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The EU rice regime-Revised

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Report Highlights:

This report covers the current rice regime in the EU.

Includes PSD changes: Yes

Includes Trade Matrix: No

Unscheduled Report

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Executive Summary

Beginning in marketing year 1997/98, EU rice growers have received hectare payments up to a certain base area, currently set at 433,123 hectares. The resulting rice output has been relatively stable at around 2.6 MMT of paddy rice. Short and medium grain rice production is more than large enough to cover domestic use, but internal supplies are insufficient to cover demand for long grain rice. Imports of rice have increased over the years, and are currently more than double the amount of EU rice exports to third countries.

Consumer preference for long grain rice has encouraged imports from abroad, given that rice varieties grown in Southern Europe are primarily short and medium grain. Also, fragrant rice varieties imported from India, Pakistan, and Thailand have gained in popularity. Resulting from the GATT Uruguay Round negotiations, EU import tariffs have been gradually reduced, offering less import protection to domestic suppliers. Likewise, subsidized exports of rice had to be gradually cut, both in volume and in terms of budgetary outlays.

The EU rice regime is in great need of reform. Since 1997/98, the EU Commission has had to manage increasing intervention stocks, the corresponding expenditures weighing heavily on the EU budget for the rice sector. In the coming months, more frequent debates will be held among all parties in the rice sector, regarding the upcoming reform of the EU rice regime. This reform is expected to become effective as from marketing year 2001/02 at the earliest.

Production - Supply -Demand Table

PSD Table						
Country:	European Union					
Commodity:	Rice, Milled					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		09/1998		09/1999		09/2000
Area Harvested	0	408	0	394	0	390
Beginning Stocks	0	350	0	380	0	431
Milled Production	0	1587	0	1601	0	1570
Rough Production	0	2614	0	2591	0	2530
Milling Rate(.9999)	0	0.6071	0	0.6179	0	0.6205
TOTAL Imports	0	800	0	830	0	850
Jan-Dec Imports	0	766	0	800	0	830
Jan-Dec Import U.S.	0	283	0	300	0	320
TOTAL SUPPLY	0	2737	0	2811	0	2851
TOTAL Exports	0	360	0	330	0	320
Jan-Dec Exports	0	322	0	300	0	300
TOTAL Dom. Consumption	0	1997	0	2050	0	2075
Ending Stocks	0	380	0	431	0	456

Production

Over the last four marketing years 1996/97-1999/00, EU rice production has varied between 2.59 and 2.77 MMT of paddy rice. Rice acreage during that same period has gradually decreased from 425,000 hectares to 394,000 hectares. Despite the reduction in area, the common market organization for rice, last reformed in December 1995, has resulted in a relatively stable total rice supply. Rice is grown in 5 EU member states: Italy, Spain, Greece, Portugal, and France. Since 1997, the European Commission has, however, seen its expenditures on managing public stocks rise considerably. This factor contributes to a large extent to a growing need for further reform of the EU rice regime. See Policy section.

Japonica rice varieties make up the largest part of rice grown in the EU, in 1999/2000 representing about 67 percent of total rice production. This short and medium grain is traditionally consumed in the southern EU member states, while long grain (Indica) is the preferred rice in the rest of the EU. "Balilla" is a commonly grown short grain variety, while

"Lido" is a popular medium grain rice variety. "Arborio", "Ribe", and "Roma" are examples of long grain EU rice varieties.

The proportionate share of japonica rice production has gradually decreased over the last 3 years, to the benefit of indica rice. The drop in japonica rice production can be attributed to a growing consumer preference for long grain rice, even in southern EU member states. Notwithstanding the shift towards indica rice, japonica rice is in oversupply, while indica rice needs to be imported from third countries. See Table 1 for details on EU rice production.

