rights. According to the Rice Development Policy 2003/2010, paddy production is targeted to increase to 4.2 million tonnes by 2010, 40 percent above the 2004 level.

Rice policies vary widely across **Latin America and the Caribbean**, with a few countries in the southern cone relying almost exclusively on the market mechanism, while in others; governments are actively involved in providing protection to producers. In the past few years, several countries established joint technical research programmes with Asian countries to exchange expertise and the testing of varieties developed under different environmental conditions.

In **Argentina**, support to the sector is mainly confined to the provision of market information services and research. In the past three years, the country further consolidated its liberal stance with respect to genetically-modified agricultural products, including rice. According to the Ministry of agriculture, twenty modified rice varieties were released for field-testing in 2003, up from only four in 2002.

Paddy producers in **Brazil** benefit from a number of institutional programmes, in particular preferential loans on investment in irrigation, storage and marketing and a floor price, which varies by region and quality. In 2003, paddy support price levels varied from US$ 34 to US$ 80 per tonne, low by international standards, but, in 2004, they were subject to strong increases in the order of 33 percent - 43 percent. Under the Moderinfra programme, credits at preferential rates were granted for irrigation and storage infrastructure development. In 2004/05, R$ 500 million (US$ 233 million) were allocated to the programme, about the same level as in the previous year, at an interest rate of 8.75 percent, replacing the 8.75 percent and 10.75 percent previously applied.

The rice sector in **Colombia** has traditionally benefited from a crop absorption mechanism, which constrained importers to buy rice locally at a minimum price in order to obtain import licenses. This system was terminated by the end of 2003 and replaced with a preferential quota system. Nonetheless, protection to farmers was maintained by auctioning the preferential quota import licenses to traders based on their commitments to purchase rice locally[11]. In the first auction, early in 2004, importers committed to buy 6.45 tonnes from domestic producers for each tonne they could import under the quota. The scheme covered the full 960 000 tonnes that were planned to be produced over the second cropping season[12].

In **Costa Rica,** price controls are still maintained at the different stages of the commodity chain. The level of the those prices, however, was left unchanged between 2000 and 2002. Since then, they have been subject to several increases in 2003 and 2004, with producer prices raised from Pesos 84 783 (US$ 236) per tonne in 2002 to Pesos 110 761 (US$ 264) per tonne as of 6 April 2004. To back the producer price increases, in December 2002 the Government allowed the sector to create a special fund financed through the profits made by selling cheap imported rice at the administered consumer price level[13]. However, in August 2004 the Controlling body of the Presidency requested to invalidate the provision.

Cuba launched the programme “Arroz Popular” in 1996, which involves 190 000 producers on 165 000 hectares of state-owned land. Under the programme, small plots of 0.5 to 1 hectare are rented out to farmers to grow rice under low input intensity methods, to complement production in large state farms or cooperatives. The country continued to promote the initiative in recent years and, to further enhance private rice production, it established a cooperation programme with Viet Nam, which is assisting in developing family rice cultivation, and with Japan, to study the feasibility of introducing small scale rice production technologies in the five central provinces.

[11] A minimum paddy price of Pesos 70 000 per bag of 125 kg (US$ 212.0 per tonne) was announced in July 2004, substantially higher than the minimum level of Pesos 63 500 per 125 kg bag (US$ 177.6 per tonne) applied in the second half of 2003.

[12] The scheme also fixed the periods to complete the purchases from producers, from 1 August to 31 December, as well as the imports, from 1 March to 31 July.

[13] The imports were made at US$ 147 per tonne, and then sold on the domestic market at US$ 210 per tonne.

Table I-4 : Cuba – Rice Paddy Production by Sector (thousand tonnes)

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
State 1/	152	156	123	74	65	50
Non-State 2/	128	213	183	195	225	272
Others	162	198	247	332	402	394
Total 3/	442	567	553	601	692	716

Notes:
1/ State-run provincial farms.
2/ Non-state municipal farms, private cooperative farms and small farmers.
3/ Includes specialized and non specialized producers, estimates of subsistence-consumption of CCS and scattered farmers, as well as, family production estimates.

Sources: National Statistics Office, Ministry of Agriculture, other public sources. FAO

The rice sector in the **Dominican Republic** has benefited in the past three years from large loans at preferential rates as well as from high minimum producer prices, established in consultation with producers and millers. In 2002, the minimum price was reportedly set at RD$ 725/fanega, (US$ 315 per tonne) for milled rice.

In 2002, support to the **Guyana's** rice industry was provided through Government loans, which totalled G$ 16 billion (US$ 89 million). Smaller farmers also benefited from a debt relief programme. Preparing for a phasing out of trade privileges with the European market, the Government started promoting diversification out of rice, with EU financial assistance. In 2003, the EU also agreed to provide € 24 million to enhance the competitiveness of rice producing countries in the Caribbean, which should mainly benefit Guyana and Suriname.

Since 1994, rice producers in **Mexico** have received decoupled payments under the Procampo Programme, which was instituted to help farmers cope with market liberalization and the withdrawal of direct price support. As of 2003, the payment has been differentiated, with farmers holding less than 5 hectares in non-irrigated areas receiving a Pesos 1 030 (US$ 99) per hectare for the spring-summer crops, 14 percent more than the normal rate of Pesos 905 pesos (US$ 87) paid to the other farmers. A uniform rate of Pesos 905 per hectare was paid to all farmers in the Autumn/Winter cropping season. Procampo payments were further increased in 2004.

Table I-5: Mexico - Procampo Direct Payments per Hectare

Cropping Season (Year $_t$)	1998	1999	2000	2001	2002	2003		2004	
						5 ha or more	Less than 5 ha	5 ha or more	Less than 5 ha
Spring-Summer (Year $_t$)	626	708	778	829	873	905	1030	935	1120
Autumn-Winter (Year $_{t/t+1}$)	626	708	778	829	873	905	905	935	935

Source: Mexico – Aserca; FAO

In June 2003, Mexico introduced a new set of programmes to improve agriculture competitiveness, including an "income target" sub-programme based on a minimum guaranteed price to rice producers of Pesos 2 100 (US$ 202) per tonne for 2003. The programme relies on "reference" market prices, with producers eligible to receive the difference between the target and reference prices. Under the income target programme, Pesos 500 (US$ 48) per tonne were paid to rice producers in the 2002/03 autumn/winter cropping season, for overall volume of 33 300 tonnes in seven different States. The same per unit payment was made in the 2003 Spring/Summer season, on 235 900 tonnes distributed

among 13 States. The deficiency payments were lower for the 2003/04 autumn/winter cropping season at Pesos 100-300 per tonne, covering overall 14 500 tonnes produced in three different States.

In July 2003, **Uruguay** established a fund financed through a 5 percent tax on all rice exports, to help indebted rice producers to pay their loan arrears and to reduce the high financial exposure of the sector following the 2002 currency devaluation. The export tax continued to be applied in 2004.

Developed countries

Domestic rice policies in developed countries preserved the same thrust as in the previous years, increasingly relying on "production decoupled" (green box) or "production limitation" programmes (blue box), and less on direct price support (amber box). In addition, initiatives were promoted to enhance the quality of the rice produced and to reduce the negative environmental impacts arising from rice cultivation and processing.

Under the Common Agriculture Policy (CAP) reform passed in June 2003 and put into effect with the opening of the 2004/05 season on 1 September 2004, the **European Union** (EU) substantially weakened the scope for government intervention on the rice market. Under the new regime, rice procurement prices were cut by half to € 150 (US$ 183) per tonne and a 75 000 tonne per season ceiling was placed on intervention purchases. This limit was exceptionally raised to 100 000 tonnes in 2003 and to 145 000 in 2004. To compensate farmers for the drop in the intervention price, direct payments were increased more than threefold, from € 52.65 to € 177.0 per tonne of paddy, but at the same time, the national base areas, which set the limits for such payments (and beyond which penalizations apply), were cut by an overall 9.3 percent to 392 801 hectares. Out of the € 177.0 (US$ 216) per tonne transfer, € 102 (US$ 124) per tonne are in the form of a "single farm payment" based on historical (2000-2002) production rights and € 75 (US$ 91) as "crop-specific aid", subject to the national rice area ceilings and historical yields. The single farm payment, introduced on 1 January 2005, is subject to annual reductions of 2 percent until 2013 on the portion of payment exceeding € 5 000 (US$ 6 090), with part of the proceeds re-directed to finance rural development activities under the "modulation" principle. The single farm payment will be linked to the respect of the environment, animal welfare and quality standards under the principle of "cross-compliance".

Table I-6: EU-15 Rice compensatory payments and national base areas

	Compensatory Payment Rates		National Rice Base Areas		Historical Paddy Yield
	Pre - 2003 Reform	Post - 2003 Reform*	Pre - 2003 Reform	Post - 2003 Reform	Pre And Post-Reform
	€ / hectare	€ / hectare	hectares	hectares	tonnes/ha
Spain	334.33	1 123.95	104 973	104 973	6.35
France: - Metropolitan	289.05	971.73	24 500	19 050	5.49
- French Guyana	395.40	1 329.27	5500	4 190	7.51
Greece	393.82	1 323.96	24 891	20 333	7.48
Italy	318.01	1 069.08	239 259	219 588	6.04
Portugal	318.53	1 070.85	34 000	24 667	6.05
Total			433 123	392 801	

* Includes the single farm payment and crop specific aid.
Source: EU Council Regulation No 1782/2003;FAO

On 1 May 2004, ten new countries joined the EU, namely Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. Since, only **Hungary** produces rice to some extent, the EU maximum guaranteed rice area was only expanded by 3 222 hectares, bringing the total for the EU-25 to 436 345 hectares. In anticipation of their future accession to the EU, **Bulgaria** and **Romania** also reached an agreement on the rice areas and reference yields, which will determine the size of direct payments to producers in the two countries as of 2007. The agreement earmarked 4 166 hectares, with a reference yield of 4.6 tonnes per hectare in the case of Bulgaria, and 500 hectares, with a reference yield of 1.7 tonnes per hectare for Romania.

Japan's on-going rice policies are directed at curbing excess paddy production while improving the competitiveness of the sector, through a consolidation of small farms into larger units, while shielding producers from large income variations. Since 1998, the Government has only purchased rice to replenish its rice reserves rather than for market price stabilization. As a result, the official purchasing price ceased to act as a minimum support price. Producers continued to benefit from the Rice Farming Income Stabilization Programme[14], which guarantees them compensation for 80 percent of the price shortfall below a reference level. Such a reference price was originally calculated as a three year moving average of market prices, but since 2002, it has been based on the previous seven years moving average[15]. To qualify for price compensation on their current level of production, farmers must adhere to the Production Adjustment Programme, which obliges them to divert part of their rice area to fallow or other crops. In 2002, the national 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 in 2003. In addition to price compensation, the land diversion programme also gives farmers the right to receive a per hectare "diversion payment", which varies according to the alternative use given to the land. While maintaining the production limitation programme, as of 2004 specific rice output ceilings have been established at the level of prefecture rather than at the single producer level, giving more flexibility to the local authorities to allocate their overall production rights.

Under the "Farm Security and Rural Investment Act of 2002", rice farmers in the **United States** are entitled to receive fixed direct payments and counter-cyclical payments on 85 percent of their "production bases"; and marketing loan benefits. The new Act raised the rice direct payment rate (DPR) from US$ 2.05 per cwt[16] (US$ 45.2 per tonne) in 2001/02 to US$ 2.35 per cwt (US$ 51.8 per tonne) for the 2002/03-2007/08 period. It also re-introduced target prices (TP) at US$ 10.50 (US$ 231.5 per tonne), but maintained the paddy rice loan rate (LR) at US$ 6.50 per cwt (US$ 143.3 per tonne) for the five year programme duration. The three elements, namely the target price, the loan rate and the direct payment rate, together with the announced "adjusted world prices"[17], are relevant to draw the counter-cyclical payment rate[18] (CCPs), which is calculated as the difference between the target price and an "effective price"[19]. In 2002/03, the rice effective price fell short of the target, so US$ 1.65 per cwt (US$ 36.4 per tonne) were granted in the form of CCP. With the effective prices much higher in 2003/04, the CCP rate dropped to US$ 0.07 per cwt (US$ 1.54 per tonne). Rice producers are also eligible to marketing loan benefits in the form of marketing loan gains or loan deficiency payments. Both the marketing loan gain rate (MLG) and the loan deficiency payment rate (LDP) are equivalent to the amount by which the loan rate exceeds the adjusted world price. Although international prices recovered strongly since mid 2003, the adjusted world price still fell short of the loan rate in 2002/03 and in 2003/04, so farmers could get the difference in the form of marketing loan

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[14] One fourth of the Stabilization Fund is financed through contributions by farmers, with the rest coming from the National Budget.
[15] Excluding the highest and lowest prices.
[16] 1 cwt of rice is equal 0.045359 tonnes
[17] USDA's Commodity Credit Corporation (CCC) announces world market prices every two weeks based on prevailing levels of representative world market prices of milled and paddy rice, adjusted for U.S. milling yields and location. At the same time, the CCC also releases the rates of the LDP and MLG.
[18] CCP rate = target price- [Max (world price, loan rate) + fixed direct payment rate]
[19] The effective price is defined as the direct payment rate plus the higher of (i) the loan rate or (ii) the season average market price.

benefits at a rate of US$ 3.28 per cwt (US$ 72 per tonne) in 2002/03 and US$ 2.52 per cwt (US$ 56 per tonne) in 2003/04.

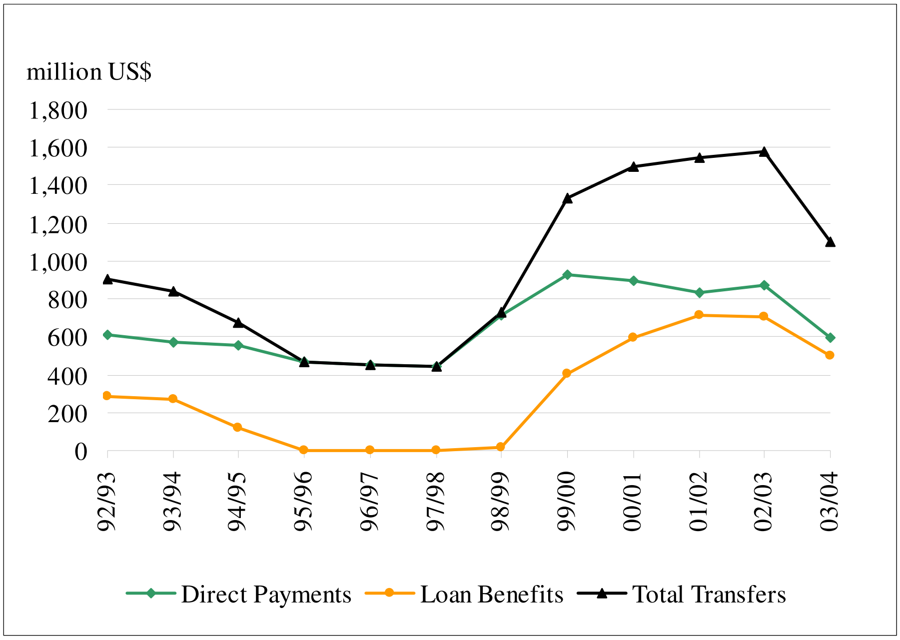
Table I-7: United States – Support to rice producers (rates for paddy/rough rice)

August/July Mark. year	2000/01	2001/02	2002/03	2003/04	2000/01	2001/02	2002/03	2003/04
	US$ cwt				US$ per tonne			
DPR	2.05	2.05	2.35	2.35	45.20	45.20	51.80	51.80
Loan rate	6.50	6.50	6.50	6.50	143.30	143.30	143.30	143.30
Target price	-	-	10.50	10.50	-	-	231.50	231.50
Adjusted World Price	3.20	3.33	3.28	4.68	70.55	73.41	72.31	103.18
CCP rate[1/]	2.81	2.40	1.65	0.07	62.00	53.00	36.40	1.54
MLG/LDP rates[2/]	3.12	3.38	3.28	2.52	68.78	74.52	72.31	55.56
Seasonal average market price	5.62	4.26	4.22	8.08	124.00	94.00	93.00	178.13

1/ Ad-hoc emergency payment rate before 2002/03; Counter cyclical payments after CCP rate = target price- [Max (adj. world price, loan rate) + fixed direct payment rate]
2/ Amount by which the loan rate exceeds the adjusted world price

Source: USDA; FAO

Figure I-2: United States: Transfer to rice under direct payments and loan benefits



Overall, about US$ 1.6 billion were transferred to US rice producers in the form of direct and countercyclical payments and loan benefits in 2002/03, almost unchanged from the previous two years, but sharply above the levels granted in the 1990s. In 2003/04, higher market prices resulted in lower CCP payments and loan benefits, with outlays to producers declining to some US$ 1.1 billion.

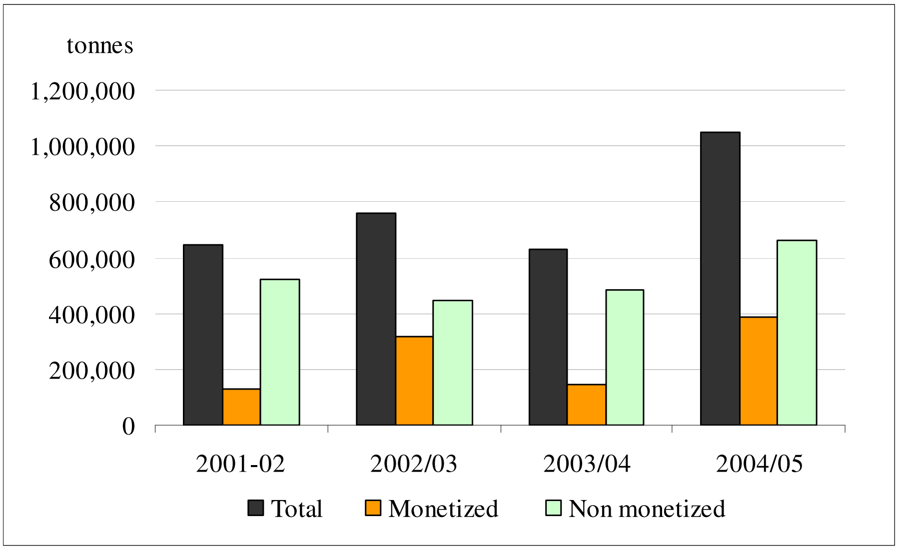
Consumption, marketing and stock policies

A number of important rice producing countries have gradually moved toward more competitive marketing systems. However, because of the significance of rice as a staple, governments have preserved substantial discretionary power to influence the rice market, for instance in the form of privileged shares in State-controlled firms or through market price controls. In the past two years, many governments have widened the breadth of their policies to influence the sector along the various phases of the commodity chain and adopted legislation to improve the efficiency of the marketing channels. The strong rise in international rice prices and freight rates since 2003 resulted in soaring domestic prices, especially in Africa but also in Asia, putting pressure on governments to take action to keep retail rice prices affordable.

Global rice stocks at the end of the 2003/04 marketing seasons were at their lowest level in the 1990s. The contraction was particularly pronounced in countries such as India, Thailand, Viet Nam and the Republic of Korea but also in Australia and the United States. Although some governments attempted to shift the responsibility of holding rice stocks to the private sector, major rice consuming countries maintained a mandatory minimum level of rice for food security reserves, including China, the Philippines, Malaysia and Indonesia. At the regional level, the Association of South East Asian Nations (Asean) reiterated in October 2003 the need to set up a rice reserve for food emergencies in the region, at some 85 000 tonnes.

In **Bangladesh**, the Government has actively engaged in marketing rice through public work programmes, distribution to vulnerable groups and open market sales, with volumes fluctuating around 600 000 - 700 000 tonnes per year between 2001 and 2003, but rising sharply beyond 1 million tonnes in 2004. The surge in the volume of publicly distributed rice was prompted by strong pressure for domestic prices to rise in the wake of the heavy rains and floods that hit the country in the summer. In response, a massive flood assistance programme was launched, covering over 20 million people in 39 flood-hit districts, which led to the distribution of 10 kg of rice per month per family for a period of six months in the worst affected districts and three months in the others.

Figure I-3: Bangladesh: Rice channelled through the public distribution system



In June 2004, mainland **China's** State Council issued new "Regulations on Grain Circulation Management", which, de facto, abolished State trading firms' monopoly over domestic purchases by allowing private traders to buy directly from farmers and to sell or process rice. Mandatory delivery quotas were accordingly relaxed in 2004, allowing producers to adjust their crop patterns in response

to market signals. In 2004, the largest parboiling plant in the country began operations in the Jiangxi Province, with a processing capacity of 400 000 tonnes of paddy, and a production capacity of 180 000 tonnes of parboiled rice and 60 000 tonnes of milled rice per year. The project was financed by the national Government and China's National Cereals, Oils and Foodstuffs Corporation (COFCO), the State-controlled grain marketing agency. COFCO has already put forward plans to finance the construction of other rice parboiling plants in the major rice producing provinces including Hunan, Hubei and Anhui.

The Federal Government of **India** is pledging Rupees 1.9 billion (US$ 42 million) marketing infrastructure. To have access to these funds, the States of the Federation are required to undertake a revision of their legal framework, drafted along the Agricultural Produce Marketing Committee Act (APMC Act), to allow mandis[20] to be managed by private firms, and to put private marketing and contract farming within a legal context. Meanwhile, new procurement centres were opened, to facilitate the enforcement of minimum guaranteed prices, and administrative controls on marketing and inter-provincial movements of goods were lowered. The Federal Government also authorized the use of futures trading in rice and wheat as of January 2004 through the National Multi-Commodity Exchange (NMCE), which had been previously forbidden.

In **Indonesia,** Bulog lost its responsibility for stabilizing domestic consumer prices in January 2003, when it became a state-owned enterprise[21]. However, the Agency continued to distribute around 2 million tonnes of rice under the Raskin or "rice-for-the-poor" programme, targeted to vulnerable population groups, which has been in operation since 1998. Under the programme, beneficiary households are eligible for 20 kg of rice per month at the subsidized price of Rupiah 1000 (US$ 0.12) per kg.

Under major reform, which coincided with its accession to WTO, **Nepal** has undertaken a fundamental reorganisation of the Nepal Food Corporation (NFC), which has been responsible since 1974 for rice price support, market stabilization and maintenance of food security stocks. According to its new mandate, the NFC role has been mostly limited to the distribution of rice and other food grains to remote, hilly districts.

In the **Philippines**, the government has provided a subsidy of Pesos 100 (US$ 18) per tonne to farmers for transporting rice to the National Food Agency warehouses and Pesos 150 (US$ 27) per tonne for drying the product. The Philippines is reportedly bound to adopt a new standard for organic rice, with the aim of increasing its share in high-end markets.

In August 2004, the Agricultural Futures Exchange of **Thailand** (AFET) started trading 5% broken white rice futures contracts and entered a co-operation agreement with the Central Japan Commodity Exchange (C-COM), to promote futures trading across Asia. The Government recently announced a four-year plan to renew storage facilities over the 2004 – 2008 period. The plan will promote technical change with the objective of raising the quality of rice inventories, for instance through the adoption of temperature-controlled silos.

In ***Africa***, several countries have promoted measures to improve the capacity and the efficiency of their rice milling systems, often with external assistance. For instance, **Nigeria** recently signed a memorandum of understanding with Thailand and China for the establishment of rice processing plants. The Democratic Republic of Congo also promoted the renewal of rice milling technology with the support of FAO and non-government organizations.

Confronted with soaring rice prices in 2004, **Guinea's** authorities released 20 000 tonnes of rice in 2004 for sale at a price of US $12 per 50 kg bag. The crisis mainly reflected a shortage of hard

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[20] Agricultural markets

[21] By then, it was handed the dual function of conducting public services and of carrying out business as a commercial firm

currency that hindered traders' ability to import. The Government reached an agreement with the private sector to have them sell rice at a controlled price of 40,000 francs (US$14) per 50 kg bag, which compared with a free market price of US$ 20.

In 2004, the National Cereals and Produce Board of **Kenya** started purchasing rice directly from farmers, in an attempt to reduce the incidence of high trading margins on final consumer prices.

In **Madagascar,** the new Government abolished all controls on retail prices in 2003, upon taking office. This, combined with reduced import supplies, resulted in prices soaring by end 2004, which prompted the Government to consider the establishment of food security stocks.

Since 2001, rice prices in **Senegal** have been subject to a "Charter of price moderation", under the National Council for Consumption, which sets "fair price" levels for basic commodities. Such prices are only indicative but are applied in special "reference stores", located mainly in the major cities, to enhance competition.

In ***Latin America and the Caribbean***, several countries including the **Dominican Republic**, **Guatemala** and **Panama**, provided incentives to encourage local millers to buy domestic rice at an "agreed' minimum price, either by covering the storage costs or through a "crop absorption" system. The latter makes the granting of import licenses conditional on local paddy purchases at pre-determined prices.

In January 2003, Brazil launched the "Zero Hunger" programme, which pursues the eradication of extreme poverty and hunger", especially through "Bolsa Familia" (family basket), which, according to CONAB, lifted rice consumption by close to half a million tonnes in 2003.

In **Colombia**, the Government continued to grant incentives to millers to store rice at harvest time and for limited periods, as a means to reduce seasonal price fluctuations. In 2004, the government provided a US$ 5 / tonne monthly subsidy to millers to uphold supply in stores from 15 July to 30 September, subject to the payment of a minimum price to producers of Pesos $ 70 000 per 125 kg bag (US$ 224 per tonne). The scheme entailed a government expenditure of Pesos $ 15 000 million (US$ 384 000).

Similarly, in the **Dominican Republic**, millers have been allowed to purchase rice from producers and to store it for up to four months at the Government's expense. In 2002-03, the scheme was used to store some 200 000 tonnes of rice, resulting in a government outlay of RD 400 million (US$ 10 million).

Costa Rica continued to control the selling price of 20 % or more broken rice at all segments of the marketing chain, from millers to wholesalers and retailers and to the final consumers. While maintained constant from July 2000 to December 2002, the controlled prices have been subject to several changes since then, with the permitted wholesaler –retailer margin of the order of 2 - 3 percent, while the allowed mark-up from retailer to consumer varied from 6 to 10 percent.

Table I-8: Costa Rican maximum sale price for rice, 20 percent broken			
Implementation date	**Miller to Wholesaler**	**Wholesaler to Retailer**	**Retailer to Consumer**
	***Colon* per kilo**		
28/09/98	146.68	151.09	166.00
10/06/99	137.54	141.67	156.00
03/09/99	157.68	162.41	179.00
28/11/00	168.57	173.63	191.00
03/12/02	159.28	164.07	180.00
10/06/03	200.00	204.00	218.00
10/12/03	218.11	222.24	238.00
01/04/04	232.65	239.65	264.00
21/05/04	248.39	255.85	272.00
Source: Oficina Arroz; Presidency of the Republic; FAO			

As part of the new programme launched in June 2003 to support agricultural producers, Mexico announced the introduction of subsidies on grain transportation from surplus to deficit or external markets.

Venezuela undertook to promote rice consumption over the past two years, for instance by requiring rice to be blended with maize flour under government food programmes and public schools campaigns. The Government maintained its control over retail prices, the level of which was increased by 13 percent in 2004, well below the 20 percent annual inflation rate predicted by the government.

In the rest of the world, the Rice Marketing Board for the State of New South Wales, in Australia, was extended in November 2003, the domestic marketing monopoly it had on the rice produced in the State till January 2009.
Under the "Comprehensive Plan for the Development of the Rice Industry", the **Republic of Korea** launched in 2002 a series of initiatives to stimulate domestic rice utilization, through a "Rice for Breakfast" campaign, rice for school lunches, distribution to military and public institutions and the establishment of a food stamp programme for vulnerable groups. In addition, it raised the volume of rice for processing into starch and alcohol.

International trade policies

Import measures

Global rice imports remained high compared to the pre-1998 levels, reflecting production shortfalls but also the openness of trade regimes, especially in Africa. By contrast, in 2004 a number of major Asian importers have been reducing their purchases, thus contributing to a global contraction in trade. Despite higher international rice prices and a surge in freight rates, several governments maintained high tariff and non-tariff barriers, while, in the face of rising domestic prices, others took steps to reduce border protection.

In ***Asia***, **Bangladesh** continued to make extensive use of border policies to stabilize domestic prices. In 2001, rice imports were subject to a range of duties, which were lowered in the following two years, in the light of rising domestic prices.[22] The country also restricted inflows of rice from India to only two entry points in 2002 and 2003.

[22] In 2001, a 25 percent ad-valorem tariff, a supplementary 10 percent regulatory duty, a 3 percent advance income tax and a 2.5 percent development surcharge and a 100 percent letter of credit margin were applied. In 2002, the government withdrew the regulatory duty and reduced the letter of credit margin to 25 percent and the import duty to 22.5 percent. In 2003, the Government lowered further the tariff to 7.5 percent, but retained the 3 percent advance income tax and the 3.5 percent development surcharge.

Cambodia's membership to WTO was approved on 11 September 2003 and ratified by the country one year later. Under the Agreement, rice is subject to a bound tariff rate of 40 percent for all rice specification, except seeds, which was bounded at 5 percent.

According to **China's** WTO accession agreement, tariffs on rice products were subject to a binding of 65 percent by the end of in 2004, while rice entering the country under the preferential access quota remained subject to a 1 percent duty. In 2002, the tariff rate quota (TRQ) was set at 3.990 million tonnes. It was subsequently increased to 4.655 million tonnes in 2003 and to 5.320 million tonnes in 2004, with the same level confirmed in 2005. As in previous years, short and medium grain accounted for half of the quota and long-grain rice, for the other half. In addition, state trading enterprises were entitled to import 50 percent of the quota, with the remainder going to licensed private trading companies. Actual rice imports, however, have fallen considerably short of the preferential access volumes, with less than 6 percent of quota filled in 2003. Since 2004, the rice (and grains) tariff quotas have been administered by the State Development and Reform Commission.

The **Chinese Taiwan Province** placed rice under the "special treatment provision" of the WTO Agreement on Agriculture, which permitted the government to maintain non-tariff barriers on rice imports, in exchange for opening a minimum import quota. This amounted to 144 720 tonnes in husked rice equivalent in 2002, with the same volume maintained in 2003 and 2004. Government agencies were reserved 65 percent of the quota, with remaining 35 percent auctioned to licensed traders through public tenders. In October 2002, the Government informed the WTO that it would "tariffy" its rice non-tariff barriers and replace the minimum rice import quota with a "normal" TRQ for the same volume. The new import regime was enforced in 2003, with out-of-quota tariffs set at NT$ 45 per kg (US$ 1 294 per tonne) for rice and NT$ 49 per kg (US$ 1 409 per tonne) for processed rice products. However, a number of trading partners formally raised objections to the WTO about the introduction of the new import regime. Since it joined the WTO, the Province notified twice its use of the volume-based Special Safeguard on rice products, which it applied from 10 July to 31 December 2003 and again from 19 April to 31 December 2004.

The **Philippines** allowed producer groups and cooperatives to import up to 945 000 tonnes of rice in 2003, subject to some limitation on the timing of the deliveries and on individual shipment volumes, thereby putting an end to the National Food Authority (NFA) quasi-monopoly over rice imports. In 2004, an additional quota of 294 000 tonnes was granted to producer groups. Meanwhile a number of countries – including China, the United States, Thailand, Argentina, Pakistan and Australia, and recently Egypt - informed the WTO of their intention to engage in negotiations with the country regarding the new import regime that Philippines would have to establish after the current system of quantitative import restrictions expires in June 2005.

Although **Indonesia** refrained from increasing the applied specific import duty of Rupiah 430 per kg (US$ 38 per tonne), it resorted to higher non-tariff protection, with the introduction of a ban on imports to Java in 2002. Starting in January 2004, the country imposed a national ban on imports, which was extended first to the end of August, and then to the year end. In August 2004, the ban was also broadened to cover glutinous rice, rice seeds and rice flour, while food aid imports were permitted.

