WORLD CHEESE MARKET 2000-2020

PM FOOD & DAIRY CONSULTING
JANUARY 2014

New report about the global cheese market – Subscribe now!

The World Cheese Market Report

PM FOOD & DAIRY CONSULTING is publishing a new report: **The World Cheese Market Report 2000-2020**. It is a follow up on the reports from 2009 and 2011.

The new report contains 700 pages of valuable information and a lot of new features (see content of the report). The report gives the overall view of the development on the world market for cheese in the 2000s in all regions of the world. The future prospects for cheese in the next decade are analyzed with focus on consumer trends, developments in the emerging dairy markets, and prognosis for the overall prospects until 2020.

The report also provides in debt analysis of more than 60 countries from all region of the world and several new countries are added to the analysis. This provides all the necessary information for evaluating the different cheese markets in the world and the future potential for expansion.

Is your company seeking new opportunities in the global cheese market this report is a must!

Subscribe now by replying to PM FOOD & DAIRY CONSULTING on mikkelsenpreben@hotmail.com

Price: €3,500 or $4,700

You will receive an invoice and when the payment is registered the report will be sent electronically.

Index

PART I:

GENERAL ANALYSIS WORLD CHEESE MARKET

1. Introduction

The global dairy market has been expanding significantly since 2005 due a fast growing demand in the BRIC-countries and other emerging economies. The global milk supply has been surpassed by the global demand for dairy products in several periods. This is expected to continue and even become more outspoken in the future.

The fastest growing dairy product segments have been drinking milk and yoghurt in the emerging dairy countries and this has also implied increasing demand for WMP, SMP, VP and other milk and dairy ingredients for recombining to supplement the local milk supply.

The world cheese market expanded significantly in the 1990s and the beginning of the 2000s but since 2005 the growth rates have not been at the same level as for fresh dairy products and milk powder although the world cheese market has continued to expand.

PM FOOD & DAIRY CONSULTING examines this statement and evaluates the future prospects for the world cheese market from 2013 to 2020.

The main thesis of the report is that cheese has a dynamic prospect in the medium/long term. However, the cheese segment has to adapt to the new situation with saturated markets in OECD and no tradition for consuming cheese in many of the emerging dairy markets.

The development in the last five years has shown what volatility means. The dairy commodity prices rocketed from 2005 to 2008 including cheese to record levels because of the rapid economic growth in most regions of the world. This generated a situation where the global demand for dairy products for the first time in three decades surpassed the supply. The global fiscal crisis (GFC) from mid-2008 altered the situation and prices declined and the global dairy sector was hit severely. At the same time the production cost for both the milk production and the dairy processing remained at a high level. This led to a cost squeeze and the situation eased first late 2010 when the global dairy prices recovered. In 2011, the dairy markets developed positively with growing demand and increasing prices for all commodities. In 2012, the price volatility again emerged and created turbulence to be followed by stabilization at a high level in 2013. The gap between global supply of milk and the global demand seems more permanent and growing.

The aim of the report is to analyze the future prospects for world cheese market from 2013 to 2020 and answer the following questions:

- What is the situation for the global cheese market now when the GFC has been eliminated?
- Can cheese become a popular dairy product in the emerging dairy markets where the expansion until now has been on fresh dairy products and milk powder?

- Can the cheese market regain the value growth in the matured dairy markets in the OECD countries where private label and discount cheese has gained market shares in recent years?
- What are the future consumer trends for cheese in different parts of the world?
- What do the cheese processing companies have to focus on in relation to innovation and marketing to develop the cheese markets in emerging dairy countries?
- The report will identify the major cheese producing company's in the future on national, regional, and global scale.
- How will the trade patterns for cheese develop in the next decade and will new countries and companies enter the world market?

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. In 2009, the world cheese production exceeded the 20 million MT mark and approximately 1/3 of the world cow milk production is processed into a wide range of different cheeses. This is more than the yearly production of coffee beans, tea leaves, cocoa beans and tobacco combined.

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. The USA, the biggest world producer of cheese, is a marginal exporter, as most of its production is for the domestic market, however it has been increasing in 2012 and continues in 2013 to grow.

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 2010 and reached 15.1 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 in 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.

The GFC from 2008 to 2010 created a lot of turmoil in the world dairy sector with declining product prices for all dairy products. The basic commodities like butter and milk powder were hit hardest and very fast by the recession. For fresh dairy products and cheese the prices declined less although the demand decreased and the market polarized with focus on high price cheese and discount products.

1.2 Content of the report

The report will focus on the development of the global dairy cheese market in relation to production, consumption, major players, and international trade. The report is divided in two parts where:

- **Part I** is analyzing the global trends and prospects for the world cheese sector in general from 2000 to 2020
- **Part II** is cheese market analysis of individual countries (63 countries from all regions)

The development of the global and regional cheese production is described and analyzed to identify the major characteristics including the production of the main types of cheese in **chapter 2**. The major cheese producing countries are identified and prognosis for the production until 2020 is set up.

