Atradius
Managing risk, enabling trade

December 2014

market monitor

Focus on food industry performance and outlook

In this issue...

On the following pages we indicate the general outlook for each sector featured using these symbols:

Excellent Good Fair Poor Bleak

Food for thought

The good news for businesses in the food industry is that people will always need to eat. The bad news, for some at least, is that the competition is becoming increasingly cut-throat.

Take Germany, for example, where competition is fierce and the major retailers and discounters call the shots, making life increasingly difficult for their suppliers who see their margins shrink while their costs rise.

Indeed, price wars within the industry pervade every country reviewed in this edition of Market Monitor, as economic difficulties in some markets mean that consumers – in the true sense of the word – are particularly price-sensitive. In France, rising unemployment has dampened household demand and even its wine exporters are feeling the pinch. There is a similar picture in the Netherlands, where meat sales have fallen victim to the economic situation and the loss of confidence that still lingers following the horsemeat scandal. The Italian food sector displays many of the problems of Italy's overall business landscape, including high fragmentation and fragile equity. Its saving grace, at least for exports, is the cachet of the 'Made in Italy' label.

It is not all bad news though. In Belgium for instance, while as elsewhere margins are under pressure, a reputation for quality and safety standards has boosted food exports.

The impact of Russia's ban on imports of food from the EU is as yet difficult to quantify and differs from country to country, depending on the extent of their dependence on the Russian market. In Germany, any direct impact is limited mainly to some fruit and vegetable sectors, in Denmark the loss of exports of pig meat to Russia is at least partly offset by sales to new export markets, while in Poland smaller exporters heavily dependent on Russia will find it difficult to balance lower sales against their fixed costs.

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Belgium

- **Russian import ban could lead to more insolvencies**
- **Margins under pressure from high labour and energy costs**
- **Falling raw material prices have a positive impact**

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months		✓			
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months		✓			
Development of insolvencies over the coming 6 months				✓	

Financing conditions	very high	high	average	low	very low
Dependence on bank finance		✓			
Overall indebtedness of the sector		✓			
Willingness of banks to provide credit to this sector		✓			

Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months			✓		
General demand situation (sales)				✓	

Source: Atradius

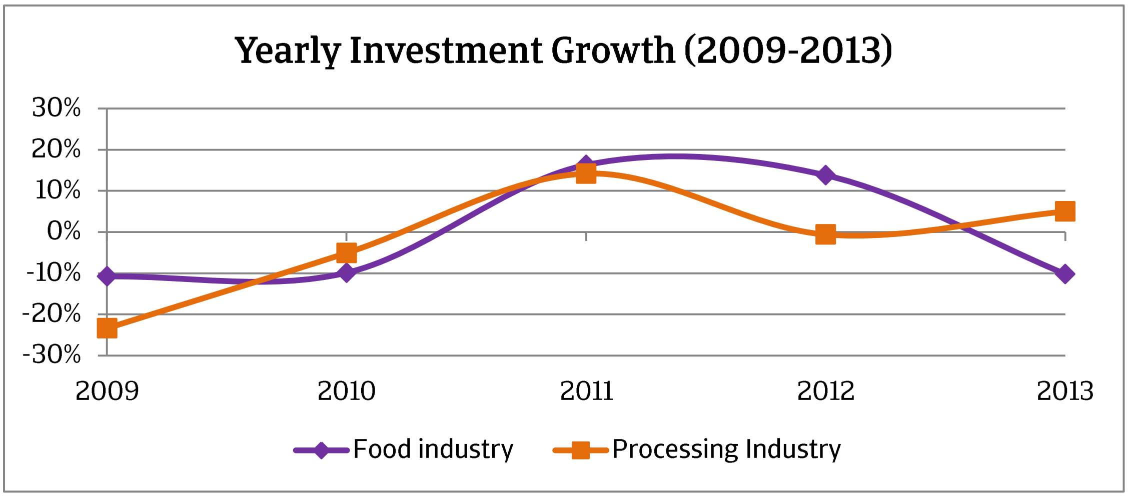
The Belgian food sector recorded a modest 1.5% growth in turnover in 2013, to EUR 48.2 billion, driven mainly by a boost in the beverage segment (up 3.8%) and the dairy industry (up 10.6%). Exports are increasingly important for the sector, accounting for 50% of total turnover. The industry's main subsectors are meat, oil & fats, and the segment covering chocolate, sugar, coffee and prepared meals.

The region of Flanders accounts for 80% of the food industry´s turnover, 72% of employment and 72% of the companies in the sector.

The EU remains the largest market for Belgian food exports, mainly the Netherlands (its largest market), France and Germany. Exports to the US, Japan and the BRIC countries continue to rise, with the quality and safety standards of Belgian food both key selling points.

Investments should be made to ensure that the food sector increases its productivity to help cope with mounting price pressure from high domestic labour and energy costs. However, this year the Belgian food sector has invested EUR 1.16

billion in tangible fixed assets: substantially lower than in previous years. After an impressive 13.8% growth in 2012, investments fell 10.2% year-on-year in 2013. As a result, the sector's investment intensity has dropped below that of 2009.



Source: Belgium Statistics Office

Belgian food companies face volatile raw material prices, which have fallen over the last six months. While this has negative consequences for farmers and growers, it creates opportunities for processing companies. Clearly it is vital to hedge against such price swings to reduce pressure on margins already narrowed by high labour and energy costs.

The food sector has seen an improvement in non-payment and insolvencies (74 insolvency cases between January and August this year, compared to 112 cases in the same period of 2013. However, the Russian food embargo could cause insolvencies to increase in Q4 of 2014, mainly affecting fruit & vegetable exporters. In view of these circumstances, our underwriting stance remains cautious, especially for the fruit & vegetables and the meat sector. As mentioned, volatile commodity prices, coupled with high labour and energy costs, are putting pressure on margins.

