CBI MARKET SURVEY

THE NATURAL COLOURS, FLAVOURS AND THICKENERS MARKET IN THE NETHERLANDS

Publication date: April 2007

Report summary
This CBI market survey discusses, amongst others, the following highlights for the natural colours, flavours and thickeners market in The Netherlands:
- In The Netherlands, industrial demand for natural colours, flavours and thickeners is relatively high compared to other EU countries. This is for a great part due to the presence of several processing facilities of multinational food ingredient companies.
- Compared to other EU countries, production of raw materials for natural colours, flavours and thickeners in The Netherlands is negligible.
- The Netherlands is the fourth largest importer of natural colours, flavours and thickeners.
- Developing country suppliers are very important, accounting for 41% of total import value in 2005. They supply more than half of the essential oils, which is the most important product group in terms of value.

This survey provides exporters of natural colours, flavours and thickeners with sector-specific market information related to gaining access to The Netherlands. By focusing on a specific country, this survey provides additional information, complementary to the more general information and data provided in the CBI market survey 'The natural colours, flavours and thickeners market in the EU', which covers the EU market in general. That survey also contains an overview and explanation of the selected products dealt with, some general remarks on the statistics used, as well as information on other available documents for this sector. It can be downloaded from http://www.cbi.eu/marketinfo.

1. Market description: industrial demand and production

Industrial demand

Total market size
The Netherlands can be considered to be a relatively large consumer of natural colours, flavours and thickeners. This is related to the presence of several multinational food ingredient companies. Expected increases in food consumption in The Netherlands and surrounding countries will have a positive effect on the demand for natural colours, flavours and thickeners.

Product groups
Industrial demand for natural colours is relatively low in The Netherlands, since most internationally operating natural colour producing companies have processing facilities in other EU countries like Denmark, Italy and the UK.

According to industry sources, The Netherlands can be considered to have a relatively large industrial demand for natural flavours. This is for a great part due to the presence of some large multinational food flavour producing companies like IFF and Givaudan. Increased concentration and takeovers in the industry may, however, lead to the relocation of production facilities which are currently located in The Netherlands. This applies to Quest International which has been acquired by Givaudan. The possible relocation of Quest International can have a negative effect on the demand for natural flavours in The Netherlands.

What applies to natural flavours, also applies to essential oils. Since the flavour industry is for a large part dependent on the supply of essential oils, The Netherlands can be considered to have a large industrial demand for essential oils compared to other EU countries.

Demand for hydrocolloids in The Netherlands is relatively low compared to other EU countries, due to the absence of large processing facilities. An exception to this is guar gum. Since Danisco, a Danish supplier of value-added ingredients, has a processing facility in The Netherlands, demand for unprocessed guar gum is relatively high compared to other EU countries.

Production

The production described here is limited to the production of raw materials as the processing into end-products has already been described above.

Total production

The Netherlands is considered to be a relatively small producer of raw material for natural colours, flavours and thickeners.

Product groups

With respect to essential oils, it can be noted that caraway oil and coriander oil are known to be produced in The Netherlands. However, essential oil production is negligible compared to countries such as France, Spain and Italy.

Information about the production of other product groups are not available for The Netherlands. However, the lack of information indicates that production is negligible as, apparently, it is of too little importance to document. Moreover, other sources describing EU production do not refer to The Netherlands, indicating the minor importance of The Netherlands compared to other EU countries.

Major players

Refer to Section 3 for companies with processing facilities in The Netherlands.

Trends in industrial demand and production

- Increased demand for prepared, convenience food with a long shelf-life which often includes more food additives.
- Increased demand for low-energy, low-fat food. Hence, more demand for healthy (organic) ingredients.
- Relatively poor performance of organic products in The Netherlands' supermarkets.

Opportunities and threats

- Demand for natural food ingredients is increasingly offering opportunities for developing country suppliers. However, research by the Netherlands consumers' organisation shows that supermarkets in The Netherlands can do a lot more to make it easier for their customers to choose healthy products, especially given the fact that about 4 million customers explicitly visit the supermarket daily to buy healthy products. The research showed that out of the ten largest supermarkets only one supermarket, Albert Heijn, performed well (Vakblad AGF, a Netherlands trade journal).
- The organic sector in The Netherlands is rather small compared to other EU countries, accounting for 1.5% of total food market sales in 2002.