In **chapter 3,** the global consumption of cheese is evaluated in relation to past and future developments. This includes the world and regional consumption development describing from 2000 to 2012 and prognosis to 2020. The consumption per capita is also analyzed and hereby identifying the potential growth markets in the future.

The international trade patterns are analyzed in **chapter 4** with focus on the export and import and the future prospects. The WTO I has facilitated better conditions for the world trade with cheese with less export subsidies and border protection. The recent Bali-agreement in WTO will also impact the world cheese market in the future.

The future changes in the world trade are identified in relation to the major exporters and importers of cheese.

In **chapter 5** the major cheese producing companies are identified and evaluated in relation to their capabilities in relation to technology, capital, innovation and market performance. The cheese producing are international players are producing more than the majority of countries so the analysis of their development is as important as to follow the development on a country basis. It also includes an assessment of the future possibilities to expand the production and market shares.

Finally, the report tries to identify the future winners and the most suitable strategies in a future market development characterized by increasing price volatility.

Chapter 6 focuses on the future trends on the world cheese market including cheese as ingredient, the role of food service and food industry, and the power of the retail chains. The special conditions in the emerging cheese sector are also evaluated.

Chapter 7 summarize on the analysis of the cheese market in future from 2000 to 2020 in relation to:

- Production
- Demand and consumption
- Trade patterns
- The future cheese types
- The winners and losers
- Impact of the economic crisis

Part II of the report contains analysis of the cheese market in 63 countries from all regions of the world. The aim is to provide the reader with clear knowledge of the individual markets that differ significantly even inside the regions. The analysis includes for each country:

- General information
- The dairy sector in general
- Cheese production
- Export and import
- Major cheese producing companies
- Cheese consumption
- Cheese market
- Future prospects until 2020

1.4 Time scale

Descriptive market analyses: 2000-2012

Prognosis for the cheese market developments: 2013-2020 for the general world cheese analysis and 2013-2020 in the individual country analysis.

1.5 Report sources

The report is based on PM FOOD & DAIRY CONSULTING´s research of the international cheese market and the main sources are:

- International statistics: FAO, EUROSTAT, OECD, ZMP, ZMB, USDA, IDF, FAPRI, AgraEurope, Euromonitor International, PZ Netherlands, Clal, others
- National statistical information
- Embassy enquiries
- Interviews with key dairy industry persons
- National dairy associations
- Dairy company websites
- Professional publications

The evaluations of global, regional and country markets shares is made by PM FOOD & DAIRY CONSULTING as well the future prognosis based on collected data material.

2. World cheese production

The world milk production has increased from 480 million MT in 1970 to 790 million MT (including all types of milk) in 2012 representing an increase of 64%. A large part of this expansion has been used to increase the cheese production in all regions of the world. The growth has been driven by innovation and product development in the dairy industry in respect to new types of cheeses designed for special population segments (children, teenagers, affluent consumers and main stream households) and for new uses of cheese in cocking, food service and food industry. The focus has also been on developing special cheeses to developing dairy markets with no tradition for consuming cheese. This includes especially white cheeses and processed cheese.

This chapter focuses on the cheese production in the different regions of the world in the recent decades including prognosis for 2020. The production is also analyzed on country level identifying the major producing countries and their growth rates. This also includes the development for the major categories of cheese.

2.1 World cheese production

In 1980, the world cheese production was 8.7 million MT and this expended to 11.4 million MT in 1990 and by the turn of the millennium the production reached 15.4 million MT – nearly a doubling since 1980

The world cheese production reached the 20 million MT production mark in 2011 and the growing trend has continued in 2012 and 2013. The global estimation includes all natural cheeses except processed cheese. Cheese from cow´s milk delivered to dairies represents more than 80% of the global natural cheese production. The rest is made up on farm and home-made products, but also cheeses made from other milk (sheep, goat, and buffalo). Europe and Northern America produce more than 75% of the world cheese production.

EU and USA account for 70% of the world cheese production in 2012 and the production of cheese is expected to show dynamic growth until 2020 where the production will amount to 16.6 million MT. However, the relative share of the world cheese production will decrease to 66% in 2020 due to relatively higher growth all other regions of the world except other Europe.

World cheese production 2000-2020

1,000 MT	2000	2012	2012/2000	2020 (prognosis)	2020/2012
EU-28	7,709	9,333	+21 %	10,606	+14%
Other Europe	266	291	+9%	338	+16%
CIS	448	866	+93%	1, 072	+24%
North America	4,227	5,618	+22%	6,720	+20%
Oceania	665	700	+5%	930	+33%
South America	1,118	1,625	+45%	2,067	+27%
Asia	293	456	+55%	1,288	+182%
Middle East + Africa	744	1.512	+103%	2,054	+36%
Total World	**15,470**	**20,401**	**+32%**	**25,075**	**+23%**

Source: IDF, ZMB, FAPRI, CNIEL, PM FOOD & DAIRY CONSULTING.

The world cheese production is expected to continue the positive growth trend from the last decade and the expansion from 2012 to 2020 is expected to be 24% equalizing 4.9 million MT of cheese. The major uncertainties are the global economic development and the development in the global demand and supply situation for milk and dairy products in general until 2020. This will be analyzed further in 2.4.

