



Association des Amidonniers et Féculiers

THE EUROPEAN STARCH INDUSTRY'S VIEWS ON THE FUTURE OF THE SUGAR REGIME IN THE FRAMEWORK OF THE POST-2013 CAP

The European Starch industry – an important economic player in European economy and rural development

The European starch industry represents primary food processors that sell to the second transformation industry. It is an important agro-industry that extracts starch from maize, wheat, potatoes, rice and barley and processes them into several hundreds of products, from native starches to physically or chemically modified starches, liquid and solid sugars. Starch products are used as ingredients, functional products and intermediates in food, feed and non-food applications.

Annually, starch operators use about 21.6 million tons of almost exclusively EU-grown agricultural raw materials (split into 14.1 million tons of cereals and 7.5 million tons potatoes) for a production of about 9.4 million tons of starch products and several million tons of co-products. The agricultural area used by the European starch industry (approx. 2 million ha) is comparable to that used by the sugar beet growers (approx. 1.8 million ha)¹.

The European starch industry employs about 15.500 people and generates a turnover of approximately 7.5 billion euros. Over the 2005-2007 period, it invested about 1.2 billion euros in its EU plants².

Starch plants are generally located in rural areas near the raw materials, i.e. close to the growers of wheat, maize and starch potatoes, which contributes to the sustainability of European agricultural activities.

The European starch industry therefore has a key role to play in the future of the CAP, the fight against climate change and the Europe2020 strategy.

Contribution of the starch industry to the bio-based economy in Europe

Indeed, the considerable investments in Research & Development (over 100 million € annually) enables the European starch industry to remain at the forefront of innovation and to contribute constructively towards the sustainable development of innovative food, feed and bio-based products in the EU. The new bio-based economy enables technological innovation in numerous market segments, use of renewable raw materials, diversification of the rural economy and creation of “green” jobs.

¹ AAC / API estimates of February 2005 about the 2002/2003 period.

² 2007 AAF data.

The idea of using agricultural raw materials in chemical processes and applications – the concept of «starch-based chemistry» - is not new. Because starch and starch derivatives are renewable and biodegradable, they are the most perfect raw material for the sustainable use of agricultural products. For the last 30 years, the EU starch industry has been producing bio-based products that are used as raw materials, generally replacing fossil-fuel-based products, in the fermentation, chemical, cosmetics, textile, paper, plastics and detergent industries.

All in all, producing bio-based products in integrated bio-refineries brings economic, environmental and social benefits and improves the EU's sustainable industrial production; EU starch operators are key enabler of this “revolution” through the efficiencies of white biotechnology.

Environmental sustainable starch production

The European starch industry has always been aware of the impact that their industrial activities have on the environment and has always sought to limit the environmental impact of starch production.

For instance, the European starch industry has been improving the energy efficiency of its starch plants with a two-fold objective: to reduce their environmental impacts and their energy costs. Through its participation in the EU Emissions Trading Scheme and its high take-up of Combined Heat and Power, an environmentally-friendly technique to produce heat and electricity simultaneously, the European starch industry strives to reduce its greenhouse gas emissions.

Many starch plants have established enhanced waste water treatment facilities in several EU Member States, that fulfil legal requirements and comply with local environmental standards. They also aim at preserving the renewable natural resources through the appropriate use, re-use, recycling and recovery of materials and products and at raising the awareness of their employees, contractors and suppliers of the role they have to play in reducing environmental impact of processes, services and products.

Already in 2001, long before this topic was on the Commission's agenda, the European starch industry prepared its own eco-profile study for the production of starch and starch derivatives in the EU as a tool to identify environment impacts.

Today, the AAF is actively participating in the developments of the Food SCP (Sustainable Consumption and Production) Round Table, whose committees are all co-chaired by Commission officials and which aim at proposing a harmonised approach to the assessment of the environmental impact of food and drink products at EU level. In this framework, it supports the “*Guiding Principles for the voluntary Assessment and Communication of Environmental Information along the Food Chain including to consumers*” adopted by the European Food SCP Roundtable's plenary last July.

The European starch industry requests the abolition of production quotas whilst maintaining a level playing field, and an equal treatment of carbohydrates to supply the industrial and the new green chemistry sectors.

Scope

In the run-up to the Commission's forthcoming communication about the Post-2013 CAP, the European starch industry wishes to underline the two main issues that are severely and negatively impacting its competitiveness:

- the existence of the isoglucose production quota; and
- the supply of out-of-quota sugar to the fermentation sector and the introduction of several regulations³ enabling this sector to have access to sugar at world market prices, be it through intervention or imported sugar.

