

# The EU's mid-term rice review: options for reform

by

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## Abstract

The Commission's proposal issued in 2000 to reform the rice regime includes abolishment of the rice intervention regime, introduction of a flat tariff, and to subsume rice under the cereal regime with set-asides and area compensation scheme, while respecting the trade preferences for ACP countries and minimum access for WTO members. South Asian rice exporters would be the first affected by this plan, and this triggered strong resistance in the Council, because the plan did not envisage any compensation for them. This note reviews the need and scope for reform. The basic problem is that Europe produces rice in two varieties, two-thirds is Japonica, and one third Indica. However, European consumers are reluctant to consume Japonica, an increasing fraction of which therefore ends up in stocks, from where it is disposed of as animal feed, since the prevailing WTO commitments limit exports. Moreover, Basmati, the most preferred type is not produced at all. Under the given climatic conditions it is difficult to increase the share of Indica significantly. And despite all this, Spain has been expanding its rice cultivation, partly on newly irrigated land, whose development was financed from European regional funds. So far, the EU has attempted to control this by paying a lower price for the surpluses, but output growth could not be curbed. Against this background, the note suggests that the emphasis placed on the compensation for rice exporting countries hides the more important issue of how to control output and how much to compensate EU rice farmers, mainly in Italy and Spain, whose income would suffer greatly under the Commission's proposals. We discuss possibilities to make the proposal more effective and acceptable. First, to account for the exporter's interests, Basmati rice could be treated as a tropical product, with duty-free access to the EU. Second, we submit that on irrigated land with subsidized infrastructure, price controls are not an effective instrument, and that irrigation quota are more likely to be an effective instrument. Finally, we indicate that with a system of quota it would be possible to make the rice regime fully self-financing, as it is for sugar, by means of an excise tax on rice, if the budgetary resources for compensation are unavailable. Clearly, all this maintains protection, but one can hardly expect a deep CAP-reform to start on the rice market.

## 1. Introduction

The CAP governs the rice market as it does the markets for other grains. Through import protection, it keeps internal prices well above the world market level, by means of export subsidies and stock purchases, to absorb internal surpluses. The reforms initiated in the nineties implied a tightening of this policy regime. Support prices were lowered, subsidized exports were capped and accumulation of intervention stocks was prevented. Rice was no exception, sales to the stock agency are only possible during four months in a year, the price support has been lowered by 20 percent over the past five years and is now nominally fixed, and limits were imposed on subsidized exports. Yet, whereas for cereals, the new regime included compensation payments on an area basis, and a set-aside obligation, no such provisions were made for rice, essentially because European rice is produced on irrigated land that are ill-suited for other crops.

At present, the rice regime is not functioning well, as output keeps on expanding despite effective reduction in farm-gate prices, and stocks are accumulating. In 2000, the Commission issued a proposal to reform the rice regime, by subsuming rice under the cereal regime with set-

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asides and area compensation scheme, and imposing a flat tariff on imports while respecting the trade preferences for ACP countries and minimum access for WTO members. However, the Council did not adopt this proposal, because it would cause losses to South Asian rice exporters, that were not to be compensated under this plan.

Nonetheless, the operation of the rice regime is to be reconsidered under the mid-term review of Agenda 2000, to be undertaken in 2002/2003, and given the severity of the problems faced on this market, new reform plans will most likely be put forward in the near future.

While rice is a relatively insignificant product in European agriculture, with low per capita consumption and, most importantly, no scope for a significant use as feed, it obviously plays a key role in many developing countries. Hence, even though international trade in rice is relatively modest, the way in which the EU will shape its reform is of some importance for developing countries.

This note looks into the options for such a reform, and proceeds as follows. Section 2 provides a sketch of the rice market within the EU. We review the Commission's proposal (section 3), assess the scope for reform (section 4) and outline various options for its modification, with special reference to the impact on developing countries (section 5). Section 6 concludes.

The emphasis of the discussion is on conceptual aspects, and we only present a quantification for illustration. On the one hand, this is because the commodity models available are of highly aggregated nature and do not contain the institutional detail that would be needed for careful assessment of the rice market. For instance, there is no model that makes a distinction between Japonica and Indica, the two major types of rice. Indeed, since rice plays a central role in the developing countries, where it is under the control of elaborate and highly diverse policies, and a minor share of the production is traded internationally, it would be very difficult to construct an adequate model, and the commercial interests are limited. Yet, we mention some outcomes of a world commodity model that has been run for this note and refer to somewhat older studies that, fortunately, corroborate our conclusions. On the other hand, as the policy deadlock seems to be due to basic disagreement rather than to different views on the figures, it seems warranted to focus on qualitative aspects.

