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Dairy

Dairy Semi-Annual Report

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Report Highlights:

This report provides an overview of production, consumption and trade trends in the Dutch dairy sector

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Semi-Annual Report
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Executive Summary

Milk production in calendar year 1998 increased a scant 0.6% as compared to 1997, with more milk (0.8%) being processed for human consumption. Production of both butter and milk powder increased in 1998 while **cheese** production fell by a notable 9% to 630,000 metric tons. **Butter** production increased by about 13% as compared to 1997, due mainly to the lower cheese production which pushed more milk into butter production. Dutch production of **non-fat dry milk** increased sharply from about 40,000,000 metric tons in 1997 to about 60,000,000 metric tons in 1998. The increase is mainly attributable to the fact that less milk was processed into cheese and hence more into non fat dry milk powder and butter. The production of **whole milk powder** increased by about 2.6% in 1998 as compared to 1997. Consumption of most commodities remained similar to the previous year.

Dutch **cheese exports** fell by about 10% to 486,000 metric tons in 1998. Exports to third countries, Russia in particular, declined sharply. Total imports fell by about 20,000 metric tons in 1998 as compared to 1997. Cheese prices fell dramatically from dfl 6.20 per kilogram in January 1998 to dfl. 5.50 per kilogram in March 1999. There are no significant signs that the export market will improve for 1999-2000.

Due to lower demand, especially from Eastern European countries such as Russia and the Ukraine, **butter** exports came under pressure in 1998. Dutch exports of **whole dry milk** increased by about 15% in 1998 as compared to 1997. This was mainly due to expanded trade with countries such as Algeria and the United Arab Emirates. Exports of **non fat dry milk** on the other hand, fell by about 18% in 1998 as compared to 1997. This is mainly attributable to the Asian crisis and strong competition from other exporting countries such as New Zealand and Australia on the Asian markets. It is anticipated that for the years 2000-2002 the Asian market will not recover which will likely negatively impact on exports.

Within the context of "Agenda 2000", the following are the main policy changes agreed to in 1998:

- prolongation of the quota system until the year 2008
- a cut in the guaranteed price of 15 percent over three years starting in 2005
- 1.5% increase in the milk quota for all farmers in the EU
- 1.5% increase for young farmers and farmers in mountainous regions

The Dutch dairy industry believes that the EU policies will not be accepted by free trade nations such as the United States and Australia. They therefore strongly believe that new proposals and changes will be discussed by the EU Ag. ministers after the WTO round has started at the end of 1999 with discussions expected to continue in the new millenium.

Production

Milk production in calendar year 1998 was similar to that in 1997 (slight increase of 0.6%). Total milk production remained at about 11 million metric tons. Dutch producers will slightly exceed the milk quota of 11,000,692 (industrial and consumption quota) metric tons after corrections for fat and protein levels in the milk.

More milk (0.8%) was processed for human consumption and the production of butter and milk powders increased (due to lower cheese production).

Cheese production in 1998 decreased notably by about 9% to 630,000 metric tons. This mainly reflects the reduced competitiveness of the Dutch on the world market. Exports of Dutch cheeses decreased by about 10 percent to only 486,000 metric tons.

In 1998, production of butter increased by about 13% as compared to 1997. This was mainly the result of lower cheese production pushing more milk into butter production. Butter production in 1998 reached a level of 150,000 metric tons.

The production of **non-fat dry milk** in the Netherlands increased sharply from about 40,000,000 metric tons in 1997 to about 60,000,000 metric tons in 1998. This was mainly attributable to the fact that less milk was processed into cheese and hence more into non fat dry milk powder and butter. The production of whole milk powder increased by about 2.6% in 1998 as compared to 1997.

Consumption

Consumption of milk increased by 0.6% in 1998 as compared to 1997. This slight increase is mainly attributable to increased marketing campaigns on television (the Dutch Dairy Cooperative "Melkunie" won the first prize for the best commercial in 1998 on TV) and increased demand for small retail packs of milk and milk products. Overall cheese consumption in the Netherlands remains similar to that of the previous year. According to the Dairy Product Board, consumption of cheese increased by about 0.4% in 1998 as compared to 1997. Consumption of Dutch cheeses for the first quarter of 1999 remained similar to those in 1998 and no significant changes are foreseen for the remainder of 1999.

