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REPORT FROM THE COMMISSION TO THE COUNCIL

**on the operation of the agreements concluded in the framework of the GATT Article
XXVIII procedure in the rice sector**

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GLOSSARY

Basmati	High quality indica rice grown only in India and Pakistan
Broken	White rice damaged in the milling process
Husked	Rice with only the husk removed; brown rice
Indica	Subspecies of rice, long grain
Japonica	Subspecies of rice, usually round or medium grain
Paddy	Rice in the husk (unhusked)
Semi- or wholly-milled	Rice from which the husk, layers and germ have been partly or wholly removed; white rice

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1. INTRODUCTION

Following the reform of the rice Common Market Organisation in 2003, the Commission notified the WTO that the European Community intended to modify import concessions on husked rice (HS code 1006 20) and semi-milled and milled rice (HS code 1006 30) included in Schedule CXL of the European Community annexed to the 1994 GATT.

The 50% reduction of the intervention price introduced by the reform meant that the continuation of the import regime in force at that time¹ would have resulted in widely varying border protection, which might even reach zero duty. As this implied too much uncertainty for the rice sector, the Community decided to deconsolidate the regime and negotiate its replacement by a more appropriate one, applicable to all EU trade partners.²

To this end, under GATT Article XXVIII, negotiations were carried out with the four countries from which most EU rice imports originated:

- India and Pakistan, each with a substantial supplier interest in husked Basmati rice,
- the United States of America, which had a principal supplying interest in husked rice and a substantial supplier interest in milled rice, and
- Thailand, which had a principal supplying interest in milled rice and a substantial supplier interest in husked rice.

When the agreement with Thailand was signed, the Commission undertook to send the Council a report on the operation of the agreements concluded, once data for the first marketing years were available. The purpose would be to enable the impact of import flows of different types of rice onto the Community market to be assessed, as regards both Community production and quantities processed.³

In addition, the report reviews imports of milled rice in small packages. Some Member States expressed concern at the consequences for the EU rice sector of a possibly large increase in this type of imports following the entry into force of the Agreements. The Commission undertook to enter into consultations with any given exporting country for which imports into the EU increased by more than 25% in a given a marketing year.

¹ Headnote 7 of the EC's Schedule

² Except imports covered by preferential arrangements e.g. EBA, or import quotas e.g. Egypt.

³ For more detailed information on the EU rice sector see:
http://ec.europa.eu/agriculture/markets/rice/index_en.htm

2. THE AGREEMENTS

2.1. Overview

Agreements with India and Pakistan were approved by the Council on 11 August 2004⁴. These established that **husked basmati rice** could be imported into the EU at zero duty as from 1 September 2004.

The agreement with the USA was approved by the Council on 21 June 2005⁵ and applied retroactively, with effect from 1 March 2005, i.e. mid-way through the marketing year. It establishes a calculation method for the Most Favoured Nation (MFN) import duties applied to **husked rice**.

Finally, the agreement with Thailand, approved by the Council on 20 December 2005⁶, mainly concerns the calculation mechanism for MFN import duties applicable to **milled and semi-milled rice**. It was also applied retroactively, as from 1 September 2005.

Although the agreement with the USA did not finalise negotiations on Article XXVIII, it will also be examined in this report as it was concluded in the same framework as the other agreements.

The following table shows the duties now applied to rice imports, following the entry into force of the respective agreements.

Table 1: Bound and applied duties for rice

Type of rice	Bound duty (€/t)	Applied duty (€/t)
Paddy (not concerned by the agreements)	211	211
Husked of which basmati	65 --	30 – 42.5 - 65 0
Wholly-milled and semi-milled	175	145 - 175
Broken	128	65

2.2. Basmati husked rice - agreements with India and Pakistan

The agreements with India and Pakistan established the following conditions for the duty free, quota-free import of husked Basmati rice:

- 9 specific varieties are eligible (4 Pakistani and 8 Indian, 3 of which are common to both countries)

⁴ Council Decisions 2004/617/EC and 2004/618/EC (OJ L 279, 28.8.2004, p. 17 and 23).

⁵ Council Decision 2005/476/EC (OJ L 170 of 1.7.2005, p.67).

⁶ Council Decision 2005/953/EC (OJ L 346 of 29.12.2005, p.24).

