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# COMMITTEE ON COMMODITY PROBLEMS

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### REVIEW OF RECENT POLICY CHANGES AND INDUSTRY MEASURES AFFECTING THE OILCROPS COMPLEX

This document has been prepared by the Secretariat for review by Delegates under Agenda Item II. The document presents an overview of recent developments in both national policies and industry initiatives having a bearing on international, regional or national markets for oilcrops and derived products.

Delegates are invited to review the Secretariat's assessment and provide insights on their country's policies and related private sector initiatives.

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## REVIEW OF RECENT POLICY CHANGES AND INDUSTRY MEASURES AFFECTING THE OILCROPS COMPLEX<sup>1</sup>

### A. GOVERNMENT POLICIES

1. **National responses to COVID-19:** In 2020, countries implemented a variety of measures to protect public health and secure domestic food supplies amid the COVID-19 crisis, some of which have directly affected markets for oilcrops and derived products. In Argentina, Brazil, the People's Republic of China (hereafter "China"), India and Malaysia, movement restrictions and other health measures to contain the spread of the disease temporarily disrupted oilcrop production and processing as well as transport/port logistics and, thus, international trade flows. To prevent potential supply shortfalls and stabilize domestic prices, a number of countries temporarily facilitated imports of specific oilcrops and derived products, while others resorted to temporary export restrictions. On the other hand, Malaysia temporarily suspended its palm oil export tax, to facilitate the recovery of its oil palm plantations from the COVID-19 crisis. To mitigate labour shortages at plantations, which were accentuated by COVID-19-related movement restrictions, the country also enacted policies aimed at attracting migrant workers. Meanwhile, some countries regulated their domestic markets for edible oils to halt surges in consumer prices. The United States of America (hereafter "US") and the European Union (hereafter "EU") launched comprehensive farm support programmes to help rebalance supply and demand in the hardest hit sectors, including grains and oilcrops. China issued plans on how to ensure domestic food security in both the short and medium-to-long term, whereas India leveraged the COVID-crisis to launch wide-ranging market reforms intended to raise the competitiveness of the farm sector. Moreover, Brazil, the EU, Indonesia and Malaysia temporarily lowered their biodiesel consumption targets in response to sudden drops in fuel demand triggered by country-wide lockdowns.

2. **Farmer support:** In 2020, India launched sweeping market reforms aimed at raising the competitiveness of the agricultural sector, while enhancing farmers' incomes. With a view to foster private sector participation in agribusiness, measures were introduced to deregulate the marketing of agricultural products and the management of stocks. While minimum support prices for oilcrops remained in place, the scale of public procurement operations continued to be limited. In Brazil, the customary package of subsidized farm loans and marketing support measures was renewed, maintaining the accent on small- and medium-scale farmers and further expanding the crop insurance component. Argentina launched a support scheme for small and medium-sized soybean farms, in an effort to promote production outside the country's core growing regions, while Mexico curtailed the support it provided to large commercial farms. In China, while measures to promote soybean cultivation remained in place, the COVID-19 crisis prompted new initiatives to secure domestic food supplies in the medium-to-long term. Meanwhile, the Government of the Russian Federation set the nation's self-sufficiency rate for vegetable oil at 90 percent. Canada promoted the production of food-grade protein products from rapeseed, while the Philippines, Indonesia and Fiji launched new measures to support the rejuvenation of coconut plantations, and Italy made available guaranteed loans to olive oil producers affected by unfavourable market conditions. Malaysia embarked in programmes aimed at fostering mechanization in its plantation sector and stepped up efforts to recruit and train local plantation workers, to address chronic labour shortages afflicting in particular the oil palm sector. Meanwhile, special relief packages to compensate farmers affected by extreme weather events or pest outbreaks were implemented in India, Italy, the Philippines and the US.

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<sup>1</sup> The note provides an overview of developments observed in the year 2020, divided by key policy domains. For previous years, please refer to FAO's annual compendia on oilcrops policy changes and industry measures, which can be retrieved at URL <http://www.fao.org/economic/est/est-commodities/oilcrops/oilcrop-policies/en/>. The overview is compiled from a comprehensive database maintained by the Secretariat, which draws on a variety of governmental, private sector and civil society sources.

3. **Sector development:** Numerous countries, especially in Africa, implemented a variety of sector development measures, pursuing the following long-term objectives: i) raising productivity; ii) supporting crop diversification; iii) promoting more sustainable production methods; iv) fostering local value addition; v) supporting employment creation; and vi) reducing the dependence on vegetable oil imports or raising export earnings. Coconut, sesame, oil palm and olive tree cultivation attracted particular attention. The Government of France launched a plan aimed at developing domestic production of plant-based proteins, with a view to reduce the country's dependence on imported protein feed, notably soybean meal.

