



THE GLOBAL CHEESE MARKET



Challenges and Opportunities in a Volatile Market



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EXTRACTS FROM THE REPORT

1. Introduction

1.1. Background

The cheese market has been one of the most dynamic food segments in the last 20 year with steady growth in production, consumption and international trade. Worldwide, cheese is a major product, and more than 19 million MT of cheese was produced in 2007. This is more than the yearly production of coffee beans, tea leaves, cocoa beans and tobacco combined. The cheese production utilizes approximately 180 million MT of raw milk equalizing nearly 1/3 of the world milk production.

The largest producer of cheese is USA, accounting for 30% of world production, followed by Germany and France. The biggest exporter of cheese by monetary value is France; the second, Germany (although it is the first by quantity). Among the top ten exporters, only Ireland, New Zealand, Denmark, the Netherlands, and Australia have a cheese production that is mainly export oriented: respectively 95%, 90%, 77%, 72% and 65% of their cheese production is exported. Only 30% of French production, the world largest exporter, is exported. The USA, the biggest world producer of cheese, is a marginal exporter, as most of its production is for the domestic market.

Germany is the largest importer of cheese and UK and Italy are the second- and third-largest importers.

Greece is the world's largest (per capita) consumer of cheese, with 27.3 kg (feta accounts for ¾ of this consumption). France is the second biggest consumer of cheese with 24 kg per capita and emmental for cooking and camembert are the most common cheeses in France. Italy is number three with 23 kg per capita. In the US the consumption of cheese is quickly increasing and has nearly tripled between 1970 and 2007 and reached 14.8 kg. Mozzarella is America's favorite cheese and accounts for nearly a third of the consumption, mainly because it is one of the main ingredients of pizza.

These are the highlights of the global cheese market until now, but the future will create a lot of changes. The cheese production will increase significantly in the emerging economies and so will the demand and consumption of cheese. New players will also enter the world market for cheese both on the export and import side. The product mix will also change from the traditional types of cheese to new cheeses that suit the demand in developing dairy markets like China and India. The demand will diversify from mainstream cheeses to a more polarized demand for added value cheeses to cheap discount cheeses. This also paves the way for increased production of analogue cheeses to the discount segment. The growth of

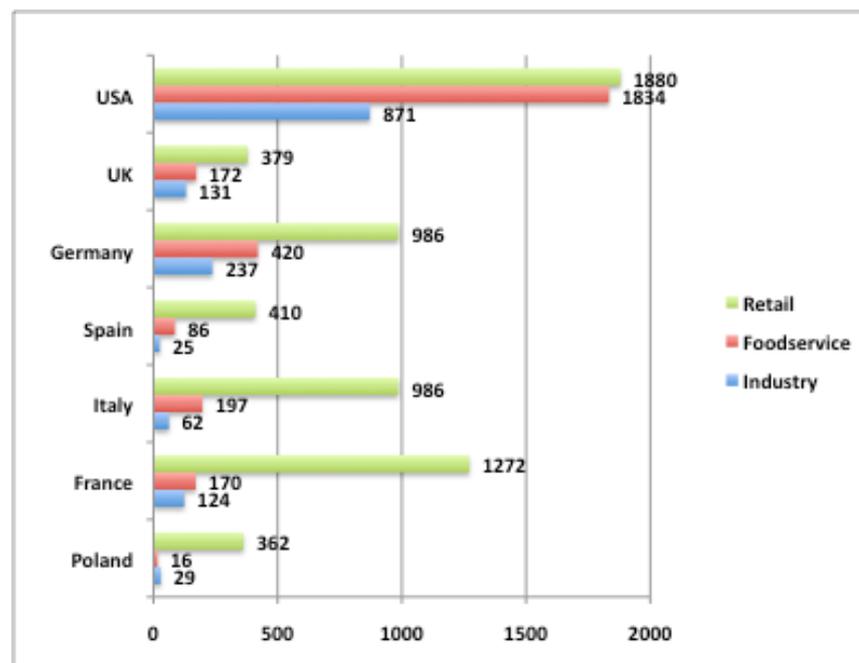
food service and the food industry in many parts of the world also changes the demand for cheese types and in general it also increases the demand for cheese.