Useful sources

- Distrifood producttrends 2007 (http://www.dynapaper.nl/rbi/distrifood/2006/01/)
- VMT (http://www.vmt.nl): Sector Information for the Netherlands and Belgian Food Industry
- FNLI (http://www.fnli.nl/): Federation of Netherlands Food Industries
- NEA (http://www.nea-nederland.nl): Netherlands Association of Manufacturers of Fragrances and Flavours

2. Trade: imports and exports

Imports

Total imports

In 2005, The Netherlands was de fourth largest importer of natural colours, flavours and thickeners in the EU, and can therefore be considered as an important importer. In the period between 2001 and 2005 import value increased by 4% annually, amounting to € 128.6 million in 2005. Imports sourced from developing countries accounted for 41% of total imports and increased by 7% annually in the period 2001 – 2005.

In 2005, the leading developing country supplier of natural colours, flavours and thickeners was Brazil, accounting for 9% of total imports, followed by China (7%). The latter demonstrated an average annual increase of 22% in the period 2001 – 2005.

With many countries representing small shares in total Netherlands imports the Netherlands import market can be considered to be fragmented.

Imports by product group

Table 2.1 Leading suppliers of natural colours, flavours and thickeners to The Netherlands (share in imported value, 2005)

Product	**2001** € million	**2003** € million	**2005** € million		**Leading suppliers in 2005** (share in %)	**Share in Netherlands imports (%)**
Total	111.9	116.1	128.6	Intra-EU:	France (11), Germany (9), Belgium (4), United Kingdom (4), Spain (4)	39
				Extra-EU excl DC*:	USA (13), Switzerland (2), Canada (2), Israel (2)	20
				DC*:	Brazil (9), China (7), India (6), Indonesia (5), Cuba (3)	41
Natural Colours	10.8	11.3	18.0	Intra-EU:	France (41), Belgium (15), Germany (8), Spain (5), Denmark (4)	79
				Extra-EU excl DC*:	Switzerland (7), Secr. Extra (5), USA (1), Japan (1), Israel (1)	16
				DC*:	Ukraine (4), India (1)	6
Flavours	10.8	9.3	7.4	Intra-EU:	Germany (16), United Kingdom (16), France (9), Austria (2), Belgium (2)	44
				Extra-EU excl DC*:	USA (5), Japan (4), Singapore (3)	11
				DC*:	India (25), China (19)	44
Manioc starch	3.0	1.5	3.3	Intra-EU:	United Kingdom (3%), Germany (2%)	5
				Extra-EU excl DC*:	USA (10)	10
				DC*:	Thailand (55), Brazil (30)	85
Natural gums, resins and balsams	3.7	4.2	11.1	Intra-EU:	France (22), United Kingdom (10), Belgium (7), Germany (6)	44
				Extra-EU excl DC*:	USA (3), Australia (1)	4
				DC*:	China (44), India (4), Indonesia (3), Nigeria (1)	52
Pectates, agar-agar, mucilages	29.7	32.4	24.1	Intra-EU:	Germany (25), Italy (9), Denmark (9), Belgium (6), France (5)	62

Product	2001 € million	2003 € million	2005 € million		Leading suppliers in 2005 (share in %)	Share in Netherlands imports (%)
and thickeners				Extra-EU excl DC*:	Canada (6), USA (3), Switzerland (3), Japan (1)	13
				DC*:	India (11), Indonesia (4), China (4), Pakistan (3), Philippines (3)	25
Essential oils	53.8	57.3	64.7	Intra-EU:	Spain (6), Germany (4), France (4), United Kingdom (3), Italy (2)	20
				Extra-EU excl DC*:	USA (23), Israel (3), Canada (1), Singapore (1)	29
				DC*:	Brazil (16), Indonesia (8), Cuba (6), India (4), China (4)	52

