

Final Minutes from the meeting of the Civil Dialogue Group on Arable Crops on 15/04/2016

Flax and Hemp

Item 1: Approval of the agenda and the minutes of the previous meeting

The agenda was approved with the addition of an item under AOB, a presentation on hemp/seed used as human food.

DG AGRI informed those present that there would be a change to the way the minutes were approved. In light of the frequency of the CDG on Arable Crops, the minutes would be approved through written procedure. The deadline remained unchanged; the minutes must reach DG AGRI R.4 within 20 days; the DG AGRI unit that is concerned adds its comments/give its approval; the minutes are uploaded onto CIRCA and then the socio-economic organisations have 15 days to make their comments. The amended report is subsequently published on Circa and considered as approved.

Items 2 and 3:

a) Flax market situation

Cogeca began by reminding the CDG of the agronomic techniques involved in growing flax and the EU's share of global production. The outlets for flax were also reiterated: long and short fibres, seeds and shives. The new uses include composite materials in some sporting equipment, knitted flax, and shives used in biomass-fired boilers.

Copa presented the market situation using a Powerpoint presentation, which is available on Circa.

The surface area sown in FR/NL/BE: 81,300 ha (2014), 91,700 ha (2015). Sowings in 2016 were expected to increase by at least 10%.

2014/2015 situation: Long fibres: stocks were lower than n-1; the price had risen because of changes to the €/€ exchange rate which favoured the Euro. Short fibres: stocks were higher than n-1. The level of fibre in stock was higher because short fibres could be sold with shives (unprocessed) or processed, and as a result these fibres are counted several times.

The 2014/2015 marketing year was satisfactory, long fibres had been taken out of storage and the market situation had been positive throughout the marketing year.

2015/2016 situation (at the end of February): long fibres: increase in production, lower sales (as of February 2016; the marketing year ends on 30/06), so stocks were increasing. Short fibres: increase in production and sales, stable stocks.

At the end of February 2016, the indicators were positive. Sliding ratio production/sales over 3 months, stocks at the end of the month, sliding cumulative sales over 3 months, sliding price over 3 months.

Cocoeral asked Copa about what was driving the market. The market was driven by the parity of €/€ and the increase in demand for textiles and new bio-based materials. The share of flax in the textile market grew from 1 to 1.2% thanks to the promotion programme and fashion trends, in terms of both clothing and furniture. Current market conditions made it possible to gain an acceptable gross margin from flax, in comparison to agricultural products. However, investments in material are very expensive and can prove to be a limiting factor.

An NGO asked Copa about the environmental side of the crop, including rotation, fertilisation and phytosanitary diseases. Copa provided some technical responses and insisted on the need to have varieties available that are resistant to Fusarium and sun damage thanks to genetic

progress. Today research is focussed on varieties that are resistant to powdery mildew, Verticillium and Septoria. Improving genetic varieties is vital.

Flax is consumed throughout the world; 20% of it is processed in Europe; part of the flax which is spun in China comes back to Europe in yarn, fabric or textile form.

Flax is always more expensive than cotton because it costs more to produce and to spin. The flax fibre market cannot deal with major price increases because when this happens flax is substituted by cotton in mid-range products.

DG AGRI questioned the attractiveness of flax for the time being saying that although variable costs might be relatively low because flax does not require many inputs (fertilisers and phytosanitary products) qualified labour costs are much higher, especially for scutching. Producers were worried about the increase in surface areas expected in 2016. Copa reiterated the losses incurred in the 2008 and 2009 marketing years.

Copa reminded DG AGRI to monitor the price of fertilisers, which had not gone down to the same extent as energy prices. Fertilizers Europe reminded those present that the European fertilisers market is very open and stressed DG AGRI's conclusions on agricultural prospects.

