Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Required Report - public distribution

Date: 10/16/2000

GAIN Report #NL0054

The Netherlands

Frozen French Fries

Annual

2000

Approved by:
Phil Letarte
U.S. Embassy, The Hague
Prepared by:
Wendalin Kolkman

Report Highlights:
The Netherlands has the largest market share (20 percent) of the world's frozen potato market after the U.S. (48 percent). More than 90 percent of its production is destined for the EU market. The Dutch french fries industry is continuously developing new products and making variations on existing products to meet consumer preferences. Through concentration and globalization the number of french fries producers is decreasing. Because of the growing market power of producers, the Dutch market is becoming less transparent, especially for the fixing of prices.

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

Table of Contents

Executive Summary

European potato supplies in the 2000/01 season should be adequate to provide the Dutch french fries industry with sufficient supplies of good quality potatoes, thereby limiting the potential for U.S. exports. Potato prices are expected to be lower than last year, but they should be relatively stable.

The Netherlands has the largest industrial french fries production capacity in Europe. The Dutch french fries production accounts for 80 percent of the total potato processing, while dried products, snacks and various other products make up the remaining 20 percent. The volume of Dutch potatoes processed into french fries reached 2.2 million metric tons in 1999, down 10.3 percent from 1998. Actual french fries production decreased 9.6 percent from 1.3 to 1.2 million metric tons. To meet consumer preferences, the Dutch french fries industry is continuously developing new products and making variations on existing products. Compared to the total french fries production, the Dutch organic french fries market is small but increasing rapidly.

The Netherlands has the largest market share (20 percent) of the world's frozen potato market after the U.S. (48 percent). In 1999, total Dutch exports of french fries decreased 8 percent by volume, and increased 9.6 percent by value. Export value per kilo increased from Dfl 1.42 in 1998 to Dfl 1.57 in 1999, reflecting high EU potato prices. Approximately 90 percent of the Dutch french fries production is exported. Of the total Dutch french fries exports, 93 percent is destined for other EU countries. Increased production is expected to result in increased french fries exports in 2000/01. In addition, the strong growth of American fast food chains in Europe continues to help drive exports of Dutch french fries.

The Netherlands has 12 registered french fries producers with a total of 24 production facilities. Through concentration and globalization the number of french fries producers is decreasing. Because of the growing market power of producers, the Dutch market is becoming less transparant, especially for the fixing of prices.

Exchange Rate			
Year	**U.S. $**	**EURO**	**Dutch florin (guilder)**
1998	1	-	1.98
1999	1	0.94	2.07
2000	1	1.04*	2.29*

Note: For 2000 exchange rates are only available for the first six months

Production

Quality and efficient cultivation of potatoes require good soil conditions as well as adequate and timely availability of water in a moderate climate. Even in the most suitable areas, like the Netherlands, the annual productivity and quality can fluctuate considerably, even per region. The harvest expectations for the Dutch 2000 potato crop are excellent. Because of the favorable weather conditions - no extreme temperatures and moderate rain - many coarse potatoes of good quality are expected. The 2000 crop will be almost 6 million Metric Tons (MT), an increase of 0.3 percent compared to the previous year. The percentage of industry "Bintjes" with a 50 millimeter-size or more, is estimated at 75- 80 percent. For the french fries industry, it is important that ware potatoes are homogeneous, which is why potatoes are selected according to size and quality. A higher percentage of large and long potatoes enable the industry to produce long french fries with less waste and fewer undersized potatoes to deal with. French fries come on the market as par-fried french fries and are finished-fried just before consumption. From 100 kg potatoes about 50 kg par-fried french fries can be produced. In general, potatoes for the french fries industry are grown in areas where production costs are competitively low and quality is high.

The appearance of late blight disease (Phytophthora infestans) - a severe potato parasite which could cause enormous losses - asks for more attention in the Netherlands. Other diseases and pests, like "Ringrot", "Bruinrot" and scab, appear more often too. To fight against these diseases more and more chemicals are needed. Therefore, the Dutch potato cultivation faces its limits, intensified by the competition of other land-users. However, precise-agriculture, the cultivation of new varieties and organic cultivation offer opportunities.

