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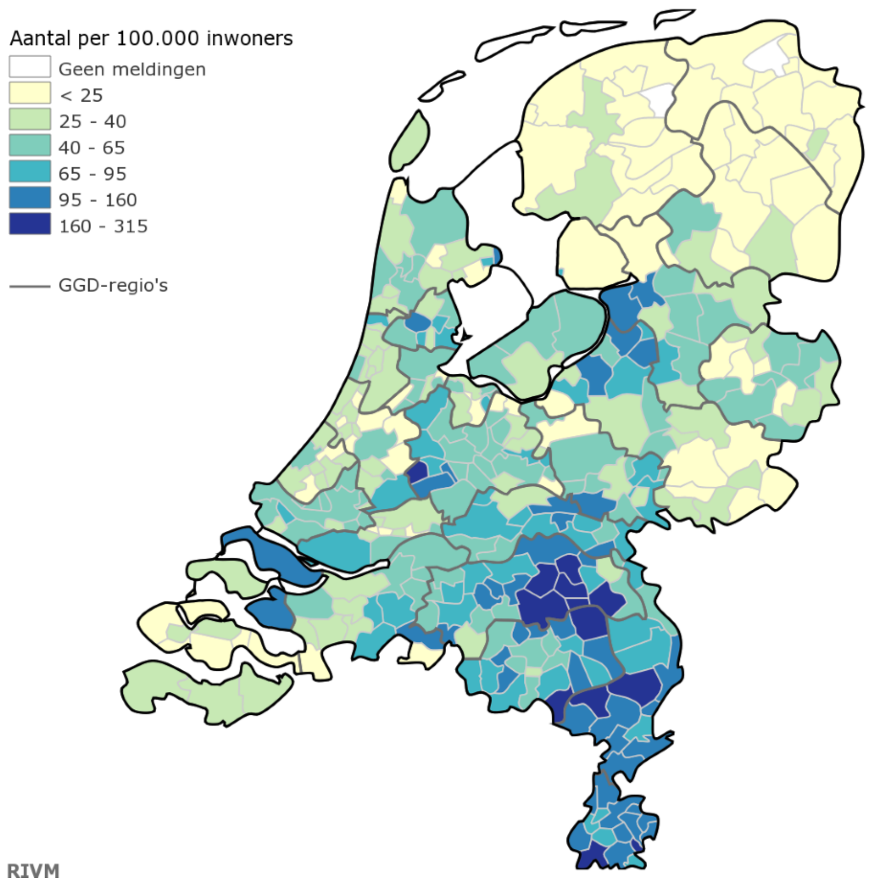
Report Highlights:

The new coronavirus (COVID-19) has put pressure on several agricultural sectors in the world's second largest agricultural exporting nation. Herein we outline some of the damages that the Dutch agricultural sectors are anticipating.

In December 2019, an outbreak of the new coronavirus (COVID-19) disease was reported in Wuhan, China. On February 27, 2020, the first patient was diagnosed with COVID-19 in the Netherlands. Since then, and like in many other countries in the world, thousands in the Netherlands have been infected.

Number of Hospitalized COVID-19 Patients (per 100,000 people) as of April 16, 2020



NOTE: This map shows the number of hospitalized patients per 100,000 residents as reported by Municipal Health Services. Changes may occur due to subsequent corrections (in the system).[1]

In response to the crises, the Dutch government has been emphasizing hygiene rules, encouraging individuals to avoid public venues (such as cafés), and recommending people maintain physical distance from each other (known as social distancing). By taking this approach, the government is hoping to make it more difficult for people to infect one another in order to spread out the number of infections over a longer period. All individuals who work in contact-based roles have been told to stop performing their jobs until April 28, 2020, unless it is possible to maintain a distance of 1.5 meters from clients at all times. All bars, cafés, restaurants, museums, concert venues, theaters, casinos, sports clubs, gyms, saunas, and some additional businesses are closed until April 28, 2020. While meal delivery and takeaway services remain available at many restaurants, people have been advised to avoid queues, stand well apart, and eat their takeaway meals at home (not on the premises). Primary and secondary schools, schools for secondary vocational education, and childcare centers have also

[1] Source: https://www.rivm.nl/coronavirus-covid-19/actueel.

been shuttered until April 28, 2020. Additionally, all gatherings, events, etc. that require a license have been banned until June 1, 2020.