The **Islamic Republic of Iran** announced in March 2004 the opening of rice imports to the private sector, which will be subject to a 100 percent ad-valorem tariff, plus a discretionary duty of Rial 1 500 per kg, (US$ 190 per tonne).

Under the 1994 WTO Agreement, the **Republic of Korea** was exempted from introducing a tariff rate import system for rice under the WTO "special treatment provision" and established, instead, a minimum import quota that was progressively increased to 205 228 tonnes in 2004 (corresponding to 4 percent of the national consumption in the 1986-88 base period). With the current provision due to expire by the end of 2004, the country has engaged in bilateral consultations with Australia, Argentina, Canada, China, Egypt, India, Pakistan, Thailand and the United States over the opening of its domestic

rice market. Options under discussion include the introduction of a tariff system or the widening of the present minimum import quota.

In 2002**, Sri Lanka** converted its 35 percent ad valorem duty on rice imports into a specific duty of Rupee of 5 000 per tonne. This was raised to Rupee 7 000 (US$ 75) per tonne in March 2003 and again to Rupee 9 000 ($US 96) per tonne in August 2003. In July 2004, the Government temporary removed duties on rice imports from Pakistan, in response to sharp price increases in the domestic rice market, but put an end to the measure in October 2004, after prices started declining.

Along with tariffs, rice imports by **Turkey** are subject to non-tariff barriers in the form of licenses which normally expire by the end of August, when the harvesting period begins. Tariffs have also been used extensively to stabilize domestic prices, with the duty on paddy and milled rice raised from 27 percent and 35 percent respectively in 2002 to 38 percent and 45.5 percent in 2003. In 2004, a new regime was announced for implementation from 1 November 2004 to 31 July 2005, which set an overall import ceiling of 300 000 tonnes (milled equivalent), subject to a 32 percent duty for paddy, 34 percent for husked and 43 percent for milled rice. The licenses are only released to rice producer groups or to traders who have previously purchased rice from producer groups. In addition, the Turkish Grain Board is eligible to import another 50 000 tonnes of milled rice, for market stabilization purposes.

In Africa, **Nigeria** increased its import tariffs from 75 percent to 100 percent in 2002. In 2003, the country's imports were subject to an additional 10 percent special rice development duty. Moreover, to counter under-invoicing practices, the Government imposed a minimum CIF value for calculation of the duty on rice imports, at $US 205 per tonne for Indian rice and $US 230 per tonne for rice from other origins. The Government also announced its intention to ban all rice imports by 2006.

In February 2003, the parliament of **Ghana** approved a supplementary 20 percent duty on rice imports, in addition to the applied 5 percent rate, in an attempt to protect its rice sector. However, the measure was bypassed by the Government, under recommendation from the International Monetary Fund (IMF).

In ***Latin America and the Caribbean***, **Brazil** cut import duties in December 2002, from 14 percent to 11.5 percent on paddy rice and from 18 percent to 13.5 percent on milled rice, but introduced new phyto-sanitary requirements, constraining non-Mercosur suppliers to submit pest risk assessments. In 2003, import taxes were temporarily cut to 4 percent, for the last quarter of the year, subject to a ceiling on imports from non-Mercosur countries of 400 000 tonnes paddy and 100 000 tonnes milled rice over the quarter, but imports from Asia were banned in reaction to the animal disease outbreak in Thailand. As of January 2004, the duties were again raised to 10 percent in the case of paddy and to 12 percent in the case of milled rice.

Under the Andean Pact, **Bolivia**, **Colombia**, **Ecuador**, **Peru** and **Venezuela** operate a price band mechanism for calculation of duties on imports from outside the Andean Community. The system is based on floor and ceiling prices, which are set annually based on a moving 60 month price average and their standard deviation, and a reference international export price (adjusted to its CIF equivalent), which is updated every two weeks[23]. The system acts as a price stabilizing mechanism that lowers variable duties when world prices increase and vice-versa. The system resulted in a notable reduction in tariff protection in Ecuador, where the overall duty on rice imports dropped from 73 percent in 2001/2002, when the world reference price was especially low, to 18 percent in 2004/05, when it was much higher.

[23] When the reference price falls between the floor and ceiling prices, imports are only subject to the common external tariff (CET). If the reference is lower than the floor price, the difference is added as a surcharge to the CET levy. If the reference price exceeds the ceiling price, the difference is detracted from CET levy.

Table I-9: Andean Community Price Band Mechanism – Ecuador Rice (10% broken)						
	CIF Floor Price	**CIF Ceiling Price**	**CIF Reference Price**	**Ad-Valorem Duty**	**Variable Duty**	Total Import Duty*
April/March	**$US per tonne**			**% CIF Reference Price**		
2001/02	319	387	215	20	52	72
2002/03	278	352	233	20	23	43
2003/04	253	319	240	20	7	26
2004/05 **	238	280	284	20	-2	18

* Subject to individual country's ceilings, to comply with WTO bound tariffs

** April 2004 to January 2005

Source: Andean Community General Secretariat; SICA-BM/MAG-Ecuador and FAO

Until end-2003, **Colombia's** rice imports were conditional on the approval of the Ministry of Agriculture and on prior local rice purchases. The system was replaced in February 2004 by a tariff rate quota, with an in-quota volume of 180 000 tonnes (paddy equivalent) for imports originating from outside the Andean Pact Community and an in-quota variable duty determined through the Andean Price Band Mechanism. The auction mechanism to allocate of the in-quota import rights, however, continued to rely on importer's commitment to buy rice locally. The ad-valorem tariff applied on rice imports falling outside of the tariff quota, was raised from 20 percent to 80 percent in December 2003. Later in the year, ban on imports was imposed on a number of products, including rice, to protect farmers suffering from the appreciation of the local currency. Since 2001, Colombia has maintained a safeguard that limited rice imports from the Andean Pact Community to an equivalent 123 000 tonnes of paddy in 2002 and of 150 000 tonnes in 2003.

In March 2002, **Costa Rica** resorted to Article 12 of the WTO Agreement on Safeguards to impose an ad-valorem tariff surcharge on milled and unhusked rice, of 27.11 percent and 20.70 percent respectively. The measure was justified by a surge in imports, which threatened to cause injury to producers. On 27 September 2002, the country also applied the WTO price-based special safeguard, with the trigger price set at US$ 223.78 per tonne in the case of paddy and at US$ 322.64 per tonne for husked and semi-milled rice.

Rice imports by **Mexico** from NAFTA member countries became duty-free in 2003, while imports from non-NAFTA countries remained subject to a 10 percent duty in the case of paddy and broken rice at 20 percent in the case of milled rice. In 2003, a NAFTA ruling allowed Mexico to apply a 10 percent anti-dumping compensatory duty against a number of US exporting firms. In 2004, differential antidumping duties, varying from 4 to 11 percent, continued to be imposed on long-grain white rice exported to the country by specific US firms. The decision has been challenged by the United States at the WTO, which has led to the establishment of a dispute settlement panel in February 2004.

In July 2002, **Nicaragua** also invoked the WTO price-based Special Safeguard and imposed a 41.5 percent additional tariff on husked, semi-milled , on top of the MFN tariff of 62 percent, with the trigger price set at US$ 516.30 per tonne.

In May 2004, the **United States**, **Costa Rica**, **El Salvador**, **Guatemala**, **Honduras** and **Nicaragua** signed the Central American Free Trade Agreement (CAFTA), which became the "DR-CAFTA" in August, when the Dominican Republic joined. Under the agreement, the six Central American countries pledged to open duty-free rice quotas, which in the first year of implementation amounted to close to 400 000 tonnes overall, subject to annual increases. The members also agreed to eliminate out-of-quota tariffs over a period of 18-20 years. During the transition period, member countries

volume-based safeguards can be invoked whenever imports exceed the quota by more than 10 percent (30 percent in the case of the Dominican Republic).

Table I-10: DR-CAFTA rice duty-free quota – First year of implementation							
	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Dominican Republic	Total
Rough	50 000	61 000	52 000	90 000	90 000	2 000	345 000
Milled	5 000	7 500	10 000	8 500	13 000	8 000	52 000
Total	55 000	68 500	62 000	98 500	103 000	10 000	397 000
Source: USDA							

Among ***developed countries***, the EU has implemented since 1 September 2004 a new rice import regime which replaced the variable duty system[24] with "fixed duties", on a provisional basis[25]. As a result, a € 65 per tonne duty is applicable on husked rice and € 175 per tonne on milled rice imports, much lower than the previous WTO bound tariffs of € 264 per tonne and € 416 per tonne, respectively. However, because the new regime entails modification of schedules and the withdrawal of concessions, the EU needs to secure the consent of interested WTO partners, under Article 28 of GATT. An agreement was already reached in 2004 with India and Pakistan, which obtained free access to the EU for Basmati varieties, replacing the € 250 per tonne duty abatement previously granted on Basmati imports from the two countries.

Table I-11: EU – Rice Import Duties to Third Countries as of 1 September 2004*				
	Paddy Rice	**Husked Rice**	**Milled Rice**	**Rice, Brokens**
Euro / tonne	211	65	175	128
US$ / tonne	262	81	205	159
* Pending a revision of the Council of Ministers rule N. 1785/2003.				

Negotiations are currently underway between the EU and African, Caribbean and Pacific States (ACP), which stand to lose from the cut in import duties, as this will erode the value of their preferential access to the EU rice market. Similarly, the new EU rice policy will considerably reduce the value of the Everything-But-Arms programme (EBA) which will grant unlimited access to rice from 48 least-developed countries as of 2009. By then, EU rice market prices are likely to be much in line with those prevailing in other export markets.

Table I-12: EU Rice Concessions under the EBA Preferential Access Scheme							
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Duty-Free Quota (tonnes)	3 329	3 829	4 403	5063	5 823	6 696	Free Access
Duty Reductions	none	none	none	20%	50%	80%	100%
Source: EU Commission							

[24] The variable duty system has been linked since 1995/96 to the intervention prices through the "Margin of Preference import duty calculation" system: under the US/EU Blair House Accord embodied in the WTO agreement, the duty-paid import price could not exceed the effective EU intervention price by more than 80 percent for husked Indica rice; by more than 88 percent for husked Japonica; by more than 163 percent for milled Indica rice and by more than 167 percent for milled Japonica.

[25] Pending an agreement with its traditional rice supplying countries. The date limit for revision is 30 June 2005

The **Russian Federation** has maintained a relatively low level of protection against rice imports, which in 2002 were subject to a 10 percent ad-valorem duty. In July 2003, however, the country reacted to a surge in imports by making the duty subject to a minimum value of US$ 30 per tonne. The measure, which was introduced on a temporary basis for only nine months, was re-instated in June 2004 for another nine months.

Since 1999, **Japan** has implemented a tariff system on imported rice, with the duty bound at Yen 341.0 per kg (about US$ 3 000 per tonne). As a result, rice is mostly imported under the duty free quota of 770 000 tonnes (husked basis) by the Food Agency, the only entity eligible to import under the quota. Over 80 percent of this is filled by the Agency directly under the "Ordinary Market Access" and the rest allocated through auctions to private traders under the "Simultaneous-Buy-Sell" (SBS) system, subject to the payment of a mark-up to the Food Agency that cannot exceed 292 yen/kg. The volume imported under the SBS fell in 2001 and 2002, but recovered in 2003.

Table I-13: Japan Rice Imports under the "Ordinary Market Access" (OMA) and "Simultaneous-Buy-Sell" (SBS) – tonnes, husked rice

April/March	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
OMA	408 794	465 650	544 341	632 400	653 100	693 039	579 969	679 541	671 100
SBS	10 694	22 000	55 141	120 000	120 000	120 000	100 000	50 067	100 000
Total	419 488	487 650	599 482	752 400	773 100	813 039	679 969	729 608	771 100

Japan has made wide use of the WTO special safeguard provisions in dealing with rice imports over the past three years. The country resorted to both price and volume-based Special Safeguards[26].

Export Measures

Despite **China's** accession to the WTO, the Government has retained a monopoly on rice exports, which are carried out through state trading enterprises, in particular COFCO. The country did not notify export subsidies on rice over the past two years.

India lifted quantitative restrictions on the export of rice, including Basmati paddy rice in March 2002, under the 2002-2007 Export/Import (EXIM) policy. However, exports of Basmati rice continued to be subject to advisory minimum prices, to quality control and inspection and to a special tax to finance the Basmati Development Fund. The policy that had boosted exports of ordinary rice since April 2001 by allowing the Food Corporation of India (FCI) to sell rice from government reserves to traders at about half the intervention price level was suspended in August 2003, in response to a sharp reduction in Government-held stocks. The move coincided with the passing of new regulations allowing exporters to purchase rice directly from farmers, rather than exclusively through the FCI. In 2004, the Government refrained from re-introducing subsidies to exporters, as tight supply conditions continued to prevail. However, relatively high international prices permitted traders to sell basmati and non-basmati parboiled rice, without institutional support.

[26] The country invoked volume-based Special Safeguards from 1 July 2001 to 31 March 2002, from 1 October 2002 to 31 March 2003 and again from 1 October 2003 to 31 March 2004 on food preparations containing rice pellets (Tariff item number 1901.20, 1901.90). It also resorted extensively to the price-based Special Safeguard, which was invoked on 31 May 2002 and 7 July 2003 on food preparations containing rice pellets (Tariff item number 1901.90.179) and repeatedly on rice flour imports, on 5 September 2002, 12 August 2003, 19 September 2003, 26 January 2004, and 29 January 2004.

Table I-14: India - FCI Rice [1/] Sale Prices for Export				
	Raw Rice		Parboiled Rice	
	Rupees/tonne	$US/tonne	Rupees/tonne	$US/tonne
January 2003	6 260	131	6 615	138
April 2003	6 610	140	6 915	146
July, 2003	7 300	158	7 500	162
[1/] Non-Basmati rice, 25 percent broken				

The Government of **Myanmar** also abolished its rice export monopoly, devolving responsibility to the private sector. However, private traders exports remain subject to approval by the Myanmar Rice Trading Sub-Committee, (which also sets a minimum export price on a monthly basis) and to export licensing by the Directorate of Trade. In January 2004, a temporary six months ban on export was imposed for a number of products, including rice, to counteract pressure on domestic prices while ensuring domestic availability. In 2004, the Ministry of Commerce sealed a counter-trade agreement with the Malaysian government controlled company BERNAS, to exchange machinery and other goods for some US$ 1.75 million worth of broken rice.

In **Pakistan**, the government continued to play an active role in promoting deals with importing countries on behalf of the private sector, while providing some freight subsidies. In the autumn of 2004, exporters also benefited from an agreement granting them temporary free-duty access to the Sri Lanka rice market.

Thailand carries out export promotion activities through the Department of Foreign Affairs and the Department of Export Promotion. Aside from the various bilateral and multilateral agreements that have been under negotiation, the government released rice supplies from the public stockpile for export in 2003 and 2004, which contributed to boosting shipments to record levels. In addition, the country has continued to promote high valued local varieties, in particular “Hom Mali” (fragrant rice), in various foreign markets.

Vietnam announced a removal of quantitative restrictions on rice exports in 2001 but, in 2004, restrictions were again imposed following expectations of a poor summer crop and concerns over excessive export commitments by traders. As a result, in June 2004, rice exporting companies were required to register export contracts with the Vietnam Food Association and a temporary ban on new deals was imposed by end July. Minimum export prices were also introduced in August, at US$ 225 a tonne for the 5 percent broken grade rice, FOB Saigon. The ban was lifted in September and the 2004 export target was raised by 300 000 tonnes to 4 million tonnes.

Bolivia undertook to normalize its standards for rice as a measure to promote exports. In 2003, the **Dominican Republic** spent US$ 4 million to subsidize exports.

The **United States** reported nil direct subsidies under the Export Enhancement Programme, while in 2001/02 the **EU** notified 132 thousand tonnes of rice exported with refunds, for a budgetary outlay of € 30.3 million.

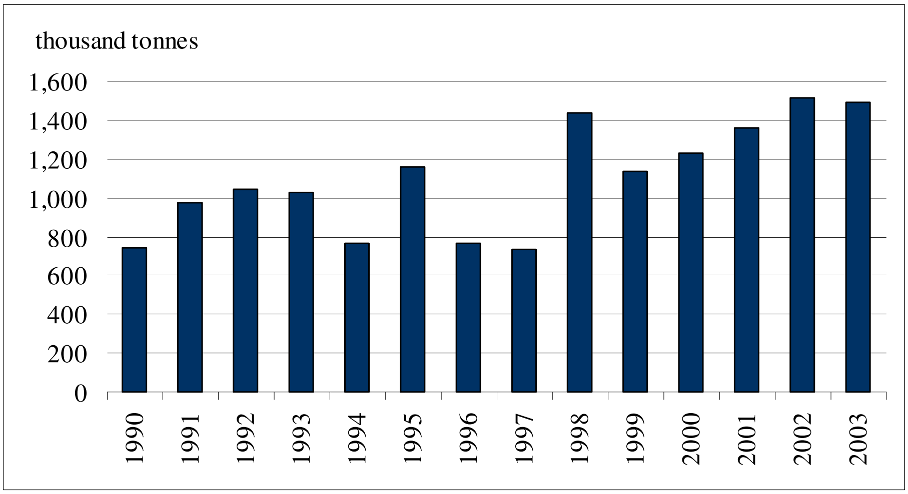
In **Australia**, the local Government of New South Wales, where most of the country’s rice is grown, decided in 2003 to extend the monopoly on rice exports held by the Rice Marketing Board on behalf of the rice grower’s co-operatives until 2009.

Food aid in rice

Food aid in rice has complemented domestic reserves in several countries. Total shipments rose from 1.2 million to about 1.5 million tonnes between 2000 and 2002, and diminished by about half a million

ton in 2003. A novel feature during the period was the growing importance of a number of developing countries as donors, in particular the Republic of Korea and China (mainland) which, respectively, ranked second and fourth largest among donors in 2003. Among recipients, the principal beneficiary has been the Democratic Republic of Korea, followed by Indonesia, Iraq, Indonesia, the Philippines and Mozambique.

Figure I-4 Rice food aid shipments (000 tonnes)



About 200 000 tonnes of rice food aid were provided through triangular transactions in 2002 and 2003, mainly financed by The Netherlands, Canada, France, the European Union and the Red Cross.

Conclusions

Despite a general drift towards reduced public interventions in agriculture, rice has retained a special status in governments' agenda, because of its political, economic and social significance, both as a major food security commodity and as an important wage good. As a result, governments continued to exert considerable discretionary power to influence the sector.

Faced with a prolonged fall in international prices since 1999, major exporting countries reassessed their rice production policies in 2002 and 2003, putting greater emphasis on reducing cultivation in marginal lands, consolidating rice farms into more efficient concerns and promoting quality in rice cultivation and processing. At the same time, several of them stepped up support to producers to enable them to weather the impact of low prices, including through direct income payments. This policy context changed in mid-2003, when world prices started to recover, which led to the re-establishment of expansionary production policies, especially in China, the world's major rice producer. On the other hand, large importing countries maintained commitments to self-sufficiency and kept their assistance to the sector high, for instance, through input efficiency-enhancing measures and high levels of border protection.

Between 2002 and 2004, a number of governments activated large procurement schemes and adopted debt alleviation programmes to support producers in the wake of lingering low prices. However, direct market intervention was minimal in Africa and in Latin America and the Caribbean. Although developing countries had large scope for increasing assistance to rice producers under the WTO Agreement on Agriculture de minimis provision, most of them were constrained by a lack of budgetary resources or by the terms of their agreements with other international institutions. For this reason, several of them promoted instruments other than public market intervention to shield the sector from large price variations. These included subsidized insurance schemes and futures trading, which rather than stabilizing prices per se, transferred the price risk onto other players. On the other hand,

several developed and middle-income developing countries, adopted production-cutting measures, while raising compensatory or emergency payments to farmers, but also moved to improve the sector competitiveness by fostering a consolidation of rice farms and productivity gains.

A number of countries moved towards more market-based rice distribution system and, rather than guaranteeing cheap supplies to all consumers, increasingly targeted their public rice distribution to the needy. As the responsibility of state enterprises in distribution lessened, fewer governments exercised controls over wholesale and retail prices. Governments also widened the scope of their policies to encompass the full rice marketing chain, from production to consumption, in an attempt to improve the efficiency of the distributions systems. In many instances, they also took measures to bolster the role of the private sector in the various phases of the commodity, from production to processing and marketing.

Up to 2003, some governments were pressured to reduce the size of publicly-held rice reserves**,** principally for financial reasons, and reacted with different strategies. China elicited production-cutting measures and drew from inventories to meet consumption needs, thereby internalizing the adjustment. By contrast, India chose to promote exports and to transfer the burden of the adjustment process onto the world market. A general tightening of rice supplies since mid-2003 prompted some reversal in policies, with governments engaging in stimulating production and replenishing public stocks to minimum security levels. However, there appears to be a consensus among governments to reduce their role in stock management and to cut the physical and financial burden associated with the accumulation of excess supplies that had resulted in burgeoning stocks by the end of the 1990s.

The private sector was also called to play a more active role in the sphere of rice trade. Nevertheless, developing countries' governments still continued to make extensive use of border trade policies to stabilize their markets, given their limited ability to carry out large procurement or distribution schemes. Indeed, the prevalence of low international prices in 2002 and 2003 encouraged several importing countries to raise tariff and non-tariff barriers. In many instances, this tendency continued to 2004, notwithstanding the increase in world market prices. While a few countries made extensive recourse to the WTO safeguard clauses in reaction to import surges or low priced imports, some also resorted to phyto-sanitary measures or to outright bans to protect their markets. Some countries, however, reduced border protection to relieve pressure on domestic prices, especially in 2004. As export competition stiffened in 2002, greater assistance was provided to rice exporters, but this was reduced in mid-2003, in the face of local supply constraints and recovering international prices.

II. GRAIN POLICY DEVELOPMENTS

This chapter reports on changes in national grains policies that took place or were announced in 2003 and 2004. Aside from the enlargement of the **European Union** (EU), discussed briefly in section II below, there was no significant change, or departure from market liberalization during the review period. As this review suggests, in most cases, the main policy initiatives represented adjustments within the same framework observed since the conclusion of the Uruguay Round of Multilateral Trade Negotiations. In some countries, however, governments intervened more actively to support domestic consumers and/or producers in response to unfavourable price developments in international markets or poor domestic crops, often caused by adverse weather conditions. Before providing a review of the major policy developments (sections II-IV), a brief assessment of the global supply and demand situation during the review period is given in section I.

World wheat production in 2004 climbed to a record 627 million tonnes, driven mainly by a strong recovery in Europe and larger output in Asia[27]. The increase followed a sharp decline in 2003 when severe drought hampered production in several countries, especially in Europe. In spite of low opening stocks, the increase in production in 2004 resulted in total supplies to exceed the estimated utilization and this paved the way for the first expansion in the size of world wheat inventories in five years. World wheat trade increased sharply in 2004/05 (July/Jue) in spite of the fact that several major importing countries stayed away from large imports in view of their own good production. Wheat prices moved upwards between October 2003 and April 2004 but then started to decline, influenced by favourable winter planting conditions and generally large stocks and exportable supplies.

World coarse grains output reached 1 023 million tonnes in 2004, up sharply from the previous year and also the largest on record. Nearly one-half of the expansion occurred in the United States and the rest mostly in Europe and in China. Bigger world supplies resulted in a strong growth in feed use as well as a surge in industrial use, namely for producing maize-based ethanol especially in the United States. Nonetheless, world production in 2004 exceeded total utilization and this resulted in a notable expansion of world stocks with the largest build-ups in the United States and several countries in Europe. International trade declined in 2004/05 (July/June), influenced by higher production among many importing countries and slower growth in feed demand in several countries in Asia, mostly driven by the spread of animal diseases. International prices moved up until the early months of 2004 and then started to drift lower as more supplies entered the market. The global maize market continued to be weighed down not only by large supplies but also substantial availabilities of cheaper feed wheat and increases in freight rates, especially from the main ports in the United States to Asia.

Production policies

Many countries continued with their recent pattern of support measures to grain producers; both in improving prices, credit and debt relief schemes and in increasing direct income transfers. In several cases, support to farmers was geared toward protecting farm incomes, adversely affected by weather-induced drop in production.

Developing countries

In ***Africa***, **Algeria** continued its support to grain production in 2003 and 2004 under its National Agricultural Development Plan (initiated in 2000). The main goals of this programme were to intensify grain production, optimize and rationalize the use of land as well as provide aid to farmers.

[27] More detailed and up-to-date analysis of developments in international cereal markets is found in FAO's *Food Outlook* reports. (available at http://www.fao.org/giews/english/fo/index.htm)

In November 2003, **Egypt** decided to raise the wheat procurement price to Pound 993 (US$ 162) per tonne, up 40 percent from 2002/03, in a bid to boost domestic output and also encourage growers to sell their grain to the General Authority for Supply Commodities (GASC), the state main wheat buyer, which planned to buy 3 million tonnes of local wheat in 2003/04.

In **Morocco**, soft wheat remains the only grain to benefit from a policy of minimum price, which in 2003/04 stood at Dirham 2 500 dirham (US$ 261) per tonne. Support prices for durum wheat, barley and maize were all abolished in the early 1990s. In **Tunisia**, the Government maintained its assistance to grain production through guaranteed producer prices, which remained unchanged in 2003/04 from the previous season at Dinar 290 (US$ 228) per tonne for durum wheat, Dinar 260 (US$ 205) per tonne for bread wheat, and Dinar 170 (US$ 134) per tonne for barley.

In **Ethiopia**, as a part of its policy to increase agricultural loans[28] to farmers, the Commercial Bank of Ethiopia (CBE) approved in 2003/04 a total of 780 million birr (US$ 91 million) worth of agricultural input credit, about 43 percent more than in 2002/03 and the highest in the last five crop years. In an effort to protect farmers' incomes, **Sudan** in May 2003 raised the sorghum purchase price by 47 percent to SD 44 000 (US$ 169) per tonne. Likewise, to help growers cope with rising production costs, the Government of **Tanzania** distributed 3 200 tonnes of seed maize during the 2003 October-November sowing season.

Zambia unveiled a scheme in May 2003 to boost white maize production in disadvantaged areas by opening up more land and providing inputs to new farmers, including farm equipments, seeds and pesticides. It also introduced a floor price for white maize for small-scale producers, set above the market price, at about Kwacha 30 000 per 50-kg bag (US$ 127 per tonne). In September 2003, the Government also started the distribution of 60 000 tonnes of fertilizers. To encourage grain cultivation, **Zimbabwe** in September 2003 more than doubled the procurement prices for maize and wheat, to Z$ 300 000 (US$ 363) and Z$ 150 000 (US$ 181) per tonne, respectively. This was the second time in 2003 that the Government, which is the sole buyer of grain through the Grain Marketing Board (GMB), raised the producer prices of the grains.

In ***Asia***, **Bangladesh** increased the 2004 wheat procurement price by 3 percent to Taka 9 500 (US$ 160) per tonne, in an effort to support farmers' incomes. Furthermore, The Government allocated Taka 3 billion (US$ 51 million) to agricultural subsidies in 2003-04, up 50 percent from the amount spent in 2002-03. In April 2004, the interest rate paid on crop loans was reduced from 10 percent to 8 percent. In addition, several locally produced commodities, including wheat and maize, were exempted from value added tax (VAT).

China, concerned with the steady fall in domestic grain output in recent years and its likely implications for national food security, announced a number of measures in February 2004 to promote production, including:

i) More direct subsidies by regional and provincial governments: in 2004, Yuan 10 billion (US$ 1.2 billion) were allocated from the grain risk fund for use in direct subsidies to grain farmers in 13 provinces designated as the country's major grain production bases, including Heilongjiang, Jilin and Henan. This replaced the former scheme which used to provide subsidies to State-owned grain enterprises to purchase grain from farmers at protected prices.
ii) Reduction in taxes paid by farmers: the agricultural tax[29] was to be phased out over a five-year period in a move to improve the income of farmers. This was estimated to reduce the tax burden on farmers by Yuan 7 billion (US$ 0.85 billion) in 2004.

[28] To boost the attractiveness of agricultural input loans, CBE had lowered in March 2002 the effective interest rate from 10.5 percent to 7.5 percent.
[29] The agriculture tax is based on income received from crop sales. As of early 2004, the rate stood at 8.4 percent, including 7 percent levied by the State and 1.4 percent by local governments.

iii) Tighter controls over illegal cropland requisitions: in March 2004 the Government issued a decree prohibiting the conversion of "basic cultivated land"[30] to any activity other than the production of grains. It was reported that in 2003, about 2.5 million hectares of arable land was converted to other uses.

In **India,** the Minimum Support Prices (MSP) for wheat and barley grown in 2003/04 were left at Rupee 6 200 (US$ 129) and Rupee 5 000 (US$ 104) per tonne, respectively. However, producers were given a special bonus payment of Rupee 100 (US$ 2) per tonne for wheat and Rupee 50 (US$ 1) per tonne for barley as drought relief measures. For the 2004/05 marketing season, the MSP for wheat was raised slightly, to Rupee 6 300 (US$ 139) per tonne, and that of barley to Rupee 5 250 (US$ 115) per tonne[31].

In **Indonesia**, as part of its endeavours to improve productivity and make the country self-sufficient in maize, the Government aims at planting half of the country's maize crop with higher yielding hybrid varieties by the year 2005. In February 2004, it was announced that Rupiah 200 billion (US$ 23.7 million) were set-aside to deal with natural disasters, with the assistance to farmers to be given in the form of seeds, fertilizer, water pumps and other farm supporting facilities.

Myanmar embarked on a five-year programme aimed at boosting maize production to fulfil the increased demand from its expanding livestock sector and also raise maize exports, which account for about 35 percent of the country's total agricultural export revenues. To reach its goal, the Government fostered an expansion of plantings and the replacement of traditional seeds with high-yielding hybrid varieties. The target for 2005/06 is to increase area to 324 000 hectares and to boost hybrid seed utilization to 60 percent of total maize seed use, with the seeds to be supplied by the Myanmar Agriculture Service.

In November 2003, **Pakistan** raised the official wheat procurement price for 2004/05 by 17 percent, to Rupee 8 750 (US$ 153) per tonne, marking the first such increase in three years. The measure was expected to result in increased application of commercial inputs (mainly fertilizers and herbicides) by farmers, which was declining because of rising prices.

To help reduce the country dependence on imported maize, the **Philippines** announced the implementation of the quick turnaround (QTA) scheme in the first quarter of 2004, with the objective of increasing maize area and production, promoting wider use of hybrid seeds and assisting producers to reduce crop losses through integrated pest management programmes. The QTA scheme was expected to boost the country's maize output by at least 6 percent in 2004. In **Thailand**, the Government continued with its maize mortgage scheme[32] in 2002/03, aimed at stabilizing the domestic market, with a target volume of 500 000 tonnes of grain at a loan rate of 4 270 baht (US101) per tonne. In 2003/04, however, in anticipation of strong domestic maize prices, the scheme was not implemented and import quotas were utilized instead as an instrument to stabilize the market.

Within the ***Asia Near East*** region, in the **Islamic Republic of Iran**, the 2003 wheat guaranteed purchase price was increased by 15 percent (in local currency) to Rial 1.5 million (US$ 183) per tonne, to sustain domestic production (Table 2). The price was raised by another 15 percent in 2004. In view of a growing demand for maize, associated with an expanding poultry sector, the Government also is targeting an expansion of maize production under its 10-year development programme to some 3 million tonnes by 2011.

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[30] Of the estimated 127 million ha of arable land in China, in 2001, the Ministry of Land and Natural Resources designated 108.9 million ha of the most productive land as "basic cultivated land".