4. **Pest control measures:** Approvals of individual pesticides and norms to regulate their use remained under the scrutiny of policy makers in several countries, revealing increased concerns about potential environmental and health risks. With regard to glyphosate, the herbicide's non-carcinogenicity was reaffirmed in the US, whereas France confirmed its ban of specific uses from January 2021 onward and introduced economic incentives for farmers that voluntarily refrain from using the product. Elsewhere, Thailand made the use of glyphosate conditional upon specific permissions and introduced zero-tolerance levels for residues on food products for various other pesticides, while Viet Nam postponed a ban on glyphosate that was scheduled to come into force in June 2020. Dicamba, another herbicide widely used on soybeans, was re-approved in Brazil and the US, subject to control measures aimed at ensuring effective use and adequate protection of the environment, including non-target plants. The US also supported the development of new herbicides aimed at providing soybean farmers with new tools to control weeds that became resistant to traditional herbicides. Meanwhile, in the EU, the decision not to renew the permit for thiacloprid further limited the choice of pesticides available to rapeseed growers. As for measures to control *xylella fastidiosa* in olive trees, the EU eased its tree eradication policies in favour of general containment measures and strict control of high-risk product movement.

5. **Biofuel policies:** In 2020, mandatory blending rates for transport diesel were raised in Brazil, Indonesia, Malaysia and Thailand – further supporting the growth in national uptake of palm and soy oils as biofuel feedstock. However, during the course of the year, implementation of such programmes incurred into a number of problems. Brazil decided to temporarily suspend its higher blending obligations due to insufficient availabilities of biodiesel, resulting from scarce domestic supplies of soyoil. To alleviate the situation, biodiesel producers were allowed to also use imported raw materials. In Indonesia, where palm oil-based biodiesel production continued to be subsidized, the rise in blending rates coincided with a widening in the gap between biodiesel and mineral oil prices – straining public finances and eventually leading to a rise in the levy collected on palm oil exports. Furthermore, considering that domestic biodiesel uptake dropped below target in 2020, the Government preferred to defer planned shifts to higher blending rates. Likewise, in Malaysia, where the outbreak of COVID-19 curbed domestic fuel demand, the gradual rollout of a higher blending mandate was temporarily put on hold, with nationwide implementation possibly sliding to 2022. In the meantime, Canada released an ambitious medium-term biofuel policy, aimed at encouraging investment into the country's green energy sector, while the US backed infrastructure investments required to support higher biofuel blends and promoted research on the use of oilseeds as feedstock for renewable jet fuel, and India continued to encourage the conversion of used cooking oil into biodiesel. Meanwhile, several countries revised their fuel standards and conducted engine tests with high biofuel blends. Concerning international trade, Indonesia, the world's leading supplier of palm oil, asked the World Trade Organization (WTO) to establish a panel to assess the compliance of certain measures taken by the EU regarding palm oil-based biofuel with international trade rules – an initiative followed by analogous steps by Malaysia in January 2021. Furthermore, the US kept in place its anti-dumping and countervailing duties on biodiesel imported from Argentina, while the EU retained its corrective duties on US biodiesel imports.

6. **Trade policies:** Regarding *import measures*, Brazil, India, Turkey and the Russian Federation temporarily suspended their import duties on selected oilseeds, oils and meals in an effort to limit consumer price rises triggered by tightening domestic and global supplies. In a bid to improve

its commercial ties with Malaysia, India also lifted the safeguard duty on refined Malaysian palm oil introduced in September 2019. Meanwhile, Brazil eased its import requirements for genetically modified products used as animal feed, including soymeal. On the other hand, a number of countries, including India, Sri Lanka and Turkey, raised their import tariffs on selected oilcrop products in an effort to protect local farmers, encourage domestic oilcrop production and/or support domestic processors and refiners. Elsewhere, Thailand explored means to halt illegal imports of palm oil (for use as biodiesel feedstock), while the US banned palm oil imports from selected Asian suppliers on the grounds of labour rights concerns.

