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Organización
de las
Naciones
Unidas
para la
Agricultura
y la
Alimentación

REPORT

COMMITTEE ON COMMODITY PROBLEMS

Sixty-seventh Session

REPORT OF THE JOINT MEETING OF THE INTERGOVERNMENTAL GROUP ON GRAINS (31ST SESSION) AND THE INTERGOVERNMENTAL GROUP ON RICE (42ND SESSION)

Istanbul, Turkey, 14 – 17 May 2007

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I. INTRODUCTION

1. The Joint Session of the Intergovernmental Groups on Grains (31st Session) and Rice (42nd Session) was held from 14 to 16 May 2007 in Istanbul, Turkey. Discussions commenced on Monday, 14 May, from 9:30 to 17:30 and resumed on Wednesday, 16 May, from 14:30 to 17:30. The meeting was attended by 44 delegates from 24 Member Nations. In addition, the following international organizations participated as Observers: the Common Fund for Commodities and the International Grains Council. The list of participants will be circulated as document CCP: GR-RI 07/Inf. 4.
2. Mr Abdellatif Tabet, Subregional Coordinator for Central Asia, welcomed delegates on behalf of the Director-General and expressed appreciation to the Government of Turkey for hosting the Meeting. Mr Tabet also thanked the Economic Policy Research Foundation of Turkey (TEPAV) and the Union of Chambers and Commodity Exchanges of Turkey (TOBB) for their support in organizing and sponsoring the side event.
3. The Session was opened by Ms. Birgitta Vainio-Mattila, the outgoing First Vice-Chair, who called for nominations for the Chairperson of the Joint Session. Mr R. Parasuram (India) was elected Chairperson. Mr Ayhan Baran (Turkey) and Mr Hagen Streichert (Germany) were elected First and Second Vice-Chairpersons respectively.
4. Delegates expressed their appreciation to the Government of Turkey and to all local sponsors for the facilities provided and for their hospitality.
5. The Groups were informed that, as a side event to the IGG meeting, the Secretariat had organized an international conference (15-16 May) on “Commodity Exchanges and Their Role in Market Development and Transparency”, opened to both government delegates and the private sector.

II. MAJOR POLICY AND ECONOMIC ISSUES

A. CEREAL MARKET OUTLOOK

6. The Meeting reviewed recent developments in the world markets for major cereals based on presentations by the Secretariat (CCP: GR-RI 07/CRS 2; CCP: GR-RI 07/CRS 3) and a statistical compendium distributed at the meeting (CCP: GR-RI 07/CRS 1). It discussed world wheat, coarse grains and rice situations for production, utilization, international trade, stocks and prices in 2006/07 and examined the likely supply and demand prospects for 2007/08. The discussions also covered the medium-term outlook for major cereals, mostly based on the initial results from this year’s OECD-FAO Agricultural Outlook (2006-2016). The Secretariat also briefed the Meeting on the surging demand of grains for conversion into biofuels and presented a preliminary assessment of its implications for the world grain economy (CCP: GR-RI 07/CRS 5).
7. Delegates noted with concerns the following developments in the global cereal markets since 2006:
 - a continuing decline in cereal stocks held by major exporters, largely driven by a sharp reduction in production and strong growth in demand, especially from the bio-fuel sector;
 - further expected decreases in the share of inventories held by major exporters in global stocks by the close of crop years in 2007 for wheat, coarse grains as well as rice;

- a general tightening in world cereal supplies that contributed to a strengthening in world prices of most cereals, which is considered to be an important factor behind the expected increase in plantings for the new season (2007/08).

8. The Groups generally agreed with the Secretariat's analysis and conclusions regarding the outlook for world cereal markets in 2007/08 indicating:

- continued tightness in spite of the anticipated sharp increase in world production, which might prove even more delicate for coarse grains if this year's production failed to meet expectations;
- strong and volatile cereal prices, which, coupled with the recent surge in freight rates, are important concerns facing cereal importing developing countries.

