SOUTH AMERICA
DAIRY MARKET REPORT
2009-2015

PM FOOD & DAIRY CONSULTING

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South America Dairy Market Report 2009-2015

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A new report from PM FOOD & DAIRY CONSULTING analyses the historical development and forecasts for the large market potential for consumer products and milk and dairy ingredients in the region.

South America is experiencing wide scale demographic changes and unprecedented levels of urbanization. The region has a relatively low per capita consumption of milk and dairy products combined with the fact that many countries are suffering wide scale poverty. However, in the recent decade the economic growth in the region has boosted the milk production and the demand for dairy products. The economic crisis has meant a standstill in this progressive development but the economy is recovering in most countries in the region.

PM FOOD & DAIRY CONSULTING is analyzing the future market opportunities and risks in the region as a whole and in depth for 10 countries in the region.

Key features of the report:

- Gathers and analyses the most recent data for the region and 10 countries (Brazil, Argentina, Columbia, Chile, Ecuador, Uruguay, Venezuela, Peru, Paraguay, and Bolivia) in relation to supply, demand and trade for milk and dairy products
- Identify the major dairy companies in the countries and assess the stage of development and the penetration of international dairy companies
- The future possibilities and the region and the countries is explored through SWOT analysis that identify the key success factors necessary for a dynamic future development.

Key findings from the report:

- The milk production in South America is expected to increase by 25% from 2009 to 2015.
- Both the consumption of dairy products and the export and import of dairy products will also increase in the period depending on the economic recovery and future growth in the economy.
- The milk production costs are in most South American countries among the lowest in the world and that makes the region attractive for sourcing milk in the future. Furthermore, the potential for growth via access to land and by implementing modern production systems and methods seems nearly unlimited.
- The business development possibilities varies significantly among the countries from poor and uncertain to bright and safe depending on the political and economic situation in the respective countries in South America
- The penetration of international dairy companies in South America is immense with Nestlé, Fonterra and their joint venture Dairy Partners of Americas in the lead. Also Parmalat, Saputo, Agropur, Danone, Bongrain, Arla Foods and several other large international dairy companies have engaged significantly in the continent
- This high degree of foreign engagement has ensured influx of capital, technology, know-how, brand and marketing skills that has lifted the dairy industry in South America to a higher level than other regions of the world like Asia, Africa and CIS.

Key questions answered:

- What is the future potential for the dairy sector in South America in the future seen in the light of the economic recession?
- Which countries and in the region is the most prosperous and dynamic and which is problematic both in relation to develop the dairy sector and attract foreign investment?
- What are the future trends for export from the region and import of dairy products into the region?
- Who are the major dairy companies in the region and the presents and importance of international dairy companies and what is the future prospect?
- Which dairy products will be the drivers for growth in the future in South America?

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South America Dairy Market Report 2009-2015

1. Introduction

1.1. Background

The milk production reached 59 million MT in 2009 equalizing approximately 10% of the world production. The population is only 7% of the world, however the domestic income does not allow adequate consumption of milk and dairy products, so quite a substantial and increasing part is exported to the world market.

South America's potential, as a dairy producer has been recognized for many years. The region has abundant natural resources, a climate that strongly favors agricultural production and, in cases like Brazil, considerable areas of undeveloped, potentially arable land. In recent years South American milk production has grown steadily and outstripped local consumption. Dairy products from the region have greatly increased their presence in world markets.

South America is one of the most interesting developing dairy regions in the world for the next decades to come. The continent has experienced a positive development in the milk production and dairy industry in the last 20 years and this establish an excellent basis for a dynamic growth in all parts of the dairy sector from production over processing to expanding domestic sales and exports. The foreign engagement is now significant with Nestlé and Fonterra in the lead but also the major European and North American dairies have invested in dairy processing in the region.

This report analyses the development until now and the future development of the dairy sector in South America in relation potential in the milk production, developing of the dairy industry, and the dairy markets and exports.

1.2. Objective of the report

This report analyses the development until now and the future development of the dairy sector in South America in relation potential in the milk production, developing of the dairy industry, and the dairy markets and exports. The aim is to analyze and evaluate the future market possibilities in South America in the aftermath of the economic crisis. What are the prospects for the milk production, market development, trade and foreign investments in the dairy sector in South America?

1.3. Content of the report

The report analyses in chapter 2-12 the individual dairy markets in 10 countries (Brazil, Argentina, Colombia, Chile, Ecuador, Venezuela, Uruguay, Peru, Paraguay, and Bolivia). The 10 country analyses include:

- General information
- Economy
- Agriculture
- Milk production
- Production of dairy products
- Consumption
- Trade
- Dairy markets (drinking milk, yoghurt, butter, cheese, other dairy products)
- The dairy industry
- Future prospects for the dairy sector
- Conclusions

The recent development on all parameters covers the period from 2000 to 2010 and the prognosis reaches to 2015.

In chapter 13 and onwards the overall developing trends for the dairy sector in South America is analyzed.

Chapter 13 focus on the milk production in the continent and evaluates the future milk production potential viewed in relation to the production costs, farm structure, technological level, milk price and future investments.

The production of dairy products is analyzed in chapter 14 to assess the future trends in the dairy product mix for both the domestically markets and for export.

In chapter 15 the consumption patterns are evaluated and the future development on the dairy product markets is assessed.

The future trade patterns in South America is analyzed in chapter 16 and the export potential is huge for several countries while others will continue to be heavily depending on import to supply the domestic dairy market.

