

Holland Gateway
Hub for international business in The Netherlands



Report for
Ministry of Industry and Trade, Vietnam
Dutch Food Industry

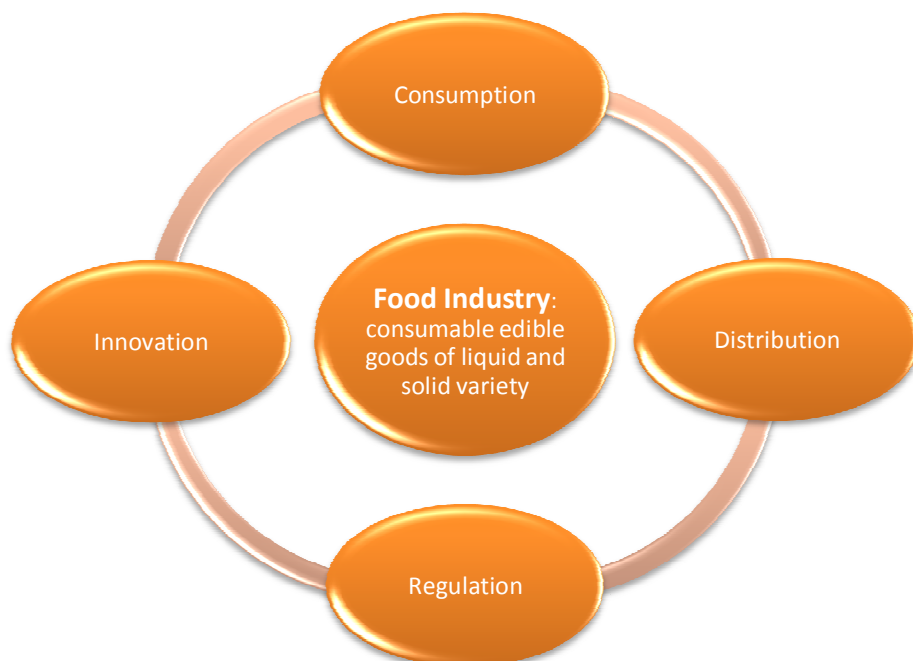
Version : 1
Date : Monday, 25 January, 2009

Dutch Food Industry

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1. Introduction Industry

This report defines the food sector as the whole of Dutch industry concerned with the distribution, consumption, regulation and innovation of all consumable edible goods of liquid and solid variety. The sector of agricultural produce is only invoked when in direct relation to the below stated domain, when necessary for the purpose of clarification.



The Netherlands are among the leading nations in the world regarding food production, export and innovation. The Dutch food Industry distinguishes itself from other countries with the following characteristics:

- A high domestic food consumption,
- A highly innovative food industry, backed by government subsidies and groundbreaking '*food valley*', which aims to foster research and development (R&D) and company co-operation,
- A consumer base with openness to new products,
- A favorable location and strong distribution links allowing for The Netherlands to act as a hub for access to the European market,

The following table gives an impression of the consumption of the Dutch food industry as part of GDP (market size).

Market size food industry

	2006	2007	2008	2009	2010	2011	2012	2013
Food Consumption (EURbn)	21.98	22.86	23.66	23.32	23.44	23.76	24.16	24.62
Total Food consumption growth (y-o-y%)	4.51	4.02	3.48	-1.41	0.50	1.37	1.68	1.89
Food Consumption as % GDP	4.07	4.03	4.00	4.02	4.02	3.99	3.96	3.95

The Dutch food Industry has a reputation for being highly innovative and this partly stems from the high priority given to R&D. Around 2% of the turnover from the Dutch food and drink industry is spent on R&D activity, a figure significantly higher than the worldwide average. This aspect of the industry is supported by the futuristic 'Food Valley' region near Wageningen. This location contains a concentration of food companies and research institutes devoted to food related sciences and technological development. Companies conducting research in this region include consumer products firm Unilever, baby food firm Numico (owned by Danone) and the dairy giant FrieslandCampina.