[31] By contrast, MSP for oilseeds were raised substantially, reflecting the Government's goal to boost local oilseed production in parallel with their fast growing demand. The MSP for rapeseed was raised from Rupee 13 300 to Rupee 16 000 per tonne and that of safflower seed from Rupee 13 050 to Rupee 15 050 per tonne.

[32] The Thai mortgage scheme is similar to the U.S. loan programme which allows farmers to take loans at a set price with the option to either forfeit the commodity or sell it if market prices increase.

Table II-1: Iran's guaranteed purchase price for wheat (Rial/Kg)										
	1994	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Wheat guaranteed price	260	330	410	480	600	672	875	1050	1300	1500
Wholesale price index (1990=100)	301	483	604	664	774	962	1104	1160	1273	1411
Wheat real guaranteed price	86.3	68.4	67.9	72.3	77.5	69.9	79.2	90.5	102	106
Source: Ministry of Agriculture Jihad, Central Bank of Iran and Iran Statistics Centre										

In **Iraq**, in 2004, the Grains Board raised the procurement prices of wheat from farmers to Dinar 263 000 (US$ 180) per tonne for first grade wheat and Dinar 257 000 (US$ 176) per tonne for second grade wheat. The production of wheat continues to benefit from Government support because it is considered a strategic commodity[33].

Jordan adopted a new cereal price policy whereby procurement prices are determined based on international price movements, compared to before where support prices were fixed prior to planting. In 2003/04, wheat and barley procurement prices were both lowered slightly from a year ago, to Dinar 158 (US$ 223) per tonne and Dinar 78 (US$ 110) per tonne, respectively.

In June 2003, **Turkey's** Grain Board (TMO) announced its base purchasing prices for grains in 2003/04, with year-on-year increases ranging from 34 percent to 46.5 percent – the largest increase was for semi-hard wheat while the smallest was for rye. Nonetheless, TMO was not able to purchase any grains because the announced procurement prices were lower than the prevailing market prices, obliging the agency to raise its purchasing prices in July and again in August. In line with the growing demand for maize, mainly by the poultry industry, the Government introduced a premium for maize cultivation; furthermore, farmers using certified seeds could receive a 10 percent increase in their premium payments[34].

Starting from 2003/04, **Saudi Arabia** decided to abandon the barley Guaranteed Purchase Price (GPP)[35], which was fixed at Riyal 1 000 (US$ 267) per tonne. The measure, which was announced in February 2003, responded to budgetary constraints but was also instigated by limited water resources. Furthermore, in December 2003, the GPP for locally grown wheat was cut by 33-percent, to Riyal 1 000 (US$ 267) per tonne, effective from 2004/05. This marked the first reduction in wheat prices in almost 10 years[36].

In the ***Latin America*** and ***Caribbean*** region, the Government of **Brazil**, in an effort to spur the cultivation of wheat and to offset the increase in production costs, raised the 2003 wheat minimum price and continued with its policy of higher and differentiated prices for non-traditional growing regions. For instance, the wheat support price in the southern states of Rio Grande do Sul, Sanata Catarina and Parana was increased by 40 percent to R$ 400 (US$ 130) per tonne, while for other states[37] the price was raised by 50 percent to R$ 450 (US$ 146) per tonne. Furthermore, the amount of subsidized credit allocated to wheat producers in 2003 was increased by 18.5 percent to R$ 450 million (US$ 146 million). At the same time, due to tightening supplies and low stock levels, the

[33] Under the country's Food Ration System, each citizen receives 9 kg of wheat flour per month at a subsidized price. In June 2003, wheat flour provided about 53 percent of the total energy and 80 percent of the protein supplied by the food ration. Other commodities in the ration included rice, sugar, beans and vegetable oil.

[34] In addition, area payments under the Direct Income Support (DIS) scheme continued in 2003 and 2004. DIS was introduced in 2001 under the Agricultural Reform Implementation Project (ARIP) to compensate farmers for the income losses incurred from the removal of commodity support prices and input subsidies.

[35] This measure was not expected to have a major effect on the sector since most growers had already abandoned barley cultivation, as the GPP hardly covered their costs of production.

[36] The last time Saudi Arabia had cut the wheat GPP was in 1995, down from US$ 533 per tonne to US$ 400 per tonne, to conserve budget and water resources.

[37] Including Mato Grosso do Sul, Mato Grosso, Goais, Sao Paulo, Minas Gerais, Bahia and the Distrito Federal.

Ministry of Agriculture initiated measures to expand the maize winter crop by providing subsidized credit for sowing, storage and options contracts. Furthermore, the Government agreed to procure at least 2 million tonnes of local maize at the export price.

In early 2003, **Colombia** announced a plan to boost grain production in order to reduce the country's dependence on imports. The programme focuses on expanding the area cultivated to yellow maize by some 135 000 hectares over a period of four years and on adopting new technologies to enhance crop yields. The target was to increase national maize production by 675 000 tonnes by the year 2007; if achieved, this could result in some 40 percent decline in imports. Similar plans were announced for soybeans and cassava. To support small-scale maize producers, **Guatemala** in 2003 subsidized the purchase of 1 058 tonnes of improved seeds of yellow maize, 184 000 tonnes of fertilizers and various farming equipments at a 50 percent of their corresponding commercial values.

Mexico raised the direct arable crop payments under its domestic support programme (PROCAMPO[38]) by 3.5 percent, to Pesos 905 (US$ 84) per hectare for the 2003 spring/summer and the 2003/04 autumn/winter seasons. In support of small farmers, those with cultivated areas of 1-5 hectares were approved to receive Pesos 1 030 (US$ 95) per hectare. In addition, in 2003, under a new programme announced by the Ministry of Agriculture, subsidies on diesel fuel, totalling Pesos 2.5 billion (US$ 232 million), were made available to farmers – about 800 000 farmers were expected to benefit from a 27-percent reduction in the price they normally pay, with eligibility linked to records of past fuel usage, farm size and the type of crops grown.

Developed countries

In ***Europe***, two important events took place in the **EU** during the course of the current review period: (i) the reforms of the Common Agricultural Policy (CAP) and (ii) the enlargement of the Union to 25 Member States. As regards the former, the third major reform of the CAP was passed in June 2003. An important element in the package was the aggregation of direct support payments made to farmers into one Single Farm Payment that does not depend on current production[39]. However, Member States were given the option to maintain up to 25 percent of the arable aid payments or up to 40 percent of the durum wheat supplementary payments linked to production. Intervention buying at guaranteed prices for major commodities remains an important component of the CAP. As for grains, intervention prices remain unchanged at € 101.31 (US$ 118) per tonne, while monthly storage increments are cut by 50 percent to € 0.465 (US$ 0.54) per tonne[40]. Rye was excluded from intervention buying as of July 2004, to avoid further stock accumulation; however, because the measure was expected to have the biggest impact on Germany, a concession was made allowing the country to keep 90 percent of the money saved through "modulation"[41] and to spend at least 10 percent of it in rye-producing regions. For durum wheat, supplementary payments made in traditional producing areas will be reduced in steps from € 344.50 (US$ 402) per hectare to € 285 (US$ 302) per hectare by 2006 and included in the Single Farm Payment, while the aid will be phased out for other zones. Also, a premium of € 40 (US$ 47) per tonne is paid since 2004 to those producers in traditional production zones using a certain quantity of certified seeds of selected durum varieties[42]. Set-aside regulations are retained, but to maximize environmental benefits some rules will be relaxed[43].

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[38] PROCAMPO, or Programa de Apoyos Directos al Campo, was initiated in October 1993 as a way to facilitate the transition from a system of support prices to a more market oriented environment.

[39] The reference period for payments is 2000-2002. Note that the scheme is set to enter into force in January 2005, but individual countries can delay implementation until 2007.

[40] The exchange rate used was that of June 2003, at € 0.86 per one US dollar.

[41] Modulation refers to the reduction in all direct aid payments to be used for rural development measures. Aid payments will be reduced progressively by 3% in 2005, 4% in 2006 and 5% from 2007 onwards.

[42] The premium will be paid within the current Maximum Guaranteed Areas and the varieties will be selected to meet the quality requirements of semolina and pasta production

[43] In December 2003, as a way to boost grain production, after a year of severe drought, and to help replenish depleted stocks, the EU lowered its set-aside rate for cereals from 10% to 5% for the 2004/05 crop year.

Concerning the **EU** enlargement, on 1 May 2004, ten new countries – Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia – joined the Union, bringing total membership to 25 countries (EU-25). Of the ten, Poland, Hungary and the Czech Republic are the most important in terms of their agriculture, especially from grains point of view. The new Members have now become eligible to receive production support measures through intervention schemes and direct aid payments, as per CAP terms. However, payments to farmers in the accession countries are not granted at the full rate but phased-in over a period of 10 years from the accession year. In the first year, farmers would be paid only 25 percent of the EU-15 rate, increasing progressively to 100 percent by 2013. Nonetheless, the new Member States can supplement payments by up to 30 percent per year from their national budgets. They are also exempted from "modulation" until direct aid payments reach EU-15 levels, but, to benefit from the CAP support measures, farmers must abide by the "cross compliance" provision, requiring them to meet certain standards (e.g. grains must meet the minimum quality requirements) and to keep their land in good agricultural conditions.

Prior to joining the EU, in the **Czech Republic**, the State Agricultural Intervention Fund (CZIF) in March 2003 decided to give farmers an advance payment of Koruna 3 000 (US$ 102) per hectare of set-aside land to allow them finance their spring field work and input purchases; the full set-aside payment was fixed at Koruna 5 500 (US$ 187) per hectare. In October, farmers registered in the 2002/03 set-aside programme were approved by CZIF to receive the maximum rate for cultivated land, bringing their total payment to Koruna 1 000 (US$ 37) per hectare. In February 2004, a new subsidy scheme for insurance was announced, increasing the subsidy rate of insurance premiums to 30 percent for crops and 15 percent for livestock. As a result, the programme budget for 2004 was expected to increase by 150 percent from the year before to Koruna 200 million (US$ 7.8 million).

In **Hungary**, 2003/04 intervention prices for wheat and maize remained at 23 000 forint (US$ 108) per tonne and Forint 21 000 (US$ 98) per tonne, respectively. Producers offering their grain for State purchases were eligible to get a storage subsidy. In July 2003, the Government announced that it had earmarked Forint 60 billion (US$ 258 million) for drought relief measures, to be used in the form of preferential loans to farmers who had suffered 20-30 percent loss in crop yields and direct subsidies to producers whose crop yields dropped by over 30 percent. The rate of compensation was fixed at 30 percent of the total damage. In **Lithuania**, the 2003/04 State purchase price for first grade wheat was kept at the previous year level of Litai 400 (US$ 137) per tonne, while that of second grade wheat was lowered to Litai 380 (US$ 130) per tonne, as a means to promote higher quality wheat cultivation. Likewise, in 2003, **Poland** maintained intervention prices for milling wheat and milling rye unchanged at Zlotys 440 (US$ 113) per tonne and Zlotys 325 (US$ 84) per tonne, respectively. Besides, when farmers choose to sell their grain under the state intervention programme, they receive subsidies of Zlotys 110-130 (US$ 28-33) per tonne for milling wheat and Zlotys 75-85 (US19-22) per tonne for milling rye, depending on their date of sale. In August 2003, because of severe drought problems, the Government decided to provide assistance to grain farmers in the form of special credits at preferential interest rates for the purchase of seeds, fertilizers and fuels.

Elsewhere in ***Central*** and ***Eastern Europe***, in July 2003, **Bulgaria's** State Fund Agriculture (SFA) announced its plan to spend Leva 2.5 million (US$ 1.45 million) in subsidies for the cultivation of wheat in the autumn sowing season. Farmers were granted Leva 100 (US$ 58) per hectare of land planted to wheat, subject to a maximum of 500 hectares per farmer. Furthermore, in September 2003, SFA planned to allocate Leva 28 million (US$ 16 million) in subsidies to wheat and barley producers, mostly for the purchase of seeds and fertilizers, and in October the agency extended Leva 3 million (US$ 1.8 million) in drought-relief measures to grain producers whose crops were severely damaged. In 2004, the support for the autumn season was raised to Leva 38 million (US$ 24 million) – Leva 29 million (US18.4 million) in subsidies and the rest in preferential credits; in addition, some Leva 35-40 million (US$ 22-25 million) were expected to be utilized for the purchase of grains from growers. In **Croatia**, the Government planned to grant Kuna 400 million (US$ 59.7 million) in 2003 as drought damage compensation for crops and to write-off all outstanding farmers' debts.

Romania continued to support grain production mainly through input subsidies and state intervention purchases. In fiscal year (1 June-30 July) 2003, the agricultural budget was raised by 20 percent to US$ 430 million from the year before. The budget allocation for crop programmes is presented in Table 3. In May 2003, the Government decided to discontinue the subsidization of maize production. According to the Ministry of Agriculture, the measure was motivated by the lack of control of how much of total production was used for feed and how much was utilized in illegal alcohol production. Nonetheless, subsidies for diesel fuel and chemical fertilizers were maintained. In 2003/04, the Government paid a direct subsidy of Lei 2 million (US$ 61) per cultivated hectare to those farmers possessing up to 5 hectares of arable land. The subsidy was raised by 25 percent in 2004/05.

Table II-2: Romania's crop programmes in 2003

	Quantity (1000 tonnes)	Value (US$ million)	Share in agriculture budgetary outlays (%)
1. Certified seed subsidies		38.3	8.9
- maize	24	18.7	4.3
- barley (malting)	10	0.8	0.2
2. Procurement payments		69.3	16.1
- wheat	2 500	29.8	6.9
- barley (malting)	300	1.8	0.4
3. Irrigation		44.8	10.4
4. Pest and disease control		4.5	1.0
5. Bank interest subsidies		3.6	0.8

Source: USDA, Foreign Agricultural Service, 2003

In **Serbia and Montenegro**, the Serbian Government decided in august 2003 to allocate Dinars 2.5 billion for use during the upcoming planting season, to bring relief to financially stressed producers who had been affected by drought. The Government also planned to distribute 50 000 tonnes of seed wheat and 30 000 tonnes of fertilizers and to supply fuel at a subsidized price of Dinars 30 per litre, compared to a market price of Dinars 37 per litre.

Among the ***Common Independent States*** (***CIS***), in April 2004, the Government of **Armenia** decided to provide assistance to wheat growers and undertook to work with the Central Bank to help farmers get access to soft loans at an interest rate of about 12 percent, compared with market rates of 16-17 percent. **Belarus** announced in April 2003 its intention to boost local grain production. Accordingly, Rouble 55 billion (US$ 27 million) were earmarked from the State budget for the spring sowing season with an additional Rouble 33 billion (US$ 16 million) expected to come from regional budgets.

In support of grain production, in 2004, the Government of **Kazakhstan** supplied farmers with diesel fuel at subsidized prices and pledged Tenge 2.5 billion (US$ 18 million) to fight against pests, weeds and crop diseases. Furthermore, Tenge 5.5 billion (US$ 40 million) worth of interest-free loans were given to local authorities to support spring field work and harvesting. In July 2003, **Turkmenistan** unveiled a programme to boost local grain production, mainly by investing around US$ 36 million in farm machinery and distributing chemicals to farmers, valued at US$ 1.3 million. In 2004, the Government stated its intention to maintain until 2010 its support to farmers leasing land to produce grains and to cover half of their production costs.

Reacting to the severe farm losses incurred by farmers following one of the lowest grain harvests ever, **Ukraine** spent about Hryvnia 380 million (US$ 71 million) in 2003 in disaster payments, with an estimated average payment of Hryvnia 70 (US$ 13) per hectare. Furthermore, in November 2003, the zero-VAT privilege for farmers was prolonged until the beginning of 2005. In January 2004, the Government uncovered a new plan to subsidize the cultivation of spring wheat by paying farmers Hryvnia 50 (US$ 9.4) per hectare. The measure reflected the Government's goal to boost spring wheat production to reduce its reliance on winter wheat. Also, Hryvnia 140 million (US$ 26 million) were set aside to fund a new subsidy to farmers to encourage them to use mineral fertilizers. The subsidy is to cover up to 18 percent of ammonium nitrate and urea purchase prices[44]. In late 2003, **Uzbekistan**

[44] The price of ammonium nitrate was fixed at Hryvnia 550 per tonne and that of urea at Hryvnia 690 per tonne.

embarked on a Grain Productivity Improvement Project to promote more sustainable and efficient wheat production, thus boosting farm incomes. Consequently, five wheat-producing provinces were approved to benefit from technical assistance in the use of hybrid varieties, dissemination of new technologies and strengthening of pest monitoring systems. The project was estimated to cost US$ 40 million, with funding split among the Asian Development Bank (US$ 26 million), the Government (US$ 10.4 million) and beneficiaries (US$ 3.4 million).

In **Japan**, the Ministry of Agriculture, Forestry and Fisheries (MAFF) continued to set the purchase prices of wheat and barley, even though its direct procurement of the grains ended in 2002. The purchase price for wheat was lowered in 2003 to Yen 142 533 (US$ 1 229) per tonne, and again in 2004 to Yen 138 433 (US$ 1 280) per tonne[45]. Under the new policy[46], wheat and barley growers sell their products to private firms, but receive direct payments from the Income Stabilization Fund (ISF)[47] with the unit payment determined as the difference between the purchase and the resale prices as set by MAFF. The ISF payment for eligible wheat was Yen 106 (US$ 0.9) per tonne in 2003. In addition, wheat and barley production benefited indirectly from the country's rice diversion programme, introduced in 1971. For instance, in 2002 and 2003, farmers received between Yen 40 000 (US$ 332) and Yen 80 000 (US$ 663) per one-tenth of a hectare of paddy land converted to wheat or barley cultivation. It is estimated that about 115 000 hectares of wheat and 58 000 hectares of barley were planted in paddy fields in 2002.

In the **United States**, support to grain producers continued under the framework of the Farm Security and Rural Investment (FSRI) Act, which was signed into law in May 2002[48]. As compared to 2002 and 2003, the national grains loan rates were reduced in 2004 and will remain unchanged in 2005 and 2006 (Table 4). However, the county loan rates could be adjusted annually by the Commodity Credit Corporation (CCC) based on several factors, including location and quality, to minimize variations not justified by market forces. For instance, the 2004 county loan rates for wheat, barley and oats were announced on 9 December 2003 and those for maize and sorghum on 5 February 2004.

Table II-3: United States national loan rates for grains (US$ /tonne)

	2002-2003	2004-2006
Wheat	102.88	101.05
Maize	77.95	76.77
Barley	86.35	84.97
Sorghum	77.95	76.77
Oats	93.01	91.63

Consumption, marketing and stock policies

National consumption, marketing and stocks policies concerning the grains sector remained geared during the review period toward further market liberalization, increased privatization and reduced trade restrictions. In some countries, however, unfavourable climatic conditions prompted governments to intervene to stabilize internal markets and avoid, or at least minimize, any negative repercussions from tighter supplies and higher prices.

Among **African** countries, in **Egypt**, the world's leading wheat importer, for the first time in 12 years, sharp price increases of unsubsidized bread in 2003 prompted the Ministry of Supply to authorize monthly wheat imports of 120 000 tonnes for the production of traditionally unsubsidized flour by the

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[45] The increase in prices in US dollar terms is due to a stronger yen, as evidenced by an exchange rate dropping from Yen 115.9 per US dollar in 2003 to Yen 108.2 per US dollar in 2004.
[46] Before, MAFF used to buy all the wheat and barley from farmers at high purchase prices and resell them to millers at low resale prices.
[47] To be eligible for ISF payments, the wheat and barley must be of grade 2 or higher quality and not used for feeding animals or for malting. In 2002, it was reported that about 94 percent of wheat and 50 percent of barley production received ISF subsidy payments.
[48] For more details on FSRI, see *Review of Basic food Policies*, FAO, 2002.

Food Industries Holding Company (FIHC). The intervention in the traditionally unsubsidized flour market allowed FIHC mills to sell 72-percent extraction flour at some Pound 900 (US$ 154) per tonne, while private mills had to sell the same product at double that price or more. As a result, wheat imports by the private sector declined and many private mills faced problems in securing wheat, causing them to operate at about 20-30 percent of their normal capacity. In 2003/04, the Government increased its wheat and white maize purchases for the production of subsidized baladi and fino bread. The total subsidy on baladi bread in 2003/04 was estimated at Pound 5.8 billion (US$ 1 billion), almost double that of the previous year, while about Pound 700 million (US$ 116 million) were allocated to subsidize the price of fino bread for school.

In February 2004, the Government of **Morocco** authorized, for the first time in 15 years, a 9-percent rise in the price of bread, bringing the cost of one loaf to Dirham 1.2 (US$ 0.14). This followed long negotiations with the Bakers Union who argued that the bread industry was unprofitable if selling prices were below Dirham 1.4 (US$ 0.16) per loaf. In August 2002, Tunisia raised the price of couscous by about 7-8 percent, as part of its policy to curb the spending of the State's Caisse Générale de Compensation (General Compensation Fund).

Reacting to a situation of depressed domestic grain prices following a bumper crop in 2003, **Ethiopia** initiated in November a price support programme through which the Grain Trade Enterprise was authorized to procure grains domestically. Donor agencies also turned to local purchases for their food assistance programmes. In 2004, about 210 000 tonnes of grains were bought locally by government agencies, the donor community and NGOs for distribution as food aid. By contrast, Kenya decided in July 2003 to release maize from public stocks to stabilize the market and prevent retail prices from increasing further. The grain was sold at Shilling 1 370 per 90-kg bag ((US$ 204 per tonne), about 10-15 percent below the market price. In 2004, the Government had set-aside Shilling 1 billion (US$ 13 million) to purchase surplus maize from the market to increase its commercial as well as relief and strategic grain stocks. This was part of the country's effort to put in place an effective system to mitigate disasters. The Government of Niger purchased about 12 000 tonnes of grains in 2003 in an effort to underpin prices received by growers and also to replenish national food stocks. In reaction to surging food prices, Tanzania decided in September 2003 to subsidize the sale of 32 000 tonnes of maize from its Strategic Grain Reserve (SGR) to vulnerable people in deprived regions. The Government had also set aside funds to enable the SGR procure grains from regions experiencing food surpluses.

A unified seed certification policy for East African countries

Kenya, **Tanzania** and **Uganda** have agreed to institute compulsory seed certification for their 10 most economically important crops, including wheat, sorghum, hybrid maize, and open pollinated maize. The accord was reached during a training programme in seed technology that took place in Kampala in 2003.

It was also agreed that the compulsory certification should include accreditation of seed certification services in the seed laws in the region. This was expected to help in enhancing the quality of seeds as well as the food security situation in the region.

The forum also agreed to develop interagency certification schemes to allow seed grown and certified in one country to be accepted for bulk trade and processing in another country. This was not possible at the time, and the modalities were still being discussed. It was noted that traders were losing money when they tried to move seeds from one nation to another within the region. It was thought that a harmonized seed policy would address this problem.

The Kampala forum focused on the latest advances in seed technology and regulations, with participants including delegates from **Uganda**, **Kenya**, **Tanzania**, **Congo**, **Eritrea** and **the United States**.

Source: *African Research Bulletin*, October 2003

To improve the availability of maize in provinces where the product was in high demand, in October 2003, the Government of **South Africa** initiated a food distribution programme in partnership with the private sector for the sale of 3 000 tonnes of sifted maize at a subsidized price of Rand 26 per 12.5-kg bag (US$ 299 per tonne). By contrast, **Zambia** interrupted the distribution of relief food in May 2003 under the prospect of a bumper maize crop. The Government also planned to procure at least 500 000 tonnes of maize through its Food Reserve Agency for strategic reserves and to avert sharp slides in prices.

In **Zimbabwe**, the GMB, which was holding very low levels of wheat stocks, raised its selling price of wheat to millers to Z$ 380 000 (US$ 460) per tonne in July 2003. Also, in an attempt to make stocks last longer, the agency decided to lower wheat allocations to millers. The maize sale price was also raised to Z$ 211 756 (US$ 256) per tonne. In April 2004, in a bid to curb the side-marketing of maize, the Government announced new strategies to ensure the speedy payment of farmers and the timely delivery of grains to depots. The measures included a new payment system to producers, the establishment of collection points and new arrangements for the packaging and transportation of the grain.

In ***Asia***, the State Council in **China**, following its executive meeting in May 2003, agreed on the full liberalization of the country's internal grain purchasing market and called for further reforms on the state-owned grain enterprises, which used to maintain a monopoly over grain circulation. In 2004, the Government allowed licensed grain trading firms to buy grains from new crops at market prices. Also, as part of the general effort to enable grain producers, processors and traders to manage their market risk better, the Zhengzhou Commodity Exchange started trading in high-quality wheat futures in March 2003, while maize futures began to be traded in the Dalian Commodity Exchange in September 2004.

On 1 April 2004, the **Indian** Government opened all food grain export sectors to the private sector, including procurement from the open market. Previously, only grains obtained from the state-run Food

Corporation of India (FCI) could be exported. However, to avoid that food security be harmed, an inter-ministerial panel was to be formed to monitor the buffer stock situation and direct policy accordingly. Private companies were also authorized to enter into contract farming and to invest in grain storage and cleaning facilities. By increasing the role of the private sector, the Government hoped to enhance the effectiveness of the overall grain marketing system.

In **Japan**, the official resale price of locally produced wheat was unchanged in 2003, but it was lowered slightly (by 0.5 percent) in 2004 to Yen 38 260 (US$ 354) per tonne. In fact, in recent years, local flour millers had demanded that the wheat resale price be reduced, in view of the increasing competition they were facing from imported flour and semi-processed products. As regards imported wheat, MAFF buys the grain at world prices and sells it domestically to millers at much higher prices. For instance, in 2002 and 2003, the ratio of the resale and import (CIF) prices was of the order of two[49], meaning that the imported wheat was sold at double its import cost. The Government uses the profits from the mark-up, for instance, to finance the Income Stabilization Fund.

Under its ongoing reforms to deregulate the wheat market, the State Bank of **Pakistan** (Central Bank) has authorized, since the 2003 crop season, commercial banks to provide financing for wheat purchases by the private sector. In the 2004 fiscal year, the Government had targeted to procure 5.7 million tonnes of wheat to rebuild the strategic wheat stocks and be in a position to keep flour and bread retail prices under control. To achieve this goal and facilitate grain delivery by farmers, the provincial governments had been directed to increase the number of procurement centres as per requirement of the growers. In addition, necessary arrangements have been made for the provision of bags to farmers for packing wheat. In April 2004, the Government was set to raise the price of wheat sold to flour mills to Rupee 380 per 40-kg bag (US$ 165 per tonne), up 12 percent, with the increase to be implemented in phases. The decision came under the wheat cascading pricing framework of the Federal Government, which was aimed at phasing out the wheat subsidy given to flour mills and at reducing the financial losses incurred by the Pakistan Agricultural Storage and Supply Corporation and provincial food departments. In May 2004, the Central Bank imposed a 50-percent cash margin on all loans made to private traders for the purchase of wheat to discourage hoarding and to ensure some stability in domestic wheat and flour prices.

In 2003, the **Philippines**, through the National Food Authority (NFA), launched marketing assistance programme for maize, designed to assist farmers, buyers and end-users in accessing market information through the agency's Electronic Trade in Agriculture project, or *e-Trade*. Under this programme, farmers are guaranteed to find a market for their product, as they are initially paid based on the NFA support prices for the maize stocks being offered for sale. The NFA is to provide buying stations and warehouse facilities for maize as well as facilitate the transportation of stocks.

In 2003, in order to lower storage costs and minimize post-harvest losses, **Syria** undertook to reduce the wheat inventories held by the General Establishment for Trade and Processing of Cereals (HOBOOB). With that end, it exported from state stocks at world prices, which were lower than the prices paid to farmers.

Among ***Latin America*** and ***Caribbean*** countries, **Argentina** announced, in January 2003, its decision to slash by half the VAT on grain sales to 10.5 percent. The measure was aimed at reducing tax evasion and lessening the impacts of food price inflation on low-income households. It was thought that high VAT rates represented an incentive for farmers and flour millers to operate in the black market[50]. In May 2003, the Government decided to establish a National Wheat Quality Programme in a bid to enhance the competitiveness of local wheat in international markets and allow farmers to

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[49] USDA/FAS GAIN Report, March 2004. Also note that, under a scheme known as "free wheat", millers are allowed to import wheat outside MAFF's control with the condition that they export an equivalent amount of wheat flour.

[50] The VAT paid on grain sales is refundable to grain exporters; however, there is a 20 percent duty on grains shipped abroad.

benefit from the premium prices paid for high-quality products. The programme envisaged to improve the overall quality of wheat and to develop a system of classification enabling the country to offer a wide range of products, matching the needs of domestic and international markets.

To improve the logistics and infrastructure for grain marketing, **Brazil** announced in March 2004 that the State bank, "Banco do Brasil", is to provide about R$ 600 million (US$ 207 million) of credit to increase the country's grain storage capacity by 8 million tonnes. Loans are to be offered at subsidized interest rates of between 6 percent and 10.75 percent, repayable over a period of 8-12 years. Brazil's supply agency (CONAB) had also initiated a study into possible extensions to the country's railway network in order to provide better connections between the main grain producing areas and the ports.

In ***Europe***, following poor harvests due to severe drought, several countries released grains from public stocks in order to contain price rises. In September 2003, the **EU** decided to sell feed grains from its intervention stocks through weekly tenders. Wheat was initially excluded from the scheme as the focus was on feed grains, where supplies were particularly tight.

Within ***Central*** and ***Eastern Europe***, **Bulgaria** decided in August 2003 to sell 100 000 tonnes of bread wheat from the state contingency reserve at below market prices and, in November, the Government approved the release of another 100 000 tonnes. In February 2004, the State Contingency Reserve opened a tender for the procurement of 125 000 tonnes of bread wheat from the 2003 crop, with the maximum purchase price set at Levs 330 (US$ 213) per tonne for local grain and US$ 211 per tonne for imported grain. In the same month, the **Czech Republic** began the release of 400 000 tonnes of grains from its strategic reserves, and by early March 2004, had already sold 140 000 tonnes of wheat and was about to start the sale of 170 000 tonnes of feed wheat and 80 000 tonnes of feed barley and maize[51]. The State Agricultural Intervention Fund (SZIF) normally conducts grain intervention purchases to protect farmers and stabilize the market as necessary. For instance, in 2002/03, SZIF bought 724 000 tonnes of food wheat from farmers at a fixed price of Koruna 3 500 (US$ 115) per tonne. In January 2004, **Croatia** announced its decision to release 56 000 tonnes of wheat from state stocks. In July, the Government had confirmed its plan to carry out wheat purchases at a price of Kuna 1 000 (US$ 166) per tonne for standard quality grain, despite farmers' associations requests for a higher purchase price. **Hungary**, in March 2004, planned to sell 80 000 tonnes each of milling wheat and maize from state reserves during the month of April, with the initial wheat selling price set at Forint 44 000 (US$ 213) per tonne and that of maize at Forint 36 000 (US$ 174) per tonne.

In May 2003, under a grain intervention sale scheme designed to stabilize prices, **Poland** authorized its Agriculture Market Agency (ARR) to release 200 000 tonnes of milling wheat and rye and announced a plan to sell 700 000 tonnes more of milling wheat from its reserves. Then, to replenish its stocks, ARR decided to make intervention purchases[52] in July-October 2003 for the procurement of 4 million tonnes of milling wheat and 700 000 tonnes of rye; in addition the Agency was authorized to buy directly from growers 270 000 tonnes of milling wheat and 30 000 tonnes of milling rye in November and December 2003. In June 2004, the **EU** approved **Poland's** request to sell 300 000 tonnes of wheat from its strategic reserves to ease local supplies and stabilize the market[53]. However, the Commission recommended that the operation be funded by the country's national budget and that the grain be made available to all potential buyers and not restricted to nationals. The minimum price for the first tranche (50 000 tonnes) was set at € 108.76 (US$ 132) per tonne and buyers were required to bid for a minimum volume of 100 tonnes.

