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THE WORLD BUTTER MARKET

NEW OPPORTUNITIES?

2009 - 2015



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The Global Butter Market – New Opportunities?

PM FOOD & DAIRY CONSULTING is publishing a new report about the Global Butter Market in March 2010. It is a comprehensive analysis of the butter production, consumption, and market trends from 2003 to 2010 with prognosis for 2015. Butter blends are also included as one of the major growth areas for butter fat. Finally, the butter segment is viewed in relation to the total oils and fats market including vegetable oil and margarine.

The report gives both the overall view on a world market scale, regional analysis, and specific analysis of 50 national butter markets from all regions of the world.

In the last 4 decades butter has been a balancing product in the dairy industry and the general trend has been declining production and demand. The dairy industry has been focusing on the expanding product segments like fresh dairy products, cheese, milk and the dairy ingredients.

The major objective for this report is to identify the new opportunities for butter and butter blends in the next decade in relation to expanding existing markets and to develop new markets.

Is your company seeking valuable information about the opportunities in the world butter market in the next decade this report is a must!

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Germany, France, Poland, Netherlands, Ireland, UK, Italy, Finland, Czech Republic, Spain, Denmark, Austria, Belgium, Sweden, Portugal, Slovakia, Romania, Hungary, Bulgaria, Greece.
- 2. Other Europe:**
Switzerland, Norway
- 3. CIS:**
Russia, Ukraine
- 4. North America:**
USA, Canada, Mexico
- 5. South America:**
Brazil, Argentina, Chile, Colombia, Venezuela
- 6. Oceania:**
New Zealand, Australia
- 7. East Asia:**
Japan, China, South Korea, Taiwan
- 8. Southeast Asia:**
Indonesia, Malaysia, Thailand, Vietnam, Philippines
- 9. South Asia:**
India
- 10. MENA**
Turkey, Israel, Saudi Arabia, Egypt, Morocco
- 11. Sub Sahara Africa:**
South Africa

EXTRACTS FROM THE REPORT

The future market for butter and butter blends

1. Introduction

1.1. Background

Butter has been the main product for the dairy industry for centuries and the dairies was classified according to the butter quality. For many consumers butter was a luxury product connected with high status. From the late 19th century until 1970s the majority of the export of dairy products was butter and major brands like Président, Anchor, Lurpak, Land O'Lakes and Kerrygold was established on the international market.

Since the 1970s, the importance of yoghurt, cheese and milk powder has changed the market situation significantly and more dairy fats have been canalized to these products.

In the last two decades, the consumer focus has changed from butter as a luxury product to a major concern about saturated fats and cholesterol problems. The consequence was a decline in the consumption of traditional butter and this trend has continued until now. The response from the dairy industry was launching low fat butter and butter blends and this has to some extent kept up the total butterfat sales.

Meanwhile other outlets have been created in the food service and food industry where butter is replacing other types of fats.

1.2. Objective and scope

The objective of this report is to analyze the market for butter and butter blends in relation to the future challenges and possibilities. The report aims to identify the general trends for the future world butter market combined with an analysis of the regional developments and the butter market in 50 countries. This makes it possible to point out the future possibilities and market potentials for butter and butter blends and finally to set up strategies for the dairy industry.

1.3. Content of the report

The report will focus on the development of the global butter market in relation to production, consumption, trade, and major players both countries and companies. The report is divided into two parts where:

- **Part I** is analyzing the global trends and prospects for butter and butter blends in the future
- **Part II** is the regional and national butter markets (xx countries)

The development of the global butter production is described and analyzed in **chapter 2** identifying the major butter producing countries. The focus is also on the national or regional policies that regulate the butter production – especially the intervention system in EU and the buy-up scheme in the US that has a significant effect on the internal and international prices for butter. What will happen when and if these regulatory measures are dismantled and finally what are the future prospects for the global butter and butter fat production until 2015.

Chapter 3 describes and analyses the consumption of butter and butter blends in the last two decades and identifies the major trends in the different regions. What are the expectations for the butter market in the future and which consumer trends will dominate the consumption pattern. There is also focus on the alternative outlet for butter to food service and the food industry.

The global trade with butter is analyzed in **chapter 4** in relation to import and export. The major exporting and importing countries are identified and the future prospects are evaluated. The consequences of the WTO regulations and a new possible WTO II agreement for the butter trade are evaluated.

Chapter 5 is analyzing butter blends as a future developing area for the outlet for butter fat. The new products with vegetable oil and functional additives have proven to be a success in several countries and the total sales of butter fat has increased. What are the prospects for penetrating new markets with these products and what is the global potential.

In **chapter 6** the scope is broadened to analyze the role of butter and butter blends in the oils and fats market in general including vegetable oil, margarine and cooking fats. This includes identifying regional differences. The key questions are if the vegetable oils will squeeze the butter-based products due to the consumers increasing focus on trans fat and health issues.