Table 1: EU rice production

	Area (1,000 HA)		Production (1,000 MT paddy rice)		Yield (MT/HA)	
	1998/99	1999/00	1998/99	1999/00	1998/99	1999/00
TOTAL RICE						
Greece	27.124	20.000	218.736	167.200	8.06	8.36
Spain	113.010	110.500	765.800	801.500	6.78	7.25
France	18.450	17.169	110.700	103.014	6.00	6.00
Italy	222.710	220.800	1,353.750	1,362.452	6.08	6.17
Portugal	27.000	25.640	164.900	156.769	6.11	6.11
EU-15	408.290	394.100	2,613.886	2,590.935	6.40	6.57
INDICA RICE						
Greece	16.128	12.000	141.046	105.600	8.75	8.80
Spain	48.383	55.900	325.045	408.070	6.72	7.30
France	2.785	3.654	16.710	21.924	6.00	6.00
Italy	30.256	45.542	196.350	296.023	6.49	6.50
Portugal	2.000	3.652	12.400	22.641	6.20	6.20
EU-15	99.552	120.750	691.551	854.258	6.95	7.07
JAPONICA RICE						
Greece	10.996	8.000	77.690	61.600	7.07	7.70

Spain	64.623	54.600	440.755	393.430	6.82	7.21
France	15.665	13.515	93.990	81.090	6.00	6.00
Italy	192.449	175.250	1,157.400	1,066.429	6.01	6.09
Portugal	25.000	21.988	152.500	134.128	6.10	6.10
EU-15	308.733	273.360	1,922.335	1,736.677	6.23	6.35

Source: European Commission. For 1999/2000, data are provisional.

Consumption

While there are large differences in rice consumption patterns among the various EU member states, total EU rice consumption has remained relatively stable. This situation is not expected to change drastically in 1999/2000 and 2000/01. Some changes have occurred in terms of demand for certain rice varieties. Over the years, consumers have turned more and more to fragrant or aromatic rice varieties. Sold, at first, at a large premium compared to traditional rice, fragrant rice has become cheaper over the years, further stimulating demand. Fragrant rice is imported from India and Pakistan (Basmati rice), and Thailand (Jasmine rice). Fragrant rice has by far experienced the largest market share increase over the past two years.

Average consumer prices for rice have been following a downward trend over the last couple of years. Regular (non-parboiled) rice has suffered mostly from this trend. The gradual shift in consumer preferences towards long grain (indica) rice varieties, has brought about some oversupplies in the segment of round and medium grain rice (japonica), which is generally non-parboiled. When market prices for paddy rice fall below intervention levels, producers prefer to offer their rice into intervention, resulting in large public stocks. See STOCKS.

Parboiled rice prices have held up better due to strong demand and limitations in parboiling capacity during some periods.

Sources involved in rice marketing report that average cooking time puts rice at a disadvantage compared to pasta. They expect rice consumption to grow when fast-cooking rice of good quality becomes available in EU stores. While fast-cooking rice (10 minutes) is already available to EU consumers, marketing research is currently being done with regard to reducing cooking time further, i.e., to the average cooking time of pasta.

Trade

Trade - Imports

The majority of rice imported into the EU consists of brown or husked rice, which is then milled by EU milling

companies. The U.K. is by far the largest importer, followed by the Netherlands, France, Belgium, Germany, and Portugal. Long grain rice makes up the largest part of brown rice imports, the main countries of origin being the U.S., India, Guyana, Thailand, and Pakistan. Imports from India, Pakistan, and Thailand consist of fragrant rice, for which there is a growing consumer preference in the EU. India and Pakistan benefit from a EUR 250/MT rebate to the normal import duty for third countries. At present duty levels, this means that basmati rice from India and Pakistan is effectively imported at zero duty.

See Table 2 for an overview of EU imports of brown and milled rice, by country of origin. Among the countries ranking highest in terms of rice exported to the EU are several ACP and OCT countries (Overseas Countries and Territories). Imports from these origins are attractive for EU rice millers given the reduced (in case of ACP) and zero import duty (in case of OCT) applicable for these countries. See Import Policy.

