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The Netherlands

Frozen French Fries

Annual

2002

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Report Highlights:
The production of potatoes is expected to increase slightly this year. Consumption of fresh potatoes is decreasing while consumption of potato products is growing. Export to traditional target markets like the UK and Germany is growing slowly. New opportunities are to be found in southern, central and eastern Europe. As a result, Dutch french fry manufacturers are expanding processing capacity outside the Netherlands to be close to the potato production and to meet growing demand in these parts of Europe.

Includes PSD changes: No
Includes Trade Matrix: No
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Executive Summary

The total production of potatoes in the Netherlands is expected this year to be 7.2 million MT, 2 percent higher than last year. Approximately 25 percent of potatoes for consumption were consumed fresh and another 25 percent were exported fresh. The remaining potatoes have been further processed. French fry production accounts for 90 percent of total potato processing. The Netherlands is the largest frozen french fry exporter in the world.

Consumption of fresh potatoes is decreasing as consumers shift to potato products and pasta and rice dishes. Consumption of potato products is growing according to the consumers' need for convenience.

Total exports of pre fried potato products increased by 14 percent from 1.24 million MT in 2000 to 1.41 million MT in 2001. Over 90 percent is exported within the EU, mainly to the UK, Germany and France. New opportunities have arisen in southern, central and eastern European countries.

The Dutch french fry industry is expanding processing capacity outside the Netherlands in countries like France and Poland to supply respectively southern and eastern Europe and to be close to potato production.

Exchange Rate			
Year	**U.S. $**	**EURO**	**Dutch florin (guilder)**
1998	1	-	1.98
1999	1	0.94	2.07
2000	1	1.09	2.39
2001	1	1.12	2.46
2002	1	1.09	-

Note: For 2002 exchange rate is only available for the first nine months

Production

The harvested acreage of potatoes is estimated this year at 157,187 hectares, 3 percent less than last year. This estimate is based on the planted acreage of potatoes; the historical average of harvested are equal to 97 percent of the planted acreage and no deviations are expected for this year.

Total potato production in the Netherlands includes the production of starch, consumption and seed potatoes. The share of seed potato is increasing slightly at the expense of both starch and potatoes for consumption. The harvested acreage for the various potatoes is shown in figure 1.

Figure 1: Harvested Acreage for Starch, Consumption and Seed Potatoes

	Year	Harvested Acreage (Ha)	Yield Kg/Hectare	Total Production
Total Potatoes	2000	174,929	46,500	8,126,799
	2001	161,665	43,400	7,015,253
	*2002	157,187	45,523	7,155,558
Seed Potatoes (sandy and peat soil)	2000	7,052	32,200	226,914
	2001	5,974	33,900	202,659
	*2002	6,125	32,205	197,256
Seed Potatoes (clay)	2000	34,458	36,800	1,268,852
	2001	32,772	35,800	1,173,953
	*2002	32,915	34,010	1,119,439
Consumption Potatoes (sandy and peat soil)	2000	24,580	52,900	1,299,914
	2001	20,752	50,400	1,046,493
	*2002	19,567	57,450	1,124,172
Consumption Potatoes (clay)	2000	59,463	53,200	3,165,512
	2001	54,298	46,900	2,545,292
	*2002	53,648	51,240	2,748,915
starch Potatoes (all)	2000	49,376	43,900	2,165,606
	2001	47,869	42,800	2,046,856
	*2002	44,932	43,750	1,965,775

*FAS estimates Source: Central Bureau of Statistics, 2002

The yield per hectare of potatoes is expected this year to be 45 MT, 4 percent more than last year. Among different potato classes, the yield of consumption potatoes is expected to be higher than last year whereas the yield of seed potatoes is expected to be lower.

For these reasons, the total production of potatoes in the Netherlands is expected this year to be 7.2 million MT, 2 percent higher than last year.

Processing
Total production of potatoes in the Netherlands in 2001 was 7.0 million MT. The production of starch, consumption and seed potatoes in that year was 2.0, 3.6 and 1.4 million MT respectively. Approximately 25 percent of consumption potatoes were consumed fresh and another 25 percent were exported fresh. The remaining potatoes have been used for further processing.

In addition to the domestic supply, almost 1.0 million MT potatoes were imported for processing. Imports come from Germany, Belgium and sometimes France. Imports are needed to fully utilize processing capacity of french fry exporters. For 2002, imports are expected to be similar to 2001 because domestic supply of potatoes for consumption in 2002 will only be slightly higher than 2001.

French fry production accounts for 80 percent of total potato processing, while dried products, snacks and various other products make up the remaining 20 percent.

Figure 2: Quantity of Potatoes Used for Processing Potato Products
(x 1,000 MT)

	1999	2000	2001*
French Fries	2,191	2,474	2,492
Dried Products	397	445	448
Snacks	125	138	139
Other Products	16	12	12
Total	2,729	3,069	3,092

* FAS estimates Source: Dutch Potato Processors' Association (DPPA), 2002

Of total volume of 2001 processing (3.1 million MT), 2.49 million MT were processed into french fries. In 2000 this amount was 2.47 million MT. Actual french fry production last year was approximately 1.25 million MT.

Industry
The global production of french fries is dominated by North American companies, which account for two third of the production. Aviko, recently acquired by Cosun, and Farm Frites are the only Dutch based global french fry concerns. Farm Frites has a strategic alliance with ConAgra subsidiary Simplot. In the Dutch french fry production market **McCain**, joint venture **Lamb Weston/Meijer**, the strategic alliance **Simplot/Farm Frites** and **Aviko** account for 96 percent. Agristo, Al-food and Oerlemans account for the remaining 4 percent.