We seek the most recent available financial information on each buyer and, if possible, interim figures. Additionally, we monitor stock levels, trade creditors, debts, turnover, margins, payment delays and social security default. We also pay close attention to the evolution of raw material prices. Also important for food sector assessment is the potential for further incidents of infection and contamination, causing health issues. We take account of the seasonal trends that affect most food subsectors and manage credit exposure through time-limited cover. Despite our general cautious stance, we always try to find ways to maximise cover by obtaining additional information on, for instance, good payment experience or a guarantee from a stronger parent company.

Belgian food sector

STRENGTHS	WEAKNESSES
Geographic location in the centre of Western Europe	Lack of large players
Quality food products	High input costs
	Subdued domestic demand

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France

- **Meat and dairy face challenges**
- **Industry profiting from lower commodity prices**
- **Insolvencies up slightly in Q2 and Q3 of 2014**

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months				✓	
Development of insolvencies over the coming 6 months			✓		

Financing conditions	very high	high	average	low	very low
Dependence on bank finance		✓			
Overall indebtedness of the sector		✓			
Willingness of banks to provide credit to this sector		✓			

Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months				✓	
General demand situation (sales)			✓		

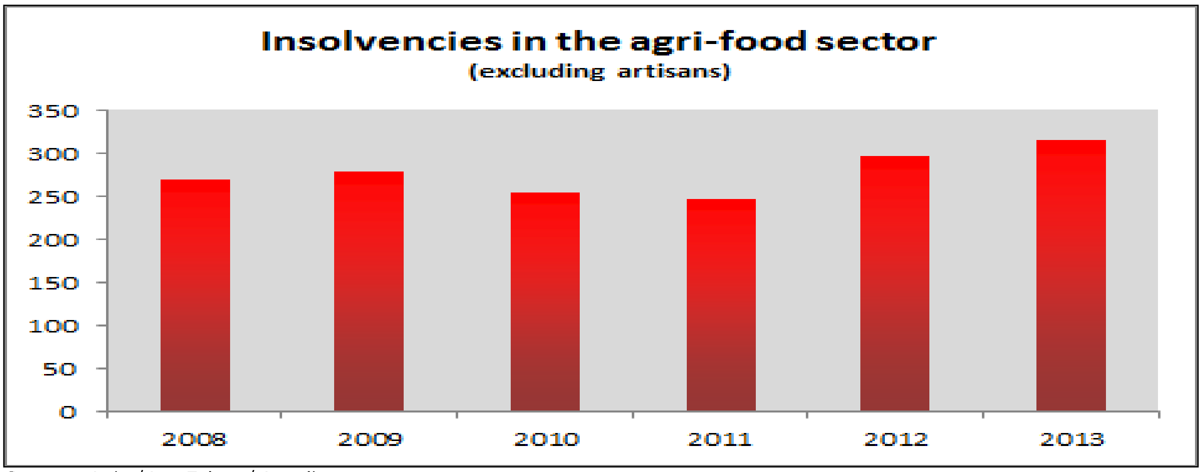
Source: Atradius

According to the National Association of Food Industries (ANIA), turnover in the French agri-food industry increased 0.6% year-on-year in 2013: to EUR 160.5 billion. However, production decreased 2.2% due to the same difficult market conditions as seen in 2012:

- raw material price fluctuations (an increasing trend in 2013)
- strained relations between agri-food firms and the major retail chains, with agri-food companies facing problems in passing increased costs onto retailers
- an increase in unemployment leading to a drop in household consumption, with consumers focusing on price

The agri-food sector has coped better than other industries, such as manufacturing, with France's economic problems of the last few years. However, businesses in the sector are struggling with rising production costs, while gross margins have decreased for several years. This hinders businesses´ investments and thus their international competitiveness.

In 2013 the number of insolvencies rose slightly to 316 (excluding artisan food producers) compared to 297 in 2012. However, the sector's insolvency level is still lower than in other industries.



Sources: Ania / Les Echos / Atradius

According to the French Ministry of Food and Agriculture (AGRESTE), food production (including beverages) rebounded 1.3% in Q2 of 2014. This year the industry has benefited from falling raw material prices and a weaker euro, which helps to boost competitiveness abroad. In the first half of 2014 the food trade balance remained positive, although it had decreased: mainly because of a lower beverage trade surplus. ANIA expects investments in the food industry to increase 7% in 2014.

Despite the modest respite in early 2014, some serious challenges remain in the short-term future:

- Domestic and Eurozone demand remains subdued

- The Russian embargo: while direct consequences seem quite limited, the French food industry may be affected by increased competition in Europe and a drop in sales prices. This will hit the fruit and vegetable, dairy products and pork subsectors.

- Bargaining with retail chains is expected to become more difficult as some retailers (Intermarche and Casino; Système U and Auchan) have announced new alliances to strengthen their leverage. This will have a particular impact on branded food products.

We expect the notifications of non-payment that we receive to remain stable in the coming months. However, a slight deterioration cannot be ruled out in certain subsectors, and some companies may find little support from their banks. French food businesses are generally highly dependent on bank finance and many companies have high short-term debt to finance their working capital requirements.

Food insolvencies have increased slightly in recent months (by 1% in Q2 of 2014 and 1.5% in Q3). We expect insolvencies to remain more or less stable in the coming months. The negative aspects of the Russian ban, low demand in Europe and more difficult price negotiations with retailers should be offset by further decreasing commodity prices and a weaker euro exchange rate.