Due to its sensitivity to the blight disease, it is expected that the acreage if "Bintje" varieties will sharply decline in the near future. According to the Central Bureau of Statistics (CBS), the share in acreage will decrease from 57 percent in 1994 to 20-25 percent in the next couple of years. Because of the use of too many pesticides in the fight against Phytophthora, consumers call "Bintje" and "Bildtstar" "gifpiepers" (poison spuds). Despite this is still the largest selling variety. However, there is an increasing demand in potatoes produced under conditions which guarantees environmental protection and safe production techniques. For example, Albert Heijn, the nation's largest retailer, announced that it would stop using "Bintje" for fresh market sales from the 2001 harvest onwards. It is expected that the decrease in "Bintje" acreage will be compensated by the increase of acreage for "Agria," "Asterix" and "Felsina." These varieties supply a better fries-length and are characterized by better quality, yield and coarsening. For a long time, however, Dutch french fry producers have used mainly the "Bintje" variety, because it is relative simple to cultivate and can be used for multiple-purposes. However, due to quality and crop uncertainty, insufficient length, and increasing consumer concerns, Dutch french fry producers use more and more other varieties.

The Netherlands: 2000 Crop Estimate for Potatoes

	Yield per Hectare (Metric Tons)				Total Production (1,000 MT)			
	1997	**1998**	**1999**	**2000***	**1997**	**1998**	**1999**	**2000***
Cons. Potatoes	44	42	47	46	5,151	3,371	5,943	5,961

* Preliminary

Source: Central Bureau of Statistics

With a share of 48 percent the U.S. is the market leader of the world's frozen potato market, followed by the Netherlands (20 percent) and Canada (13 percent). In Europe, the Netherlands has the largest industrial french fry production capacity. The volume of Dutch ware potatoes processed into french fries decreased with 10.3 percent from 2.4 million MT in 1998 to 2.2 million MT in 1999. Actual french fry production was 1.2 million MT in 1999, a 9.6 percent decrease compared to the previous year. The french fry production in the Netherlands accounts for 80 percent of the total potato processing, while dried products, snacks and various other products make up the remaining 20 percent. Of the Dutch ware potato production, more than 50 percent is processed into potato products.

Potato Products

The Dutch french fry industry is continuously developing new products and making variations on existing products to meet consumer preferences. Many different types of french fries are available nowadays from the supermarket, as well as deep frozen oven ready meals. Chilled pre-fried potato products, like french, are also available. Their shelf life is limited, but they have a better potato flavor than deep-frozen potato products. Peeled and pre-cooked potatoes are mostly sold as small potatoes or potatoes cut into quarter segments. These products are ready for easy further preparation in the kitchen. Some of these products are vacuum-packed and have a shelf life of a few months. In some brands taste makers like fresh herbs, cut fresh vegetables and/or other taste makers are added. The french fry industry still focus primary on deep frozen and chilled pre-fried potato products. However, Dutch manufacturer Agrico, for example, produces peeled en pre-cooked potatoes products like "Cêla Víta" and "Vita".

The Netherlands: Quantity of Potatoes Processed by Type
(1,000 Metric Tons)

	1995	1996	1997	1998	1999	Product Share in 1999
French Fries	2,044	2,144	2,336	2,443	2,191	80.3
Dried (Granulates, Flakes etc.)	369	367	391	374	397	14.5
Snacks (Chips etc.)	129	137	127	141	125	4.6
Other Products	20	18	20	18	16	0.6
Total	2,562	2,666	2,874	2,967	2,729	100.0

Source: V.A.V.I.

Organic French Fries
Compared to the total french fry production of 1.2 million MT per year, the Dutch organic french fry market is small but increasing rapidly. The annual production of organic french fry is approximately 3,000 MT. Dutch french fry producer Oerlemans Foods is the market leader with a 25 percent market share. However, the production of 2,000 MT of organic french fry is only 5 percent of Oerlemans' total production. Approximately 60 percent of its french fry production is bound for U.K. supermarkets, while 25 percent find their way to German supermarkets. In the Netherlands organic french fries are still a rare phenomenon with only the supermarkets Konmar and Albert Heijn selling organic french fries. It is expected that this will change due to the SKAL-licence Dutch french fry producers Aviko, Lamb Weston/Meijer and Farm Frites have got to produce organic french fries. At the moment Aviko, Lamb Weston/Meijer and Farm Frites together still produce less than 1,000 MT of organic french fries. In addition, they often subcontract their organic production to specialized processors like Oerlemans Foods. The most important factor for market development is a lower price difference between common and organic ware potatoes.

Stocks
No figures are published on french fries held in storage in the Netherlands.