The limited size of the majority of Dutch supermarkets means that there is fierce competition for shelf space. Products are evaluated in terms of the revenue they generate per square centimeter, and those that do not make the grade are quickly removed. This clearly poses a challenge to producers who are under constant pressure to prove the worth of their product, and also gives retailers considerable power when negotiating supply contracts.

Source: *Business Monitor International 2009*

2. Industry Developments and Chances

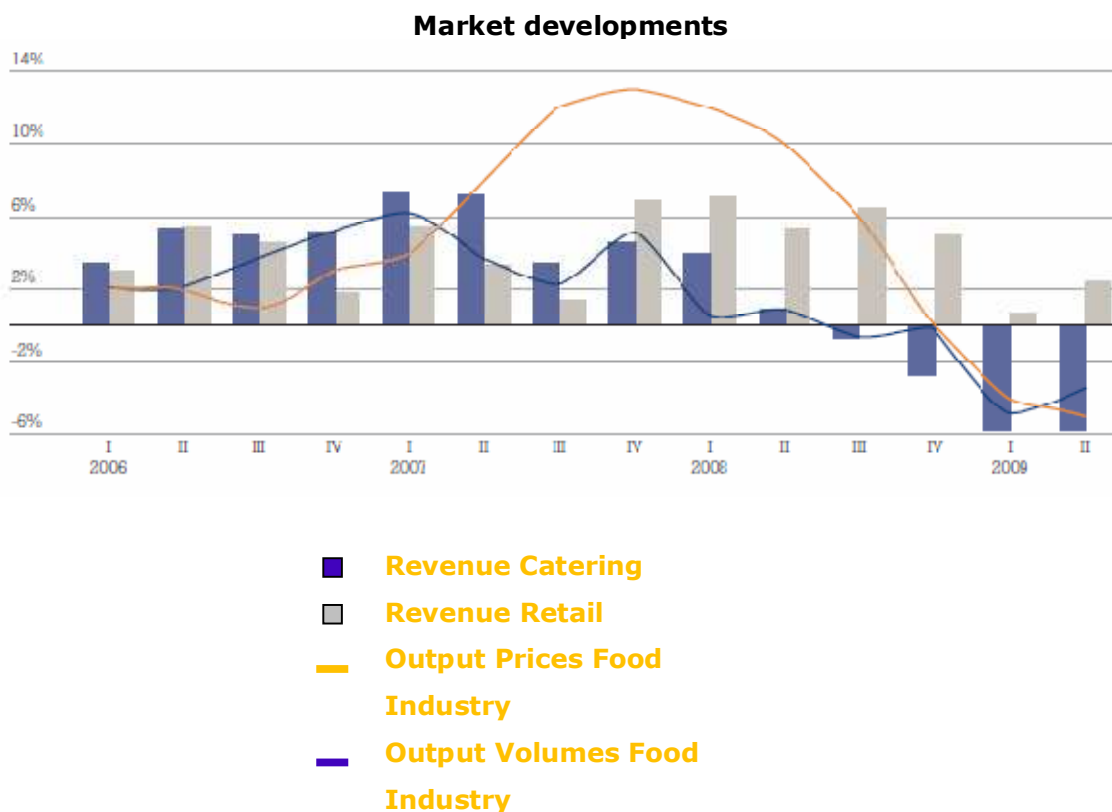
According to the *International Statistical Institute*, food consumption in the Netherlands has been growing slowly but steadily for the last five years. Between 2003 and 2008, total food consumption, in local currency terms, increased by 12.7%. This represents a compound annual growth rate of 2.4% and is slightly below the average for mature Western European markets. A small increase in the Dutch population over the period means that per capita food consumption increased at a slightly lower rate – 10.9% over five years. This represents a compound annual growth rate of 2.1%, which is also slightly lower than the Western Europe average. The rate of growth over these years was subdued by an intense price war between the leading Dutch retailers. The war began in October 2003 and led to an 8.2% reduction in food prices and the lowest level of inflation for 15 years. The price war encouraged consumers to be particularly price sensitive, with the knowledge that they could get better prices if they shopped around, and this attitude still lingers today. This, along with the worsening global economic situation, means that *Business Monitor International* (BMI) is currently predicting that Dutch food consumption will increase only moderately over the forecast period.