Meat

With a 20.5% share of sales and with 26% of food sector employees, meat is the largest food subsector. In 2013 and 2014 it was faced with weak demand, the Russian embargo, high input costs, overcapacity and international competition. The French meat industry is composed mainly of small companies and even French groups are quite small compared to their foreign competitors. According to AGRESTE, meat production fell 2.4% in 2013 and continued to decline in 2014, by 3.7% in Q1. Production recovered slightly in Q2 of 2014 (up 0.3%), due mainly to lower raw material prices, and this was the first sign of growth since 2011. However, while the cattle and pork segments have rebounded slightly, poultry remains troubled by low demand in both foreign and domestic consumption and the outlook for the coming months is downbeat. There have been some prominent recent bankruptcies, including slaughterhouse GAD and poultry manufacturer Tilly Sabco.

Dairy products

Dairy products form the second largest food industry, accounting for 17% of total food sales. Production fell in 2013 and in the first half of 2014 (down 3.4% in Q2 of 2014) due to lower demand. However, sales increased thanks to higher sales prices for milk. The price paid to French farmers remains high: up 5% year-on-year at the end of August 2014. However, the price could begin to drop again by the end of this year. International milk powder and butter prices have already fallen for several months, and this downward trend has accelerated since the summer due to fewer Chinese imports and the Russian embargo. This is likely to have an impact on the French milk industry, as around 20% of its sales are made abroad. Another challenge will be the abolition of EU milk quotas at the end of March 2015: the industry is gearing up for this with revised partnerships and investment to meet higher capacity.

Fruit and vegetables

Fruit and vegetable prices fell this year as a result of pressure on sale prices, a drop in consumption in the summer, because of unfavourable weather, and the impact of the Russian embargo. According to INSEE, fresh fruit production prices decreased 23.5% year-on-year in September 2014. Indeed, the production price of apples, France's main fruit product, dropped 33% on a yearly basis in September.

Beverages

The beverage industry represents 16% of total food sales and exports about 30% of its sales. After a 4% decrease in 2013, production rose by 9.3% and 3.9% respectively in Q1 and Q2 of 2014. The trade balance remained positive but lower due to fewer wine exports (related to lower production), partly offset by higher champagne exports.

While our underwriting stance towards this sector remains generally relaxed, we are keeping a closer eye on certain subsectors, especially meat and dairy, because of their challenging market conditions. We contact buyers for their latest financial accounts and forecasts, and monitor their working capital requirements, cash situation, debt repayment, investment and financing plans, and assess the support they receive from financial partners. It helps greatly if our customers let us know if their need is temporary, as is often the case in the fruit and vegetable subsector or in other seasonally affected sectors. We try to meet our customers' requests whenever possible and, indeed, where our assessment of the buyer or subsector is particularly positive, we encourage the customer to extend further credit.

French food sector

STRENGTHS	WEAKNESSES
The world´s fifth largest food exporter	Too many small companies: need for concentration
High reputation for quality food products	Shrinking margins and insufficient investments
Resilience throughout the economic crisis / non-cyclical industry	High labour costs and strict French hygiene rules affect international competitiveness

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Germany

- **Limited direct impact of Russian food ban**
- **Slight increase in insolvencies**
- **An increase in fraud cases**

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months			✓		
Development of insolvencies over the coming 6 months				✓	

Financing conditions	very high	high	average	low	very low
Dependence on bank finance		✓			
Overall indebtedness of the sector		✓			
Willingness of banks to provide credit to this sector			✓		

Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months				✓	
General demand situation (sales)				✓	

Source: Atradius

The German food industry continued to grow in the first half of 2014, although slower than in 2013. According to the German Food Association BVE, nominal turnover increased 0.2% year-on-year, to EUR 85.6 billion, with domestic sales rising 0.4%, to EUR 59.7 billion, while export sales fell 0.1%, to EUR 25.9 million. That said, real sales (domestic and export) decreased 0.4% (in 2013: up 1.0%).

Generally, equity strength is good in this sector, but larger groups and producing companies are usually better capitalised than wholesalers or retailers. In terms of solvency and liquidity, larger companies are normally better financed than smaller ones.

Domestically, there is fierce competition in the German food sector because of the market power of the large retailers and discounters that have increased their market share over the last few years. Their overwhelming market power and the tough competition and price wars in the food retail sector mean that food producers, processors and suppliers have found it difficult to pass on increasing costs such as for raw materials and energy. As a result, their profit margins have declined in recent years: especially for those focused on the often non-essential private label products or dependent on just a few powerful retailers. In the last couple of years food discounters in particular have changed their supply practice, reducing the number of suppliers and focusing on a lower number of larger suppliers.

Nevertheless, despite the problems in the industry, many companies in all food subsectors are doing well. The food sector is non-cyclical, and thus less volatile than other industries. Moreover, the sector's export share has almost doubled since the mid-1990s, providing business opportunities abroad.

There is little direct impact on the sector from the Russian import ban, with only growers and wholesalers of apples and cabbage directly affected. However, there is an indirect consequence as prices are declining because of larger food volumes in the market. This affects fruit & vegetables, dairy and meat. Businesses with strong export orientation are seeking alternative destinations or trying to increase sales to existing export markets such as China.

Meat/meat processing

Meat/meat products are by far the largest subsector, controlled mainly by a few market-leading meat processors who, over recent years, have created essentially fully vertically integrated groups. Besides those large players, there are many mid-sized or small market participants, with only a minor market share, and these are suffering from the volatility of market prices. Increased raw material costs usually cannot be passed on to retailers or consumers, while in case of decreasing raw material prices the meat processing industry faces the challenge of retailers negotiating lower sales prices from them.

