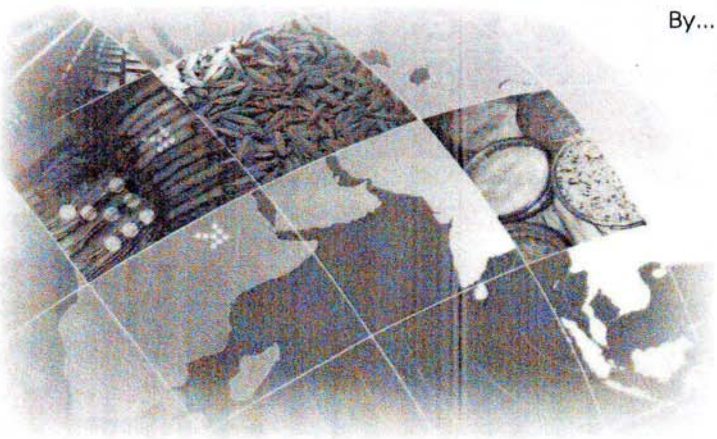
The EU-25 and its Impact on Thailand's Tapioca Exports

By... Alfred C. Toepfer International GmbH, Hamburg, Germany



The EU has always been the top importers of Thailand's tapioca in the past. However, many factors that made tapioca in Europe one of the most competitive starch rich feedstuffs have changed over the last 10 to 15 years. In the following we will outline the history of tapioca use and imports in the EU, the factors that have changed the market since 1993 and our assessment of the role tapioca will play in the future in Europe's livestock industry.

The success story of tapioca use in the EU is directly linked to agricultural policy. When the EU established its Common Agricultural Policy back in the 1960s and imposed high import tariffs for grain, they were forced by other WTO members - in those days the GATT - to accept low or zero import tariffs for many products that were not produced in the EU. Thus, the high-price policy for grain with high import tariffs and intervention system and the low or zero import tariffs for starch rich feedstuffs like tapioca made the latter a very competitive feedstuff. This is also a major reason why a very competitive livestock industry developed especially in the hinterland of the major ports like the Netherlands and Belgium, the north-western part of Germany, western France and later in the 1980's also in Spain. Farmers were able to buy these feedstuffs at comparatively low prices and to produce milk, meat and eggs cheaper than farmers in other regions of Europe that had to rely mostly on the expensive grain. Consequently, out of the total tapioca imports of 6.6 mln t in 1989, 3.8 mln t were imported by the Netherlands - with a certain share being transhipmed to Germany, 695,000 t by Spain, 588,000 t by France, 573,000 t by Portugal, 495,000 t by Belgium and 444,000 t by Germany. Especially in the Netherlands a large share of the compound feed was produced without a single grain in those days.

EU tapioca imports by origin from 1984 to 2004

	1984	1989	1994	1999	2000	2001	2002	2003	2004	2005
Total	**5,257**	**6,615**	**5,582**	**4,123**	**3,595**	**2,868**	**1,577**	**1,629**	**2,209**	**350**
thereof from:										
Thailand	4,741	5,568	4,743	4,043	3,575	2,868	1,540	1,627	2,208	350
Indonesia	406	825	632	33	14	0	0	0	0	0
China	57	172	63	1	0	0	0	0	0	0
Vietnam	17	30	28	0	0	0	0	0	0	0
Brazil	6	1	0	0	0	0	0	0	0	0

Source: Eurostat and Toepfer International.

The substitution of grain by imported feedstuffs has sharply aggravated the situation on the EU grain market, and the EU tried to restrict imports of tapioca by a tariff rate quota system. Nevertheless, the 6 mln t tapioca per year that were imported on average in the second half of the 1980's put a heavy burden on the EU grain market. As less grain was fed in the livestock sector, more ended up in intervention stores or needed to be exported with export subsidies. Grain exports totalled 20 mln t in 1982/83, but increased to an average of 33 mln t in the years 1988 to 1993. Most of this needed to be exported with EU export subsidies. This caused huge budgetary problems and caused pressure to adjust the EU's Common Agricultural Policy. Finally, the EU decided to implement the so-called McSharry Reform in 1992. An integral part of the reform package was the reduction of the intervention prices and the compensation of farmers by direct payments. Thus, the intervention price was reduced step by step for wheat, for example, from approx. 164 € /t in 1992/93 to 101.31 €/t in 2001/02. This administrative price has been left unchanged since then.

