



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 10/03/2000

GAIN Report #NL0050

The Netherlands

Dairy and Products

The Dutch Dairy Sector - European Policy & Internationalization

2000

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Report Highlights:

EU policy led to high concentration and a major trade role for the Dutch dairy sector. Currently, the U.S. dairy sector is active on the world market. Consequently, major Dutch dairy processors are investing in U.S. dairy processing plants.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
The Hague [NL1], NL

European Policy and History of the Dutch Dairy Sector

Before 1984, EU policy, comprising intervention procedures and export subsidies, led to high costs and overproduction of dairy products. As a result, in 1984 a five-year period of quotas and levies on the surplus production was instituted. The new policy led to a decline in milk received (see table 1). In order to utilize available production capacity, the individual companies focused on quantity which led to take overs and mergers in the sector. The concentration of the sector is illustrated by the reduction of the number of companies.

Table 1. Structure and Production of the Dairy Industry in the Netherlands			
	1983	1990	1997
Milk received (million lbs.)	29,405	23,783	23,056
Number of companies	50	35	23
Number of employees	21,563	19,057	12,811
Turnover (billion Dfl.)	12,889	11,453	12,180
Investments (billion Dfl.)	568	378	362
Consumption milk (million lbs.)	4,032	3,970	3,607
- Companies	32	15	10
Butter (million lbs.)	614	392	298
- Companies	36	14	7
Milk powder (million lbs.)	922	719	333
- Companies	19	19	7
Cheese (million lbs.)	1,141	1,316	1,552
- Companies	30	19	12

Source: Product Board for Dairy.

In 1989, the quota system was extended and the sector realized that emphasis on quantity alone was not sufficient. The dairy companies started to focus on efficiency and added value such as private labels. Since 1983, an increasing part of milk production is processed into cheese which points to a successful product development and marketing of cheese products (see table 1).

The concentration process of the Dutch dairy sector was further stimulated by the consolidation of the retail sector and the removal of the internal EU borders in 1992. In 1997, the concentration process reached its highpoint when Friesland Dairy and Coberco merged and Menken - Van Grieken was bought out by Campina Melkunie. A recent, and opposite development, is the appearance of small scale milk processors focusing on niche markets.

In 1999, the quota system was extended to 2008. However, in the future, EU policy will gradually reduce restitutions and intervention prices. In exchange, dairy farmers will be supported by the EU with direct and additional payments. It is expected that efficiency and added value of E.U. dairy production

will be further affected by future EU policy.

Trade

Currently, most dairy markets in the Benelux and other northern European Countries have consolidated. The industry is highly concentrated (see table 3). It appears that the concentration of an industrial or agricultural sector is followed by a more aggressive trade position overseas. Member states which have the highest degree of concentration in dairy in Europe, The Netherlands, Ireland and France, are the most aggressive in the world dairy sector. For example, Wessanen, a Dutch food company, has two subsidiaries in the U.S., Tree of Life and American Beverage Corporation. In 1999, Wessanen bought out two U.S. companies.

In the U.S., industry consolidation seems to have started only recently. Foreign ownership of the U.S. dairy sector, however, is on the rise. Some dairy experts predict increased take overs of U.S. dairy companies by European dairy companies. This is based on the fact that Europe is the world's biggest market for dairy products, about 260 million pounds of milk equivalents annually, compared to 179 million pounds for the U.S. Additionally the European market as a whole is still scattered, where giants are battling for the small and mid-sized companies. Nearly 60 percent of mergers and take overs worldwide in dairy take place in Europe while, only 22 percent occur in the U.S. The first examples of take overs and other initiatives by the U.S. dairy industry are; (a) Suiza Foods took over a dairy company in Spain, (b) introduction of Dairy.com in spring 2001, an initiative of eight large U.S. dairy companies and, (c) co-operation of Dairy Farmers of America and the New Zealand Dairy Board. As a result of the U.S. activities on the world dairy market, one the two largest Dutch dairy companies, Friesland Coberco, dropped from the 5th to 10th position (see table 2).

