The rice market in the EEC

Yap C.L.

in

Chataigner J. (ed.).
Economie du riz dans le Bassin Méditerranéen

Montpellier : CIHEAM
Cahiers Options Méditerranéennes; n. 15(2)

1996
pages 13-18

The rice market in the EEC*

Chang Ling Yap
Commodities and Trade Division, FAO, Rome (Italy)

* This paper was presented to the Intergovernmental group on rice at its 37th session in Bangkok, 28 November–2 December 1994.

I – Introduction

Normally, the FAO Secretariat prepares a short feature on specific market aspects of interest to the Group to supplement its review of the world rice market situation. In line with this approach, the following note has been prepared in response to the interest shown by other countries in the EEC market. In undertaking this review, the FAO Secretariat would like to express its appreciation of the support given by the EEC and its Member States.

II – Consumption

Rice is not a major staple food in the EEC. However, its consumption has been rising steadily at about 4 percent par annum since the mid-80s, reaching 1.5 million tons (milled equivalent) in 1993/94 (*Table 1*).

Table 1. EEC: Rice consumption (milled equivalent /,000 tons)

	Total rice	Indica rice
1985/86	1 130.5	
1986/87	1 127.6	
1987/88	1 128.9	
1988/89	1 349.1	420.3
1989/90	1 317.8	425.3
1990/91	1 405.5	448.7
1991/92	1 497.3	534.6
1992/93	1 481.0	584.2
1993/94	1 515.8	596.2

Source: *Marchés Rizicoles Hebdo.*

Traditional important producers of rice in the EEC, such as Italy and Spain, consume mainly Japonica rice, but in recent years there has been a substantial increase in demand for Indica varieties by other EEC countries. Growing at an annual rate of 7 percent, the demand for Indica rice, at around 600,000 tons in 1993/94, now constitutes nearly 40 percent of the EEC's total demand for this cereal.

Within the EEC, the biggest consumers of Indica rice are the United Kingdom (207,000 tons), France (144,000 tons) and Germany (118,000 tons), followed by The Netherlands, Portugal, Italy, Belgium and Luxembourg, Greece, Spain, Denmark and Ireland (*Table 2*)[1].

Table 2. EEC. Indica and Japonica rice consumption 1993/94 (milled)

Country	Indica Consumption		Japonica Consumption	
	Total (tons)	Per caput (kg)	Total (tons)	Per caput (kg)
United Kingdom	207 000	3.7	40 000	2.7
France	144 000	2.4	124 000	2.0
Germany	118 000	1.5	62 000	0.8
Portugal	29 000	2.9	116 000	11.6
The Netherlands	29 000	2.0	6 000	0.4
Italy	20 000	0.3	300 000	5.0
Belgium/Luxembourg	15 000	1.4	3 000	0.3
Greece	11 000	1.1	41 000	4.1
Spain	10 000	0.3	215 000	6.1
Denmark	7 000	1.2	11 000	1.9
Ireland	4 000	1.1	1 000	0.3
EEC	594 000	1.7	919 000	0.7

Source : *Marchés Rizicoles Hebdo.*

More rice is consumed in these countries because food habits among the populace have broadened. A larger immigrant population, which has rice as a staple food, has also added to the demand for Indica varieties, besides having a major influence on the dietary preference of the indigenous population.

III – Production

At present, the EEC is a surplus producer of Japonica rice, but does not produce sufficient quantities of Indica rice to meet its needs. For this reason, substantial efforts have been made to promote the output of the latter by, for example, extending production subsidies for its planting[2]. In 1987/88, when the production subsidy was first introduced, the amount extended was as high as 330 ECU per hectare, but over the years, the subsidy has been gradually reduced. In 1994/95, this system of support was terminated *(Table 3)*.

Table 3. Production of paddy in the EEC (,000 tons)

Years	Total	Japonica	Indica	Indica production subsidy/ha ECU
1988/89	1 981.8	1 834.8	147.0	330
1989/90	1 983.3	1 901.9	81.4	330
1990/91	2 392.7	2 157.3	235.4	300
1991/92	2 291.0	1 830.8	460.2	250
1992/93	2 172.7	1 722.8	449.9	200
1993/94	1 978.1	1 708.3	269.8	200
1994/95*	2 242.4	1 872.2	370.2	-

* Preliminary estimate.

