Cereal sweetener output could surge in E. Europe after EU quotas
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* Hungary, Romania, Bulgaria seen as key isoglucose origins
* Rabobank sees output up to 1-2 million tonnes/year

By David Brough

LONDON, Aug 15 (Reuters) - Cereal-based sweetener output could surge in the cereal- and starch-rich but sugar-poor countries of Eastern Europe after EU sugar production quotas are lifted in 2017.

Output of isoglucose, also known as high-fructose corn syrup (HFCS), is now subject to a production quota of about 700,000 tonnes a year, or some 4 percent of the EU sweeteners market.

Most production in the 28-nation European Union currently takes place in eastern countries.

Rabobank said EU isoglucose output could jump to between 1 million and 2 million tonnes a year, depending on HFCS prices versus sugar prices, beverage and food manufacturers' willingness to use an alternative sweetener, and consumer preference.

"Rabobank believes that isoglucose production could take off, particularly in grain and starch-rich but sugar-poor countries such as Hungary, Romania and Bulgaria," the Dutch company said in a report released this week.

The big question is how much demand there will be for cereal-based sweeteners after the lifting of quotas.

In the United States, Mexico and China, isoglucose has seized market share from sugar for use in beverages.

The lifting of quotas could bolster isoglucose production in the EU, but concerns over possible links between HFCS and obesity may limit its market potential.

"Various publications worldwide have indicated that high sugar intake could have possible negative health effects," said the Rabobank report, authored by Ruud Schers and Vito Marielli.

"For isoglucose, the picture is even more complicated due to certain claims linking HFCS consumption not only to obesity but also to other negative health effects."

Jamie Fortescue, managing director at the Brussels-based European Starch Industry Association, said industry had not yet revealed its investment plans for isoglucose, but he saw potential for output to rise to 2.5 million tonnes.

"Industry are closely watching the price of sugar relative to the price of cereals," Fortescue said.

"Any potential investments are dependent on whether consumers are willing to make a switch from sugar to isoglucose."

Fortescue and Sergey Gudoshnikov, a senior economist with the International Sugar Organization, said they agreed with Rabobank that isoglucose investment was likely to grow in cereal-rich and sugar-poor East European countries.

Foremost among these was likely to be Hungary, the base of Hunggrana, whose investors include Tate & Lyle, a unit of ASR Group, and Archer Daniels Midland, he added.

"Hunggrana have the experience and the existing capacity," Gudoshnikov said.

"It would be easier to expand existing capacity than to build new capacity." (Editing by Dale Hudson)