[51] The sale price of feed wheat was fixed at Koruna 3 900 (US$ 150) per tonne, barley at Koruna 3 500 (US$ 135) per tonne and that of maize at Koruna 4 100 (US$ 158) per tonne. The grain was sold under the condition that it cannot be exported.

[52] Note that these are purchases made by licensed storage firms with funds subsidized from ARR; they are not direct purchases made by the agency from grain producers.

[53] Poland joined the EU on 1st May 2004.

In January 2003, **Romania** decided to release 200 000 tonnes from strategic reserves. In parallel, to encourage domestic wheat sales, the Government suspended the storage subsidy effective from 1 February 2003. In August 2003, **Slovenia** decided to sell 20 000 tonnes of maize from state reserves to help livestock producers cope with rising feed prices. The maize sale price was fixed at Tolar 29 000 (US$ 138) per tonne. By contrast, to boost its wheat stocks, in **Serbia and Montenegro**, the Serbian Government decided to procure, through the State Commodity Reserve (SCR), 200 000 tonnes of bread wheat and 30 000 tonnes of wheat seed from the 2004 harvest. This decision followed a fertilizer-for-wheat exchange programme in which SCR supplied fertilizers to farmers and took grain in return.

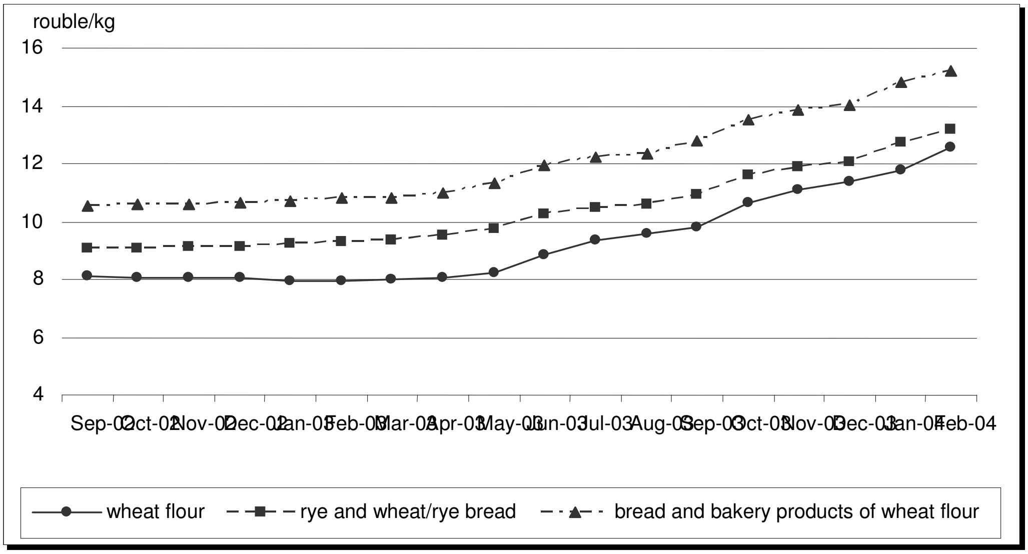
In a move to meet the **EU** accession requirements, the **Latvian** Government passed a bill in February 2004 introducing a tax, known as “accumulation fee”, on the stockpiling of food. Stocks in excess of 5 tonnes for grains and 500 kg for other foods could be subject to the tax, equivalent in value to the EU import duty imposed on the same product. A similar ruling was approved by **Estonia** earlier in the same month.

Within the ***CIS*** countries, **Belarus** decided in September 2003 to raise its grain procurement plan for the year by 40 percent to 700 000 tonnes in order to create extra grain reserves. While the procurement target was reduced to 280 000 tonnes in the case of wheat, it was raised for rye to 254 000 tonnes and for other grains to 166 000 tonnes. The decision came in light of poor crops in the Russian Federation and Ukraine, two major grain suppliers to the country. Similarly, in **Kazakhstan**, the State Food Contract Corporation (SFCC)[54] had planned to increase its wheat purchases in 2003/04 to 2.4 million tonnes, with about 500 000 tonnes for rotation into state reserves and the rest for commercial sales, both domestic and for export. In 2002/03, SFCC purchased 1.5 million tonnes, of which 500 000 tonnes for state reserves.

In January 2004, amid concerns over rising bread and bakery product prices (Figure 1), **the Russian Federation** issued a resolution to carry out grain intervention sales in the second half of February. According to the resolution, the grain ought to be sold from state reserves to mills in small volumes, with a 20 percent discount from the prevailing market price. For instance, the initial sale price of class 3 wheat was fixed at Rouble 4 400 (US$ 152) per tonne, as compared to an open market price of Rouble 6 000 (US$ 207) per tonne; class 4 wheat price was fixed at Rouble 3 400 (US$ 118) per tonne and that of rye at Rouble 2 500 (US$ 86) per tonne. From the opening of the intervention sales in February up to early July 2004, the Government reportedly delivered a total of 1.54 million tonnes of grains, consisting of 474 520 tonnes of class 3 wheat, 783 786 tonnes of class 4 wheat and 281 105 tonnes of rye.

[54] The SFCC, established in 1995, is Kazakhstan’s official agency for all grain policy and is responsible for maintaining state reserves for wheat, estimated at about 500 000 tonnes. It purchases wheat in advance of the grain harvest by giving farmers part of the due payment in spring and the rest ahead of the harvest season. To support as many farmers as possible, SFCC limits its purchases to a maximum of 15 000 tonnes from any one single seller.

Figure II-1: Average flour and bread prices in the Russian Federation



In November 2003, **Ukraine** relaxed its price control policy for bread, except for the most basic type for which the profit margin was capped at 5 percent per year. To compensate for the likely increases in bread prices, the Government gave the most vulnerable people a direct monthly subsidy of about Hryvnia 8 (US$ 1.5) per person. In April 2004, the Government announced its plan to buy up to 3 million tonnes of grains from the new crop through State operators for the State Reserves. The purchasing prices, also known as "pledge" prices, were announced in May (Table 4) and procurement was to commence in August 2004[55]. In July 2004, the State Reserve reduced its selling price of top quality wheat by about 5 percent to Hryvnia 1 650 (US$ 310) per tonne, in line with price developments in the open market.

Table II-4: Ukraine's state purchase prices for grains, July 2004-March 2005

Grain	Price in hryvnia/tonne	Price in US$ /tonne
Wheat		
3rd class	650	122
4th class	550	103
5th class	450	84
6th class	420	78
Barley		
1st class	340	64
2nd class	335	63
3rd class	330	62
Oats		
1st class	300	57
2nd class	280	53
3rd class	260	49
Rye (food)	370	70
Maize (feed)	350	66

[55] The way a "pledge" purchase works is as follows: the State agent procures the grain from growers at the pre-set (or "pledge") price after 1 July of any year, but farmers maintain the right to sell the same grain to another buyer before 1 March of the following year, with the obligation to reimburse the "pledge" price plus the cost of storage to the State agent.

In **Australia**, the Australian Wheat Board (AWB) Grain Flow[56] opened in September 2003 three new grain centres, two in Queensland and one in New South Wales, with a combined storage capacity of about 130 000 tonnes. The centres are capable to receive 8 000 tonnes of grains daily. Those initiatives were launched to improve the efficiency of the country's grain marketing system and to reduce the costs of transportation and handling.

International trade policies

In general, domestic grain prices and supply/demand fundamentals continued to play a strong role in driving trade policy in most countries. During the period under review, several countries opted for easing grain import restrictions and, in some cases, also tried to discourage exports, in an attempt to stabilize domestic supplies and prices.

Import measures

In ***Africa***, **Cape Verde** embarked on the liberalization of its wheat trading sector in January 2003 by authorizing Companies of Planning to import wheat flour. The measure was to be extended to other private enterprises in 2004.

Since June 2003, **Morocco** has implemented a new import tariff system for grains, allowing world market signals to be better transmitted onto local markets. Under the new scheme, import duties will no longer be assessed on the pre-set threshold prices only, but also on the CIF prices, with the tariff split into two parts. The portion of the CIF price under the threshold price is subject to a high duty, while the portion above the threshold price undergoes a flat 2.5-percent tax rate (Table 5). In addition, there are an export promotion tax and a VAT. The export promotion tax is set at 0.25 percent of the CIF price plus port charges, while the VAT varies by product. For instance, wheat is exempted, while maize is subject to a 7-percent VAT. For barley, the VAT rate depends on the end use: zero if destined for human consumption; 7 percent if for use in mixed feedstuffs; and 20 percent if for direct feed use.

In October 2003, in an attempt to avoid shortages in the domestic market and improve the quality of imported wheat, the Government decided to reduce the soft wheat import duty imposed on the portion of the CIF price below the threshold price from 135 percent to 90 percent. This was lowered further to 55 percent in December 2003, following higher wheat prices in the international market.

Table II-5: Moroccan new import tariff system for grains, as of June 2003

	Soft wheat	Durum wheat	Maize	Barley
Duty on CIF price below threshold price (%)	135	75	35	35
Duty on CIF price above threshold price (%)	2.5	2.5	2.5	2.5
Threshold price (DH/tonne)	1 000	1 000	800	800
Threshold price (US$ /tonne)	100	100	80	80

Source: USDA, Foreign Agricultural Service, June 2003

Tanzania called upon private traders in 2003 to import 350 000 tonnes of maize and 223 000 tonnes of wheat, to improve the domestic food situation. As an incentive to importers, taxes on maize imports were waived. In January 2003, **Zambia** decided to abolish the 15-percent import duty imposed on ground maize, as the country struggled with food shortages. Prices of maize had reportedly more than tripled since January 2002. Furthermore, the Government authorized private traders to import maize, which had been restricted hitherto to the Millers Association of Zambia. In **Zimbabwe**, effective January 2004, the grains tariff structure has been changed as follows:

[56] The AWB Grain Flow is a subsidiary of AWB Limited responsible for the operation of the supply chain and logistical services.

Table II-6: Zimbabwe's new tariff structure on grains

Product	Previous	Current
Maize grain	30	-
Maize meal	30	25
Wheat grains	5	15
Wheat flour	40	30
Barley	20	25
Sorghum	15	15

In ***Asia***, **Bangladesh** in February 2003 reduced the mandatory Letter of Credit (LC) margin from 100 percent to 25 percent and removed the 7.5-percent regulatory duty on imported wheat, as a way to stimulate imports and contain rising wheat prices. In December, the LC margin requirement for imported foods, including wheat, was eliminated and the margin was left to be negotiated between the bank and traders. Nevertheless, imported wheat continued to be assessed a 7.5 percent customs duty, a 3 percent advance income tax and a 2.5 percent infrastructure development fee.

In Mainland **China**, in accordance with its WTO commitments, in 2004 the TRQs for wheat and maize, along with several other commodities, were fully phased-in based on 5 percent levels of historical consumption. Accordingly, the wheat TRQ was set at 9.636 million tonnes and that of maize at 7.2 million tonnes, out of which 90 percent and 60 percent, respectively, were reserved for state trading companies. In the **Taiwan Province of China**, the ban on maize imports from the Mainland was lifted temporarily during November 2003-January 2004 and again in March-May 2004, in a move to help local livestock producers cope with rising maize prices.

In April 2003, **Indonesia** imposed a temporary 5-percent import tariff on wheat flour for the period 1 May 2003 to 31 December 2004. The decision was taken to protect local wheat millers, especially small and medium sized, from a flood of imports. Meantime, the duty on wheat grain was maintained at zero percent.

In early 2004, the **Republic of Korea** changed its import quotas and tariffs for a total of 48 agricultural and fishery products. Among the changes, the in-quota import volume for wheat was raised from 1.55 million tonnes to 2.00 million tonnes and the in-quota tariff rate was reduced from 1 percent to zero percent. A new quota was introduced for feed rye, at 0.5 million tonnes with an in-quota tariff of 1 percent. Similar measures were taken for other products, with the changes aimed essentially at supporting the local livestock and poultry industries struggling with the spread of bird flu and surging feed prices. **Pakistan** decided in November 2003 to abolish the 25-percent duty imposed on wheat imports, in an effort to improve local wheat availability and lessen the market reaction to low stock levels.

In December 2003, the **Philippines** issued a new regulation on the VAT charged on wheat imports. Under the new rule, advance VAT payments on all imported wheat for use in flour milling are to be made before the actual release of the grain from the Bureau of Customs. The decision was intended to improve the appropriate product declaration and tax payments. Because the import duty on wheat for flour production was lower than that for other purposes (3 percent against 7 percent), some wheat traders were alleged to have been asserting their wheat imports for flour milling, to qualify for the lower tariff rate. Under the WTO minimum access commitments, the Government raised its maize minimum access volume (MAV) for 2003 to 202 477 tonnes, compared with 192 834 tonnes in 2002. Maize imports up to the MAV were charged a 35 percent duty, while shipments above this level carried a 50 percent tariff rate. In early 2004, the Government approved the duty-free importation of 350 000 tonnes of maize, in response to strong requests from poultry and hog farmers and feed millers, who complained about surging feed prices. (It is estimated that some 50 percent of poultry feed and 40 percent of hog feed are based on yellow maize.)

In October 2003, under a tariff restructuring programme, **Thailand** reduced its import tariff on wheat grain by 90 percent to Baht 100 (US$ 2.5) per tonne and that on wheat flour from 40 percent to 25.5

percent (CIF price basis). The latter was to be cut further to 5 percent by the beginning of 2005. Under the WTO agreements, the Government increased its maize TRQ slightly in 2004 to 54 700 tonnes (54 411 tonnes in 2003), with shipments restricted to a four-month period, from 1 March to 30 June each year[57]. In-quota imports are subject to a 20-percent duty, while above-quota volumes are charged a 73-percent duty in addition to a Baht 180 (US$ 4.5) per tonne surcharge. Maize imports from non-WTO members are subject to a tax of Baht 275 (US$ 6.8) per tonne, a special charge of 10.22 percent and a surcharge of Baht 180 (US$ 4.5) per kg.

In September 2003, **Viet Nam** implemented a new preferential tariff system. Accordingly, the preferential tariff rate on seed maize was set at zero and that for other maize was lowered to 5 percent. Meantime, the preferential tariff on wheat remained unchanged at 5 percent, while the duty on wheat flour was raised from 15 percent to 20 percent. In early 2004, the Government approved the duty-free importation of 350 000 tonnes of the grain, in a move to alleviate the tight maize supply situation in the country.

Within the ***Near East*** region, the **Islamic Republic of Iran** enforced a temporary import ban on maize between August and December 2003 in an effort to protect local farmers during the harvesting season. In early 2003, **Turkey** approved the duty-free importation of 400 000 tonnes of milling wheat by the TMO[58] to be completed by end of May 2003. This decision came in response to rising prices in the local market, especially for high quality wheat. Subsequently, in December 2003, the TMO was authorized to import 250 000 tonnes of milling wheat and of similar volume of barley duty-free. As regards maize, the import duty was raised twice in 2003 – in August, from 20 percent to 45 percent, and in September, to 70 percent, to mitigate the effects of the US Dollar depreciation against the Turkish Lira. As a result of the weak US Dollar, the cost of imported maize dropped, making it difficult for TMO to dispose of its stocks in the local market. In January 2004, the duty was increased further to 80 percent[59]. Note that maize can also be imported duty-free under TRQ bilateral agreements with the EU (52 000 tonnes), Hungary (55 000 tonnes) and Romania (45 0000 tonnes). However, in May 2004, a quota system was announced for the importation of 900 000 tonnes of maize at a reduced duty of 25 percent, valid until 31 August 2004.

In June 2004, **Saudi Arabia** made a major change in its import subsidy system for barley by breaking the link between the subsidy payment rate and international prices. Consequently, the subsidy was fixed at Riyal 150 riyal (US$ 40) per tonne[60]. The move was in response to the high levels attained by barley import subsidy payments, reaching about US$ 90 million per month when international prices reached US$ 200 per tonne (CIF price basis) during November 2003 to March 2004.

Among ***Latin America and Caribbean*** countries, due to difficulties in sourcing wheat from Argentina, **Brazil** relaxed its wheat phytosanitary requirements and allowed imports from non-traditional suppliers, such as Ukraine. In January 2003, the duty on wheat imported from outside the Mercosur trading zone was reduced from 11.5 percent to 10 percent[61]. Similarly, in an attempt to avert shortages and curb inflation in food prices, the Government authorized the importation of 600 000 tonnes of maize at a reduced tariff of 2 percent (compared to the normal rate of 9.5 percent) between December 2002 and February 2003.

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[57] Thailand generally restricts the in-quota importation of maize to the March-June period each year in order to protect local maize growers.

[58] No imports were to be allowed by the private sector. In fact, since November 1999, the Government stopped issuing wheat import licences, except for millers who export flour and products and for wheat imported from the EU under the Customs Union agreement or from other countries with bilateral arrangements. The EU agreement includes a TRQ with duty-free imports of 200 000 tonnes of milling wheat and 100 000 tonnes of durum, while bilateral agreements include duty-free importations of 35 000 tonnes of wheat from Romania and 30 000 tonnes of wheat from Hungary.

[59] As specified in its WTO commitments, Turkey can increase its import tariff on maize up to 180 percent.

[60] For information on the previous barley import policy, see *Review of Basic Food Policies*, FAO, 2002.

[61] Within the Mercosur trading bloc (Argentina, Brazil, Paraguay and Uruguay), the tariff on grains is zero.

In February 2004, **Colombia** announced the conditions that will govern grain imports in 2004. These set the size of the tariff-rate quotas at 1.9 million tonnes for yellow maize, 145 000 tonnes for white maize and 20 000 tonnes for sorghum. Out-of-quota imports are applied the highest of either 5 percent or the rate resulting from the Andean Community Price Band System[62]. In-quota duties, on the other hand, are determined as follows:

(i) if the Andean Community Price Band duty is greater or equal to 10% , the in-quota duty is calculated as the Andean Community Price Band duty minus 10% points

(ii) if the Andean Community Price Band duty is less than 10%, the in-quota duty equals 0% Before this, traders were required to purchase locally produced grains in order to obtain import licences; however, this policy, maintained under a WTO waiver, expired at the end of 2003. Wheat was excluded from the newly established scheme, and therefore, traders continued to pay import duties according to the Andean Community Price Band System.

In order to comply with the Andean Community commitments, **Ecuador** re-adopted the price band system for wheat imports in August 2003, after abandoning it in July 2001. Therefore, in addition to the common external tariff for the Andean Community, imported wheat became subject to a variable levy based upon the floor, ceiling and reference price levels determined by the Andean Board of Directors. If the reference price falls within the floor and ceiling price band, the import duty is simply the basic common external tariff for the Community applied to the reference price. In **Guatemala**, the Government decided, in October 2002, to adopt a tariff-only import regime for yellow maize, with the duty set at 15 percent. Before, yellow maize imports were conducted under a TRQ system, with an in-quota tariff rate of 5 percent (for a quota of 501 820 tonnes) and an above-quota duty of 35 percent. As of 1 January 2004, **Peru's** wheat import duty was lowered from 25 percent to 17 percent, most likely to meet the growing demand for bread. In addition to the duty, wheat is charged a 19 percent VAT.

In ***Europe***, the **EU** reacted to unusually large imports of wheat in 2001/02 and 2002/03[63], mostly of Black Sea origin, by introducing in January 2003 a TRQ system on lower quality wheat. Under the new scheme, the volume of medium and low quality wheat imports are restricted to 2 981 600 tonnes per year at a preferential duty of € 12 per tonne, which compares with an out-of-quota tariff of € 95 per tonne. Out of the quota, the United States is allocated 572 000 tonnes and Canada 38 000 tonnes[64]. Similarly, annual TRQs were established for barley, at 50 000 tonnes for malting barley (€ 8/tonne in-quota duty) and 350 000 tonnes for other barley (€ 16/tonne in-quota duty); above-quota imports are charged a duty of € 93 per tonne.

Within the ***Central and Eastern European*** region, a poor grain harvest induced **Bulgaria** to abolish the import duties imposed on bread wheat, barley and maize in November 2003 till the end of 2004. The Government also imported 100 000 tonnes of bread wheat from Argentina and suspended the import duty on flour (20-25 percent) from 1 January 2004 for six months, in an effort to contain flour and bread price increases. In the **Czech Republic**, in February 2004, the Government approved the duty-free importation of 300 000 tonnes of milling wheat to enhance supplies following a poor grain crop in 2003. Similarly, in January 2004, **Croatia** authorized the importation of 50 000 tonnes of wheat duty-free, in a move to boost local supplies and prevent bread prices from rising. Subsequently, in March, the Government also approved the importation of 150 000 tonnes of maize duty-free.

In response to dwindling supplies, **Hungary** issued a 100 000 tonne duty-free import quota for rye, barley and oats by late 2003 and planned a new quota of 150 000 tonnes for 2004. In addition, it

[62] The Andean Community comprises Bolivia, Colombia, Ecuador, Peru and Venezuela. The current Community Price Band duties can be accessed at URL: http://www.comunidadandina.org/politicas/franja_circular.htm

[63] EU wheat purchases surged from 3 million tonnes in 2000/01 to roughly 10 million tonnes in 2001/02 and almost 12 million tonnes in 2002/03. However, in 2003/04, wheat imports declined to just under 6 million tonnes, despite a sharp decline in domestic production in 2003.

[64] The remaining 2 371 600 tonnes is split into equal quarterly tranches to be available on a "first come, first served" basis, with the Commission retaining the right to advance tranches depending on market conditions.

suspended wheat import duties in December 2003 and, in January 2004, opened a duty-free import quota for 800 000 tonnes of grains – 400 000 tonnes each of wheat and rye – valid through 30 April 2004. **Poland** in November 2003 decided to apply a duty-free import quota for 600 000 tonnes of feed grains[65], before raising it to 1 million tonnes in January 2004. The decision was long been awaited by livestock farmers suffering from surging feed costs.

Because of concerns about rising bread prices in light of very tight supplies, **Romania** decided in July 2003 to allow the duty-free importation of 1 million tonnes of milling wheat until the end of the year[66]. Subsequently, following a poor grain harvest, the import quota and the licensing system were both suspended in October 2003 and milling wheat imports were fully liberalized until the end of June. All import restrictions on barley malt and maize imports were also lifted until the end of June. In the **Former Yugoslav Republic of Macedonia**, the Government approved in March 2004 the duty-free importation of 6 000 tonnes of barley and 2 500 tonnes of bran by the end of June.

In **Serbia and Montenegro**, the Government of Serbia issued in December 2003 an invitation for tenders to import duty-free 100 000 tonnes of bread wheat by the end of March 2004[67]. The deadline was later extended by one month. Likewise, in mid-January 2004, the Government decided to remove the 30-percent import duty on maize for a quota of 50 000 tonnes, targeted for feed compounds and cattle farms.

CIS countries set to coordinate agricultural policy

In a meeting held in September 2003 in Yalta, ***CIS*** countries agreed on plans to boost their economic cooperation. The main objective of the ten-point plan was to adopt a concept for a coordinated farm policy, with the development by 2010 of a common market regime for several agricultural commodities, including grains.

In a related development, the five nations of the Eurasian Economic Community (EEC) – **Russia**, **Belarus**, **Kazakhstan**, **Kyrgyzstan** and **Tajikistan** – approved in June 2003 a plan aimed at drawing a basic agricultural policy for the Community. It was agreed that the five nations, which had already removed tariffs on intra-trade, would collaborate to develop a common customs policy. In particular, the policy should design an import regime for agricultural products into the Community's common market.

Among the ***CIS*** countries, **Azerbaijan** suspended the 18 percent VAT imposed on grain imports for a period of one year, effective 1 October 2003. Afterward, in April 2004, the Government lifted the 5-percent import tariff imposed on grains. **The Russian Federation** decided to facilitate the importation of feedstuffs by suspending the 5-percent import duty on maize and other feed products[68] for a period of 9 months, beginning from 26 January 2004. Similarly, **Ukraine** abolished the grains import duties[69] from July through end of December 2003, subsequently extending the deadline to 1 July 2004. In January 2004, wheat importers were prohibited from utilizing promissory notes to pay the VAT on imported grain, thus overturning the provision of October 2003, which allowed importers to use these notes to defer VAT payments for up to 6 months. In **Uzbekistan**, the Government introduced import

[65] During 1-8 January 2004, ARR, Poland's responsible agency for administering imports, reportedly received applications from 18 companies for the importation of 397 000 tonnes of grains, mostly maize and barley. The current import duty on feed grains was 20 percent.
[66] As of early July 2003, Romania's import duty on wheat was 25 percent, with a preferential rate for CEFTA countries at 15 percent.
[67] As of December 2003, Serbia's import duty on wheat stood at 30 percent.
[68] The other feed products for which the import duty was lifted were soybeans and fish meal.
[69] Wheat imports were subject to a specific tariff of € 40/tonne and those of rye to € 20/tonne.

duties on many food products, including wheat flour (30 percent) and durum flour (5 percent), January 2004.

Export measures

In August 2004, **China** announced its intention to issue only 7 million tonnes of maize export quotas for the second half of 2004; this was in addition to 1.4 million tonnes already issued in the first half of the year. This represented a significant drop from the previous year's exports of over 16 million tonnes, reflecting the Government's concerns about low domestic supplies.

In August 2003, **India** decided to discontinue the provision of new allocations of subsidized wheat for export, due to a combination of factors, including declining FCI stocks, expectation of a fall in 2003/04 production and a shortage in railcars to transport the grain to ports. At the same time, the FCI kept raising the sale price of wheat to exporters to bring them more in line with domestic as well as international prices. From January to March 2004, the wheat selling price was increased by Rupee 500 (US$ 11) to Rupee 6 525 (US$ 144) per tonne for the 2003 crop and Rupee 6 225 (US$ 137) per tonne for the 2002 crop. It was in November 2000 that the FCI initially offered wheat for export at subsidized prices[70].

In an effort to maintain presence in the international market, **Pakistan** decided in September 2003 to resume its wheat export programme which was stalled since May in anticipation of a poor harvest. Earlier, the Government had barred the State-run Trading Corporation of Pakistan (TCP) from shipping wheat abroad and discouraged private exports by withdrawing most of the export rebates.

Concerned with the impact of the drought on local grain markets, the Cereals Management Committee of the **EU** decided, in July 2003, to stop issuing new export licences through the weekly tender system, thus making grain exports possible only by means of the daily tender scheme[71]. The last time the weekly tender system was suspended for grains was in July-November 1995. In October 2003, the Commission limited subsidized oat exports from both Finland and Sweden to 400 000 tonnes per year.

In view of a looming grain shortage in the country and to prevent prices from rising sharply, **Bulgaria** adopted in September 2003 a set of measures restricting the exportation of wheat, including a 200-day ban on exports, an export duty of Leva 20 per (US$ 11) tonne and a new tax of Leva 15 (US$ 9) per tonne for a quality certificate. The ban on wheat and flour exports was lifted in 1 July 2004, in light of good grain production prospects.

In response to a poor grain harvest in 2003, the **Czech Republic** decided in February 2004 to restrict grain exports by means of an export quota. As a result, only 175 000 tonnes of grains – 20 000 tonnes of wheat, 100 000 tonnes of barley, 20 000 tonnes of maize and 35 000 tonnes of wheat products – were allowed to be exported before 1 May 2004, when the country joined the EU.

In **Croatia**, the Government decided to discourage exports by imposing a 30-percent export levy on maize from September 2003 to March 2004 and a specific duty of € 29 per tonne on wheat from December 2003 to May 2004. Likewise, a temporary export duty of € 69 per tonne was introduced for wheat flour on 15 January 2004 for a period of six months.

Driven by ample stocks, strong local currency (the forint) and low international prices, **Hungary** decided in March 2003 to use an export subsidy programme for wheat. Accordingly, in 2003, 225 000 tonnes of wheat exports were subsidized at a rate of Forint 2 000 (US$ 9) per tonne[72]. But, by January

[70] For more information on India wheat export programme see *Review of Basic Food Policies*, FAO, 2002.
[71] Also note that export licenses for 1.6 million tonnes of grains, valid until the end of November 2003, had been issued already.
[72] The export subsidy excluded the EU and CEFTA (Central European Free Trade Agreement) Member States – Poland, Czech Republic, Slovakia, Hungary, Slovenia, Romania and Bulgaria.

2004, the Government imposed an export levy on wheat and wheat flour at the rate of Forint 11 000 (US$ 52) per tonne, with the principal objective of lowering domestic wheat prices[73]. The duty on flour exports was lifted the following April.

In **Poland**, in a bid to limit grain exports (mostly to neighbouring countries), the Government introduced in late August 2003 an export duty of Zlotys 300 (US$ 77) per tonne on wheat and wheat flour as well as a lower duty of Zlotys 200 (US$ 51) per tonne on other grains and their products. This was prompted by the fact that local grain prices were lower than in several European countries, especially in regions more severely affected by adverse weather conditions. In **Romania**, in July 2003, the Government decided to ban wheat exports for one year, in anticipation of a sharp drop in its wheat harvest. Similarly, in January 2004, the **Former Yugoslav Republic of Macedonia** prohibited wheat and wheat flour exports for a period of 6 months.

In **Serbia and Montenegro**, Serbia banned the export of wheat, maize and wheat flour as of 27 June 2003, including shipments to Montenegro and Kosovo except with a special authorization. In April 2004, the Government of **Moldova** decided to suspend maize exports until arrival of the new crop. The measure was taken in protection of the local livestock sector, amid concerns that domestic feed supplies were dwindling to alarming levels.

In response to decreased grain production in 2003, continuing exports and rising local bread prices, **the Russian Federation** introduced on 15 January 2004 a temporary specific export duty of US$ 32 per tonne for wheat, rye and meslin, to remain in place until 1 May 2004[74]. **Ukraine** in December 2003 decided to raise the railway tariffs for grain exports by 10 percent, in an attempt to discourage grain shipments. Prior to this, in September, the Government announced plans to impose an export duty on barley and maize. All grain export barriers were expected to be lifted in September 2004, in light of good crop prospects. In late 2003, following a record crop, **Uzbekistan** removed a ban on grain exports, which had been in place since 1991. However, in early 2004, the export duty on wheat was raised from 20 percent to 30 percent, to ensure stable bread prices in the country.

Bilateral and multilateral trade arrangements

In view of stalled multilateral trade negotiations under the WTO framework, and particularly the Doha Development Agenda, many countries pursued bilateral or regional trade arrangements during the period under this review. In November 2003, **Egypt** reached a trade agreement with **Syria** for the import of 200 000 tonnes of wheat at a price of US$ 157 per tonne FOB basis, in exchange for rice and other goods. In addition, the Government agreed in a barter trade deal to import 500 000 tonnes of Syrian wheat per year for a period of two years, starting in June 2004, renewable for another two-years. In January 2004, under a bilateral trade accord, **the Russian Federation** agreed to supply **Egypt** with 1 million tonnes of wheat annually for five years in exchange of other food products, including rice, citrus fruit and onions. The agreement was to be confirmed by both countries at a later stage.

Morocco reached two separate bilateral trade agreements, the first with the **EU** in October 2003 and the second with the **United States** in March 2004. In both agreements, Morocco committed to grant its trading partners preferential access to its grain market.

In March 2003, the **EU** approved duty-free quotas for **Romania** for the importation of 130 000 tonnes of soft wheat and 74 500 tonnes of maize for the period 1 April-30 June 2003. For the 2003/04 marketing year, beginning on 1 July 2003, these quotas were raised to 230 000 tonnes and 149 000

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[73] In December 2003, wheat futures prices at the Budapest Commodity Exchange for May 2004 delivery were about Forint 52 000 per tonne, but dropped to Forint 42 000 per tonne by mid-March.

[74] The export duty excluded sales to Member States of the CIS Customs Union, i.e. Belarus, Kazakhstan, Kyrgyzstan and Tajikistan.

tonnes, respectively. This came under a joint trade liberalization scheme, known as the “double profit” deal[75].