Source: *Business Monitor International 2009*

The recession is not going by unnoticed for food and drink manufacturers. Despite the relatively stable food demand, they noticed a decline in production and sales this year, but to a much lesser extent than for example producers of durable consumer goods. The food manufactures also noticed that their margins are being put under pressure. This pressure is caused by higher food expenditures in the supermarket, accompanied with a strong negative sales trend of food manufacturers and catering establishments.

2.1 Market developments

Both prices and sales levels of food manufacturers have shown a declining trend since early 2008 (See Figure). Dropping food prices and sharper price negotiations with retailers led to lower output prices in the second half of 2008.



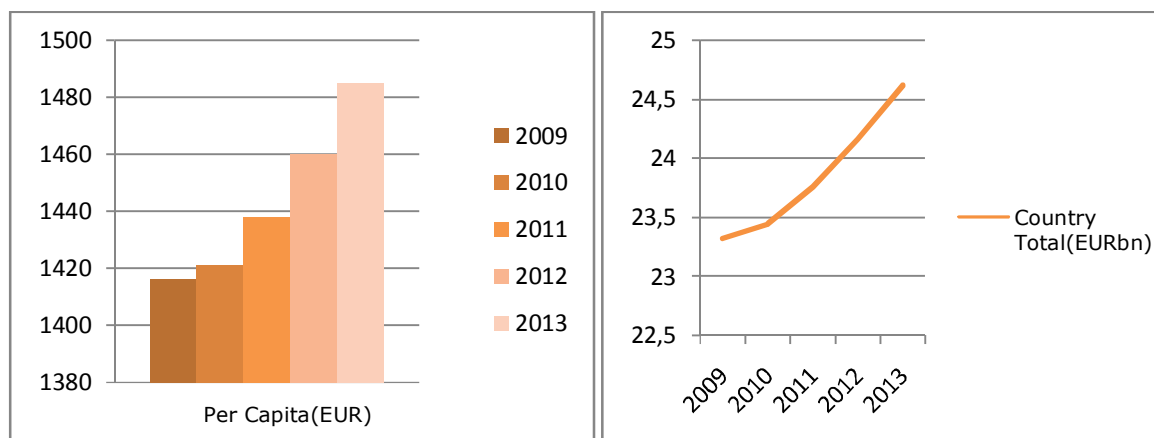
Food manufacturers feel obligated to develop new market strategies. They increasingly cut in to research focused on product innovation, reduce their brand portfolio and intensify the branding of the remaining products. This year almost a quarter less innovations reached supermarket shelves. Nevertheless, product innovations remain important for the long term profitability of manufacturers. With fewer resources, it is important to investigate consumer preferences and to focus on innovative product development with the greatest market potential.

Source: CBS/ING report

3.1 Food Consumption

In the next five years to 2013, BMI estimates total food consumption to increase by 4.1% to reach EUR24.6bn in 2013. Per capita consumption is expected to increase by 3.0% over the same period. Meanwhile, consumption in US dollar terms is actually expected to fall as BMI is currently forecasting that the US dollar will strengthen against the euro over this period.

Food Consumption



Source: *Business Monitor International 2009*

The opportunities for the food industry lie at the interface of health and convenience. With the growing problem of obesity on the one hand and diets that are not varied enough on the other, functional foods comprise the largest growth market. Traditionally, the Netherlands has been a major force in food innovation and has a great deal to offer in the area of healthy nutrition. In this way, the cost of healthcare can be reduced dramatically. The motto here is, 'growing old without being old'. This does not mean that the general populace will flock to consuming 'high-tech' drinks (drinks with added vitamins, bacteria, cholesterol-reducing substances and other ingredients), but a possible trend could develop whereby the use of certain ingredients (such as salt, sugar and unhealthy fats) is limited or replaced with other ingredients.