Trade

Dutch cheese exports fell by about 10 percent to only 486,000 metric tons in 1998. Exports to third countries, Russia in particular, declined sharply. Dutch cheese exports to the United States fell by about 3,000 metric tons in 1998 due to lower demand. Dutch cheese exports are at their lowest level since 1995. The Dutch are facing strong competition on the European market as the cheese markets are saturated and consumers are increasingly demonstrating a preference for "exotic" cheeses from France, Greece and especially cheddar cheese from the United Kingdom and Australia. However, price competitiveness with German cheeses also led to increased imports from Germany. Total imports increased by about 20,000 metric tons in 1998 as compared to 1997. One of the main reasons why the Dutch have met with limited success in expanding cheese exports relates to poor marketing. According to the Dairy Product Board, the Dutch have not been aggressive enough in conquering new markets both in the EU and in third countries. At the beginning of 1999, export markets for Dutch cheeses remained slow. The prices for cheese fell dramatically from dfl 6.20 per kilogram in January 1998 to dfl. 5.50 per kilogram in March 1999. There are no significant signs that the export market will improve in 1999. The industry is very worried about the poor economic situation in Russia which has seriously influenced Dutch exports to that country. The Dutch are still aggressively looking for alternative markets such

as those in North Africa (Egypt, Algeria) and have been somewhat successful.

Due to lower demand, especially from Eastern European countries such as Russia and the Ukraine, butter exports came under pressure, and according to the Bureau for Dairy Farmers, exports fell by about 3% in 1998 as compared to 1997. According to preliminary data provided by the Dutch Dairy Product Board, however, butter exports reached similar levels as in 1997 (127,000,000 MT in 1997 and 130,000,000 MT in 1998). Exports to Egypt and Iran increased significantly suggesting that the Dutch have been able, to a certain extent, to develop new butter export markets. Low stocks at the beginning of 1998 combined with lower EU production, led to reasonably stable butter prices. The average butter prices were 0.18 dfl cents higher than in 1997.

Dutch exports of whole dry milk increased by about 15% in 1998 as compared to 1997. This was mainly due to expanded trade with countries such as Algeria and the United Arab Emirates. It is clear that the Dutch traders are aggressively developing new export markets and it is therefore anticipated that exports will continue to increase in the year 1999/2000.

Exports of non-fat dry milk on the other hand, fell by about 18% in 1998 as compared to 1997. This is mainly attributable to the Asian crisis and strong competition from other exporting countries such as New Zealand and Australia on the Asian markets. This competition led to very low world market prices (dfl 4.36 per kilogram). It is expected that the world market will remain under pressure and that Dutch traders will face difficult times in 1999/2000 (due to abundant supply, low world market prices, worldwide competition and reduced export subsidies).

Policy

Dairy policy discussions with regard to the restructuring of the dairy sector generally take place in the context of the European Union. The following is a summary of the major policy decisions made by the EU Agricultural Ministers as of March 1999 in the context of the so called "Agenda 2000" proposals:

- prolongation of the quota system until the year 2008
- a cut in the guaranteed price of 15% over three years starting in 2005
- a 1.5% increase in the milk quota for all farmers in the EU,
with Spain, Greece, Italy, Northern Ireland and Ireland receiving extra subsidies to be determined
- 1.5% increase for young farmers and farmers in mountain regions
- introduction of a premium of 145 Ecu per cow

The Dutch farmer organizations considered it unfair to favor only young farmers and dairy farmers located in mountainous regions and were therefore pleased to learn that quotas for all farmers will increase by 1.5%. Likewise, intervention price reductions of 15% have not been welcomed by Dutch dairy farmers. The Dutch dairy industry is skeptical about the decisions made in Brussels about the dairy reform package because they doubt whether such policy can actually be executed taking into consideration that the new rounds in the WTO have not started yet. The industry believes that the EU policies will not be accepted by free trade nations such as the United States and Australia. They therefore strongly believe that new proposals and changes will be discussed by the EU Agricultural Ministers after the WTO round has started.

