THE EUROPEAN PAPER INDUSTRY & THE STARCH ISSUE: The threat of losing the Starch Production Refund and the Cost of Non-Access to World Trade Markets

The context
The European Commission, in connection with the mid-term review process and the review of the Common Market Organisations for Cereals, suggested in its proposal to reform the EU Common Agricultural Policy to suppress the starch refund system.

The Common Agricultural Policy aim is among others to assure the availability of supplies and to ensure that supplies reach consumers at reasonable prices.

The suggestion to suppress the starch refund system is considered as unacceptable by the paper industry as long as the paper industry does not have access to extra-European markets. Such a measure would contradict the new strategic goal for the European Union: “to become the most competitive economy in the world”, as stated in the conclusions of the Lisbon summit in 2000.

If the starch refund system were to be suppressed, the European paper industry should get an easier access to the extra-European markets through a significant decrease of the high custom tariffs on starch.

Starch: an important raw material for the paper industry
The Paper industry is the biggest starch user in Europe. About 2 millions tonnes of maize, wheat and potato starch have been used by the European Paper Industry in 2002 to produce paper, paperboard and converted products, and the starch consumption will continue to increase in the next years, in parallel with coating papers and recycling developments.

Starch, like other additives, improves the properties of papers and boards. It is used for fibre adhesion or coating purposes in the papermaking process and gives stronger packaging products or improves opacity, brightness and surface smoothness of paper for better printing results.

The European paper industry and the starch production refund
As said in the recent LMC study “The most important category of approved products for production refunds is paper products, which directly and indirectly account for almost 60% of total production refunds”.

The current starch refund system, as defined in the Regulation 1722/93, is an essential tool designed to compensate the industry for the damaging effects of the Common Agricultural Policy and a key element for the European paper and board producers’ competitiveness, as long as the access to world starch markets is not possible.
The level of the starch production refund has been zero for many months but there are several reasons which could lead to a positive refund in the future:

- The main one is the evolution of the exchange rate between Euro and US Dollar. Over the last months, the value of the Euro increased by 20% versus the US Dollar. This has of course an impact on the level of the refund and makes the cereal (and starch as well) price difference even higher.

- Despite the reduction of the intervention prices on cereals, significant price differences between EU markets and extra EU markets are still likely to occur.

The cost of non-access to world starch markets and the competitiveness of the European paper industry
Starch users inside the EU are prevented from obtaining starch at the prices that would prevail in the absence of high import duties and the Common Agricultural Policy. Most of the starch used by the European paper industry comes from the EU and is bought at higher prices compared to extra-European countries, whereas tariffs on most of papers and boards are close to zero and will totally disappear in 2004 further to the GATT agreements.

Unmodified (i.e. native) starches are price-supported CAP products largely sheltered from non-EU competitors, while modified starches are chemical products sold at premium prices. High duties on native starch imports range from EUR 166 (maize and potato starch) to EUR 224 (wheat starch) per tonne in 2003 and prevent paper producers from buying extra-EU native starch and even some types of modified starch. Custom tariffs on modified starch are EUR 7.7 for esterified and etherified starches and EUR 186 per tonne for other modified starches.

These high custom duties constitute very effective barriers. The 2001 imports from outside EU countries reached 20,000 tonnes for native starch and 60,000 tonnes for modified starch (source: DG AGRI) for all using sectors in Europe. If the European paper industry were the only sector importing extra-European starch, it would represent around 3% of the starch consumption of the European paper industry only!

As said before, the consumption of starch by the European paper and paper converting industries is close to 2 million tonnes per year. According to the information we have collected over the past years there has been an average 10% to 30% price difference between the American starch prices and the EU starch prices, which is not fully reduced if the freight cost is taken into account (estimated to range around EUR 30). There is no doubt that without the custom tariffs on native starch, the European paper producers would buy a significant part of its starch consumption outside Europe, in the US for example.