While these measures have begun to slow the spread of the disease, they have also had an impact on the economy of the world's second largest agricultural exporter (after the United States).[2] The International Monetary Fund forecasts gross domestic product in the Euro area, which includes the Netherlands, will contract by 7.5 percent this year (see graphic below). In response, the government has laid out a series of support measures to assist Dutch companies in confronting the economic challenges of the crises (see, e.g., https://business.gov.nl/the-coronavirus-and-your-company/[3]), and the government continues to develop additional support programs.

Latest World Economic Outlook Growth Projections

The COVID-19 pandemic will severely impact growth across all regions.

(real GDP, annual percent change)	2019	PROJECTIONS 2020	2021
World Output	2.9	-3.0	5.8
Advanced Economies	1.7	-6.1	4.5
United States	2.3	-5.9	4.7
Euro Area	1.2	-7.5	4.7
Germany	0.6	-7.0	5.2
France	1.3	-7.2	4.5
Italy	0.3	-9.1	4.8
Spain	2.0	-8.0	4.3
Japan	0.7	-5.2	3.0
United Kingdom	1.4	-6.5	4.0
Canada	1.6	-6.2	4.2
Other Advanced Economies	1.7	-4.6	4.5
Emerging Markets and Developing Economies	3.7	-1.0	6.6
Emerging and Developing Asia	5.5	1.0	8.5
China	6.1	1.2	9.2
India	4.2	1.9	7.4
ASEAN-5	4.8	-0.6	7.8
Emerging and Developing Europe	2.1	-5.2	4.2
Russia	1.3	-5.5	3.5
Latin America and the Caribbean	0.1	-5.2	3.4
Brazil	1.1	-5.3	2.9
Mexico	-0.1	-6.6	3.0
Middle East and Central Asia	1.2	-2.8	4.0
Saudi Arabia	0.3	-2.3	2.9
Sub-Saharan Africa	3.1	-1.6	4.1
Nigeria	2.2	-3.4	2.4
South Africa	0.2	-5.8	4.0
Low-Income Developing Countries	5.1	0.4	5.6

Source: IMF, *World Economic Outlook*, April 2020

INTERNATIONAL MONETARY FUND IMF.org

Source: https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/ (April 14, 2020)

[2] The Netherlands is one of the world's largest agricultural producers, exporting €65 billion of vegetables, fruit, flowers, meat, and dairy products each year.

[3] The cabinet's emergency measures package contains a number of generic instruments, which can be used by the agricultural and horticultural sector and the fishing sector, including the extension of the SME agricultural loan guarantee scheme. See, e.g., https://business.gov.nl/subsidy/bmkb/.

Several Dutch agricultural organizations have issued initial estimates of the damages their sectors will experience from the effects of COVID-19. For example, the Netherlands Agricultural and Horticultural Association, known by its Dutch acronym of LTO, calculated a loss of income of almost €5 billion ($5.4 billion) in the next six months for the primary agricultural sector. ABN Amro bank, the nation's third largest bank, estimates that Dutch agricultural production and sales will contract 2 percent this year.

Ware Potatoes

The LTO estimates that Dutch growers of ware potatoes have been damaged €167-€217 million ($186-$241 million) as a direct result of the worldwide lockdowns and the temporary closure of many HRI-foodservice outlets. In the Netherlands alone, overall sales of French fries, which are made from ware potatoes and generally consumed outside of the home, have dropped by 60-70 percent.

The Netherlands is one of Europe's largest producers and one of the world's largest exporters of frozen pre-fried potato products (mainly French fries). Some potato processors with plants in the Netherlands have stated that they will lower their production of potato products due to storage capacity limitations while the global demand for French fries has dropped.

Dutch growers of ware potatoes are also being challenged by full warehouses as an estimated 1.5 million MT of the 2019 ware potato harvest is still in storage. Growers that grew ware potatoes without contracts have been the hardest hit, as there is no obligation for a potato processor to buy their product. Growers are reportedly quite concerned about their inability to identify buyers, particularly as a longer storage period means higher prices if costs are to be recovered.