## **2. The rice market within the EU**

### *Production*

The rice production of the EU is mainly concentrated in the Mediterranean area. The distinction between Japonica and Indica, the two main varieties cultivated, is an essential cause of the structural imbalance between production and consumption in the EU. Table 1 shows the aggregate rice balance in the EU based on averaged and rounded figures, considered to be representative for the situation in the past three years:

Table 1 EU rice balance, kmt milled equivalent (1997-2001 av.)

Initial stocks	550
Production	1600
Imports	500
Exports	200

Consumption	1750
Closing stocks	700

Source: ASC

Table 1 already shows an imbalance at aggregate level, especially if one interprets the stocks accumulation as structural. The basic cause of the imbalance is that japonica rice contributes some 65 per cent of total production, and this share falls only slowly, while indica is the preferred type by most European consumers. Thus, while being a net importer, the EU is seen to be accumulating stocks, with a structural surplus of 150 kmt rice, being the average annual accumulation to the stocks, most of it japonica. By early 2002, stock levels totalled 606 kmt of paddy.

Italy and Spain are the two main producing member states, with 55 and 28 percent of total rice area, respectively. Traditionally, rice production depends heavily on natural conditions for irrigation as found in river valleys and delta's, but cultivation of high yielding varieties almost inevitably requires irrigation and drainage. In fact, the rice production in the EU, especially in Spain, has been stimulated not only by the regular price support of the orientation funds of the CAP (FEOGA), but also by the support of the agricultural structure funds, that promoted investments in irrigation. In addition, the regional funds finance infrastructural works in disadvantaged regions, and we observe that Spain has steadily increased its rice area, despite all surpluses. This is a continuation of the trend set in when Spain entered the EU, and could benefit from a larger market and higher prices for its agricultural products. Output also increased through substantial yield improvements, especially in France and Spain. Although areas in France, Greece and Portugal are stagnant and small, output has been on the rise since 1995, and has increased since then by approximately 25 per cent. However, while efforts are underway to raise the share of indica at the expense of the inferior japonica, progress in this sphere has been limited and hampered by the high latitude. The Po-valley is in fact one of the highest latitude areas of commercial rice production.

### *Internal prices*

The intervention price for paddy is the pillar of the market support system. During the late nineties, it has been lowered in a series of adjustments down to 298 euro/mt, which translates into 370 euro/mt for husked rice and 433 euro/mt for milled rice. Farm-gate prices for rice show only limited variation among producing countries, because the intervention price system sufficiently equalizes price at farm level (Table 2). Yet, per hectare gross revenue differs because of variation in yield. These are substantially higher in Greece (above 8 tons per hectare) than in France (close to 6 tons per ha), see Table 2. Net revenues differ even more strongly, due to cost variation. Figures from the SPEL data base (Eurostat, 2000) shown in Table 2, indicate that rice net revenues are exceptionally high in Greece, and higher than EU average in Italy. We note that these numbers are based on computational procedures rather than on direct empirical evidence but that they, nonetheless, confirm that the Po-valley has some comparative advantage in rice cultivation, where it reportedly dates back to as early as 1250. By contrast, net revenues are particularly low in Spain, the second largest producer. However, this may in part be explained by the fact that this is the only country where costs for irrigation water were deducted as costs in the net revenue calculation. Yet, it also reflects the country's heavy dependence on costly irrigation infrastructure.

Table 2 Characteristics of rice cultivation in the EU

	Greece	Spain	France	Italy	Portugal
Area, kha	20	114	19	220	23
Yield, mt/ha	8.5	7.5	6.0	5.6	6.2
Gross revenue per ton, €/mt	356	334	295	274	352
Net revenue per ha, euro/ha	2447	1220	1278	1711	1278

Source: Area and yield for 2000 are from ACS (2001) and revenues for 1997 from SPEL database (Eurostat, 2000). Note that "data" in the SPEL database are imputations derived from intermediate consumption data for the agricultural sector as a whole. Net revenues are gross revenues minus current costs of fertilizers, pesticides, water (Spain only), small tools and materials, per hectare.