Rising demand for meat worldwide has provided business opportunities for the German meat industry, with a boost to the profit margins of those with the largest export share. However, overcapacity in the German meat and meat processing sector means that suppliers of non-essential products and those that do not export are in danger of sooner or later being squeezed out of the market.

Milk/dairy

There were positive developments in 2013 and early 2014, thanks to high milk prices and increasing volumes. But, as milk farmers produced much more than allowed by the current EU milk quota, they will have to pay a fee for that over-production. After the abolition of the quota in 2015, milk production by German farmers and exports are expected to increase.

Fruit & vegetables

The fruit & vegetable subsector is seeing its already low profit margins falling further. Better sales results are often the result of higher prices rather than volumes, as German domestic consumption is stagnating. While this subsector is not particularly export oriented, the Russian embargo is expected to lead to lower prices as a surplus of supply builds up.

Beverages

Despite lower raw material costs for cereals and sugar, sales prices in the German beverage industry (beer, mineral water, soft drinks etc.) remain under pressure because of lower consumption, increasing consumer price sensitivity, overcapacity and discounting.

The German beer sector is facing continuing market concentration and consolidation and changing consumer behaviour. The number of breweries still appears too high and many are too small to be competitive. In an attempt to reverse the industry-wide decline in sales of beer, many German breweries have begun to offer innovative beer-mix drinks with lower alcohol level. However, with many competing products there is less profit to be had from such innovations.

In the fruit juice industry, high and volatile raw material costs are always a problem. The main issue is that consumers are increasingly choosing cheaper products over pure fruit juices, often as a way to reduce their calorie consumption. Smaller fruit juice producers in particular have suffered from difficult market conditions, as they do not have the means to make adequate investment in necessary production facilities. As a result, several companies have been squeezed out of the market by insolvency, takeover or liquidation, and the trend is towards further concentration.

On average, payments in the food industry take around 30 days (in the food retail sector around 45 days). We have not seen any increase in the number of notified non-payments in the last couple of months and expect this to continue.

With food processing companies and retailers demanding longer payment terms from their immediate suppliers to improve their working capital, a wave of longer terms is being created along the whole supply chain. The already low profit margins are in decline and we expect a slight increase in insolvencies in the short term. In the medium term the number of defaults will probably increase further, threatening mainly smaller buyers and those with poor financial strength.

As the food sector is still robust, our underwriting stance remains generally relaxed, although we can usually provide cover on buyers that have operated for less than a year only if they are affiliated to well-established companies or groups. As a rule, we request financial information annually (balance sheet, profit & loss accounts, interim statements, budget figures and liquidity status). If there are signs that a buyer’s finances are deteriorating, we will increase our monitoring, with quarterly reviews and requests for recent reports of payment experience.

This sector has seen considerable fraud cases, and these are on the rise. Therefore we pay close attention to the number of credit limits that are applied for within a short period, especially where the buyers are recently established and where management and/or shareholders have recently changed or the buyer’s business sector does not match with the goods ordered (e.g. a steel company ordering food items).

German food sector

STRENGTHS	WEAKNESSES
Non-cyclical industry	Partial overcapacities
Profits from increasing export business	Shrinking margins
Internationally very competitive	Low price levels due to strong discount sector; branded products are replaced by white label articles

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Italy

- **Margins remain under pressure**
- **Payment behaviour has improved**
- **Insolvencies have increased in the last six months**

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months		✓			
Development of non-payments over the coming 6 months		✓			
Trend in insolvencies over the last 6 months				✓	
Development of insolvencies over the coming 6 months			✓		

Financing conditions	very high	high	average	low	very low
Dependence on bank finance			✓		
Overall indebtedness of the sector			✓		
Willingness of banks to provide credit to this sector			✓		

Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months				✓	
General demand situation (sales)			✓		

Source: Atradius

The food sector is one of the most important industries in Italy, employing around 400,000 people and with a total turnover of more than EUR 130 billion in 2013. The sector is affected by the downbeat economic situation in Italy, with low private consumption and depressed confidence putting pressure on prices and margins. It also suffers from structural weaknesses including high fragmentation, poor profits, low earning retention and a modest equity base. However, the Italian food industry also benefits from a generally non-cyclical nature and the ‘Made in Italy’ cachet that boosts export growth, which we expect to be confirmed both in 2014 and in 2015.

Dairy

Production increased in 2014 and expectations for 2015 remain positive, thanks to rising export orders and higher domestic consumption, mainly of butter and powdered milk. However, dairy producers’ margins remain under pressure, as the lower costs of raw materials have been counteracted by higher energy and transport costs, fierce competition and the repercussions of the Russian import embargo.

Cereals

The outlook for cereal indicates an above average 2014 harvest, for the second year in a row, and the subsector has seen record exports in 2014. However, despite strong global demand, ready availability has led to lower prices. Margins are however expected to improve in 2014 and 2015.

Meat

In recent years production has decreased in many European countries: markedly so in Italy. The trend is expected to change in 2014 and 2015 because of the effects of cow restocking. Italian consumption of beef is currently low because of changing food habits and consumer price sensitivity. Exports have also been hit by the Russian food embargo. Lower consumption, higher costs and constraints on the ability to raise prices are all impinging on margins.

Retail

The food retail sector generally maintains its anti-cyclical strengths. However, food sales in Italy have decreased throughout 2014 and domestic orders are expected to remain modest in 2015. Add to this the strong competition in the market and margins will remain under pressure.

As in other Italian industries, food businesses are often poorly capitalised. With their market power, larger food retailers and producers are generally faring better than smaller firms in a highly fragmented market. The larger operators maintain a reasonable level of liquidity while many small to medium-sized companies, with poor bargaining power, low profits, a modest equity base, poor cash flow generation and heavy investments in working capital, are experiencing some problems. Opportunities to increase leverage on suppliers to improve operating cash flow are limited.