Source: Eurostat (2006)
*DCs: Developing countries

By far the most important product group was essential oils, accounting for 50% of total imports in 2005. In the period between 2001 and 2005, the import value of essential oils increased by 5% annually. In the case of essential oils, developing country suppliers accounted for more than half of total imports. The leading developing country supplier was Brazil, accounting for 16% of total imports, followed by Indonesia (8%) and Cuba (6%). Especially Indonesia and Cuba demonstrated strong growth rates in the period 2001 – 2005, namely 40% and 51% respectively. Note that within the product group essential oils, 'other essential oils' is the most important group, accounting for 25% of essential oils imports, followed by orange (20%) and other citrus fruits (19%).

Exports
The Netherlands is the sixth largest exporter of natural colours, flavours and thickeners and can be considered as an important exporter. In 2005, total exports amounted to 22.9 thousand tonnes with a value of € 117 million, representing 9% of total EU export value. Between 2001 and 2005, The Netherlands' exports increased by 33% (in terms of value), which is remarkably high compared to the EU average decrease of 4%. In 2005, the Netherlands exports of natural colours, flavours and thickeners consisted of essential oils (37%), pectates, agar-agar, mucilages and thickeners (30%), natural colours (28%), flavours (3%), manioc starch (2%) and natural gums, resins and balsams (1%).

Opportunities and threats
- The Netherlands is a relatively large importer of natural colours, flavours and thickeners and the share of developing countries in import value increased by 7% annually over the period 2001 – 2005. Developing countries performed particularly well in the trade of essential oils. Essential oils sourced in developing countries increased by 11% annually (in value) between 2001 and 2005.
- The import value of pectates, agar-agar, mucilages and thickeners sourced in developing countries decreased by 12% annually in the period 2001 – 2005.

Useful sources
- EU Expanding Exports Helpdesk - http://export-help.cec.eu.int/
  Go to: trade statistics.
- Eurostat – official statistical office of the EU - http://epp.eurostat.cec.eu.int
  Go to: 'themes' on the left side of the home page - 'external trade' - 'data – full view' - 'external trade - detailed data'.

3. Trade structure

Trade channels

The Netherlands is covered by the EU distribution network for natural colours, flavours and thickeners, which consists of a relatively small number of multinational processors, traders and agents. Therefore, the trade structure in The Netherlands cannot be described separately from the trade structure given in the survey covering the EU market.

The market for colours and flavours is dominated by compounders, which supply the largest food manufacturers. These multinational processors are often vertically integrated including import, production/processing, marketing and sales. Moreover, they are often integrated horizontally as well to include many different, but related products (i.e. colours and flavours). Although production facilities are located in just one or a few locations, sales offices of these multinationals are spread out more widely. They are located in many different countries in order to cover specific countries or regions. IFF, for example, has sales offices in 11 EU countries. Although smaller markets, such as Belgium, are often covered by sales offices located in other countries, larger markets such as The Netherlands are generally covered by one office dedicated solely to that market. The reasons for the multinationals to have offices in many different countries are market coverage and knowledge of customer requirements. By having offices in different countries, they can reach more buyers and gather more specific information about country, regional and company specific requirements. This enables them to compete better with other suppliers.

Smaller food manufacturers in The Netherlands are in many cases supplied by independent traders and agents. Similar to the compounders, some traders have set up local offices in different countries from where they sell their products. Sometimes, local sales offices have their own purchasing department. They basically operate independently, but under the same flag.

The EU-wide scope of the multinational processors, traders and agents requires that developing country exporters assess carefully the channels through which country and company products reach end-users. The location of end-users is often different from where the products are imported. Products sold to a Netherlands buyer by the sales office of Danisco, for example, might come from one of the production facilities in Denmark. This means that products from a developing country exporter aiming to supply large food manufacturers in The Netherlands might first have to go to Denmark.