Item 3: Private storage of flax

The interbranch organisation was monitoring the market based on the following indicators: sliding ratio production/sales over 3 months, stocks at the end of the month, sliding cumulative sales over 3 months, sliding price over 3 months. The interbranch organisation sends signals based on these indicators. The interbranch organisation wanted to be protected from the competition authorities if the organisation were to send out signals to farmers, encouraging them to store flax straw on agricultural holdings. The advantages of stocking straw on a farm would constitute a physical signal to farmers about the market situation; diluting stocks on agricultural holdings makes them invisible to buyers.

DG AGRI noted Copa and Cogeca's proposals and informed those present that the draft secondary legislation on private storage would be subject to a vote in April. DG AGRI added that draft secondary legislation concerning notification of production and prices was under way and would include flax. Copa insisted on the fact that figures on the trade of flax fibres are also needed. When the stocks are in the EU, the EU can manage the situation; but when the stocks are held outside the EU, the European production chain is taken hostage by clients in third countries. The sector provides 12,000 jobs in Belgium, the Netherlands and France.

Cogeca stressed that the development of indicators to monitor the market aimed to pre-empt the crisis and to trigger preventative measures, such as the storage of straw.

Item 2.b) Hemp market situation

EIHA presented the situation using a Powerpoint presentation, which is available on Circa.

Based on the sale of seeds, the EU surface area in 2016 was estimated at 28,000 ha. Surface area was increasing and was linked to processing units in the Member States (F, A, NL, RO, CZ, I, Lithuania). There are studies on the development of cannabidiol for pharmaceutical use which could stimulate the development of this crop in the Baltic States.

The prices in each outlet: paper mills (stable), technical fibres (prices rising), surplus shives (decreasing), seed (rising/ demand for human consumption very volatile), pharmaceutical use (?).

In France, when wheat is lower than €180/t, it is in farmers' interest to grow hemp in regions where there are processing tools. Hemp is a good break crop and it improve soil structure, helping to fight against drought. The crop is of agronomic and environmental benefit, but there is a parasite called "Orobanche", in these cases hemp should be part of a 7-year rotation cycle. The technical institute was carrying out a mapping exercise on the parasite and the infected parcels are removed from rotation with hemp.

EIHA carries out a market study every 3 years. It would soon be made available.

As regards the implementation of greening, EIHA underlined the fact that the equivalent measure at national level for crops grown without phytosanitary products was not working; not

a single Member State had opted for a minor crop like hemp. Using a PowerPoint presentation, EIHA reminded those present of the benefits of hemp for the environment, including biodiversity. EIHA asked to be allowed to benefit from the specific characteristics of hemp on EFA through a system that would not create any distortion between the Member States.

An NGO underlined the fact that the crop needed 60 units of N/ha, and there was a risk of water pollution. EFA do not include the effects of hemp on the energy savings which result from hemp sales.

DG AGRI's direct payment unit was not present at the meeting. The question would be sent to the relevant DG AGRI unit.

Copa reiterated its position: that the basic acts of the CAP must not be opened as part of the simplification process. Copa asked DG AGRI to examine the possibility to grow hemp on fallow land under secondary legislation because the certification scheme permitted in the basic act is impossible for a small-scale crop to access because of the certification costs.

Item 4: Promotion campaign

CELC gave a PowerPoint presentation on the promotion programme be.linen II, which had been approved for the 2016-2018 period. The programme was aimed at end consumers and professionals. The campaign also aimed to remind clients where flax comes from.

Item 5: A.O.B.

EIHA presented a piece of information about the use of hemp seed as a foodstuff, via a PowerPoint presentation. There was a large increase in hemp surface area in Canada due to the development of foods made from hemp seeds and varietal development. Canada was selling this to the US. Europe was lagging behind. The marketing of hemp seeds in European should be facilitated. The Nova Institute was going to publish a study and proposals.

EIHA provided the following information: the seed does not contain THC, but when the seed is treated, it may be contaminated by leaves containing THC.

Coceral asked EIHA about imports from Canada.

