

The 25 countries of EU and their impact on Thai Tapioca Export

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Introduction

It is hardly to believe that the import of tapioca in the EU has ever reached a level of over eight million tons. The import level of 1,5 million tons, which was recorded in 2002, is far more easy to remember. Looking at 2005 we have even to conclude that the one million ton mark will not be reached.

At the demand side of the tapioca market there are only a few countries left and those few presently account for about 85% of the volume. Not surprisingly, these countries are Spain, The Netherlands and Belgium. Portugal is one of the smaller buyers and also France and Italy incidentally enter the tapioca market.

Against this background the impact of the accession of 10 new EU member states will be discussed with regard to the Thai tapioca exports to the EU.

The past decades

As a reference it is interesting to show a table of tapioca imports into the EU and indicate the gradual extension of the EU from EU-10 to EU-12 and EU-15. As will be recalled by many of the readers it was the year 1986 that Spain and Portugal became members of the EU. A partial shift of the tapioca flow from Germany/The Netherlands to the new southern EU states was the result of this accession.

The tapioca import in the EU peaked in the year 1982. In that year a record volume of 8,1 million tons had been imported, of which Thailand accounted for 7,35 million tons. Since Spain and Portugal were not yet an EU member, the total volume was consumed by the EU-10 countries (table 1).

Table 1 : EU tapioca consumption in 1982 (x 1.000 t)

Country	Consumption
The Netherlands	3.000
Germany	2.000
Belgium	1.150
France	800
United Kingdom	800
Other Countries	350
EU-10	<u>8.100</u>

Note: It is worth mentioning that at that time large quantities of tapioca were incorporated in the feed rations, not only in Germany, but also in France and in the UK.

Table 2 : The tapioca import in the -expanding- EU during the past 20 years (x 1.000 t):

Year	Imports	Year	Imports
1985 EU-10	6.335	1995	3.055
1986 EU-12	5.820	1996	3.495
1987	6.985	1997	3.600
1988	7.025	1998	2.835
1989	6.615	1999	4.125
1990	5.805	2000	3.605
1991	6.025	2001	2.915
1992	6.580	2002	1.520
1993	6.595	2003	1.850
1994 EU-15	5.580	2004 EU-25	2.230

Note: Sweet Potatoes are not included in the above figures.

The imports of sweet potatoes disappeared completely after 1995.

However, in order to complete the EU import picture, the sweet potato imports between 1985 and 1995 are presented as well (table 3).

Table 3 : EU imports of sweet potatoes (x 1,000 t)

Year	Imports	Year	Imports
1985	351	1991	813
1986	602	1992	598
1987	607	1993	387
1988	532	1994	562
1989	306	1995	75
1990	203	1996	0

As was outlined before, the accession of Portugal and Spain into the EU has caused a shift of the tapioca flow. Since the accession in 1986, the combined usage in Spain and Portugal reached a peak of nearly 1.6 million tons in 1994. The tapioca consumption in both two countries (as well as in other EU countries) decreased considerably from that year onwards.

The reason why tapioca as a feed ingredient in the EU has lost its significance is to be found in the EU Common Agricultural Policy (CAP). To be more specific: it is the successive number of grain price decreases, which started in the season 1993/94, which nowadays has reached its lowest point. Graph 1 illustrates the price development in the Netherlands of wheat versus the mix tapioca/soya versus the intervention price.

Graph 1.

The Netherland : Wheat versus Tapioca/Soya-mix versus Intervention Price

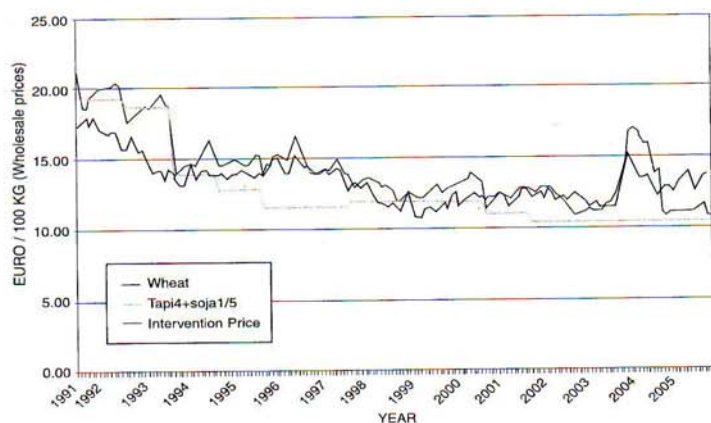


Table 2 which shows the EU tapioca imports, manifests a turning point after 1993. The operating Agricultural Commissioner at that time, Mr. MacSharry, introduced a new CAP, enforcing a step by step decrease of the grain prices. The explicit objective of this policy was to gradually reduce the grain production in order to get rid of the enormous EU grain stocks of

more than 30 million tons. This approach had its effect on tapioca in such a way that the price advantage of tapioca over grain drastically disappeared.