Responding to demand and the availability of the production subsidy, farmers, especially in Spain and in Italy, shifted to the production of Indica varieties. Output of this type of rice in the EEC peaked in 1991/92 at 460,200 tons of paddy. There are 13 varieties of Indica (Artiglio, Bluebelle E, Dedalo, Graldo, Icaro, Idra, Lemont, Mida, Pegaso, Portal, Rea, Star and Thaibonnet or L202) in the EEC, but 95 percent of the Indica rice grown is Thaibonnet. Average yields per hectare are about 6.2 tons, almost three times that in Thailand.

Table 4. EEC's classification for rice

		Long grain B Indica (mm)	Long grain A	Japonica Medium grain (mm)	Round grain
Brown rice	Length	> 6.0	> 6.0	< 6.0	< 5.2
	Length/width	> 3.0	< 3.0	< 3.0	< 2.0

Since its peak in 1991/92, however, output of Indica has fallen. The decline, caused largely by drought in southern Spain, until then the main producer of Indica rice, has encouraged Italy to expand production. While in 1988/89 Spain provided 85 percent of the total output of Indica in the EEC, by 1993/94 it accounted for only 8 percent of the total and was overtaken by Italy. Other emerging producers include Greece and France. But despite the rise in Italy's production, output of Indica in 1993/94 was only 269,800 tons of paddy, well below the quantities required by the EEC (*Table 5*).

Table 5. Estimated Rice surplus/Deficit in EEC countries 1992/93 (,000 tons)

	Indica	Japonica
Spain	92.8	- 10.9
Greece	6.1	- 3.9
France	- 127.1	- 49.7
Italy	82.3	396.1
Portugal	- 16.7	- 77.9
Denmark	- 6.8	- 10.6
Germany	- 118.0	- 80.0
Ireland	- 4.0	- 1.0
Netherlands	- 29.4	- 6.0
Belgium / Luxembourg	- 11.0	- 4.0
UK	- 207.0	- 45.0

IV – Indica rice imports

As a result of the early stimulus to Indica production, intra-EEC trade of this variety of rice expanded, while imports of Indica rice from outside of the EEC declined. Between 1989/90 and 1991/92, the EEC's imports of Indica rice fell by 25 percent and some marginal quantities were also exported by the EEC to third countries *(Table 6*).

Table 6. EEC's intra and extra trade in Indica rice (,000 tons)

	Extra EEC		Intra EEC	
	Import	Export	Import	Export
1988/89	305.1	-	303.9	265.6
1989/90	337.4	4.3	345.9	302.3
1990/91	277.4	-	387.8	349.2
1991/92	255.4	4.0	390.8	347.6
1992/93	241.3	-	451.6	412.9
1993/94	388.0	-	449.1	400.8
Annual rate of growth	4.9 %	-	8.1 %	8.6 %

In 1993/94, larger quantities of Indica varieties again had to be imported to meet rising demand in the EEC. Indica rice imports now account for nearly 90 percent of the total amount of rice brought into the EEC. In the short and medium term, the EEC will remain a substantial and, possibly, expanding market for Indica varieties from third countries, unless an exceptional recovery occurs in Spain's production.[3]

Very little milled rice is imported into the EEC. Most of its imports are husked rice (also known as brown or cargo rice). The existence of large mills and sophisticated milling technology within the EEC is one of the reasons that have favoured the import of husked rice. It has given rise to a situation where the import levy to be paid on husked rice is on average about 40 percent lower than that paid on milled rice imports *(Table 7*).

Table 7. Import levies on husked and milled rice and total imports

	Husked rice (ECU/ton)	Milled rice (ECU/ton)	Total imports Milled equivalent (,000 tons)
1982	179.3	387.2	739.3
1983	206.1	440.6	760.0
1984	226.0	474.3	724.0
1985	319.6	578.1	942.0
1986	418.2	645.0	605.0
1987	435.6	686.6	561.1
1988	363.8	629.1	538.7
1989	348.2	589.9	625.5
1990	389.6	645.3	541.7
1991	360.7	614.7	510.0
1992	392.4	642.1	527.7
1993	400.9	645.7	493.1
1994* Jan/July	346.3	597.1	...

* Preliminary.