Total EU imports of rice from third countries in September-August 1998/99 (*) and 1997/98 were as follows:

Rough rice (CN code 100610): 11,072 MT (3,789 MT in 1997/98)

Brown rice (CN code 100620): 599,979 MT (619,826 MT in 1997/98)

Wholly-milled and semi-milled rice (CN code 100630): 131,517 MT (170,619 MT in 1997/98)

Broken rice (CN code 100640): 133,366 MT (131,248 MT in 1997/98)

Table 2: EU imports of brown rice and milled rice, by country of origin

Country of origin	Brown rice (CN code 100620)		Semi-milled and wholly-milled rice (CN code 100630)	
	Sept/August 1998/99 *	Sept/August 1997/98	Sept/August 1998/99 *	Sept/August 1997/98
U.S.	225,091	240,248	52,599	72,249
Thailand	64,893	72,111	42,163	45,560
India	130,006	133,486	5,054	4,246
Guyana	90,612	89,240	121	538
Pakistan	47,473	25,279	2,163	1,824
Australia	10,679	5,948	1,121	1,031
Surinam	22,342	47,269	2,136	2,688
Aruba	277	0	10,109	10,142
Egypt	6,336	2,562	965	1,159
Taiwan	0	0	6,465	0
Dutch Antilles	974	77	4,297	26,678

Uruguay	5	251	2,720	1,678
All others	1,291	3,355	1,604	2,826
All third countries	599,979	619,826	131,517	170,619

* Eurostat data not yet available for July 1999 (Sweden), and August 1999 (Greece, Spain, France, Sweden)

During September/August 1998/99, about 120,000 MT of rice have been imported into the EU under the inward processing scheme (IPR). According to this system, products are imported duty-free, undergo some processing in the EU, after which the processed products are exported to third countries without an export subsidy. In the rice sector, the most common IPR activity consists of importing brown rice, milling it in the EU, and export the milled rice without export subsidy. Of the 120,000 MT of rice imported under IPR in 1998/99, 80,000 MT was brown rice, the remainder being milled rice (almost 20,000 MT), paddy rice (about 10,000 MT), and broken rice (about 9,000 MT). Italy makes most use of this system, followed by Spain, Belgium, U.K., Germany and the Netherlands. The U.S. is the main supplier of rice imported into the EU for IPR purposes. In 1998/99, all paddy rice and nearly two thirds of brown rice imports under IPR originated in the U.S.

Trade - Exports

Contrary to EU rice imports, mainly indica brown rice, rice exports to third countries consist primarily of japonica rice in semi-milled or wholly-milled form. There are a number of destination countries, the first ten countries only representing about half of milled rice exports in 1998/99. See Table 3 for details on exports of rice by country of destination.

Export data combine exports with an export subsidy, unsubsidized exports, and exports under special food aid programs. The majority of EU rice exports are subsidized, the export subsidy closing the gap between EU domestic prices and the lower prices prevailing on the international market. See Export Policy.

Middle East countries such as Lebanon, Syria, Jordan, and Israel are important markets for EU rice exporters, as well as Eastern Europe. Exports under food aid programs also benefit from subsidies set beforehand by the European Commission or competent authority managing the specific program. During 1999, the EU exported 50,000 MT of rice out of EU intervention stores as food aid to Russia. Other food aid destinations under both national and EU food aid programs are: North Korea, Bangladesh, Honduras, Burundi, Congo, Mauritania, Nicaragua, and El Salvador. Shipments under food aid programs need to be notified to the WTO, along with the official notifications on subsidized exports. See Export Policy.

Unsubsidized exports of rice are exports of processed products for which raw materials have been imported duty-free under IPR arrangements. During September-August 1998/99, nearly 78,000 MT of rice, of which 93 percent in milled form, was exported after having undergone IPR.