Larger food retail sector

RATIO GDO	2013	2012
Aggregated turnover in euro/000	€ 58.141.317	€ 56.465.310
Gross Margin	8,33	7,40
Operating margin	1,64	1,65
Net interests / Sales	0,20	0,29
DSO	19,42	22,58
DPO	68,31	72,20
Stock days	33,92	32,67
Gearing	105,29	99,05
Solvability	29,38	29,27

Source: Atradius

This sample comprises 50 large scale retailers, representing EUR 58 billion turnover

Since October 2012 a new law ('Article 62') lays down a maximum payment term in the food sector of 30 days for perishable goods and 60 days for non-perishable goods. As a result, the weakest food companies, unable to cope with the gap between their working capital requirements and payment obligations, have left the market or have had to reorganise their operations. However, others have managed to comply with the law and consolidate their strength. We expect this law to release further liquidity in the Italian food value chain and help to improve international competitiveness.

In large scale retail, payment behaviour has improved slightly in the last couple of months, while some deterioration can be seen in the medium-sized distributor segment. In general we expect payment delays to continue to decrease in the coming months. Insolvencies are expected to remain stable for the same period after a worsening trend over the last six months. In recent years many small and medium-sized food retailers have struggled financially. Common issues have included the quality of their credits, stock levels, weak associated companies, slow payment habits, and the lack of sufficient liquidity to meet 'Article 62'. In contrast, large scale retailers have seen a decreasing insolvency ratio.

In the current uncertain environment, performance will depend mainly on management skills, good credit management and a focus on core business to generate enough cash to reinvest in the company. Demand is expected to remain stable for the food industry, for both private labels and brands with perceived added value. Despite its problems, the sector can benefit from its anti-cyclical nature, its large and varied client base and strong export performance. This means that we have a generally open underwriting approach to this sector: of course always depending on buyers' financial standing.

Italian food sector

STRENGTHS	WEAKNESSES
Non-cyclical sector	Many small businesses
Good reputation of 'Made in Italy'	Low capitalisation and tight margins
Export opportunities	High competition

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The Netherlands

- **Effect of the Russian import ban seems to remain limited**
- **Increasing insolvency risk in the dairy subsector**
- **Mostly stable payment behaviour**

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months				✓	
Trend in insolvencies over the last 6 months		✓			
Development of insolvencies over the coming 6 months			✓		

Financing conditions	very high	high	average	low	very low
Dependence on bank finance			✓		
Overall indebtedness of the sector			✓		
Willingness of banks to provide credit to this sector			✓		

Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months				✓	
General demand situation (sales)			✓		

Source: Atradius

In 2013, the food/agriculture sector was one of the few industries in the Netherlands to generate growth in value and a stable level of employment. This year the forecast shows a slightly lower growth path than in 2013 (up 1.5%) so that total exports could amount to around EUR 78 billion. The sector accounts for 18% of Dutch exports and the Netherlands is the world's second largest exporter of food and agricultural products. The recent weakening of the euro gives a boost to further export growth and, on balance, the competitive position of the Dutch economy has improved since 2008.

The effects of the Russian embargo on food is difficult to assess, but seems quite limited. Because of the ban, other non-EU countries will supply products to Russia which in turn will lead to a demand in their home markets for European and Dutch products, also helped by the weaker exchange rate. However, an increase of payment defaults of Dutch food suppliers because of the Russian export ban cannot be ruled out.

In the last couple of months payment delays have been stable, with most cases stemming from disputes between suppliers and buyers. Our payment experience with this sector is comparatively good. Insolvencies in the sector have decreased year-on-year in 2014, although that is from the very high level reached in 2013. We expect the business defaults to level off year-on-year in the first half of 2015.

Domestic food retail sector

Domestic food consumption in 2013 was valued at EUR 57 billion, with more than 50% (EUR 29.3 billion) sold in supermarkets: an increase of 2%. Turnover through supermarket sales is expected to grow 1.5% in 2014 and 1.8% in 2015, due mainly to increasing volumes. However, there is limited scope for increasing prices because of the strong competitiveness of this segment. With a continuing difficult economic situation, consumers are particularly price-conscious, so that discounters like Lidl and Aldi and online food suppliers are increasing their market share. While margins are low in this segment, profitability is still good.

The boundaries between food services (hotels, restaurants, catering and convenience) and food retail are blurring, with more supermarkets offering 'ready to eat' food while department stores establish in-house restaurants.

Beverages

The performance of the Dutch beverage industry remains positive, although volume growth in key markets such as the US and Asia Pacific has decreased. There is still no growth in Europe because of lower consumption.

Meat

Scandals in recent years, such as that of horse meat sold as beef, has damaged consumer confidence, but not enough to change buying patterns. Despite that, meat consumption has diminished in the last three years as a consequence of the economic crisis. As retailers put extra pressure on the already low prices of meat, including sliced meat, margins are low. However, new regulations on Germany's minimum wage will have a positive effect on Dutch slaughterhouses. Payment defaults in the meat sector have fallen in 2014.

It is difficult to estimate the impact of the Russian food ban on this segment. In 2013 EUR 140 million of meat was exported to Russia, accounting for just 1.8% of total exports. The Dutch government recently confirmed that they will support initiatives to improve export to other countries to compensate for the Russian embargo.

Dairy

The dairy sector is one the largest and most important Dutch agriculture/food subsectors. In 2013 milk production increased 4.2%, to 12.3 million tons, with cheese - by far the most important dairy product - accounting for more than 55% of processed milk. Exports of dairy products rose substantially in 2013, thanks to higher volumes and prices. Export value increased 21% year-on-year, to EUR 6.7 billion. The importance of the dairy market can be seen in the Dutch trade balance, with a trade surplus of EUR 4.1 billion (9% of the overall Dutch trade surplus).