- imported Basmati must be accompanied by an authenticity certificate issued by the relevant Indian or Pakistani authorities.

2.3. Husked rice - agreement with the United States of America

The agreement with the USA established an annual reference level of 431 678 t for imports of non-Basmati husked rice. This was the result of the following calculation, based on average data for 1999-2002:

- husked rice imports into EU-25 from all origins
- less husked Basmati imports into EU-25
- increased by 10%
- plus milled rice exports under Inward Processing from EU-15 to the 10 Member States which joined the EU in 2004.

Annual increases to this reference level were fixed at 6 000 t for each of the 2005/06, 2006/07 and 2007/08 marketing years. For subsequent years, the agreement provides that the parties would seek agreement by 31 August 2008. However, consultations are still underway between the Community and the USA.

Under the terms of the agreement, if husked rice imports are more than 15% below the reference level in a given marketing year, the EC will apply a tariff rate of 30 €/t for the following 6 month period. If imports are more than 15% above the reference level, the duty for the subsequent period is fixed at 65 €/t. If imports are in the -15% and +15% range, the duty for the subsequent period will be 42.5 €/t.

The Commission twice a year examines whether a change in the import duty applicable to husked rice is needed and, if appropriate, fixes a new duty as from September and March. The calculation made mid-way through the marketing year is based on quantities imported during the first 6 months of the marketing year and half the annual reference level.

The rationale behind the agreement is to provide for an increase in the import duty when imports increase and *vice versa*, so as to give adequate protection to the European rice sector while, at the same time, opening the market to third countries.

Imports into the EU of all non-Basmati husked rice from all origins, whether preferential or not, are taken into account for the purpose of calculating the imported quantities. Data is based on import licences issued during the period concerned.

2.4. Semi-milled and milled rice - agreement with Thailand

The semi-milled and milled rice agreement concluded with Thailand provides a similar, but simpler, mechanism as that for husked rice. The annual reference import level is set at 337 168 t, which represents average imports of milled and semi-milled rice into EU-25 from all origins in 2001/2002 to 2003/2004, increased by 10%. No annual increases to this reference level were provided for.

Under the terms of the agreement, a duty of 145 €/t is normally applied. However, if milled and semi-milled rice imports are more than 15% above the annual reference level in a given

marketing year, the EC applies a tariff rate of 175 €/t during the subsequent 6 month period. Otherwise, the duty for the subsequent period remains at 145 €/t.

As for husked rice, this exercise is repeated half-way through the marketing year, based on quantities imported during the first 6 months of the marketing year and 47% of the annual reference level (158 469 t). Imports into the EU from all origins, whether preferential or not, are taken into account for the purposes of calculating the imported quantities. The resulting duty is MFN, and is applicable to all milled and semi-milled rice imports from all origins except those made under preferential arrangements or import quotas.

In addition, the Thailand agreement provided for a Tariff Rate Quota (TRQ) of 13 500 tonnes of milled and semi-milled rice at zero duty.

2.5. Broken rice - agreement with Thailand

The agreement with Thailand also settled the applied import duty for broken rice, which has been fixed at 65 €/t since September 2005 (down from 128 €/t the previous year). In addition, the former 80 000 tonnes TRQ was increased to 100 000 tonnes.

3. IMPACT ON THE EU MARKET

3.1. The data

In order to assess the impact of the agreements, this report examines their implementation from 2004/05 to 2007/08, the last complete marketing year for which data is available.

Concerning import volumes, the report draws on two complementary sources:

- import licence database, which allows a distinction to be made between preferential and non-preferential imports.
- Comext database, which gives the quantities actually imported, as notified by Member States to Eurostat. While Comext differentiates imports by their origin it does not distinguish between preferential and non-preferential imports.

For balance sheet data and to analyse market trends, Eurostat data and other Member State notifications are used.

Data concerning imports of milled rice in small packages is drawn from the Commission's TAXUD surveillance system, which was put in place in February 2006. Data is therefore only available for two complete marketing years, 2006/07 and 2007/08, and refers to quantities actually imported.

3.2. Import flows based on licences issued

3.2.1. Basmati husked rice

Between 2004/05 and 2005/06 Basmati imports remained stable at 270 000 t, increasing to 324 000 t in 2006/07 and to 368 000 t one year later.

By the fourth marketing year of application of the Basmati agreement, imports had therefore increased by some 100 000 t (+36%).