Other policy issues in the Netherlands:

In the Netherlands there is increasing concern about milk production systems. As is the case of meat and meat products, there is a growing concern among Dutch consumers about the way milk is produced. There is also a trend toward increased regulation in terms of environmental protection, animal welfare and food safety. Public discussion of these issues has helped stimulate demand for biological (organic) products.

Nevertheless, there is an on-going debate in the Netherlands concerning subsidizing organic dairy farming. Various sources from both the dairy industry and the Dairy Product Board confirm that more and more emphasis is being placed on the development of new products which are environmentally friendly. Organic dairy farming seems to be developing into an important alternative for dairy farmers, partly because farmers receive subsidies from the Dutch Government. In the Netherlands, about 37 million kilograms of organic milk was produced in 1998. This was a modest 0.4% of total Dutch milk production. Each year, several dairy farmers switch from conventional to organic milk production. The number of organic dairy farms is currently estimated at 175.

Marketing

Future marketing and market development will be of crucial importance to the Dutch dairy industry. Especially positive future developments are expected with regard to the following commodities: cheese, yogurt and milk products for dessert. Growth in consumption is expected in biologically produced dairy products, functional foods, low-fat and special value added products (soda of milk products). According to officials of the Dairy Product Board, Dutch consumers are willing to pay more for these products. Nevertheless, increase in consumption of new products will be at the detriment of the existing so called traditional dairy products. The Product Board for Dairy and the Central Bureau for Statistics (CBS) reports that, although production volumes have been stable over the past few years, there is an on-going trend to add value to dairy products. New products are being developed on a weekly basis in order to provide consumers with a wide range of value added, multi-functional products.

Products such as mozzarella cheese and frozen yoghurt have been imported from the United States in limited quantities. There are some possibilities for U.S. organic dairy products in the Dutch market, such as specialty cheeses.

PSD Tables

PSD Table						
Country:	The Netherlands					
Commodity:	Dairy, Butter					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Beginning Stocks	20	20	35	35	38	55
Production	134	134	140	150	137	151
Intra EC Imports	53	53	52	48	49	44
Other Imports	8	8	6	10	5	8
TOTAL Imports	61	61	58	58	54	52
TOTAL SUPPLY	215	215	233	243	229	258
Intra EC Exports	91	91	104	95	105	97
Other Exports	34	34	34	36	35	38
TOTAL Exports	125	125	138	131	140	135
Domestic Consumption	55	55	57	57	58	58
TOTAL Use	180	180	195	188	198	193
Ending Stocks	35	35	38	55	31	65
TOTAL DISTRIBUTION	215	215	233	243	229	258
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table						
Country:	The Netherlands					
Commodity:	Dairy, Cheese					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Beginning Stocks	114	114	119	119	126	136
Production	693	693	690	630	688	620
Intra EC Imports	71	71	69	87	69	69
Other Imports	16	16	14	18	11	11
TOTAL Imports	87	87	83	105	80	80
TOTAL SUPPLY	894	894	892	854	894	836
Intra EC Exports	453	453	452	407	451	403
Other Exports	87	87	77	71	75	70
TOTAL Exports	540	540	529	478	526	473
Human Dom. Consumption	229	229	231	234	231	235
Other Use, Losses	5	6	6	6	6	6
Total Dom. Consumption	234	235	237	240	237	241
TOTAL Use	774	775	766	718	763	714
Ending Stocks	119	119	126	136	131	122
TOTAL DISTRIBUTION	893	894	892	854	894	836
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table						
Country:	The Netherlands					
Commodity:	Dairy, Milk, Fluid					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Cows In Milk	1,660	1,660	1,580	1,600	1,590	1,590
Cows Milk Production	11,100	10,922	11,200	11,200	10,895	10,895
Other Milk Production	10	10	10	10	10	10
TOTAL Production	11,110	10,932	11,210	11,210	10,905	10,905
Intra EC Imports	950	1,100	875	850	1,110	1,110
Other Imports	0	0	0	0	0	0
TOTAL Imports	950	1,100	875	850	1,110	1,110
TOTAL SUPPLY	12,060	12,032	12,085	12,060	12,015	12,015
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	1,791	1,672	1,735	1,809	1,669	1,669
Factory Use Consum.	9,844	10,000	9,990	10,060	10,019	10,019
Feed Use Dom. Consum.	425	360	360	276	327	327
TOTAL Dom. Consumption	12,060	12,032	12,085	12,145	12,015	12,015
TOTAL DISTRIBUTION	12,060	12,032	12,085	12,145	12,015	12,015
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table						
Country:	The Netherlands					
Commodity:	Dairy, Milk, Nonfat Dry					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Beginning Stocks	0	0	0	0	0	0
Production	39	39	41	60	36	65
Intra EC Imports	197	197	198	130	204	150
Other Imports	37	37	35	40	31	31
TOTAL Imports	234	234	233	170	235	181
TOTAL SUPPLY	273	273	274	230	271	246
Intra EC Exports	29	29	30	31	29	32
Other Exports	47	47	49	28	45	34
TOTAL Exports	76	76	79	59	74	66
Human Dom. Consumption	13	13	15	15	12	15
Other Use, Losses	184	184	180	156	185	165
Total Dom. Consumption	197	197	195	171	197	180
TOTAL Use	273	273	274	230	271	246
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	273	273	274	230	271	246
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table						
Country:	The Netherlands					
Commodity:	Dairy, Dry Whole Milk Powder					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Beginning Stocks	0	0	0	0	0	0
Production	111	111	115	114	112	120
Intra EC Imports	77	77	80	78	79	86
Other Imports	4	4	2	7	3	3
TOTAL Imports	81	81	82	85	82	89
TOTAL SUPPLY	192	192	197	199	194	209
Intra EC Exports	15	15	15	16	15	16
Other Exports	153	153	157	165	155	169
TOTAL Exports	168	168	172	181	170	185
Human Dom. Consumption	25	24	25	18	24	24
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	25	24	25	18	24	24
TOTAL Use	193	192	197	199	194	209
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	193	192	197	199	194	209
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Trade Matrices