Area payments are given as compensation to farmers for the fall in intervention prices, up to a reference area of 434 kha. Currently, farmers receive 53 euro/mt, to be multiplied by the regional yield. This is less than the compensation granted under the cereal regime, but so far, rice producers have no set-aside obligation.

Intervention stocks are only open 4 months a year. This hampers the effectiveness of the intervention price as a floor price, especially because the book value of rice deteriorates relatively quickly, and the actual price occasionally drops below this floor, by as much as 15 per cent (ASC, table 4.2.6.1).

### *Import tariffs and trade*

The EU imposes import tariffs that differ by degree of processing, but very little by rice variety. The MFN-tariff is 211 euro/mt for paddy, 264 euro/mt for husked and 416 euro/mt for milled rice. This structure implies for instance that the US mainly exports husked rice which is subsequently milled in the EU (ERS, 2000), and constitutes the only type of rice for which significant extra-EU exports occur. In addition, special safeguard provisions were included within the GATT schedules, so that under low world market prices the EU can raise the tariff to preserve Community preference.

Furthermore, the EU has been granted extensive and diversified preferential treatment that reflects heterogeneity of the EU external relations and the rice markets. Yet, there are basically three agreements. First, the ACP and overseas territories producers have a substantial tariff rebate on their exports, which are constrained to 125 and 24 kmt of brown rice and semi-milled rice, respectively. Second, under the WTO agreements for minimum access and the additional arrangement when the EU enlarged in 1995 there is a tariff rate quota of 60 kmt milled and 23 kmt brown rice in which several countries have a specific share (mainly allocated to US, Australia and Thailand). Third, India and Pakistan have a tariff rebate because the Basmati rice used to be around 250 euro/mt more expensive than brown rice. In practice, they can now enter the EU at zero rate, without ceiling. Other countries in principle pay the full tariff, but this tariff is capped in a special headnote for rice, which stipulates that the maximum tariff to be paid cannot exceed the intervention price plus an additional 80 per cent (88 per cent for japonica paddy). In practice this means the tariff for husked rice is 200 euro/mt.

It appears that a considerable part of rice imports is eligible for trade preferences (up to 40 per cent) and the average duty paid is about 15 per cent of the tariff fixed under the GATT schedule. Another large part of imports cover qualities such as fragrant and aromatic rice, and US

parboiled that do not compete with domestically produced rice and for which high tariffs are not prohibitive. However, for low quality rice, we may safely take Community Preference to be absolute, in that import tariffs are prohibitive, as the reported monthly cif-import price consistently exceeds the intervention price. Since 1995, the medium-grain import price ranges between 250 and 420 euro/mt, the long grain import price is usually (but not in 1997/8) higher and ranges between 260 and 380 euro/mt (ASC, 2001). By early 2001, the medium and long grain prices were at 250 and 320 euro/mt, respectively. This means that the intervention price system is effective in keeping the cif import price above the intervention price, definitely so for long grain. The unit values of rice of the ten major exporters to the EU confirm this finding, see Annex I.

### **3. The Commission's proposal**

The Commission has presented a remarkably radical proposal for reform of the rice sector, see CEC(2000). The intervention regime was to be abolished altogether, the area payments are raised to the level of the cereal compensation scheme, including the set-aside obligation, which is new. This could reduce cropped area, even though Spain might keep on producing outside its reference area. Stocks are held privately, and while preferential and minimum access conditions are maintained, a fixed and common tariff is introduced for all other exporters, at the end level as concluded within the current WTO agreement.

Paradoxically, this proposal would imply that the Community Preference is being raised rather than reduced, since the headnote on capping the tariff rate becomes meaningless once the intervention price has been abolished. The tariff on husked rice then becomes the 264 euro/mt agreed under the GATT. The Commission took precautions to offer compensation to farmers, albeit that it does not specify an estimated level of payments to cover the losses. More importantly, it ignored the compensation of losses of income abroad, in particular for Basmati producers, who would lose both their market share and their rent under the zero tariff once they must pay the full tariff. The Council did eventually not reach agreement on this proposal. Nonetheless, it seems surprising that the proposal stalled on such a relatively minor point as the compensation of Basmati producers.