Chapter 7 outlines the possibilities for butter in the future. First, the aim is identifying the major mega trends that will characterize the next decade. Secondly, an opportunity and threats analysis specific for the dairy and butter segment in the future. Thirdly, the potential new markets will be identified and also the possible future butter products.

Finally, **chapter 8** concludes and summarizes the recommendations for the dairy industry.

Part II contains the 10 regional and 50 national analyses of the butter markets. The 50 national market analysis includes:

- General information
- Butter production
- Consumption
- Trade
- Major butter producing companies
- Oils and fats market
- Future prospects

1.4. Product coverage

The report concentrates the analysis on traditional butter, butter oil and butter blends. However, for several countries in Asia the butter production is measured like total butter fat production and this also includes ghee.

Butter blends consist of wide range of products with a varying butter fat content but most of the products have more than 50% butter fat. In relation to the analysis of the national markets the oils and fats market in general is used as a reference and this includes vegetable oil, cooking fats, spreadable oils and fats, and margarine.

2. World butter production

Butter has through the history been the primary dairy product for the dairy industry and the development for butter can be described in three phases:

Phase 1 (- 1970): The crown jewel of the dairy industry

Butter was the most valuable product for the dairy industry and the dairies was classified by the butter quality. The milk price was calculated on the basis of the fat content and the protein part was not counted as a value for the dairy processing in itself. The consumers considered butter to be a luxury product of much higher quality than margarine and vegetable oil. The butter price was high reflecting this position on the market.

Phase 2 (1970-2009): Butter as a balancing product

Butter became a surplus product due to over production in the OECD countries combined with stagnating global demand. Butter was used as a balancing product together with SMP in both EU and USA and this led to the creation of huge surplus stocks in the 1980s with a record of 1.2 million MT in 1986 in EU equalizing more than one year of internal consumption. These huge balance problems have affected the price level for butter and it declined to \$1,000-1.500 in most of the 1980s and 90s.

Butter changed status from a luxury product and the crown jewel of the dairy industry to surplus product in the low price segment and the increasing focus on health issues and the problems with saturated fat affected the consumption negatively.

The dairy industry took a very defensive strategy toward the problems by hanging on to the strict definitions of butter with no butter blends allowed. The effect was no innovation and product development for butter in the 1980's and most of the 90s.

After the turn of the millennium the butter market has improved in relation to innovation, prices and demand, but the segment is still vulnerable to fluctuations which the period since 2008 has shown with declining prices and creation of new public stocks of butter in EU and USA.

Phase 3 (2010 -): New opportunities

The next decade can mark a shift in the market prospects for butter and butter blends and this is the major objective for this report to analyze this. Several factors point in the direction of revitalizing the world butter production and develop the market:

- The growing world population and mainly the emerging of new middle class of nearly 2 billion in the next decades. However, this will mainly be in Asia, Latin America and Africa but it creates the potential for expanding the butter consumption.
- The westernization of the diet in many parts of the world paves the way for traditional western products inclusive butter.
- The spread and fast penetration of retail chains and discounters in emerging economies creates a natural outlet for new products and effective marketing campaigns.
- The main driver to release the potential is that the world economy recovers and regains some of the dynamic elements before the recession.

2.2. World butter production

In North America the declining trend is similar to EU but the utilization of butterfat has to a large extent shifted to the ice cream production. Many small and medium size dairies have due to the shift from full fat fluid milk to low fat utilized the excess dairy fat to establish an ice cream production

The butter production based on cow's milk represents the production in the traditional dairy countries that has more than ¼ of the world production.

1000 MT	2004	2007	2008	2009	% change 09/04
EU-27	1,911	1,893	1,843	1,809	10
USA	565	695	746	700	23
New Zealand	440	442	422	428	-3
Russia	276	245	258	250	-10
Australia	147	128	153	129	-13
Turkey	112	113	114	116	4
India	100	108	113	111	11
Belarus	82	86	101	105	28
Canada	87	79	85	82	-6
Ukraine	113	99	85	80	-30
Brazil	75	82	84	76	1
Japan	80	75	72	74	-7
Iran	50	60	68	70	40
Argentina	41	47	51	55	38
Switzerland	40	37	46	48	20
China	35	30	37	41	17
Mexico	19	13	24	26	36
Chile	13	21	17	17	30
Uruguay	16	16	16	17	6
South Africa	10	11	11	12	20
Egypt	12	10	10	11	-9
Norway	9	9	10	11	22
Israel	6	5	6	5	-17
South Korea	4	4	4	4	0
Croatia	3	3	4	4	33
Moldova	3	3	3	3	0
Iceland	2	2	2	2	0

