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The EU starch sector

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Prepared by:
Office of Agricultural Affairs
U.S. Mission to the EU
Drafted by:
Danielle Borremans

Report Highlights:
This report provides a brief summary of the EU starch sector and the main policy instruments used by EU authorities.

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The EU starch sector

Starch production and markets

Current EU starch production amounts to 7.4 MMT, of which corn-based starch takes up 3.9 MMT, while wheat-based and potato-based starch production equal 1.7 MMT and 1.8 MMT, respectively. About 6.2 MMT of EU starch produced is sold on the domestic market, which, over the last five years has grown by 3 percent annually. 55 percent of domestic sales, over 3.3 MMT, end up in food applications, while about 2.7 MMT is sold to non-food users, and between 100,000 MT and 120,000 MT is destined as animal feed.

While wheat-based starch production has increased its relative share over the last decade to the detriment of corn-based starch, potato starch production has remained stable over the last 20 years owing to the fixed production quotas by which it is restricted. For the years 1998/99, 1999/2000 and 2000/2001, the total EU potato starch production quota equals 1.864304 MMT/year. Quotas are allocated between 8 EU member states. These are (ranked in decreasing order of production quota volumes): Germany, the Netherlands, France, Denmark, Sweden, Finland, Austria and Spain.

Although a ton of wheat contains 20 percent less starch than corn, and investment costs for wheat-based starch capacity are relatively higher, wheat is likely to remain the dominant crop in the EU, and the relative share of wheat-based starch capacity will continue to increase. Compared to the U.S., where futures markets are playing a big role in determining wheat prices that fluctuate a lot, EU wheat prices are far more stable throughout a season.

In terms of starch consumption, the markets in Central and East Europe, of which a number will accede to the EU in the next decade, are considered a large potential market. For example, starch consumption in Poland equals only 6.25 kg/head, compared to 16.6 kg/head in the EU-15.

Biotechnology is an important tool in starch production, especially in the area of potato starch. Future positioning will necessarily focus more on specific niche markets and special applications whereby biotech can play a major role. Although EU authorities have yet to give approval for commercialization of the first genetically modified starch potato, field trials and research into biotechnological applications continue in the EU.

Starch policy

EU subsidies in the starch sector take the form of export refunds and production refunds. In the case of export refunds, the subsidy level varies with the gap between EU internal prices and international prices for the raw material concerned: wheat starch export subsidies take into account the price gap between EU wheat and wheat on the world market, while corn starch subsidies are based upon the price difference between EU corn and international corn. In the case of production refunds, however, the price gap for corn serves as a calculation basis for all starches, independently from the raw material source (corn, wheat, potato).

Since starch subsidies are based on raw material prices, the development of EU wheat and corn prices vis-a-vis grain prices on the world market determines the development of those subsidies. Some sources, including the

European Commission, forecast a serious drop and a possible elimination of subsidies after the implementation of Agenda 2000. In their opinion, the difference between EU and world grain prices, now basis for the level of EU subsidies, would be gradually reduced to zero, making EU subsidies unnecessary. Other sources disagree, however, with this argument, by saying that chances for EU corn prices going down to world market levels are far smaller than the possibility of a scale-down in EU wheat prices. Two years before the actual implementation of Agenda 2000, the starch industry is already pleading against abolishment of EU starch subsidies. Currently, 99 percent of EU starch exports are subsidized, the total EU budget expenditure on starch export subsidies amounting to EUR 75 million. See Table 1 for an overview of EU starch export subsidies over the last 6 months.

Table 1: EU export subsidies for starch (EUR/MT), August 13, 1998 - present

Effective date	Wheat starch CN code 1108 11 00	Corn starch CN code 1108 12 00	Potato starch CN code 1108 13 00
August 13, 1998	72.66	82.43	66.43
August 14, 1998	72.66	82.43	66.43
August 21, 1998	58.48	82.43	66.43
September 11, 1998	84.02	77.78	77.78
September 25, 1998	68.90	84.40	84.40
October 9, 1998	53.84	84.40	84.40
October 23, 1998	53.84	75.63	75.63
October 30, 1998	47.00	81.44	81.44
November 6, 1998	47.00	81.44	81.44
November 27, 1998	46.78	86.22	86.22
December 11, 1998	57.98	86.22	86.22
December 18, 1998	60.76	88.75	88.75
January 22, 1999	60.76	88.75	88.75
January 29, 1999	65.70	88.75	88.75
February 26, 1999	73.00	80.02	80.02

Source: Official Journal of the European Communities

Production refunds in the starch sector are in fact “user refunds” which are paid to users of starch for the production of goods which are not protected by an import levy. These are mainly paper, chemicals, pharmaceutical products, and textiles. The total EU budget expenditure on production refunds for starch amounts to EUR 147 million (Source: EU Budget 1999). See Table 2 for an overview of production refunds during the period July 31, 1998-present. The payment of these production refunds is complicated by the fact that some starch products may be used for the manufacture of isoglucose (high fructose syrup). In order to prevent the aggravation of the EU's sugar surplus by an increase in the use of isoglucose, the EU has set production quotas for isoglucose (see the annual EU sugar report of this office on our homepage http://www.useu.be/agri/commod.html). Moreover, no production refunds are granted on products destined for the manufacture of isoglucose.

Table 2: EU production refunds for starch (EUR/MT); July 31, 1998-present

Effective date	Starch extracted from corn, wheat, potatoes, rice, barley, or oats
July 31, 1998	48.10
August 7, 1998	56.75
September 11, 1998	52.48
September 25, 1998	59.54
October 23, 1998	51.31
October 30, 1998	56.91
November 27, 1998	61.26
December 18, 1998	64.14
January 29, 1999	64.14
February 26, 1999	53.60

Source: Official Journal of the European Communities

Starch trade

Exports of starch to third countries amounted to 417,000 MT in 1997. See Table 3 for a split-up by country of destination. Potato starch (312,000 MT) makes up the bulk of starch exports, followed by corn starch (85,000 MT) and wheat starch (20,000 MT).

Table 3 : EU exports of starch to third countries, CY 1997

Country of destination	Exports (MT)
Japan	33,437
United States	32,860
South Korea	32,020
Hong Kong	29,279
Taiwan	28,933
Switzerland	20,900

China	16,109
Thailand	15,638
Mexico	13,974
All others	193,977
TOTAL	417,127

Source: EUROSTAT

EU imports of starch from third countries are limited, amounting to 10,325 MT during CY1997. Manioc starch (7,434 MT) makes up the majority of imports, followed by corn starch (2,258 MT), rice starch (304 MT) and wheat starch (240 MT). See Table 4 for a split-up of imports by country of origin.

Table 4: EU starch imports from third countries, CY 1997

Country of origin	Imports, Metric Tons
Thailand	7,433
United States	1,660
Canada	546
China	179
Others	507
TOTAL Imports	10,325

Source: EUROSTAT