9. In the context of medium-term prospects, the Groups discussed the likely trends as projected by this year's OECD and FAO collaborative effort. They agreed with the general conclusions that pointed to fast expansion in production, consumption and trade of all major cereals over the next 10 years. For most cereals, rice in particular, the Groups noted the potential existing in Africa to increase production by drawing more land into cultivation provided that improvements in irrigation and infrastructure could be made. They recognized the likelihood of a much stronger growth in cereal feed demand and industrial use compared to recent years. As total demand was expected to expand closely in line with production, it was recognised that there was little scope for a recovery in world stock levels and, as a result, stocks-to-use ratios were foreseen to remain low over the projection period. Against this background, questions were raised concerning the reason behind the projected declines in world cereal prices over the next decade. The Groups noted that, while low stocks and, even more importantly, tight exportable supplies were likely to contribute to greater price volatility in the future, international prices had been projected to decline less than reported in the previous projection by OECD and FAO and that those declines seemed significant mostly because they were estimated using as a benchmark the 2006/07 marketing season, when prices of most cereals soared to ten-year highs.

10. The Groups appreciated the Secretariat's closer scrutiny on the impact of expanding bio-fuel sectors on the global grain economy. They recognized the importance of cereals in national food security strategies, and in this regard, several delegates cautioned against the growing use of food crops for bio-fuel production. Questions were raised about the current competitiveness of maize for ethanol production and it was noted that its fast rising use stemmed mainly from large government subsidies provided to maize-based ethanol producers. It was recognized that developing countries grew crops that could be transformed into biofuel, including non-food crops, but that tapping such a potential would require overcoming the serious existing infrastructural constraints. Overall, the Groups viewed the emerging bio-fuel sector not only as a challenge but also as an opportunity and recommended FAO to work closely with its Members to design strategies that could help them benefit from this new demand without jeopardising their national food security.

B. FOLLOW-UP TO THE GUIDELINES FOR NATIONAL AND INTERNATIONAL ACTION ON RICE

11. The Intergovernmental Group on Rice reviewed the general tendencies in rice policies prevailing since 2004 on the basis of documents CCP: GR-RI 07/2 and its Supplement. It noted that:

- rice self-sufficiency objectives remained high in the agendas of many governments, which pursued them mainly through improvements in productivity rather than through an expansion of plantings;

- amid high market prices, there was less need for official market interventions to sustain producer prices which led most governments to reduce their interference with their rice markets, with the major exception of Thailand, where public procurement purchases were particularly large between 2004 and 2006;
- governments continued to avail themselves of alternative instruments to stabilize rice producer revenues, including risk management tools.

12. The Group was informed that countries had continued to make frequent use of trade policy measures over 2004-2006. It noted that:

- some traditional exporting countries applied restrictions to exports, as many of them faced tight supply situations;
- numerous governments raised duties or resorted to import bans to protect domestic producers, but several also lowered tariffs to mitigate the impact of high world prices on domestic consumers;
- Sanitary and Phytosanitary measures (SPS) were also frequently used over the triennium.

13. While recognizing the legitimacy of using SPS measures, it was stressed that their sudden implementation could disrupt trade. A call was made for importing countries to provide clear information on their quality standards and, whenever imposing SPS-based restrictions, to do it after providing sufficient advance notice.

14. The Group generally endorsed the conclusions and recommendations listed in paragraph 64, in particular those concerning the need for governments to raise the availability of credit to the sector and the call on the international community to increase its support to the development of the sector in developing countries, including through South-South cooperation.

15. Responding to the Secretariat's request for advice regarding the continued relevance of the Guidelines for National and International Action on Rice, the Group considered that these Guidelines had been extremely useful since their adoption in 1971 but had probably outlived their time. However, before dropping them, it was recommended to wait for the conclusion of the ongoing WTO Round of Multilateral Trade Negotiations.

C. THE BIO-SAFETY PROTOCOL – IMPLICATIONS FOR CEREAL TRADE

16. The Meeting reviewed this agenda item based on document CCP: GR-RI 07/3 prepared by FAO, and on a presentation by an expert representative from the International Grain Trade Coalition (IGTC), looking at different policies bearing implications for the actual delivery of agricultural products through trade. In particular, they took note of the Cartagena Protocol on Biosafety (BSP), which has provisions for transboundary movement of Genetically Modified (GM) commodities known as living modified organisms including for food, feed and processing (LMO-FFP). In view of the fact that transboundary movements of grains are mostly conducted through bulk shipments and given the rising share of GM grains (especially GM maize) in terms of production and consequently international trade, the Groups recognized that keeping varieties separated in bulk handling systems was becoming increasingly costly. Concern was raised about costly segregation practices, especially when there is no scientific evidence associating GM commodities with any risk to human health and/or to the environment.