In a statement signed in late April 2004 in Luxembourg, the **EU** also agreed to grant **the Russian Federation** a larger quota for grain imports into the Union, taking into consideration grain imports by the new ten Member States, following **EU** enlargement as of 1 May 2004.

In October 2003, **Australia** and Thailand reached an accord on a bilateral free trade package, which was reported to come into effect in January 2005, leading to the eventual elimination of all Thai import barriers on Australian products. As regard grains, import duties on wheat (Baht 1 000 per tonne or 12-20 percent in ad valorem equivalent), barley, rye and oats (up to 25 percent in ad valorem equivalent) and on wheat gluten (31 percent) are to be abolished immediately, while duties on imported wheat flour (32.6 percent) and starch (31 percent) are to be phased out by the year 2010.

In early 2004, Venezuela and Argentina reached a bilateral trade agreement in which the two countries decided to enter into mutual barter trade. Accordingly, **Venezuela** agreed to ship oil and diesel to **Argentina** in exchange of food products, including 45 000 tonnes of yellow maize, 15 000 tonnes of milk powder, 15 000 tonnes of soybean oil and 12 000 tonnes of beef. The trade arrangement was achieved to satisfy the pressing import needs of both countries without exerting pressure on their foreign exchange reserves.

In April 2004, the **Mercosur** trading bloc finalized a trade deal with three of the five members of the Andean Community of Nations (CAN). The agreement, scheduled to come into force on 1 July 2004, was expected to result in phasing-out tariffs on over 70 percent of goods traded between three CAN members, **Colombia**, **Ecuador** and **Venezuela**, from one side and Mercosur nations, **Argentina**, **Brazil**, **Paraguay** and **Uruguay**, from the other side. The two CAN members who were not part of this accord were only excluded because they had already reached bilateral trade agreements with Mercosur – **Bolivia** in 1996 and **Peru** in 2003. The agreement was viewed as a boost to efforts aimed at enhancing trade and cooperation among countries in the region as well as a step towards strengthening the South American position in future WTO negotiations.

[75] For more information on the “double profit” trade deal, see *Review of Basic Food Policies*, FAO, 2002.

The Dominican Republic–Central American free trade agreement

On 28 May 2004, the **U.S.** signed the Central American Free Trade Agreement (CAFTA) with **Costa Rica**, **El Salvador**, **Guatemala**, **Honduras** and **Nicaragua**. On 5 August, the **Dominican Republic** joined CAFTA, creating a free trade bloc of seven nations, known as DR-CAFTA. The accord calls for eventual duty-free/quota-free access on basically all products and addresses other trade measures among the parties as well.

As far as grains are concerned, U.S. wheat exports to the other six countries would gain preferential access as tariffs were to be immediately locked in at zero. Tariffs on wheat flour were to be phased out over a period of 12 years in the five Central American nations and over 15 years in the Dominican Republic. As for feed grains, Costa Rica agreed to eliminate tariffs on U.S. yellow maize immediately, while Guatemala accepted to remove them over a 10 year period. El Salvador, Honduras and Nicaragua agreed to grant preferential access to U.S. yellow maize through a duty-free TRQ, where over-quota duties were to be phased out over 15 years. As regards white maize, in Guatemala, Honduras and Nicaragua, trade liberalization would occur progressively through duty-free in-quota TRQs, set to grow by 2 percent annually, while in Costa Rica, tariffs were to be eliminated gradually over 15 years. As regards sorghum, tariffs in Costa Rica, Honduras and Nicaragua were to be removed over a period of 15 years, while in Guatemala and the Dominican Republic they were to be abolished immediately. El Salvador would eliminate its tariff over 15 years by means of a TRQ, which was set to increase by 5 percent per annum. Tariffs on U.S. barley, oats and rye were to be eliminated immediately by all countries. Reciprocally, U.S. wheat and feed grain imports from all six countries were to be granted preferential access as tariffs were set to be locked in at zero immediately.

Conclusions

The review presented in this chapter suggests that, in most countries, grains policies have remained geared towards reducing government interventions and promoting a more market-oriented environment. However, international price developments and production shortfalls, mostly driven by unfavourable weather conditions, encouraged some countries to resume market intervention which, in several cases, also implied reverting to more protectionist trade and price measures.

With respect to **production policies**, the use of producer support prices generally declined, in line with the trend towards domestic market liberalization and less price-distorting policy stances. Nevertheless, several countries, especially from the developing world, continued to rely on guaranteed prices to sustain production, reflecting the importance of grains in national food security and also their lack of budgetary resources. In developed countries, on the other hand, governments relied increasingly on income support measures, particularly those categorized as "non-, or minimally distorting" policies in the WTO agreements, thus exempt from reduction commitments. In a number of countries, direct assistance to grain farmers was provided in the form of input subsidies and credit at preferential terms. Similarly, several governments pursued their efforts to increase grain production by bringing additional land into cultivation or promoting a wider use of high-yielding hybrid varieties.

With regard to **consumption, marketing and stocks policies**, most countries aimed at keeping their involvement to a minimum, so as not to interfere with market forces. Many countries continued with their efforts to enhance their grain marketing systems, by investing more in infrastructure, like storage facilities and ports, and by letting the private sector to expand its role in the supply chain. However, unfavourable weather conditions caused supply problems and forced many governments to intervene to contain price rises. This was especially the case in Europe where a sharp decline in production

resulted in several countries releasing grains from state reserves to protect consumers from price escalations.

As for **trade policy** developments, in most cases, interventions by governments represented temporary adjustments within the same policy framework – mainly to stabilize domestic markets. While some countries also continued with their reforms in preparation of their WTO accession, in many cases, these policy directions were disrupted by internal market fundamentals. In fact, inadequate grain supplies prompted several countries to resort to different types of border measures (such as lowering import duties, administering import quotas, introducing export restrictions) in order to improve availabilities and control prices. In the meantime, with stalled multilateral trade negotiations under the WTO umbrella, the review period also witnessed a continued proliferation of bilateral and regional trade agreements, with many of them involving grains.

III. OILSEEDS, OILS AND MEALS POLICY DEVELOPMENTS

International policy developments in the oilseeds, meals and oils complex during the review period were set within a context of international price recovery and expanding production. After several years of falling prices, the 2002/03 season marked the beginning of an oilseed price recovery in which prices in the 2003-04 season returned to their high level of the mid 1990s. Strong consumer demand and low stock levels sustained strong vegetable oil prices until the end of 2004. Protein meal prices surged particularly during the 2003/04 season fuelled by high demand from expanding livestock sectors around the world.

Stronger oilseed prices during the review period resulted in lower domestic support payments. The sector remained the least-supported arable crop sector in developed countries, which has been shifting gradually from traditional market price support towards sector-wide and non-commodity specific policies. A number of import-dependent developing countries modified their policies to stimulate domestic oilseeds production in order to decrease their import dependency. Strengthening oilseed prices lessened the need for import control measures to protect domestic producers from imports. This also led to reductions in trade barriers in some cases. However, differential export taxes and tariff escalation in the oilseed product complex remained common to encourage raw product imports and to enhance processing in some exporting and importing countries.

Production policies

Agricultural policies have evolved during the review period, and their focus is shifting gradually from traditional market price support towards sector-wide and non-commodity specific policies. Oilseed producers are mainly supported through output-based support payments, and the sector has been the least-supported arable crop sector in developed countries. Domestic support payments were lower in 2003 compared to 2002 largely because of stronger oilseed prices. A number of developing countries which import a significant portion of their oilseed, meal and oil consumption made efforts to decrease their import dependency. They increased their support for oilseed farmers to stimulate domestic oilseed production. Oilseeds, protein meals and vegetable oils, especially soybeans and palm oil are also an important export commodity for several developing countries. A number of them provided increased support to their oilseed sectors.

During the 2002 economic crisis in **Argentina,** farmers were faced with rising export taxes, frozen bank accounts, and problems in the banking system. Continued uncertainty resulted in reduced wheat and maize planting and a switch to cheaper, less risky soybeans. Because of lower costs and strong world prices, soybeans emerged as the favourite crop. This resulted in increasing susceptibility to market volatility in soybeans as the agricultural sector became less diversified. The agricultural ministry attempted to promote the diversification of farms away from soybeans. New lines of credit were offered for planting maize, as extensive planting of soybeans would exhaust the farmland and make the country overly dependent on the world soybean market.

The agricultural promotion program in **Brazil** has been based on two fundamental models in agriculture, the entrepreneurial and the family one. The government aggressively promoted exports, worked to bring a solution to debts by cutting interest rates and lowering taxes. The agricultural policy is aimed at strengthening the family farm, education for the rural environment, measures of incentive for cooperatives and associations and ecological measures. Theses measures combined with the Zero Hunger Program contributed to further growth for the soybean sector, as it has been the main Brazilian export product and enjoyed a clear competitive advantage towards other competing producing countries. The Brazilian government maintained its rural credit system offering various instruments to

support agricultural production and farm income. These programs applied to most annual crops, including soybeans. The key elements of the domestic support program were: Government Commodity Loan Program, Industry Commodity Loan Program, Government Commodity Acquisition Program, Rural Promissory Note, and Option Contract. In the 2003/04 crop plan of the Brazilian government, the budgeted amount for farm credit was about 26 percent above the level for 2002/03. Bigger family farmers received a new line of credit at 8.75 percent interest, small growers get 5.75 percent. The financing limits for soybean growers were left unchanged while those for other crops were sharply raised. Minimum prices were raised for soybeans, but they remain irrelevant for growers as they remained well below market prices.

The 2004/05 agricultural policy package was neutral to the soybean sector because of the lack of direct impact measures. The minimum guarantee prices for soybeans remained unchanged at R$ 14 per 60 kilogram (US$ 79 per tonne) for the Southern, South-eastern, Midwestern regions and at R$ 13 per 60 kilogram (US$ 73 per tonne) for the Northern and North-eastern regions. Financing limits were maintained at the same level as in the previous season, R$ 150,000 (US$ 50,950) per farmer for the South/Southeast and R$ 200,000 (US$ 67,935) per farmer for the other regions. In real terms, growers had access to a lower amount of inputs covered by official credit. Biotechnology continued to be a controversial subject in Brazil. The government of Brazil, the scientific community, and consumer groups are split over biotechnology crops. Brazil enacted a new biotechnology labelling law, which went into effect on March 27, 2004.

The government of **Bangladesh** developed an action plan to increase oil crop production in the country, by bringing more area under irrigation, introducing new planting and processing technologies, and supplying improved seeds. Public research institutes were developing high yielding, disease and insect pest resistant varieties along with production technologies for different oil crops during the review period.

In 2003, **Bulgaria** introduced a new oilseed support program covering soybeans and sunflowers. Furthermore, the four credit lines available for the use of fertilizer, chemicals, diesel fuel, and seeds were continued. Support for the production of certified soybean and oilseed rape seeds was expanded in **Croatia**. The payment cap of € 260,000 (US$ 320,743) per individual farm household was removed in 2004.

Canada introduced a new risk management program as part of the Agricultural Policy Framework. It used a combination of income stabilization and production insurance and was jointly funded by the federal and provincial governments. Introduction started in 2003 with the goal of having a mature system in place by 2006. Quebec's farm revenue stabilization program included canola in the 2002/03 insurance year. This program protected farmers against price fluctuations, triggering a payment should prices fall below a set level based on cost of production. The support prices for butter increased from CA$ 6.10 (US$ 4350 per tonne) to CA$ 6.29 per kilogram (US$ 4500 per tonne). The higher support prices aimed to provide dairy producers with an increase in revenues of CA$ 2.20 (US$ 1.57) per hectolitre for industrial milk, or 3.5 percent.

The 2003 increase in soybean production in **China** was partly attributed to the government's new preferential policy for soybean farmers, which included introducing new technology and providing higher quality seeds. Higher prices also contributed to the increase in soybean area. The provinces of Jilin and Anhui started an experimental direct subsidy program in order to protect framers' incomes. The program replaced the protective procurement program in these provinces. At the time of the review, there were no plans to expand the program nationally to all grains. The "Circular on Implementing the Relevant Measures for Further Supporting the Development of China's Soybean Industry" issued in the second half of January 2003, contained several directives to promote the development of Chinese soybean production, enhance competitiveness on the international market and increase income of farmers. According to this directive, government agencies at every level in the main soybean production areas should concentrate on the development of the soybean industry. Their strategic mission is to adjust the planting structure in Northeast China and eastern Inner Mongolian to

increase soybean cultivation. These regions should be built into a production base for high quality soybeans within three to five years. Based on the Central government's requirements to "Alleviate, Regulate and Stabilize", the rural taxation reform should be deepened to lighten farmers' burden. The local governments of the major soybean production areas should make the planting and promotion of improved varieties of soybeans an important mission and build a green and pollution-free soybean production base. The government plans to continue to provide preferential policy support to soybean processing projects, such as the Treasury bond discount loan. The import of necessary equipment and technology should be carried out according to the preferential policies on the exemption of tariffs and value-added tax of the import sector.

The government of **Colombia** has placed a priority on increasing production of soybeans to substitute for soybean imports. Until 2004, farmers were guaranteed relatively high prices through import restrictions where importers were required to purchase domestic soybeans at a minimum price of approximately US$ 250 per tonne. In a major change, the government discontinued the national purchase requirements for imports of oilseeds in January 2004.

Oil palm cultivation has been expanding in Colombia with strong support of the government. Financial incentives using public funds have been an important force behind the expansion of oil palm plantations. A steady increase in planted area has been taking place, partially financed by the government. Palm producers can be eligible for debt forgiveness of up to 40 percent on the principal due for production loans. They can also be tax-exempt on their plantation income for 10 years. The high domestic price for palm oil has been guaranteed by tariff protection on vegetable oil imports and by sales of excess palm oil on the world market with the assistance of direct payments out of an industry-funded Grower Price Stabilization Fund.

Oilseed (rapeseed, soybeans and sunflower) and linseed production aid in the **European Union** are based on the € 63 (US$ 78) per tonne compensatory payment common to oilseeds and other arable crops since 2002. Theses payments were phased in following the Agenda 2000 reforms as compensation for price cuts. The per-ton compensation is converted into area payments based on regional reference yields. Member states could choose to use either regional cereal or oilseed reference yields. Payments for oilseeds are only made if approved varieties are used or the crops are grown under contract for non-food uses. Until July 2002 oilseed planting were limited to the Maximum Guaranteed Area restrictions subject to the US/EU Oilseed GATT Panel Agreement of 1992. The Maximum Guaranteed Area provisions did no longer apply from the 2002/03 season.

Ten new countries (**Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia**) joined the EU on May 1, 2004. The base area for major supported crops (grains, oilseeds, flaxseed and pulses) was set at an average level for the years 1994/95 - 1998/99 while average reference yield was set to establish equal support per hectare for each crop. The equivalent of 25, 30 and 35 percent of the support provided to old EU members will be allocated in 2004, 2005 and 2006 (100 by 2013) to all farmers in the new member countries based on their arable land. Supplemental support from EU structural readjustment program money and the national government’s budgets will raise totals to about 55, 60 and 65 percent compared to the level of direct payments to current EU farmers, depending on the country.

Poland’s new law regulating domestic use and production of bio-fuel became effective January 2004. Companies processing products for bio-fuel must be licensed as well as have long-term contracts (5 years) with domestic raw material suppliers. The Polish Agency for Restructuring and Modernization of Agriculture has made available a new preferential credit line for the procurement of cereals and oilseed rape from the 2004 harvest. The main objective of the amendment has been to assure the utilization of grains and oilseeds for producers most lacking in storage space. The **Czech Republic** approved a special support program for the production of oilseed rape for non-food use. Industrial rapeseed is typically produced on set-aside land; the production is usually not economically viable without state support. In January 2004, the **Hungarian** Ministry of Agriculture terminated many kinds of domestic production support due to Hungary’s transition to the EU support regime and

overspending in the central budget. In 2003, sunflower and rapeseed planting as well as processing of bio-fuel crops were supported by the government. The year 2004 brought changes to the production support in the farm sector because the EU domestic support priorities differ from Hungary's. This could lead to changes in the production structure in the coming years. Rapeseed producers in **Lithuania** received direct area payments in 2003 of Litas 80 (US$ 21.75) per hectare. Exported rapeseeds did not receive this support.

EU 2003 CAP Reform

The agreement about the reform of the Common Agricultural Policy (CAP) was reached in June 2003. The reforms went into effect in January 2005. Actual application of the reforms may not happen for another two years as implementation periods vary by Member States. The regulations allow the individual Member States flexibility to choose the degree of decoupling of support payments from physical production. States may fully decouple, or they may elect to leave up to 25 percent of the per hectare payments for arable crops linked to production. Decoupling of payments from production can be delayed until 2007 at Member States' discretion and particular support payments may be kept partially or wholly coupled. Farmers will receive the aids based on historical production during a reference period (2000-2002) and will have no obligation to produce specific crops to receive the payments. Most other specific payments in these sectors were also proposed to be included in the new decoupled "Single Farm Payment." Farmers receiving the decoupled payments will not be able to grow perennial crops, or crops for which there are restrictions on new plantings such as olives, yet they must maintain their land in "good agricultural condition." In practice, this means that they must continue producing something and they likely will continue producing what they have historically produced, given that their other options are limited. In addition, for the partially-decoupled sectors, farmers will still need to produce a specific crop to get the production-linked portion of the payment. Member state can grant up to 10 percent of the entire direct payment volume linked to certain environmental and quality criteria. This measure could be used to provide support to organic farming. A new production-linked aid has also been introduced to support the production of energy crops. For a maximum area in the EU of 1.5 million hectares, a € 45 (US$ 55) per hectare carbon credit is available for crops planted for use in bio-fuel production, conditional on the grower having a contract for this. This is a new and additional payment to previous support schemes. However, carbon credit payments are not paid to industrial crops on set-aside land. Farmers who receive a component of the Single Farm Payment based on historical set-aside (i.e. who have a set-aside entitlement) would continue to have a set-aside obligation. Set-aside remains rotational and farmers are able to grow industrial crops on it, as it has been the case before. The Commission also noted however that they may need to apply further set-aside obligations to land sown with cereals and oilseeds. Modulation of payments shifts funds from support payments into rural development. Starting in 2005, payments for larger farmers are reduced by 3 percent per year, rising to 5 percent in 2005. The first € 5,000 (US$ 6,168) of a farmer's direct payments are exempt from modulation as are the 'outermost' regions, such as some of the Greek islands. The financial stability feature of the reformed CAP is a budget ceiling on CAP expenditure. When CAP expenditure is forecast to come to within € 300 (US$ 370) million of the ceiling, all direct payments will be cut on a pro-rata basis to ensure that the ceiling is not exceeded. The € 300 (US$ 370) million buffer provides a security margin.

Olive oil reform

A new regime is scheduled to apply beginning in marketing year 2005/06. Under this scheme, a minimum of 60 percent of the average current production-linked payments during the reference period 2000-2002 (€ 2.3 (US$ 2.8) billion per year for the EU15) are converted into entitlements under the single payment scheme for holdings larger than 0.3 ha. For the calculation of the amount for each olive farmer, the reference period comprises the four marketing years from 1999-2003. Olive farms smaller than 0.3 ha see their payments completely decoupled from 2006. The remaining aid paid can be retained by the member states as national envelopes to grant producers of an additional olive grove payment. For simplification reasons, the olive grove payments are not allocated below € 50 (US$ 62) per aid claim. Member States may use up to 10 percent of their olive oil component of the national ceiling for quality measures. To avoid market imbalances, access to the single payment scheme has to be limited to olive-growing areas existing prior to 1 May 1998 and to new plantings according to programmes approved by the Commission. To take account of support granted to new plantings after that date in France and Portugal the corresponding amounts will be added. For Spain, the national budgetary envelope has been increased by€ 20 (US$ 25) million.

Momentum is gathering for a new **Indian** agricultural policy which would reduce the focus on cereal production and direct more resources into oilseed cultivation to lessen dependency on edible oil imports. The ratio between minimum support prices (MSP) for grains and other crops have become the instrument to control costs incurred on food subsidy for procurement, storage, transportation and distribution of food grains. Grain prices were left unchanged while support prices for soybeans, rapeseed, groundnuts, and sunflower seed were increased for the 2003/04 season (Table 1). Prices were raised to encourage farmers to shift land from food grains to oilseeds. During the review period, support prices were announced before sowing began and not at harvest time as practiced previously so farmers could include them into their planting decisions. In particular, the government raised the support price for mustard more than proportionally to encourage a switch from Rabi wheat cultivation to mustard planting.

For the 2004/05 season the Indian government outlined several areas for support in agriculture. Continued crop diversification towards oilseeds and other crops at the expense of grains remained an important goal. A system of targeted support prices was set up to provide incentives to farmers. Besides offering minimum support prices, the government provided aid to drought stricken farmers in 2002. A special one time drought relief for rapeseed (RS 100 (US$ 2.15) per tonne) and sunflower (RS 50 (US$ 1.07) per tonne) was paid. Farm loans were available at below-market rates from public sector banks. Complete interest waiver on crop loans have been granted to farmers during the drought affected monsoon season crop 2002. Banks were partially reimbursed by the state and central governments for their foregone interest income. As part of a strategy to reduce dependence on imported edible oils, the Indian government is promoting domestic oil palm cultivation. A production of 0.3 – 0.4 million metric tonnes within 5 years has been targeted. Oil palm was considered to be declared a plantation crop, like tea or coffee, to allow more favourable opportunities to investors with removal of land ceiling restrictions.

In **Indonesia t**he Agricultural Ministry encouraged replanting of older oil palm plantations with young trees because the existing trees were already between 30 to 40 years old. In 2004 the Indonesian parliament passed a new bill lifting the limit on plantation size which was in place since 2002. The new law aimed at boosting palm oil exports, but could hurt smallholders who currently own about one third of plantation lands. In October 2003, through a co-operation program between banks, the state trading company and related industries was introduced to end soybean imports by 2005. This collaborative effort aimed to increase soybean production by improving yields with the help of an integrated programme of seeding, fertilization, and loans to aid farmers.

Japan introduced an income stabilization policy in 2000 that compensated participating farmers with 80 percent of the difference between the observed seasonal average market price and a new standard price which was the average of the market prices of the previous 3 years. The income stabilization

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

Commodities/ Countries	Currency	Local currency per tonne: In Nominal Terms				Local currency per tonne: In Real Terms (deflated by CPI 1995=100)				US$ equivalent per tonne: In Nominal Prices			
		2000	**2001**	**2002**	**2003**	**2000**	**2001**	**2002**	**2003**	**2000**	**2001**	**2002**	**2003**
Copra													
India	Rupee	32 500	33 000	33 000	33 200	22 569	22 103	21 526	22 312	723	699	676	763
Groundnuts (unshelled)													
India	Rupee	12 200	13 400	13 550	14 000	8472	8975	8839	9409	271	284	278	322
USA [a/]	US$	672	672	disc.	disc.	595	578	disc.	0	672	672	disc.	disc.
USA [b/]	US$	145	145	disc.	disc.	128	125	disc.	0	145	145	disc.	disc.
USA [c/]	US$	-	-	391	353	-	-	334	308	-	-	391	353
Olive Oil													
EU	Ecu/Euro	3838	3838	3838	3838	3537	3448	3667	3282	3536	3434	3546	4127
Rapeseed													
India	Rupee	11000	12000	13000	13400	7639	8037	8480	9005	245	254	266	308
Pakistan	Rupee	12500	12500	12500	15750	8809	8538	8401	9746	233	202	208	273
USA	US$	205	205	212	212	181	176	181	185	205	205	212	212
Soybeans													
Brazil	Reais	162	170	183	250	113	111	113	124	89	72	68	81
India (black)	Rupee	7750	7950	7950	8400	5382	5325	5186	5645	172	168	163	193
India (yellow)	Rupee	8650	8850	8850	9300	6007	5928	5773	6250	192	188	181	214
Pakistan	Rupee	10250	10250	10250	11250	7223	7001	6888	6962	191	165	171	195
Rep. of Korea (grade 2)	000 Won	2087	2296	n.a.	n.a.	1718	1816	n.a.	n.a.	1845	1778	n.a	n.a
USA	US$	193	193	184	184	171	166	157	160	193	193	184	184
Sunflowerseed													
India	Rupee	11700	11850	11950	12500	8125	7937	7795	8401	260	251	245	287
Pakistan	Rupee	12500	12500	14000	15750	8809	8538	9409	9746	233	202	233	362
USA	US$	205	205	212	212	181	176	181	185	205	205	212	212
Butter													
EU	Ecu/Euro	3282	3282	3282	3282	3025	2949	2879	2807	3024	2937	3032	3529
USA (grade A)	US$	1453	1555	1956	2315	1333	1395	1734	2022	1453	1555	1956	2315
..Canada	CAD	5541	5726	5901	6106	5111	5229	5340	5333	3730	3697	3757	4284

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
.

program has no floor price. Each year, the 3-year moving average of market prices could be lower, and the farmers would receive a portion of the difference between the current-year price and the moving average. In addition to the subsidy for soybeans, farmers who transferred acreage from rice production to soybean or rapeseed production received an additional payment of 83,000 yen per 10 acres. Soybean producers were also eligible for a government supported hazard insurance plan. The government contributed 55 percent of the insurance premium for each soybean farmer. Under an additional Japanese soybean subsidy program, soybean farmers were paid a fixed subsidy when the sum of the producer price and the fixed subsidy did not reach the production cost set every year by the Agricultural Minister. If the sum of the producer price and the fixed subsidy exceeded the production cost, the payment was the difference between the production cost and the producer price, instead of full amount of the fixed subsidy. If the producer price exceeded the production cost, no subsidy would be paid.

In 2003, **Mexico** maintained direct income support payments on a per-hectare basis to producers of soybeans, cotton and other crops under its domestic support program, PROCAMPO (see table 5 of the rice chapter). Mexico also expanded its farm subsidy programs. A new package for 2004 provided a target income guarantee to oilseed farmers who were not registered with PROCAMPO. It compensated farmers of soybeans and rapeseed if they could not reach the objective price after selling their commodities on the market. The program was addressing concerns over the removal of tariffs on most farm products for US – Mexican trade. Groundnut payments were increased in 2002/03 compared to 2001/02. Farmers received a flat subsidy depending on the size of their plot. The subsidies were not sufficient to prevent groundnut production from falling. In 2003, the Government of Mexico and producer groups signed the National Agreement on Agriculture. The main objectives of the National Agreement on Agriculture were "to establish food production sovereignty and to develop and increase agricultural production in an equitable way for the rural countryside". The most important of these actions included increasing subsidies for sugarcane, coffee, grain, oilseed, fishery and forest producers and establishes emergency spending 2.8 billion pesos (US$ 260 million) for the rural sector using surplus oil revenues.

The government oilseed marketing company of **Morocco,** COMAPRA, paid a minimum support price for sunflower seeds of DH 4,000 (US$ 424) per tonne to farmers. The crushers bought the local sunflower seeds from COMAPRA at the prevailing international price and the government paid the difference between international price and DH 4,400 (US$ 454) per tonne.

In 2002 the government of **Nigeria** set a five year target to restore the country's status as a major vegetable oil exporter. The government budgeted money for the project and formed a committee to oversee it. The goal was set to plant 1-million hectares of oil palm expanding the current production base by about 30 percent, and to produce 5 million tonnes of groundnuts, and 675 000 tonnes of soybeans annually. The government announced a new Presidential initiative on oil palm in mid 2003. Under this program, an existing 125,000 hectares of palm plantation will be rehabilitated. In addition, existing large palm estates were also encouraged to assist in developing smallholders as out-growers in the communities where they are located.

During the review period, the **Pakistan** Oilseed Development Board worked with the Pakistan Solvent Extractor Association to set prices for oilseeds that are 10-15 percent above the support prices. As a result the government did not get directly involved in procurement or marketing of oilseeds. However, oilseed production was encouraged by the government through a support price mechanism that generated a higher farm-gate price with little direct government procurement. In the 2003/04 and 2004/05 seasons, the solvent extraction industry, in collaboration with seed companies, announced a minimum price for the purchase of oilseed crops, an action likely to lead to increased cultivation of oilseeds in the country. Because of the country's sizable edible oil deficit, Pakistan's government was continuing its efforts to enhance domestic production. A government intervention scheme has resulted in the increase of sunflower cultivation. The replacement of rapeseed for mustard seed was also a high priority.

In 2003, the government of the **Philippines**, after providing participating growers free coconut seedlings for more than two decades, started selling them to maintain its nursery operations and minimize operating losses. To encourage increased investment in the agricultural sector, according to new Republican Act No. 9281, enacted in March 2004, all agricultural enterprises were exempt from the payment of tariff and duties for the importation of all types of agriculture inputs, equipment and fisheries. The government provided supplemental funding to implement this bill.

Romania continued to support commercial producers of sunflowers and soybeans. Farmers received direct payments and support for certified seed and fuel procurement. In 2002, for the first time farmers received an advance payment of 30 percent of the direct aid in the fall to cover planting costs. Crop insurance and equipment purchases were also supported.

The **Russian Federation** approved an industry program for the development of production and comprehensive processing of soybeans for the period from 2003 to 2010. In order to stimulate soybean farming, subsidies of Rubbles 2000 (US$ 65) per tonne are provided to farmers. The source of funding has been private capital. The 2004 federal budget included subsidies for a soil fertility program and elite seed farming of oilseeds. The oilseed industry benefited also from various other finance programs. In 2003, the government implemented a financial recovery program for agricultural producers, 80 percent of which had overdue debts. The debt restructuring plan covered debts to all creditors, government and private. Some local governments set procurement prices of oilseeds to be sold for repayments of official loans.

Serbia supported the production of commercial soybeans for crush and seed production. The government, in line with its long-term policy to increase production of more profitable crops, has decided to help farmers finance sunflower and soybean production. In 2003 farmers received Dinars 4000 (US$ 69) per hectare sown to these oilcrops.

Under **Thailand's** palm and palm oil development plan (2000-2006), the government has targeted both increasing average yields for fresh production, and also increasing extraction rates. This plan has been implemented by relocating the palm plantation to the optimal area and by improving planting practices and increasing efficiencies in the crushing and refining process. The Thai government also developed the Southern region of the country as a centre of palm oil production. The agricultural ministry promoted palm oil plantations on land which is unsuitable for rubber and other crops such as abandoned rice fields. Direct market interventions into the palm oil market were also continued. The government supported the domestic prices and made payments to oil palm smallholders (<8ha) to encourage the replanting of old trees. As part of this support policy, processors were required too buy products form registered smallholders at set prices. The Thai government began in May 2003 to control both oil processors and traders' palm oil transaction, through stock checking and audits of company records. These stringent controls have helped to stabilize prices in the palm oil market. Thailand launched an ambitious oil palm expansion programme in 2003 involving cultivating an extra 800 000 hectares over the next 4 years. The project is designed to produce palm oil for bio-fuel production. The plan would not affect the current palm oil industry that produces cooking oil. Import control has been used as the tool to stabilize domestic soybean prices. Eligible soybean importers, under the current tariff-rate-quota (TRQ) system, were required to purchase domestic soybeans at government-determined prices. Because of the lack of comparative advantage in domestic soybean production, the government considered to terminate its effort to increase domestic production as an import substitute. From 2003, soybean growers have no longer received any production support from the government.

Uganda initiated a palm oil development program to reduce the country's dependency on imported vegetable oil over the next 10 years. Oil palm seedlings were imported from Indonesia and planted in nurseries so far. The project was jointly funded by private companies, the UN and the government.

The government of the **Ukraine** unsuccessfully asked the farmers to reduce their sunflower plantings for 2004. A further growth in output is feared to lead to excessive soil exhaustion, fungal diseases and soil moisture problems.