In spite of financial and a deepening global economic crisis the prospects for the future demand for cheese is still relatively bright. In volume terms the market will keep on growing but in value terms the situation will be affected by the economic situation, although the cheese market is less vulnerable to price volatility than bulk dairy commodities.

3.7. Cheese in food service and food industry

Cheese is an ideal product in the food service and food industry as a natural ingredient in many fast food and prepared meals like burgers, pizzas and sandwiches. The penetration of food service and food industry increase the demand for cheese and it an excellent indicator of the prospects for the future development of the cheese market in the respective countries.

Catering and industry vs retail



Source: IDF, ZMP, PM FOOD & DAIRY CONSULTING

There are huge differences between the countries and the in the U.S. nearly 60% of all cheese is sold outside the retail chains. In Europe UK has the highest rate followed by Germany and Spain with 43% and 27% respectively. The rate in Germany is increasing very fast due to fast expanding pizza industry and the current crisis will speed up this process.

5. Major cheese producing companies

The world dairy industry has been concentrated and internationalized significantly in the recent 20 years and the key to understand the future development in the dairy sector and cheese segment is to analyze the dairy companies not only the production and situation in the respective countries.

In general, the dairy industry is very fragmented with the top 10 dairies representing about 22.4% of the total world market for dairy products. Small and medium size dairies hold the remaining 78.6% of the market. In the future this part of the dairy industry will come under extreme pressure to amalgamate, specialize or being taken over by the top international companies.

The dairy industry is highly developed in the Western Hemisphere and Oceania and the development of the dairy market and the dairy industry in the rest of the world is to a great extent lead by the international dairy companies from EU-15, Oceania, and North America.

Structure of the world industry

Region	Structure	Characteristics
EU - 15	<ul style="list-style-type: none"> Concentrated and highly developed 	<ul style="list-style-type: none"> Leader in the internationalization of dairy industry Focus on added value producers
EU - 12	<ul style="list-style-type: none"> Fragmented and locally regional based dairy industry 	<ul style="list-style-type: none"> EU-15 dairies develop the industry Emerging of national covering dairies Improving the quality and structure
CIS	<ul style="list-style-type: none"> Fragmented low tech industry Adapting market economy 	<ul style="list-style-type: none"> Quality improvements needed in all parts of the value chain Emerging of transnational companies
North America	<ul style="list-style-type: none"> Concentrated and highly developed 	<ul style="list-style-type: none"> The majority is focusing on the North American market Commodity oriented Internationalization is a challenge
South America	<ul style="list-style-type: none"> Fragmented low tech industry Great difference between countries 	<ul style="list-style-type: none"> Emerging of large dairies Expert focus in several countries Increasing investments from international dairy companies
	<ul style="list-style-type: none"> Local oriented production Fragmented structure 	<ul style="list-style-type: none"> Fast development and concentrating in India and China Increasing foreign engagement especially from EU-15 and Oceania
Oceania	<ul style="list-style-type: none"> Concentrated and highly developed 	<ul style="list-style-type: none"> Extremely expert oriented Leaders in internationalization in Asia and South America
Africa and the Middle East	<ul style="list-style-type: none"> Extremely fragmented Underdeveloped industry 	<ul style="list-style-type: none"> High investments needed in the whole value chain

Source: PM Food & Dairy Consulting

The world cheese processing follows the same pattern as the general dairy industry and this segment is even more concentrated in EU, North America, and Oceania due to tradition and the general high income levels that are the main drivers for cheese consumption.

