



Association des Amidonniers et Féculiers

**AAF POSITION PAPER  
ON THE COMMISSION COMMUNICATION ON THE HEALTH CHECK  
- THE REFORM OF THE POTATO STARCH SECTOR -**

**INTRODUCTION**

- In its communication on the Health Check, the Commission outlines its vision on the 2003 CAP reform and opens the discussion on how the instruments should be adapted to the new challenges. The European Starch Industry Association (AAF) wants to assume its responsibility by taking a proactive approach towards reform. The AAF would like to present its position on the reform of the potato starch sector keeping in mind that with the CAP reform of 2003 the potato starch sector was given a perspective until 2013/14 with a sector specific direct payment scheme.
- The AAF represents European cereal and potato starch producers. In the potato starch sector, it represents 11 companies with 35 production sites and 4 100 direct employees operating in 10 Member States. In 2006/07, the industry used 7.9m tons of starch potatoes delivered by of more than 15 000 farmers from 240 000 hectares. It produced 1.6m tons of potato starch products (in starch equivalent). The yield was lower than the quota due to a drought affected harvest. 75% of the total world production of potato starch is European. Another specificity of the potato starch sector is, that the industry is closely linked with the farmers and is essentially organized as farmers' co-operatives.
- The potato starch industry - a small but very innovative and versatile sector in both food and non-food applications - made and still makes important investments to adapt to the new market situation, e.g. to be more competitive (co-products, production costs, new products). Its annual investment (as a three year average) is 156.6m € of which 13.6m are spent on research and development. It has also a potential in the field of bio-based chemistry and is in the process of developing new products for new markets. Furthermore it makes heavy investments to meet environmental targets, e.g. energy efficiency and water recycling. With "PotatoPro" for example, the Danish potato starch company Karup Kartoffelmelfabrik has developed an energy-efficient technique to transform fruit water into high-value protein while producing fertilizer concentrate and biomass for energy production and treating process water for re-use in the process. This project was EU co-financed by the program LIFE ([www. Newpotatopro.dk](http://www.Newpotatopro.dk).)
- As an industry we see a long-term perspective for the potato starch sector because potato starch is a high quality product that should keep a market in the future as it responds to a world market demand.

## CURRENT CHALLENGES AND PRIORITIES

- The AAF already explained during the discussion in 2006/07 on the roll-over of the production quota that we need the **visibility of the framework in which the industry has to develop**. The effects of the sugar reform can only be fully assessed in 2009/2010, at the end of the sugar-restructuring period. The impact of the bio-fuels strategy on the raw materials supply and on the competition between the cultivation of starch potatoes and the cultivation of crops like sugar beets and cereals will be more apparent at that moment. The measures taken today in the cereals sector will only have its effects in a few years time. Important potato starch producing countries implemented the CAP reform as from 1 July 2006. The assessment of (partial) decoupling of direct payments and its real impact on the sector will only be possible after some campaigns.
- In this context it should also be noted that **farmers need to anticipate their supply commitments at least three years in advance**. The multiplication of sufficient seed potatoes normally takes at least two years. Farmers have to grow seed potatoes this year to have enough material to comply with their anticipated supply commitments two years from now. This long term planning is even more important as starch potatoes are a crop, which cannot be stored like cereal crops. Depending on seed potato growing decisions today, potato farmers also make choices on their crop rotation in two or three years from now. Therefore, a **long-term predictability is needed** to enable the potato starch sector to adapt.
- As the **raw materials supply is the main priority** for the industry, the **coupled payment is a corner stone** of the EU market instruments. It is the main incentive for farmers to grow starch potatoes. Internal data of the industry shows that further decoupling would lead to a considerable reduction of the starch potato production, in particular in some regions.
- It is clear that a **farmer** who abandons starch potato farming **will not return** later to that crop because starch potato farming needs long term planning, e.g. growing seed potatoes, and heavy investment in specific machinery. In addition, as starch potato growing is very **labour intensive**, it needs **full-time farming** and creates the **opportunity for agricultural employment**. Switching from starch potato to another crop could lead to considerable **job losses** in rural areas. In contrast, farmers who would switch for example to cereals are likely to become **part-time farmers**, implying that they would leave the rural area to find a job in a more urban environment. The average labour input per hectare is 30 hours/year for starch potatoes, compared with 5 to 10 hours/year for cereals.
- Furthermore coupled support is still needed, as starch potatoes are generally grown in **disadvantaged regions** in Europe. Therefore, moving from the production-linked payment to the Single Payment Scheme could have a major **impact on the regional economy**. The factories, which are always situated close to the producers, are often one of the major employers in those regions. An internal survey among our members shows that three out of four jobs in the potato starch industry are in regions where the potato starch factory is one of the most important employers.

