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**SAFE008: Safeguard investigation concerning imports of Indica rice  
originating in Cambodia and Myanmar**

**Comments on behalf of  
The Cambodian Rice Federation**

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**23 April 2018**

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## 1 Introduction

This submission presents the comments of the Cambodia Rice Federation [CRF] on behalf of its members with respect to the application lodged by the Applicant, the Italian Republic, requesting the initiation of a safeguard investigation concerning imports of Indica rice originating in Cambodia and Myanmar pursuant to article 22 of Regulation 978/2012 of the European Parliament and of the Council applying a scheme of generalized tariff preferences and repealing Council regulation (EC) No. 732/2008.

CRF rejects and dismisses the claims made by the Applicant alleging that imports of semi-milled and milled Indica rice have caused serious difficulties to EU millers.

## 2 The Applicant

The Applicant in its submission first distinguishes between two main players within the European Union (EU) industry: growers and millers.<sup>1</sup> However, it thereafter conveniently lumps together these two different components of the Union industry in the data and evidence relied upon to show that the Cambodian rice exports allegedly caused injury. We submit that the millers are highly profitable and that there is no injury to the millers caused by rice imported from Cambodia. The cyclical price fluctuations of the Indica rice are due to the dominant position of the millers in the EU market, especially in the Italian market, and to the lack of coordination among millers and growers in the latter market.

## 3 Procedural Issues

The complaint contains unclear data impeding the CRF's the Cambodian exporters' due process rights. In particular, on account of the below-mentioned issues, CRF cannot (1) assess the correctness of the data and (2) duly comment on the allegations made against rice Indica imports from Cambodia.

The difficulties in reading the data emerge from the following issues:

1. The source of the Cambodian imports of raw and finished Indica rice as contained in Chart No. 2 and Table No. 2 of the Request is not sufficiently documented. In particular, the following should be noted:
  - (a) Ente Nazionale Risi (ENR) calculation is not clearly defined and no reference to any ENR's document reporting these prices is provided;
  - (b) There is no indication of what costs are taken into account in the price, e.g. costs of freight, insurance, customs clearance, etc.;
  - (c) No justification for the use of ENR's source instead of Eurostat (used for Myanmar's prices) is provided.

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<sup>1</sup> See section 3.3 page 8 of the Applicant's Request

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2. EU raw Indica rice prices contained in Table No. 3 are indicated to be measured at the “Northern ports” triggering the following questions:
  - (a) The objective being to assess potential competition from Cambodian imports on the EU market, why are EU prices measured at the “Northern ports” and which precisely are these ports?
  - (b) What specific costs do these EU prices include (ex. inland transport)?
3. The definition and source of EU consumption of Indica rice as reported in Tables Nos. 1, 2, and 12 remain unclear.
  - (a) The source indicated in Table No. 1 is the EU rice balance sheet reporting consumption of Indica rice (no distinction between milled/non-milled);
  - (b) Table No. 2 indicates Eurostat as a source and the title refers to milled rice;
  - (c) Sources provided in Table No. 12 are ENR calculation based on Eurostat and DG Agri;
  - (d) Thus, there appear to be three different sources and data does not match the data provided in the EU rice balance sheet, which has been used for the statistics on domestic sales.

## **4 The Status of EU Rice Market**

### **4.1 General Comments**

As further argued in section 4.2 below, we submit that the situation of the growers and millers should be independently assessed considering the following:

- (a) the Request for application of a safeguard measure concerns only milled and semi-milled Indica rice, which is a different product from the EU paddy Indica rice produced by the growers;
- (b) the EU growers, as further detailed in section 4.2, do not share the same trade interests with the millers. As argued in this submission, the growers may be the real victim of the millers’ pricing policy and the structure of the EU market, in particular the Italian market; and
- (c) the interests of millers may also be driven by internal distortions of the EU market.

Accordingly, CRF further submits that:

- 1) since the product covered by this investigation is milled and semi-milled rice, which is a distinct product from paddy rice with no direct price pass-through, the Applicant has wrongly identified the domestic industry, which, for the purpose of this case, should be solely the millers and not the millers and the growers;
- 2) the millers are highly profitable as shown in section 8.4 and therefore there is no injury to the EU milling industry;
- 3) the alleged depression of prices and reduction of cultivated area of Indica rice are of a cyclical nature due to the structure of the EU market, especially the Italian market;

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- 4) the Cambodian companies export a different variety of rice which does not compete with EU Indica rice;
- 5) in any event, the low volume of exports of white Indica rice by Cambodia is insufficient to trigger injury or to depress prices in the EU rice market;
- 6) the re-introduction of duties as requested by the applicants will not address the cyclical difficulties of EU growers. To the contrary, it may further exacerbate their situation to the possible advantage of the EU millers, while causing significant disarray and negative impacts on poverty in the Cambodian rice sector; and
- 7) given the significant tariff difference on milled rice (175 EUR/tonnes) and paddy rice (30 EUR/tonnes), milling companies that can import paddy Indica rice from different countries to mill and sell it in the EU have therefore a strong interest in re-establishing the MFN duty on imports from Cambodia. In fact, if the MFN duties are imposed, millers could continue to source their products from third countries and increase the pressure on EU growers of paddy Indica rice.

### 4.2 The EU Rice Market at a Glance: Recent Trends and Findings

As shown in ENR's last report of 12 December 2017 (Hereinafter the Report),<sup>2</sup> the EU rice sector does not appear to be suffering from the "serious difficulties" alleged by the Applicant. On the contrary, Table 1 below elaborated by Ente Risi from data from the EU Commission shows that the rice sector is doing well even if there is a small decrease in production of Indica milled rice due to cyclical variations of the rice market.

In particular, Table 1 below reports an increase of milled rice production to 1,834,000 tonnes in the 2016/2017 cropping cycle, up from 1,771,000 tons in the 2015/16 cycle.

Production of milled Indica rice shows a slight decrease of 4.9%. However, this slight reduction is more than compensated for by the increased production of milled Japonica rice, which rose by 88,000 tons from 1,322,000 tons to 1,410,000 tons. Hence, there is no reduction in the production of milled rice as a result on imports from the Applicant, and, as elaborated under section 8.4, the EU millers are still largely profitable.

*Table 1 – EU Cropping Cycle 2016/2017*

		2016/2017			2015/2016		
		Japonica	Indica	Total	Japonica	Indica	Total
A	Initial Stock (t)	270,000	272,000	<b>542,000</b>	158,000	283,000	<b>441,000</b>
B	Milled Rice Production	1,410,000	424,000	<b>1,834,000</b>	1,322,000	449,000	<b>1,771,000</b>
	Area (ha)	348,000	92,000	<b>440,000</b>	334,000	102,000	<b>436,000</b>
	Agronomic yield (t/ha)	6.8	7.8	<b>7.0</b>	6.8	7.4	<b>6.9</b>
	Yield aft. processing (%)	59%	59%	<b>59%</b>	58%	60%	<b>59%</b>
C	Import (t)	116,000	1,134,000	<b>1,250,000</b>	125,000	1,235,000	<b>1,360,000</b>
D=A+B+C	<b>Total Availability (t)</b>	<b>1,796,000</b>	<b>1,830,000</b>	<b>3,626,000</b>	<b>1,605,000</b>	<b>1,967,000</b>	<b>3,572,000</b>
E	Consumption (t)	1,247,000	1,532,000	<b>2,779,000</b>	1,092,000	1,655,000	<b>2,747,000</b>
F	Reuse as seeds (t)	41,000	9,000	<b>50,000</b>	39,000	10,000	<b>49,000</b>
G	Export (t)	238,000	33,000	<b>271,000</b>	204,000	30,000	<b>234,000</b>

<sup>2</sup> Available at: [http://www.enterisi.it/upload/enterisi/bilanci/relazionecompleta2017web\\_15916\\_400.pdf](http://www.enterisi.it/upload/enterisi/bilanci/relazionecompleta2017web_15916_400.pdf)

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H=D-E-F-G	<b>Final Stock (t)</b>	<b>270,000</b>	<b>256,000</b>	<b>526,000</b>	<b>270,000</b>	<b>272,000</b>	<b>542,000</b>
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Source: Ente Risi

The Report states that *“for the cropping cycle 2016/2017, the EU Commission has elaborated a statement where it has been reported an increase of the surface used for rice production of 4,000 hectares with respect to the cropping cycle 2015/2016, including an increase of Japonica rice of 14,000 hectares and a decrease of Indica rice of 10,000 hectares. The rise in surface of rice production has resulted in an increase in production of milled rice of 63,000 tons”*.

The above statement defeats the arguments raised by the Applicant that there is a reduction of surface for production of EU Indica rice since,<sup>3</sup> as shown in section 10.3 and supported by footnote 4 of the Request, it is common practice for the growers to cyclically shift production from Japonica to Indica rice and vice versa depending on the market and price situation of the two rice varieties.

With respect to the same ENR’s report for the cropping cycle 2016/2017 and as reported in Table 1 above, in spite of the lower imports (-110,000 tons), the total quantity available in the EU was larger (54,000 tons) than in the previous cropping cycle due to larger initial stocks from the previous year (101,000 tons). An increase in consumption (+32,000 tons) and a consistent rise in exports (+37,000 tons) resulted in a slight decrease in stocks (-16,000 tons).