The dairy industry in South America is evaluated in chapter 17 in relation to the developing potential and the level of foreign engagement in the region. The business opportunities for international dairy companies in the region are in focus and the countries are ranked in relation to the business possibilities.

Finally, chapter 18 contains the report conclusions and the recommendation concerning the future developments.

1.4. Geographical coverage

The report covers all countries in South America except Guyana, Surinam, and French Guyana due to the limited milk production and market size. Instead the report focuses on the 10 remaining other countries that produce 99% of the milk on the continent and in the report the country analyses are ranked in accordance to the size of the milk production: Brazil, Argentina, Columbia, Chile, Ecuador, Uruguay, Venezuela, Paraguay, and Bolivia.

1.5. Time scale

The time scale of the analyses is:

- Previous development: 2000-2009 and in some cases even further back in the 80s and 90s
- Forecasts and prognoses: 2010-2015

1.6. Report sources

The report is based on PM FOOD & DAIRY CONSULTING research of the South America dairy market and the main sources are:

- International statistics: FAO, EUROSTAT, OECD, USDA, FAPRI, ZMP, IDF, Agra Europe.
- National statistical information's
- Embassy enquiries
- Interviews with key dairy industry persons
- National dairy associations
- Professional publications
- Dairy company websites

The evaluations and prognosis of regional and country markets is made by PM FOOD & DAIRY CONSULTING.

Extracts from chapter 2: Brazil

2. Milk production

Similar to other agricultural activities, Brazilian milk production was historically concentrated in the southeastern states, particularly in Minas Gerais and São Paulo. In recent years, production has expanded north and west, and Goirás is now the second largest milk producing state. The increased availability of feed grains in Center-West and the rapid adoption of UHT-milk by the Brazilian consumers have facilitated the shift in production away from the primary milk consuming areas. Investments by large processors are expanding the base of milk production in the Center-West, where land, feed, and labor costs are lower than in the traditional milk producing regions. The state of Goiás also provides some tax exemptions for investments in the dairy sector.

As in many emerging markets, a great deal of dairy products in Brazil occurs in the informal sector, leading to an occasional disjointed supply chain. However, to greater extent than most other developing countries, Brazil has broken out and established itself as a potent force in the global dairy market.

Although milk and dairy products are a part of daily life in Brazil, the domestic market is relatively immature, meaning the cooperatives and dairies in the country have exploited export markets for sales of more added value products, which are not widely consumed within the country.

A series of important developments in Brazil have produced a nearly self-sufficient dairy industry that is more capable of focusing on the export market. Among the factors contributing to this process is Brazil´s participation in MERCOSUR, which has the effect of discouraging imports from non-MERCOSUR countries. Furthermore, substantial investments and physical presence by international firms who have recognized Brazil´s potential in milk and dairy products, especially Nestlé, Fonterra and Parmalat, but also Danone, Royal Numico, has allowed the industry to develop much more rapidly than other similar-situated markets. Finally, the Brazilian industry has benefited from extremely low raw product costs, although recent inflation in land and other input prices is partially eroding this advantage.

2.8.4. Cheese

The cheese production is significant in Brazil and it has more than doubled from 1980 (200,000 MT) to 2007 (580,000 MT) and the cheese production is expected to grow to 814,000 MT in 2015. This will lift Brazil up in the top 10 of cheese producing countries in the world.

The most popular cheeses in Brazil are:

- **Catupiry:** The most popular cheese in Brazil developed by Italian immigrant Mario Silvestrini. It is a soft and mild cheese with low acidity.
- **Minas:** The traditional cow´s milk cheese is a traditional recipe from the Brazilian state of Minas Gerais. Minas comes in three varieties. Frescal (fresh) is a soft white slightly granulated type that´s served four to ten days after production. Meia-Cura (slightly matured) and Curado (mature).
- **Oueijo Coalho:** A salty cheese with a firm but lightweight texture.
- **Requeijao:** A mild, white cream cheese is now produced all over Brazil and in Portugal.
- **Queijo de Brasilia:** The simple pasteurized cow´s milk cheese is quite similar to ever-popular Cheddar and America chesses

The production of cheese in Brazil covers all the major types of cheese including the major European types.

Table 13: Production of cheese by type in Brazil 1991-2007 (1,000 MT)

Types	1991	2000	2007
Mozzarella	60.0	125.9	174.7
Prato	44.2	88.5	110.4
Requeijão	6.9	70.2	100.7
Subtotal	111.1	284.6	385.8
Processed cheese	3.5	6.8	10.4
Fresh cheese:			
Fresh feta	14.9	25.9	30.8
Ultrafiltraded feta	0.3	2.9	5.5
Cottage cheese	-	0.1	1.0
Ricotta	4.1	7.5	10.0
Subtotal	19.3	36.4	47.3
Special cheese:			
Parmesan	12.8	21.0	29.5
Provolone	3.6	6.5	8.7
Minas Padrão	3.3	5.2	7.0
Montandes	1.7	2.7	4.2
Reino	1.7	2.7	3.9
Gorgonzola	1.0	1.7	3.0
Estepe	1.3	1.8	2.7
Gouda	0.9	1.3	2.0
Gruyére	0.4	1.1	2.0
Camembert	0.2	0.5	0.7
Brie	0.2	0.3	0.5
Edam	0.1	0.1	0.2
Other special cheeses	4.9	2.8	12.9
Subtotal	32.1	47.7	80.0
Total cheese	162.5	368.7	513.0

Source: Leite Brazil, PM Food & Dairy Consulting

All cheese types have shown growth in the period and in volume terms mozzarella and prato are the most successful products. The westernization of the diet is also reflecting the development of the cheese production in Brazil.