In fact, it would presumably not have been too difficult to keep the original tariff rebate in place, with the justification that crops such as Basmati should not be regarded as a tropical good that should, like tea and coffee be permitted to enter without tariff. This is precisely because they are tropical and can, therefore, not be produced in Europe, and, therefore, do not compete with CAP crops. Moreover, Basmati is an easily recognizable and identifiable product with its own (10-digit HS) custom code, so that it would even be possible to introduce further labelling of special qualities. Indeed, the "recognition" of Basmati as a tropical product would further improve the coherence of the EU's import regime and also speed up and enhance the EBA initiative. Alternatively, one could have offered direct compensation to Basmati producers by capitalizing their losses and make an equivalent transfer.

In all, it may be warranted to suggest that the non-resolution of the genuine Basmati problem was taken as an excuse to delay further reform of the rice sector. As is usually the case in CAP-related matters, the key issue is farm income, specifically, on the one hand the change in income distribution a reform would bring about, within the member states concerned, and on the other, the budgetary costs of compensation measures to mitigate adverse effects. The Commission's proposal suggested to bring rice under the cereal regime. This would bring only limited additional benefits to rice producers, as the reference area remained unchanged, while compensation payments were raised, from 53 to 62 euro/mt. It is important to mention that this

includes a set aside obligation of 10 per cent, which might to some extent contain the growth in output, albeit that, as we have seen, Spain consistently produces outside its reference area.

In calculating the payments, regional cereal yields would be applicable, which are lower than actual rice yields. According to the Commission rice farmers would receive an additional 23 mln euro. If one ignores the set-aside obligation and area payments and assumes that current market prices are only 90 per cent of the intervention price and that rice farmers produce 2600 kmt paddy, the revenues from rice production are 700 mln euro. This implies that a mere 3 per cent drop in market prices would completely use up the additional compensation provided. Even with the Community preference in place, due to the fact the EU produces in fact a surplus of (japonica) rice, we may expect larger price falls than 3 per cent after abolishment of the intervention price. This gives ground to the suspicion that compensation of Basmati producers was not the real issue, and that at the proposed levels of compensation, strong opposition from Spain and Italy is to be expected. Furthermore, it would seem that the proposal lacked an effective instrument to limit production on irrigated land

As usual, the devil is in the details, and for developing countries' relations to the CAP usually on the import side. Generally, many of the Commission's proposals on CAP reform tend to present as market oriented reforms what actually is an internal harmonization and in this sense streamlining and strengthening of the CAP.

#### **4. Scope for reform**

It will not be easy to reform the market regime for rice under the CAP, as it appears that this leaves surprisingly little room to modify the items of the rice balance.

##### *Production*

The production side is locked in, primarily because the agro-ecological conditions on paddy land hamper transition to other crops, especially when the irrigation infrastructure is being subsidized. Moreover, the area payments fail to provide adequate incentives to contain area expansion. Whenever current cultivation exceeds the reference area of rice, the area payments are reduced, and the reduction can become especially steep when the gap increases. However, since this applies equally to every farmer, it offers little incentive to the individual farmer to reduce the own rice area, which prevents a fast return to levels below the reference area. The current situation in Spain illustrates this. The area payments have been reduced by a hefty 44 per cent, and yet this could not stop the rise in excess over the reference area (AgraFocus, 2002), illustrating the weakness of the stabilizer on budgetary outlays as an instrument to contain production. As mentioned above, the price is not the most effective instrument.

*Feed.* On the demand side, the major difference from other grains produced in Europe is that rice cannot compete with these in terms of yields, and proteins content and, therefore, lacks the natural and price elastic outlet as animal feed. There is a consistent disposal of rice from intervention stocks for feed use, but the quantities are limited, and only after strong depreciation in book value (at less than 25 per cent of the buying-in price). Hence, the financial consequences of this form of utilization are unattractive (Agrafocus, April 2002, p. 46).

*Consumer demand.* Demand by consumers has been expanding, due to changes in the demographic composition and ethnic background of the population, and to shifts in taste, as the culinary scene becomes increasingly international. However, it is highly price inelastic and

consumers are seen to shift to better qualities, not produced in Europe, and the ageing population and demand satiation keep total rice consumption fairly stagnant in the future. This will make it especially difficult to dispose of low-quality japonica rice. The scope for other uses is limited (although some rice is used for beer).