Indeed, with this reform package the EU achieved the expected results. Whereas the compound feed production of the EU-15 has been almost stable since 1995 at approx. 120 to 125 mln t, the grain for feed use has been increased substantially since then. The average share of grain used in compound feed production in the EU, for example, grew from 47 % in 1997/98, the first year for which we have data available, to 58 % in 2004/05. The same rate rose from 34 to 48 % in Germany and from 18 % to 38 % in the Netherlands. Accordingly, tapioca imports were on a decline after the implementation of the McSharry reform. They decreased from 5.6 mln t in 1994 to 3.8 mln t in 1999 and down to only 2.1 mln t in 2004 (table 1). According to our estimates the 2005 imports will not exceed 350,000 t. However, this is not to be seen as the continuation of the trend, but a result of the low crop last year and the resulting small amounts available for export.

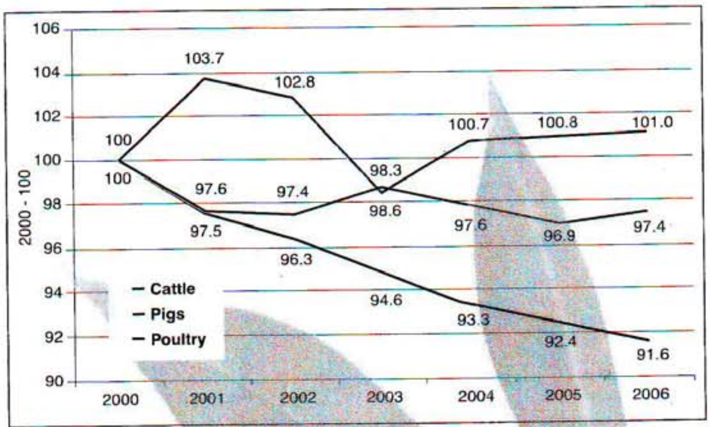
The future of tapioca in the EU

Whether tapioca will be competitive against grain in the EU in the next five years or so depends on a number of factors. First of all enough tapioca has to be available for export in Thailand. The plans for the establishment of the ethanol industry in Thailand and the ever increasing imports of China will certainly reduce the amount available for shipments to Europe. In Europe itself it will depend on the development of the livestock industry, the feedstuff available to feed this livestock and on the prices for other feedstuffs.

The European livestock industry is currently facing tremendous structural changes. First, there is increasing competition on the world market for European meat exports. Pork from Denmark, for example, and beef from the EU is difficult to sell in the traditional export markets amid growing competition, especially from Brazil. At the same time growing meat imports into the EU, also from Brazil, increase the pressure on prices on the domestic EU market. This coincides with ever increasing public and political pressure to improve the sanitary and environmental standards. New systems for quality control and traceability are important factors in this respect. Environmental standards have led to restrictions on the number of livestock farmers are allowed keep per hectare of farm land. This is one of the most important restrictions for livestock production in the Netherlands, and this is one of the factors why livestock production has been on a decline there for a number for years. What all these regulations have in common is that they increase bureaucracy on farms and normally increase production costs.

The development of the livestock sector itself is very diverse. The number of dairy cows will decrease further as the EU milk production quota - the amount of milk farmers are allowed to produced - can be filled with a declining number of cows, as the milk yield per cow increases continuously. The number of beef cattle will also decline. This is the result of the so-called decoupling strategy of the EU, according to which farmers in many EU-member countries will get their subsidy no matter whether they produce beef or not.