Import Trade Matrix			
Country:	The Netherlands	Units:	Metric Tons
Commodity:	Butter		
Time period:	CY		Forecast
Imports for	1997		1998
U.S.		U.S.	
Others		Others	
E. U.	53,154	E. U.	48,500
-France	2,241	-France	700
-Belgium/Lux	9,068	-Belgium/Lux	11,500
-Germany	2,816	-Germany	5,000
-U.K.	17,530	-U.K.	5,500
-Ireland	18,230	-Ireland	22,000
New Zealand	2,987	New Zealand	3,000
Estonia	1,535	Estonia	1,500
Total for Others	57,676		53,000
Others not listed	3,903		5,000
Grand Total	61,579		58,000

Export Trade Matrix			
Country:	The Netherlands	Units:	Metric Tons
Commodity:	Butter		
Time period:	CY		CY
Exports for	1997		1998
U.S.		U.S.	1
Others		Others	
E. U.	90,870	E. U.	95,167
-France	18,329	-France	22,342
-Belgium/Lux	20,428	-Belgium/Lux	18,810
-Germany	44,520	-Germany	47,105
- Italy	2,169	- Italy	2,404
Switzerland	2,640	Switzerland	2,517
Russia	16,205	Russia	4,848
Morocco	25	Morocco	2,769
Egypt	7	Egypt	4,490
Iran	0	Iran	6,333
Total for Others	107,107		113,607
Others not listed	18,395		17,021
Grand Total	125,502		130,629

Import Trade Matrix			
Country:	The Netherlands	Units:	Metric Tons
Commodity:	Cheese		
Time period:	CY		Forecast
Imports for	1997		1998
U.S.	6	U.S.	80
Others		Others	
E.U.	70,917	E.U.	87,000
-France	18,958	-France	21,000
-Belgium/Lux	17,952	-Belgium/Lux	20,000
-Germany	18,894	-Germany	23,500
-U.K.	5,215	-U.K.	8,500
-Ireland	2,724	-Ireland	2,000
-Denmark	4,350	-Denmark	5,000
New Zealand	8,570	New Zealand	7,500
Lithuania	2,309	Lithuania	2,000
Australia	2,077	Australia	4,500
Total for Others	83,873		101,000
Others not listed	3,761		3,920
Grand Total	87,640		105,000