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Minutes of the Civil Dialogue Group on Arable Crops 15th April 2016

Rice: afternoon

1. Exchange of views on the rice market situation

The Commission gave a presentation on the rice market situation. 2015 was a good year for rice production. Total EU rice area in 2015 was 435,810 ha (a 5.5% increase on 2014). This was the first increase in 4 years; however, there was a contrast between Japonica (+18%) and Indica (-15%). Production in 2015 reached 3 million tonnes of paddy rice (+10.5%). This was also the first increase in 4 years, although the varieties produced had changed: 75% of rice produced was Japonica and 25% was Indica. In particular, there was a strong or very strong increase in 6 out of 8 rice-producing Member States in 2015 and a very strong increase in Japonica production in 7 out of 8 producing Member States. Meanwhile, there was a very strong decrease in Indica production in 3 out of 7 producing Member States.

As regards trade, the 2014/15 marketing year was a record year for imports which reached 1.193 million tonnes of milled equivalent rice (excluding broken rice). During the 6 months of the 2015/16 marketing year, imports reached 663,400 t, which equates to a 35% increase compared to the 2014/15 marketing year, in particular for milled rice (+20%), husked non-basmati

(+44%), husked basmati (+35%) and paddy rice (x 230). During the 2014/2015 marketing year, imports came primarily from India (23%) followed by Cambodia (21.9%) and Thailand (18.3%); whereas during the first 6 months of marketing year 2015/2016, imports came primarily from Cambodia (23.5%), followed by India (22.8%) and by Thailand (17.9%). There was also an increase in imports in small packages (<20kg). 2015 was also a good year for exports. During the six first months of the current marketing year, there was 29% decrease in exports compared to the previous marketing year. The main country of destination is Turkey.

The on-going discussions between the Commission services and the Members States in the Customs Code Committee addressed the following points:

- Deletion of existing codes for parboiled paddy (4 codes at 8 digit level involved).
- Merging the existing codes for small packets 0-5 kg and 5-20 kg into codes for a single category of small packets 0-20 kg (32 codes at 10 digit level involved).
- Creating new codes specific to aromatic/fragrant rice in addition to the existing ones for Basmati (22 codes at 10 digit level involved).

To conclude

- In 2014/2015
- Recovery in EU paddy prices (tight supply/demand early 2015)
- Good year for EU rice production: high surface area + good yields; sharp contrast between Japonica (+24%) – Indica (-17%)
- Record year for EU rice trade (record imports of Indica, record exports of Japonica)
- EU Rice Market Q1-2016
- EU rice trade: imports up, exports down
- Supply: high (Japonica: high production, Indica: high imports)
- Demand: to be seen (in particular Japonica exports)
- Prices: still stable

Birdlife asked a question about the consequences of changing the customs codes for small packages and if there could be any loss of information. Birdlife also asked about the reasons behind the price difference between Italian Japonica and Spanish Japonica.

FoodDrinkEurope stressed that the current information provided by the current customs codes for small packages is valuable and should be maintained.

Copa said the only positive data was the data on prices, and that the other data were a cause for concern. In particular, it is seen today that the increased imports from EBA countries will not replace other imports, and the total amount of imports is increasing.

The Chair asked about the Commission's data on EU consumption and the way it is adopted. The Commission representative explained that data on production and stocks are obtained from Member States notifications, data on imports and exports are obtained from Eurostat database COMEXT. Data on consumption are calculated as residual value (production + imports + stocks variation – exports)

CELCAA stressed that the customs codes for the different small packages provided different information that is needed, as the products come from different markets.

FoodDrinkEurope said that the price reference for the Italian rice Selenio might not be as representative as before.

The Commission representative replied that it would have to have a discussion with the Italian authorities about the price reference in Italy in order to select the most representative variety to determine the average price.

2. Overview of the situation of Cambodian rice imports

The Commission representative gave a presentation on EBA rice imports. EBA Rice imports, in particular those from Cambodia, were still increasing. The Commission is regularly in contact with Cambodia to discuss technical matters (quarterly exchange of rice trade statistics). Further political contact with Cambodia was planned. A more detailed monitoring of Cambodia imports was also in the pipeline (share of aromatic rice in total rice imports through specific customs codes).