Present situation

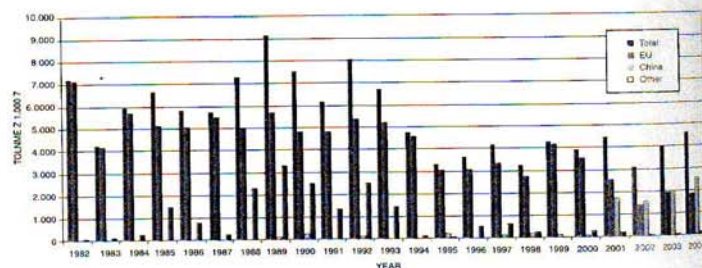
From previous observation it is not difficult to conclude that as long as grains are relatively cheap, there will be hardly room for increasing tapioca imports into the EU, unless tapioca prices decrease as well. Only in incidental cases, like for instance a serious drought, the tapioca import can revive somewhat. One example is the drought year 2003/04 when the EU imports temporarily recovered to 2,75 million tons. The next season one could again note an much lower import level of less than 600.000 tons.

Another point worth mentioning is the fact that efforts of Thailand to search new market outlets has resulted in the present position of China as a substantial importer of Thai tapioca over recent years. China has even surpassed the EU levels (graph 2). This of course has had a side effect and has decreased the attractiveness of the EU as a market outlet.

Graph 2.

Thailand : Tapioca Exports 1982 - 2004

(Source : TTTA)



Outlook for the EU as a tapioca outlet for Thailand

So far, the developments in the EU-15 have been discussed. The question can be posed whether the accession of 10 new member countries have increased the possibilities of tapioca in the EU feed rations. Unfortunately, to say it frankly at the start: the answer is a negative one. The reasons will be discussed in brief.

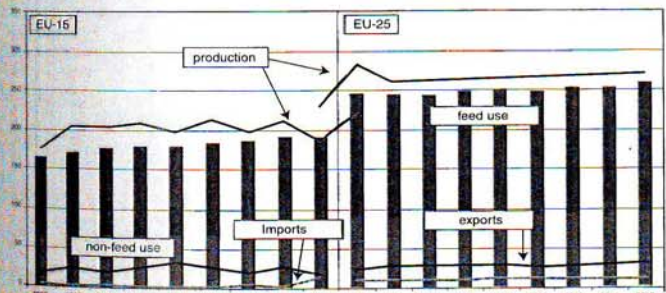
As a result of the accession of the 10 new countries the grain production in the EU has increased by about 60 million tons on the one hand. On the other hand, the absorption possibilities by the feed sector have hardly increased, due to the stagnating compound feed production. In fact, the accession of the "Ten" implies that the grain surplus in the EU has

increased even more. Since intervention is the last resort for these new member countries as well, the intervention stocks of grains in the EU have increased again to 16,5 million tons, compared to 2,5 million tons at the beginning of the 2004/05 season!

If tapioca as a feed ingredient will make a chance in the new member states, this product will have to compete with local grain, which is priced at or below the intervention level. In the season 2005/06 the intervention price for November 2005 is € 101,77 per ton and for May 2006 the price is € 104,53 per ton. At these prices it is nearly impossible for tapioca to make a chance to become incorporated as a feed ingredient.

The argument for putting forward this proposition comes from the EU Commission itself, using its latest projections of the grain market (July 2005) as shown in the following graph 3.

Graph 3
Development of the cereal markets in the EU, 1995 - 2012 (mio t) (Source: EU July 2005)

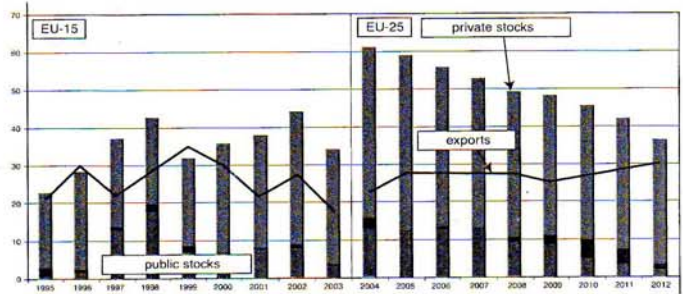


In general, whether tapioca against grains is competitive or not, the price comparison as illustrated in graph 1 is self explanatory. At the given price futures, as mentioned above, it turns out that tapioca is hardly able to compete with grains.

In the year 2005, the import of tapioca will be far below the one million tons and will even reach a historically low. The outlook for 2006 - at the time of writing - is not much better. Despite the large tapioca crop in Thailand in 2005/06, it is not to be expected that the EU consumption will rise above the one million tons. This can only change to the better if the present price relationship will change dramatically in favor of tapioca. This, however, is unlikely to occur. The grain stocks in the EU will remain substantial, causing prices

to be relatively low and competitive against tapioca (graph 4).

Graph 4
Development of stocks and cereal exports in the EU, 1995 - 2012 (mio t) (Source: EU July 2005)



A stagnating compound feed production in the EU is another limiting factor for increasing the tapioca usage. Apart from this, one has to consider the fact that not all countries are technically capable to process tapioca in their compound feed plants, which especially is the case in the new member countries. Although it may be just temporarily, it has to be stated that the high freight market is -at least under present conditions- unfavorable for tapioca exports to the EU.

And finally, the more Thailand is striving to increase the quality of tapioca for applications outside the feed sector, the more the attractiveness decreases to use the product as a feed ingredient.

Conclusion

Tapioca as a feed ingredient in the European Union, whether or not 15 or 25 members in total, is unlikely to conquer its past position in feed rations. The main reason is that under the normal conditions, as presented, the EU grain market is facing substantial stocks for the foreseeable future resulting in low price levels. It is therefore unlikely that tapioca is able to compete with EU grains.