Most dairy exports go to the EU (67.2%: mainly to Germany, Belgium and France). The main export destinations outside the EU are Russia, China, Saudi Arabia and Nigeria.

The outlook for the dairy sector is difficult to predict, again because of the Russian import ban. Sales prices for dairy products have decreased this year, from an unusually high level seen in 2013. Additionally, the abolition of the EU milk quota in 2015 could lead to oversupply, which would have an even more negative effect on prices and margins. So far payment defaults have been low in this segment, and payment behaviour has been generally good. But the ending of the milk quota will almost certainly increase the risk of more insolvencies next year.

Fruit and vegetables

The value of Dutch imports of fruits and vegetables continued to increase: vegetable imports are worth around EUR 2 billion and fruit imports EUR 4 billion. Over 80% of the imported vegetables and more than 65% of fruit is transit trade, as Dutch trading companies form an important link between growers and producers around the world and buyers in Europe.

Fruits and vegetables account for the largest share of Dutch agricultural exports, amounting to more than EUR 8.7 billion in 2013, and mainly to the UK, Germany and other EU countries. Between January and August this year, fruit and vegetable exports increased 8% year-on-year.

Less than 1% of fruits and 11% of vegetables are exported to non-EU markets. Over the past 25 years the export of tomatoes doubled to 1 billion kilograms. Prices remain low due to structural overcapacity, but at least energy prices were lower in the first half of 2014 (25% of the sales cost in the greenhouse vegetable sector is determined by energy prices). The further downward shift in natural gas and electricity prices, expected in 2015, would help the sector.

Export prospects for potato and onion producers are good, and sales prices are likely to remain slightly above their long-term average in 2014 and 15. Dutch exporters control around 75% of the world market for seed potatoes and long-term prospects are excellent for these high quality products. The fruit sector saw a favourable price trend in 2013 and 2014 and the long-term outlook for fruit and vegetable producers is positive. In particular, sales in niche markets such as organic and snack vegetables (mini tomatoes, mini cucumber and mini sweet peppers) are expected to show healthy growth.

In the first half of this year the export of agricultural products to Russia had already decreased by 10% year-on-year. Even before the embargo, the pricing for greenhouse products was already weak, and now some Dutch growers and producers of greenhouse vegetables are feeling the impact. Although less than 4% of total vegetable exports go to Russia, fruit and tomato growers will miss a large chunk of their export sales. It is estimated that the import ban will cost the agriculture sector more than EUR 300 million in lost business this year.

Nevertheless, in September greenhouse vegetable prices recovered and matched or even exceeded their pre-boycott prices. As a result, the outlook for agricultural exports is less gloomy than expectations immediately after the boycott announcement in early August 2014. The euro declined in early October to its lowest level in two years. This should give a boost to food exports.

Dutch food sector

STRENGTHS	WEAKNESSES
Modern infrastructure	Still low domestic demand
Highly efficient in producing and trading	Fierce competition in retail

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Market performance at a glance

Denmark

- **Lower sales prices for pork affect meat industry and farmers**
- **Payment terms remain at 30 days**
- **Close monitoring of businesses affected by Russian food ban**

The Danish agro-industrial sector accounts for nearly 25% of Danish commodity exports and altogether more than two thirds of Danish food production is exported. In recent years China has joined Germany and the UK as Denmark's most important export markets and the industry's progress in 2013 and 2014 has been driven mainly by demand from emerging markets. Production of meat - mainly pig meat - is one of the most important subsectors, with around 90% exported, and this subsector is generally resilient and generates positive results. The dairy industry accounts for more than 20% of all Danish agricultural exports. 2013 was a record year for the Danish dairy sales and 2014 is expected to be even better, despite the recent dip in the global raw milk price.

From spring 2014 Danish food exports to Russia were adversely affected by the Russian ban on importing pig meat and, from August, by a more comprehensive food ban. In 2013 Danish food exports to Russia accounted for around EUR 600 million (4% of total food exports), of which 80% - again mainly pig meat - is affected by the ban.

While the Danish food industry has been largely able to find new markets to compensate for this, it has had to settle for lower prices. The initial panic that followed the Russian ban seems to have subsided and the European market for pig meat has now stabilised, albeit at a lower price level, while the Asian markets remain quite positive. Overall, the Russian embargo, combined with declining prices of pig meat, milk and grain, is expected to dent the performance of most Danish food subsectors in the coming months.

In general, large Danish food businesses have performed well over the past couple of years, and this trend continued into early 2014. Smaller meat manufacturers and wholesalers, including catering companies, have also performed quite well. Among the most vulnerable smaller companies are exporters to Russia and Southern Europe and suppliers/sub-suppliers to hotels, restaurants and private canteens, including some wholesalers and small fruit retailers. In recent months Danish farmers, mainly pig and milk farmers, have been hit by declining sales prices following the Russian ban and, despite expected national and EU initiatives to support the sector, the situation is expected to be quite serious for many (highly indebted) farmers in 2015.

On average, payments in the food sector take 30 days: unchanged since 2013. In the last six months we have seen a stable or marginally improving trend in insolvencies in the food manufacturing sector as well as in retail and wholesale, and our experience remains good with relatively few notifications of payment default. Compared to other industries, we have received few credit insurance claims relating to the food sector and we expect this to remain the case in 2015.

For the time being, our underwriting approach remains positive across all subsectors. However, we are closely monitoring the consequences of the Russian ban on affected subsectors and businesses.