Copa said that given that the Commission has not decided to implement the safeguard clause, it should be possible to adopt a tariff rate quota for Cambodian and Myanmar rice imports.

FoodDrinkEurope stressed that since the beginning of the implementation of the duty-free quotas with EBA countries, imports from Cambodia had risen constantly, which was having an impact on the balance of EU rice production. Indica production has decreased, creating the need for further imports of this rice variety. Myanmar has the potential to produce and export even more rice than Cambodia.

The Commission representative replied that the Commission services were also concerned about additional imports from Cambodia. The Commission will maintain political dialogue and exchange of trade data with the Cambodian authorities every three months. As regards the fraud cases addressed in the press, if it was proven that rice coming from other countries such as Thailand was being exported as Cambodian rice, it would be possible to invoke measures that guarantee the compliance with the rules of origin. However hard evidence on origin fraud would first be needed. The Commission representative informed the members that in order to activate the safeguard clause, several political dimensions need to be taken into account and that economic disturbance on EU rice market also needs to be demonstrated. However, at the present time, the Commission believed that the conditions to activate the safeguard clause had not been met, be it at political or economic level (despite additional EBA imports, 2015 has been a good year for EU rice: good production, good demand, good prices).

3. EU-Vietnam Bilateral Agreement: state of play of implementation

The Commission gave a presentation on this point. After the conclusion of the negotiations for a free trade agreement with Vietnam on 2 December 2015, the text was published¹.

As for the TRQ management, the agreed text stipulates that "The EU shall administer its tariff quotas in accordance with its internal regulations that facilitate trade between the two parties with a view to maximizing utilization of TRQ quantities."

In practice the EU will opt for a First Come first Served Approach except for the rice sector, where the Commission is proposing to Vietnam the "usual" rice quota management with licences and sub-periods.

FoodDrinkEurope said that managing the rice TRQs management with a licence is a better approach.

4. Tariff quota management system: state of play

The Commission gave a presentation on this point. The Commission wanted to update the Commission's TRQ rules because currently there are over 35 horizontal and sectoral regulations. In addition, there were considerable differences in terms of management methods and the requirements for operators. There was also a need to align the current rules with the Lisbon Treaty. In terms of the procedure, a "light" approach was intended, meaning harmonisation where possible, with no real fundamental changes. In 2016, the Commission intended to draft a 4 column document, and a draft delegated act and a draft implementing act. They could come into force in 2017.

The following points were identified as relevant issues for the rice sector:

- No transfer to FCFS? The monitoring licence is an international obligation anyway

¹ See <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1437>

- Monthly licence application?
- Sub-periods + sub quantities to keep? Int. obligation weekly Reg. 1964/2006, 480/2012.
- Proof of trade 12 months?
- Introduction TRQ rights, followed by TRQ licences?
- Abolition lots drawing system?

CELCAA stressed that the current TRQ management system should not change radically.

Cogeca said that without a proper licence management system, all imports could arrive at once with a very negative impact on the market.

5. Tricyclazole: overview

The Commission gave a presentation on this active substance focussing on the regulatory history and current state of play. Tricyclazole was originally considered for EU approval as part of the initial EU Review programme under Directive 91/414/EEC, supported by Dow AgroSciences for use on rice to control rice blast. The assessment was carried out in 2006/7 by the Rapporteur Member State, France and it was peer-reviewed by Member States and EFSA. Critical concerns were identified (importantly for human health where crucial missing data made it impossible to set reliable human health reference values).

Consequently, it was non-approved in 2008 by Decision 2008/770/EC. All plant protection products containing tricyclazole therefore had to be withdrawn from the EU market by 30th March 2009 with a maximum grace period of 1 year.

Since 2010, some Member States have issued emergency authorisation for the use of tricyclazole on rice. Application to set an 'import tolerance' to maintain the existing EU MRL of 1 mg/kg was submitted to Italy by Dow following non-approval.