17. The Groups considered biosafety of particular importance and noted the ongoing debate on the safety of LMOs and consumer choice through identity preservation systems. The Groups were briefed on the likely economic implications of the decisions of the Third Meeting of the Conference of the Parties serving as Meeting of the Parties to the Cartagena Protocol on Biosafety (COP/MOP-3) held in March 2006, in particular on Article 18.2(a) of the BSP, which deals

mostly with the handling and documentation requirements for shipments of LMO-FFP. It was noted that a zero tolerance of LMOs in grain shipments for FFP was a difficult undertaking and other alternatives were presented, such as separating the risk assessment process (under Codex) from the risk management process (country specific) and developing guidelines for Adventitious Presence (AP) levels that are more cost-effective, technically feasible and practical for FFP shipments. In this regard, the Groups recognised the need for further capacity building in FAO Members.

D. COMMODITY EXCHANGES AND FUTURES MARKETS FOR CEREALS – EVOLUTION, EXPERIENCES AND PROSPECTS

18. The Groups reviewed this agenda item based on document CCP: GR-RI 07/4. They were informed about the role of commodity exchange and derivative markets in managing commodity price risk, in particular for the grains sector. They noted that as government direct market interventions diminished, risk management tools, aimed at transferring price risk and enhancing producer income stability were gaining importance, especially in many developing countries. The Groups recognised that market liberalization was a critical condition for the continued growth of commodity exchanges and that the strengthening of the linkages between commodity exchanges and derivatives markets could pave the way for stronger institutional development by promoting supply chain integration, improving planting decisions and increasing credit extension.

19. The Groups appreciated the Secretariat's efforts in organizing the International Conference, in conjunction with the formal meeting of the Intergovernmental Groups. The Conference covered in greater detail recent experiences with commodity exchanges and how they contribute to improving transparency in markets, reducing risk and generally promoting economic development.

III. DEVELOPMENTS REGARDING THE COMMON FUND FOR COMMODITIES

20. The Groups were informed of progress made in the formulation and implementation of projects sponsored by the IGG on Rice and the IGG on Grains for financing by the Common Fund for Commodities (CFC) on the base of document CCP: GR-RI 07/5; noting that three projects (one related to rice and two to cassava) had been completed since the last Joint Meeting in 2004, another eight projects were currently under implementation (two related to rice, four to grains and two to potato), while two new projects (one on cassava and one on grains) recently endorsed by the IGG on Grains Bureau awaited approval by the CFC.

21. The Meeting agreed that CFC projects could make an important contribution to the development of the commodity sectors in the developing countries, but there were some requests for more involvement of local ministries in the follow-up and supervision of project activities. Moreover, the Groups considered that the benefits of projects needed to be shared more widely across countries by intensifying the dissemination of the results and of the lessons learnt. One possible way to achieve this was thought to be through the organization of final regional workshops, a practice already followed by the CFC, but also through technical cooperation among developing countries. For instance, amid growing water supply constraints, there was much scope for sharing knowledge on water-saving and water-harvesting technologies, which were the focus of a new rice project proposal in Central America, but which also appeared of considerable interest to Africa.

22. The Groups were confronted in the meeting with two major tasks: firstly, to review new project proposals for their possible endorsement and subsequent submission to the CFC and, secondly, to provide guidance on those areas to be considered priorities for project development by the IGG on Rice and the IGG on Grains in their respective commodity fields.

23. On the first point, three new project proposals, all concerning rice, had been put forward to the IGG on Rice for endorsement. This, it was recalled, was a necessary but not a sufficient condition for the eventual approval of projects by the CFC, as proposals were further examined by the IGG and CFC Secretariats and by the CFC Consultative Committee before a decision was taken regarding their acceptability. Thus, despite some queries regarding the rationale and the budget of the proposals, the IGG on Rice agreed to sponsor the two new rice project proposals “Improving the competitiveness of rice in Central Africa” and “Use of water harvesting for enhancing food production and income in a rice-based cropping system in Central America”. The Group also endorsed, in principle, the project profile “Restoring hope in post-conflict countries: Rehabilitation of rice production capacity of smallholder farmers in Rwanda and Burundi”, but requested to examine it again, once developed into a fully-fledged project proposal.