Table 2: Imports of husked Basmati rice - licences issued (in tonnes)

Marketing year	India	Pakistan	Total
2004/05	203 896	66 933	270 829
2005/06	217 630	53 196	270 826
2006/07	285 037	38 567	323 604
2007/08	269 087	99 073	368 160

3.2.2. Husked rice

Since the agreement has been in force, the quantity of husked rice other than Basmati for which import licences have been issued increased from 398 121 t in 2004/05 to 550 741 t in 2007/08. A substantial part of this 37% increase (148 778 t) resulted from the enlargement to Bulgaria and Romania, which together imported 78 985 t of husked rice in 2004/05, before joining the EU.

The net increase in EU imports between 2004/05 and 2007/08 was, therefore, no more than 70 000 t.

The half-yearly adjustment to the import duty (in September and March) affected the rate at which traders applied for import licences at different periods of the year. For example, if a duty increase was anticipated after March, applications increased in February, to take advantage of the lower duty rate, and *vice versa*.

As a result, in the first half of the 2005/06 and 2006/07 marketing years, when the duty was low, licences were issued for 67% of the annual quantities, on average. Although they were close to or above the half-yearly reference level during the 1st half of each marketing year, imports for the complete marketing year were below the reference level in 2004/05 and 2005/06⁷.

Since the end of 2007 the imposition of export restrictions by some of the world's main rice exporters has also influenced the timing of imports, as European traders sought to avoid any possible disruption of stocks.

In 2004/05 and 2005/06, around a quarter of the EU's husked rice imports came from the USA. Imports fell abruptly after LL Rice 601, a genetically modified (GM) variety not approved in the EU⁸, was discovered in consignments of US rice in August 2006.

EU importers have subsequently switched to other origins, such as Thailand and Uruguay (respectively 22% and 13% of the total in 2007/08).

⁷ The situation is different in 2008/09: imports in the first half-year (September 2008 – February 2009) were so much lower than in the preceding period that the duty was reduced to 42.5€/MT from March 2009. Higher EU ending stocks for the 2007/08 marketing year slowed import flows, which may also have been affected by the financial crisis.

⁸ Commission Decisions 2006/578/EC and 2006/601/EC instructed Member States to take the necessary measures to ensure that products found to contain genetically modified rice LL RICE 601 were not placed on the EU market.

Table 3: Imports of husked rice - licences issued (in tonnes)

Marketing year	1 st half-year	2 nd half-year	Total
2004/05	212 335	185 787	398 121
2005/06	288 203	128 679	416 882
2006/07	352 615	171 533	524 149
2007/08	307 448	243 293	550 741

3.2.3. Semi-milled and milled rice

Imports of semi-milled and milled rice gradually increased until 2007/08, when there was an abrupt 50% increase (+150,000 t) on the previous year. As a result, in March 2008 the duty was increased to 175 €/t from 145 €/t, which had been its level since the agreement came into force in September 2005⁹.

Table 4: Imports of milled and semi-milled rice - licences issued (in tonnes)

Marketing year	1 st half-year	2 nd half-year	Total
2004/05	94 228	99 909	194 137
2005/06	123 923	122 081	246 005
2006/07	140 766	142 891	283 657
2007/08	203 597	227 842	431 438

3.2.4. Broken rice

Imports of broken rice increased from 185 000 t in 2005/06 to a stable 240 000 t in 2006/07 and 2007/08¹⁰. Due to the high quality of EU-produced rice, there is a large deficit in broken rice on the EU market. In addition, a substantial share of broken rice imports (more than 55% on average) is made at reduced or zero duty under preferential agreements and TRQs.

Table 5: Imports of broken rice - licences issued (in tonnes)

Marketing year	Total
2004/05	123 191
2005/06	185 701
2006/07	240 365
2007/08	236 320

3.2.5. Imports in small packages

Imports of milled and semi-milled rice in small packages fell by 7%, from 35 812 t to 33 275 t, between 2006/07 and 2007/08.

If import quantities of less than 500 t a year are disregarded, only Pakistan's imports in small packages increased by more than 25%. From 2006/07 to 2007/08 they saw a 62% increase, from 3 915 t to 6 326 t. This is in line with the 58% increase of total imports of milled and semi-milled rice from Pakistan in the same period: from 26 235 t in 2006/07 to 41 378 t in 2007/08.

