

The Global Butter Market – New Opportunities?

International Dairy Magazine.

PM FOOD & DAIRY CONSULTING has publishing a report about the Global Butter Market. 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.

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 lead 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 defensively 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.

Production prognosis 2015

The butter production will grow less than the world milk production which is expected to grow 2-3 % annually equalizing 60 – 90 million MT milk. If the butter production should follow this trend the increase will be 2.0-3.0 million MT extra butter fat equalizing 2.5–3.6 million MT traditional butter. Most of the extra milk will be converted into the dynamic product areas like drinking milk, yoghurt and cheese and the traditional butter is only expected to increase slightly until 2015 with 400-500,000 MT. EU is not expected to expand the butter production due to the declining butter consumption on the internal market, however the production of butter blends/spreads are expected to grow (see chapter 6). The butter production will increase the following countries regions.

Butter prognosis 2010-2015

Country/region	2015 prognosis	Increase (MT)	2015/2009 %
EU-27	1,850	0	0
New Zealand	500	100	20.0
Australia	150	20	13.3
USA	800	100	12.5
India	200	85	42.5
China	80	40	100.0
Brazil	140	35	25.0
Argentina	62	10	16.1
Others	500	80	16.0
Total	4,756	470	9.8

Source: PM FOOD

The annually growth rate is expected to be 1.5% which is higher than the last two decades where the growth rate was approximately 1% annually. The main drivers are the positive prognosis for USA, Oceania, Asia, and Latin America.

Future butter market prospects

The world butter consumption has been increasing 7% from 2003 to 2009 with 300,000 MT. The consumption in EU has been stable in the period with a declining tendency in 2008 and 2009 where the impact of the economic recession has been that the consumers have chosen cheaper alternatives like margarine and vegetable oil. USA, has on the other hand experienced a growth in the consumption with 200,000 MT equalizing 2/3 of the global growth in the period. The main reason is that consumers have been focusing on the natural aspect which butter represents.

The next decade can be the turning point for the butter fat market. Instead of being on the defense to and avoid further consumption reductions as the OECD markets has experienced since 1980s there are now the possibility to be more offensive on the yellow fats market and the oils and fats market in general.

- The economic recession has changed the consumer behavior to focus on low price/discount products at the one end and top brands on the other (with significant differentiation). The medium ordinary brands have suffered extremely during the crisis. This trend is expected to continue and private label products will continue to gain market shares and only the strongest brands will survive. This also the case in the butter segment where private label for both traditional butter and butter blends has gained market shares in recent years.
- A new middle class of 2 billion consumers will appear in the emerging economies in the next decade especially in Asia and South America. The consumption patterns are

converting and the western diet will penetrate several markets and this will lead to higher demand for butter and butter fat

- The spread of retail chains in the developing regions of the world will secure the cooling chain and pave the way for distribution of chilled products like butter. It will also lead to the spread of food and dairy brands to new markets.
- The more balanced scientific approach to saturated fats can lead to a more positive attitude towards butter and butter fat
- The dairy industry has to increase the product development and innovation to adapt to the consumer demand in the developing markets.
- In several countries – especial in the saturated markets in the OECD countries – butter blends will surpass traditional butter in market share and also gain market shares from margarine and vegetable based spreads.

Future trade with butter

The butter export has been relatively stable in the last decade with limited growth and the major change has been New Zealand turning into the undisputed leader on the world market for butter. What can be expected to happen in the medium term until 2015 and in the long term (until 2020):

Future trade prospects for butter

	Medium term 2015	Long term 2020	Comments
Export (1000 MT)	150 -170	300-400	NZ, US, AUS, Ukraine will increase India, Argentina will enter the WM for butter
Import (1000 MT)	120-160	300-370	Russia, China will increase the import as well as several countries in Africa
World prices (\$/MT)	Fluctuating between \$2500-3500/ MT	Fluctuating between \$3000-4000/ MT	The butter prices will be volatile in the next decade

Source: PM FOOD

The major developments on the world market for butter and butter oil will be in the medium term until 2015:

- The export volumes will increase modestly and Oceania, USA and Argentina will gain most of the growth. The export from EU is expected to decline in the period.
- Butter blends/spreads will emerge as a growing commodity for the world trade and it will mainly be targeted at high consuming areas like Russia and the Middle East.
- Butter oil exports will also increase to supply the growing food industry especially in Asia. Ice cream production will be the main driver.
- The world market will be characterized by increasing price volatility but the bottom price level will be over \$2500/MT

In the long term until 2020:

- The world market will grow with up to 400,000 MT and EU rejoins the market due to increasing milk production when the milk quota system is dismantled in 2015. India is also expected to become a major net exporter of butter and butter oil.
- China, Southeast Asia, Russia, and Africa will increase their import to supply the growing population combined with dynamic economic growth.
- Butter blends/spreads will become a significant part of the export toward the consumer segment.

Strategies for the butter producing companies

The dairy sector has in three decades neglected the butter fat segment compared to other dairy products. The light wave has created a larger and larger amount of butter fat that can't be sold as natural part of the ordinary dairy products so the problem will not disappear. From being the gold of the dairy industry butter fat has been a surplus product in the recent decades. The global market outlook indicates that this can be changed but the dairy industry has to change attitude and strategy.

- Concentrate the butter production on large units to reduce the production cost. Several companies like Arla Foods and FrieslandCampina have concentrated the production on one and two units and this specialization both reduce costs and improve innovation and product development. The cream is relative cheap to transport compared to operating several 10-20,000 MT processing plants.
- Focus on innovation and product development to boost the possibilities on existing markets especially by launching new convenient and healthy products which meet

consumer demands. It is also important to develop new types of butter and butter fat products targeted to the emerging markets in Asia, South America, and Africa.

- Establishing of dairy processing in emerging markets to be able to develop the market for dairy products including butter. Especially in Asia and Africa it is important to operate locally to be able to develop the milk sector from the milk production to the marketing.
- The oils and fats market is very competitive so after many years with reduced focus on marketing of butter it is very important with increasing focusing to position butter and butter blends in the future. In the emerging markets the exercise will be educational process teaching the consumers to appreciate the unique taste and naturalness of butter.
- In general, the dairy industry has to use the latest scientific studies supporting the saturated fats in an offensive approach to the total oils and fats market. The new findings pave the way for a more balanced approach to the most critical issue for butter fat in the last three decades.

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