This recent reduction of stocks defeats the argument raised by the Applicant of dramatic stock increases.<sup>4</sup> With such a decrease in stocks, it is difficult to claim a loss of market share. Normally, when losing market shares, stocks pile up.

As reported in Table 2 below, the estimated data for the 2017/2018 cropping cycle confirms an increase of 12,000 hectares of area allocated to the production of Indica rice and a decrease of 20,000 hectares for Japonica rice, leading to an overall modest decrease of 8,000 hectares.

Again, a decrease in stocks of Indica rice from 272,000 tons to 256,000 tons can be observed.

<sup>3</sup> See Table No. 10, page 17 of the Applicant’s submission, wherein the Applicant argues that there has been a reduction in production capacity of Indica rice by artificially fixing the amount of production area at the beginning of the investigation period while it is a notorious practice that the growers are cyclically switching across the different varieties of rice according to the EU internal rice market prices

<sup>4</sup> See section 7.3 page 26 of the Applicant’s submission

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**Table 2 - Estimated EU Cropping Cycle 2017/2018**

		2017/2018 (forecast)			2016/2017		
		Japonica	Indica	Total	Japonica	Indica	Total
A	Initial Stock (t)	270,000	256,000	<b>526,000</b>	270,000	272,000	<b>542,000</b>
B	Milled Rice Production	1,287,000	476,000	<b>1,763,000</b>	1,410,000	424,000	<b>1,834,000</b>
	Area (ha)	328,000	104,000	<b>432,000</b>	348,000	92,000	<b>440,000</b>
	Agronomic yield (t/ha)	6.6	7.6	<b>6.9</b>	6.8	7.8	<b>7.0</b>
	Yield aft. processing (%)	59%	60%	<b>59%</b>	59%	59%	<b>59%</b>
C	Import (t)	110,000	1,130,000	<b>1,240,000</b>	116,000	1,134,000	<b>1,250,000</b>
D=A+B+C	<b>Total Availability (t)</b>	<b>1,667,000</b>	<b>1,862,000</b>	<b>3,529,000</b>	<b>1,796,000</b>	<b>1,830,000</b>	<b>3,626,000</b>
E	Consumption (t)	1,118,000	1,561,000	<b>2,679,000</b>	1,247,000	1,532,000	<b>2,779,000</b>
F	Reuse as seeds (t)	39,000	10,000	<b>49,000</b>	41,000	9,000	<b>50,000</b>
G	Export (t)	240,000	35,000	<b>275,000</b>	238,000	33,000	<b>271,000</b>
H=D-E-F-G	<b>Final Stock (t)</b>	<b>270,000</b>	<b>256,000</b>	<b>526,000</b>	<b>270,000</b>	<b>256,000</b>	<b>526,000</b>

Source: Calculations by Ente Nazionale Risi based on European Commission data

Moreover, it has to be noted that according to the Report export volumes of Indica rice as contained in Table 1 and Table 2 above have consistently increased since the cropping cycle 2016/2017 from 30,000 tons to 33,000 tons and from 33,000 tons to 35,000 tons in the estimates of the 2017/18 cropping cycle. The overall export volume of milled rice, Indica and japonica, raised from 234,000 tons in the 2014/15 cropping cycle to 275,000 tons in the estimates for the 2017/18 cropping cycle. In the specific case of Italy, the Report indicates that exports of milled rice to third countries increased by 14.3% and exports to EU countries increased by 2.2%.<sup>5</sup> This strong export performance read in conjunction with the profitability of millers in terms of their pricing policies militates once again in favor of their market power. In short, the millers source their raw Indica rice from the EU growers, Cambodia, and third countries at competitive low prices, and they perform grading and packaging operations to re-sell the “finished” rice with high profit.<sup>6</sup>

This market situation is best described in the statement below by President of Coldiretti Vercelli, and Biella Paolo Dellarole with responsibility to the rice sector: *“The prices of rice raised by 500% from the field to the table with farmers who have to sell four kilos of paddy rice to pay for a simple cup of coffee because of speculation and deception affecting the rice fields and damaging consumers.”* The prices of rice for production practically halved in the last year while prices on shelves for consumers remained stable.

*“The price, in fact, of a kilo of rice on the shelf has remained almost stable with an average value of about 3 euros while the selling prices for farmers have recorded substantial contractions for the main rice varieties ranging from -58% for Arborio to -57% for Carnaroli, from -41% for Rome to -37% for Vialone Nano. Italian paddy rice is paid between 27.5 and 29.5 cents a kilo for Arborio and from 24.5 to 30.5 cents a kilo for Carnaroli. This risks to affect Italy’s supremacy in Europe since it is the first producer of rice with 1.50 million tons on a cultivated land of 234,300 hectares that covers about 50% of the entire EU production with unique varieties”* observes the agricultural organization. *“The situation for the Piedmont rice industry is dramatic because it is affected by the fact that more than half of the national*

<sup>5</sup> See page 13

<sup>6</sup> See page 8 of the Applicant’s submission

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*market is in the hands of only four industries that enjoy a domination over the rice growers. With what is recognized to our farmers, production costs are no longer covered and the work of many families between employees and entrepreneurs involved in the entire supply chain is at risk. Recall that Piedmont remains the Italian region with the largest production numbers with 117,000 hectares, 8 million quintals of production, and almost 1,900 companies”.*

Once again, this statement from the growers clearly shows that the Union industry should be separated into two sectors, the growers and the millers, and that the millers have high profitability and no injury while the growers may be suffering from the price policies of the millers. There is no causal link with imports from Cambodia rice since this market failure is a self-inflicted damage.

### 4.3 Indica Rice and Japonica Rice

The Applicant submits that there are two different kinds of rice, Japonica and Indica. While this assertion is correct, it is important to underscore that there are different varieties of rice within these two broad categories of Japonica and Indica rice. The variety of rice mainly exported from Cambodia is the fragrant rice (Jasmine rice). The difference between fragrant (Jasmine) rice and long grain white rice is a nutty (Pandan) aroma. The aroma, which can be detected in both uncooked and cooked rice, originates from the presence of the volatile component (2-acetyl-1-pyrroline) which is absent in European Indica white rice. Fragrant rice also reportedly has a lower glycemic index (GI) compared to other rice and has different cooking qualities.

CRF considers that the fragrant rice variety is not directly competing with EU Indica rice. This is due to the fact that the taste and aroma of the fragrant rice are different from the EU-produced Indica rice and meets different consumer tastes.

The fact that fragrant Indica rice and EU Indica rice are different and not directly competing has been implicitly recognized by the EU Commission since the establishment in 2017 of a combined nomenclature (CN) customs code at ten digit-level in the EU customs nomenclature to specifically classify the fragrant rice variety exported by the Cambodian companies.

This CN code was in fact established to record proper figures for the exports of the Applicant since the previous EU CN codes did not provide for a distinction between white Indica rice and fragrant Indica rice exported by Cambodian companies to the EU. CRF submits that Cambodian exports are heavily concentrated on fragrant rice which does not compete with EU Indica rice.

In fact, the data reported by the CRF records a composition of overall exports consisting of **LIMITED\***, whereof only the last two varieties are in competition with EU rice.<sup>7</sup> These numbers have been confirmed by the recent figures provided by the Ministry of Agriculture, Forestry, and Fisheries (MAFF) in Figure 1 below.

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<sup>7</sup> See presentation of Cambodia Rice Federation, *Cambodian Rice Export and The Way Forward*, available upon request.

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*Figure 1– European Union Imports from Cambodia*

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It follows that the imports of raw and finished Indica rice from Cambodia shown in Table No. 2 of the Applicant's submission should be re-examined to allow a correct and fair analysis by 1) deducting from the overall figure of Indica rice the amount of fragrant rice exported by Cambodia and 2) deducting the amount of Indica rice exported by Myanmar. This is further developed in section 7.2 below.

#### 4.4 The Union Indica Rice Industry

The analysis of the Union Indica rice industry made by the Applicant distinguishes between two main players: the growers and the millers. However, when the Applicant thereafter develops its facts and figures to support its case, it lumps together these two different components of the Union industry alleging that imports from Cambodia are causing injury to both growers and millers since they are closely related.

CRF submits that the situation of paddy rice and milled rice should be analyzed separately. These are two separate product categories, as one is the raw material and the other is the processed product. It follows that the situation of the growers and millers should be independently assessed. This is clear because the investigation targets imports of semi-milled and milled rice. Therefore, the domestic industry for the purpose of this case are the millers, not millers and growers as projected in the complaint.

Moreover, Cambodia's exports of paddy rice to the EU are minimal.<sup>8</sup> However, it can be observed that the EU paddy rice growers are suffering a loss as their cost of production is higher than their sales price. This however cannot be attributed to the Cambodian imports as it is the result of the structure of the EU market as further developed in section 10.

A more detailed analysis of the EU market structure and specifically the Italian market as contained in section 4.2 above clearly justifies such differentiation since the EU paddy rice growers and the millers are different sectors of the EU industries with different trade interests and issues at stake in this case.