Development of the Livestock Sector in the EU-25 2000=100

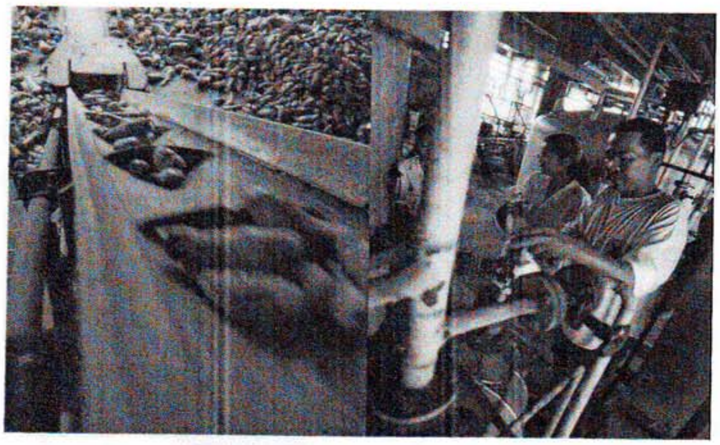


Source: Toepfer International.

Hog production, on the other hand, was never heavily subsidised, and it remains largely unaffected by the EU policy reform. Thus, hog inventories have been quite stable at 151 mln from 2000 to 2005. The most recent months have even shown slight increases of the hog population in the EU. Although the development is quite diverse throughout the EU. German farmers, who keep the largest hog population in the EU, have increased their hog inventories, as well as Spanish, Italian and Danish farmers. The Netherlands, UK and Ireland on the other hand, have experienced a substantial drop in hog inventories. Interestingly, the New Member States of the EU have not managed to catch up with the other EU countries. Obviously, hog production is capital and know-how intensive and the hygienic and environmental standards of the EU are very high so that the expansion of the sector is difficult there .

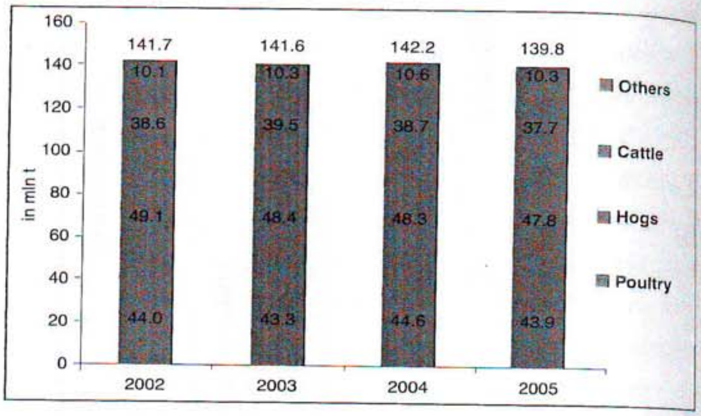
The situation looks different for the poultry sector, where investments are often made by large integrated foreign companies. They have focused mainly on the New Member States of the EU, like Poland, Czech Republic or Hungary. But also in Germany, Italy, Spain and UK production growth continues. On the other hand, some of the large European producers like France and the Netherlands have decreased their production. Altogether, total poultry meat production rose by an estimated 1 % between 2000 and 2005 to 9.7 mln t compared to 9.6 mln t in 2000.

The compound feed production in the EU has seen a trend that is quite similar to that of the livestock production. Altogether, compound feed production is decreasing to an estimated 140 mln t compared to 141.7 mln t in 2002. Whereas cattle feed production decreased to 37.7 mln t in 2005 compared to 38.6 mln in 2002, hog feed production declined to 47.8 (49.1)



mln and poultry feed production remained quite stable at 43.9 (44) mln t.