The first year of full implementation of the 2002 FSRI Act in the **United States** was 2003. Reduced payments and depreciation of the dollar led to lower overall support of farmers. The outlays of the Commodity Credit Corporation (CCC) of the United States for soybeans were US$ 3447 million in 2002 and decreased to US$ 912 million in 2003 because of the high market prices. Budgeted spending in 2004 was US$ 1596 million. After relatively small net outlays to groundnut farmers under the quota system, payments in 2003 jumped to US$ 1564 million in 2003 from US$ 129 million in 2002. The extra spending was mainly due to the quota buyout. Due to the strong oilseed prices no loan deficiency payments for oilseeds were made in 2002 and 2003 and no payments were expected for 2004. Until 2002, groundnut growing in the U.S. had been regulated by a marketing quota. The 2002 farm bill removed this longstanding support system and introduced the same set of supports – marketing loans, direct payments, and counter-cyclical payments – available to producers of other mainstream crops. The short-term impacts of these policy changes were lower farm-level prices and production incentives that were reflected in lower planted acreage and a shift to higher yielding areas. Groundnut area in Virginia and North Carolina went down in 2002 and 2003 in response to the new peanut scheme as the loss of the quota system prompted many farmers to exit the market. Farmers adapted to the new price uncertainty by managing risk through contracting and marketing associations. On the consumption side, lower domestic prices have dampened the demand for imported groundnuts. The soybean industry was asking Congress to appropriate more money to develop an Asian soybean rust resistant variety. They also urged the EPA to be ready to issue emergency use permits for fungicides in case of an outbreak.

In **Uzbekistan,** the combination of inadequate production incentives and poor quality inputs plus weather related problems over the past two years have resulted in lower cotton production. To compensate for this decline, the government encouraged production of sunflowers and soybeans.

Consumption and marketing policies

Marketing policies

The governments of several countries employed policies to enhance and control the marketing of oilseeds and oilseed products. These policies focused on controlling and improving domestic marketing chains for oilseeds and products.

The **Russian** government regulated the process of price formation for agricultural produce throughout the entire chain from the farmer to the consumer. The goal was to prevent the transfer of all marketing risks onto the primary producer. Further plans call for a federal program to develop the domestic protein industry; eighteen plants for the making of food and feed proteins are to be built before 2010.

The **Venezuelan** government introduced a comprehensive set of price controls in the food sector in February 2003. This move was made in conjunction with the imposition of exchange rate controls in late January. The price controls were designed to keep products readily available to all consumers at a reasonable price. **Colombia** maintained an absorption requirement for importers under a waiver to WTO rules until January 2004. **Ecuador** had a similar program where the government supported agreements between soybean producers and the feed meal compound industry to encourage soybeans production by assuring farmers both a price at international level and the absorption of local soybeans harvest.

In **India**, trading of soybean and groundnut products, palm and rapeseed futures contracts began at several exchanges. Tax issues, support prices, non-transparent marketing and various other obstacles in the physical market still hindered the trade. Some restrictions on transportation and storage of edible oils within India were lifted. Encouraged by tax incentives for investment projects, oil refining

companies expanded refining capacity for crude palm oil in coastal states ensuring a future high demand for imported crude palm oil. These measures resulted in a concentration of vegetable oil refining capacity along the coasts. **Pakistan** also afforded tax breaks to oil processors in certain parts of the country. Tax exemptions for vanaspati manufacturers in the Fata/Pata zones caused problems to the industry in the rest of the country because they had problems to compete with the low-cost producers.

In many countries of Middle East (**Egypt, Tunisia, Jordan, Turkey, Dubai, Iran**) efforts were undertaken to build vegetable oil processing facilities with the backing and support of the respective governments. It has been part of a trend where traditional importers of refined oils started building their own refining facilities. Traditionally, the region has been an export market for Europe and south-east Asia.

Consumer subsidies were phased out as part of the liberalization of the **Moroccan** oilseeds sector. To avoid hardships for consumers, vegetable oil prices were still government controlled during the period under review.

The **Philippines** launched a coconut processing project to get rural communities involved in refining edible oils. The government was also exerting efforts to develop value-added coconut products for the export market. The government of **Malaysia** encouraged palm oil producers to invest in the pulp and paper industry using the empty fruit bunches to generate additional income. In **Hungary** marketing and processing of biofuel crops was supported by the government.

Since the 2003/2004 marketing year, the government of **Senegal** has taken measures to resolve the groundnut marketing problems. It reviewed and regulated the selection of private marketing operators and encouraged farmers to form associations or cooperatives to facilitate the delivery of their crop directly to the factories.

The government of **Sri Lanka** used a number of policies to keep as much of the domestic coconut production in the country for use by local processors. A minimum producer price was set to encourage farmers to sell to local crushers.

Consumption policies

Vegetable oils are an important staple product in many countries. A number of countries intervened in their domestic markets in order to control market prices or distribute oil to low-income consumers. Improvement of food quality and safety standards and promotion of industrial uses were alternative areas addressed by consumption policies.

A portion of the vegetable oil consumption in **Egypt** continued to be subsidized and distributed through a ration card system. The subsidized price was about 10 percent of the market price in 2003. In May 2004, the government initiated a new subsidy program for ration cardholders that allowed for an additional allocation of cooking oil and margarine.

Because of the increased cost of crude palm oil in the international market, the **Malaysian** government had to undertake efforts to stabilize the domestic prices of cooking oil. Half of the subsidy was covered by the government; the other half was absorbed by the industry.

Tunisia provided consumer subsidies for vegetable oils to consumers in the least favoured income brackets. The government of **Thailand** set retail price ceilings for soybean and palm oils. The government of **Venezuela** opened a new network of food stores in low-income neighbourhoods.

In 2004, the president of the **Philippines** directed all government agencies to incorporate the use of one volume percent coconut methyl ester in their diesel requirements. This measure aimed to create a new market for coconut farmers and at the same time promote cleaner air.

Regulations aimed at product standardization and consumer protection played an important role in many countries. In 2002 new rules for marketing olive oil were adopted by the **European Union (EU)**, clarifying the labelling of olive oil and related products. The EU has also maintained very complex directives on the use of vegetable oil in chocolate. In 2006 trans fat labelling will become mandatory in the **United States**. Already in the 2004/05 season some manufacturers shifted away from hydrogenated soybean oil because it is rich in trans fatty acids. **Lithuania** developed food safety standards for oils that comply with EU directives.

Another important objective of consumer policies was to improve the nutritional status and health characteristics of vegetable oils. A new regulation in **Pakistan** requires a fixed ratio between soft and hard oils in ghee manufacturing to safeguard the local soft oil production and improve health attributes. The **Philippine** Food Fortification Law requires that all staple foods – including cooking oil – be fortified with Vitamin A, iron or iodine by the end of 2005.

Like rice and sugar, cooking oil was considered a political and strategic commodity in **Indonesia** that might cause the government to take action to control stock and price of the cooking oil in the market. During the period under review, cooking oil producers and retailers were encouraged to follow government's call to gradually reduce and maintain prices.

International trade policies

Import measures

The international oilseed products prices continued their recovery during the review period. This development lessened the need for import control measures to protect domestic producers from imports. As a result the general trend to fewer trade barriers continued. Several countries reduced their tariffs and non-tariff measures. However, other countries saw the need to increase their level of protection by raising tariffs or by implementing other restrictions. Tariff escalation is still common in the oilseed market to encourage raw product imports and processing by the importer country. This tariff structure has been an important cause for the faster growth of seed versus products trade in recent years. Technical measures, focusing in particular on GMO and food safety issues have also played an increasing role in the international oilseeds and product markets during the period under review.

Vegetable oil imports into **Bulgaria** were assessed tariffs between 2.3 percent and 15 percent in 2003 depending on the type of oil. Several tariffs were increased in 2003 compared to 2002. Their main purpose was to protect the local sunflower crushers. Imports from the EU were duty free.

Since its accession to the WTO in December 2001, **China** has followed a course of gradual trade liberalization, more transparent policies and less direct government intervention into markets. Tariffs on oilseeds and related products were set at relatively low levels. Binding tariff rate quotas have been put in place for key imported oils. Private traders are granted increased access to import markets. However, 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 growing and crushing. Despite China's efforts to control oilseed imports and to stimulate domestic production (see production policies), the country became the leading oilseed importer in the world. The country's trade policy measures therefore have played a key role in global oilseed trade and always have the potential to strongly affect trading partners.

The focus of China's import measures during the review period was on sanitary and phytosanitary issues. After December 2002 all soybeans entering China had to be certified by the exporting country's government as non-GMO. In January 2003, the Chinese government issued an interim regulation permitting Brazilian soybeans into the country until September 2003 irrespective of the GM content. In March 2003 China demanded a "re-inspection" clause to be included into all contracts. In

June 2003, China halted soybean imports mainly form South America prompting a fall in global prices starting a renewed trade dispute over the commodity. The nature of the required import licenses is in dispute with China claiming they are quarantine certificates, while exporters classify them as import permits that should be handed out automatically. In September 2003 China resumed issuing import permits under the extension of the interim import measure. China has now completed its biotechnology regulatory review of Roundup Ready soybeans and issued final safety certificates for Roundup Ready soybeans. The new permits are valid for three to five years and were expected to become easier to renew. The requirements stated that shipments of GMO crops must be accompanied by details of the contract, such as the buyer, intended processor, and information on any entities what will store the crop. In addition, the shipment has to include documentation showing that the government of the country in which the crop was grown also approved of the crop for sale in its market. Seven rapeseed varieties are still under review and canola is not approved for import into China after April 20, 2004. In April 2004 China issued safety certificates that allowed Canadian exporters to ship transgenic canola when the temporary regime expires on April 20. In 2004, a total of 23 exporting firms were banned by the Chinese quarantine bureau after discovering cargos from Brazil tainted by fungicide. Later China agreed to lift the ban on imports of Brazilian soybeans after being reassured by tough new phytosanitary rules in Brazil. China adjusted its former zero-tolerance policy to a level that permits up to one fungicide tainted seed per kilogram of soybeans. The quality control had to take place in the port of entry. China increased its low-duty import quotas for 2004. Tariff for edible oils was 9 percent. The palm oil quota was specified at 2.7 million tonnes and soybean oil at 3.118 million tonnes. State trading firms received 18 percent of the quotas.

The general import policies for oilseeds and products in the European Union were not revised during the period under review. The EU imposed a new regulation on quality for any exporting of copra meal to the member countries. New regulations required a lower amount of permissible aflatoxin in copra pellets. The EU adopted new rules under its General System of Preferences (GSP). As a result customs duties for coconut oils fell from 2005 on. Philippine exports benefited from it. After the 2004 accession of the ten new member states to the European Union, EU Common External Tariffs for oilseeds and products do not differ from the actual applied tariffs of theses countries. All country-specific trade measures no longer apply. Due to low rapeseed production in 2003, the **Czech Republic** allowed duty free rapeseed imports of 150 000 tonnes in 2003/04. The preferential 20 percent import duty on a rapeseed import quota of 16,200 tonnes and the 60 percent tariff on any imports above the limit was removed with EU accession on May 1, 2004. Imports of table oils and margarine from the EU to **Hungary** enjoyed preferential tariffs and tariff-free quotas as of January 2003. There was also a new GATT quota open for imports from any country for 2003. A system of autonomous, conventional, and preferential custom duties, tariff quotas and export subsidies was applied in **Lithuania** before accession to the WTO. **Poland** continued to apply a system of tariffs and tariff-rate quotas according to its WTO agreement. Protein meals from many origins, especially developing countries had been imported without tariffs. Starting from January 2003, Poland suspended tariffs on soybean and sunflower seed meals from all sources until the end of 2003.

India continued to rely on high tariffs for oilseeds and vegetable oils to protect the domestic industry. No oilseeds or oil meals were imported due to the high tariff levels, ample availability of various meals and other strict regulations. India's federal government levied import duties on edible oils according to the tariff value assigned to each category of edible oils to prevent underinvoicing by traders. These tariff values were adjusted periodically as market prices changed. During the period under review, soybean oil, crude palm oil, RBD palm oil, crude palm olein, and RBD palm olein reference prices were frequently raised and lowered to align them with international prices. These adjustments impacted the domestic oil prices and affected Indian oil imports. Before May 2003, the tariff on refined palm oils was 85 percent which encouraged the import of crude oil. This led to the creation of refining capacity in the country, especially near ports. In May 2003 the duty on refined palm oil was cut from 85 percent to 70 percent to give consumers relief from high vegetable oil prices. It sparked buying of refined oil over crude oil. Domestic processors lost business. In July 2004 the import duty on refined palm oil was increased to 75 percent to encourage value addition in India. Crude palm oil tariff remained at 65 percent. Tariff rates for refined soybean oils have been lowered to

the level of crude oil, both are now at the WTO bound rate of 45 percent. Tariff rate quotas for fiscal year 2002/03 are crude sunflower oil: 50,000 tonnes at 50 percent duty, refined mustard oil: 15,000 tonnes at 45 percent. Out of tariff quantities are assessed 75 percent for sunflower and 85 percent for mustard oil.

India set a beta-carotene standard for imported crude palm oil and olein. Shipments that did not meet these standards were charged a 70 percent import duty compared to 65 percent for grades that meet specifications. It was introduced too prevent mislabelling of refined oils as crude to escape the higher tariff rate. During the review period, edible oils and were labelled "high risk" food items, imports of which will be subject to 100 percent sampling. If the product fails the test to ascertain the quality and health safety standards of the consignments, the goods are re-exported or destroyed.

In June 2002, **Pakistan** lowered the duty on all oilseed commodities and imposed a uniform rate of 10 percent on all oilseeds. This follows the removal of the 15 percent sales tax on domestically produced soybean oil. Changes allowed the industry to capture the value-added benefits from local crush, mainly at the expense of imported Indian soybean meal and palm oil. However, rising international prices and a new 20 percent sales tax levy on oilseeds are discouraging imports of whole beans. In recent years India has supplied all of Pakistan’s soybean meal requirements. Recent changes in the Pakistani tax structure and heightened tensions with India necessitated that the country seeks alternative supplies for meeting soybean meal requirements. In June 2002 the import duty on Palm olein was reduced to be on par with soybean oil. However, the duty on sunflower and rapeseed oils were increased to protect the domestic solvent industry from those imported oils. The duty on palm fatty acid distillate was cut from 35 to 20 percent. The duties on crude coconut oil, RBD coconut oil and palm stearine were increased. In June 2003, the Pakistan exempted all oilseeds from custom duty but imposed a 20 percent sales tax.

Indonesia established a mechanism for shielding local industries which are deemed to have suffered from serious losses due to imports. In addition, Safeguards were introduced in December 2002. They allowed for implementation of higher import duties or non-tariff barriers on a temporary basis if imports enter the country in large volumes and in a short time period.

Japan had no border protection for soybeans or other oilseeds (except peanuts), either for crushing or for food use. The tariff rate has been permanently set (bound) at zero. Imports of most vegetable oils faced significant tariffs. Japan applied a preferential tariff system to 149 developing countries and 15 regions. In April 2003 coconut and palm kernel oil were added to the list of products that can be imported at lower-than-normal tariff rates. Japan used a tariff-rate quota (TRQ) to regulate peanut imports. The peanut quota used 75,000 metric tonnes as a basis and was adjusted depending on other considerations such as the quantity of prospective domestic production and international market situation.

In 2004, The Republic of **Korea** set tariffs for the minimum market access quota at zero for the first 1.39 million metric tonnes of soybeans imported for crushing purposes. The tariff was set at 5 percent for the first 185,787 million tonnes of food grade quality soybeans imported for food use. Soybeans imported out-of-quota will be assessed a tariff of 487 percent or Korean Won 956 per kilogram (US$ 798 per tonne), whichever is greater. The 2004 tariff rates for imported soybean meal and oil, and cottonseed oils remained in line with terms of the 1993 U.S./Korean bilateral agreement.

Copra meal tariffs in the **Philippines**, were kept at 10 percent for 2003, the same level as 2002. Duties for palm oil and soybean oil remained unchanged from their 2002 levels at 15 percent and 7 percent, respectively. Palm kernel oil tariff which was set at 10 percent in 2002, was also extended to 2003. The tax exemption for soybeans ended in 2003. Soybean imports in 2003 were levied a one percent duty. Soybean meal tariff remains unchanged at 3 percent. The high prices of soybean meal in early 2004 lead the Philippine Department of Agriculture to push for a temporary suspension of the 3 percent import duty on soybean meal to help the domestic hog and poultry industries. Soybean meal MFN tariffs will be set at 3 percent in 2005, unchanged from the 2004 level.

In December 2003, the **Andean Community** countries (Bolivia, Colombia, Ecuador, Peru and Venezuela) signed a trade agreement with Mercosur (Argentina, Brazil, Uruguay, and Paraguay) on tariff reduction. Starting in July 2004, tariffs will be gradually eliminated, within 15 years for soybean, 20 years for vegetable oils and 15 years for oilcakes and vegetable meals. **Colombia** maintained the domestic purchase requirement for agricultural commodities under a waiver to the general WTO rules until the end of 2003. Since July 2002, Colombia has applied a safeguard to imports from other Andean Community countries of refined soybean oil, refined flower sunflower oil and refined mixed oil in order to protect local palm oil production. The major instrument in **Ecuador** for controlling soybean imports and by-products has been the application of the Andean Price Band System (APBS). In November 2003, the government implemented a safeguard against imports of refined soy oil, lards, and margarines originating from Andean Countries. The safeguard imposed to soy oil products is 29 percent, equivalent to the Common External rate plus a variable levy, which is paid by any other country outside of CAN nations.

Venezuela also started importing edible oil in 2003 through its revitalized state-trading entity. These imports were exempt from import duties, and had no problems in obtaining the required import documents or access to foreign exchange unlike the challenges faced by the private sector.

In order to stimulate domestic production of poultry products, the **Russian Federation** removed the five percent import duty on soybean meal from the end of 2002 to the end of 2003. To further facilitate importation of feedstuffs Russian government lifted the five percent import duty on maize, soybeans, and fish meal beginning on January 26, 2004 for a period of nine months.

The **Chinese Province of Taiwan** restricted soybean imports from Mainland China during the review period. However, over the next few years, these restrictions on soybeans and other agricultural products may be gradually relaxed. In November 2003, the province temporarily lifted the import restrictions on mainland soybean meal until February 2004. Despite this opening, there were no shipments because of high prices.

The government of **Thailand** announced a new import regulation effective in January 2003 governing feeds and feedstuffs. They contain stricter sanitary and phytosanitary import regulations. Exporters had to provide extra documentation, including certificates of origin, formula and manufacturing process. The new rules are designed to guarantee that imported feedstuffs are free of contaminations. Palm oil has been one of the most restricted agricultural imports by the Thai government. The imports have been subject to the WTO's tariff rate quota system and were facilitated by a state trading agency. Under the ASEAN Free Trade Area, Thailand reduced its 20 percent tariff rate on palm oil to 5 percent in 2003. Thailand tariffs on butter fat imports from Australia were scheduled to be reduced from around 30 percent to zero by 2010 according to a bilateral free trade agreement signed during the review period.

The **Tunisian** oilseeds policy developments allowed for an increased role for the private sector. The vegetable oil imports into the Tunisian market have been liberalized. However, private operators must comply with government tender specifications. The level of customs tariffs imposed on vegetable oil depended mainly on the degree of refining. An EU-Tunisia agreement specified the schedule for elimination of the in-quota tariffs for vegetable oils by 2005.

During the period under review, **Turkey** increased duties on raw vegetable oil and sunflower seed imports in response to pressure from domestic producers. Sunflower seed tariff went from 12 to 20 percent and sunflower oil was charged 36.4 percent, up from 30 percent. All customs duties imposed on soy, cottonseed, rapeseed, mustard and maize oil imports were increased form 30 to 32 percent.

New **United States** bioterrorism regulations could result in delayed shipments of oils and fats into the U.S. The rules required all companies that export food and feed to the U.S. to register with FDA and give prior notice of their shipments. The new rules were expected to have major implications on how palm oil trade from Malaysia to the U.S. is conducted. Asian soybean rust was widespread in South

America during the review period, but no soybean import restrictions were imposed by the U.S. The wind-born disease reached the U.S. in 2004.

Vietnam's commitment to the implementation of the Common Effective Preferential Tariffs (CEPT) agreement for Southeast Asian countries (ASEAN) brought fierce competition to the domestic vegetable oil industry as tariffs are quickly being cut across the region. The import tariffs charged on refined vegetable oils imported from ASEAN's countries were scheduled to be reduced to 15 percent in 2004; 10 percent in 2005 and 5 percent in 2006.

Export policies

Some traditional exporters employed policies taxing exports to assure domestic availabilities and tax revenues, while others promoted their products to increase exports, in particular in the vegetable oil market. Several counties used both instruments. The soybean and soybean meal export sector strengthened because of growth and intensification of livestock production in importing countries. Exports in rapeseeds, sunflowers and their meals followed the availability patterns and recovered last year. Palm and soybean oil trade increased steadily until the 2002/03 season, but stagnated in 2003/04.

In response to the strong export performance that resulted from the currency devaluation, the **Argentine** government increased the export tax on grains and oilseeds in 2002. The new export tax is 20 percent for soybean meal and oil, sunflower meal and oil, and other oilseed products. The export tax was increased to 23.5 percent for unprocessed soybeans, sunflower and peanuts. The differential between the export tax for grains and soybean meal (20 percent) and the meat export tax (5 percent) is expected to result in higher domestic feed use, as feeding livestock becomes a more profitable alternative. Exporters were also eligible for export rebates which vary according to the product. Processed products were rebated at a higher rate than primary products. These rebates were supposed to offset the taxes collected on the product during the manufacturing process. In 2003, changes to income tax regulations required that grain and oilseed exporters pay income tax on the price of the commodity at the time a sales contract was written or on the date of export, whichever is higher.

The **Brazilian** farm sector feared that the government might follow the Argentine example and reintroduce an export tax on soybeans and products. Since its cancellation in 1997 soybean plantings increased steeply, but exports of meal and oil expanded only moderately. Exports of beans almost doubled since then and crush shifted to the importing countries, mainly China.

Indonesia used export check prices as the basis for the calculation of export tax owed for the delivery of crude palm oil at the time of submitting an export notification document. The export tariff varied between 1 and 3 percent depending on the grade and did not change during the review period. The base price has been below real prices and remained there so that actual taxes were below the nominal percentage. The instrument remained in place to be used to control inflation if necessary.

Malaysia had a progressive system of export duties for crude palm oil based on the per unit price. After granting tax-free export quotas since 2000, from 2004 on Malaysia plans to abolish its export duty. Malaysia's tax structure has favoured exports of refined oil so far, only about 10 percent were exported as crude palm oil.

The **Paraguayan** Congress temporarily approved an export tax on soybeans and soybean products. In April 2004 the government rescinded the tax on soy product exports.

The export duty for sunflower seed exports from **Russia** was 20 percent and not less than € 30 (US$ 37) per ton, versus 17 percent in **Ukraine**. **Sri Lanka** imposed export tariffs on the export of raw coconuts, after local millers complained about being squeezed out of the market. The government of **Zimbabwe** controlled oilseed, meal and oil exports through export permits to ration the insufficient domestic supplies.

The Export Credit Guarantee Program has been an important tool of the **United States** government's export support. Oilseeds, protein meals and vegetable oils have been key commodities covered under the program. USDA's four Export Credit Guarantee Programs have been allocated a total of about 6 billion dollars for 2004, which was about the same as in 2003. Actual outlays for oilseeds in 2003 were US$ 580 million, for protein meals US$ 350 million, and for vegetable oils US$ 100 million. Initial allocation for oilseeds in 2004 was about US$ 680 million. In June 2002 the U.S. announced the release of US$ 100 million in Market Access and Quality Samples Program to promote agricultural products overseas. The Market Access program funds were being given to 67 trade organizations to promote their products and build overseas markets. Funding for this program was set to rise from US$ 100 million in fiscal year 2002 progressively up to US$ 200 million by fiscal year 2006. No oilseed-specific allocations were made in the Quality Samples Program for fiscal years 2003 and 2004. The Emerging Markets Program, administered by FAS fostered growth in U.S. agricultural exports to low and middle-income countries that offer viable markets for U.S. agricultural products. The program supported market research, market promotion, trade missions and trade dispute resolution. The Program has US$ 10 million authorized annually from the funds of the Commodity Credit Corporation.

The **European Union (**EU) Commission has approved five programs in three Member States (Greece, Italy, Spain) promoting sales and consumption of olive oil and table olives in the EU. The EU budget has covered 50 percent of the total cost.

Export promotions were also used in the palm oil sector. **Indonesia** and **Malaysia** promoted their palm oil to Russian consumers, a non-traditional market for palm oil. Indonesia sold palm oil products in exchange for jet fighters and helicopters in 2003 and 2004. The state trade agency facilitated the shipments, no export tax was collected to offer a competitive price. Malaysia also considered a barter agreement to exchange palm oil for military equipment. Indonesia and Malaysia were also promoting their palm oil exports by offering export credits and other financing in newly emerging markets.

Canada re-designed its export promotion programs to increase the federal assistance for the Canadian agriculture and food industry's trade promotion activities. The funding has been part of the CA$ 175 (US$ 125) million in federal funding over six years announced by the agricultural minister in June 2002 to support market development for the Canadian agri-food industry and efforts to liberalize agricultural trade.

Foreign investors who produced in **Laos** and exported were entitled to duty exemptions for inputs and machinery. The government of **Nigeria** reduced its export enhancement grants from 20 to 10 percent. The policy adopted by the government of **Tunisia** has been oriented to assure a maximum export of olive oil. To encourage olive oil exports, the government of **Turkey** maintained an export subsidy of US$ 200 per tonne for consumer-packaged exports. The subsidy was not paid in cash but it was deductible from corporate income tax. Although **Poland** had a WTO export subsidy ceiling for rapeseed of 341,500 tonnes per year and spending cap of US$ 12.9 million under its WTO commitments, rapeseed export subsidies remained mostly unused.

In 2002, the government of **India** announced initiatives to boost agricultural exports. Export restrictions on most agricultural goods, including butter, were removed. None of the specific support measures target oilseeds or products. The **Czech Republic** exported butter with subsidies. The volume of subsidized butter exports was reduced in 2003 to secure domestic supply and remain within WTO limits.

In **Colombia,** oil refiners were assessed a percentage of the value of their domestic sales, which was deposited in a price stabilization fund. Oil refiners received a variable subsidy on their oil exports from this fund. The Price Stabilization Fund has stimulated export sales of palm oil and was actively used to compensate for lower prices in the international market. During the review period export payments for palm oil were around US$ 100 per tonne.

China signed a deal with the **Philippines** to finance the development of coconut plantations. In turn the Philippines agreed to export coconut oil to China at favourable rates when the plantations begin to yield nuts.

Brazil and **China** reached an agreement on export certificates regarding biotech content. Brazil's double standard on biotechnology concerned China, as Brazil had not yet approved the use or safety of biotech soybeans for its own consumers but wanted China to accept its export safety certificates. Brazil also announced new soybean export quality rules to resolve the ongoing dispute with China over contaminated seeds.

Conclusions

During the period under review, agricultural policy was still characterized by high levels of support and protection around the world. Overall support to producers in developed countries increased slightly as a percentage of farm receipts in 2003 compared to 2002. Payments for oilseeds were lower because of stronger prices in 2003. The reforms of the URAA continued especially in developing nations which are expected to complete this process by 2004-05. Many developing countries still maintained high and escalating tariffs for oilseeds and vegetable oils. High levels of market support and protection encouraged economically inefficient production and distorted trade.

Production policies in developed countries shifted gradually from traditional market price support towards sector-wide and non-commodity specific policies. The main focus was on income stabilization for farmers. Oilseed producers were mainly supported through output-based support payments, but the sector was the least-supported arable crop sector. Many developing countries that have to import a significant share of their oilseeds or vegetable oil consumption intensified their efforts to develop their domestic oilseed production. These policies aim mainly at gaining independence from vegetable oil imports. Increasing the share of oilseeds in the domestic crop mix also raises agricultural incomes because oilseeds are high-value crops. Incentives were given to farmers as well as to the processing sector because support policies also aimed to capture the added value from crushing and refining the raw products domestically. Governments of developing oilseeds and products exporters also provided support to the sector because export proceeds were an source of income for these economies. These policy developments were especially important for developing countries since much of the oilseeds, meal and oil trade is between them.

With regard to **marketing, consumption**, and **other related policies**, a wide variety of instruments have been used with an array of objectives. Marketing policies posed a particular challenge to policy makers because theses measures have to strike a balance between the diverging interests of oilseed farmers, crushers, refiners and the final consumers of vegetable oils and meals. In many developing countries, marketing policies were designed to provide secure markets and stable prices for oilseed producers. This was often done in coordination with the domestic crushing industry. To expand crushing capacity and add value to domestically produced crops the crushing industry received tax and other incentives. The review of national policies revealed a trend where traditional importers of refined oils started building their own refining facilities with the backing and support of their governments. Because vegetable oils were an important staple product in many countries, a number of them intervened in their domestic markets in order to control market prices or distribute oil to low-income consumers. Labelling requirements to educate consumers about the nature, origin and ingredients of vegetable oil products have become an increasingly important focal point of consumption policies. In several countries, GMO, food quality assurance and food labelling requirements were implemented or passed by parliaments.

As world oilseeds trade, especially the soybean trade, increased steadily during the period under review, **trade policies** continued to be important tools of importer and exporter countries in pursuance of national production and consumption goals. Efforts on the part of importers to capture the added value of crush and refining domestically strengthened seed trade relative to product trade. WTO member countries have agreed to changes in trade policies, but any wide-ranging impacts of these

changes on trade have not yet been very visible. Developed countries are either natural exporters or non-producing consumers of oilseeds, naturally their tariffs have always been low. In developing countries, bound tariffs have been high, but were rarely applied, leaving room for protective measures. Despite some changes in the market composition, one characteristic feature of the world oilseeds market remained that large developing importers were also significant producers. As a result international trade volumes were only a relatively small fraction of world consumption. Additionally, these countries did not have the means to support the income of their farmers directly. They controlled the domestic market price via tariffs and other border measures. Therefore these countries had a dual objective in their import policies – assurance of sufficient supply of affordable vegetable oil and protection of domestic farmers and processors. These applied tariff rates and other import control instruments were frequently adjusted to react to producer or consumer needs.

Bilateral and regional agreements expanded around the world. While, they have the potential to increase trade, they may also alter trade patterns. During the review period, oilseeds and oilseed product tariffs were lowered by many countries, but also raised by others. The expansion of international trade also increased the application of sanitary, phytosanitary and other technical standards and regulations to protect domestic consumers and the environment. Both developed and developing countries have become increasingly concerned with these issues and established regulations to prevent imports of sub-standard goods. Exporters expressed fear that non-tariff measures could also be used to restrict imports because of WTO commitments to tariff reduction in many importing countries.

The oilseed, meal and oil complex became increasingly concentrated from a supply perspective, with the United States, Brazil, and Argentina increasing their market shares of production and trade. The soybean and soybean meal export sector expanded because of growth and intensification of livestock production in importing countries. Population and income growth in vegetable oil deficient countries also spurred imports. Some traditional exporters employed policies taxing exports to assure domestic availabilities and tax revenues, while others promoted their products to increase exports, particularly in the vegetable oil market. Several countries used both instruments.

IV. POLICY DEVELOPMENTS FOR MEAT AND MEAT PRODUCTS

The global meat market over the 2003-2004 period has been characterized by considerable market instability as vacillating market prices and the rapid proliferation of animal disease outbreaks in late 2003 led to governments adopting policies to protect their livestock sectors. An interlude between the animal disease outbreaks in 2000/01 and 2003 led to higher meat supplies and lower global prices, prompting some countries to intensify border measures impeding market access. This was followed by an escalation of animal disease outbreaks which accelerated the main thrusts of these policy responses which included tightened border controls and increased support to domestic industries with the objective of safeguarding animal health, as well as food supplies.