Total EU exports of rice to third countries in September-August 1998/99 (*) and 1997/98 were as follows:

Rough rice (CN code 100610): 1,345 MT (1,468 MT in 1997/98)

Brown rice (CN code 100620): 15,342 MT (11,267 MT in 1997/98)

Wholly-milled and semi-milled rice (CN code 100630): 327,070 MT (355,684 MT in 1997/98)

Broken rice (CN code 100640): 5,254 MT (3,240 MT in 1997/98)

Table 3: EU exports of brown rice and milled rice, by country of destination

Country of destination	Brown rice (CN code 100620)		Semi-milled and wholly-milled rice (CN code 100630)	
	Sept/August 1998/99 *	Sept/August 1997/98	Sept/August 1998/99 *	Sept/August 1997/98
Lebanon	4	5	30,338	20,600
Russia	1,476	1,792	27,967	14,418
Turkey	114	1	24,642	26,493
Switzerland	12,801	7,785	5,421	6,544
Hungary	0	34	17,110	14,092
Honduras	15	0	16,444	1,530
Syria	0	0	13,840	1,729
North Korea	0	0	12,190	68,970
Jordan	0	0	10,992	2,225
U.S.	33	36	9,390	7,765
Algeria	3	0	9,376	7,423
Israel	19	89	8,461	5,349
All others	877	1,525	140,899	178,546
All third countries	15,342	11,267	327,070	355,684

* Eurostat data not yet available for July 1999 (Sweden), and August 1999 (Greece, Spain, France, Sweden)

Stocks

The Common Market Organization for rice comprises an intervention storage system, with offers into intervention

allowed during a period of 4 months, between April and July. This system was set up in order to balance the market in times when outlays are not sufficiently available. Until MY 1997/98, intervention volumes remained manageable, but since then, the European Commission saw itself confronted with increasing expenditures on intervention storage. Market prices have been below intervention levels since 1997, resulting in large volumes of paddy rice being offered into intervention. The main part of intervention stocks consists of japonica rice. Between September 1, 1997, and September 1, 1998, EU rice intervention stocks increased from 153,000 MT to 453,000 MT. The 300,000 MT net increase is the difference between volumes accepted into intervention (367,000 MT) and sold from intervention stores (67,000 MT). Between September 1, 1998 and September 1, 1999, EU intervention stocks have continued to rise, from 453,000 MT to 495,000 MT. The 42,000 MT net increase is the difference between volumes accepted into intervention (283,000 MT) and sold from intervention stores (241,000 MT). The EU budget for financial year 2000 estimates costs related to the intervention storage system to amount to EUR 54 million, representing about 27 percent of the total expense of the EU rice regime. Although the European Commission forecasts purchases into intervention to go down in 2000, market sources predict a substantial rise in intervention offerings during the intervention period of 2000.

During MY 1999/2000, the base intervention price for paddy rice equals EUR 298.35/MT, a 15-percent decrease compared to MY 1996/97. This decrease has been the result of 3 consecutive reductions in the rice intervention price (EUR 333.45/MT in 1997/98, EUR 315.90/MT in 1998/99, and EUR 298.35/MT in 1999/2000), each decrease further reducing the import duty. During the intervention period (April-July), the intervention price is subject to monthly increases, equalling EUR 2/MT/month since MY 1997/98.

Policy

Policy - General

The rice marketing year runs from September 1 to August 31. The current common market organization, in place since December 1995 (see Council Regulation 3072/95 of December 22, 1995), comprises four elements:

- compensatory payments to growers
- a system of intervention storage, guaranteeing a floor level for rice for which no market outlets are available
- export subsidies allowing EU exporters to compete on third country markets
- import duties gradually decreasing over the GATT Uruguay Round implementation period.

Products covered are: paddy rice, brown rice, semi-milled and wholly-milled rice, broken rice, and some processed products such as rice flour, groats and meal of rice, pellets of rice, flaked rice, and rice starch.

EU expenditures to run the Common Market Organization for rice in financial year 2000 are budgeted to amount to EUR 203 million. The main part (EUR 122 million) is expected to go to direct payments (see Production Policy), while export subsidies and intervention storage are forecast to take up EUR 27 million and EUR 54 million, respectively.