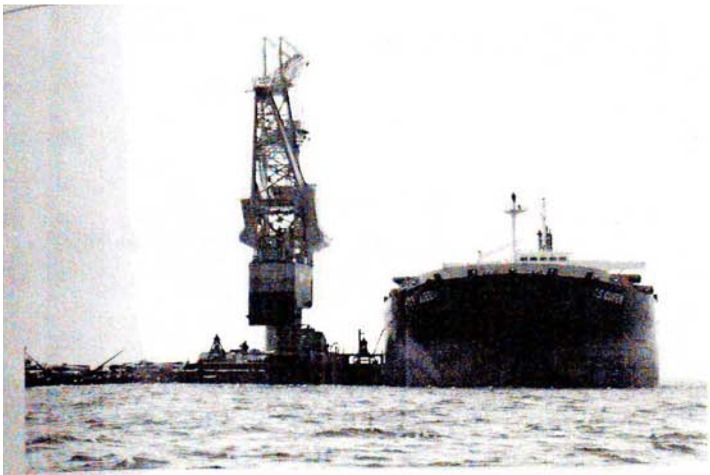
EU-25 Compound Feed Production



Source: Fefac and Toepfer International.

The structural differences between the old Member States - the EU-15 countries - and the ten New Member States that became member of the enlarged EU in May 2004 becomes evident in the compound feed production there. Out of the total compound feed produced in the EU-25 of 140 mln t only 11 % is produced in the New Member States but 89 % in the Old Member States. Thus, the German compound feed production of close to 20 mln t is much larger than the 16 mln t of compound feed that is produced in all New Member States together. Or to put it another way, although the New Member States account for approx. 11 % of the EU-livestock inventories, their share of compound feed production for cattle is only 5 %. The reason for this is simple: In general farms in the New Member States are smaller and they rely much less on purchased compound feed than farmers in the Old Member States.

This is also the first reason why tapioca plays a negligible role in the New Member States. Farmers simply rely much less on imported feedstuff than their colleagues in the Old Member States. The second reason is that all eastern European New Member States produce a grain surplus in a normal year. Thus, their grain price is normally close to intervention level, whereas



it is well above intervention level in Spain and the Netherlands. Thus, tapioca has difficulties in competing with grain in these countries. And the third reason is logistics. It would be too expensive to ship tapioca from the ports often hundreds of kilometres to the places where the livestock industry is located. Thus, tapioca is too expensive and too costly to ship to the New Member States of the EU.

However, tapioca will certainly play a role in the traditional import countries, especially those countries within the EU which are net importers of grain anyway like Spain, the Netherlands and Portugal. In these countries grain prices are traditionally the highest in Europe as much of the grain used there for compound feed production has to be imported from other EU countries or abroad. Simultaneously, these are the countries where the livestock production is located near the ports and where tapioca can be easily shipped to.

However, tapioca needs to be priced competitively to find its way into the EU compound feed production. The EU-25 is well supplied with grain in the 2005/06 marketing year, although the 2005 grain production was substantially lower at only 252 mln t compared to 284 mln t last year. The reason for this are almost record high carry over stocks from the last season of more than 60 mln t. Thus, including imports of approx. 11 mln t there are 323 mln t of grain available in the EU-25. The feed use is estimated to amount to 153 mln t and the other use including for seed and human consumption to 93 mln t. But as EU grain is not as competitive on the world markets as earlier thought, the exports are expected to amount to a mere 18 mln t compared to last year 22 mln t. Thus, despite the low grain crop the EU will most likely have ending stocks at the end of the 2005/06 marketing year of close to 60 mln t, almost exactly the same amount as in the 2004/05 marketing year. This is why the price level in the EU for this year will stick to the intervention level. Only a poor 2006 crop or a bullish scenario on the world market can change this situation.

The future of tapioca use in the EU's compound feed production will definitely not be a reiteration of the 80's when huge imports took place to substitute the expensive grain in the EU. However, also in forthcoming years there will be opportunities to place tapioca onto the EU market. Much more than in the past everything will depend on the particular market constellation of a certain year. In a year like 2005 where a small crop in Thailand meets a good European grain crop, there are only few opportunities to place tapioca on the market. But as the year 2003/04 has shown a grain crop failure in the EU or other European countries and a normal to good crop in Thailand will definitely open good opportunities to sell tapioca onto the EU markets. Tapioca has always been an important element for competitive livestock production in the EU, and there are good chances that it will remain an important feedstuff for the livestock industries in western and southern Europe.

Source : Annual Report 2005.The Thai Tapioca Trade Association.