The rice Association

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26 February 2003

Rice Association Commentary on the European Commission's Legislative Proposals for Reform of the CAP under Agenda 2000

The Rice Association (RA) represents the interests of companies engaged in importing, milling, packing, processing and marketing of rice in the UK. More significantly, it represents some 80% of the basmati rice imported in the UK. We promote the industry's views and work to improve understanding of its operational requirements in responding to Parliamentary, Government, EU and international consultations and through liaison with other parties.

The RA welcomes the Commission's legislative proposals for Mid-Term Review of the CAP under Agenda 2000 as an overall positive step in the right direction towards a more market-oriented CAP, encouraging a more efficient and viable supply base for both domestic EU rice production and the UK rice industry. We are encouraged to see that much of the detail of the discussion document published by the Commission last July has been retained. These proposals are also likely to strengthen the EU negotiating position at the WTO in relation to the Doha Development Round. In addition, the RA remains supportive of the Commission's approach to reform of the Common Organisation of the Market in rice, as the proposed reform will assist the EU rice industry in preparing for the full implementation of the Everything But Arms (EBA) agreement in 2009. However, the RA is strongly opposed to the Commission's proposals concerning changes to EU market access conditions for rice, which are a genuine cause for concern for both the UK rice industry and its traditional overseas suppliers, as well as for other EU member states.

The following views should be considered in conjunction with the RA's commentary (produced in September 2002) on the Commission's Mid-Term Review proposals under Agenda 2000 published in July 2002.

Domestic Support

- The RA continues to share the Commission's view that to stabilise rice markets in the longer term, in particular as a result of implementation of EBA, a significant reduction in the intervention price will be required in order to bring EU prices in line with world prices;
- The RA supports the proposed 50% cut in the intervention price to a basic level of €150/t from 2004/5;
- We continue to welcome the introduction of a private storage scheme to be triggered if the market price falls below the basic price of
  establishment of safety net intervention;

- The RA continues to support the principle of cross compliance: that direct payments are conditional on compliance with 38 statutory European acts at farm level covering environmental, animal welfare and food safety standards. Also support partial or entire reduction of direct payments for breaches of cross compliance.

Import Duties

- The RA has expressed its opposition to the Commission's proposals concerning changes to the EU's market access conditions for rice;
- Although the Council refused, in July 2002, to grant the Commission a remit to renegotiate EU market access for rice, we believe the Commission may again seek such a mandate. The Commission's stated aim for these negotiations is the establishment of a combination of tariff quotas and fixed duties. The RA would be strongly opposed to this and urges the UK Government to use every endeavour to ensure that EU rice imports continue to enjoy market access free of any quantitative restrictions. Experience has shown that market access afforded by tariff quotas limits the potential for growth, leads to market distortion and leads to major administrative problems that further reduce their value (to illustrate this point one only has to look at the new system for medium and low quality wheat under which there was massive oversubscription for the first tranche of the quota in January 2003);
- The justifications contained in the Commission's Recommendation of July 2002 simply do not apply to the rice market where, on the contrary, representative world market quotations continue to be available and we can find no evidence of recent market developments that have given rise to problems in the operational implementation of the system. Hence we find nothing to support the Commission's assertion that the very effectiveness of the regime has been undermined;
- The RA believes the current import duty calculation system for rice works in a fair, open and transparent manner and to the satisfaction of our principal international/ WTO trade partners (US, India and Pakistan), who are opposed to the Commission's proposals to reform the EU import regime for rice, not least because they have not sought to challenge the current system. The EU would therefore most likely have to pay a high political price for possible agreement of trading partners to the proposed change in EU market access conditions for rice. The EU's recent experience in relation to wheat suggests that any such negotiations are likely to be protracted and are unlikely to deliver any real benefit to the EU rice industry;
- We would strongly question the Commission's rationale for change, particularly when the EU import system for rice has not been challenged, and especially when the likely outcome of the Commission's proposal would be to make EU rice less competitive. The old adage, 'if it ain't broke, don't fix it' runs true in this case. The problems that exist in the EU rice market are well known, have been there for a number of years and need to be resolved by reforming the internal rice regime as part of the Mid Term Review not by renegotiating the import regime with our trading partners;
- The margin of preference (or link between internal support and import tariffs) was established to ensure that any reduction in internal support would result in a proportionate reduction in import tariffs. That is the purpose of Headnote 7;
- The level of the intervention price (or internal support) has a double significance because of the link between internal support and import tariff levels agreed by the EU at the Uruguay Round;

- A 50% cut would take import duties to lower levels and crucially narrow the Brown/White rice differential (which is variable depending on prevailing prices at the time of calculation);

	Current (€ 298)	*50% at Feb 03 prices**
Brown	€ 264	€56.44
White	€ 416	€171.06
Differential	**€ 152**	**€114.62**

*based on €/$ exchange rate on 24/02/03 (1.0721)

- Ordinarily, we would not want to see this differential removed, but given the inevitability of increased market access to rice of LDC origin from 2007-9, a brown rice import tariff at or close to zero will be necessary for rice milling to continue within the UK beyond then. Notwithstanding the outcome of the Doha development round, a brown rice import tariff close to zero is achievable when prices rise from their current historically low level.

Everything But Arms (EBA)

- Given the high level of domestic support traditionally afforded to rice the "Everything But Arms" initiative means that in a relatively short period of time there are likely to be significant changes in trading patterns for EU rice;
- While countries subject to margin of preference duties would benefit from lower import duties in the immediate short term, they will be at a disadvantage when unlimited quantities of LDC duty-free milled rice enters the Community from 2009.

EU Enlargement

- Enlargement will expand the agricultural area of the EU by 50% and double the agricultural labour force: extension of the CAP on such a scale would be incompatible with the CAP budget set by the Berlin Agreement of 1999;
- The Rice Association continues to find it surprising that the impact of EU enlargement appears to have been overlooked in the Mid-Term Review. It is important that the Commission's draft regulation factors this in. In this regard, it will be important for the Commission to have accurate trade data on non-EU rice imports to the acceding countries. According to FAO statistics, third country rice imports to acceding states amount to approximately 400,000 tonnes p.a. milled equivalent;
- We would be opposed to possible compensation through TRQs to third country suppliers to the acceding countries, as has happened under previous enlargements of the EU.

Farm Advisory System

- We welcome the introduction of a farm advisory system for all farms receiving more than €15,000 in aid payments or having an annual turnover greater than €100,000, which will be mandatory as part of cross compliance requirements. However, we note that the revised advisory system will apply to only around 7% of EU farms as opposed to 30% under the initial farm audit system.

Conclusion

Duty free rice from EBA countries will force EU indica rice prices to world levels without the support provided by high intervention prices. The cut in the intervention price will link EU producers directly with market prices. As EU prices move downward to world levels, the incentives for EBA rice to be exported to the EU will diminish. However, as long as husked rice from competing suppliers is subject to duties, EBA countries will have a competitive advantage in the EU market.

The Rice Association supports the broad thrust of the draft regulation on reform of the Common Organisation of the Market in rice on condition that the import duty calculation method remains intact and facilitates a reduction in import duties in line with the proposed cut in the intervention support price.