*Exports.* The EU might attempt to expand its rice exports. However, the subsidized exports are constrained by GATT commitments of 145 kmt (and value of 39.6 mln euro). Some 30 per cent of exports are now given as food aid. While the EU has imposed a budgetary ceiling on its total food aid shipments, there is no quantitative ceiling on rice exports as food aid. This offers some scope for expanding the share of rice in the food aid package. Yet, the Commission is well aware of the pitfalls of surplus disposal especially through its disturbing effects on local markets in recipient countries, as reflected in the official guideline, which is to buy food aid at local markets whenever feasible. In fact, as European rice is generally considered a somewhat inferior good by consumers in many developing countries, it has limited commercial value, and would qualify very well as a self-targeting device, for example in food-for-work programs as low quality food. Yet, the volume and composition of food aid is under control and discretionary power of DG-development and not part of the export policy of the CAP, and adjustments in this direction might trigger criticism that development instruments should not be used to preserve the CAP.

*Stocks.* Since tariffs and commitments under the WTO have, as of 2000, reached their end levels, a structural accumulation of rice stocks seems inevitable, disregarding bad harvests and other disruptions. At the same time, from a budgetary perspective, the problem is far from uncontrollable. The stock keeping costs (including depreciation and entry costs) are around 14 mln euro per 100 kmt, which is minor compared to the total costs of the cereals regime of 18,000 mln euro. More importantly, the accumulation of stocks and imbalances is unattractive for policy makers. It signals economic distortion, plenty amidst of hunger, witness past experience with cereals, wine and butter.

*Imports.* Import restrictions provide the essential and relatively constant protective wall for most of the CAP policies, including rice. In our interpretation, the drop in market prices by some 15 per cent in the second half of 1998, was mainly attributable to adjustments in the intervention regime and not to changes in tariffs. Future reductions in tariff rates will only affect the EU market prices of low quality significantly, once the Community preference (the margin) has been eliminated, and because of the lack of differentiation of tariffs on the import side, higher qualities will be affected much earlier. World market quotations for rice are a relevant benchmark: early 2002 the export price of US long grains is 210 \$/mt. Adding ocean freight rates from US gulf ports to Rotterdam this would amount to approximately 200 euro/mt. This suggests that EU prices could in principle fall by 30 per cent for the Community preference on imports to be abolished.

#### *Price effects of liberalization*

It may safely be assumed that abolishing the intervention regime causes internal EU prices to fall. The restrictions on sales for intervention have already, though occasionally, caused market prices to drop by more than 15 per cent below the official intervention price of 298 euro/mt. However, in view of the heterogeneity of product composition, and the specificity of supply on irrigated land, it is hard to assess how deep prices would fall if the intervention regime was abolished completely and import is liberalized.

The effects on world markets are even more uncertain. Upon our request, the WATSIM-group was kindly willing to run a rice reform through their model (Von Lampe, 1999). This model shows hardly any effect on world market prices, as the EU's gross import and export flows increased, with net trade basically staying the same. As mentioned in the introduction, the validity of available models is limited, since no distinction is made between indica and japonica rice, while trade preferences are treated in a highly stylized way as an equivalent tariff. Moreover, the structure of the model does not allow to do safe predictions for the internal EU level, since it follows the administratively set prices and cannot account for deviations from intervention prices. Yet, the outcomes from WATSIM agree with earlier findings of multilateral liberalization scenarios, e.g. using the model RUNS (Goldin and van der Mensbrugge, 1995) and the FAO commodity model (FAO, 1995).

## **5. Options for modification of the Commission's proposal**

We are now ready to consider options for modification of the proposal that take into account the interests of various groups foreign exporters, EU farmers, EU rice consumers, and the taxpayers, and would reduce the market distortion of the current regime. The basic assumptions are in line with official Commission policy: lowering intervention prices (in a gradual way), lowering Community preference in view of phasing out, and compensation for benefits forgone. We start by listing the interest of the parties concerned.

#### *Vested interests and claims for compensation*

The complexity of the rice regime has enabled various parties to extract specific rents that are put at risk under a reform. Their eligibility for compensation is always questionable, and the key component of the reform is to make defensible choice on these matters. Let us briefly review the compensation claims at stake for various actors.



*Basmati producers* are benefitting from a rent due to zero tariff of 49 mln euro: a rebate of 250 euro/mt and import volume of 195 kmt (see data in Annex 1 for 2000).

*ACP producers* receive preferential treatment by substantial reduction in tariffs up to 130 kmt of husked rice (to the amount of 17 mln euro).

*Producers in overseas territories* enjoy duty-free access of semi-milled rice which amounts to 10 mln euro. In addition, through the intervention price system which puts a price floor in EU rice market, these exporters also benefit from higher prices than what they earn on other destinations.