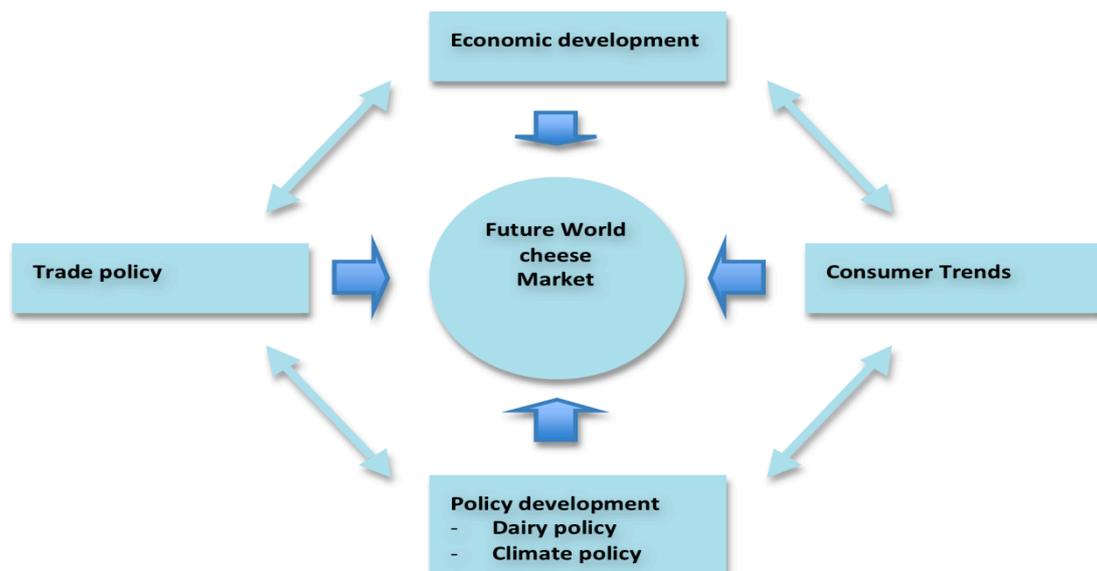
In this chapter the major cheese producing companies in the world will be described and analyzed in respect to their future capabilities to production potential, capital, products-range, capital, innovation, internationalization, branding and marketing. It will also be evaluated who will be the winners on the future global cheese market.

5.1. Top 20 dairy companies

7. Factors affecting the future world cheese market

The world cheese market is vulnerable to several factors that can affect the future possibilities for developing the world cheese market both in positive and negative directions.

Factors affecting the future cheese market



Source: PM FOOD & DAIRY CONSULTING

The economic development in the future is crucial for the possibilities to expand the world cheese market and the current crisis has altered the prospects and strategies made in 2007 and the beginning of 2008.

EXAMPLE OF COUNTRY ANALYSIS

Lithuania

Lithuania is the largest of The Baltic States with a population of 3.6 million and an area of 65,200km². Lithuania has until mid 2008 been one of the fastest growing economies in the world and this has also affected the dairy industry in the recent decade. Dairy products amounts to 30% of total food production in Lithuania and are as such very essential to the country economy. The milk production in Lithuania is 2 million MT annually produced by 200,000 milk producers. This gives Lithuania a large structural challenge in the future in concentrating the milk production in more efficient units.

1. Production

Given the milk production of 2 million MT, Lithuania is a fairly large producer of industrialized cheese in Europe. About 50% of the milk delivered is used in the cheese production and since 2003 the production has increased with 68% to 91,400 MT in 2007.

Cheese production

1,000 MT	2003	2004	2005	2006	2007	2015
Total	54.6	61.4	63.6	69.5	91.4	120.0

Source: ZMP, PM FOOD & DAIRY CONSULTING

The cheeses produced are primarily hard/semi-hard cheese types such as Gouda, Edam, and Tilsit, corresponding to 70% of the total production. Fresh cheese makes up nearly one fourth of the total cheese production, processed and soft cheese the remaining part.

2. Cheese: Trade

In relation to its size, Lithuania has a very large export of dairy products, equaling the quantity of the Polish export. Especially the export of cheese is worth noting reaching a level around 60,000 MT in 2007

Export of cheese

1000 MT.	2003	2004	2005	2006	2007	2015
Export	40.9	52.3	51.7	62.1	59.5	85.0
Of which to:						
Russia	11.5	11.3	22.8	35.4	32.1	
USA	16.6	1.1	0.8	0.2	0.2	

Source: ZMP, PM FOOD & DAIRY CONSULTING

Primary export destinations have been Russia and USA. Until 2004, the USA imported around 1/3 of the cheese export from Lithuania, but due to unfavorable exchange rates conditions in 2005, the export to the USA saw a decline. And the export to Russia decreased significantly in 1998 and the next five years, but from 2005 the Russian export has gained the old level. Besides, with the membership of EU in 2004 the export to the internal EU market has increased to a level of nearly 50% of the export. In 2007, the export to Russia grew to 54% and the popularity is caused by low prices and reasonable quality, although it is much lower than the EU-15 countries.