Policy - Production Policy

In marketing year 1997/98, EU rice producers received direct aid payments for the first time. These compensatory payments were set in order to compensate producers for the fall in the intervention price for paddy rice and the consequent drop in import duties. Payments are given for a limited acreage per rice-producing member state. In case the area is exceeded, penalties apply. For an overshoot of the maximum guaranteed area of between one and five percent, the area payment will be cut by 3 percent per percent overshoot. Overshoots higher than five percent are penalized even more. Compensatory payments are made between October 16 and December 31 following the start of the marketing year in question. Producers receive a compensatory payment per hectare, multiplied by average historical yields for the years 1993/94-1995/96 (1992/93-1994/95 for Spain and Portugal). Both the gradual increase in payments over the marketing years 1997/98 - 1999/2000, and the base areas per producing region are shown in Table 4.

Table 4: Base areas and compensatory payments for rice in the EU

Region	Base area (hectares)	Compensatory payments (EUR/Hectare)		
		1997/98	1998/99	1999/00 and subsequent years
Italy	239,259	106.00	212.00	318.01
Portugal	34,000	106.18	212.36	318.53
Spain	104,973	111.44	222.89	334.33
Greece				
-departments of Thessaloniki, Serres and Fthiotida	22,330	131.27	262.55	393.82
-other departments	2,561	131.27	262.55	393.82
France				
-metropolitan area	24,500	96.35	192.7	289.05
-French Guiana	5,500	131.80	263.6	395.40
TOTAL EU BASE AREA	433,123 HA			

Source: Council Regulation 2072/98 of September 28, 1998.

Policy - Import Policy

As a result of the Uruguay Round Agreement on Agriculture, all duties for rice have been tariffed and were reduced by 36 percent by 2000/01, compared to the base period (1986-1988). See Table 5 for details. However, instead of applying these import duty levels, it was agreed, under the U.S./EU Blair House Agreement, to use the Margin of Preference (MOP) system. According to this system, import duties for milled and brown rice are calculated on a

regular basis by the European Commission according to a pre-defined formula. More particularly, import duties are equal to the difference between the intervention price multiplied by a factor, minus a C&F reference price. For brown long grain rice, the factor used is 1.8, while for milled long grain rice, the factor used is 2.63. In case these calculations lead to higher duties than those fixed by the Uruguay Round negotiations (Table 5), the latter apply. Given the link to intervention prices, EU import duties have fallen over the marketing years 1997/98 to 1999/2000 in concurrence with the 15-percent drop in intervention prices. Effective February 24, 2000, import duties for long grain brown rice from third countries (except ACP and Bangladesh) amounted to EUR 202.17/MT, much lower than the fixed tariffs (EUR 289/MT) under original GATT Uruguay Round conclusions.

Table 5: Fixed tariffs for rice under original GATT Uruguay Round conclusions (EUR/MT)

	Base period (Average tariff levels 1986-1988)	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
Paddy	330	311	291	271	251	231	211
Husked	413	388	363	339	314	289	264
Semi/wholly-milled rice	650	611	572	533	494	455	416
Broken rice	200	188	176	164	152	140	128

The MOP system was scheduled to calculate import duties on a consignment-by-consignment basis. The use of the reference prices instead resulted in some EU importers, i.e. those importing higher-valued rice, paying relatively higher duties than what a consignment-by-consignment system would have resulted in. Therefore, the Cumulative Recovery System (CRS) was set up for brown rice, enabling EU importers to recoup the overpaid duties. The CRS was in place from July 1997 through December 1998. Effective January 1999, the MOP system continued with one amendment for long grain brown rice. The European Commission increased the representative world price for long grain brown rice by 8 percent, which has resulted in a corresponding fall in import duties since January 1999.

Imports of basmati rice from India and Pakistan benefit from a EUR 250/MT reduction from the general duty applicable to third countries. This concession results from the MOP commitment and the fact that these rice varieties are generally higher-valued than rice originating in other third countries.

EU rice import regulations were designed to offer EU millers some import protection against milled rice imports from third countries. As of 1996, following negotiations with the U.S. and Thailand, the EU set annual Tariff Rate Quota (TRQ) for 63,000 MT of milled, 20,000 MT of brown, and 80,000 MT of broken rice. Quantities are broken down by country of origin, and applications for import licenses take place in quarterly tranches. TRQ volumes for rice imported from the U.S. are listed in Table 6. Applicable duties on within-quota imports are also listed.