CRF submits that the situation of the EU industry is more segmented and complex than the one presented by the Applicant, especially with respect to the Italian market. There are growing tensions in the Italian market among growers, millers, and brokers. These tensions are widely reflected in the press. As shown in section 10.1, in other EU markets such as Spain, Greece, and Portugal, where coordination exists among the different players of the value chain, prices of the varieties are much more stable than in the Italian market.

On page 10 of the Request, the Applicant asserts that:

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<sup>8</sup> According to Eurostat figures, exports of paddy rice were equivalent to EUR1.6 million in 2016

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1. “It suffices to mention that the price of such imports is even lower than the cost of production of EU paddy rice”;
2. “Likewise, as will be shown below, the price of such imports is also below the cost of production of raw semi-milled and milled rice by EU Southern millers”;
3. “Moreover, the position of EU Millers is also injured by imports of finished Indica rice in bags as their price is lower than the price of the finished rice originating in the EU”.

The first statement is in direct contradiction with the data provided by the applicant, as shown below:

*Table 3 – Cambodian Indica Rice Price and EU Production Cost Difference*

	<b>COST AND PRICES PROVIDED BY THE APPLICANT</b>	2012/13	2013/14	2014/15	2015/16	2016/17
1	Price of Cambodian Indica raw rice collected at Rotterdam (EUR/tonne)		426.61	487.20	496.81	488.58
2	EU Cost of production of Indica Paddy rice (EUR/tonne)			330	340	345
3	Difference (1)-(2)			+157.2	+156.8	+143.58

Source: Applicant's Request

Nevertheless, section 7.3 will show that all of the above three statements can be disproven based on the use of correct statistics and data. First, import prices as contained in the Request are strongly under-estimated as compared to national sources. Second, the analysis is conducted at the Northern ports while a fair comparison should be made with prices evaluated at the same level of trade. Third, according to an authoritative Italian study,<sup>9</sup> the cost of the raw materials (i.e. paddy rice) represents about 75% of the total cost of production of milled rice, which means that the latter corresponds to 1.33 (=1/0.75) of the total cost of the paddy rice. Taking into account the price difference of 139% between paddy and milled rice in the EU, the estimate for the production cost of milled rice reported by the Applicant appears to be overstated and should be further supported and documented. Section 8.4 provides the estimated margin of millers based on adjusted cost of production.

## 5 Product Concerned and Like Product

### 5.1 Definition of the Product Concerned

CRF submits that the complaint raised by the Applicant concerns semi-milled and milled rice as defined by the Applicant at page 10/11 of the Request. This does not concern paddy rice, which is a different product. Hence, it is first necessary to distinguish among these different sectors of the Union industry to assess if there has been injury and if this injury has been caused by the imports of milled rice of the applicant or by other factors.

<sup>9</sup> See ISMEA report on rice, 2011, the cost of production has been calculated by ISMA based on data of Aida Bureau VanDijk

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## 5.2 Like Product and Products in Direct Competition

CRF submits that Cambodia fragrant Indica rice and EU Indica rice are different and not directly competing. This has been recognized by the EU Commission since the establishment in 2017 of a combined nomenclature (CN) customs code at ten digit-level in the EU customs nomenclature to specifically classify the fragrant rice variety exported by the Applicant in a different CN than other varieties of Rice

## 6 Beneficiary Country and Identity of Known Exporter Producers

The Applicant lumps together the imports of both paddy and milled Indica rice to attempt to demonstrate a cumulative effect of an injury that does not exist since it is common ground that the large majority of imports from Myanmar is broken rice and a different quality of rice.

## 7 Imports of the Product Concerned from Cambodia and Myanmar

### 7.1 Consumption in the EU

Data provided by the Applicant shows that consumption of Indica rice has been relatively stable over the investigation period, with only a slight decrease of 2%, subject however, to cyclical fluctuations. As acknowledged by the Applicant, the peak reached in 2015/16 was only temporary since, in the following marketing year, the consumption returned to its level recorded in the period 2012/13-2014/15. There is therefore no strong evidence of market distortion on the demand side. Latest reports forecast a steady increase of rice consumption in EU from 2015 to 2016.<sup>10</sup> The Italian association of Millers (AIRI) presented a document in December 2017 as reported by the Italian press according to which there are spaces to be occupied in the rice market: *“The data shows, in the last 6 campaigns, an increase in consumption in Italy of over 25%, over 10% in the EU. Italian exports outside the EU also show an interesting upward trend. The increase in consumption both in the domestic market and in the European Union has been influenced by various factors, such as: the increase in food intolerances, in particular gluten, which modify the diets of consumers who suffer from it; the greater attention of consumers to balanced and healthy diets; the aging of the population; the economic crisis that pushes to meet the food needs with less expense; the migratory flow, with the rise in the EU of strong ethnic groups of rice consumers; the increase in consumption of rice products; the increase in the use of rice as an ingredient in industrial processes.”*<sup>11</sup>

<sup>10</sup> Available at: <https://www.statista.com/statistics/545799/rice-consumption-volume-european-union-28/>

<sup>11</sup> Available at <https://www.risoitaliano.eu/riso-per-la-patria/>

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### 7.2 Volume and Market Share of Imports of Indica Rice from Cambodia and Myanmar

As explained in section 4.3, the Applicant's submission should be re-examined to allow a correct and fair comparison by 1) deducting from the overall figure of Indica rice the amount of fragrant rice exported by Cambodia and 2) deducting the amount of Indica rice exported by Myanmar.

*Table 4 – Cambodian Imports and Market Shares*

*LIMITED\**

Source: Applicant's Request (1, 2, 3) combined with MAFF (4, 5)

Effective market shares cannot be calculated as the portion of consumption of fragrant rice in the EU is unknown. However, once deflated, it is clear that the quantity of Cambodian rice effectively competing with the EU rice variety is significantly lower than the one reported by the Applicants ((5) vs. (3)).

Further, as shown in Table 5 below and contained in the Report, the duty-free imports from least developed countries (LDCs) in 2016/2017 *decreased* by 7.8% compared to previous cropping cycles. In particular, there has been a strong decrease of imports from Cambodia of 50,272 tons equivalent to a reduction of 15.7%.

*Table 5 – Evolution of European Union Imports from LDCs*

Country	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17
Cambodia	5,508	28,557	90,233	96,836	181,644	240,967	264,474	319,735	269,463
Myanmar	378*	263*	0	0	4,689	35,338	76,762	49,112	72,157
Lao	95	148	1,416	1,997	2,151	3,681	3,899	2,899	1,540
Bangladesh	4,113	2,722	655	178	1,482	2,289	2,196	1,491	1,339
Others	0	60	55	0	60	12	217	562	155
<b>Total (LDCs)</b>	<b>10.094</b>	<b>31.750</b>	<b>92.359</b>	<b>99.051</b>	<b>190.035</b>	<b>282.287</b>	<b>347.548</b>	<b>373.799</b>	<b>344.654</b>

\* Full duty. Data expressed in tonnes of rice, milled equivalent – broken rice excluded

Source: European Commission/ Eurostat. The data also include imports of rice paddy and husked rice

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### 7.3 Prices of imports from Cambodia and Myanmar and EU prices of Milled Indica Rice

The prices reported in Tables Nos. 3 and 4 reflect neither the prices of Cambodian imports of milled and semi-milled rice extracted from Eurostat, nor the ones provided by national sources.

*Table 6 – EU and Cambodian Price: Data Source Comparison*

	PRICES	2012/13	2013/14	2014/15	2015/16	2016/17
<b>Data Reported by the Applicant</b>						
1	Imports of raw and finished Indica rice from Cambodia	163,771	224,472	248,937	298,689	253,908
2	EU raw Indica milled rice Prices calculated at the Northern Ports (EUR/Tonne)		585.58	637.08	719.17	680.33
3	Price of Cambodian Indica raw rice collected at Rotterdam (EUR/tonne) as reported by the Applicant		426.61	487.2	496.81	488.58
<b>Eurostat Data</b>						
4	Import quantity of milled and semi-milled rice from Cambodia (tons)	163,770	224,472	248,938	298,689	253,907
5	Value of Imports of milled and semi-milled rice from Cambodia (in thousands of EUR)	96,367	115,126	140,052	163,494	140,202
6	Unite value / Price [=5/4]	588	513	563	547	552
<b>Price Difference</b>						
7	Difference in prices between EU and Cambodian prices [= (2)-(6)]		73	74	172	128
8	Difference in prices between EU and Cambodian prices in % [= (7)/(2)]		12%	12%	24%	19%

Table 6 provides a comparison between Eurostat data and figures reported in the Request. Import quantities perfectly match using either of the two sources. However, the Applicant reports only the quantities from Eurostat but not the values of imports in EUR that allow to calculate the unit values that are much higher than the prices reported in the Request (see row 6 vs. row 3). It is also interesting to note that the calculation reported in row 6 above is the one that has been applied to Myanmar prices in the Request. The different sources are mentioned in the Request, but no justification is provided. Nevertheless, we submit that the prices extracted from Eurostat better match realities and they are also in line with national data (export data) provided by the Cambodian Ministry of Agriculture, as reported below in Table No. 7.