*EU farmers* benefit from the intervention price regime. By abolishing the price regime and liberalizing market access, market prices could fall by some 30 per cent, which represents a loss for European farmers of approximately 210 mln euro (based on a production volume of 2600 kmt paddy and current market prices at 90 per cent of the intervention price). For earlier reductions of the intervention price, the EU farmers receive compensation by means of area payments, which in 2001 amounted 132 mln euro (CEC, 2000, Annex II).

*EU consumers* suffer losses since a substantial share of total imports face high tariffs. These contributions are difficult to quantify precisely since the trade regime is diversified and in practice, EU consumers receive no compensation at any rate. A crude calculation shows, assuming that market prices could fall by 30 per cent, that under perfect price transmission, consumers would gain by 260 mln euro, if compositional differences in rice can be ignored.

*EU tax payers* approximately spend 165 mln euro on the rice regime in 2000, mainly because of area payments, stock keeping and export refunds. This is partly balanced by the tariff revenues of the EU rice regime of in total 85 mln euro (computed from CEC, 2000, Annex III).

#### *Elements of a reform plan*

A reform plan will have to take three elements into consideration: constraining rice production to stop further accumulation of stocks, compensating the rice producers within the EU, compensating rice exporters to the EU.

*Constraining output.* The Commission aims to constrain rice production by imposing a reference area and penalizing the area payments when farmers exceed the reference area. As mentioned earlier, this is an ineffective instrument for controlling rice output under irrigated conditions, especially as long as the EU's own structural funds are used for improving and maintaining the irrigation infrastructure. Stronger signals are needed. A gradual lowering of the intervention could be one of these, but irrigation quotas are likely to be more effective.

*Compensating rice farmers in the EU.* The common procedure for compensation is the introduction of area payments based on regional yields. In this way the Commission attempts to decouple compensation from production, aiming to reduce the allocative distortions within European agriculture. As noted, this is not an effective instrument for improving competition between a irrigated and rainfed agriculture. In fact, decoupled area payments are still best seen as producer subsidies, with the virtue that they do not specifically foster yield improvements, since they are based on past production yields as opposed to current production. But even in this respect the instrument is deficient, because for high yielding varieties, the yield related inputs

only constitute a minor share of production costs. Hence, the major role is as an instrument of compensation. If the EU granted full compensation for the maximum decline (of 30 per cent) of the intervention price, this would lead to additional area payments of 230 euro/ha, i.e. between 30 and 38 euro/mt (dependent on the regional yields which vary between 6 and 7.5 mt/ha). This would give rice farmers in Greece area payments that lie 50 per cent above those of cereal farmers (32 per cent higher in Italy). The costs to the EU budget rise by 99 mln euro, which is substantial but nonetheless the inevitable consequence of budgetarized support. And in the past the EU has often resorted to less than full compensation. In this connection, it may be observed that with its need for production quota, and its dependence on infrastructure, the irrigated paddy has much in common with the sugar sector, where the refineries are the lumpy off-farm element. Hence, in case the budgetary resources for this compensation cannot be found, the rice regime could be made self-financing, by means of an excise tax for rice, similar to the levy for sugar. The proceeds could be used to finance both the compensation for EU farmers and foreign exporters, but obviously, the EU consumer would pay the tag.

*Compensating foreign exporters.* The extent to which compensation should be paid for losses in preferential treatment and rebates is a matter of external policy. The deliberations on the earlier proposal within the Council have made it clear that the EU cannot come up with a liberalization proposal that raise the import tariffs without offering any compensation. In principle, the EU could offer to pay a capitalized rent on this new trade barrier, say for the ACP countries as part of the EDF. The interests of Basmati producers are presumably best served by accepting that Basmati rice is a tropical product like tea or coffee, and granting zero-duty access. Alternatively, capitalized compensation could be paid out, with limited budgetary implications. As indicated above, this would require some 50 mln euro for Basmati producers, and compensating ACP producers for a fall in intervention prices costs 4 mln euro for every 10 per cent price decline, under the current import quotas.

In all, a full compensation of EU farmers, Basmati and ACP producers along the lines of the proposal of the Commission would cost the EU budget at most 161 mln euro, which is considerably more than the 23 mln euro offered by the Commission (CEC 2000, Annex II). This calculation supposes based a further reduction of the intervention price of rice by 30 per cent, and neglects the impact on major rice exporters who are not ACP countries, such as Thailand and Uruguay. The Commission might modify its proposal by changing the tariff structure, but straightforward calculations show that the real issue remains how to compensate EU rice producers.