Major compounders, traders and agents active in the Netherlands market for colours, flavours and thickeners are listed below. Many of the major players are multinational companies which are mentioned in the survey covering the EU market. For each company, an indication is given of the location of the headquarters, production facilities or sales offices. Note that only those offices and facilities are mentioned which are active in the markets for colours, flavours or thickeners:

- Givaudan (http://www.givaudan.com): largest flavour company in the world (acquired Quest in March 2007), based in Switzerland. Has 2 production facilities, 2 creative offices and 2 sales offices in The Netherlands.
- International Flavours & Fragrances I.F.F. B.V. (http://www.iff.com): manufacturer of flavours, fragrances and ingredients. Recently purchased Quest International.
- Danisco (http://www.danisco.com): Danish supplier of value-added ingredients such as colours, emulsifiers, essential oils, hydrocolloids, etc. Has a manufacturing facility and a sales office in The Netherlands.
- Döhler (http://www.doehler.com/): German flavourings manufacturer focusing on beverage market. Has manufacturing facility in The Netherlands.
- CP Kelco (http://www.cpkelco.com/): largest producer of various gums and pectins, US company with subsidiaries in the EU. Has a manufacturing facility and 2 sales offices in The Netherlands.

- Flavodor Holding B.V. (http://213.84.87.38/800x600/index.html): producer of flavours, trader in essential oils, colours, resins.
- Tefco Food Ingredients BV (http://www.tefco.nl): distributor of (natural) colours and thickeners from processors.
- Caldic (http://www.caldic.nl/): distributor of different products, amongst which also food ingredients.
- Catz (http://www.catz.nl/): distributor of vanilla and other spices.
- Brenntag Nederland BV (http://www.brenntag.nl): supplier of thickeners, colours and flavours.

Other companies active in the Netherlands market for natural colours, flavours and thickeners are: Symrise, Sensient (3 sales offices and distributor M.N.I.), Chr. Hansen.

Trends

- The consolidation in the EU market for colours, flavours and thickeners is also applicable to the Netherlands market. The acquisition of Quest International by Givaudan is a clear example of the consolidation in the Netherlands market.
- Another trend is the increasing production scale. Particularly the large companies invest in upgrading the capacity of their production facilities.

Useful sources

- Netherlands Association of flavour and fragrance manufacturers (NEA): http://www.nea-nederland.nl/

For more suppliers of colours, flavours and thickeners: http://www.thomasglobal.com.

4. Prices and margins

Prices and margins

Please refer to the CBI market survey covering the EU market for prices of natural colours, flavours and thickeners. The price indications given there are the best reference point for prices in The Netherlands. If any price differences exist, they are the result of differences in transport costs and individual buyer preferences for product origin, quality, packaging, etc. These differences are considerable, both between countries and within countries. Nonetheless, global market prices as mentioned in the survey covering the EU market are the basis for price calculations in every country. Actual prices are dependent on negotiation with partner companies.

The margins charged by different intermediaries in the trade of natural colours, flavours and thickeners are influenced by many different factors. These include the product type, the current and expected future harvest situation, the availability or number of sources for the particular product, the level of demand and the trend in prices.

Useful sources

- The Public Ledger (http://www.public-ledger.com): Prices for selected colours, flavours and thickeners
- MCX India (http://www.mcxindia.com/): Prices for menthol and guar
- Chemical Marketing Reporter
- Quarterly Review of Food Hydrocolloids: Prices for hydrocolloids
- Organic Trade Services (http://www.organicts.com/): Prices for organic products

5. Market access requirements

As a manufacturer in a developing country preparing to access The Netherlands, you should be aware of the market access requirements of your trading partners and the government of The Netherlands. Requirements are demanded through legislation and through labels, codes and management systems. These requirements are based on environmental, consumer health and safety and social concerns.

Legislative requirements
National legislation in EU countries is compulsory for all products traded within the country concerned. Therefore, as an exporter in a developing country you have to comply with the legislative requirements which are applicable to your products. For information on legislation, go to 'Search CBI database' at http://www.cbi.eu/marketinfo, select your market sector, and the EU country of your interest in the category search, click on the search button and click on legislative requirements for an overview of all documents on legislation in your country of interest.

Non-legislative requirements
Social, environmental and quality-related market requirements are of growing importance in international trade and are often requested by European buyers through labels, codes of conduct and management systems. For information on non-legislative requirements, go to 'Search CBI database' at http://www.cbi.eu/marketinfo, select your market sector and the EU country of your interest in the category search, click on the search button and click on your subject of interest under non-legislative requirements for an overview of all documents on the subject concerned in your country of interest.