*Table 7 – Cambodian Weekly FOB Indication Price 2017*

**LIMITED\***

Based on the above data, the average FOB prices of fragrant and white rice (excluding broken rice) were **LIMITED\***, respectively.<sup>12</sup> Therefore, it is unclear what the price reported by the Applicant includes and how it was calculated. Indeed, the value for 2017 of EUR488.58 reported in the Request appears to be **LIMITED\***. In addition, as indicated earlier in this

<sup>12</sup> The analysis based on export national data source are indicative. They do not constitute the baseline information/data but are reported for the purpose of robustness checks only.

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Report, the fragrant rice share was higher in 2017 than that of the non-fragrant rice. The average price using the 2017 trade shares as weights indicates that the FOB average price of milled Indica rice amounted to EUR **LIMITED\***. Adding the cost of freight and insurance, evaluated at 10% of the FOB price by Cambodian companies, the resulting CIF price would be **LIMITED\***.

In addition, it is also important to note that all prices reported in the above table increased in 2017 when expressed in USD. Therefore, a fall in prices in the EU is also the result of the currency conversion from dollars to euros combined with a strong appreciation of the euro in the course of 2017. The latter factor cannot be directly attributed to Cambodian rice exports.

To conclude this section, Table No. 4 of the Request can be replicated using Eurostat data to show that the price of Indica milled and semi-milled from Cambodia is not below the EU cost of production of milled (not graded) Indica rice but is actually between 4% to 15% above the EU production cost, as shown in Table 8.<sup>13</sup> It is also important to note that the reduction of the margin between the marketing year 2013/14 and 2014/15 is mostly due to the rise in the domestic cost of production.

*Table 8 – Comparison between the cost of production (EUR/tonne) of Indica milled and semi-milled rice in the EU and prices (EUR/tonne)*

	<b>COST AND PRICES</b>	2012/13	2013/14	2014/15	2015/16	2016/17
1	Price of semi-milled and milled Indica rice imports from Cambodia (Eurostat)	588	513	563	547	552
2	EU Cost of production of milled (not graded) Indica rice		444.74	521.18	526.31	520.45
3	<b>Difference</b> [= (1)-(2)]		<b>+68</b>	<b>+41</b>	<b>+21</b>	<b>+32</b>
4	<b>Difference in %</b> [= (3)/(2)]		<b>+15%</b>	<b>+8%</b>	<b>+4%</b>	<b>+6%</b>

Source: Calculation based on Applicant's Request

## 8 Economic Situation of the Union industry

As pointed out in section 2, the Applicant deliberately lumps together the millers and the growers as one single entity of the Union industry stating that they have been injured by the low-priced imports from Cambodia. In reality there needs to be a differentiation among Union rice growers and Union millers, the latter having the upper hand in the determination of the market forces setting the price of the paddy rice produced by the Union growers.

In fact, the millers enjoy the prerogative to either 1) buy the Indica paddy rice from the EU growers to mill it and package it as a finished product; 2) buy the “raw” Indica rice from third countries to grade it and package it as finished product; or 3) decide according to the market forecast of the cropping cycle to invest more in the Indica or Japonica variety to maintain and enhance profitability.

On the other hand, choices are much more limited for the Union growers, especially in cases where there is no coordination among the different players in the rice market, such as in Italy,

<sup>13</sup> The price of imported milled and semi-milled rice from Cambodia is therefore not below the cost of production of paddy either

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the main EU producers of paddy rice.<sup>14</sup>

The Union growers' choices are in fact limited to either 1) sell their paddy rice to the millers according to market prices or 2) switch between Japonica to Indica rice ahead of the next campaign hoping to make the best choice on the most profitable variety during the cropping cycle.

Given these market forces and trade interests at play it is not surprising to observe that there are cyclical fluctuations with respect to areas dedicated to growing Indica rice over Japonica rice. These changes from one cropping cycle to the next result in significant price fluctuations among the different varieties of rice. In this context, the Union millers still maintain their profitability since they can switch among the different varieties of rice and obtain the raw rice from different sources while the Union growers have limited options.

Throughout the Request, the Applicant only makes reference to data concerning Indica rice to allege a series of contractions and losses of market shares, consumption, and prices by segregating the EU Indica market dynamics from the Japonica variety of rice present in the EU Market. This contradicts its statement made in footnote 4 of page 6 where it is said "*that from the growers' viewpoint however, the two types of paddy rice are fully interchangeable, as growers are able to switch*".

The literature about the EU rice industry,<sup>15</sup> especially concerning the Italian industry, is adamant and univocal in asserting that the main cause and threat to the survival of the Union rice industry, in particular the growers, is the lack of coordination and consultation among the main players, being the millers, the growers, and the brokers.

Be this as it may, as discussed throughout this document, the overall examination of the rice sector – and the Indica milled sector in particular – does not show any particular "serious difficulties" that could justify the application of a safeguard measure. The Union millers are not suffering any particular serious difficulty that could be imputed to a rise of duty-free imports of rice. The fluctuations in hectares of Indica rice are showing cyclical variations, with Japonica rice maintaining a high level of productivity in the concerned sectors.

### 8.1 Sales and Market Share of the EU Millers and Growers of Indica Rice

The Applicant shows that over the investigation period, the EU millers have lost 22 percentage points market share. However, it is clear from Table No. 12 of the Request that this loss cannot be directly attributed to imports from Cambodia.

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<sup>14</sup> The Italian 2012 Sector plan for the rice value chain approved by the Presidency of the Council of Ministries is available at:

<https://www.politicheagricole.it/flex/cm/pages/ServeBLOB.php/L/IT/IDPagina/4649> It recognized the needs for a better coordination among millers and growers through consultations and the establishment contractual forms among the two parties to stabilize the prices and the market.

<sup>15</sup> See "Il bilancio economico dell' Azienda risicola" 2015 and 2013 available at:

[http://www.vc.camcom.gov.it/Page/t02/view\\_html?idp=2213](http://www.vc.camcom.gov.it/Page/t02/view_html?idp=2213)

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**Table 9 – Cambodian Rice Market Shares in the EU**

	<b>MARKET SHARES</b>	2014/15	2015/16	2016/17
1	Sales of Indica rice originating in the EU by the millers (tonnes)	508,000	420,000	368,000
2	Market share of EU millers	39.90%	31.20%	30.10%
3	Evolution of EU market share	-7.2pp	-8.7pp	-1.1pp
4	Imports of <i>raw</i> and <i>finished</i> Indica rice from Cambodia	248,937	298,689	253,908
5	Cambodian raw and finished Indica rice market share in the EU (%)	20%	22%	21%
6	Evolution of Cambodia market shares	+3pp	+2pp	-1p
7	Portion of the evolution of MS capture by Cambodia [=6/3]	42%	23%	N.A

*Source: Calculation based on the Applicant's Request*

In the last three marketing years of the investigation period, the Cambodian market share remained relatively stable, with a reduction in the last campaign. However, market shares have lost 7.2pp and 8.7pp in 2014/15 and 2015/16 respectively. Out of these market share losses, only 42% and 23% can be attributed to Cambodia, leaving 58% and 73% respectively to other third countries, such as Myanmar, Thailand, India, and the United States.

As shown in Table 10, the drop in EU market shares in 2014/15 cannot be exclusively attributed to Cambodia. Indeed, for this marketing year, imports from Cambodia increased only by 11% while imports from the United States, India, Thailand, and Myanmar have jointly increased by 20%.

In the same vein, while Cambodian imports decreased by 15% between 2015/16 and 2016/2017, the EU market shares remained constant, breaking any directly link between imports from Cambodia and EU market shares.

**Table 10 – EU Imports of Milled and Semi-Milled Rice from Cambodia vs. Third Country**

	<b>EU IMPORTS (TONNES)</b>	2013/14	2014/15	2015/16	2016/17
1	Market share of EU millers	47.10%	39.90%	31.20%	30.10%
2	Imports of <i>raw</i> and <i>finished</i> Indica rice from Cambodia	224,472	248,938	298,689	253,907
	% change from previous MY	37%	11%	20%	-15%
3	Imports of <i>raw</i> and <i>finished</i> Indica rice from UITM	231,484	278,011.6	266,769.9	321,392.4
	% change from previous MY	8%	20%	-4%	20%

*Source: Applicant's Request (1) and Eurostat (2 and 3). UITM: United States, India, Thailand, and Myanmar*

Finally, it is our understanding that the EU consumption and sales that were used to calculate EU market shares include all Indica rice since the EU rice balance sheet reported as a source does not differentiate between milled, semi-milled, or paddy rice. However, imports from Cambodia only consider milled and semi-milled rice. CRF considers that the loss of market share is due to the paddy rice that does not relate to imports from Cambodia.