Table 3 Potential losses of stakeholders due to abolishing the rice intervention regime, mln euro

Border protection	Unchanged	Flat tariff	Zero tariff
Basmati producers	0	49	0
ACP countries	6	6	3
EU rice producers	116	116	283

Note:

Unchanged border protection consists of the most-favoured-nation (MFN) tariff with its exemptions: the tariff-rate quotas (TRQ) and Preferential Treatment for developing countries (PT), including the rebate for Basmati

producers. The flat tariff is the MFN-tariff as in Commissions proposal, also for Basmati producers, with TRQ and PT. Zero tariff implies reducing all border protection. The assumptions made are that, when Community Preference (CP) stays in place, that rice prices fall by 15 per cent, and when CP is removed, by 30 per cent. In that case production falls by 9.4 per cent, i.e. the amount of stock accumulation, which then vanishes. In the other cases, the balance of Table 1 is maintained, disregarding differences in rice quality.

## 6. Conclusion

To sum up, a lowering of the intervention price and associated imports tariffs has the apparent advantage of bringing further harmonization within the CAP. However, if this has the implication that the support must be budgetarized, a new imbalance emerges, since full compensation for the expected maximum price fall causes a major incoherence in favor of rice producers as opposed to suppliers of other arable crops. This is not so much a problem in terms of allocative efficiency, since the irrigated rice land is hardly suited for other crops, but the distributional implications are questionable. Therefore, it would seem that the area payments are not the adequate instrument for compensating rice farmers, and more decoupled instruments are called for.

In addition, we have pointed to a lack of internal coherence between the orientation and guarantee section of DG-Agriculture: whereas the former supports the development of infrastructural facilities for irrigation, the latter makes all efforts to limit rice output via market signals. This part of the problem has to be resolved within the European Commission Itself. For this, it will be necessary to explicitate the impact of national developments plans, often designed by the regions themselves, on agricultural output at the time of submission, and to check these against CAP-objectives. It may be noted that the issue will not resolve itself through the accession of the new member states, as disadvantaged regions in Spain (like Extremadura) will remain eligible for the funds.

Finally, from the developing country perspective, the obvious eventual solution is that the EU limits its rice production so as to eliminate both exports and stock accumulation. This would already require a sustained reduction by 22 per cent of EU production. Under further reduction developing countries, and possibly the US and Australia as well could even start exporting to the EU, reconfirming that while concessional preferences bring some benefits, the real issue is access. Also, EU consumers have shifted towards higher qualities and special types of rice and EU farmers find it difficult or impossible to produce these qualities. It is thus natural that the desired types of rice (aromatic, indica) come from developing countries, and are treated as tropical products that can enter the EU without obstacles such as licenses, tariffs, quotas, under some enhanced EBA arrangement for tropical products.

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## Annex I Rice exports to EU-15 and unit value of ten major exporters

Exports to EU-15 from

[kmt]

	1995	1996	1997	1998	1999	2000
USA	364	325	293	336	342	361
Thailand	112	143	191	181	168	179
India	68	112	154	125	131	140
Guyana	10	3	56	95	113	93
Pakistan	11	8	13	35	63	55
Surinam	1	1	36	43	22	39
Neth. Antilles	174	199	90	21	6	23
Australia	40	41	28	34	38	20
Uruguay	0	3	3	5	9	15
Aruba	17	28	34	12	15	12
Unit values, euro/mt						
USA	271	342	415	445	395	359
Thailand	334	419	529	485	450	495
India	585	557	691	740	754	708
Guyana	276	326	324	342	320	319
Pakistan	477	502	613	680	657	668
Surinam	258	313	384	349	365	356
Neth. Antilles	524	506	501	437	425	392
Australia	218	297	313	267	265	313
Uruguay	464	404	443	338	298	270
Aruba	520	466	463	410	374	387

EU imports rice from about 100 countries but only 10 of these have regular shipments of over 10 kmt per year. Exports of Netherlands Antilles (having preferential access as Overseas Territory) surged in mid-nineties because of re-exports that were stopped by imposing quotas. Now Guyana and Surinam are the main ACP-exporters. Unit value of Basmati exporters (India and Pakistan) is indeed considerably above those of low cost exporters Australia and Uruguay. Thailand's fragrant rice types also receive a quality premium.