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Poland

- Good outlook as domestic consumption is expected to grow
- Dairy products and vegetables affected by Russian import ban
- Decreasing margins in some segments

In general, the Polish food sector has performed quite well in 2014, despite issues such as cases of African Swine Fever (ASF) causing an import ban from China, and the Russian ban on food exports from the EU. One reason is rising domestic consumption (around 70% of Polish food products are consumed domestically). Normally, food prices in Poland decrease only in the summer months, but this year food prices have fallen since February. Coupled with rising disposable incomes, this means that Polish consumers have been able to spend more on food and this growth in sales is expected to continue.

In 2013 Poland exported food worth around EUR 20 billion. Overall the direct impact of the Russian import ban is limited as Russia accounts for just 6.3% of Polish food exports, with the highest share going to EU neighbours: mainly Germany and the UK. Exports to countries outside Europe, including China and Saudi Arabia, have also increased significantly over recent years.

Nevertheless, Russia is a key buyer for some subsectors and they are feeling the most impact from the embargo. Around 12% of Polish output of tomatoes, pepper, mushrooms, cabbage and lettuce are usually destined for Russia at this time of the year. According to the Polish Ministry of Agriculture, in 2013 Poland exported more than 804,000 tons of fruit and vegetables to Russia with a value of about EUR 336 million. It is estimated that the Polish fruit and vegetable sector will lose around EUR 500 million as a result of the Russian embargo. Parts of the dairy industry are also affected, as they traditionally ship around 10% of their exports of hard and cottage cheese to Russia. Both vegetable and dairy farmers have called for compensation from the EU for losses resulting from sanctions and the European Commission has already announced that it will compensate farmers producing perishable goods. In contrast, while many assume that Polish apple farmers will be adversely affected, they can in fact store their harvest for a considerable time and, as soon as Russia announced the embargo, apple producers began seeking new outlets: finding buyers in North Africa, China, India, Vietnam and Canada. Even though sales margins may be lower than in the case of Russia, they are still acceptable.

The Polish meat sector continues to grow, although many investments in this subsector have been financed externally, as a result of which companies are highly indebted. This may become an issue in the event of a drop in profitability or sales volumes. However, the current historically low interest rates are helping businesses in this sector. Despite the recent ASF cases and the Russian food ban, the situation of meat processing businesses is stable, made more so as they are benefitting from lower raw material (pork) prices.

Food processing companies could even profit from the Russian import ban, as it has led to falling prices from some of their suppliers. However, the meat, fruit and dairy subsectors are expected to be negatively affected by the indirect consequences of the Russian ban, i.e. oversupply in the EU markets leading to lower sales prices. The indirect impact of the Russian import ban is the main reason why we have lowered the industry performance outlook from “good” to “fair”

The food sector is highly leveraged, with substantial reliance on readily accessible finance from banks. On average, payments in this sector take 45 days and, after some deterioration in the last couple of months, we expect payment delays and insolvencies to decrease. As a result, our underwriting stance is quite relaxed, although we exercise caution in some case as many farmers, slaughter houses, dairy processors and retailers are experiencing falling margins. Because of the Russian import ban, some smaller food businesses or those highly dependent on deliveries to Russia may face serious problems if they cannot withstand lower sales against their fixed costs. We are generally more cautious when underwriting the meat, dairy and pork breeding subsectors.

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Industries performance forecast per country