V – Implications of the Uruguay Round

With the agreement reached at the Uruguay Round of Multilateral Trade Negotiations, import levies will be replaced by import duties with the base rate for husked rice set at 413 ECU per ton in 1995, to be reduced to 264 ECU per ton by 2000, while the equivalent duty on milled rice set at 650 ECU per ton by 1995 falling to 416 ECU per ton in 2000. More significantly, the duty paid import price for long grain Indica rice will not exceed the effective intervention price by 80 percent; for Japonica rice, the ceiling set is 88 percent above the effective intervention price *(Fig. 1* and *Table 8*).

These ceilings—still subject to ratification—imply a possibly bigger reduction in the duty to be paid than the bound rate and could favour the imports of higher qualities and higher priced rice into the EEC. Under the previous import levy system, the levy on imported rice was calculated as the difference between the threshold price and the lowest cif price currently available at a Community port. Under the GATT agreement, the import levy system and the mode for its calculation will be replaced by a fixed import duty, which cannot exceed a ceiling. For those types of rice, e.g. Basmati, whose price would most likely exceed that of the ceiling, no import duty would be applied. This change would imply that the present large price differential between high priced quality rice, such as Indian Basmati, and relatively lower priced quality rice, such as Thai 100B, could be reduced under the GATT commitment[4] (*Figure 2*).

Moreover, no distinction is made to the duties to be applied on rice entering the EEC in bulk, containers or packages.

Figure 1. From import levies to import duties

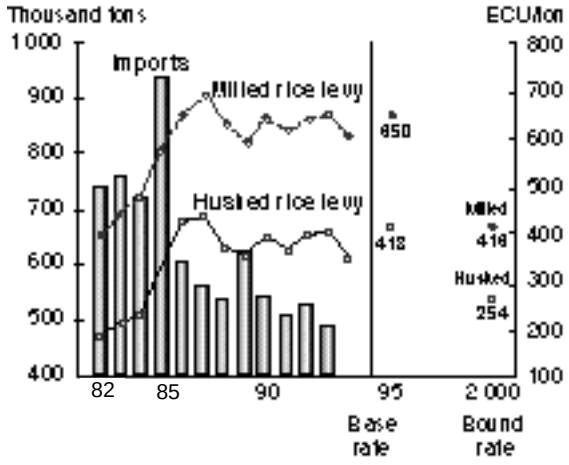


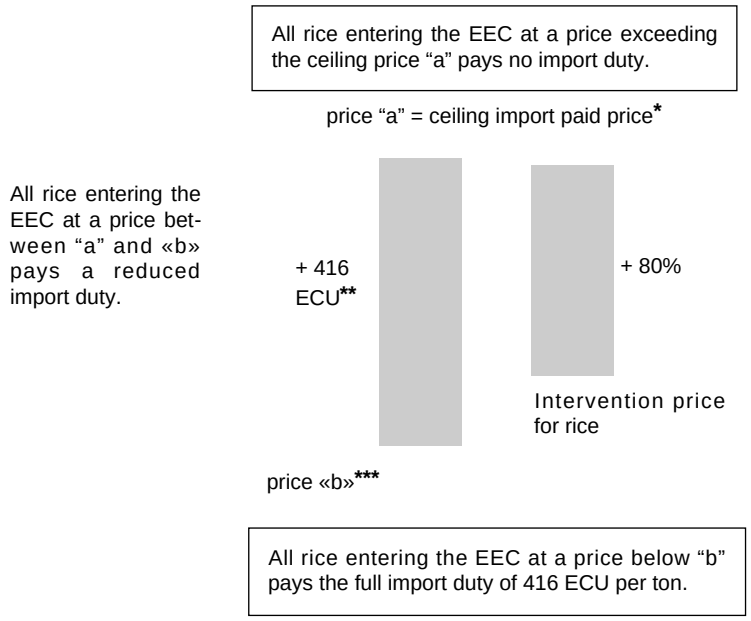
Table 8. EEC's Import duties under the GATT Agreement*

	Base rate of duty** 1995	Bound rate of duty** 2000
Rice in the husk (paddy)		
- for sowing	12 %	7%
- others	330 ECU/ton	211 ECU/ton
Husked rice	413 ECU/ton	264 ECU/ton
Semi-milled or wholly milled whether or not polished or glazed	650 ECU/ton	416 ECU/ton
Broken rice	200 ECU/ton	128 ECU/ton

* The "import duty paid price of rice" should not exceed 80% of the intervention price in the case of Indica and 88% for Japonica.
** These are expressed in financial ECU.
Note: These schedules are tentative and subject to ratification.