Figure 3: Global Market Share of the Top 4 French Fry Producers for the year 2002

Company	Global Market Share
McCain	28%
Lamb Weston/Meijer	20%
Simplot / Farm Frites	11% / 5%
Aviko	6%
Other	30%

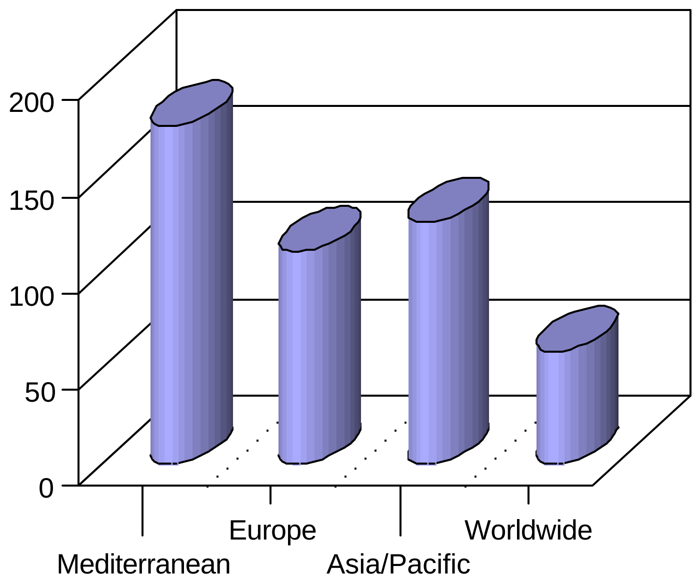
Source: Magazine Boerderij/Akkerbouw, 2002

In order to supply increasing demand of french fries in southern Europe and central and eastern Europe in the near future, the industry has to expand its processing capacity. Expansion is not very likely in the Netherlands. Due to the high cost of transporting potatoes locations for new french fry plants are often established close to production areas of potatoes. Transport costs are an especially important concern in plant planning as two kg of potatoes result in only 1 kg of french fries. Industry expansion and new processing capacity is gravitating toward the south. New facilities are being built in France and Belgium to supply the growing demand in the Mediterranean countries. Other initiatives are being taken outside the European Union (EU) in countries like Poland to meet the growing demand in central and eastern Europe. Poland may also become a supplier to current EU countries.

Consumption

The Dutch french fry market depends on the export markets in UK, Germany and France. New opportunities have arisen in southern European countries like Greece, Portugal and Spain. Quick service restaurants are spreading across southern Europe and french fries often form part of menus ordered at these outlets. The Mediterranean countries have witnessed the highest growth rate in the number of McDonald's restaurants opened between 1995 and 2000 (175%). McDonald's is just one example. Considering that its competitors show comparable expansion patterns, this development clearly underlines the importance of southern Europe as a growth market for frozen french fries.

Figure 4: Growth Rate of McDonald's Restaurants 1995-2000



Source: Rabobank International, 2001

In the Netherlands, the per capita consumption of potato products is approximately 30 kg per year. In addition, the Dutch eat on average another 50 kg fresh per year. The UK and Ireland have the highest per capita consumption of potatoes and potato products. In the southern and eastern European countries consumption is considerably lower.

Changing consumers' diet does not favor the consumption of fresh potatoes. Dutch Consumers' meals more and more comprise pasta and rice dishes. In addition, the consumer also chooses more processed potato products, all at the expense of fresh potatoes. This development emphasizes the importance of product development and innovation by the processing industry.

Trade

The Netherlands is the largest frozen french fry exporter in the world, followed by Canada and the USA. Total export increased by 14 percent from 1.24 million MT in 2000 to 1.41 million MT in 2001. The export value in 2000 was 1 billion Euro. Over 97 percent of total production is exported to food retailers and fast food companies. The strong growth of fast food chains in Europe continues to help drive exports of Dutch french fries. Over 90 percent is exported within the EU, mainly to the UK, Germany and France. The remaining 10 percent is exported to Russia, Brazil and Central and Eastern European Countries.

Figure 5: Export Markets for Dutch French Fries

	1999	2000	2001	2002*
UK	326.2	349.9	401.7	269.6
Germany	237.2	253.2	273.2	183.3
France	137.2	175.5	201.9	135.5
Italy	80.7	78.5	94.3	63.3
Belgium/Luxembourg	56.1	53.2	84.6	56.8
Spain	46.8	52.7	69.7	46.8
Ireland	44.8	47.6	48.7	32.7
Denmark	35.9	40.3	33.8	22.7
Sweden	28.1	30.9	30.4	20.4
Finland	11.9	13.6	14.7	9.9
Greece	11.6	15.5	14.0	9.4
Portugal	9.1	9.3	13.0	8.7
Austria	6.9	8.6	10.4	7.0
EU total	1,032.6	1,128.8	1,290.4	866.0
Other countries	80.3	112.7	120.6	80.9
Total	1,112.8	1,241.5	1,411.0	946.9

* First 8 months (January-August) Source: DPPA, 2002

Export opportunities to the EU for US french fry producers depend on the supply of french fries in Europe. Due to the transportation costs, US exports increase only when potatoes are scarce in Europe. Since the production of potatoes for consumption is expected to increase by 7 percent for 2002, the U.S. export opportunities for this year are limited. Past 5 years approximately 11,000 MT of U.S. french fries were exported to the EU. In 2000 and 2001, the Netherlands imported 529 and 648 MT respectively.