24. As to the identification of priority areas to guide the selection of projects over the CFC’s third five year action Plan, between 2008 and 2012, the IGG on Grains examined four major development fields proposed in paragraph 46. While generally accepting them, the Group requested to merge the first two priority areas as “Measures to improve structure of markets, including commodity based trade financing, risk management, warehouse inventory and receipt systems for grains”. The Group also requested to adjust the third priority area “Development of new markets for industrial use and improving small-scale processing and supply chain management” to include quality among the project objectives. Moreover, the Group considered that such a priority area concerned all products falling under the auspices of the IGG on Grains and not only the few mentioned commodities. As a result, the Group agreed to modify the third priority as: “Development of new markets for industrial use and improving small-scale processing and supply chain management”. As subsistence-oriented food staples, the Intergovernmental Group on Grains recognizes the important role of grains, pulses and roots and tubers commodities in the farmers’ livelihoods. Overcoming potential stagnation in output and productivity is considered as an important strategy towards sustaining/increasing income of farmers. Improving post-harvest market development prospects through measures that can enhance quality for processing and marketing systems is considered as an important step towards achieving that goal. Developments of value-added products in Africa are among the areas of work for which financial support from the Fund could be sought”.

25. The IGG on Rice also agreed to endorse the proposed development areas listed as priority for rice projects in paragraph 46, but requested to add another concerning the establishment of quality and bio-safety control systems for rice and the development of technical capacity in that field.

26. Before concluding the discussion, the Secretaries of the two IGGs shared their concerns with the Meeting over their future ability to take on board supervision of new projects. Given the serious resource constraints they faced and, in some cases, their inability to follow-up highly technical projects, the Secretaries suggested to delegate project supervision responsibility to other organizations agreeable to the CFC. Although accepting in principle the suggestion, the representative of the CFC warned that it could make the project agreement process even more lengthy and burdensome.

IV. OTHER MATTERS

A. ACTIVITIES OF OTHER INTERNATIONAL ORGANIZATIONS OF INTEREST TO THE GROUPS

27. The Observer from the International Grains Council (IGC) briefed the Groups on its latest market outlook for grains and announced the creation of a new grains freight index by the Council (to be published in its monthly Grain Market Reports). The Observer also informed the Groups about the ongoing work activities at the Council, including more detailed coverage of prices and

trade in rice and oilseeds markets in its monthly reports, and provided some details on a number of events, organized by the Council, which were relevant to the Groups' activities.

28. The Managing Director of the Common Fund for Commodities, Ambassador Ali Mchumo, informed the Groups about recent developments concerning his Organization. Of particular interest was the "Global Initiative on Commodities", which was recently held in Brasilia with the view to raising awareness of commodity issues, refocusing the commodity agendas on poverty reduction and identifying a global strategy for commodities and a coherent approach to capacity building. The Managing Director also announced that the role of the biofuel sector would be discussed as a side event of the next CFC Governing Council Meeting in November 2007.

B. OUTCOME OF THE 66TH SESSION OF THE COMMITTEE ON COMMODITY PROBLEMS (CCP) RELATED TO THE ROLE OF THE INTERGOVERNMENTAL GROUPS

29. The Secretariat informed the Meeting of several decisions by the CCP at its 66th Session of relevance to the Groups. In particular, the CCP had agreed to conduct further analyses on the impact of bio-fuel demand on market prices and food security. It had welcomed the collaboration established with OECD in undertaking medium-term projections and had supported the establishment of an early-warning network for selected food commodities, to preempt potential shocks to international markets.

C. DATE AND PLACE OF THE NEXT SESSION OF THE GROUPS

30. The Groups requested the Director-General to determine the date and place of their next sessions, after consultation with the Chairperson, taking into account the availability of resources and, especially, the schedule of other meetings.

D. ADOPTION OF THE REPORT

31. The Chairperson reminded the Groups of the procedures to be followed in adopting the Final Report of the meeting. The Secretariat would prepare a draft Report and send it to the Chairperson for clearance. The revised draft would then be transmitted to delegates for corrections of errors and/or omissions. Once finalized, the Report would be sent to Members. The draft and the final versions of the Report will be sent by electronic means as well as by hard copy.