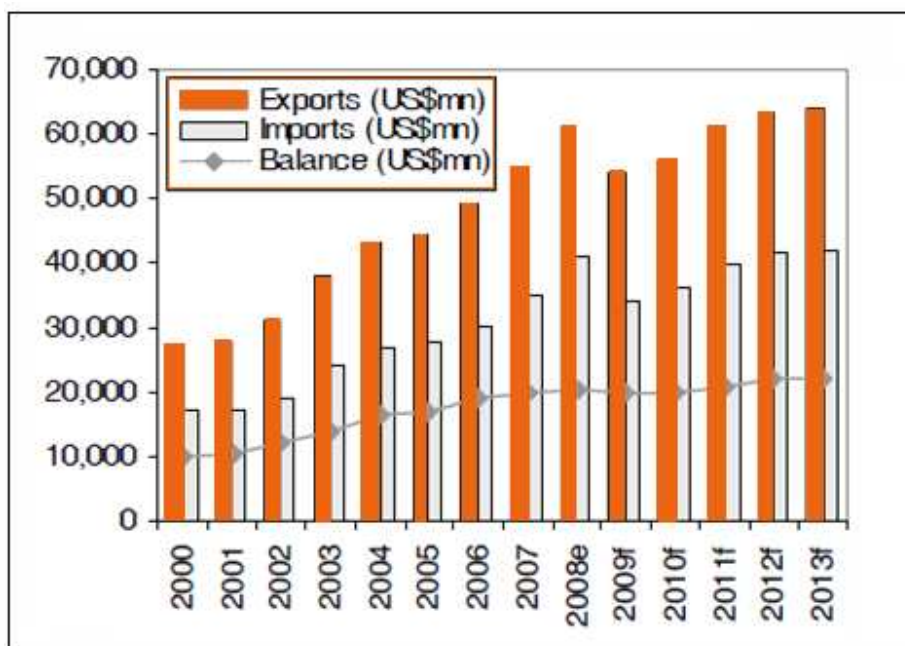
Source: *Food and Nutrition Report, HOLLAND*

3. Import and Export

The Netherlands has a highly positive food and trade balance thanks to its large agricultural industry and advanced food processing industry. According to the Dutch Agency for International Business and Co-operation (EVD), the Dutch food and drink industry generates around half of its revenues abroad. Dutch exports are boosted by the country's geographic location in the centre of Europe and by the increased homogenization of European consumption. EVD reveals that Dutch meat and meat products are the most important in terms of export value. The next most important industry is dairy and other important industries include processed fruit and vegetables and juices, sugar, confectionery, coffee and tea, edible oil, non-alcoholic beverages and processed foods.

In 2004, 78.5% of Dutch exports went to other countries in the EU with the most important destination being Germany. After Germany, the next most important destinations were Belgium, Luxembourg, France and the UK. Outside of Europe, the Netherlands' most important export destination is Asia followed by the US. In 2006, Dutch food and drink exports reached EUR34.2bn, according to the United Nations Conference on Trade and Development, representing a rise of 10.5% on the previous year. In the five years between 2003 and 2008, Dutch exports increased by 61.6%, representing a compound annual growth rate of 10.1%. Over the same period, Dutch imports increased by 71%, representing a compound annual growth rate of 11.3%. Along with increased domestic consumption import figures have been boosted by the expanding Dutch re-export industry. For example, the Dutch chocolate industry imports a large quantity of cocoa beans for processing.

Food and Drink Trade Balance 2000-2013



Over the next five years, the Dutch trade balance is expected to remain fairly constant as both imports and exports are expected to increase at a similar rate. Exports are likely to benefit from an increased consumption of Western-style products in Asia, along with the continued growth in demand for Dutch products in the rest of Europe. Meanwhile, imports will continue to grow owing to the price competitiveness of foreign food products – for example, meat and poultry from Brazil – and owing to the growth of the re-export industry.