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## 8.2 Production and Stocks of EU Indica and Japonica Rice in the EU

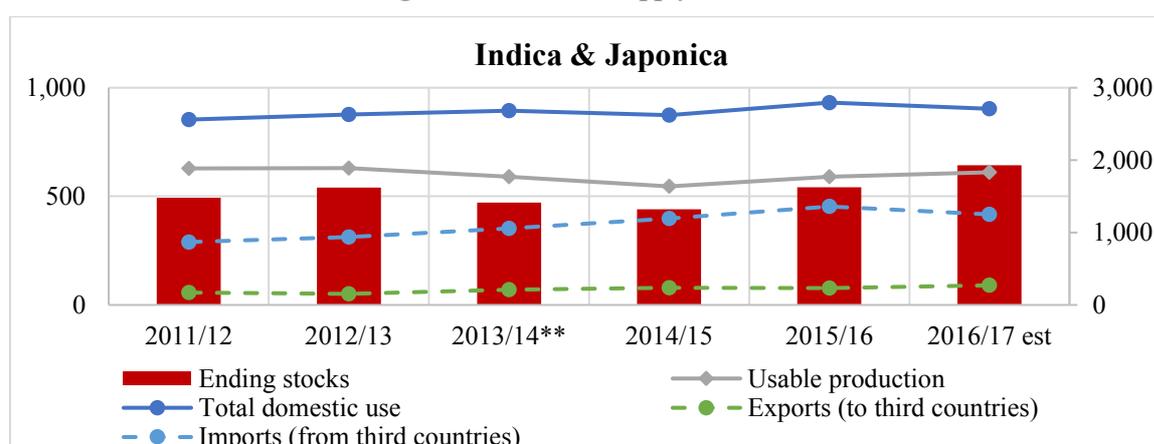
As shown in the first graph of Figure 2 below, there is a slight increase of rice stocks at the end of the investigation period (IP). However, when looking at Table 2 in section 4.2, there is no sign of rising stocks according to the estimates of the cropping cycle 2017/2018. There is instead a decrease of final stocks by 16,000 tons, from 542,000 tons to 526,000 tons. The reduction of stocks can also be observed in the case of Indica rice, which decreased from 272,000 tons to 265,000 tons.

However, it is evident from the overall trend that there is no clear connection among the imports from third countries and the level of stocks, as imports from third countries have been relatively stable during the IP while stocks are showing cyclical sinusoidal fluctuations with the higher figures at the beginning and end of the IP. It may also be noted that the ending stocks are following the production lines.

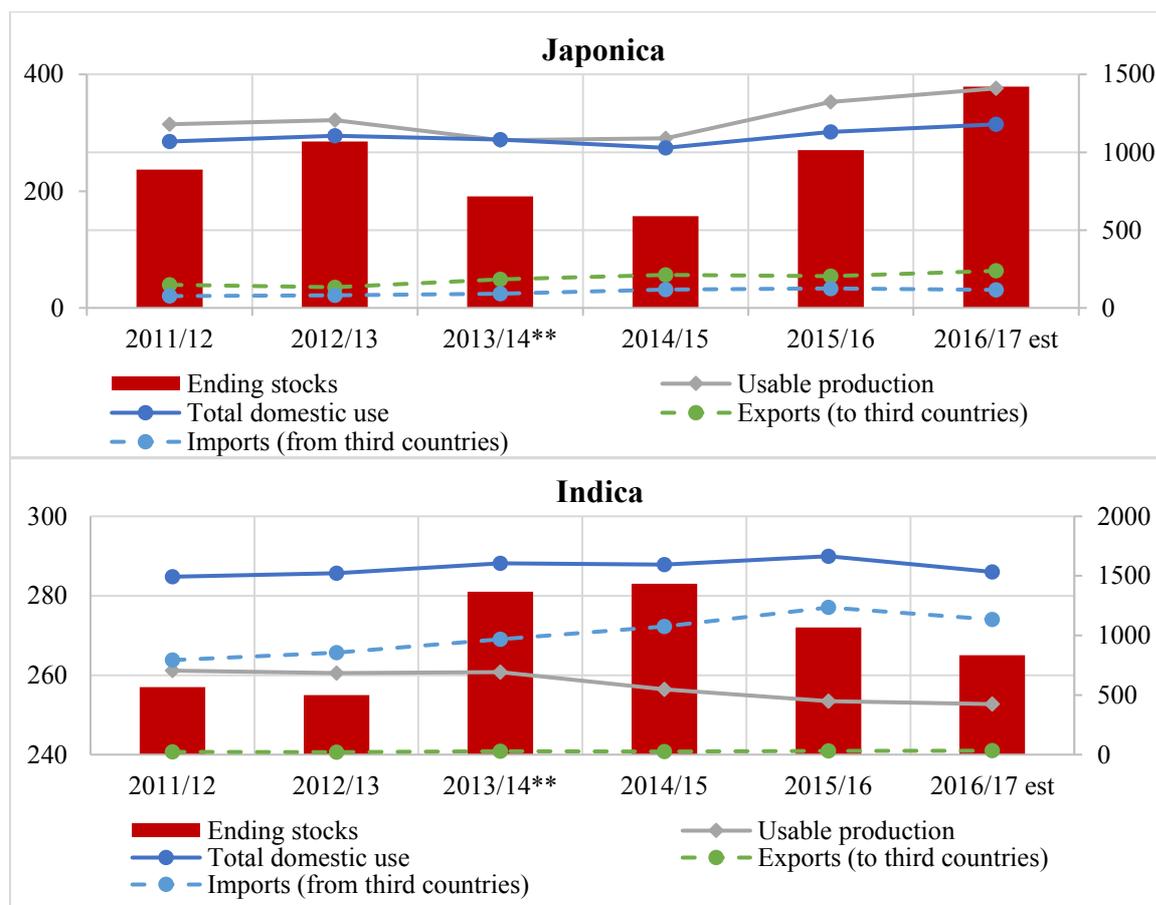
This cyclical fluctuation of stocks is explained in the second and third graph of Figure 2 below. These show the inverse relationship in stock fluctuations: The higher the stocks of Indica rice in the 2013/2014 and 2014/2015 campaign, the lower the stocks of Japonica rice over the same period. Conversely, the data at the beginning of the IP (2011/12 and 2012/13) and at the end of the IP (2015/16 and 2016/17) show that higher stocks of Japonica rice are matched by lower stocks of Indica rice.

CRF submits that, contrary to the arguments raised by the Applicant 1) ending stocks of milled Indica rice are not higher in the last years of the IP (2015/16 and 2016/17) with respect to the average stocks of the IP and 2) there is no causal link between the level of stocks during the IP and the imports of Indica rice from Cambodia. The last two graphs of Figure 2 below clearly show that the fluctuation of stocks of Indica rice during the IP are heavily influenced by the stocks of Japonica rice and the usable production of the two different kinds of rice.

*Figure 2– EU Rice Supply and Demand*



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Source: EU Rice Balance Sheet

### 8.3 Production Capacity and Capacity Utilization

Production capacity has increased as shown by the increase of arable land destined for rice production of 4,000 hectares contained in the Report.

More importantly, on page 31, the Report indicates that after three years where a shift of surface from Indica rice to Japonica type was observed, in 2017, “*there was a trend reversal with an increase of about 12,200 hectares of the Indica rice area and a decrease of about 16,800 hectares of the Japonica rice area*”. This trend is exactly the contrary of what was asserted by the Applicant with regard to an alleged reduction of hectares allocated for the production of Indica rice. It is therefore clear that these assertions are no longer valid and may possibly be explained by cyclical variations.

### 8.4 Profitability

According to a recent report by a group of Italian researchers supported by the local chamber of commerce (hereinafter the Vercelli report, version 2016 of Appendix 9 contained in the Applicant’s file), in the major area of production of rice in Italy, the profitability of Italian firms involved in rice production is at stake in the medium term.<sup>16</sup> However according to the

<sup>16</sup> See the report titled “Il bilancio economico dell’azienda risicola : Modello di impostazione ed esame di

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findings of the Vercelli report such profitability is dependent upon the size of the farms and their organization. The Vercelli report further sets forth a series of recommendations on the internal structuring of the Italian firms producing rice, most notably regarding the need to coordinate a sowing plan to avoid imbalances in the production of rice varieties that may cause price distortions.

The allegation that downstream competition at the level of the millers caused the upstream growers to suffer losses does not fit well in the picture. The problem lies with the EU millers. As shown in Table No. 11, there was a 139% price difference between paddy and milled/raw rice in the marketing year 2016/17, i.e. EUR285/MT vs. EUR680/MT. When compared to the price of paddy rice, the sales price of the EU raw Indica rice is very high. The 139% price difference consists of 2 elements (1) processing cost of the EU millers and (2) the profit of the EU millers. Therefore, in our view there should be a probe to determine (1) what should be the ideal/efficient/actual milling costs and (2) the average profit in the EU rice industry for millers. The cause of “injury” should be shifted to the EU millers. The complaint focuses on the profitability of the EU paddy growers (section 7.5) but the source of this lies at the end of the EU millers and is not related to imports.

*Table 11 – EU Paddy and Milled Rice Price Difference*

COST AND PRICES		2014/15	2015/16	2016/17
1	EU average price of Indica paddy rice (EUR/tonne)	285.1	289.35	284.51
2	EU raw Indica milled rice Prices calculated at the Northern Ports (EUR/Tonne)	637.08	719.17	680.33
3	Price difference (2)-(1)	351.98	429.82	395.82
4	Price difference in % [= (3)/(1)]	+123%	+149%	+139%

Source: Calculation based on Applicant's Request

More specifically, based on the data provided by the Applicant, it can be shown that the millers are still highly profitable.