7. As for *export measures*, amid falling international palm oil prices (caused by a drop in global demand following worldwide COVID-19-related lockdowns), Indonesia and Malaysia temporarily suspended their palm oil export taxes to stimulate shipments and safeguard growth in their palm industries. Malaysia also stepped up its export promotion efforts, focusing on new markets in the Middle East, Africa and Southeast Asia, while Indonesia revoked its requirement that palm oil be shipped exclusively by Indonesia-flagged vessels. In addition, Indonesia converted a fixed levy collected from palm oil exporters (to finance in particular the country's biodiesel support scheme) into a progressive levy tied to the commodity's price. Elsewhere, driven by fiscal and monetary policy considerations, Argentina raised its export taxes on soybeans and derived products, and tightened the foreign exchange controls applying to proceeds from exports. Subsequently, however, the Government decided to temporarily reduce its soy export taxes with the aim to stimulate exports and raise the country's foreign exchange earnings. To contain rises in domestic food prices, the Russian Federation temporarily raised its export tax on sunflowerseed and rapeseed, while Senegal and the Sudan restricted their groundnut exports in an effort to stabilize domestic prices and encourage local value addition.

8. Regarding *regional trade agreements*, a free trade accord signed between the EU and Viet Nam envisages the liberalization of EU oilseed product exports to Viet Nam and a 3-year phase-out for Viet Nam's import tariff for EU olive oil. Furthermore, following the signature of the US-Japan Trade Agreement, as of January 2020, US exports of oils and fats to Japan have benefited from preferential tariff access. Meanwhile, the members of MERCOSUR agreed on a set of rules governing trade in food products that contain traces of GMOs. Concerning *bilateral trade agreements*, the trade accord reached between the US and China in December 2019 took effect on 14 February 2020. Accordingly, the two countries lowered certain additional tariffs charged on each other's imports, although China retained the 25 percent special tariff on imports of US soybeans. However, in March, in view of its pledge to scale up imports of US agricultural goods over the 2020-2021 period, the Chinese Government decided to grant temporary waivers from its special soy tariff. As for *oilcrop-specific trade initiatives*, China renewed its import accords with Argentina and established contacts with Myanmar regarding the purchase of soybeans and derived products.

9. With regard to the *trade differences* between the EU and the US over subsidies granted by both countries to their respective aviation industries, the US upheld its countervailing tariffs on selected EU goods, including olive oil imported from Spain, whereas the EU introduced special tariffs on certain US products, including groundnuts and selected minor vegetable oils. Meanwhile, the differences between China and Canada over rapeseed trade remain unresolved.

10. **Market regulation:** In 2020, countries continued using a variety of instruments to regulate domestic markets. With the aim to shield local markets from potential supply disruptions linked to the COVID-19 pandemic, China mobilized state-owned and private trading firms and processors to scale up the procurement and storage of grains and oilseeds and took steps to streamline the management of its strategic reserves. Meanwhile, the release of oilcrops and vegetable oil from the country's state reserves exceeded the volumes recorded in 2019. Elsewhere, measures to regulate the markets of edible oils and stabilize retail prices were reported from Bangladesh, Pakistan, the Russian Federation, the Sudan and Thailand. In the EU, Spain's main agricultural cooperative was authorized to withdraw olive oil from the domestic market in years of surplus production, while in Ukraine the value added tax for oilseeds and other agricultural products was lowered in a bid to support the country's food

manufacturing sector. To counter negative product perceptions among palm oil consumers in certain countries, Malaysia launched several new initiatives geared to protecting the commodity's image and safeguarding the interests of the country's palm oil industry.

11. **Food standards:** While Brazil, Colombia and Mexico reported fresh initiatives to promote healthy diets, including lower intake of saturated fats, Saudi Arabia joined the list of countries that forbid the use of partially hydrogenated oils/fats in the food industry. Numerous countries also introduced new MRLs (maximum residue limits tolerated in food or feed products) for specific pesticides used in oilcrop cultivation. Moreover, to combat edible oil adulteration and contamination with hazardous materials, India directed concerned agencies to ensure compliance with existing regulations that prohibit the sale of edible oil in loose packets and restrict the reuse of tin and plastic containers. Meanwhile, in the EU, rapeseed meal-based food ingredients were approved for human consumption.

12. **GMO policies:** Marking a departure from past policies, China's regulators approved two locally developed GM events – including a new soybean variety – for domestic cultivation. As for imported soybean varieties, the country also authorized two new traits and renewed an already existing permit. Meanwhile, Canada cleared a new GM rapeseed event for domestic cultivation, while the EU approved three new soybean events for food and feed use, but not for cultivation, underlining that the new varieties fall under the bloc's stringent labelling and traceability requirements.