Example of the analysis of the national butter market

Country: Sweden																						
<p>General information</p> <p>Sweden has experienced moderate growth in the last decade but the economic crisis has stopped the growth and for 2010 GDP is only expected to increase by 1.3% and the inflation will be at 1.5%. The Swedish milk production was 3 million MT in 2008 and it has declined by nearly 10% the last 4 years and this trend is expected to continue, although at a lower rate. The main reason is the high production costs and lack of investments in the milk production to improve the efficiency as well as the missing concentration of the milk production on larger units.</p> <p>The Swedish yellow fats market has been very liberal in many years with no restrictions on blends. Additionally, the price gap between butter and margarine has been marginal compared to other countries. These factors have created a more differentiated yellow fats market with a wide range of products with different mix and fat content. The Swedish dairies were the first to introduce butter blends with Bregott and Lätt & Lagum as the leading products and they still have a large market share</p>																						
<p>Production</p> <table border="1"> <thead> <tr> <th>1000 MT</th> <th>2000</th> <th>2003</th> <th>2005</th> <th>2007</th> <th>2008</th> <th>2009</th> </tr> </thead> <tbody> <tr> <td>Butter</td> <td>33</td> <td>30</td> <td>27</td> <td>21</td> <td>27</td> <td>31</td> </tr> </tbody> </table> <p>Source: Swedish Dairies, PM FOOD</p> <p>The butter production has decreased by 35% from 2000 to 2007 but in 2008 and 09 the production has increased again due to a slightly growing consumption.</p>						1000 MT	2000	2003	2005	2007	2008	2009	Butter	33	30	27	21	27	31	<p>Major butter producing companies</p> <ol style="list-style-type: none"> Arla Foods: Skåne Meierier Milko Norrmeierier 		
1000 MT	2000	2003	2005	2007	2008	2009																
Butter	33	30	27	21	27	31																
<p>Consumption</p> <p>Sweden is one of the only countries in the OECD countries that have experienced an increasing consumption of butter in recent years mainly due to the consumers increasing focus on naturalness.</p> <table border="1"> <thead> <tr> <th>1000 MT</th> <th>2004</th> <th>2008</th> <th>2009</th> </tr> </thead> <tbody> <tr> <td>Butter</td> <td>12,6</td> <td>14,0</td> <td>15.5</td> </tr> <tr> <td>Bregott, Lat & Lagum</td> <td>26,4</td> <td>28,1</td> <td>29.3</td> </tr> <tr> <td>Total consumption</td> <td>39,0</td> <td>42,1</td> <td>44.8</td> </tr> </tbody> </table> <p>Source: Swedish Dairies, PM FOOD</p> <p>The butter blend consumption is double size of regular butter and this has been the case in the last 20 years.</p>						1000 MT	2004	2008	2009	Butter	12,6	14,0	15.5	Bregott, Lat & Lagum	26,4	28,1	29.3	Total consumption	39,0	42,1	44.8	
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<p>Trade</p> <p>The Swedish trade with dairy products including butter has increased significantly since 1995 when they became member of EU. The merger between the Danish MD Foods and Swedish Arla to Arla Foods in 2000 has also increased the trade between the countries due a large internal trade in the company.</p> <table border="1"> <thead> <tr> <th>1000 MT</th> <th>2001</th> <th>2005</th> <th>2008</th> </tr> </thead> <tbody> <tr> <td>Export</td> <td>19.0</td> <td>20.4</td> <td>7.1</td> </tr> <tr> <td>Import</td> <td>0.3</td> <td>4.0</td> <td>3.8</td> </tr> <tr> <td>Net-export</td> <td>18.7</td> <td>16.4</td> <td>3.3</td> </tr> </tbody> </table> <p>Source: Swedish Dairies, PM FOOD</p> <p>The fluctuations from one year to another reflects the fluctuations in the inter company trade in Arla Foods.</p>						1000 MT	2001	2005	2008	Export	19.0	20.4	7.1	Import	0.3	4.0	3.8	Net-export	18.7	16.4	3.3	
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Oils and fats market

Unilever and Arla Foods dominate the Swedish oils and fats market with 35% and 33% value market share respectively. The other Swedish dairies producing butter and butter blends (Skånemejerier, Milko, and Norrmejerier) have only small market shares of accumulated 5% value market shares.

Oils and fats company market share (% market value share)

Company	2003	2008
Unilever AB	36.0	35.2
Arla Foods	29.5	33.0
Carlshamn Mejeri AB	8.0	2.7
Milko Ekonomiske Förening	1.7	1.8
Skånemejerier	1.4	1.4
Norrmejerier Ekonomiske Förening	0.9	0.9
Private label	1.2	3.7
Others	21.3	24.0
Total	100.0	100.0

Source: Euromonitor International, PM FOOD

The major brands on the Swedish yellow fats market are Bregott with 14% market value share, Svensk Smør with 8.7%, and Latt & Lagum 6.7%.

Future Prospects

The Swedish butter market has showed positive developments in the last five years with growing market shares for ordinary butter and dairy based butter blends. The major reason is the consumer focus on natural products and in general a positive attitude towards the dairy sector and dairy products. This trend is expected to continue in the future and the consumption of butter and butter blends will stay at the current level or increase slightly. However, the competition will increase with the growing focus on health issues