## AAF PROPOSAL FOR THE REFORM OF THE POTATO STARCH SECTOR

- In view of the current discussion of the Health Check, the potato starch industry would like to meet the leading principles of the Commission philosophy (sustainability, market orientation, WTO conformity and environmental targets) while keeping some characteristics of the present support system for a transitional period.
- Taking into account the market in which it has to develop the AAF considers that the **current scheme addresses best the challenges of the potato starch sector**. The industry reminds that the potato starch sector was given a **financial perspective until 2013** with the CAP reform in 2003. Therefore the AAF' s concerns are firstly how the EU budget can be used more efficiently and secondly how the financial allocations could be kept in the sector.
- Therefore the industry asks for an **adaptation period of at least two years until 2010/2011 prolonging the current scheme** to have the necessary visibility of the framework in which it has to develop and in particular to give the farmers time to anticipate well in advance their supply commitments.
- This adaptation period should then be followed by a **transition period until the next CAP reform that would allow the industry to switch from a production-linked scheme to an area payment scheme** adapted to the potato starch sector. In concrete terms that would mean that the budget allocation per Member State, which was available until now as a coupled payment on the basis of the production quota, would be maintained in form of a national envelope reserved for the potato starch sector.
- This **national envelope would then be redistributed between the eligible farmers** but only up to a maximum reference amount on the factory level, i. e. the current quota-based number of contracts converted into hectares. Excess hectares would not get support. In case of not reaching the reference amount, the allocation would be redistributed between the contracted hectares.
- This payment scheme would be a **clear step towards more market orientation** because the farmer decides on his productivity. In WTO terminology it would be half way towards the “green box” of full liberalisation because it would no longer fall under the criticized “amber box” where the subsidies are linked to production but rather into the “blue box” where the direct aid to the farmer is independent from the production.
- The production quotas would become obsolete in so far as EU payments are no longer linked to production and the quantity produced has to respond to the market mechanisms. However, due to the possible problems of overproduction and disequilibrium between the different kinds of potatoes, e.g. ware, industrial or starch potatoes, the Commission should envisage a **prolongation of the production quota until 2013**.

- Considering the market situation of the recent years, once the production quota has disappeared the **minimum price could probably be abolished** because it has lost its initial justification as a safety net for the farmers. Even if it is still an important reference in relation to the payment of the equilibrium premium as well as export and production refunds to the factory.
- Without the minimum price there is no payment scheme for the **equilibrium premium**. However an instrument to establish a degree of equilibrium - between cost prices of maize and potato starch and to compensate for the campaign character of potato starch factories, the low by-product revenues and higher environmental investments - is still justified. Therefore we propose that the budget under the budget line 05020103 foreseen for the industry should be transferred into a **restructuring or innovation fund** at Member State level thus **keeping the money in the sector**. This EU fund could for instance support the industry's investment into restructuring or research & development such as the valorisation of co-products or into environmental measures like waste water treatment or energy efficiency. A good example is the Danish PotatoPro project but also the research and development investment of a Dutch potato starch company extracting in the starch process a food protein as higher value co-product (<http://www.solanic.eu/>).
- The shift to the area payment scheme would be a considerable **administrative simplification**. Farmers would have only one single payment application. The Commission's administrative burden would be lower because it has less market instruments to monitor or to control. No controls on the factory level are needed to check for instance on the starch content. The "barème féculier" would be no reference for EU payment anymore.

*15 January 2007*