Source: *Business Monitor International 2009*

4. Important players

The following table lists the major players in the Dutch food industry (in alphabetical order).

Key Players

Company	Subsector	Sales (EURmn)	Financial Year Ended	Est.	Employees
Aviko BV (Cosun)	Vegetables	Na	Na	1962	Na
Cadbury Netherlands BV	Confectionery	120	31.12.08	Na	Na
Cosun	Sugar & other	1689	31.12.08	1899	4337
CSM	Sugar & bakery supplies	2599	31.12.08	1919	8521
Friesland Campina	Dairy	9454	31.12.08	1879	15 300
Go Tan BV	Oriental convenience products	80	31.12.08	1954	Na
Heinz BV	Convenience food	300	31.12.08	2001	Na
Heiploeg Group	Seafood	200	31.12.08	1996	Na
Hoogwegt Group	Dairy	1000	31.12.07	1965	300
Kraft Foods Nederland BV	Cheese and dairy, chocolate, biscuits	220	31.12.08	Na	Na
Mars Nederland BV	Confectionery, convenience food	200	31.12.08	Na	Na
Nestle Netherlands	Dairy, confectionery	2000	31.12.08	Na	Na
Numico (Danone)	Baby food	2644	31.12.06	1896	13500
Perfetti Van Melle	Confectionery	1972	31.12.08	2001	15400
Unilever	Condiments, margarine, ice cream & other	40523	31.12.08	1930	174 000

Vion (Suvion)	Meat, prepared food	8640	31.12.08	Na	35 583
Wessanen	Natural & health food	1603	31.12.08	1765	5761

5. Distribution channels

The Netherlands has a strong reputation in the field of distribution and logistics. The Dutch geographic features allow for rapid turnaround times for logistic processes. The relative conglomeration of prime Dutch cities (Amsterdam, The Hague, Rotterdam) also benefits an efficient logistics process. Short transit routes, a well-developed infrastructure all benefit an exemplary logistics experience.

To understand the Dutch market it is important to look at the interaction of the parties in the Dutch logistics process *producers, suppliers* and *buyers*.

5.1 Producers

Most of food produce is generated in the Netherlands itself. The reasons for this are twofold. First comes the fact that the logistics process and infrastructure as mentioned above is very developed and contributes to cost effective transportation, thus resulting in a lower product price. Another reason produce is mostly homegrown is that suppliers and producers have a very intricate and developed relationship. Both parties enhance and support each other's existence by having predictable business volumes and realistic mutually agreeable pricing strategies. Producers in industries (e.g. agricultural produce) frequently are assembled in cooperatives resulting in greater security and stability. A poignant example is the dairy industry that will purchase from members from cooperatives. This notwithstanding, global enterprise stimulates a growing trend for the search for increased profitability by looking outside the Netherlands for higher eventual profit margins through lower buy-in.

5.2 Suppliers

An important development has marked the distribution process over the last years. In the past it was commonplace for producers such as farmers and market gardeners to supply their trade to wholesalers who in turn sold the produce to the food and stimulant industry. This process is now slowly becoming obsolete as farmers and market gardeners are approaching the food industry parties themselves. This has the obvious benefit of increasing profit margins for both the intermediate buyers and the producers as well as reducing logistics expenses. Another contributing factor to this development is the vertical expansion of the business column by incorporating suppliers and producers alike.

5.3 Buyers

There are two main distinguishable parties:

- Independent wholesalers
- Supermarkets

The independent wholesalers purchase the goods from the food and stimulant industry and sell them on to supermarket corporations. The supermarket corporations can be divided into two parties.

- Wholesale companies for independent supermarket corporations (wholesalers)
- Purchasing departments of major supermarket corporations (retailers)

A development has been afoot seeing the consolidation of power inside the purchasing market. This power convergence has allowed the purchasers to negotiate tough pricing. The most significant party at the end of the chain is of course composed of the supermarkets. They constitute the main port of call for the end consumer. Supermarkets have thus come to occupy an ever increasing influential position in the supply chain

6. Regulations

The following laws govern the various points of interest in the food industry. Most of these laws are enforced by the “Voedsel en Waren Autoriteit” or VWA (lit. Food & Goods Authority). The governing body for food and produce. Below are literal translations of the most important laws.