In an effort to reduce some of the pressure on the industry, the Dutch government announced a €50 million program to compensate ware potato growers who have product in storage that can no longer be processed into French fries this season (NOTE: compensation is anticipated to be 40 percent of the average market value for the period September 2019 to February 2020, or $0.05-$0.06 per kg).[4] Given the challenges the industry is facing, industry sources believe that the ware potato planted area in the Netherlands will drop by an estimated ten percent this year.

There are also several initiatives the industry has undertaken in these challenging times. While some farmers are now offering their ware potatoes for sale through social media and are donating to food banks, others are looking at alternative end-users (e.g., using ware potatoes for the production of bioethanol, starch, and animal feed). Potato processors, Farm Frites and Lamb Weston / Meijer, recently announced a plan to deliver frozen French fries to Dutch hospitals -- as a way of thanking the staff. The Dutch umbrella organization for arable farming (BO Akkerbouw), has also launched a campaign called 'Benefrietjes' (a play on the words benefits and French fries in Dutch), encouraging consumers to eat more fries or to treat other consumers to fries.

[4] Ibid.

Horticultural Production

Lost sales due to worldwide lockdowns, the temporary closure of many HRI-foodservice outlets, and trade problems, has led to major problems for the Dutch horticultural industry. LTO estimates the COVID-19-related direct costs for the horticultural industry at several billion dollars.

Since many of these companies are in a rather unique position, the Dutch Minister of Agriculture, Carola Schouten, announced on April 15, 2020, a €600 million ($667 million) plan that compensates companies for some of their lost sales. Minister Schouten noted that these producers cannot simply halt their businesses, and are challenged by short shelf lives and peak sales in the spring. In response to the announcement, Jaap Bond, chair of the *Corona Crisis in Horticulture* Taskforce, said, "this is an important investment {for} the preservation of thousands of companies and tens of thousands of jobs."

Many horticultural companies are also grappling with seasonal labor shortages. Employees from Eastern European countries, particularly Poland, are essential for Dutch horticultural companies, especially during seasonal harvesting (e.g., for asparagus and strawberries). Many Polish citizens returned to Poland at the outset of the COVID-19 outbreak, due to uncertainties about their ability to cross borders or meet a quarantine requirement. The LTO has responded by launching a platform where people can register themselves to help harvesting.[5] Thousands of people, who would normally work in restaurants or in the leisure and travel industry, have reportedly already signed up and are expected to partly compensate for the loss of Eastern European workers.

Flowers

One of the hardest hit agricultural sectors, and an icon of the Dutch agricultural industry, is the Dutch floriculture industry. The Netherlands accounts for 44 percent of worldwide trade in floricultural products. In fact, 77 percent of all flower bulbs traded worldwide come from the Netherlands, the majority of which are tulips. With the virus hitting during peak tulip production season, Royal FloraHolland, the largest cooperation of flower and plant producers in the Netherlands, estimated the industry destroyed roughly 400 million flowers (140 million tulips) in recent weeks and that industry damages could be in excess of €2 billion. In response, as noted above, the government has announced a €600 million program for floriculture and some specialty horticultural producers. Under this program, while the first 30 percent of turnover loss will be borne by entrepreneurs, the government will compensate growers for a portion of the remaining 70 percent of damages.[6]

Milk

Because of stringent phosphate regulations, the Dutch dairy herd shrunk from 1.79 million head in December 2016, to 1.55 million head in December 2018. In 2019, the number of dairy cows recovered by 38,000 animals to 1.59 million head. The reduced demand for dairy products during the COVID-19 crises is expected to have a limited effect on Dutch milk production, as farmers will continue to

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[5] See helponsoogsten.nl

[6] See https://www.rijksoverheid.nl/onderwerpen/coronavirus-covid-19/nieuws/2020/04/15/650-miljoen-voor-aanvullende-maatregelen-agrarische-sector-op-noodpakket

produce in order to pay their bills and debts to the bank. In April, the leading Dutch dairy processor still paid farmers €0.34 per kg of milk delivered, only a slight reduction of €0.02 compared to what was paid in February (which negatively influences processor profit margins). Spot prices, however, fell from €0.34 per kg of milk in February to €0.19 per kg of milk in mid-April.