Packaging, marking and labelling
For general information on packaging, refer to the survey covering the EU. You can download information on requirements on packaging, marking and labelling in specific EU markets from http://www.cbi.eu/marketinfo.

Tariffs and quota
Tariffs and quota are set by the European Commission and are the same for all EU countries. Refer to the survey covering the EU for more information.

Useful sources
- CBI Database http://www.cbi.eu/marketinfo
- Taric Homepage http://europa.eu.int/comm/taxation_customs/dds/en/tarhome.htm
- Directorate General XXI http://europa.eu.int/comm/taxation_customs/common/publications/info_docs/taxation/index_en.htm

6. Business practices

Selecting a suitable trading partner
New suppliers of natural colours, flavours and thickeners are likely to meet with resistance from buyers, as this is a very conservative market depending to a great extent on trust regarding supply and quality. Producers and buyers also closely guard information and "secrets". Once stable trading relationships have been established, however, reliable markets can be gained.

Due to the restraints of buyers of natural colours, flavours and essential oils regarding new suppliers, a common procedure in this market is for buyers to send an agent to the producing country, to visit potential suppliers. However, it is also common for exporters to contact buyers. In many cases, first contact is preferably made by e-mail. This e-mail should include a quotation with a material safety data sheet and a technical data sheet, quantities, prices, delivery times, etc.

As in many other industries, price/quality ratio is the main criterion which importers use to select their supplier. Other important criteria are related to reliability. Food manufacturers like Cargill need constant supplies of basic raw materials. They check the financial stability of potential suppliers and what kind of measures the companies take to deal with disappointing harvests and shortages. Large companies like Cargill also spread risks by sourcing from multiple suppliers.

A major trader in natural ingredients for food products, Danisco, performs a commercial, technical and qualitative audit of a potential supplier of raw materials, before selecting a new supplier. They will look into documents such as the annual report, the banker's credit report and product range information.

Note that processing of the raw material is not always preferred by importers. Some of them have their own processing facilities which add value to the product and increase their margins.

Reaching an agreement with your trade partner
Buyers will often request a sample for approval before actual shipment takes place. The sample should be accompanied by some of the following documents, depending on the requirements of the buyer:

- Material safety data sheet
- Technical data sheet
- Pesticide residue analysis
- GMO-free declaration
- Declaration of non-animal product derivatives
- Kosher and Halal certificates
- Organic certificate
- Fairtrade certificate

(ITC's marketing manual for organic spices, herbs and essential oils, 2004).
The buyer will carefully analyse the sample and test its physico-chemical quality. Samples should be representative of the complete shipment to prevent procedural problems. Reliability of delivery in terms of product specifications is mentioned by importers as a critical condition for a good trade relationship.

Natural ingredients are agricultural products which depend on weather conditions for their production. The quality of these products is difficult to control. Large buyers, such as Nielsen Massey (vanilla) often send inspectors to audit their suppliers with the objective of controlling quality as much as possible.

Buyer and supplier should agree on terms of payment in advance. The most commonly used terms of payment are the *Letter of Credit* (L/C) and *Cash Against Documents* (CAD). When using an L/C, risks are divided between buyer and supplier. The supplier only receives payment after the goods are consigned to a carrier and the buyer only receives the goods after payment. CAD carries the greatest risk for the exporter, as the exporter will only receive payment when the buyer picks up the goods. Other payment terms which carry even more risk for the exporter are bank transfers after 30 days and consignment. In case of co-operation agreements with overseas companies, payment terms could also include periodical payments. Once trading relationships are established, clean payments are often used. The selected payment method often depends on the degree of trust between buyer and supplier.