- Food and Safety (Voedselveiligheid)
- Commodities Law (Warenwet)
- Agriculture Quality Law (Landbouwkwaliteitswet)
- Meat Inspection Law (Vleeskeuringswet)
- Destruction Law (Deconstructiewet)

6.1 Food and Safety (Voedselveiligheid)

This law is meant to assure that food has no negative consequences to the consumer when being prepared and/or consumed taking into account the objective and the way it is consumed. It is important to note that this law is frequently mistaken as being linked to quality. Quality in relation to food however, is a measure in which it meets the expectation of the consumer. Food and safety regulations can be subdivided in the following sections:

- (Micro-) Biological food safety
- Chemical food safety
- Physical food safety
- Biotechnological food safety

Biological food safety

This part of the regulation is to regulate the prevention of the influx of micro-organisms in the food chain. Micro organisms include fungi, yeasts and bacteria. Most micro organism are useful and ubiquitous, only a small number of them have pathogenic propensities. The stages in the production process that are governed by this regulation are; preparation, storage, processing and the sale.

Chemical food safety

This part of the regulation governs the influx of ‘alien material’ entering the food production process. The distinction between additives and contaminants is an important one.

Additives

Additives are substances that are purposely added to the production process to affect the product in a certain way. Examples are emulsifiers, preservatives, stabilizers and enzymes. Regulatory bodies have set up a list of additives that are deemed fit for human consumption. As an EU member The Netherlands adheres to EU regulations. The additives condoned under the EU additives decree are preceded by an 'E' hence name E-numbers.

Contaminants

Contaminants are substances that have entered the food production process by accident. These substances usually pertain to insecticides, animal medicines but in rare cases even dioxins from waste incineration plants.

Physical food safety

Physical food safety pertains to any cases whereby solid non-food material enters the food production process. Examples are fragments of metal, glass or plastic. These physical contaminants usually originate during the food production stage. Due to the high risk to safety, the food industry possesses very advanced equipment to filter out these physical contaminants.

Biotechnological food safety

Biotechnological food safety pertains to the use of genetically modified organism that are used in the food production process as agitators or substances. The serious nature of using genetically modified organisms accounts for the fact that this matter is governed by EU directives managed by the European Food Safety Authority (EFSA).

6.2 Commodities Law (Warenwet)

Commodities Law (lit.) governs not only the manufacturing and distribution of edible goods but also of non-edible goods. For this purpose we will focus on a selection of food related regulations from the Commodities Law. The comprehensive nature of the Commodities Law is marked by the very specific items that all have their own regulation. Additives, flavorings, frozen goods, treatment and preparation of foodstuffs etc. all have their own regulation. The scope of these product specific regulations extends from the cultivation, processing and distribution of the regulated item. It is not uncommon for multiple regulations to overlap each other.

6.3 Agriculture Quality Law (Landbouwkwaliteitswet)

The Agricultural Quality Law governs the origin, packaging and description of foodstuffs cultivated through agricultural means. The main objective of the Agricultural Quality Law is to increase the sales of agricultural produce, by improving the quality thereof. The law is thus intended for producers and traders of agricultural produce destined for export. An important element of this law is the section on biological produce. This section mostly concerns strict requirements for legitimately carrying the name "biological".

6.4 Meat Inspection Law

The purpose of the meat law is to reject meat produce that poses a threat to public health. The law has been expanded regularly over time.

Scope

The law governs the inspection of animals destined for slaughter and the arrangement/furnishing of the locales used in the production process for meat produce destined for the domestic market. The law comprises criteria for the rejection of animals destined for slaughter and meat for consumption.

The term animals for slaughter comprises single hooved animals (horses), level hooved (cattle, sheep, goats, pigs etc.). All parts from the dead animal are considered meat. Only horns, hooves, claws wool and skins (except for pigs) are not considered meat.