This, together with the ceiling duty, would encourage processing and packaging in exporting countries as the higher costs so incurred could be off-set by a lower duty. This would be a reversal of previous trends in the EEC and could have serious implications for the milling industry in the EEC.

Figure 2. Possible implications of the GATT Agreement for EEC's rice imports



* Ceiling import duty paid price will be 80 percent above the intervention for rice.
** This is the flat import duty per ton by year 2000.
*** Derived by deducting 416 ECU from ceiling price “a”.

VI – Current suppliers to the EEC market

In 1993, total imports of rice into the EEC from third countries amounted to 493,000 tons. Major suppliers to the EEC in 1993 were the United States (40%), Thailand (20%), Suriname and Guyana (40%)[5]. The large exports from Suriname and Guyana benefit from the 50 percent reduction in import duty applied to rice from ACP (Africa, Carribean and Pacific) countries associated with the EEC[6]. Other suppliers include Australia (6%), Egypt (2%), India (6%) and Pakistan (1%) (*Table 9*). The latter two provide mainly aromatic Basmati rice, almost all of which goes to the United Kingdom. In 1993, 44,600 tons of Basmati rice were shipped into the EEC from these two countries, and of this 9,800 tons were from Pakistan and 34,400 tons from India[7]. Under EEC regulations, about 10,000 tons of husked Basmati rice are allowed to be imported at a 25 percent reduced rate of duty.

Table 9. EEC's gross imports by origin in 1993 (,000 tons)

India	32.7
Pakistan	6.8
Thailand	96.8
Egypt	10.3
USA	198.1
Neth. Antilles	67.5
Guyana	24.0
Suriname	12.8
Australia	30.0
Unspecified	14.1
World	493.1

VII – Future prospects

The pattern and level of trade described above is likely to change in the future. In particular, the reduction in import duties could encourage an expansion in imports above the 1993 level[8]. The probable enlargment of the EEC to include Austria, Sweden, Finland and Norway, where all the rice consumed has to be imported, could also contribute to larger trade. In 1991–93, annual imports of rice into these four countries averaged 140,000 tons. In addition, there could be a shift in the position of major suppliers to the EEC, although this would depend upon the preferential treatment given to ACP countries in future. No decisions have as yet been taken under the GATT commitment.

While prospects for expanding exports into the EEC's market exist, quality, processing and packaging (presentation) of the rice will be influential in determining access to this market. Italy gives importance to taste; in France the appearance of the rice is a crucial factor; and in the Netherlands and Germany, speed and ease of cooking are given priority. The entry into these markets, therefore, will depend upon exporters' ability to meet the very specific demand of EEC countries. There is, therefore, potential for new trading arrangements and partnership between developing exporting countries and the EEC.

Notes

1. These are provisional estimates of milled rice utilization for 1993/94 marketing year.
2. Long grain rice in the EEC is divided into two types: Long grain A and long grain B. Only long grain B is Indica rice and qualifies for the production subsidy. To qualify for the Indica production subsidy, the vitrosity of the grain is to be > 60% and the amylose content is to be > 21% [see J. Faure & J. Mazaud: Rice Quality Criteria and the European Market, IRC: 94/7-1 (B)].
3. To achieve self-sufficiency in Indica rice, assuming normal yields, the area cultivated under Indica would have to expand by 4 times the drought reduced level of 1993/94 and 2.5 times that of 1992/93. Such an expansion, while not an impossibility, would require at least half the total area under rice cultivation to be devoted to Indica rice.
4. A more detailed analysis will only be possible after a full clarification of all the different variables with respect to the ceiling set on duty-paid import prices. It is to be noted that debates on the implications and interpretations of the ceiling ruling are still on-going.
5. A substantial proportion of the rice exported from Guyana and Suriname to the EEC is routed through Curaçao, Netherland Antilles, where no import duty is normally applied. In early 1993, howerver, a high minimum import price of 550 ECUs per ton was temporarily imposed on semi-milled rice entering Curaçao from these two countries.
6. ACP countries can export annually to the EEC up to 120,000 tons of long grain rice and 17,000 tons broken rice at a reduced levy of 50% of the levy applied to other third countries.
7. The reported total quantity of rice exports from India and Pakistan to the EEC will differ from the total quantities of rice imports of the EEC from these two origins because of the time lag in the arrival of shipments.
8. The trend in the past 12 years indicates a highly significant inverse relationship between the level of imports and the import levy applied. Based on 1982/93 data, a decline in the levy was associated with an increase in imports.