According to our calculation and the price data provided by LMC and other sources for 2002 and the beginning of 2003, the cost of the non-access to the world starch markets is at present for the European paper industry as follows:

- For 250,000 tonnes (12.5% of the yearly consumption): 5 million euros
- For 500,000 tonnes (25% of the yearly consumption): 10 million euros
- For 1,000,000 tonnes (50% of the yearly consumption): 20 million euros
The price difference can vary significantly over the years due to the evolution of raw material prices and exchange rates.

European paper companies have to face hard competition in foreign countries with local producers, but also on European markets, with extra EU companies, which offer equal quality products at a lower cost (especially in the south-east Asia and the USA...). The European paper industry has had to lower its operational margins to maintain its market shares inside and outside the EU.

The ongoing difference of raw material prices (like starch) may eventually favour the relocation of large parts of the paper industry outside the European Union countries.

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**The cost of non-access to world starch markets for the European paper industry:**

- It is estimated to range from 5 to 20 Million euros per year.

**The European industry wishes to see:**

- An agreed timetable for free and unconditional access to the world markets for all materials, and especially starch, as soon as possible.

- In the interim an efficient Starch Refund system functioning in a way that recognises the importance of customers to farmers to be maintained.

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The Confederation of European Paper Industries - CEPI

The Confederation of European Paper Industries (CEPI) is a non-profit-making organisation, representing 19 member countries (13 European Union Member States plus Norway and Switzerland with four Associate Members, Hungary, the Czech Republic, the Slovak Republic and Poland). Through its member countries, CEPI also represents some 1,000 pulp, paper and board-producing companies across Europe, from small and medium-sized enterprises to multinationals.

Based in Brussels, CEPI represents the interests of the European pulp and paper industry to the European institutions. CEPI monitors and analyses EU legislation and initiatives taken at EU level in the fields of industrial, environmental, energy, forestry, recycling, and fiscal policies. It provides a forum for its members to exchange information and to act on emerging issues, to define common positions and to make expert and constructive contributions to the industry consultation process required by the European Treaties.

CEPI possesses a wide source of information on the pulp and paper industry in Europe, and, through its members, can provide information on the industry in individual Member States. It provides technical assistance to legislators, and can identify independent experts to answer specific questions.

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**CEPI FIGURES FOR EUROPE – 2001**

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
<th>Change from previous year</th>
</tr>
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<tbody>
<tr>
<td>Woodpulp for papermaking production</td>
<td>37.9 million tonnes</td>
<td>-3.6% from 2000</td>
</tr>
<tr>
<td>Total Paper production:</td>
<td></td>
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<tr>
<td>Graphic Papers</td>
<td>88.2 million tonnes</td>
<td>-2.7% from 2000</td>
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<td></td>
<td>43.7 million tonnes</td>
<td>-4.0% from 2000</td>
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<tr>
<td>Packaging Papers</td>
<td>35.1 million tonnes</td>
<td>-1.7% from 2000</td>
</tr>
<tr>
<td>Other grades</td>
<td>9.3 million tonnes</td>
<td>-0.4% from 2000</td>
</tr>
<tr>
<td>Recovered paper use</td>
<td>42.0 million tonnes</td>
<td>+0.8% from 2000</td>
</tr>
<tr>
<td>Total paper consumption</td>
<td>81.3 million tonnes</td>
<td>-3.8% from 2000</td>
</tr>
<tr>
<td>Exports outside CEPI member countries</td>
<td>10.5 million tonnes</td>
<td>+2.8% from 2000</td>
</tr>
<tr>
<td>Number of mills</td>
<td>1,063 paper mills and 222 pulp mills</td>
<td></td>
</tr>
<tr>
<td>Employment in CEPI member countries</td>
<td>255,300 jobs</td>
<td></td>
</tr>
</tbody>
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For any questions, please contact:
Bernard Lombard, Recycling & Economics Manager, CEPI, tel:+32 2 627 49 22, fax:+32 2 646 81 37
e-mail: b.lombard@cepi.org  Web-sites: [www.paperonline.org](http://www.paperonline.org) * [www.cepi.org](http://www.cepi.org) * [www.paperrecovery.org](http://www.paperrecovery.org)