## Rabobank Report: EU Isoglucose production to take off post-2017

## **The future of the EU isoglucose market may look sweet, but it is also full of uncertainties. According to a new report from Rabobank – *Will Starch Grains Beat Sugar?* - the impending change in EU sugar policy in 2017 could trigger a shift from sugar to isoglucose usage. Rabobank believes that isoglucose production could take off, particularly in grain and starch-rich but sugar-poor countries such as Hungary, Romania and Bulgaria. At the same time, other regions in the EU are also set to capture some of the growth. The actual market potential for isoglucose in the EU remains to be seen, but it will depend on various factors including isoglucose prices vis-à-vis sugar prices, beverage and food manufacturers’ willingness to use an alternative sweetener, as well as consumer preference.**

“Since agricultural production and consumer preferences differ from country to country within the EU, the end of quotas in 2017 presents various potential scenarios and opportunities for players in the region”, stated Rabobank analysts Vito Martielli and Ruud Schers.

Currently, isoglucose quotas limit the total EU production for domestic consumption to 720,000 tonnes per year, approximately 4 percent of the EU caloric sweeteners market. The majority of this production takes place in the eastern EU. The key question for determining any shift in production is how much demand there will be once the quotas are lifted. A look at isoglucose demand in other regions is a good starting point. In the US, Mexico and China for example, isoglucose has easily replaced sugar in beverages. EU authorities’ decision to change the sugar and isoglucose policy as of 2017 could drive similar changes. However beverage manufacturers will be key to determine real demand of isoglucose by their strategic choices which may vary per country and product.

Other determinant factors vary on isoglucose’s potential in the EU. A higher sugar price generally creates a favourable situation for isoglucose production, with wider scope to price isoglucose below sugar. Alternatively, a lower sugar price may limit the isoglucose market. Secondly, prices of corn and wheat as raw material are fundamental in the production costs of isoglucose, with supply directly impacting margin profitabilty. Volatility in the grains market over the last 7 years is expected to stay and will be front of mind for isoglucose producers to consider.

Incremental growth in grain production is likely to increase exports from the eastern EU by up to 12 million tonnes by 2020/21 whilst it can also facilitate the sourcing for starch and isoglucose production. All in all, the future for isoglucose looks sweet in some regions, and well-positioned players in the starch sweetener market stand to benefit from this growth.

For more information please contact the report’s authors:

Vito Martielli: [vito.martielli@rabobank.com](mailto:vito.martielli@rabobank.com) +31 (0)30 71 23821

Ruud Schers: [ruud.schers@rabobank.com](mailto:ruud.schers@rabobank.com) +31 (0)30 71 21482

For other information, please contact Rabobank press office:

[k.verheul1@rn.rabobank.nl](mailto:k.verheul1@rn.rabobank.nl) +31 30 21 66918

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