*Table 12 – EU Millers' Margin Calculation*

COST AND PRICES		2012/13	2013/14	2014/15	2015/16	2016/17
1	EU raw Indica milled rice prices calculated at the Northern Ports (EUR/Tonne)		585.58	637.08	719.17	680.33
2	EU cost of production of milled (not graded) Indica rice		444.74	521.18	526.31	520.45
3	Margin [= (1)-(2)]		140.84	115.9	192.86	159.88
4	Margin (3) in % of the price [= (3)/(1)]		24%	18%	27%	24%

Source: Calculation based on Applicant's Request

Table 12 shows that there is an average margin of 23% between the EU raw (non-graded) Indica milled rice prices and the cost of production of the same product.

In addition, based on the ISMEA report on rice, 2011, the cost of the raw materials (i.e. paddy rice) represents about 75% of the total cost of production of milled rice, which means that the

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quattro casi rappresentativi (2016), available at <https://www.risoitaliano.eu/customcontents/bil17.pdf>

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latter corresponds to 1.33 (=1/0.75) of the total cost of the milled rice.<sup>17</sup> Taking into account the price of Indica paddy rice contained in the Applicant's Request and the price difference of 139% between paddy and milled rice, we can calculate the total production according to the above mentioned percentage contained in the ISMEA report, as reported in the table.

The millers can buy either local or Cambodian rice and still be profitable. However, given the market power and the absence of pass-through of the gains to the EU growers reflected by the huge price difference between milled and paddy Indica rice, the millers make a higher profit by buying the local raw rice or paddy/brown imported rice.

Therefore, they would highly benefit from the re-establishment of the MFN duty on milled rice from Cambodia that would reduce the competition from packers non-millers that are buying the rice from Cambodia. With a duty of 175 EUR/ton, the sales price of Cambodian rice would be higher than that of the European rice, lowering the demand for Cambodian rice, directly affecting packers and distributors but providing an opportunity for the millers to increase their sales of both finished Indica rice milled from both EU and imports, and EU paddy rice and imported paddy rice. This could also explain why the Request by the Applicant only concerns milled rice while the EU industry is incorrectly identified as millers and growers together.

*Table 13 – Millers' Cost and Profit calculation*

	<b>Cropping cycle</b>	<b>2014/15</b>	<b>2015/2016</b>	<b>2016/2017</b>
1	EU average price of Indica paddy rice (EUR/tonne)*	285.1	289.35	284.51
2	Price of Cambodian Indica raw rice collected at Rotterdam (EUR/tonne)*	487.2	496.81	488.58
3	Cost of production of finished milled rice [= (1)/0.75] using EU rice	<u>380.1</u>	<u>385.8</u>	<u>379.3</u>
5	Cost of production of finished milled rice using Cambodian rice [= (1)/0.9] <sup>18</sup>	541.3	552.0	542.9
4	EU raw Indica milled rice prices calculated at the Northern Ports (EUR/tonne)	637.08	719.17	680.33
5.	Millers' profit using EU rice	256.9	333.4	301.0
6.	Millers' profit using EU rice (in %) [=5/4]	40%	46%	44%
7.	Millers' profit using Cambodian rice	95.7	167.2	137.5
8.	Millers' profit using Cambodian rice (in %) [=7/4]	15%	23%	20%

Source: Calculation based on the Applicant's Request [rows (1) and (2)] and the ISMEA report 2011.

## 9 Employment

The Applicant alleges reduction of employment by the growers that are not directly within scope of the present investigation. In any case, if there are negative figures, this reduction could

<sup>17</sup> See ISMEA report on rice, 2011, the cost of production has been calculated by ISMA based on data of Aida Bureau VanDijk

<sup>18</sup> Cost of the finalization process (from raw milled to finished milled) assumed to represent maximum 10% of the total cost.

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be imputed to the buying pricing policy of the millers and not to the imports from Cambodia.

Furthermore, the Vercelli report indicates that since 1970 rice production in Italy has significantly been mechanized and therefore the workforce of the average farm in Italy has been limited. Hence any argument that imports of EBA rice are causing unemployment has limited applicability given the structure of employment in the rice sector.

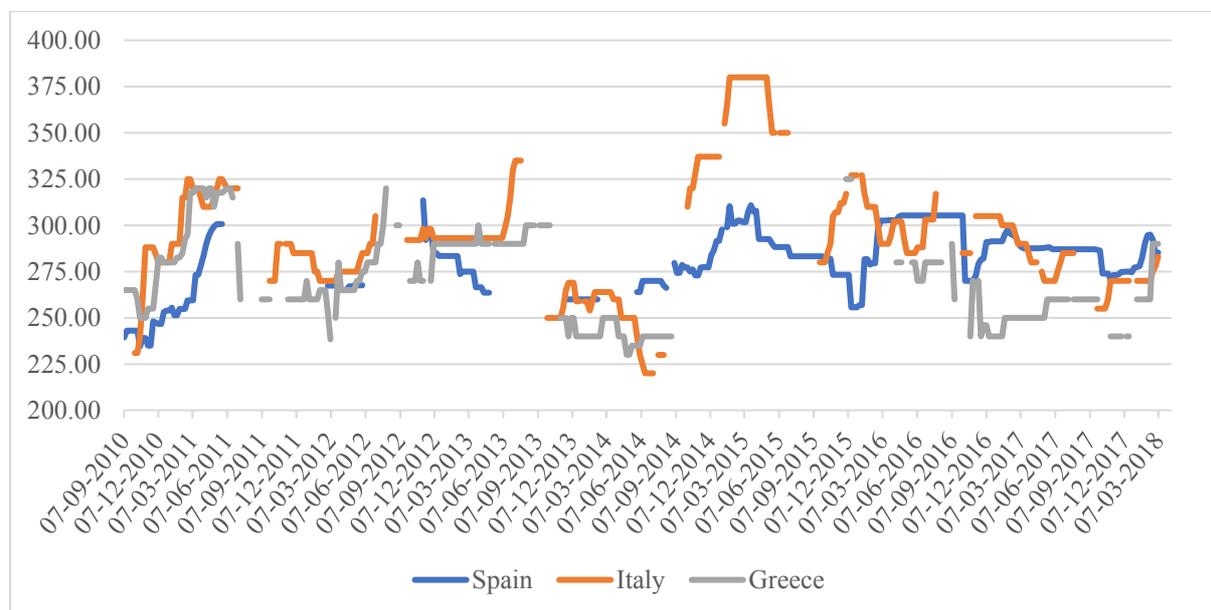
Contrary to the alleged reduction of employment raised by the Applicant, the millers show high profitability and expectations for the forthcoming cropping cycle as contained in statements of the president of the Italian Millers association requesting the growers to sow 237,000 hectares for the next cropping cycle.<sup>19</sup> Reports in the press of one major miller in Italy signal the opening of a new factory in October 2017.<sup>20</sup> There is no sign of loss of employment in the miller sector.

## 10 Causality

### 10.1 Price Fluctuation Heterogeneity Among EU Rice Producer States

As Cambodian rice exports to the European Union are not specifically directed at the Italian market, the fall in price of Indica rice reported by the Applicant should be observed in all EU countries. However, such a sharp fall is only observed in Italy, which supports a finding that other factors are at play. As evidenced below, unlike the Italian prices, Spanish prices are relatively stable over time.

*Figure 3– Indica Paddy Rice Price Comparison 2010-2018*



Source: in the current section, price data were extracted from reports published by the Spanish Ministry of Agriculture, Food, and Environment based on DG-Agri (AGR G-4) for the period 2010-2015, and directly from DG-Agri (AGR G-4) for the period 2015-2018.

<sup>19</sup> Available at <https://www.risoitaliano.eu/riso-per-la-patria/>

<sup>20</sup> Available at <http://www.risoscottipress.it/>

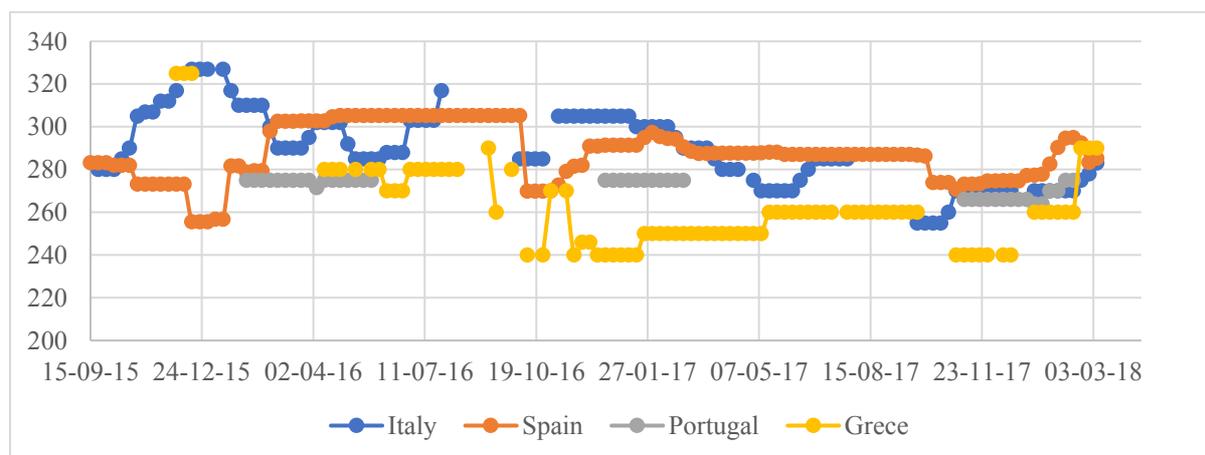
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As shown in Table 14 below, the standard deviation of prices in Italy is much higher than in other EU countries. This suggests that the volatility is due to factors that are Italy-specific. This can be seen for paddy rice prices, from 2010 onward in the Figure 3 above, but also applies with respect to a shorter time frame as shown in Figure 4 below.