December 2014

	Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	Consumer Durables	Electronics/ ICT	Financial Services	Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles
Austria	Good	Poor	Excellent	Fair	Fair	Fair	Good	Good	Good	Poor	Poor	Fair	Poor	Poor
Belgium	Fair	Fair	Excellent	Poor	Fair	Good	Good	Fair	Fair	Fair	Poor	Poor	Fair	Bleak
Czech Rep.	Fair	Good	Good	Bleak	Fair	Fair	Good	Fair	Good	Fair	Fair	Fair	Poor	Poor
Denmark	Bleak	Fair	Excellent	Poor	Poor	Fair	Fair	Good	Fair	Fair	Bleak	Fair	Poor	Poor
France	Good	Fair	Excellent	Bleak	Poor	Fair	Good	Good	Fair	Fair	Poor	Poor	Fair	Poor
Germany	Good	Fair	Good	Good	Fair	Fair	Good	Fair	Good	Fair	Poor	Good	Fair	Poor
Hungary	Fair	Fair	Good	Poor	Fair	Fair	Fair	Fair	Fair	Poor	Poor	Good	Poor	Poor
Ireland	Good	Bleak	Good	Poor	Bleak	Fair	Fair	Good	Fair	Poor	Bleak	Poor	Poor	Poor
Italy	Fair	Poor	Good	Bleak	Fair	Good	Good	Good	Fair	Bleak	Poor	Fair	Poor	Poor
The Netherlands	Good	Fair	Excellent	Poor	Poor	Fair	Good	Good	Fair	Poor	Fair	Good	Poor	Poor
Poland	Fair	Poor	Fair	Bleak	Poor	Poor	Good	Fair	Fair	Fair	Fair	Good	Fair	Fair
Portugal	Good	Fair	Fair	Poor	Poor	Poor	Poor	Good	Fair	Poor	Fair	Fair	Poor	Poor
Russia	Poor	Poor	Fair	Poor	Poor	Bleak	Fair	Bleak	Poor	Poor	Fair	Fair	Poor	Fair
Slovakia	Fair	Good	Good	Bleak	Fair	Fair	Good	Fair	Good	Fair	Fair	Fair	Poor	Poor
Spain	Fair	Fair	Fair	Bleak	Fair	Fair	Poor	Good	Fair	Bleak	Poor	Fair	Bleak	Poor
Sweden	Good	Poor	Good	Poor	Poor	Poor	Good	Good	Good	Poor	Poor	Fair	Poor	Poor
Switzerland	Good	Fair	Good	Fair	Good	Good	Excellent	Good	Good	Poor	Bleak	Fair	Poor	Poor
Turkey	Good	Good	Fair	Poor	Fair	Poor	Good	Good	Fair	Fair	Poor	Poor	Good	Poor
UK	Good	Fair	Excellent	Poor	Fair	Fair	Fair	Fair	Fair	Fair	Poor	Fair	Poor	Poor
Brazil	Fair	Poor	Good	Poor	Fair	Fair	Good	Good	Fair	Fair	Fair	Fair	Fair	Poor
Canada	Excellent	Fair	Good	Fair	Fair	Fair	Excellent	Good	Fair	Fair	Poor	Good	Fair	Bleak
Mexico	Fair	Good	Good	Poor	Fair	Fair	Good	Good	Fair	Fair	Good	Good	Fair	Poor
USA	Fair	Good	Good	Fair	Fair	Good	Good	Good	Good	Fair	Poor	Good	Fair	Poor
Australia	Good	Poor	Fair	Poor	Fair	Good	Good	Good	Fair	Fair	Poor	Fair	Fair	Poor
China	Excellent	Fair	Fair	Poor	Good	Fair	Excellent	Fair	Fair	Poor	Poor	Good	Bleak	Poor
Hong Kong	N/A	Fair	Fair	Fair	Good	Good	Good	Excellent	Fair	Poor	Fair	Good	Poor	Fair
India	Fair	Fair	Good	Poor	Fair	Fair	Fair	Good	Fair	Fair	Good	Good	Fair	Fair
Indonesia	Good	Poor	Fair	Fair	Good	Good	Fair	Good	Good	Fair	Fair	Fair	Poor	Fair
Japan	Good	Fair	Fair	Fair	Fair	Fair	Good	Good	Fair	Fair	Fair	Fair	Fair	Poor
New Zealand	Good	Poor	Good	Poor	Poor	Good	Good	Fair	Fair	Fair	Poor	Poor	Poor	Poor
Singapore	Good	Poor	Fair	Fair	Fair	Fair	Good	Good	Good	Fair	Fair	Good	Poor	Fair
Taiwan	N/A	Poor	Fair	Fair	Good	Good	Fair	Excellent	Fair	Poor	Fair	Good	Poor	Fair
Thailand	Fair	Fair	Fair	Good	Poor	Fair	Good	Good	Good	Fair	Fair	Poor	Poor	Bleak
United Arab Emirates	Excellent	Good	Good	Fair	Fair	Fair	Good	Good	Good	Fair	Good	Good	Fair	Fair

Excellent

Good

Fair

Poor

Bleak

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Industry performance

Changes since October 2014

Europe

France

Construction/Construction materials............ ⇩ Down from Poor to Bleak

Decreased new housing starts and public work projects. Businesses´ financials have been negatively affected by lower margins and more payment delays, while competition remains fierce.

Paper .... ⇧ Up from Bleak to Poor

The textile sector still faces troubles, but has recorded less credit insurance claims in the last six months.

Germany

Electronics/ICT .... ⇩ Down from Good to Fair

Increased price competition leading to tighter margins and more fraud cases

Financial Services.. ⇧ Up from Fair to Good

Most businesses are financially strong and the sector accounts for just a few insolvencies

Poland

Agriculture .... ⇩ Down from Good to Fair

Food... ⇩ Down from Good to Fair

See article on page 19

Metals.. ⇧ Up from Poor to Fair

Steel... ⇧ Up from Poor to Fair

After a drop in production capacity in 2012, businesses´ results have improved in 2013 and H1 of 2014. Fraudulent transactions in both industries have decreased.

Transport .... ⇩ Down from Fair to Poor

Decreased trade with Russia has reduced demand for transport services. At the same time, competition with the Ukrainian transport companies registered in Poland has increased.

Portugal

Chemicals/Pharmaceuticals............................ ⇧ Up from Poor to Fair

Improved outlook especially in the fuel and plastics subsectors, which benefits from lower oil prices. Despite persistent challenges, the pharmaceuticals sector benefits from lessening downward pressure on drug prices and a better performance in the health sector.

Construction/Construction materials............ ⇧ Up from Bleak to Poor

Despite ongoing difficulties, there are signs of a modest rebound due to export opportunities to emerging markets and foreign investment growth in the domestic real estate market, taking advantage of the "golden visa" policy.

Russia

Agriculture .... ⇩ Down from Fair to Poor

The sector suffers from sanctions and the economic slowdown.

Automotive .... ⇩ Down from Fair to Poor

Machines/Engineering...................................... ⇩ Down from Fair to Poor

These sectors suffer from the current economic slowdown and deteriorated investment climate. The sharp depreciation of the Russian has caused serious problems for those capital-intensive sectors, including more expensive imports.

Electronics/ICT .... ⇩ Down from Poor to Bleak

Decreasing consumer demand and currency depreciation have increased the pressure on retailers´ and wholesalers' margins. There are growing overdues and several insolvency cases in this sector.

Spain

Automotive/Transport...................................... ⇧ Up from Poor to Fair

A rebound began in 2013, when domestic car production increased 9.3% and exports rose 8.7%. The outlook for 2014 is optimistic, with another production and export increase expected.

United Kingdom

Paper .... ⇧ Up from Bleak to Poor

The paper sector still faces troubles, but has recorded less credit insurance claims in the last six months.

The Americas

Canada

Chemicals .... ⇧ Up from Fair to Good

Despite decreasing oil prices the outlook for Canadian oil producers remains good, also helped by a weaker Canadian dollar

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