Dairy Products

On April 7, Rabobank published a report about the COVID-19 effect on the global dairy market.[7] It is anticipated that the most significant consequence of the crisis on food and agricultural markets is that consumers will switch from food service providers to the retail sector and from luxury products to cheaper alternatives. Based on this outlook, Rabobank's dairy analysts expect a lower consumption of processed cheese (used by fast food chains and restaurants) and butter (as consumers increasingly choose cheaper alternatives).

The Netherlands, Belgium, Germany, and France have all recently expanded production capacity for Mozzarella. With the closure of the food service sector, demand for Mozzarella has been heavily affected, as has overall demand for cheese (which is often considered a luxury product). Accordingly, cheese production is being reduced to prevent additional pressure on prices.

Another expectation is that demand in export markets will fall, particularly for milk powder. It is not only the COVID-19 crisis that is pressuring demand, but also lower oil prices (which often correlate with demand for dairy products in the Middle East and other oil producing regions). The overall reduction in demand for dairy products is also putting pressure on prices. From the beginning of February to mid-April, Dutch cheese prices fell 26 percent, butter 29 percent, non-fat dry milk (NFDM) 30 percent, and whole dry milk (WDM) 17 percent.

Due to the reduced demand for butter, cheese and "luxury" dairy products, processors will attempt to produce products that can be stored, mainly WDM (NOTE: Dutch milk drying capacity is reportedly at near 100 percent). If storage costs are supported by local governments or the European Commission (EC) then NFDM and butter may also be increasingly stored. The LTO has requested the European Commission (EC) make private storage support available for butter and NFDM, and measures to support voluntary restrictions for milk production. If these instruments are implemented, it is likely that products will be produced for intervention, as happened before after the economic recession in 2008. Following 2008, significant shares of established stocks were exported to third countries – which could occur again after the COVID-19 crises.

Beef and Veal

The beef cattle sector is a minor agricultural sub-sector in the Netherlands, as most of the cattle held are dairy cows and veal calves. Dutch dairy cows are commonly slaughtered for lower value beef products and ground meat, for which there is still relatively good demand (particularly for ground meat). The Dutch dairy cow slaughter price fell from its peak level of €2.40 per kg in the beginning of March to €2.00 per kg mid-April, a reduction of twenty percent.

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[7] See https://research.rabobank.com/far/en/sectors/dairy/global_dairy_markets_coronavirus_update.html

In contrast to the size of the domestic beef sector, the Netherlands is a major importer and distributor of South and North American beef. Industry sources report that EU demand for high value beef has declined during the crises, and will continue to be weak as long as restaurants remain closed. The situation will be further challenged if the economic recession persists. The demand for U.S. beef has been most significantly hit, as it is almost exclusively sold to the European food service sector.

The reduced demand for high value meats is also negatively affecting the Dutch veal industry, which ships a major share of its production to France and Italy. The price for Dutch veal fell from €3.70 per kg in the beginning of March to €3.35 per kg by mid-March (current market prices are not available due to a lack of sales).

Pork

The Dutch swine sector is also suffering from reduced demand in EU export markets, specifically in Italy and Poland. In countries with large tourist industries, such as Greece and Croatia, demand is expected to be lower than normal during the summer. A large share of the pork destined for exports is now being stored, and cold stores are reportedly full. However, as pork is not a high value product, demand has not been hit as hard as it has for high quality beef and veal (and prices remain relatively stable).

The Dutch pork price fell from its peak level of €2.08 per kg in the beginning of March to €1.89 per kg by mid-April, a reduction of nine percent. Furthermore, the EU swine sector relies on China as an important outlet for its production. In 2019, the Dutch sector exported thirty percent of its production to third countries, more than half of which was shipped to China. According to a leading Dutch pork producer, exports to China are recovering, and demand for pork from China is forecast to remain strong throughout 2020. Market reports note that pork prices in the United States and Brazil were more adversely impacted than in the EU, which could affect price competitiveness for EU pork exports.

Broilers

The price for broilers fell from its peak level of €0.93 per kg in the beginning of March to €0.76 per kg by mid-April, a reduction of 18 percent. In March, prices were supported due to a consumer rush on retail. However, since the beginning of April, prices have fallen as household freezers have been filled. Moreover, retail sales have not fully replaced the reduction in demand from the food service sector. Imports from Thailand are still entering the EU, and Polish products are still being offered in the Dutch market (which is pressuring prices).

Attachments:

No Attachments.