Inspections before and after slaughter

In the meat inspection law the method of slaughter is regulated and the procedure on how the meat is processed. The animal has to be inspected before and after slaughter. A veterinarian inspector determines whether an animal can be slaughtered. The meat will be destroyed or be reproduced into base produce. This is an important part of the meat inspection law as it describes a host of diseases that the veterinarian inspector has to check for. After the animal has been slaughtered the inspector will carry out a biopsy to check for diseases such as BSE.

6.5 Destruction law (Destructiewet)

The Destruction law is the name for the regulation that covers the processing into useable produce of material of animal origin that is not fit for human consumption. Animal waste is defined as products not fit for human consumption, such as dead animals (including fish), or parts of dead animals and products of animal origin with the exception of animal faeces, kitchen waste and leftover food.

Secondary regulations of this law govern the parceling of regions wherein a single 'destructor' maintains a monopoly for the processing of the waste. Another part of the law governs the obligatory requirement (compulsion) for the owner of the animal waste to present the animal waste to the destructor and to catalogue the volume of said waste. Also governed in this law are the duties of the destructor (such as having a valid permit).

EU regulation

It is important to realize that the advent of EU regulation is becoming ever more comprehensive and also affects the laws described above. EU regulation when applicable will always overrule any national regulation. That notwithstanding, most laws are phased out gradually. For example, even though the EU Destruction law, EU directive 2002/1774, overrules the national destruction law, both laws runs simultaneously until the national destruction law is phased out. Should any legal dispute arise, the EU law will be deciding.

7. Support Programs and Innovation Projects

Dutch research in the food industry ranks well: with a relative citation impact of 1.21, the Netherlands scores well above the international average. Dutch universities are better represented than one would expect, being in the top 10% of research articles that are cited internationally. Wageningen University Research Centre is very frequently named in research articles in the field. Additionally, one Dutch company was mentioned in nearly 15% of citations from agricultural and food science research publications. This means that in this scientific area, the local business community makes use of knowledge institutes relatively frequently. From an international point of view, the Research and Development (R&D) intensity of the Dutch food industry is also comparatively high. R&D expenditure in the Netherlands is above average compared to the European average.

There are many partnerships and institutes in the Netherlands relating to R&D, including *Food Valley*, the *Netherlands Organization for Applied Scientific Research (TNO)*, *Food & Nutrition Delta*, *WUR*, *Top Institute Food & Nutrition (TIFN)* and *Agrologistics*.

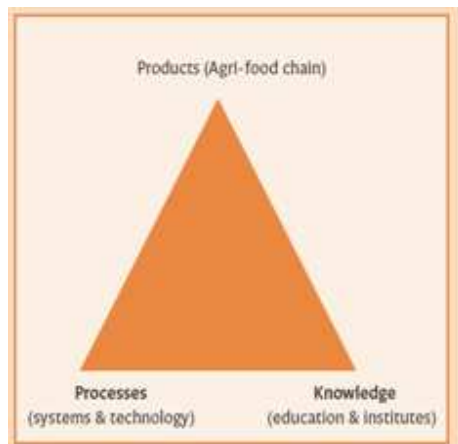
7.1 Food Valley

Food Valley stimulates innovation in the Dutch agri-food industry, with demand as its driving force. By partnering knowledge with enterprise, Food Valley strives to ensure that the wealth of food expertise in the Netherlands is put to optimal use. The Food Valley initiative is based in the in the 'Gelderse Vallei' region around Wageningen, where most of the Dutch agri-food expertise can be found. The organization serves all of the Netherlands and collaborates with various Dutch, European and even Japanese partners.

Food Valley aims to foster innovation by :

- Bringing together businesses and research institutes in goal-oriented clusters.
- Assisting entrepreneurs in writing project proposals and help procure available funding.
- Receiving Dutch and foreign visitors and match them up with potential business partners or knowledge suppliers.
- Helping individual food companies with their innovation questions by putting them in touch with the right research institutes and their partners.
- Encouraging the development of spin-offs and start-ups, for instance, via the Food Valley Consortium.
- Supporting the establishment of new food companies.
- Providing members with the Food Valley Society to exchange knowledge and ideas.