Competitive Strength of the Dutch Dairy Sector.

To compare the competitive strength of the Dutch dairy sector, the Dutch Daily Agricultural Journal calculated prices paid for milk to the dairy farmer by 22 large North European dairy companies (see table 3). Generally, companies which pay high prices to their milk suppliers are highly efficient and/or offer products with an added value. Efficiency and added value production gives them the ability to make a profit margin despite high costs for the raw material. The comparison reveals that the production scale has no relation with the price paid to the supplier.

The Dutch Agricultural and Economic Institute (LEI) analyzed the competitive strength of the Dutch and their main competitors, the French and Danish dairy sectors. The French sector was the most efficient, the Dutch sector was second best and the Danish were third. Regarding chain efficiency, The Netherlands was number one. The current business strategy of the two main Dutch dairy companies, Friesland Coberco Dairy Foods and Campina Melkunie, is to cut the number of brands and focus on the strongest private labels.

	Dairy Company	Country	Turnover 1999 (billion USD per year)
1	Nestlé	Switzerland	13.3
2	Philip Morris (Kraft)	US	8.7
3	Dairy Farmers of America	US	7.3
4	Parmalat	Italy	6.5
5	Danone	France	6.3
6	Suiza Foods	US	6.0
7	Arla Foods	Denmark Sweden	5.6
8	Lactalis	France	5.1
9	<i>Campina Melkunie</i>	<i>The Netherlands</i>	4.8
10	<i>Friesland Coberco Dairy Foods</i>	<i>The Netherlands</i>	4.3
11	Snow Brand	Japan	4.2
12	Bongrain	France	4.1
13	Meiji Milk Products	Japan	3.7
14	<i>Unilever</i>	<i>The Netherlands/UK</i>	3.5
15	Morinaga Milk Industry	Japan	3.3
16	Land O'Lakes	US	3.3
17	Sodiaal	France	3.1
18	Dean Foods	US	3.0
19	Nordmilch	Germany	2.6
20	Glanbia	Ireland	2.0

Source: Rabobank International and annual reports.

	Milk processed 1999 (million pounds)	Milk processed 1999 as % of country total	Turnover 1999 (million USD)	Price 2000 (USD/pound)
Skanemejerier, Sweden	915	13%	313	0.15
Arla Foods, Sweden	4,727	65%	1,614	0.15
Arla Foods, Denmark	9,034	92%	3,625	0.15
<i>Cono Kaasmakers, The Netherlands</i>	558	2%	114	0.14
Campina SA, Belgium	1,135	17%	not known	0.14
Nestlé, The Netherlands	1,574*	7%	817*	0.14
Tuffi Campina, Germany	3,814	6%	1,415	0.14
<i>Leerdammer Company, The Netherlands</i>	1,442*	6%	331	0.14
Belgomilk, Belgium	1,592*	24%	387*	0.14
<i>Hoogwegt Milk, The Netherlands</i>	295	1%	not known	0.14
Humana Milchunion, Germany	4,314	7%	1,373	0.13
<i>Doc Kaas, The Netherlands</i>	705	3%	193*	0.13
<i>Campina Melkunie, The Netherlands</i>	7,057	30%	3,519	0.13
<i>Nutricia Dairy & Drinks, The Netherlands</i>	220	1%	390	0.13
Nordmilch, Germany	9,259	16%	2,558	0.13
Dairygold, Ireland	1,905	17%	846	0.13
<i>Friesland Coberco, The Netherlands</i>	11,684	50%	4,286	0.13
Lakeland Diaries, Ireland	619	5%	184*	0.13
West Cork Groep, Ireland	774	7%	130	0.13
Kerry Group, Ireland	1,052	9%	2,614	0.13
Golden Vale, Ireland	1,204	11%	777	0.12
Glanbia, Ireland	3,007	27%	2,666	0.12

* Figures of 1998. ** Bonuses and levies dependent quantity, season and the costs for milk processing and marketing.

Source: Dutch Daily Agricultural Journal