Export Trade Matrix			
Country:	The Netherlands	Units:	Metric Tons
Commodity:	Cheese		
Time period:	CY		CY
Exports for	1997		1998
U.S.	14,153	U.S.	11,847
Others		Others	
E.U.	453,929	E.U.	407,573
-France	50,628	-France	46,928
-Belgium/Lux	61,884	-Belgium/Lux	57,333
-Germany	231,312	-Germany	206,817
-Italy	22,172	-Italy	20,906
-Spain	27,927	-Spain	23,706
-Greece	24,542	-Greece	20,513
Russia	24,031	Russia	7,724
Japan	7,927	Japan	7,953
Mexico	2,335	Mexico	4,107
Total for Others	488,222		427,357
Others not listed	38,165		39,402
Grand Total	540,540		478,606

Import Trade Matrix			
Country:	The Netherlands	Units:	Metric Tons
Commodity:	Milk, Nonfat Dry		
Time period:	CY		Forecast
Imports for	1997		1998
U.S.		U.S.	
Others		Others	
E.U.	196,836	E.U.	130,000
-France	31,662	-France	11,500
-Belgium/Lux	11,328	-Belgium/Lux	10,000
-Germany	109,579	-Germany	78,000
- Ireland	22,478	- Ireland	13,000
-U.K.	12,324	-U.K.	8,500
Poland	10,454	Poland	10,460
Estonia	9,434	Estonia	9,435
Lithuania	8,190	Lithuania	8,108
Total for Others	224,914		158,003
Others not listed	9,263		11,997
Grand Total	234,177		170,000

Export Trade Matrix			
Country:	The Netherlands	Units:	Metric Tons
Commodity:	Milk, Nonfat Dry		
Time period:	CY		CY
Exports for	1997		1998
U.S.		U.S.	
Others		Others	
E.U.	28,814	E.U.	30,624
-France	3,092	-France	6,900
-Belgium/Lux	7,255	-Belgium/Lux	6,181
-Germany	9,711	-Germany	9,103
- Italy	2,648	- Italy	1,524
-Spain	2,742	-Spain	3,354
Mexico	16,288	Mexico	2,250
Algeria	8,679	Algeria	7,040
Malaysia	2,359	Malaysia	1,311
Singapore	1,914	Singapore	801
Total for Others	58,054		42,026
Others not listed	17,566		17,554
Grand Total	75,620		59,580

Import Trade Matrix			
Country:	The Netherlands	Units:	Metric Tons
Commodity:	Dry Whole Milk Powder		
Time period:	CY		Forecast
Imports for	1997		1998
U.S.		U.S.	
Others		Others	
E.U.	76,921	E.U.	78,000
-France	23,017	-France	20,000
-Belgium/Lux	11,273	-Belgium/Lux	10,000
-Germany	27,394	-Germany	34,500
-U.K.	9,469	-U.K.	7,000
-Ireland	4,268	-Ireland	4,500
Poland	1,612	Poland	1,700
Czech Rep.	736	Czech Rep.	1,800
Estonia	593	Estonia	800
Lithuania	574	Lithuania	500
Total for Others	80,436		82,800
Others not listed	416		2,200
Grand Total	80,852		85,000

Export Trade Matrix			
Country:	The Netherlands	Units:	Metric Tons
Commodity:	Dry Whole Milk Powder		
Time period:	CY		CY
Exports for	1997		1998
U.S.		U.S.	
Others		Others	
E.U.	15,098	E.U.	18,387
-Belgium/Lux	2,217	-Belgium/Lux	4,127
-Germany	9,587	-Germany	9,670
Ivory Coast	2,505	Ivory Coast	4160
Saudi Arabia	22,093	Saudi Arabia	26,752
United Arab Em.	11,644	United Arab Em.	14,377
Thailand	6,667	Thailand	2,087
Dominican Rep.	6,089	Dominican Rep.	5,374
Oman	5,586	Oman	5,489
Algeria	2,728	Algeria	19,411
Total for Others	72,410		96,037
Others not listed	95,576		92,479
Grand Total	167,986		188,516