

Concerns about the EU-Mercosur Free Trade Agreement

28 October 2016

Market and products

- Food and feed sectors
- Industrial applications
- Plant-based chemistry
- Annex-I products: native starches, sweeteners, wheat gluten, fibers and proteins for feed
- Non-Annex I products: modified starches, fermentation products, hydrogenation products and polyols, others

EU Market figures (2014)

- 23 million tonnes of agricultural raw materials (1/3 maize, 1/3 wheat, 1/3 potatoes and others) into 10,5 million tonnes of starch.
- € 8.3 billion turnover
- € 380 million investment (including €140 million in Research and Development)¹
- 14 600 employees and up to 100 000 directly linked indirect jobs, mainly in agriculture
- Food (60%) and industrial (40%) applications

After the re-launch of trade negotiations with Mercosur countries (Brazil, Argentina, Paraguay, Uruguay and Venezuela), the EU starch industry highlights the sensitivity of EU starch products in the negotiations.

1. Mercosur competitiveness triggered by cheaper raw materials.

Starch production in Mercosur amounts to 3.5 million tonnes², 60% being produced by Brazil only. Mercosur countries benefit from a constantly increasing supply of raw material. Brazil produces two corn crops per year, reaching a production record of 107 million tonnes of corn in 2015³. Tapioca roots are the second raw material widely available and mostly used by the starch industry in Mercosur. Additionally, sugar cane can be used for the production of syrups and polyols at a much lower cost.

Mercosur countries benefit from a competitive price of raw materials. The price of tapioca starch, which is a substitute to EU potato starch, reached \$400 per tonne in mid-2015⁴, 200\$ cheaper than the average price of a tonne of EU potato starch the same year. One tonne of Brazilian corn was cheaper than US corn in 2015, amounting to \$115 per tonne⁵. The exchange rate also strengthens the competitiveness of Brazilian corn starch on the global market.

¹Over 2013-2014 average

² South America – Regional Analysis, LMC International August 2015, p. 3

³ FAO assumption – FAO Global information and early warning system
<http://www.fao.org/giews/countrybrief/country.jsp?code=BRA>

⁴ FOB prices of cassava starch, Brazil and Thailand, 2015, LMC International – recent trends in the cassava starch market December 2015

⁵ FAO (2015), Global information and early warning system -
<http://www.fao.org/giews/countrybrief/country.jsp?code=BRA>



Mercosur countries have the technology to process a wide range of starch products, from native starches to sweeteners (corn or tapioca based), from modified starches to high added-value products (dextrin, maltodextrin, mannitol and sorbitol).

2. A favourable economic context that drives a promising future

The consumption of starch in Mercosur increases with the development of the middle class. Many companies have invested in Mercosur countries in new plants for tapioca starch⁶, and in expanding existing production units, enjoying cheaper labour and energy costs

The very low exchange rate of the Brazilian Real provides a competitive asset to the starch industry located in the region. In 2015, export of cassava starch reached record levels, reaching new markets in South East Asia, to the detriment of the local Thai tapioca starch⁷.

The industry in Brazil which is currently split among many players is likely to rationalise, strengthening its competitive position on the global market.

3. Implications beyond only EU starch producers

Since 2001, Mercosur has requested ambitious access to the EU market. The cumulative effect of concessions granted in trade agreements would have a clear negative impact not only on the starch industry, but also on its suppliers and customers, for the following reasons:

- The EU starch industry is an essential market for EU farmers, using 23 million tonnes of raw material, that is deeply rooted in the local supply chain, contributing to the economic dynamism in rural areas
- Starch is a key ingredient for a growing number of food and industrial applications;
- The EU starch industry is a leader in R&D and innovation;
- It provides a crucial input into the EU bioeconomy.

⁶ Ingredion, Tereos and Cargill – South America – Regional Analysis, LMC International August 2015, p. 3

⁷ Recent trends in the cassava starch market – LMC International December 2015, p. 3