13. **Production sustainability:** The political debate on the need to move towards more sustainable crop production methods continued unabated in 2020. Amid growing public interest, Indonesia and Malaysia intensified their efforts to promote sustainable palm oil production practices, in a bid to help raise the commodity's acceptance and competitiveness in the global marketplace. To realize a sustainable oil palm management system able to support national economic development, Indonesia overhauled its nearly 10-year-old palm oil certification system. The scheme's principles and criteria were reformulated with a view to guarantee the social, economic and environmental viability of production. In addition, mandatory certification was extended to smallholder growers, along with financial support packages. At the same time, Malaysia proceeded with the implementation of its certification programme, including among organized smallholders, while efforts to prepare independent smallholders for eventual admission to tailor-made group certification schemes continued. Meanwhile, following up on its action plan on worldwide forest preservation, the EU launched a public consultation on initiatives aimed at i) minimizing the bloc's contribution to deforestation and forest degradation worldwide, and ii) promoting the consumption of products from deforestation-free supply chains. On a related note, in the United Kingdom of Great Britain and Northern Ireland, as a means to tackle 'imported deforestation', a draft environment bill included provisions requiring domestic businesses and retail chains to prove where products such as cocoa, rubber, palm oil and soybeans come from and whether they were produced in compliance with local laws on environmental protection. At intergovernmental level, FAO launched a geospatial on-line tool to help countries preserve critical carbon stores known as peatland. The tool is aimed at halting peatland degradation and effectively planning peatland restoration through enhanced mapping and monitoring activities.

## B. INDUSTRY INITIATIVES

14. **Sustainable production:** In 2020, private sector measures and voluntary standards for sustainable palm oil production continued to evolve under close public scrutiny, as evidenced by several new initiatives promoting the adoption of responsible practices along the palm oil value chain. In producing countries, efforts by industry associations to promote sustainable practices and improved traceability across domestic supply chains – in part in collaboration with the public sector – continued, as did private sector initiatives to train smallholders on sustainable production methods and support their inclusion in formal certification schemes. Meanwhile, downstream buyers remained under strong pressure from customers, investors and policy makers in a number of European countries to source

palm oil more responsibly. Buyers across the world responded with pledges to adopt more stringent sourcing policies, concentrating their efforts on i) improving product traceability throughout their supply chains via the introduction of enhanced mapping and monitoring tools, ii) requiring that all their suppliers – direct ones as well as subsidiary or third-party suppliers – abide by their policies, iii) improving transparency and accountability by publishing data on suppliers and using independent auditors, and iv) setting up transparent processes for managing and resolving grievance cases. Some companies continued working directly with smallholder farmers on productivity improvement measures, and others strived for better alignment of their initiatives with local government programmes. All these activities suggest increased awareness among companies that shifts in market demand can translate into significant reputational and regulatory risks for their businesses.

15. Regarding the enforcement of voluntary industry standards, concerned private sector bodies endeavoured to further strengthen their monitoring and verification systems, which, in some instances, led to the withdrawal of individual member's sustainability certificates or the divestment of lenders from companies involved in alleged breaches of standards. The globally recognized, industry-led Roundtable on Sustainable Palm Oil (RSPO), in 2020, took steps to improve the enforcement of its human rights related standards (especially regarding the prevention of child labour) and revised its guidelines on gender aspects and on Free, Prior and Informed Consent (FPIC) by indigenous groups, while at the same time enhancing its grievance mechanism. Other activities conducted by RSPO include: i) the promotion of certification among independent smallholder farmers; ii) fostering the use of sustainable palm in major consuming countries (notably in China); and iii) providing guidance on how to balance conservation with economic development in high forest cover countries in Africa. The RSPO also backed efforts of EU governments to promote deforestation-free commodity supply chains.

16. Overall, notwithstanding these multiple initiatives, total supply of certified sustainable product increased only modestly in 2019–2020, while, similar to past years, close to half of the available certified produce did not find a buyer. Discerning an excessive reliance on 'green certification', a number of third party studies found that many palm oil buyers, consumer goods manufacturers and retailers were struggling to meet their self-imposed targets. Initiatives to actively protect forests, support forest-friendly development and secure land tenure for local communities were suggested as more cost-effective solutions. Calls for concerted actions by all stakeholders – including engagement with governments – across producing and importing countries also garnered general consensus. Meanwhile, the notion that oil palm is one of the most efficient crops in terms of oil yield per hectare and that attempts to replace palm oil with other vegetable oils would likely entail unintended environmental effects gained increasing acceptance among experts.