⁹ In 2008/09 rice imports generally slowed down and the duty for milled rice was again fixed at the lower level of 145 €/t as from March 2009.

¹⁰ In 2008/09 the pace of imports has so far been 33% above the rate in previous years.

3.3. The EU rice market

3.3.1. Production

From 2004/05 to 2007/08 EU rice areas were relatively stable at between 413 000 ha and 428 000 ha. Some switch from indica to japonica was seen, due to a combination of structural and short-term considerations. Indica areas saw a temporary reduction when some were badly affected by adverse weather conditions¹¹.

In 2004/05 EU-25 production in milled equivalent reached a record 1.68 mio tonnes, dropping back to 1.54 mio t in 2005/06, 1.59 mio t in 2006/07. Already at EU-27, production reached 1.68 mio t in 2007/08.

Over the period 2004/05 to 2007/08 EU's indica rice production fell by 178 000 t in milled equivalent. This shortfall in the EU supply was compensated by indica imports. During the same period, japonica production increased by a similar amount, partially due to the contribution of the two new Member States.

Intervention stocks of paddy rice, which stood at 600 000 tonnes at the beginning of 2004/05, had been totally disposed of by 2007/08.

3.3.2. Consumption

Before the last enlargement, the EU-25 consumed between 2.3 and 2.4 mio tonnes of rice (in milled equivalent) each year. The accession of Bulgaria and Romania brought an increase of 100-120 000 t. EU-27 consumption is now around 2.5 mio tonnes per year, on average.

3.3.3. Quantities processed

Quantities processed by the European industry can be calculated as the sum of EU paddy rice production and net trade of paddy and husked rice, adjusted by the evolution of stocks, all expressed in milled equivalent.

The quantities processed have remained within a range of 2.22 to 2.34 million tonnes and depend mostly on rice produced in the EU.

This suggests that the industry has maintained its level and has not been adversely affected by the different MFN and preferential trade agreements. In particular, the substantial increase in milled and semi-milled rice imports in 2007/08 appears to have had no negative impact on the industry.

3.4. Market prices

3.4.1. World prices

While the price of Thai 100% B, considered as the benchmark world price for indica rice, had evolved within a range of 250 \$/t to 350 \$/t since 2004, in November 2007 it started an upward trend that peaked at 1050 \$/t in May 2008.

¹¹ In 2008/09 indica areas increased by 20%.

It should be noted that only some 6% to 8% of world rice production is traded internationally. For this reason world prices over-react to even small changes in the market balance and policy decisions. Besides the influence of soaring prices for other commodities, an increased demand due to the determination of some Asian countries to keep larger stocks of rice, coupled with the restrictive export measures taken by some of the major exporters (Vietnam, India,...) in order to avoid food price inflation, was enough to provoke a price escalation. After peaking in May 2008, Thai 100% B prices gradually fell, but they have not yet fallen much below 500 \$/t. For other origins, like Vietnam, prices are back at their pre-increase levels.

Japonica rice saw a similar increase in the same period. However, due to the recent absence from the market of some important players (export ban in Egypt, drought in Australia) Californian japonica quotations have remained at very high levels, around 1 150 \$/t.

3.4.2. EU prices

Since the 2003 reform, EU paddy rice prices have been well above the intervention price (which is set at 150 €/t) and have, globally, followed an upward trend. During the 2004/05 marketing year, prices were relatively stable within a range of 160 €/t to 240 €/t, depending on origin and type of rice. However, in subsequent years some dramatic increases were seen.

In 2006, average Italian japonica prices jumped to 293 €/t, mainly due to the combination of lower japonica production and increased EU demand following the 2004 enlargement. Italian indica also rose to 235 €/t, while Spanish prices remained broadly the same as in the previous year.

In 2007, while Italian prices saw substantial variations, Spanish prices increased throughout the year, especially for indica, for which prices increased to 240 €/t, mainly due to adverse conditions in Andalusia, a major indica producer.

The biggest jump in EU paddy prices was, however, seen in 2008, in a context of sky-rocketing world rice prices. In May 2008 Italian indica and japonica reached 480 €/t, i.e. more than 3 times the intervention price¹².