75% of the export is hard/semi hard cheeses and the export for Russia are for the retail market, whereas the EU export is to the ingredient market mainly due to the poor image of cheese from Lithuania.

There are hardly any imports of cheese to Lithuania because of the low price level on the domestic cheese market and the relatively small size of the market.

3. Major cheese processing companies

Lithuania has 25 dairies, but as the production of milk collapsed more or less during the 1990s, most dairies hold a considerably excess production capacity for processing milk. It is therefore likely that the number of dairies will decrease in the years to come.

Main local companies

Today, 3 major dairy companies process more than 80% of the total milk quantity. These are Pieno Zvaigzdes, Rokiskio Suris and Zemitijos Pienas. A fourth larger dairy is Marijampoles Pieno.

The major local producers

Producer	Products	Milk intake
Pieno Zvaigzdes	Liquid milk, cheese, butter, powder, butter/fat blends, ice cream	500 million kg
Rokiskio Suris	Liquid milk, yoghurt, cheese, butter, milk powder, DWP, WPC-35, Lactose	300 million kg
Zemaitijos Pienas	Liquid milk, processed cheese, milk powder	300 million kg
Marijampoles Pieno	Cheese, milk powder, condensed products, casein	50 million kg

Source: Dairy in Lithuania, PM FOOD & DAIRY CONSULTING

Pieno Zvaigzdes

Pieno Zvaigzdes, Milk Stars, is the largest dairy in Lithuania, operating 4 dairy plants. The dairy obtained the status as the leader of the industry after buying another larger dairy Panevezio Pienas, in December 2004 and making it a subsidiary. The dairy is the second largest cheese producer with nearly 16,000 MT per year.

Rokiskio Suris

a The dairy is the second largest in Lithuania with an annual production of 20,000 MT cheese. In addition, the dairy has production of lactose, DWP and WPC-35. For a number of years, the European Bank for Reconstruction and Development owned 25% of the dairy's shares, which have been sold today. Of international activities the dairy has partnerships established with distributors in Italy, the Netherlands and the USA on both processing and sales of cheese.

Zemaitijos Pienas

Zemaitijos Pienas is third in size, but both Pieno Zvaigzdes and Rokiskio Suris are making persistent attempts to take over the dairy. The cheese whey is processed into whey powder. The company exports over 40% of its production to the EU, the USA, Canada, Russia, and other countries.

Vilkyskiu Pienine

The dairy is smaller than the above dairies, but is a major cheese producer with a total production around 7,500 MT a year, making the dairy approximately the fourth largest cheese producer in Lithuania. The company has a considerable focus on export, and approximately 70% of the total production was exported in 2007.

External players

Valio

The Finnish dairy, Valio, is active on the Lithuanian market with a sales and marketing subsidiary promoting the range of Valio products including yoghurts, cheese, quark desserts, fermented and functional drinks primarily produced by Valio Estonia and some by Valio Finland.

4. Cheese market

The consumption of cheese has increased from 2003 to 2007 with 14% and the consumption is expected to increase slightly until 2015. The major obstacle to develop the domestic cheese market is the attractiveness of exporting cheese to markets with a higher price level.

Consumption of cheese

	2003	2004	2005	2006	2007	2015
Total (1,000 MT)	30.3	30.1	30.8	32.4	34.5	38.0

Source: ZMP, IDF, PM FOOD & DAIRY CONSULTING

Food service and food industry is poorly developed in Lithuania and only 3% of the cheese production is used in these segments, although it is increasing.

5. Future prospects

The Lithuanian cheese production and export has been the most expanding in the world in the recent 8 years but will this continue:

- The milk production has to be concentrated in larger units to be able to expand the milk production
- The dairy industry has to invest a lot to improve the quality and efficiency. Cooperation with foreign dairies is expected to increase in the future and acquisitions can also be realistic.
- The very low milk price and processing costs make the Lithuanian dairy industry able to compete on the international cheese market, and the increased demand for low price cheese due to the economic crisis can improve the market position for Lithuanian cheese.