*Table 14 – EU Prices of Indica Paddy Rice*

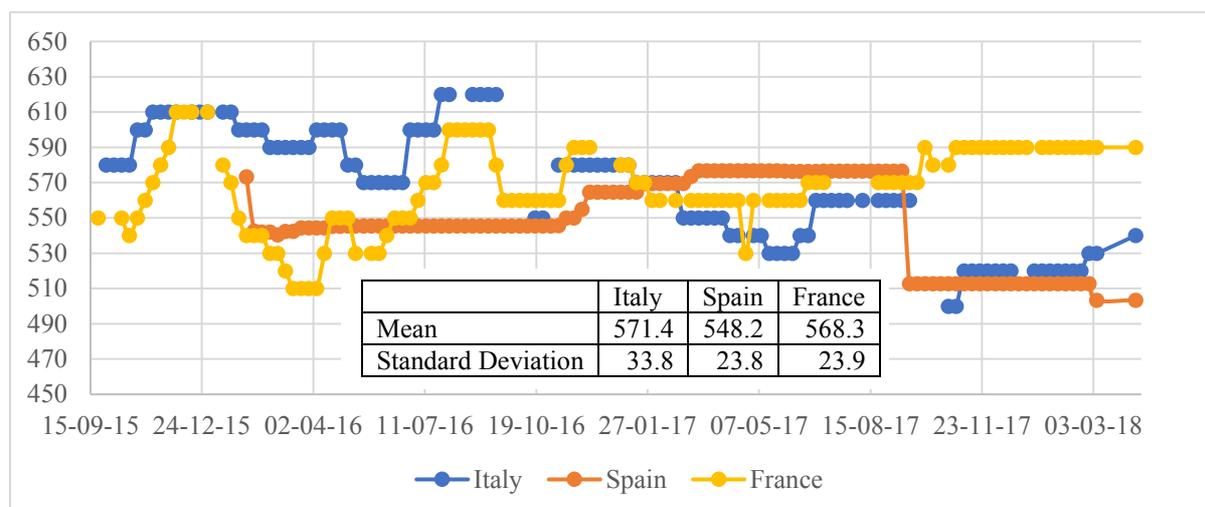
	Spain	Italy	Greece	Portugal
<b>Marketing year averages</b>				
2010/2011	259.8	298.4	287.9	
2011/2012	267.0	280.0	269.2	
2012/2013	279.5	298.0	288.4	
2013/2014	264.1	250.2	247.6	
2014/2015	289.6	356.6		
2015/2016	290.2	300.7	285.5	274.8
2016/2017	288.5	289.6	253.7	275.0
2017/2018	280.6	268.0	257.5	267.5
<b>Standard deviation by marketing year</b>				
Full sample 2010-2018	12.2	31.2	17.4	4.3
Sept. 2012-2018	11.1	38.1	21.2	0.1

*Figure 4– Indica Paddy Rice Prices Comparison 2015-2018*



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Figure 5– Indica Milled Rice Prices Comparison 2015-2018



As can be observed from Figure No. 4, Italian prices are also more volatile for milled rice. If Cambodian imports had triggered a shock on EU rice prices, this should have been reflected uniformly in all rice producing EU Member States. However, as can be seen in Figure 5 above, the price of milled rice significantly decreased in Italy from 2015/16 until November 2017 while Spanish and French price showed a reverse trend. There is therefore no direct impact of Cambodian imports on the EU prices data.

The combined reading of the data contained in the report of the ENR, the Vercelli report, and the note of the Italian brokers clearly shows that the price collapse and overall difficulty of the rice sector are due to the lack of coordination between producers and the rice industries on sowing and prices at the beginning of the cropping cycle. Indeed, in the absence of an agreement, producers make uncoordinated decisions that can lead to an over-production of one or the other variety. In other words, the lack of coordination among the various stakeholders of the Italian rice sector, namely millers and producers, combined with static or inaccurate expectations,<sup>21</sup> seems to have played an important role in the price fall.

## 10.2 Correlation Analysis

Table 15 – Correlation Table: EU Paddy Rice Prices and Imports from Cambodia

	EU Imports from Cambodia		Spain Correlation: +0.50		Italy Correlation: +0.17		EU Correlation: +0.12	
2012/2013	163,771		279.5		298.0		288.66	
2013/2014	224,472	37%	264.1	-6%	250.2	-16%	253.94	-12%
2014/2015	248,937	11%	289.6	10%	356.6	43%	323.13	27%
2015/2016	298,689	20%	290.2	0%	300.7	-16%	287.79	-11%
2016/2017	253,908	-15%	288.5	-1%	289.6	-4%	276.69	-4%

<sup>21</sup>In economics, *static expectations* refer to cases where economic agents expect the value of an economic variable (e.g. price) in the next period to be equal to the current value of this variable. In the case of rice, a decreasing trend in the price of Indica can lead to a massive shift of production towards Japonica if all producers believe that the price will remain higher than the one of Indica in the next period. However, in the next period, the price does not remain constant but falls due to the over-production. This extreme case highlights the importance of coordination.

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Source: Applicant's Request (Imports) and DG-Agri (Price)

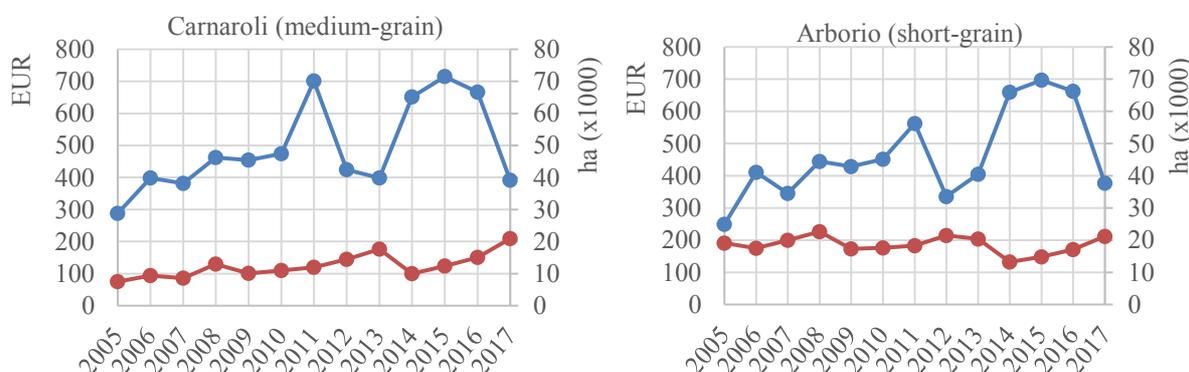
Another attempt to identify the causality between imports from Cambodia and the potential injury to the EU growers and millers is to identify a correlation, keeping in mind that it is a necessary but not sufficient condition for establishing causality. Indeed, the correlation measures the joint evolution of two variables, lying between -1 and +1, indicating either a perfect negative or positive relation between the variables. Based on the Applicant's argument, rises in imports from Cambodia are causing a depression in prices. Therefore, the correlation is expected to be negative. This would prove the link but not necessarily the causality as external factor could also explain the relation. However, such a relationship is not supported by the data where all correlations are positive and statistically not significant at 10% confidence level. Therefore, in the absence of correlation, a causality is fully irrelevant as the relationship for which we want to establish a causal link cannot be identified in the data.

### 10.3 Market Frictions – Lack of Coordination Among the European Rice Stakeholders

Based on the figures provided in the previous section, we can see that fluctuation of EU rice prices and profitability are mainly due to cyclical variations that are dependent on the dynamics of the Italian market in the formation of the price. The relations among the growers, the millers, and the brokers dominate the Italian market and are the key elements of the price formation of the domestic paddy rice that the millers are buying from the growers, either directly or through the brokers. The growers of paddy rice are mainly represented by Coldiretti. The millers are represented by AIRI, and the brokers are represented by Medirice. As widely reported in the Italian press, there are persistent serious tensions in the recent years among the growers and the millers over the purchase price of the different kinds of paddy rice produced by the Italian growers.