Production policies

Disease containment, control and eradication dominated domestic policy developments in the livestock sector over the past two years, resulting in expanded expenditures by both developing and developed countries to meet rising concerns. The announcement of Bovine Spongiform Encephalopathy (BSE) cases in North America in 2003 led to immediate regulations related to slaughter and processing of meat products. In **Canada**, government assistance was provided to producers, which included the provision of compensatory payments based on reference prices, financial incentives to processors to sell or move surplus meat cuts and the launching of a cull programme under which producers receive payments of up to US$240 per animal. The Canadian BSE assistance package is estimated at nearly US$385 million, with federal government funds matched by provincial governments on a 60-40 percent basis. The **United States** Government budget for 2004/05 earmarked US$60 million for BSE-related activities with US$33 million allocated for the development of a national animal identification plan. Meanwhile, **Brazil,** in addition to spending more than US$ 1.43 billion on Foot-and-Mouth Disease (FMD) control and eradication over the past decade (US$ 52.6 million in 2004), is attempting to minimise cross-border disease tranmission through assisting neighbouring countries in disease control. In 2004, Brazil donated one million doses of FMD vaccinates to Bolivia and 500,000 doses to Paraguay.

In ***Asia***, **Japanese** government expenditures on BSE provisions for 2003 included US$185 million allocated for purchases of aged dairy cattle (up to 300,000 head of dairy cattle and 70,000 head of beef cattle). Payment was limited to a maximum of US$370-460 per head of cattle, depending on type, and also covered cost of transport to abattoirs and cost of slaughtering. In addition, domestic regulations in **Japan** were tightened in June 2003, with the regulations that all slaughtered bovine animals be tested for BSE supplemented by a mandatory system for animal traceability.

In response to AI outbreaks in the **Chinese Province of Taiwan**, the Government set up support measures when poultry prices fall below 95 percent of production costs. Meanwhile, most of the other 9 countries affected-**Mainland China, Thailand, Vietnam, Laos, Bangladesh, the Republic of Korea, Japan, Indonesia,** and **Cambodia** introduced some type of compensation to producers. In early 2004, the **Thai** government announced a US$767 million industry assistance plan which was mainly used as compoensation for animal depopulation. Layer producers were compensaed at US$ 1/bird with broiler producers receiving US$ 0.5/bird in addition to receiving replacement birds. Through July 2004, the government had paid out compensation of approximately US$ 75 million. In addition, the government is working with banks to provide subsidized interest on industry loans as well as assisting poultry abbatoirs by suspending all relevant factory fees for 5 years. During **China's** outbreak, the Government, in addition to providing subsidies to farmers for culled birds or compulsory vaccination, allowed farms and processing plants to extend their payback period for loans and

deducted interest for six months. Furthermore, incomes tax was exempted for a year and export plants received a rebate on any value-added taxes.

In **France**, support to the sector was increased through the introduction of levies at abattoirs in early January 2004 on: 1) tonnage of slaughtered meat; and 2) tonnage of high risk waste. This revenue, estimated at 81 million euros, will be supplemented by government funds of 29 million to cover the cost of fallen stock, disposal of waste material, and collection, treatment of dead cattle. Similar taxes will be levied on sheepmeat (54.5euro/tonne), pigmeat (9 euro/tonne), and poultry meat (5 euro/tonne).

In ***Europe*,** expenditures in the general **EU** budget for livestock and meat products in 2003 increased 33 percent to 10.33 billion euro. A 17 percent reduction in expenditure on export restitutions to 407 million euros was more than compensated by a 37 percent increase in market support mechanisms for the livestock sector (Table 2). This includes increased spending on bovine meat premiums, higher ewe and goat premiums as a results of CAP reform (see box) and the introduction of private storage for pig meat. Expenditures are expected to drop to 9.7 billion euro in 2004. Under revisions to the EU ewe and goat premium payments, from the 2002 marketing year a flat rate annual premium of 21 euro per eligible ewe was established. However, for producers marketing sheep's milk the premium per ewe is 16.8 euro as is the premium per she-goat. A supplementary premium of 7 euro per head is paid to producers in areas where sheep and goat production constitutes a traditional activity; only producers whose holdings ahas at least 50 percent of its area is less-favoured areas.

Some countries, to enhance farmers' incomes and stabilize markets prices, have increased support to the livestock sector. In **Eastern Europe**, some accession countries, prior to accession, expanded their use of market interventions funds. Pig meat intervention buying in **Poland,** estimated at 80 000 tonnes in 2003, rose to record levels to account for 7 percent of domestic production. Similarly, in **Hungary**, hog farmers and slaughterers continued to receive several kinds of production and marketing support, ranging from direct payments for quality bonuses, intervention purchase payments, partial write-off of interest on investment loans and interest reimbursement for operating loans. In 2003, supported by a US$ 8.6 million increase in the budget for intervention funding, Hungarian hog producers received US$ 12.9/pig in compensation for low prices. State subsidies in 2004 are estimated at about US$50 million, compared with US$90 million in 2003. Meanwhile, support to the beef sector includes annual cow/calf support payments of US$120/head and US$222/head respectively. The **Romanian** support measures to the livestock sector increased in 2004, with nearly US$ 15 million allocated to direct payments to livestock producers, US$ 18.6 million to animal disease control, and US$ 27 million supporting market prices for live animals delivered for slaughtering.

In the **Ukraine,** the Government announced in 2004 a direct subsidy programme for domestic poultry producers, which provides direct payments of US$0.06/kg for broilers weighing 2-2.4 kg. This supplements previous initiatives to subsidize poultry breeding programmes and to provide the industry with favourable loans. In Asia, the **Republic of Korea** expanded eligibility to a calf production base, a programme initiated in 2000, by lowering the area requirement from a minimum 20 hectares of grassland to 10 hectares. The budget allocation of the programme was increased from US$ 4.8 million in 2003 to US$ 5.6 million in 2004. In addition, while subsidies for the production of Hanwoo beef cattle were terminated in mid-2003, a programme which pays producers cash incentives of between US$ 170-255/head for the slaughter of "Grade A" Hanwoo steers started in July 2004. Relatively few countries operate price/income risk management programmes for livestock. However, in the **United States** this price protection plan (managed by the Risk Management Agency of USDA) is now being offered in selected states. This Livestock Risk Protection programmes is part of an integrated risk management program that minimizes catastrophic losses by spreading, transferring, reducing or eliminating risk factor.

EU CAP Reform and EU accession: A move towards transforming the livestock sector

Implementation of the single farm payment scheme as part of the reform of the *Common Agricultural Policy* (CAP) of the European Union, approved in June 2003, will completely change the way the EU supports its farm sector over the next few years. The reform benefits consumers and taxpayers by lowering intervention prices and limiting expenditures, while giving EU farmers flexibility to produce what the market wants. The reform addresses the anticipated direction of current WTO negotiations, and the accession of new countries to the EU. The specific goal of the programme is to move the agricultural sector from policies of price and production support to a more comprehensive policy of farmer income support.

Important attributes of the reform include:

- A single farm payment de-linked from production
- Reduction in payments to bigger farms (called “modulation”)
- Cross compliance for payments to meet environmental, food safety, animal and plant health, animal welfare concerns
- Strengthened rural development, with programs to help producers meet EU production standards starting in 2005
- Measures to limit total CAP expenditures, assuring financial control

Member States are allowed to choose among different options, which influence the degree of “decoupling” of the payments. For the beef sector, the European Union (EU) has replaced many of the various premia now available to beef producers by a single farm payment. These will be applicable to the meat sector from 2005 unless Member States opt to delay the implementation until 2007. Full decoupling is the general principle from 2005 onwards. However, beef payments may remain coupled in one of the following ways: (1) up to 100 percent of the premium for suckler cows and up to 40 percent for the slaughter premium (except calves), (2) up to 100 percent of the slaughter premium (except calves), or (3) up to 75 percent for bovine males. The slaughter premium for calves can remain coupled up to 100 percent. Similarly, a maximum of 50 percent of the sheep and goat premium could be granted as coupled payments. Meanwhile, certain statutory environmental, food safety, animal and plant health as well as animal welfare standards need to be adhered to in order to receive the single farm payments or other direct payments.

EU support to livestock producers in the 10 accession countries:

As of May 1, 2004, livestock producers in accession countries have full and immediate access to CAP market measures which include a phasing-in of direct payments. Payments to farmers in the new member countries will be phased in over 10 years; the EU will provide only 25 percent of the payments from the CAP budget during the first year, rising to 30 percent in 2005, 35 percent in 2006, and 100 percent in 2013.

However, national governments will be allowed to top off these payments by a maximum of 30 percent each year, so that payments during the first year of accession could be as much as 55 percent of what current EU farmers receive. CEE governments will be allowed to fund the extra 30 percent in part by diverting up to 20 percent of rural development funds that the EU will provide after accession. But they will need to match all such funds with additional funds from their own budgets. In addition, “cross-compliance” provision will require livestock producers to meet all EU veterinary, sanitary, phyto-sanitary, and animal welfare standards in order to receive payments.

In many countries, measures were undertaken to improve productivity in the livestock sector. In **Romania**, subsidies to pig breeders in 2003 more than doubled to US$ 0.21/kg; in addition, breeders were granted exemption from payment of customs duties on feed. In **Turkey**, a US$270 million livestock support programme was announced which includes support for fodder crop production, pregnant heifer procurement, artificial insemination, milk production, and disease-free dairy production. Dependent on the size of operations, the GOT provides support for procurement costs for pregnant heifers for a maximum of 100,000 head while paying for 50 percent of artificial insemination costs. Through the period of May 15 through November 15, 2004 the Government announced new support for meat producers with US$ .70 provided per/kg of carcasse meat from male livestock with a minimum 190 kg/carcass weight.

In ***Africa***, **Ghana** received US$24.8 million to improve livestock productivity through genetic improvements while drought in **Tunisia** prompted government interventions in the provision of feed inputs to affected livestock producers. Meanwhile, in Latin America, livestock support is increasing in **Uruguay** where the GOU initiated a Sheep Promotion Plan which involves giving credit to farmers to purchase or retail breeding ewes.

Some countries intervened to enhance livestock industry profitability through changing input prices. The **Philippines** announced special duty-free imports of corn during the early part of 2004. However, only 10,000 tonnes out of the announced 200,000 tonnes of corn was reported imported. In addition, in March 2004, the applied tariff on soybean meal and other feed preparations was lowered from 3 percent to 1 percent for a period of six months, ending in September 2004.

Numerous countries have implemented livestock environmental guidelines to ensure sustainable production practices. In **Australia**, the pork industry supported the introduction of National Environmental guidelines for Piggeres which put in place a general strategy for detailing with planning, site selection, pig accommodation, nutrient content of by-producers, carcase management, etc.

Consumption and marketing policies

Meat markets are generally characterised by only limited interventions which promote meat consumption, such as retail price controls, and policies which support livestock marketing. Typically interventions consist of the establishment of regulatory mechanisms to enhance food safety and quality. For example, animal health concerns have led many countries to implement animal traceability systems. Both **Brazil** and **Argentina** introduced systems in mid-2003 under which all cattle for export to EU will have to be registered at least 30 days before slaughter. The **EU** introduced a regulation of identification and registration of sheep and goats under which electronic identification will be compulsory as of 1 January 2008 in member states with a sheep and goat population of over 600,000 head. Numerous initiatives were taken by developing countries, such as **Burkina Faso**, **Mauritius**, **Morocco** and **Tunisia** to implement traceability systems, with Mauritius also amending its Animal Disease Act.

Nonetheless, a number of governments continue to intervene to stabilize livestock markets. In **Venezuela**, price controls for poultry and eggs were established in early 2003 at which time controlled prices were set for whole chickens (US$1.25/kg), breast meat (US$1.9/kg) and leg quarters (US$1.4/kg). The GOV adjusted its price ceiling for whole chickens in April 2004 to US$1.62/kg. Meanwhile, a newly reconstituted government state trading entity was given responsibility for procuring imports to sell in government food stores in low income neighbourhoods. **Malaysia** continues to maintain controls over poultry meat retail prices since 1996, while **Peru** purchases limited amounts of meat for public dissemination through local social programmes. Operating a buffer stock scheme for poultry and eggs which is regulated through ceiling and floor prices, the **Islamic Rep. of Iran** allocated expenditures in 2003 on purchases of poultry meat and eggs (maximum procurement levels of 5,000 tonnes) estimated at US$6.3 million, with producers receiving US$0.25 and US$0.12/kg respectively. In **Japan,** dometic stabilization prices for pork and beef, as well as

guarenteed standard prices and regionalization target prices for beef calves remains unchanged from last year. Meanwhile, the **Ukrainean** government approved in October 2004 a resolution authorising state administrations to stabilise meat prices throuh fixing profit margins for producers and retailers.

In ***Asia***, support to the poultry sector in **India** increased in 2003/04 (April-March) to US $ 1.8 million (up from the previous year's US$ 1.6 million) with funding targeted at infrastructure support such as cold storage and airfreight subsidies for exports of eggs and egg products. In **Pakistan**, the Government in August 2003 waived sales taxes on livestock/poultry, including plant/machinery for processing, packaging, and preservation. Supporting export marketing opportunities for their pork industry, the **Australian** Government grant the industry A$ 2million in market promotion subsidies to be administered by a joint industry-government committee. This new support follows a four-year A$ 24 million subsidy programme named the "Pork Industry Restructuring Stratgy"which started in 1998.

Limited resources constrain government spending on livestock marketing in ***Africa***; however, some governments, such as **Swaziland**, provide government transportation services to smallholder livestock producers to facilitate local marketing. Meanwhile, the introduction of grading systems in many countries encourages farmers to market quality, younger animals.

While most developed countries have moved away from domestic livestock/meat procurement, other measures are used to facilitate/stabilise product marketing. In **Japan**, higher meat prices, as a result of beef and pork import safeguards imposed in 2003, led the Government to finalise a framework of domestic support measures, which potentially includes financial aid to distributors, retailers and the food service industry. Low pig meat prices in the **EU** prompted the reactivation of the pig meat storage aid scheme in December 2003 with rates and period of storage the same as the previous scheme, operational from December 2002 through April 2003. Approximately 94,000 were contracted for storage through 5 February 2004 with expenditures for the programme estimated at 30 million euro. Meanwhile, the **Serbian** Government exempted fresh/frozen poultry meat and eggs from the sales tax on all retail prices of most goods, which is 20 percent.

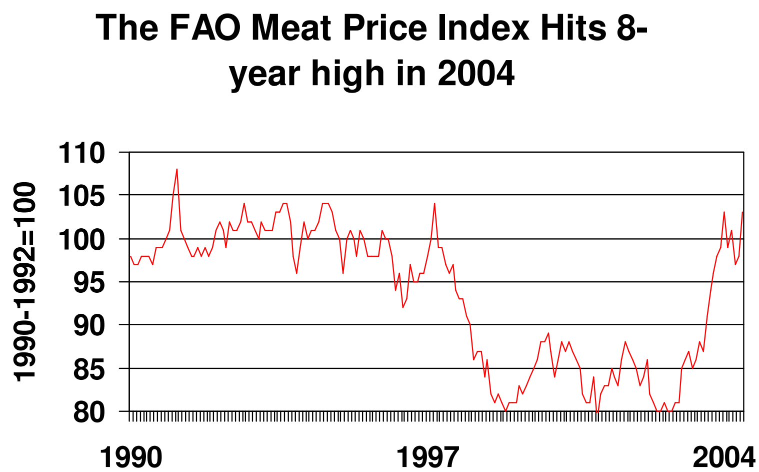
Addition legislation is being implemented in many countries to enhance food safety and product quality. The **Philippines** in May 2004 signed into law an "Act to Strengthen the Meat Inspection System. This law aims to harmonize Philippine meat inspection laws with international standards to enable the domestic meat processing industry to participate in global trade. While the Code has been signed, it's implementing rules and regulations are currently being drafted.

Support to industries also originates from meat promotion schemes. In **Argentina**, the Institute for Beef Promotion is finally operational, collecting about US$ 0.67 per slaughtered animal. 70 percent of this fee is collected from producers with the balance paid by abattoirs. To enhance quality assurance in the meat sector, **Australia** in March 2004 implemented a *Livestock Production Assurance* scheme which covers all cattle, sheep and goats with the goal of improving food safety for consumers by better accounting for producer management practices. This goal is also supported by introduction of a mandatory national livestock identification scheme which will be implemented throughout the country by July 2005. In **New Zealand** the approval in 2004 of the Meat Board Restructuring Bill restricts the regulatory authority of New Zealand's Meat Board to managing export quota allocations given to New Zealand by other countries. A new joint industry organization, the Meat and Wool New Zealand, will manage activities such as information, economics analysis and trade access issues and have the power to levy farmers, with beef farmers contributing US$ 6 million of the total operating budget (US$ 22 million).

International trade policies

Import measures

Global meat imports continues to grow; however, trade growth has slowed considerably from the decade of the 1990s. In particular, animal disease outbreaks have heightened consumer and government concerns about food safety of meat products and disease transmission. Together with considerable export supply variability over the period and increasing volatile meat prices, these concerns have led numerous countries to increase use of import control measures.



Some countries moved to increase protection of domestic markets in the context of low global meat prices in 2003. In particular, the imposition of tariff rate quotas (TRQ) on meat products by the **Russian Federation** in 2003 significantly disrupted and constrained meat trade gains.[76] Meat tariffs were also increased in **Kazakhstan**, with duties for poultry meat rising from 20 percent to 30 percent (or not less than 0.25 euro/kg). High support for **Polish** exports led to numerous CEFTA countries increasing tariffs. Both **Latvia** and **Estonia** introduced in early 2003 high duties on Polish pig meat exports. As of April 2003, **Serbia** increased levies on imported poultry meat and products and **Montenegro** also applied higher tariffs. The **Czech Republic** raised import duties on pigment by a third through the end of 2003, from 38.5 to 50 percent, while **Bulgaria**n tariffs on marinated chicken and turkey products increased from 40 percent to the WTO bound rate of 75 percent for chicken products and 55 percent for turkey products. The **Ukraine** allows duty-free poultry imports into Free Economic Zones (FEZs) exclusively for further processing. However, unable to regulate the inflow of poultry into these zones in the context of high tariffs into the rest of the country, the Cabinet proposed product quotas in 2003. The introduction of a 70,000 tonne import quota in FEZs is designed to encourage the utilization of imported product by FEZ processors who are excluded from paying the standard euro 0.7-1.5/kg import duty on poultry meat.

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[76] Tariff rate quotas were introduced by Russia on poultry, beef, and pigmeat imports. The Russian government established the rules for 2004 poultry imports on November 29, 2003. The resolution sets the poultry meat import quota at 1.05 million tons. This varies from the previous year in that it is not separated into meat and ground meat (mechanically deboned meat). The 2003 quota required that about 25 percent of imports from each country must be mechanically deboned meat. For 2004, the United States received a quota of 771,900 tons, EU and future EU countries (Poland, the Czech Republic, Hungary, Slovakia, Slovenia, Lithuania, Latvia, Estonia, Cyprus and Malta) 205,000 tons, Paraguay 5,000 tons, and other countries 68,100 tons. The import duty within the poultry quota is 25 percent but not less than .22 euros/kg. Imports above the quota are prohibited.

The TRQ is beef is set at 420,000 tonnes with a 15 percent in-quota tariff but not less than 0.15 euros/kg. Pork is subject to a 450,000 tonne, with similar in-quota tariffs but out of quotas not less than 0.25 euros/kg. Out of quota tariffs for beef will be subject to a 60 percent tariff but not less than 0.6 euros/kg while that of pork is 80 percent but not less than 1.06 euros/kg.

In ***Asia***, the Government of **Japan** in August 2003 activated safeguard measures raising tariffs on fresh and chilled beef and pork. The tariff on chilled beef was raised from 38.5 percent to 50 percent, effective until 31 March 2004 at which time it was removed. Meanwhile, the pigment safeguard was activated for the fourth successive year in late July 2004 , moving up the gate price (standard import price + tariff) Under this safeguard provision, Japan can raise the pork gate price by up to 24.6 percent whenever imports in a given quarter are 19 percent higher than the previous 3-year average for that quarter. The safeguard tariff will increase the gate price (minimum import price) from US4.81/kg to US$5.99/ kg. The import duty for pork cuts remains at 4.3 percent at or above the gate price. A recently signed FTA agreement between **Japan and Mexico**, expected to enter into effect on January 1, 2005 will immediately enable Mexico to export up to 38,000 tonnes of pork to Japan at half the current tariff. This pork quota is scheduled to gradually rise to 80,000 tonnes in the fifth year of the agreement.

Elsewhere in ***Asia***, **Saudi Arabia, the UAE and Oman** introduced a 5 percent tariff on all imported frozen red meat and a 25 percent tariff on imported poultry. In **Africa**, **Nigeria** increased tariffs for certain livestock products such as turkey parts and dressed chicken from 25 to 75 percent while **South Africa** imposed import tariffs of 27 percent on chicken offal. **Ghana** imposed tariffs of 20 percent on poultry in May 2003 only to reverse and eliminate the tariffs one month later. In **South Africa**, counter-veiling duties imposed on US chicken leg quarters will only be lifed in July 2005 if no further application to extend the duty is lodged.

Under NAFTA, imports of meat products by **Mexico** from the United States became duty free as of 1 January 2003. However, the Government of Mexico in January 2003 established a provisional safeguard which resulted in a new duty free TRQ of 47,000 tonnes for chicken leg quarters. This was replaced by a TRQ of 100,000 tonnes, the volume of which is due to increase by 1 percent annually but will be phased out by 2008. The out-of-quota duty rate is 98.8 percent which declines over the next five years approximately 20 percent per year. Other poultry imports will be allowed to enter Mexico duty free. Effective January 1, 2008 Mexico will provide full duty-free access and eliminate the import license requirements for chicken leg quarters. Currently, however, the government does not allow imports of bone-in chicken leg quarters for further processing to the interior of Mexico because of concerns about products being diverted to the retail market.

Heightened use of contervailing and anti-dumping duties have been reported over the period. This is despite the lifing of **Mexico's** antidumpting duties on U.S. beef imports from selected U.S. exporters, in place since 1998. In May 2004, Mexico also eliminated the US$0.351/kg compensatory duty, maintaining the tariff on imports of live hogs for slaughter at zero. While the GOM has determined that there is insufficient evidence to impose compensatory duties on certain meat pigmeat cuts in response to dumping charges filed by the Mexican Pork Countil (CMP), the government has officially anounced its intention of investigating dumping charges against importers and exporters of US pork legs. The United States, after deciding in August 2004 to not impose counter-veiling duties on Canadian hogs, put in place in October 15 percent aniti-dumping duties on live hogs imports from Canada. **Canada,** in the aftermath of reporting a BSE case in May 2003, suspended, as of 9 July 2003, the issuance of supplemental import permits from non-NAFTA countries. However, imports under the 76,409 tonne quota system continue.

In some cases, market access was facilitated by a lowering of tariffs or increased flexibility in importing under TRQs. The **EU** introduced new rules of sheep meat import quotas which will now be managed on a first come, first serve basis. Pig meat import duties in **Romania,** in October 2004, were reduced by 10 percent from 45 percent for frozen product and 20 percent for fresh product. This was accompanied by an elimination of duties on live pigs weighing less than 50 kg. in addition to a repeal of import safeguards against Poland and Hungary. The **Bosnia and Herzegovina Government** passed an amentment in mid-2004 to the customs tariff law which establishes duty free import quotas[77] for unprocessed beef, pork, and chicken on a quarterly basis. However, the import access is only

[77] The quarterly meat quotas range from 1,273 tonnes for frozen beef, 1,100 for pork and 2,268 for poultry cuts.

available to meat processors which have already purchased locally produced meat. The following ratios are in place: pork-1 kg of duty free imports for 2 kg of locally purchased meat; beef and chicken meat-3 kg of imports for one kg locally produced product. Meanwhile, higher poultry prices in **Canada** in response to an AI outbreak in British Columbia in early 2004 lead to the temporary issuance of supplimentary imports quotas (at zero duties).

In adherence to the SADC Trade Protocol of 2000, **South Africa** reduced its tariffs on red meat imports from SADC countries by 25 to 33 percent, depending on the product. In the **Chinese Province of Taiwan**, quotas on chicken continue to rise as specified in their WTO commitment; quotas were 32 577 tonnes in 2003 and will rise to 46 000 in 2004, after which the quota will be replaced by a tariff of 20 percent. Meanwhile, TRQs for pork bellies and pork offal were 15 400 and 27 500 respectively. In 2005 these TRQs will be phase out and duties bound at 12.5 for pork meat and 15 percent for pork offal[78]. Meanwhile in **Venzuela**, the first imports of poultry since 1993 took place in mid-2003 when the GOV lifted the previous import ban to allow imports for distribution by the government. All imports are controlled through two state-trading enterprises: CASA and CVA (Corporacion de Abastecimiento y Servicios Agropecurarios and Coporacion Venezolana Agraria).

High feed prices and strong poultry demand in the **Philippines** led, in June 2004, to the temporarily lifting of the special safeguard (SSG) duty on imports of chicken meat. The special importation of 10,000 tonnes of chicken over and above the 22,968 Mimum Access Volume (MAV) was announced with the out-of-quota chicken subject to the regular 40 percent duty. This special allocation is only available until the end of 2004 at which time the MAV will drop to 10,374, tonnes due to the Philippines' WTO commitment to implement the 2005 TRQ on only a half-year basis. Meanwhile, imports of all meat, including processed products, are likely to increase in the Philippines, particularly from other ASEAN countries who will benefit from to the low Common Effective Prferential Tariff (CEPT) of 5 percent. This compares to the 10-40 percent applied rates (actual rate depends on specific product) levied on products from other regions.

Export measures

Trade restrictions, increased competition among exporters, variable meat prices over the period, and exchange rate developments have prompted countries to increase their use of export promotion measures. In the **EU**, export restitutions for poultry exports increased in 2003 to 500 euro/tonne, the highest level since 1995, with the exception of a one month increase in poultry restitutions to Russia in September 2002. In late January 2004, EU pig meat export subsidies were temporarily activated at 400 Euro/tonne for all export markets. These subsidies, the first to be applied on carcass cuts since June 2000, are temporary and not valid after the end of April 2004. Similarly, despite rising pig meat prices, the rates of export refund on processed products were raised in June 2004 by 5 percent, with restitutions--depending on the product--ranging between euro 190-595/tonne. Meanwhile, export restitutions for bovine meat products remained relatively stable over the past three years, ranging between 335-460 euro tonne, excepting hingquarter cuts which are levied duties in excess of 1000 euro/tonne.

Similarly, many of the accession countries, in anticipation of EU accession in May 2004, and EU requirements on maximum intervention stock levels for selected meat products, increased their use of export subsidies. In order to reduce pig meat stocks from record levels, Poland's State Agricultural Market Agency (ARR) subsidized the exports of 116 000 tonnes of pig meat during 2003, with export subsidies set at US$ 0.62/kg. **Hungary** provided export subsidies for all livestock production, with export subsidies set at US$ 0.70/kg for pig meat while subsidies for live pigs weighing between 90 and 145 kg reached US$ 0.4/kg in April 2003. Poultry producers benefited from a temporary export programme valued at US$ 1.1 million under which whole chickens exports received $0.45/kg (for CEFTA countries $.02/kg). Meanwhile, live cattle exporters received a US$ 0.28/kg export refund for

[78] In the Chinese Province of Taiwan pork bellies and pork offal are subject to Special Safeguard (SSG) regime which allows a 33 percent duty surcharge when triggers (both price and volume) are hit. The volume trigger is 125 percent of the TRQ while the pork belly price trigger is US$ .90/kg.

livestock cattle for slaughter exports. While no subsidies were used to promote beef and cattle in 2003, the **Czech Republic** used nearly US$ 1.7 million to support exports of swine and pork in 2003 (out of US$ 2.8 million WTO authorisation). In the **Czech Republic** the State Agricultural Intervention Fund spent about US$ 1.6 million on subsidized exports of pig meat in 2003, compared to no outlays in 2001 or 2002.

The export subsidy programme for **US** poultry meat is no longer operational, having been last used in 2000/2001. However, expenditures on meat under the US Export Credit Guarantee Programme (GSM 102/103) and the Supply Credit Guarantee Programme (SCGP) continue to include meat product exports. Meat shipments under these programmes (accounting for only 2 percent of total expenditures) totalled US$93 million in 2002/2003, down nearly 35 percent from the previous year. A shift in meat expenditures between the GSM 102/103 programme and the SCGP is progressively occurring, with nearly 67 percent of the meat programme expenditures sent out under the latter programme in 2003, compared to only 8 percent in 2000.

Some of the other exports measures used to promote exports include transportation subsidies, export rebates, and export taxes. In **Asia**, the **Republic of Korea** increased its support for transportation of pig meat exports from US$ 39/ tonnes to US$ 81/tonnes. In Latin America, **Uruguay** is maintaining its system of export rebates for beef with 5.5 percent rebates available for boneless beef, 2.25 percent for bone-in beef and between 4.5 and 6 percent for thermo-processed beef. In Namibia, to stimulate and support value-addition to the livestock sector, the government implemented an export quota system for sheep, ensuring, through the use of export permits, that at least 50 percent of all sheep produced in the country are slaughtered locally. The country has also introduced a 15 % export levy on live slaughterable cattle (>450 kg) and a 30 % export levy on hides and skins.

Update on WTO trade disputes:

At the request of Brazil, the WTO in 2003 set up a dispute panel to investigate whether the EU acted correctly in changing harmonized codes to realign the tariff rate for frozen boneless chicken cuts. Meanwhile, the WTO panel convened at the request of Brazil in 2002 to review anti-dumping duties imposed by Argentina on Brazilian chicken ruled in April 2003 that Argentina was in violation of WTO regulations. The United States, in response to Mexican anti-dumping duties on U.S. beef imports, held bilateral WTO consultations in mid-2003 on the issue and followed up in October 2003 with a request that a WTO panel be convened. In November 2004, in the context of the beef hormone dispute, the EU requested that the WTO rule against US and Canadian sanctions which have been in place since 1998. The United States and Canada assess 100 percent duties on EU goods – worth US$ 116 million and C$ 11.3 respectively—in retaliation for the lack of EU adherence to the WTO ruling against their prohibition of hormone treated beef.

General livestock policies

Many countries are strengthening environmental, labelling and animal welfare regulations. In **Poland**, environmental regulations were passed in December 2002 which limit nitrogen run-off from agricultural lands through, in part, regulating application and storing of manure. In addition, labelling and animal welfare legislations were being prepared by the Minister of Agriculture and Rural Development. A new flatulence levy is to be imposed on **New Zealand's** livestock producers which could see livestock producers paying 9 cent NZ per sheep and 54 cents NZ per beef cow. In the **Rep. of Korea** new livestock registration requirements include minimum space per animal while the governments of **Morocco and El Salvador** introduced controls on access to collective grazing lands. Under the new provision of CAP reform, financial support will be available to **EU** farmers who enter into a minimum 5-year commitment to improve the welfare of farm animals.

In **Sweden**, a government body with responsibility for **animal welfare** was established in January 2004. The body will be responsible for regulations regarding animal welfare and the supervision of animals' well-being. In the **Republic of Ireland**, following a mission of the EU Food and Veterinary

Office, it was decided that a general prohibition on tail docking for bovine animals was warranted, introduced in 2003. A number of states awaiting accession to the EU passed EU-compatible animal welfare legislation. For example, in **Lithuania**, regulations were adopted in 2002 for the welfare of domestic and farm animals which were in line with those of the EU.

Bilateral and multilateralt trading arrangements

Numerous trade agreements were concluded over the period which provided increased access for meat and dairy products. Some of these agreements and their provisions are listed below.