Dutch French Fry Producers
The Netherlands has 12 registered french fry producers with a total of 24 production facilities. It is estimated that six of these companies produce approximately 85 percent of the total production. Aviko, McCain, Farm Frites (500,000 MT) and Lamb Weston/Meijer (350,000 MT) are the four largest players in the Dutch french fry market. According to GFK, Aviko is by far the frozen potato brand market leader in the Netherlands with a 42 percent market share in turnover and a 30 percent share in volume. In addition, Aviko shows the highest growth rate in turnover. However, McCain shows the highest growth rate in volume. American companies, like McCain and Lamb Weston, have become big in Specialties.

Frozen Potato Market Shares in the Netherlands, 2000
(Percentage)

	Sales	Growth Rate	Volume	Growth Rate
Aviko	42.1	+17.1	29.8	+2.8
Private Labels	38.2	+4.5	48.1	+4.7
McCain	11.5	+13.0	9.0	+9.9
Other	8.2	+21.7	13.0	+1.3
Total	100.0	-	100.0	-

Source: GFK
Note: Canadian-based McCain is the worlds' market leader, while Dutch-based Aviko has a 20 percent market share in Europe and a 10 percent market share in the world (= fourth position). Both are A-Brands.

In 1999, the U.S. firm J.R. Simplot Company joined with the Dutch firm Farm Frites and together they control 25 percent of the world's potatoes processing capacity. Each company will remain independent in their home-market but the two companies will operate together in the world market. For example, the joint-venture will open a production plant in Beijing, China. In 2000, Lamb Weston/Meijer - a joint venture of U.S.-based Lamb Weston and Dutch-based Meijer - took over the Dutch french fry producer Vriezo, a family-owned company. Last summer, the Dutch firm Aviko opened its eleventh production plant at Rain am Lech, Germany. With its new facility Aviko is targeting Southern Europe as well as Germany itself. The company has already production facilities in Belgium, Poland, the United Kingdom and the United States. Its annual turnover amounts more than Dfl. 1 billion (US$ 0.4 billion) and Aviko wants to sell a million tons of french fries a year by 2005. Beside Southern Europe and Poland, Northern Europe and Russia offer also opportunities for the Dutch french fry industry. In general, the industry sells its potato products to retailers (especially supermarkets), food services and fast food restaurants (like McDonald and Burger King).

Concentration

Through concentration and globalization the number of french fry producers is decreasing. According to the V.A.V.I., in a couple of years just a few large french fry producers will remain worldwide. Mergers or alliances among french fry producers and collecting merchants are the order of the day. Concentration means market power. According to the Dutch Agriculture and Horticulture Federations (LTO) the market is becoming less transparent, especially for the fixing of prices. To create a countervailing all the other links in the chain are forced to cooperate and to concentrate as well. Therefore, potato farmers have to be active partners in supply of quality potatoes for the processing industry in the constantly further developing chain. In fact, there is a trend in the Dutch french fry industry toward sourcing potatoes directly from the farmer, which means that collecting merchants are disappearing. This trend is stimulated by the worse 1998 potato crop - due to bad weather conditions - when Dutch french fry producers had to import potatoes against extra costs. The V.A.V.I. expects that in a couple of years approximately 75 percent of the ware potatoes are directly sourced from farmers.

Quality control

Direct sourcing makes it easier for processors to control the quantity and quality of ware potatoes. Extension services are being set up to advise and interact with farmers in order to ensure a high quality crop. This is stimulated by supermarket organizations which increasingly demand guarantees regarding quality, food safety and environmental aspects, to meet the consumer demand. For example, Farm Frites is working on a quality control system and a hygiene code for the sake of food safety. This is an extension of its current obligatory cultivation registration. In the short run, Farm Frites' contract-farmers have to support the new system. With its measures Farm Frites wants to meet "Eurep-Gap", a list of demands of large European supermarket organizations which will go into effect in 2002. Direct sourcing allows not only for better control on quality and the total volume of potatoes, but also for leveling off of seasonal peaks by either contracting farmers to plant early potato varieties or outsourcing storage.

Supply & Distribution of French Fry in the Netherlands (1,000 x Metric Tons)	1996	1997	1998	1999	2000*
Imports	56	40	52	59	40
Dom. Production	1,126	1,219	1,315	1,190	1,150
TOTAL SUPPLY	1,182	1,259	1,367	1,249	1,190
Exports	970	1,088	1,209	1,113	1,065
Dom. Consumption	212	171	158	136	125
TOTAL DISTRIBUTION	1,182	1,259	1,367	1,249	1,190

Source: VAVI - * Office of Agricultural Affairs (OAA) estimates

Note: The consumption figures in the PS&D are arithmetically derived. Stock figures for french fry are not available so domestic consumption is difficult to quantify. The industry estimates that the average domestic market consumption is about 200,000 metric tons of pre-cooked french fry annually. This quantity is 15.5 percent of total production and indicates the importance of export markets for the Dutch french fry industry.