Table 6: Annual EU Tariff Rate Quotas for rice imported from the U.S.

	January (MT)	April (MT)	July (MT)	September (MT)	Total (MT)	Customs duty
Semi-milled and wholly milled rice:						exempted from customs duty
- general *:	9,681	19,360	9,680	-	38,721	
- year 2000 **:	19,362	19,360	19,360	-	58,082	
Brown rice:						Reduced duty to EUR 88/MT
- general *:	1,911	3,821	1,910	-	7,642	
- year 2000 **:	3,822	3,821	1,910	-	9,553	
Broken rice	3,640		3,641		7,281	Reduced duty by EUR 28/MT

* Source: Commission Regulation 327/98 of February 10, 1998

** Source: Commission Regulation 648/98 of March 23, 1998. In the years 1998, 1999, and 2000, TRQ volumes for rice imported from the U.S. were adjusted in order to take account of TRQ rights for 1997. This quantity was staggered over the three-year-period 1998-2000 in order not to create disturbance on the EU market.

Apart from the import levy concessions applicable to India and Pakistan, reduced levies apply for up to 32,000 MT of rice from Egypt, and up to 4,000 MT of rice from Bangladesh. Furthermore, there is a 160,000 MT concession to ACP countries, currently allocated as 125,000 MT to ACP countries and 35,000 MT to Overseas Countries and Territories (OCT).

Policy - Export Policy

Export subsidies are calculated so as to close the gap between prices on the domestic market and the lower prices prevailing on the world market. The European Commission sets the subsidies on a regular basis, taking into account the exchange rate of the EURO versus the U.S. dollar, and the market prices on both domestic and international markets. To export, EU companies need to apply for an export license (for exports over 8.3 MT), which can be done through the common right restitution system or via the weekly open market tender mechanism. Applicable refunds are the same throughout the EU, but vary by destination and by rice type.

In the GATT Uruguay Round the EU committed to gradually reduce its subsidized exports of rice both in value and in volume. See Table 7 for an overview of EU rice commitments during the GATT Uruguay Round implementation period, as well as actual subsidized exports of rice during 1995/96-1997/98.

Table 7: Export subsidies: Budgetary Outlay and Quantity Reduction commitments versus actual subsidized exports

MY (Sept/Aug)	Budgetary Outlays (Million EURO)		Volume (1,000 Metric Tons, milled rice equivalent)	
	Annual commitments	Actual outlays	Annual commitments	Actual volumes exported
1995/96	54.6	30.3	163.0	88.6
1996/97	51.1	72.2	157.1	226.5
1997/98	47.5	32.6	151.2	75.9
1998/99	43.9	1/	145.3	1/
1999/00	40.4	1/	139.3	1/
2000/01	36.8	1/	133.4	1/

1/ not yet officially notified to the WTO

Source: Commitments: GATT Schedule CXL: European Communities- Part IV - Agricultural Products: Commitments limiting subsidization. Actual subsidized exports: Official notifications to the WTO.

Furthermore, the official notifications from the EU to the WTO reported 91,800 MT of rice food aid in 1995/96 (July-June), 42,500 MT in July-June 1996/97, and 110,200 MT during July-June 1997/98.

Policy - Reform of the current regime

For more than two years, the EU Commission has announced its intention to reform the rice sector. To date, no official proposals have been made public. Delays have been caused by a number of factors such as lack of inter-services agreement and the resigning of the EU Commission in 1999. Lately, the imminent reform has received increased press coverage, announcing that an official proposal is due March 14. Rumors have it that the European Commission wants to do away with rice intervention, compensating rice growers with increased compensatory payments, revising import policies, introducing private storage aid, possibly incorporating rice into the general arable crops regime. Debates are expected to be fierce among all parties concerned: growers, importers and exporters. The new regime is expected to become effective by marketing year 2001/02 at the earliest.