Dutch Agro Triangle



7.2 The Food & Nutrition Delta

The Food and Nutrition Delta is an innovation program, aiming at making the Netherlands a leading Food Innovation region in Europe. Networks and platforms are created in an integrated manner to develop new technologies in order to enhance the new business development along the food industry, with special attention to Small and Medium Enterprises. This will lead to the development of innovative, new or enhanced food products that fulfill consumer needs and

expectations. Those products, combined with recommended changes in lifestyle and eating patterns, will have a positive impact on public health and the quality of life. Moreover, the competitive edge and the position of the Dutch food industry in Europe will be enhanced.

The Food and Nutrition Delta aims to create a higher added value in the food industry via an enhanced competitive edge. A means to come to this is through open innovation. 75 companies, amongst which all major companies and some larger SME's, have identified the largest business growth areas for Food, resulting in the following themes:

1. Food & Health,
2. Sensory & Structure,
3. Bio ingredients & Functionality,
4. Consumer behavior,
5. Safety and Preservation,
6. Adjacent technology for Food & Nutrition,

Action lines for these themes are :

- 1) Market driven innovation; the intensification and acceleration of the business renewal in the Food & Nutrition Delta.
- 2) Invest in competence development; get enough 'brains & hands' of quality in the Food & Nutrition Delta.

Source: Food and Nutrition Report, HOLLAND

7.3 'Platform Agrologistics'

In the Netherlands, agricultural entrepreneurs, logistics companies and knowledge providers (such as universities and research institutes), have joined forces to tackle the problem in a government-supported initiative known as **'Platform Agrologistics'**. The Platform challenges the different players in the field – including farmers, the food processing industry, retailers and logistics suppliers – to come up with innovative solutions to improve logistics efficiency. Ideas will play a key role. The Platform will support good ideas not by means of funding, but by providing good advice.

Platform Agrologistics' activities are designed to support the 'Vision Agrologistics' document, published in 2001 by both the Ministry of Agriculture and the Ministry of Transport. Key to achieving the ambitions expressed in this vision and to improve the efficiency of logistics are:

- **Clustering**
Combining activities to prevent the spatial scattering of the primary production, processing and distribution of agricultural produce and foodstuffs. As well as minimizing the need for transport, clustering will also promote the development of 'industrial ecology' by providing companies with opportunities to re-use each other's by-products. Reducing the movements of plants and animals will also greatly reduce the risk of spreading disease.
- **Connectivity**
Combining the transport links used for the supply of raw materials between clusters and those used for the removal of products and by-products. These 'fat' supply lines require fewer kilometers per vehicle and offer the opportunity to deploy other means of transport, such as trains, boats or pipelines.
- **Directing**
Directing, managing and organizing agricultural product flows, which do not necessarily pass through the Netherlands. Modern information and communications technologies open up opportunities for new ways of cooperation on a European and even global scale, thus improving not only efficiency, but also food safety.

Source: Agrologistics

8. Important organizations within the industry

Government organizations

Agency for International Business and Cooperation (EVD)

Juliana van Stolberglaan 148

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T: +31 707 78 88 86

W: <http://www.evd.nl/>

Food Valley region

Agro Business Park 10

6708 PW Wageningen

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SenterNovem - Agency for Sustainability and Innovation

Juliana van Stolberglaan 3

2595 CA Den Haag

T: +31 703 73 50 00

F: +31 703 73 51 00

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Industry associations

Association of Chainstores for Foodstuffs (VGL)

Postbox 182

2260 AD Leidschendam

T: +31 704 44 25 87

F: +31 703 17 50 46

W: <http://www.rndweb.nl/>

Frugi Venta (Dutch Fruit and Vegetable Trade Board)

Bezuidenhoutseweg 82

2594 AX Den Haag

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W: <http://www.frugiventa.nl/>

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