EU soft drinks to fizz with grain syrup after sugar reform
Tue, Jul 9 2013

By David Brough

LONDON (Reuters) - Europe's soft drinks and ice creams will take on a transatlantic flavour as syrups made from wheat and corn seize market share from sugar, after reforms sweep the European Union's quota-ridden system into a more competitive arena.

Quotas for sugar and cereal based sweeteners are to end in 2017 after European Union negotiators agreed on sweeping changes to the bloc's Common Agricultural Policy (CAP) last month, which involved liberalising sugar production and cutting subsidies to the largest farms.

Consumption of cereal-based sweeteners could triple to around two million tonnes, with the soft drinks and ice cream sectors driving growth. Quotas had capped production at around 700,000 tonnes, or less than 5 percent of the total EU sugar production quota.

"The quota was fixed at such a low level that it does not represent the competitiveness of cereals versus beet in Europe and the fact that the demand for sweeteners is increasing," a senior executive with a European starch processing company said.

Cereal-based sweeteners in the EU, which can be made from either wheat or corn, can be found in a wide range of products including baked goods, jams and ketchup.

They have not, however, been available in sufficient quantities to be widely used in the soft drinks industry in contrast to the United States where leading manufacturers have been using high fructose corn syrup (HFCS) since the 1980s.

The cereal-based sweeteners come in liquid form and so are particularly easy for the soft drink industry to use.

"Soft drinks are the product category most likely to expand use... post 2017. It is also a particularly good alternative to sugar in ice cream," Jamie Fortescue, managing director of the European Starch Industry Association, said.

Manufacturers use the starch in cereals to make a glucose-fructose syrup. When the fructose content exceeds 10 percent it is known as isoglucose.

For the softs drinks industry, corn syrups with around 40 to 55 percent fructose are generally used, comparable to sugar which is 50 percent fructose.

EXCITING GROWTH

"There is potential for rather exciting growth in isoglucose production in the EU, but it is a moving target dependent on relative movements in corn and sugar prices," Sergey Gudoshnikov, a senior economist with the International Sugar Organisation (ISO), said.

Gudoshnikov forecast potential isoglucose use in the EU at some 2 million tonnes, roughly three times the current quota, while Fortescue saw it rising to 2-3 million tonnes.

"Whilst the cost of producing isoglucose will obviously be highly dependent on the price of cereals, it tends to be lower than for sugar," Fortescue said.

Analysts said the loss of market share within the EU may prompt sugar producers to look overseas.

Gudoshnikov said: "If isoglucose replaces sugar in the domestic (EU) market, surplus sugars could be offered to the international market.

Sugar exports are currently limited by a 1.3 million tonne quota under a World Trade Organisation (WTO) agreement which followed complaints by rival producers about EU subsidies.

Fortescue said, however, the end of sugar production quotas would signal the removal of WTO export limits.

"That would open up exports of EU sugar," he said.

European Commission spokesman Roger Waite said the end of quotas should remove any hidden export subsidy.

"The Commission remains confident that the abolition of the EU sugar quota system will address the issue of indirect cross-subsidisation of EU sugar exports, as cited in the WTO ruling on the Panel brought by Brazil, Australia and Thailand," he said.

"And that would remove any hidden export subsidy."

(Additional reporting by Tom Miles in Switzerland and Charlie Dunmore in Belgium; editing by Keiron Henderson)