In 2012, a new application for approval of tricyclazole was submitted in accordance with Regulation (EC) No 1107/2009 (the EU legislation on pesticides that replaced Directive 91/414/EEC). The existing MRL was maintained pending the outcome of this assessment.

The rapporteur Member State for this new application, Italy, evaluated the new dossier (submitted by Dow) and submitted their Draft Assessment Report to EFSA for peer-review. It was peer-reviewed by all Member States and EFSA who identified concerns. The EFSA conclusion was published in February 2015. The following critical areas of concern were identified:

- Assessment of the genotoxic and carcinogenic potential of the substance was inconclusive.
- The reference values (ADI, ARfD and AOEL) for use in human health risk assessments could not be established.
- Risk assessments for operators, workers, bystanders, residents and consumers could not be conducted

There were also a number of other issues that could not be finalised including the endocrine disrupting potential of the substance and the risk to groundwater from leaching of metabolites. The Commission is aware that this substance is important for growers and traders; however, given that there is no risk assessment available to conclude 'safe' use for humans or the environment and taking into consideration the approval criteria laid down in the legislation. the Commission made a proposal for non-approval in July 2015.

Discussions were ongoing with Member States and within the Commission on moving forward with the proposal for non-approval. Following a non-approval decision, given that no consumer risk assessment is available to support the existing MRL of 1 mg/kg, action will be taken to lower this to LOQ (0.01 mg/kg). In this situation, EU Member States could continue to issue emergency authorisations but would need to consider the residue levels present in the treated crop (restricted trade). Rice from third party countries would need to comply with the new MRL set at LOQ.

CELCAA asked the Commission when the new MRL would be enforced if the non-approval proposal were adopted, and how long the transition period would be.

FoodDrinkEurope stressed that Italy had studied the substance and approved it. The US also approved this substance with 3 ppm. India and Japan had also approved it with a limit of more than 1 ppm and they eat much more rice than in the EU. If the EU forbade the use of trycliclazole, it would harm the whole sector, leading to possible 30% drop in EU production, and 1,000 kg/hectare less yield. In addition, currently 70% of imports contain trycliclazole residues. The Indian government is highly likely to strongly denounce a non-tariff barrier.

Birdlife said that the organic sector was not concerned by this non-approval, but that it hoped that the Commission was not acting against the whole rice sector.

Copa said that taking into account that the sector is currently facing increasing competition from third countries with an impact on prices, if farmers cannot access adequate phytosanitary treatment for rice blast in the EU, this would lead to a crisis in the EU rice sector from which it cannot recover. In addition, given that the endangered areas of rice production in the EU are located in river basins and deltas for more than a century, losing rice fields and production would run counter to the new objective of the Common Agricultural Policy, which encourages agriculture to contribute to the maintenance of biodiversity.

FoodDrinkEurope stressed that given that DOW has expressed its willingness to present new data and that according to DOW this substance does not present any harm to health, the Commission should wait until receiving this new data before adopting a decision on this substance.

CEJA stressed that they were also very worried about the consequences of a ban of this substance on the sector, given that there are no other alternatives to this substance.

CELCAA stressed that this would also create a huge problem for the stocks. For example, in Germany, the stocks from the government are kept for 9 years.

The Commission representative said that the Commission's intention was not to damage the sector but to have a fair and transparent approach, based on science, for all substances in order to protect human health and the environment in accordance with the EU legislation which lays down strict approval criteria to ensure that substances can only be approved when it has been demonstrated that they will not cause harmful effects to human and animal health or the environment. It is also not approved in the USA, as this is only an import tolerance. If the Commission waits until new data is provided, this would mean that waiting until 2019/2020; however, the Commission is bound by legislation and must act to ensure the safety of consumers. The Commission representative added that we need to trust the work of EFSA, and said that the Commission was still considering all possibilities in terms of timing, and was actively engaging with all relevant stakeholders and with Member States on the dossier.

Disclaimer

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