Anti-competitive environment

The EU should put an end to the anticompetitive situation in which the EU starch industry has been forced to operate over the last 40 years. It is essential that our industry's efficiency is no longer obstructed and that the sugar industry is no longer consistently favoured at the expense of our industry.

Immediately after isoglucose came on the market in the EU, its development was stopped by the production quota system. The European Union is applying a policy which it condemns and sanctions if companies were to apply it: dividing the sweetener market (97% for sugar and 3% for isoglucose!) and restricting competition between sugar and isoglucose.

Also, one of the reasons for imposing a production quota on isoglucose at the time was to address import of US maize into the EU by the European starch industry. This reason no longer stands today as starch operators almost exclusively use EU-grown raw materials, thereby supporting EU farmers.

Impact of sugar regime and the unequal treatment of suppliers of carbohydrates to the fermentation sector

The continuation of the isoglucose quota limits the European starch industry's market activities and negatively impacts the sector's ability to run its facilities cost effectively, hence limits its competitiveness. In addition, the quota restricts its own customers' and the final consumers' freedom of choice between sweetener alternatives for food and other applications. It also limits further innovation within certain segments in our industry! The extension of the isoglucose quota granted under the reform of the sugar regime in 2006 was totally insufficient to compensate the reduction in the sugar price and the negative effect thereof on the European starch industry's price and revenue levels.

Since 2003, the European starch industry has been alerting the EU Commission of the serious consequences of maintaining the isoglucose production quota and of the impact on our industry of the measures taken in favour of the sugar supply to the fermentation sector.

³ e.g. sales of intervention sugar and opening of import quotas.

Starch sweeteners make up more than 50% of the annual starch production and can be substituted by sugar in several applications. The afore-mentioned measures therefore had an immediate detrimental knock-on effect on our revenues and our sales of starch-based feedstock to the fermentation industry.

These warnings have now materialised and the situation has worsened: our sales to the fermentation sector have dropped by 57% in four years! It can also be translated into a concrete figure, i.e. a loss of more than 600 000 tons of sales of our carbohydrates and the elimination of any sales of isoglucose to the fermentation sector⁴.

Additional decisions have contributed to the already unfavourable situation; indeed the elimination of the compensation mechanism for starch products versus world market prices created a complete distortion between the two sectors supplying the fermentation industry: (a) the ceiling applied by the Commission on the calculation of the production refund for starch and the abolition of the system itself by the Health Check reform; and (b) the elimination of the sugar production refund has eliminated the sales of isoglucose to this sector.

The minimum price for beet subsidises out-of-quota sugar

Today, the EU sugar sector has successfully restructured itself and has become competitive enough to request freedom to export, according to CEFS⁵.

By eliminating the minimum price for beet, WTO⁶ export limits would no longer apply. The EU sugar industry would be able to ship significant quantities of sugar to world markets, where prices have reached levels that are very attractive. With the continued growth of sweeteners demand, the EU sugar industry should be able to accept elimination of the EU quota for sugar and isoglucose since it can compensate any increase in isoglucose market share in EU by increased exports of sugar to world markets. Moreover, this industry is more and more involved in the production of bioethanol, again creating new sustainable outlets for sugar beets.

Eliminating the minimum price for beet but keeping the quota in the EU would give sugar producers an advantage that is merely not available to isoglucose producers since possibilities for isoglucose exports to world markets are very limited.

The elimination of the minimum price for beet and of the production quota would result in a competitive EU sweetener market which would give opportunities for both sectors to develop and bring advantages to consumer industries:

- the EU sugar industry would be able to benefit from the freedom to export, the absence of which today may seriously impact its efficiency and revenues; and
- the EU starch industry would be able to benefit from increased efficiency and cost reduction, also required to serve the EU fermentation industry on equal footing with the sugar industry.

20 September 2010

⁴ Industry statistics gathered by PWC show that sales in the fermentation sector decreased from approximately 1 Mio tons in 2005 to 430.000 tons in 2009; they have annually decreased by 25% in 2006, 39% in 2007, 33% in 2008 and 0.4% in 2009.

⁵ Comité Européen des Fabricants de Sucre – European sugar industry, in « First contribution to the public debate on the Common Agriculture Policy (CAP) post-2013 ».

⁶ World Trade Organisation.