Conclusions

Livestock markets over the review period have been characterised by considerable instability as alternating disease outbreaks and recovery have led to vacillating exportable meat supplies and increasing price variability. This has prompted policy responses that focus on protecting domestic livestock sectors, both from animal and human health risks, but also from market disruptions induced by price movements. Most policy developments linked to human and animal health protection included increased support for animal health and food safety programmes. Meanwhile, trade policy responses to animal disease outbreaks have led countries to increasingly impose bans, tighten sanitary border control measures, and strengthen domestic regulations, all of which, combined with increasing variability in available exportable meat supplies, further aggravated price movements.

Table IV-1: Bilateral or regional trade agreements

Countries/Region	**Type of Agreement**	**Changes to meat/dairy access**
Australia-Thailand	FTA	In force on 1 January, 2005. Cuts tariffs for Australia dairy, meat, and livestock products. Beef: tariffs drops from 51% to 40%, lamb/mutton 32% to 30%; tariffs to phased to zero by 2020 and 2010 respectively.
Australia-US	FTA	Increase in US quotas for beef over 18-20 year period. The agreement eliminated the US$.044/kg in-quota tariff. The Australian beef quota, currently at 378,214 tonnes, will increase by 70,000 tonnes over the period and the 26.4% out-of-quota tariff will be progressively phased out. Tariffs for sheepmeat will be eliminated immediately.
US-Central American countries	CAFTA	Tariff on products will be phased out over the course of 5, 10, or 15 years (18 years for US chicken legs, 20 years for dairy products).
Chile-US Chile-EU Chile-the Rep. of Korea	Bilateral Agreements	1,000 tonne quota to the EU beef market. The Rep. of Korea: increased duty-free access for Chilean pork and reduced duties on out-of-quota pork imports. Tariff free access after 10 years.
China-New Zealand China-Brazil China-Australia	Bilateral	Increased market access for sheep and goat meat. Beef veterinary protocols. Increased access.

With regard to policies related to production, the livestock sector in both developing and developed continues to move away from market distorting policies. Progress was made by some countries in reducing production distorting government intervention, through price support policies, with policy support to the sector dominated by increased expenditures on disease containment, control and eradition. While a few countries, particularly in the EU accession countries, increased support to the livestock sector with the goal of enhancing farmers' incomes and stabilising prices, the general trend continues to be one of moving away from direct intervention in the sector.

Meat markets are generally typified by only limited interventions which promote meat consumption, such as retail price controls and policies which support livestock marketing. Increasingly intervention focuses on the establishment of regulatory mechanisms to enhance food safety and quality, particularly programmes to introduce traceability systems. Meanwhile, concern over the environment appear to have gained importance in a number of both developed and developing countries.

The limited direct intervention in livestock markets on the production and consumption side leads policy makers to intensify use of trade policy measures in pursuance of market stabilisation goals. In fact, international meat markets during the period in review were characterised by increased use of import control measures, prompted not only by animal and human health concerns but by increased use of safeguards and anti-dumping measures in the context of the considerable price variability over the period. On the export side, low prices and considerable exchange rate variability prompted increased use of export promotion measures, including export subsidies. The review period was also highlighted by the proliferation of free trade agreements, which hold implications for long term trade flows of livestock products.

Table IV-2: European agricultural guidance and guarantee fund (EAGGF), expenditure on livestock and meat														
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	MILLION ECU/EURO													
TOTAL MEAT	6658	6741	6649	6095	6610	8730	8650	7010	6892	6702	7623	7725	10330	9728
Export refunds	1614	1622	2155	2181	2051	1787	1642	926	963	996	470	485	407	520
Intervention 1/	5044	5119	4494	3914	4559	6943	7008	6084	5929	5706	7153	7240	9923	9208
BOVINE MEAT	4307	4427	3989	3532	4091	6796	6675	5160	4578	4539	6054	7072	8091	8054
Export refunds	1282	1332	1711	1708	1761	1559	1499	774	595	661	363	387	296	376
Intervention 1/	3025	3095	2278	1824	2330	5237	5176	4386	3983	3878	5691	6685	7795	7678
Of which: Private and Public storage	2312	2191	1383	-209	-215	620	749	145	-37	-83	326	104	3	-5
Suckler cow premium	370	449	570	955	1126	1632	1522	1653	1658	1628	1777	1959	2226	2069
Special Bovine premium	335	454	319	657	957	1407	1238	1341	1297	1299	1530	1748	1946	1946
Extensification premium				389	438	507	569	706	714	715	914	943	989	1020
Slaughter premium											494	1025	1719	1750
Purchase for destruction											201	77	82	10
Special purchase scheme											11	253	107	114
Other 2/	8	1	6	32	24	1071	1098	541	351	319	438	576	723	774
OVINE MEAT	1966	2013	2209	1933	2204	1682	1425	1534	1894	1736	1447	552	2082	1530
Private storage	3		4	2		2			3	4	p.m.	p.m.	0	p.m.
Ewe and goat premium	1787	1747	1796	1628	1781	1321	1067	1171	1536	1365	1095	417	1569	1066
LFA premium	176	266	409	303	423	360	359	364	356	369	354	137	442	393
Other 2/						-1	-1	-1	-1	-2	-2	-2	71	71
PIG MEAT	252	141	201	416	143	125	479	239	327	354	70	30	63	38
Export refunds	199	130	194	259	118	101	72	75	275	262	55	27	17	38
Private storage	17	11	2	22	18	18			46	92	5	3	35	p.m.
Exceptional market support	36		5	135	7	6	407	164	6		10	p.m.	11	p.m.
POULTRY MEAT	133	160	250	214	172	127	71	77	93	73	52	71	94	106
Export refunds	133	160	250	214	172	127	71	77	93	73	52	71	94	106

1/ All expenditure other than export refunds. For the beef sector the official system of intervention stocks was eliminated in 2002. [1] National envelope included from 2001 for bovine meat & from 2003 for ovine meat.

3/ Budget 2004

Source: European Commission

V. DAIRY POLICY DEVELOPMENTS

During the reference period, the dairy sector remained among the most highly influenced by government policy. In some countries, however, there has been a discernible movement toward less direct government intervention. Key features of policy developments were:

- Low international prices for dairy products during much of 2002 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. However, subsequent high international prices in 2003 and 2004 had the opposite effect.

- 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 were preparing to join the European Union in 2004, adjustments in their national policies to bring them into line with the CAP was a major element in dairy policy change over the period;

- 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.

Production policies

In anticipation of accession to the **European Union** in May 2004, a number of applicant countries introduced production quotas similar to those prevailing in the EU.[79] For example, **Poland**'s Parliament approved new legislation in January 2002 which mirrored elements of the EU's dairy regime and contained 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 at a later date, price intervention instruments were adjusted to bring them into line with those prevailing in the Union. During 2003 and the first part of 2004, the implementation of policy measures was sped up to facilitate a smooth entry into the EU and to ensure that the countries concerned were in a position to fully benefit from assistance payments. For example, it was estimated that around a quarter of dairy plants in the **Czech Republic** would have to close down in 2003, as they did not meet EU standards, although a number of firms had sought an extension of the adjustment period to meet EU standards. In the case of **Hungary,** in 2003, 85 percent of the country's milk production met EU standards, with approximately half the remaining 15 percent of producers expected to meet the required standards by the date of accession. For the new member countries, payments made under the EU Common Agricultural Policy will be phased in gradually, beginning at 25 percent in 2004/2005 and increasing by 5 percent per year.

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 subsidy is paid to producers of both cow and buffalo milk. In May 2002, **Poland**'s government introduced a quality incentive of 7 PLN (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)

[79] 10 of these countries - Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic, and Slovenia joined the EU on 1st May 2004.

producer payment was granted for premium quality milk. In **Bulgaria**, the State Agriculture Fund doubled subsidies to milk producers in 2003 to 0.08 BGL (US$0.05) per litre of extra quality milk and 0.06 BGL (US$0.03) per litre of first quality milk. From 2003, sheep milk was also subsidised.

Raising the quality of milk was also an important policy issue elsewhere in the world. 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$ 67 million), aimed at increasing milk quality and on-farm productivity.

In June 2003, the **European Union** voted to postpone planned increases in milk quota (agreed under the Agenda 2000 schedule) for further year as internal market conditions did not merit a rise in output. Following the vote, milk quotas are now set to increase by 0.5 percent per year in 2006/07, 2007/08 and 2008/09. At the same time, it was also decided that the quota regime would stay in place until 2014. In July 2003, a Common Agriculture Policy (CAP) reform package was agreed to whereby support prices for butter and skimmed milk powder (SMP) would be reduced from July 2004. In the case of SMP the reduction will be 5 percent and in the case of butter 7 percent. The same reductions will be applied in 2005/06 and in 2006/07. Despite the accession of the 10 new countries, the package agreed did not raise the ceiling for intervention purchases of SMP, which will remain at 109 000 tonnes, and a new, lower ceiling was introduced for butter, to be reduced in annual steps from 70 000 tonnes in 2004 to 30000 tonnes in 2008. Once intervention ceilings are reached, a tendering system at discounted prices will be operated to absorb any additional surplus. To compensate for the reduction in support prices, which will result in lower producer prices, dairy farmers will receive direct payments equivalent to 60 percent of the cut in support prices. For 2005, these will amount to Euro 11.81 per tonne of quota, increasing further in 2006 and rising to Euro 35.50 in 2007. In principle, these payments can remain "coupled" to quota until 2007, but member states have the option of decoupling payments and adding them to a Single Farm Payment (SFP) from 2005. It is expected that most countries will adopt that latter option. This would have the effect of reducing the value of quota sold or leased.

Elsewhere in Europe, in Switzerland, milk quotas were reduced by 2.5 percent in the 2003/2004 marketing year because of excess supplies. From May 2004, and until the quota system ends in May 2009, industry bodies will be primarily responsible for regulating the quantity of milk produced. Additional measures introduced were: a reduction in over quota penalties for milk produced on Alpine farms and the banning for quota transfer between such farms and those on the plains. Support to milk prices was reduced by CHR 61 million in 2004 and the subsidy paid to milk going to cheese production was cut by one centime to 19 centimes (US$ 0.15), adjustments were also made to butter subsidies.

In the **United States**, the 2002 Farm Bill extended the government's milk support programme to the end of 2007. The programme works via the government's Commodity Credit Corporation (CCC) purchasing cheese, butter and skimmed milk powder in order to maintain a minimum price of $9.90 per hundredweight of milk (45.36 kg) at a fat content of 3.67 percent. As a result of the large build up of skimmed milk powder under the programme, prices paid for commodities were adjusted in November 2002: the butter price was increased by 19.52 cents to $1.05 per pound, and that of skimmed milk powder was reduced by 10 cents to $0.80 per pound. Also under the 2002 Farm Bill, a further safety net programme for dairy farmers was created: the *Milk Income Loss Contract* (MILC) programme. This compensates producers when milk prices fall below a specified level. In addition, payments were made in 2002 under the *Livestock Compensation Programme* whereby dairy farmers in drought affected areas received a fixed payment of $31.50 per dairy cow. In **Canada**, the *Canadian Dairy Commission* (CDC) increased support prices for butter and skimmed milk powder by 3.5% in February 2004, to CAD6.3/kg and CAD5.4/kg respectively. The increase was equivalent to CAD 0.022 per litre (US$0.016/litre) for farmers and CAD0.31 per litre (US$0.24/litre) for processors. The

move was objected to by the Canadian Consumers Association on the grounds that Canadian farmers received amongst the highest prices in the world for their milk. A year earlier, the CDC had authorised a 3.9% increase in milk prices. As the Commission has undertaken to adjust prices to cover the cost of production of 50% of Canadian dairy producers by 2006, further increases are anticipated in future years. Also in **Canada**, as a result of a BSE outbreak eliminating export markets for meat from cows over 30 months of age, the government agreed in late 2003 to pay cull cow compensation up to CAD200 million or CAD320 per dairy cow. Many of Canada's older culled dairy cows were previously shipped to the USA to be processed into hamburger meat.

In **Australia**, a new industry-owned service organisation, Dairy Australia, was formed in June 2003. This replaced the Australian Dairy Corporation and the Dairy Research and Development Corporation. The new organisation is funded by a farmers' levy, with some matching government research and development funds. In September 1999, the government announced the *Dairy Adjustment Programme* which involves a levy of AUD0.11 per litre at the retail level on dairy beverages. This is distributed to dairy farmers to assist them coping with industry-wide deregulation introduced in 2000. The levy is set to finish in 2008 when the DSAP scheme will also end.

In the **Republic of Korea**, overproduction has led to a substantial build up of government held stocks of dairy products since 1998. The government sought to combat over-production and farmers were required to reduce milk production by 7 percent in 2003 – a requirement that caused many protests. In return, the government provided loans totalling KRW 50 billion (US$42 million) at a subsidised interest rate of 3 percent. A further cut in milk production, of 4 percent, was planned for 2004.

In **Sweden**, a government body with responsibility for **animal welfare** was established in January 2004. The body will be responsible for regulations regarding animal welfare and the supervision of animals' well-being. In the **Republic of Ireland**, following a mission of the EU Food and Veterinary Office, it was decided that a general prohibition on tail docking for bovine animals was warranted, introduced in 2003, and that this was the most effective way of bringing the limited use of this practice to an end. A number of states awaiting accession to the EU passed Union-compatible animal welfare legislation. For example, in **Lithuania**, regulations were adopted in 2002 for the welfare of domestic and farm animals which were in line with those of the EU.

In several countries, **government** sought to reduce or **terminate its direct involvement** in the dairy industry, continuing a trend which has been evident for a number of years. In **Vietnam**, the government sold some of its shares in the country's largest milk producer, *Vinamilk*, in 2003. While maintaining a majority 51 percent shareholding in the company, the remaining shares were offered to the public, including company staff. In **Egypt**, the government also sought to sell its investments in milk processing. In **Nigeria**, the government pursued a policy of disposing of its direct investment in the livestock sector via sales to the private sector. In late 2003, the **Czech** state-owned Agricultural and Forestry Support and Guarantee Fund sold its 36 percent share in the country's largest dairy company – *Madeta Dairies*.

In **Kenya** in 2003, the *Agricultural Finance Corporation* provided **dairy development** loans totalling KES260 million (US$3.4 million) to dairy farmers in the North Rift region. The loans, at a rate of interest of 10 percent, are aimed a boosting production in the region and supplying the restructured *Kenya Cooperative Creameries*. In **China**, the government is promoting the establishment of clusters of dairy farms around Beijing, and nearby Tianjin. By 2002, 700 farms had been established. It is planned to replicate this model near other cities in the vicinity of the capital and elsewhere. Also in 2002, the government announced a plan to invest KNY405 million (US$50 million) in support of dairy industry development. In **Uruguay**, the government established a fund (Fondo de Financiamiento de la Actividad Lechera) at the beginning of 2002 to assist domestic producers affected by low milk prices. In **Brazil**, a new Agricultural and Livestock Plan for the 2003/2004 season, was announced in June 2003, under the plan, BRL5.7 billion (US$1.9 billion) was allocated to the dairy sector as low-interest credit to increase productivity and raise national milk production.

Consumption and marketing policies

In **Brazil**, higher demand for milk in 2004 was expected to result from the government social feeding programme (FOME ZERO). In 2003, milk producers and processors in **Chile** formed and financed an association to increase domestic fresh milk consumption (Promolac). During 2003, the association spent CLP 650 million (US$923 000) on media campaigns. In **Peru**, the government's social feeding programme remains an important element in domestic demand for milk and forming a reference price for producers. The government of Peru has an import substitution policy by which it encourages local production of agricultural products currently being imported. There are no resources allocated to this program, but the government encourages local production by two means: higher import tarriffs (surcharges and variable levy) and tax benefits to producers.

In **Mexico**, the parastatal organisation in charge of the government's social feeding programme (LICONSA) increased its use of domestic milk compared to imported skimmed milk powder. In 2003, the programme used 180 million litres of domestic fluid milk, an 80 percent increase over the previous year; however, this still represented only 16 percent of the programme's total milk usage. It is estimated that the LICONSA programme accounts for a quarter of liquid milk consumption in Mexico.

There were a number of developments in school milk programmes and policies during the period under consideration. 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. In 2002 and 2003, the **Slovak Republic** introduced a subsidy of SKK 8 per litre for school milk. The aim of the programme was to increase milk consumption amongst school aged children (0.25 litres per child per day) and thereby raise national milk consumption. The support was provided directly to dairies delivering milk to schools allowing the schools to be supplied at a reduced price. **Poland** also introduced a school milk subsidy scheme in 2002, while **Slovenia** began one in 2003. In these two and in other cases, countries with compatible schemes acceding to the EU in May 2004 would benefit immediately from the Union's school milk subsidy. In **Nigeria**, the government plans to encourage the consumption of livestock products through the introduction of a school feeding programme whereby milk and eggs will be served in primary and secondary schools at break times, free of charge or at subsidised rates. Pilot projects were initiated in some states. 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. 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. In 2002, the **Jordan** initiated a programme to provide milk and other food to the poorest sections of the country, mainly in the South. The Government of **Colombia** is sponsoring a new supplementary lunch program, including milk, for 500 000 low-income elementary students. This program provides considerable support for milk producers.

Following the closing of the **Canadian** *Contract Export Milk* programme as a result of a WTO ruling in 2002 that it violated restrictions on subsidised exports, the Canadian industry looked to other means of disposing of excess production – in particular skimmed milk powder. Under the WTO agreement, Canada can export approximately 12 000 tonnes of skimmed milk powder using export subsidies; however, for 2004, the surplus production of this commodity was expected to be 45 000 tonnes and could grow further in future years. This has created a number of difficulties for Canada's supply-managed dairy sector. One action taken was that a sizable amount of excess production was disposed of at low prices for animal feed. Additionally, at the beginning of 2004, the *Canadian Milk Supply*

Management Committee approved the use of 10 000 tons of surplus milk powder for processed cheese manufacture. As this requires investment in processing equipment, in 2004, only about half of this amount was anticipated to be utilised in this way. Currently, dairy processors use imported dairy ingredient mixes, which can enter Canada duty-free and the programme is aimed at replacing these with domestic product.

Linked to a cut in milk support prices in the **European Union**, reductions in internal subsidies to dairy production consumption were implemented when the cuts took effect in July 2004. Such schemes included subsidised sales of butter for baking and confectionary, production of concentrated butter, skimmed milk powder for calf feed and skimmed milk powder for casein production.

Other related domestic policies

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 January 2004, the **Russian Federation** introduced a mandatory labelling standard for milk and milk products indicating if dry milk had been used in manufacture. In **China**, in 2003, the dairy industry pressed for similar legislation for drinking milk; however, no agreement was reached. In 2003, **Brazil** announced the implementation of a National Programme to Increase Milk Quality and Control (PNQL). The programme is designed to benefit consumers and facilitate exports. The programme is also designed to control fraud, such as adding whey powder and water to fluid milk, and to curb production of *informal*, unpasteurised milk.

In order to reduce excessive government stocks of skimmed milk powder, the **United States** initiated a programme in August 2002 to provide old stocks of milk powder as a feed supplement to livestock producers in drought affected areas. In addition, also in the United States, a number of contracts were issued to convert SMP, of two years or more since its production date, into casein. Approximately 3 400 tons of powder were utilised in this way between mid-2002 and the end of 2003. In August 2002, **Lithuania**'s government granted 11 million LTL (US$ 3 million) of financial support to dairy processors. The funds were allocated in an attempt to 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.

International trade policies

Low international prices in 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, depressed prices meant that increases in export subsidies were required in order to allow participation in the external markets.

Import measures

Many countries introduced measures to limit dairy imports. In **Brazil**, at the beginning of 2004, the government decided to extend for an indefinite time the minimum export price requirement for imports from **Argentina** and **Uruguay** which was put in place in February 2001. Under the agreement, a minimum import price for whole and skimmed milk powder is set of US$1 900 per tonne, plus 11 percent. The extension was supported by Brazilian milk producers and opposed by the dairy industries of Argentina and Uruguay, which claims it is not consistent with the Mercosur agreement. In **Brazil**, strict enforcement of a federal law prohibiting the use of imported milk powder in state financed social feeding programmes was pursued in 2003. In 2002, **Colombia** introduced a ban on imports of milk powder that was continued until April 2004. The government is following a policy of prohibiting imports and encouraging exports as a means of developing the national dairy

sector. In recent years, difficulties have arisen with trade in milk powder with Venezuela, Colombia's traditional market.

In **Egypt**, the government imposed a 45 percent tariff on bulk imports of milk powder in 2003, following the expiration of the previous three-year safeguard duty. This had the effect of substantially increasing demand from processors for domestically produced milk, the price of which rose steeply. For the period January 2001 to July 2002, **Russia** 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 April 2002, **India** raised import duties on butter and butter oil from 30 to 40 percent, citing protection of its domestic industry against subsidised imports.

In mid-2002, **Tanzania** increased the duty on fresh milk imports from 20 to 25 percent. The move was in the face of growing competition by milk from neighbours Kenya and Zimbabwe. In 2003, a 20 percent suspended duty, 20 percent value added tax and 15 percent import duty were imposed on milk and milk products to protect domestic producers. At the same time, the government reduced import duties on milk packaging materials and machines. In February 2004, Tanzania passed legislation to prevent the import of excessively cheap or sub-standard dairy products. In mid-2002, **Kenya** banned the importation of butter, milk powder and selected cheeses. Furthermore, some shipments of milk powder from New Zealand were destroyed or returned, as it was claimed that they did not meet required quality standards.

In November and December 2002, the **United States** imposed safeguard duty on import of American-type cheese. The volume-based duty is permitted under WTO rules and applies when quota imports exceed a specific trigger level. 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.

In December 2003, **New Zealand** agreed to pay GBP 11 million (US$19.2 million) in unpaid butter duties in a dispute with the United Kingdom relating to imports with a higher percentage of butter fat than permitted under its WTO quota over an extended period. This practice led to the "stretching" of the New Zealand import quota for butter. This followed a prosecution on the same issue brought by **the Netherlands**, some years earlier. Also in 2003, the **European Union** split the annual WTO quota for New Zealand butter into two six-month periods. This was to prevent more than 55 percent of the quota entering the EU market during the first-half of the year – as EU prices for butter are set to reduce annually from July for the next three years, beginning in July 2004.

There were also some examples of markets becoming more open. In mid-2002, **Iran** resumed imports of feta cheese, which had been banned since 1995. The move stemmed from local production being insufficient to meet demand. In 2003, **Algeria** reduced import duty on whey powder from 30 percent to 15 percent. In addition, a temporary additional duty is set to reduce by 12 percent per year, to reach zero in 2006. For the period July 2003-June 2004 this duty stood at 36 percent. **Thailand** set an import quota for milk powder in 2004 of 55 000 tonnes, up from 45 000 tonnes in 2003.

As a means of verifying the quality of import products, a number of countries introduced inspection and labelling regulations during the period covered. In **Brazil**, import controls and surveillance for dairy products were increased in 2002 and 2003, as greater pre-inspection and registration of dairy plants exporting to Brazil was carried out, as was laboratory testing of import product-quality. Requirements for imported products to be labelled in accordance with Brazilian consumer law were also introduced. In **Mexico**, enforcement of labelling, quality standards and food safety regulations led to reduced imports of liquid milk in border areas from the United States. In September 2002, the **Philippines** notified the WTO of its intention to require accreditation by third party auditors of all plants exporting meat, poultry and dairy products, with implementation from January 2003. However,

following representations from exporting countries, the proposed regulation was still under review at the end of 2003. In 2004, the Philippines lowered tariff rates for raw materials such as SMP and whey from 3 percent to 1 percent.

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 during most of 2002. Towards the end 2002 and for 2003, the level of export subsidies by the United States fell as international prices rose. In the EU, export subsidies remained high principally as a result of appreciation of the Euro. During the first part of 2004, in the light higher international prices, export subsidy levels in both countries fell further. During 2002 when international prices were low a number of countries – the **Czech Republic, Hungary, Poland,** and the **Slovak Republic**, provided increased export subsidies.

In order to make the export refund system more transparent, the European Commission introduced a tendering system in April 2004 (a system already in place for sugar and cereals). In addition, in order to combat fraud, the requirement for exporters to provide proof of arrival was introduced. Linked to the cuts in support prices in July 2004, export refunds are also expected to be cut. In a number of EU accession countries (**Slovak Republic**, **Hungary**, and the **Czech Republic)** excess domestic production and difficulties in finding remunerative export markets led to dairies offering prices below guaranteed levels. However, in some cases, for example in the **Czech Republic**, state funded export subsidies were withdrawn from dairies not meeting these price levels. Following accession to the European Union, new member countries will benefit from EU export refunds. However, in some cases, these will be less that those prevailing before accession. For example, in 2003, average export subsidies in **Hungary** were HUF 50 per litre (US$0.23) compared to an anticipated **EU** average subsidy of HUF 26 per litre (US$0.21).

In the **United States**, in the 2003 fiscal year (ending September) 200 000 tonnes of skimmed milk powder from government stocks were made available for overseas food-aid donations; however, it is estimated that only 78 000 of this allocation was utilised. In addition, there was a separate 150 000 tonne allocation for aid shipments to Iraq. In fiscal year 2004, a further 100 000 tonnes of SMP were made available for food aid shipments of SMP. Reflecting high levels of stock, the United States has used its full allocation under the *Dairy Export Incentive Programme* (DEIP) to subsidise exports of skimmed milk powder and cheese, and partially used its allocation of butter, in recent years. From 2002, DEIP allocations have been announced in sections to ensure full utilisation of permissible quantities under the programme.

Bilateral and multilateral trade arrangements

Numerous trade agreements were concluded over the period which provided increased access for dairy products. **Australia** and **Thailand** finalised a Free Trade Agreement (to come into force 1 January 2005) which cut tariffs for Australian dairy products. Higher access of Australian dairy products to the US market is expected following the signing of the Australia-US Free Trade Agreement in 2004. The agreement maintains restricted quota entry for dairy products; however, progressive access to Australian exports are allow over a 20 year period and will benefit cheese access in particular. Under the agreement, U.S. dairy products will be given duty-free access to Australia. Over 2003 and 2004, the **United States** and concluded free-trade agreements with several **Central American countries** (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) and the **Dominican Republic**. The countries involved will gain greater access to the US market, while many US exports will receive duty free treatment immediately upon implementation of the agreement. Tariffs on dairy products will be phased out over a 20 year period. In 2002, the removal of tariffs on Costa Rican dairy products entering Mexico was expected lead to boost sales. Costa Rica also signed a similar agreement with the

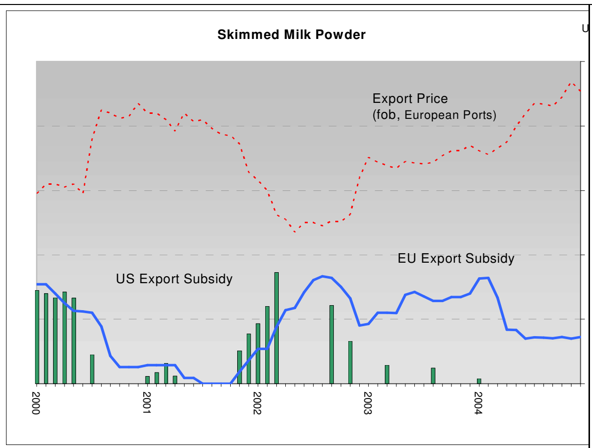
Dominican Republic in 2002 and a free trade agreement was formalised with the 15 member countries of the Caribbean Community (Caricom) in 2003, both of which are anticipated to lead to increase trade in dairy products. **Chile** has signed a number of bi-lateral free trade agreements which include market access quotas for dairy products. These were signed with the **United States**, the **European Union**, and the **Korean Republic**. The agreements provide for annually increasing duty-free quota access and progressively reduced duties on out-of-quota exports. Under a bilateral trade agreement, the EU and **Switzerland** raised annual quotas for cheese imports. Switzerland will raise its annual quota (14 500 tons in June 2003) for cheese imports by 2 500 tonnes per year until 2007, while the European Union will increase its duty free quota (4 250 tonnes from July 2003) for cheese imports from Switzerland by 1 250 tonnes per year. After 2007, there will be mutually unrestricted access for cheese traded between the EU and Switzerland. **Russia** and **New Zealand** signed a bilateral trade agreement November 2003. The agreement sets maximum levels for tariffs on dairy imports and provides security for New Zealand's dairy access should Russia join the WTO. In 2003, the EU and **Egypt** signed a Partnership Agreement, which reduced tariff rate quotas for EU cheese exports.

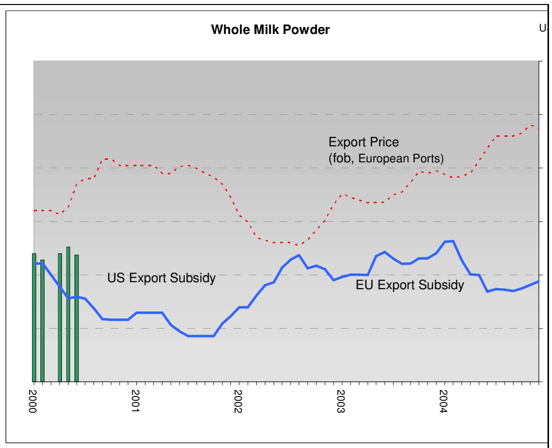
International assistance to livestock development

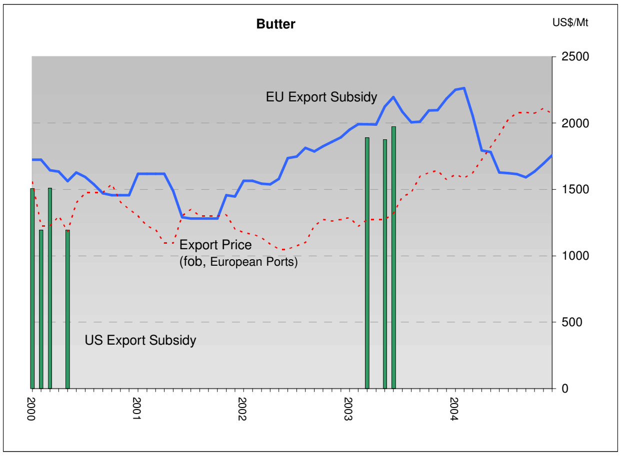
In **Egypt**, the EU began a project in 2003 to provide EGP 280 million (US$47.4 million) in low interest loans to allow milk producers and dairy processors to modernise their operations. While, in the **Philippines** in 2003, a proportion of the funds realised from the sale of donated **United States**' skimmed milk powder were given to the National Dairy Authority to purchase dairy cows from **New Zealand** in support of its Expanded Dairy Programme for Rural Enhancement. Under the programme, three new dairy zones will be established, each based on 100 farmers with 300 imported animals between them.

Conclusions

The role of government policy in determining dairy markets remained high in a number of countries during the review period. In general, a trend for reducing such involvement continued to be discernable. Low international prices for dairy products during 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.


Skimmed Milk Powder
Export Price
(fob, European Ports)
EU Export Subsidy
US Export Subsidy
2000
2001
2002
2003
2004


Whole Milk Powder
Export Price
(fob, European Ports)
US Export Subsidy
EU Export Subsidy
2000
2001
2002
2003
2004


Butter
US$/Mt
2500
2000
1500
1000
500
0
EU Export Subsidy
Export Price
(fob, European Ports)
US Export Subsidy
2000
2001
2002
2003
2004

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Policies for basic food commodities **2003–2004**

This is the first issue of a new series dealing with agricultural commodity policies. It includes the third review of policies that have influenced basic food commodity markets, covering 2003 and 2004, a period of particular interest as it coincides with the end of the implementation of the Uruguay Round WTO Agreement and with an intensification of the Doha Round multilateral negotiations.

The information is presented on a sectoral basis, organized into five chapters dealing with rice; grains; oilseeds and oils; meat and livestock; and dairy products. Policy developments generally cover measures on production, marketing and storage, trade and consumption for the various commodities.

It is hoped the publication will be useful to governments, policy and market analysts, researchers, traders, farmers' organizations and, more generally, to all those dealing with development and agricultural issues.

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