Consumption

The Netherlands, annual per capita potato consumption is 86 kg. Approximately 53 kg consists of ware potatoes, while the remaining 33 kg consist of potato products, like french fries. Potato consumption shows a significant shifting from ware potatoes to processed potatoes stimulated by a decline in food preparation time at home - at the moment less than 20 minutes. According to supermarket organizations, in 2005 the share of ware potatoes will be 55 percent (in volume), while ready-to-eat potatoes will have a share of 45 percent. At the moment these shares are 65 and 35 percent, respectively. According to GFK, french fries account for about 2/3's of the frozen potato market.

Frozen Potato Market Segments in the Netherlands, 2000
(Percentage)

	Turnover	Growth Rate	Volume	Growth Rate
French Fries	58.4	+10.0	71.0	+4.4
Specialties	41.6	+14.6	29.0	+3.4
Total	100.0	+11.9	100.0	+4.1

Source: GFK

Market trends are oriented towards health, nutrition and food safety, income spent on food, growing out-of-home consumption, more added value and greater convenience. Fresh chilled and peeled potatoes ready to be fried, and also ready-to-eat meals with potatoes as a basis, are a few examples of products meeting demands for convenience. New lifestyles provide opportunities for innovative potato products. In the future many people might eat five small meals a day. Therefore, the challenge is to produce easy-to-eat, readily available potato products. For example, one firm is test marketing "fast fry vending machines." These hot air-machines can serve french fries within 45 seconds and could be used in discotheques, cinemas, gas stations, schools etc. In addition, functional foods are being developed such as potatoes with higher starch levels, to provide french fries which absorb less fat. However, potatoes and potato products face ever-increasing competition from other sources of starch, including pasta and rice.

Prices

An increasing proportion of industry potatoes (approximately 90 percent) is sold before or during the growing season, because of the preference of Dutch french fry producers to have advance contracts for the delivery of potatoes. The majority of contracts for ware potatoes are made before the potatoes are planted. The price, quantity, time of delivery and the quality of potatoes are all delineated in the contracts. The prices paid for potatoes are either fixed or related to market prices which can be hedged, while rewards for better graded potatoes stimulate the farmer to provide good quality potatoes. In 2000, the average fixed contract price has been approximately Dfl. 20.00 (US$ 8.70) per 100 kilos.

The Netherlands: Potatoes Wholesale Prices at the Rotterdam Auction for the "Bintje" Variety
(50 millimeters or larger/Dutch Guilders per 100 kilos)

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
September	-	-	8.50	-	-	-
October	51.75	35.00	9.75	9.00	28.50	14.06
November	53.60	31.00	8.90	18.00	49.00	15.15
December	54.25	29.00	8.00	18.00	67.50	14.25
January	69.40	27.00	9.60	19.50	63.00	13.60
February	69.00	25.00	5.25	20.00	60.06	10.94
March	69.15	25.00	8.80	18.50	62.40	9.75
April	72.50	22.00	8.85	20.00	61.31	9.69
May	67.90	21.00	9.00	19.00	51.50	8.75
June/July	81.00	21.00	10.60	18.00	57.75	11.40

Source: VBNA Note: Dutch french fry producers purchase only 10 percent of their ware potatoes via the auction against the actual market price.

A relatively large EU potato crop caused weak potato prices in 2000, with prices reaching Dfl 8.75 per 100 kilos. According to merchants, market outlook is very dim, due to a low demand for ware potatoes and an even smaller supply - caused by the very low prices farmers receive. This situation also influences the price-level for contract-farming. With potato prices for the 2000/01 season expected to be lower but stable, current Dutch french fry prices remain at current levels or even decrease. In addition, export market demand greatly influences the price of Dutch french fries as well.

The Netherlands: Average Export Prices for French Fries									
	1991	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**
Price (Dfl/Kilo)	1.51	1.41	1.20	1.30	1.62	1.34	1.24	1.42	1.57
Exchange Rate (US$1 =Dfl)	1.87	1.76	1.86	1.82	1.61	1.69	1.95	1.98	2.07

Source: V.A.V.I

At the moment, the price for organic potatoes is three times higher than normal potatoes, partly due to the shortage of organic potatoes. Therefore, imports of organic potatoes are almost the same about as total Dutch production of organic potatoes, on a volume basis. Consequently, organic french fries cost about 2.5 times as much as normal french fries.