17. Also with regard to soybean, sustainability issues continued to attract attention. In particular, an alliance of international food companies urged the world's key commodity trading houses to source soybeans responsibly in Brazil's Cerrado region (where soybean expansion is reported to have been in part associated with the conversion of native vegetation areas), implying that traders step up their own commitments and implement robust monitoring, verification and reporting mechanisms in the region. In this regard, local grower associations recommended to consider schemes that rewarded farmers for voluntary preserving native vegetation. Meanwhile, a number of downstream buyers committed to adhere to the voluntary sustainable sourcing principles of the Roundtable on Responsible Soy, a global multi-stakeholder platform, whereas some companies launched their own initiatives to enhance traceability in their supply chains.

18. Industry efforts to set up sustainable coconut/coconut oil supply chains in the Asia-Pacific region also continued, focusing on sustainable productivity improvements, enhanced access to markets, harmonization of buyer requirements and improved product traceability.

19. **Biofuel measures:** 2020 saw continued efforts by private companies regarding the use of non-edible oilseeds and agricultural waste materials – including used cooking oil – for conversion into transportation biodiesel. Furthermore, the coming into force of the International Maritime

Organization's new shipping fuel standard generated interest in biodiesel as low-sulphur marine fuel. Fresh initiatives were also reported concerning the production of hydro-treated vegetable oil, known as 'renewable diesel'. Companies in Brazil and Indonesia conducted advanced tests with such high-quality fuels, which, being chemically identical to mineral oil, are considered suitable for a variety of uses including direct blending with jet fuel. Furthermore, in China, where production and use of biofuels remained discretionary, state-owned oil refining company Sinopec stepped up its involvement in the domestic biodiesel market by expanding its production of transportation diesel with 5 percent bio-content. Meanwhile, Italy's leading oil and gas company (Eni) announced plans to phase out the use of palm oil and its derivatives as biodiesel feedstock.

20. **Research & Development:** In 2020, fresh industry-led and academic research initiatives across the world resulted in the development of i) new oilseed varieties offering improved performance, disease tolerance, herbicide resistance and climate change resilience, and ii) oils and meals with better functionality and improved nutritional/health profiles. Regarding varietal research, rapeseed, soybeans, oil palm and olive trees attracted particular attention. Special attention continued to be given to genome mapping and gene-editing technologies, which in several countries are regulated less stringently than breeding activities based on genetic modification. Meanwhile, food manufacturers worldwide continued to replace both hydrogenated oil and saturated oils/fats in food products. In Canada and the European Union, research on omega3-rich camelina seed, food-grade rapeseed meal, and shea-based cocoa butter equivalents also continued to attract funding from the industry. Furthermore, efforts to replace petroleum derivatives with renewable, biodegradable substances continued to stimulate research into new industrial applications of oils/fats, with raw materials, such as used cooking oil and waste generated in oil palm and olive cultivation, receiving particular attention.

21. **Marketing practices & other industry initiatives:** In the EU, plans to introduce a nutritional scoring system for voluntary display on food product labels met with criticism from the vegetable oil industry, which claimed that the proposed method failed to distinguish between different types and grades of vegetable oil. On a separate note, a number of suppliers of oils and fats took steps to reduce the presence of specific contaminants that form during vegetable oil/fat refining processes – with a view to enable food manufacturers to comply with specific forthcoming EU regulations. With a view to strengthen product authentication and prevent fraudulent practices along the olive oil value chain, industry stakeholders in Spain, Argentina and Tunisia set up verifiable transaction chains with the support of blockchain technology. Digital ledger tools were also used by a group of global trading houses to track the movement of grains and oilseeds across Brazil. With respect to palm oil, a number of food companies continued to offer 'palm oil free' products, prompting formal complaints by industry associations in palm oil producing countries, which described such practices as discriminatory and in contrast with producers' declared policies. Concerning futures markets, 2020 saw the issuing of, or preparations for, several new hedging and price discovery tools, including an options contract for palm olein in Malaysia, a soybean futures contract in Brazil, and a futures contract for degummed soyoil in India. Furthermore, in China, foreign investors' access to trade in palm oil futures was improved further, while an agricultural commodity exchange covering vegetable oils was established in Egypt.

22. **COVID-19-related measures:** In numerous countries, oilcrop producers and processors were affected by government measures to contain the spread of COVID-19. Most notably, in Malaysia, where temporary movement restrictions aggravated the plantation sectors' chronic labour shortage, oil palm companies stepped up their efforts to make plantation jobs more attractive to locals, while also promoting mechanized harvesting methods and automation of mill operations.