In other producing Member States (Greece, France and Portugal) although not reaching the same heights, paddy prices have consistently been well above the intervention price since 2004/05. No quantities have been bought by the intervention agencies since 2004.

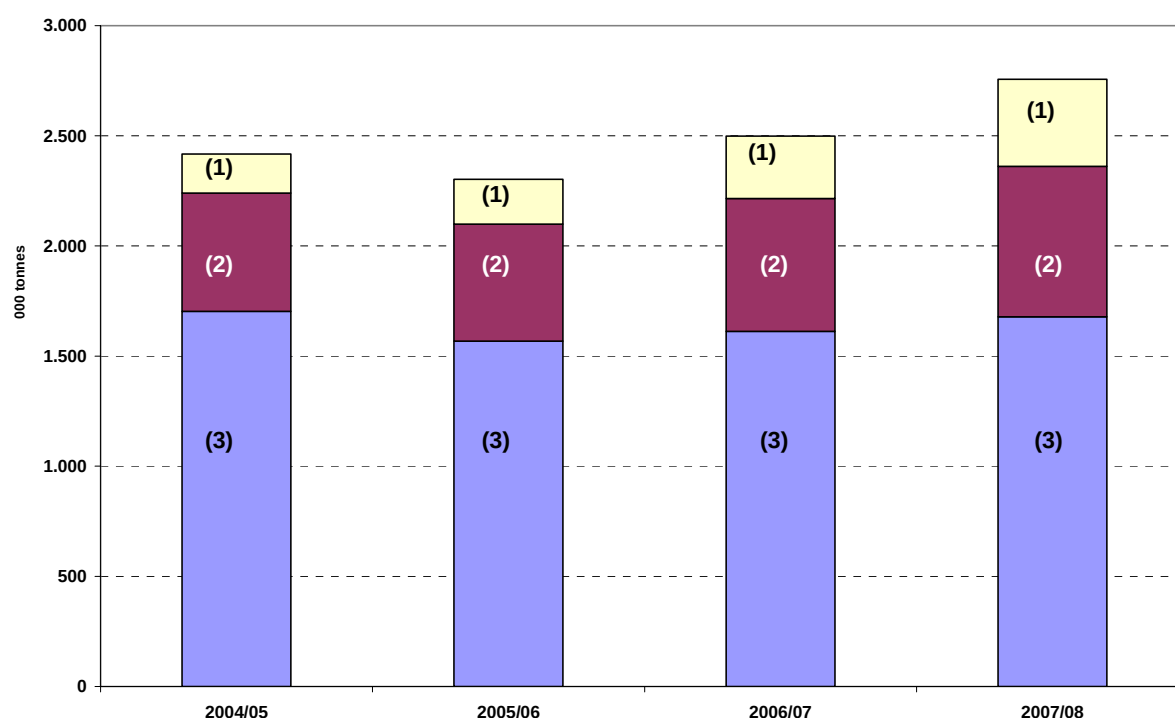
3.5. The EU rice supply

While, overall, EU production of rice has remained stable since 2004/05, in relative terms imports have gained in importance. The increase in milled and semi-milled rice imports is higher (from 177 000 t in 2004/05 to 394 000 t in 2007/08) than for unprocessed rice (from 537 000 t to 683 000 t in the same period).

Total imports of rice, in milled equivalent, increased from 715 000 t in 2004/05 to 1 077 000 t in 2007/08. This was partly due to the enlargement of the EU to Bulgaria and Romania.

¹² Since the start of the 2008/09 marketing year, all paddy prices in Italy and Spain have been steadily above 300 €/t, and in some cases have reached more than 500 €/t.

Table 6: Breakdown of EU-27 rice supply (in 000 tonnes of milled equivalent)



- (1) Milled and semi-milled rice imports
- (2) Paddy and husked rice imports
- (3) EU production

4. CONCLUDING REMARKS

In general terms, the agreements concluded have fulfilled their purpose, in as much as the protection of the EU market has increased when imports have grown and *vice versa*.

Since 2004, variations in EU rice production have been related to climatic conditions and producer choices rather than to import flows. Imports have increased to respond to increased EU consumption.

Quantities processed by the EU rice industry have remained stable. During the period under review, the agreements have had no adverse effect on the EU rice milling industry.

However, in 2008 world rice prices – along with other grain prices - reached unprecedented peaks, which were reflected in prices on the EU internal market.