Export terms of sale determine which costs are covered in the price of the cargo, at which point ownership transfers to the buyer and at which point responsibility for the cargo is transferred. The most commonly used terms of sale are FOB (Free on Board), CFR (Cost and Freight) and CIF (Cost, Insurance, Freight). It is recommended that quotations to European buyers of natural colours, flavours and thickeners should be made on a CIF basis. However, supplier and importer are free to negotiate and agree whether quotations and subsequent trade are based on CIF or FOB prices. Special attention should also be given to contract fulfilment in reference to contingencies which might occur while the sale order is being processed, shipped etc.

Cultural differences
A profound knowledge of The Netherlands' business culture is one of the main keys to a durable relationship. In spite of all modern communication tools, the personal relationship with a trading partner often decides a durable co-operation. The general business culture of people in The Netherlands is described below:

- They are rather informal and are quick to use first names.
- They treat their counterparts as equal and are friendly in their communication.
- They are direct in their approach and they prefer short, clear lines of communication.
- Often they do not have a secretary to bring coffee; instead they ask you to accompany them to the coffee machine somewhere in the corridor; coffee is offered throughout the day.
- Netherlands trading partners expect you to take the initiative in the conversation such as “What do you have to show or tell me?” They like to ask questions and take a proactive attitude.
- Netherlands counterparts are empowered by their organisation to make decisions; there is no need to refer to their bosses; responsibilities are delegated to purchasers.
- They are very task-oriented and do not like extensive social talk; they like to come straight to the point; being very price-conscious, Netherlands importers will be quick to ask the price.
- Showing off is frowned upon. ‘Act normal’ is their way of doing business. Therefore expensive and colourful brochures are often counter-productive.
- Netherlands purchasers like to work with strict deadlines.

Internet provides many sources on business practices and culture, such as http://www.cba.uni.edu/buscomm/InternationalBusComm/world/europe/netherlands/netherlands.html and http://www.kwintessential.co.uk/resources/global-etiquette/netherlands.html. Please keep in mind that the above concerns general remarks. Therefore, when conducting business, use you intuition and an understanding attitude.

Sales promotion
Common practices of trade promotion in The Netherlands should not differ considerably from other European countries. Most inhabitants of The Netherlands speak English (and sometimes French, German and Spanish), especially when they are in the trade business. In general, good care should be taken of existing contacts, by using prompt, constant and reliable communication. Letters of inquiry should always be replied to. An essential tool used in sales is a detailed and up-to-date customer database.

Please refer to CBI’s *Export planner* and *Your image builder* for more information on this subject.

Assistance with market entry can also be sought through local business support organisations, import promotion organisations such as CBI and branch organisations focusing on the food additives or food ingredients sector.
Interesting *trade associations* in The Netherlands are:
- The Netherlands Federation of Foodstuff Industries / Federatie Nederlandse Levensmiddelen Industrie (FNLI): http://www.fnli.nl
- Association of organic production and trading companies / Vereniging van Biologische Productie- en handelsbedrijven (VBP): http://www.vbpbiologisch.nl/
- Netherlands Association of flavour and fragrance manufacturers (NEA): http://www.nea-nederland.nl/

Trade fairs offer companies in developing countries the opportunity to establish contacts, promote their products and conduct EU market orientation. Major fairs of EU-wide significance are mentioned in the Survey covering the EU.
Trade fairs of interest in The Netherlands are:
- AGF Totaal 2007 - International trade fair for food and vegetables: http://www.agftotaal.nl
- VMT Food Event 2007 (http://www.vmtfoodevent.nl/): event where players in the food industry can show their products and services.

Trade press can function as a means for gaining insight into market developments and competition, but can also have a promotional function. This concerns finding potentially interesting companies, as well as promotion of your own activities and products. Major trade

press of EU-wide significance is mentioned in the Survey covering the EU. Trade press of interest in The Netherlands is:
- De Levensmiddelenkrant: http://www.levensmiddelenkrant.com/supermarkt.html
- Distrifood - http://www.distrifood.nl
- Foodmagazine: http://www.productonline.reedbusiness.nl/product.asp?catalog%5Fname=RBI&category%5Fname=&product%5Fid=211%28Octopus%29&cookie%5Ftest=1
- VMT (http://www.vmt.nl): Sector Information for the Netherlands and Belgian Food Industry

This survey was compiled for CBI by ProFound.