As contained in a note submitted by the Italian association of Rice Brokers,<sup>22</sup> the depression of prices is directly related to the increase in the cultivated area as an automatic supply and demand effect. More specifically, prices tend to fall once the size of the area reaches a certain threshold and are relatively stable below this point.

**Figure 6– Evolution of Italian Prices and Area by Rice Variety**



<sup>22</sup> Document by the Italian Rice Brokers Association, *Medi@rice*, available at: <https://www.risoitaliano.eu/customcontents/medi.pdf>

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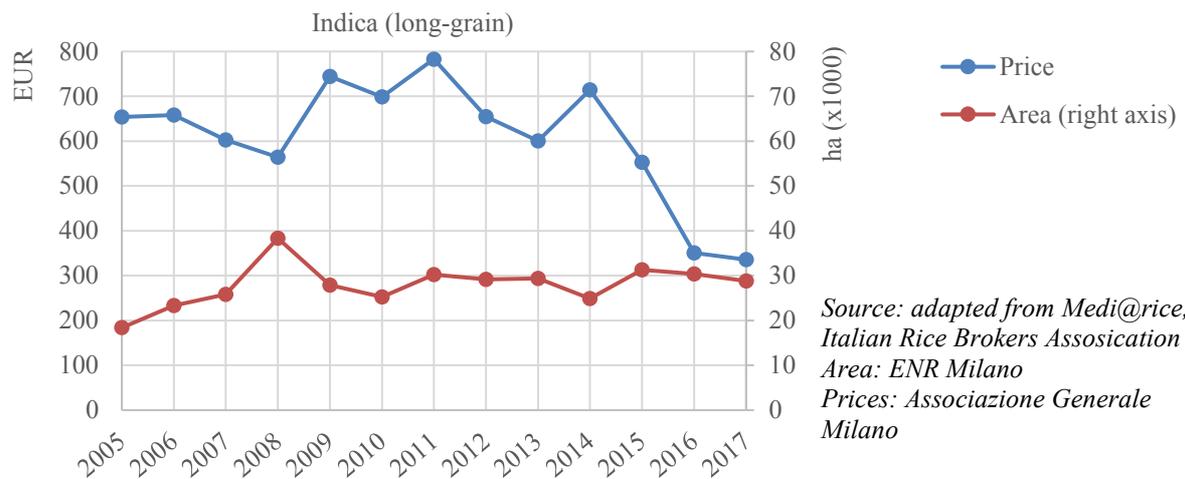


Figure 6 above represents the situation for the different varieties of rice cultivated in Italy. The sharp fall in prices of Japonica rice (short and medium-grain) in 2012 and 2017 arose when the area reached a value of around 12,000 and 14,000 ha for Carnaroli and of about 20,000 for Arborio rice.

Although the data confirms the link between the price fall and the cultivated area, the underlying reasons explaining the over-production are to be mainly attributed to the lack of coordination and consultation among the millers and the growers at the beginning of the cropping cycle. In the absence of such consultations and/or lack of coordination the growers are tempted to sow rice varieties that may be remunerative according to their estimates and calculations while the millers may need other varieties of rice. The mismatch between demand and supply is the main cause for the cyclical price variations and shift in production of different rice varieties. There is thus no causal relation with rice imports from Cambodia.

According to the Vercelli report, such a lack of coordination among the growers and the millers at the beginning of each cropping cycle is one of fundamental factors causing the shifting of production between the different varieties of rice, Indica and Japonica, resulting in occasional over-production of one of the two kinds of rice, which may trigger cyclical price depressions.

The findings of this report are further supported in a communication from Medirice, the association of rice brokers. The communication is aimed at responding to allegations from the rice producers concerning the low purchase price of their paddy rice by the millers and accusing the brokers to play a role in this price depression when selling this paddy rice, siding with the millers.

The most salient issue contained in the communication of Medirice is that the low prices of paddy rice are mainly caused by over-production of paddy rice due to uncoordinated sowing campaigns among the growers and the millers. The main argument put forward by Medirice is that the real cause for price depression of certain varieties of rice is directly related to the size of arable land cultivated for a specific variety of rice as shown in Figure 6 above for Indica rice.

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The depression of prices of Indica rice derives from longstanding cyclical and internal factors. In particular, a back-and-forth shift from the production of maize, a possible alternative for the rice producers, may have contributed to the alleged price fluctuations. Similarly, the above note of the Italian association of Rice Brokers recommends the application of the safeguard clause to duty-free imports from LDCs together with other actions to reduce the over-production that is at the root of the temporary price depression.

The decrease of roughly 10% of the area allocated to production of Indica rice is part of an overall trend observed in the latest three cropping cycles according to data published by Ente Risi and the EU Commission. However, this reduction of surface used for production of Indica rice during the 2016/2017 cropping cycle is balanced by a reversal of the above-mentioned trend with a recent increase of 12,200 hectares of surface cultivated with Indica rice in Italy in 2017, as further explained below. As aptly summarized in the Vercelli report, the Italian growers caught in such a downward spiral react in an uncoordinated manner, making the situation even worse.

The combined reading of the data contained in the report of the ENR, the Vercelli report, and the note of the Italian brokers clearly shows that the price collapse and overall difficulty of the rice growers is due to a lack of coordination between producers and the rice industries on sowing and prices at the beginning of the cropping cycle. Indeed, in the absence of an agreement, producers make uncoordinated decisions leading to an over-production of one or the other variety. In other words, the lack of coordination among the various stakeholders of the rice sectors, namely millers and growers, combined with static or inaccurate expectations,<sup>23</sup> have been the most important factors in the price fall of paddy rice

A report in the specialized Italian press further corroborates these findings.<sup>24</sup> It first confirms the recent trend reversal discussed above and reported by the ENR report with an increase in Indica and the keeping of Japonica rice in 2017 against a decline of other varieties of rice that is also due to a less favorable climate than expected. In addition, the report acknowledges the different forces and interests that are driving the rice market and prices of rice in particular. The Italian rice millers association (AIRI) presented a document (which is not shared by the agricultural producers) according to which there are spaces to be occupied in the rice market: *“The data shows in the last 6 Cropping cycles an increase in consumption in Italy of more than 25% and more than 10% in the EU. Italian exports outside the EU also show an interesting upward trend.”*<sup>25</sup>

In short, the AIRI calls on the Italian producers to increase rice production for the 2018/2019

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<sup>23</sup> In economics, *static expectations* refer to cases where economic agents expect the value of an economic variable (ex. price) next period to be equal to the current value of this variable. In the case of rice, a decreasing trend in the price of Indica can lead to a massive shift of production towards Japonica if all producers believe that the price will remain higher than the one of Indica in the next period. However, in the next period, the price does not remain constant but falls due to the over-production. This extreme case highlights the importance of coordination.

<sup>24</sup> Source: Riso Italiano, *Medi@rice si schiera con l'industria*, May 16, 2017, available at: <https://www.risoitaliano.eu/medirice-si-schiera-con-lindustria/>

<sup>25</sup> Source: Riso Italiano, *Riso per la patria*, December 5, 2017, available at: <https://www.risoitaliano.eu/riso-per-la-patria>

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cropping cycle. Conversely the Italian rice producers defend the government's Request to activate the safeguard clause to save the production of all types of rice, while Coldiretti (the association of rice producers) prefers the reduction in the production per hectare and to promote the specialization of rice cultivation for the national market.

On the one hand, there is the interest of AIRI to obtain local rice for milling and export of rice at a competitive price and of good quality. On the other hand, there is the claim of the growers to obtain profitable prices for the different varieties of rice produced. A proposed solution is to agree on collective and coordinated contracts among the industry and the producers for the production of the different varieties of rice according to industry demand to avoid imbalances of production with consequent depression of prices (e.g. Japonica rice). Such contracts should ensure a quantity of rice bought to the producers with a remunerative price to secure a reasonable profit margin. However, such a solution is not in sight and instead each group blames the imports of EBA rice from least-developed countries. In addition, as pointed out in the previous section, millers have incentives to support the lifting of EBA since the duty of 30 EUR/ton on brown rice would not affect their competitiveness in the EU market, where milled rice duty amounts to 175 EUR/ton.

It is clear from the above analysis drawn from the different sources that the “serious difficulties” alleged by the Applicant, i.e. the temporary reduction of hectares for the production of Indica rice and the depression of prices of Japonica rice in the EU and especially the Italian market, cannot be attributed to imports of EBA rice. The present difficulties are of a transitory and cyclical nature due to a series of internal factors in the EU market. More specifically, the lack of a coordinated sowing policy of different varieties of rice and the lack of agreement among EU millers and EU producers appear to have caused the temporary reduction of hectares cultivated for Indica rice and an over-production of Japonica rice that in turn has caused a temporary price depression. This is also confirmed by the fact that the trend in Italian prices significantly differs from the price evolution in other EU producing countries (e.g. Spain).

## **11 Request**

In view of the above comments, CRF respectfully requests the Commission to dismiss the allegations of the Applicant and terminate the present investigation.

**LIMITED\*:** For all data and information marked as LIMITED\* in this submission confidentiality is requested as this information is not publicly available and CRF obtained it from the rice exporters and MAFF. The disclosure of this information would result in significant disadvantage to CRF and Cambodian rice producers.