Trade

Potatoes are rarely traded at long distances as raw material. This is due to their heaviness, voluminous character and prerequisites of freshness. Ware potatoes are difficult and costly to store and transport. Therefore, french fry producers tend to locate in production areas. Therefore, fresh potatoes, apart from seed potatoes are mainly traded locally, whereas international trade is restricted primarily to processed potatoes.

The Netherlands is the largest french fry exporter in the world. The industry depends largely on export demand, since almost 95 percent of production is sold in foreign markets. The EU is the most important destination for Dutch french fries, especially the United Kingdom, Germany and France. In 1999, the total export volume decreased 8.0 percent to 1.1 million MT, while export value increased 2.7 percent to Dfl. 2.03 billion (US$ 1 billion). The strong growth of American fast food chains in Europe continues to help drive exports of Dutch french fries.

High exports of french fries has contributed to the increase of ware potato imports. In 1999, approximately 0.5 million MT of ware potatoes were imported from Germany. The majority have been used by the Dutch french fry industry. Because of the high transportation costs, ware potatoes are imported from surrounding countries only.

The Netherlands: French Fry Exports (x 1000 Metric Tons)				
	1996	1997	1998	1999*
Total EU	922.3	1,000.4	1,092.8	1,032.1
France	126.7	132.7	164.6	137.1
Belgium/Lux	71.3	70.7	61.2	56.1
Germany	231.8	228.1	249.9	237.2
Italy	82.3	89.9	89.1	80.7
U.K.	240.6	283.8	315.9	325.7
Ireland	41.6	42.0	42.8	44.8
Denmark	23.4	25.0	33.6	35.9
Greece	15.5	21.9	18.8	11.6
Portugal	12.8	15.2	15.1	9.1
Spain	38.4	47.4	53.6	46.8
Sweden	22.0	29.5	32.0	28.1
Finland	9.6	10.8	11.2	11.9
Austria	6.3	3.4	5.0	6.9
Third Countries	47.6	87.3	116.4	79.6
Total	**969.9**	**1,087.7**	**1,209.2**	**1,111.7**

* OAA Estimates   Source: VAVI

Export Opportunities for U.S. French Fry Producers.
The outlook for U.S. exports of french fries to Europe in the 2000/01 season is dim, due to expected adequate supplies of french fries in Europe and the relatively low price levels. U.S. exports generally occur when potatoes are scarce in Europe, such as in 1994/95, when U.S. french fry producers exported 17,021 metric tons of french fries to the Netherlands. In general, transport costs for french fries from the U.S. to Europe are far too high to be feasible.

Policy

The Netherlands, prices of potatoes and french fries are determined by the open market. There is no common agricultural policy (CAP) in the European Union (EU) for potatoes. Thus, price supports, export subsidies and agricultural import levies do not apply to this product.

In the past, particularly in times of over production and low prices, there have been calls for an EU potato market order. The EU Commission proposed in 1992 that the Ministers' Council consider such a scheme, but the council could never reach a consensus. Dutch potato growers are also divided about a marketing order but the potato processing industry (being traders) vigorously opposes such a regulation. At the moment, there does not appear to be a strong movement for a market ordinance. The Dutch processing sector also welcomed the WTO agreement that reinforces the free trade of french fries.
The Netherlands does not provide any government support for potato growers or the processing industry.

Marketing

The Dutch french fries industry no longer finances generic promotions but does fund public relations and the supply of information regarding health and environmental matters.

The Dutch potato processing industry funds collective industry research to improve the quality of Dutch french fries. This research program started in 1993 and has costs millions of Dutch guilders, but the exact amount and research results are not publicly available. However, the research focuses on 1) characterizing the raw material and predicting properties when processed; 2) developing objective methods to measure texture; 3) developing a fast (in-line) analysis for moisture and fat content; and 4) improving additive application and replacement.

World Potato Congress 2000

Following successful World Potato Congresses (WPC) were held in Canada, the United Kingdom and South Africa, the fourth WPC took place in the Netherlands from September 4-8, 2000. The aim of the Congress was to provide information to potato growers, researchers, processors, traders and other industry people around the world and to afford them an opportunity to discuss a wide variety of potato-related issues. More than 750 participants from 52 nations attended the Congress. Almost 30 participants were from the United States, like some speakers.

Potato 2000, a specialized Trade Fair (15,000 m2 stands) together with 72 hectares of potato fields and machinery on display at Emmeloord, followed the WPC. Approximately 270 exhibitors attended the trade fair and 15,000 visitors from a large number of countries were expected. Several exhibitors and visitors came from the U.S.