2.2 Production per country

The top 5 cheese producing countries produce approximately 50% of the world cheese production in 2000, 2012 and 2020. From 2000 to 2012, the cheese production in top-5 increased by 27% and it will continue until 2020 where it is expected to increase by 18%

Especially USA and Germany has expanded the cheese production and more than 40% of the milk for processing is utilized for cheese production in both countries. Especially from 2000 to 2012, the production expended substantially and it is expected to slow down from 2012 to 2020 but still with 21% in USA and 18% in Germany.

Top-30 cheese producing countries 2000-2020

Country	2000	2012	Change	2020	Change
1. USA	3,746	4,950	**32%**	6,000	**21%**
2. Germany	1,686	2,430	**44%**	2,860	**18%**
3. France	1,612	1,842	**14%**	2,100	**14%**
4. Italy	927	985	**6%**	1,100	**12%**
5. Netherlands	684	762	**11%**	880	**15%**
6. Egypt	380	720	**89%**	980	**36%**
7. Poland	404	718	**77%**	850	**18%**
8. Brazil	445		**57%**	900	**28%**
9. Turkey	250		**132%**	800	
10. Agentina	443	564	**27%**	700	**24%**
11. Russia	221	410	**85%**	480	**17%**
12. UK	302	398	**32%**	470	**18%**
13. New Zealand	289	354	**22%**	480	**36%**
14. Canada	292	345	**18%**	430	**25%**
15.Australia	376	346	**-**		**30%**
16. Iran	221	320	**44%**	550	**72%**
17. Spain	243	311	**28%**	350	**13%**
18. Denmark	306	300	**-2%**	370	**23%**
19. Mexico	134	264	**97%**	290	**10%**
20. Ukraine	67	260	**295%**	320	**23%**
21. Switzerland	167	180		210	**16%**
22. Ireland	99	185	**86%**	260	**41%**
23. Austria	119	163	**37%**	200	**23%**
24. Belarus	41	150	**265%**	210	**40%**
25.Lithuania	40	121	**195%**	140	**16%**
26.Finland	98	120	**22%**	129	**8%**
27. Czech Republic	92	111	**21%**	130	**17%**
28. Sweden	127	101	**-20%**	85	**-16%**
29. Belgium	58	95	**64%**	95	**0%**
30.Chile	52	82	**58%**	112	**37%**

Source: FAPRI, IDF, USDA, PM FOOD & DAIRY CONSULTING

From 2000 to 2012, the cheese production in France, Italy and Netherlands has expanded moderately but steady. The Irish dairy industry has changed strategy away from butter and SMP and this is illustrated by 86% growth in the cheese production. The major Eastern European countries have also experienced significantly growth in the cheese production stimulated by the EU membership in 2004 – Poland with 77%, Lithuania 195% and Czech Republic with 21%.

The countries outside EU and USA the cheese have been growing fast in the period. In the CIS countries the growth has been Ukraine with 329%, Russia with 96% and Belarus with 251% and the countries have experienced significantly economic growth in the period and this has also stimulated the domestic cheese demand and for Ukraine and Belarus also the export.

In Latin America the major cheese producing countries have also expanded the production. Brazil, Argentina and Chile have increased with 57%, 27% and 58% respectively and in North America, Mexico with 57%.

Africa and Middle East has also experienced increasing cheese production in Egypt (+89%) and South Africa (+66%).

In Asia, Iran and Turkey accounts for the largest cheese productions and they have increased the production with 132% and 44% respectively. Japan has also increased the cheese production with 47%.

In Australia, the cheese production declined with 8% due to severe climate problems including draught and flooding that impacted the total supply of milk to the dairies. In New Zealand, the priority in the 2000s has been on milk powder and the cheese production was reduced for several years but it has now regained strength and for the period the production has increased by 22%

In Denmark and Sweden the cheese production has declined by 2% and 22% respectively. In Denmark it is due to priority to milk powder whereas in Sweden the fast declining milk production has been the major course.

The prognosis for the cheese production from 2012 to 2020 the majority of the developed dairy countries will experience growth rates between 10-20% except for the US (21%), Canada (25%), New Zealand (36%) and Australia with 30%.

The emerging dairy countries will experience faster growth, although from a significantly lower starting point. The cheese production is expected to increase by 36% in Egypt, 28% in Brazil, 38% in Turkey, 24% in Argentina and 72% in Iran. A substantial part of the expansion will be carried out by the multinational dairy companies from the developed dairy countries.

2.3 Production of major cheese types

There are very few official statistics on the production of different cheese types and it is very difficult to accumulate them due to different cheese definitions among the countries. In 2004; IDF made a survey among 30 countries and established one of the best overviews of the production of the main types of cheese in the world.

Example: Country analysis

Argentina

1. General information

In 1816, the United Provinces of the Rio Plata declared their independence from Spain. After Bolivia, Paraguay, and Uruguay went their separate ways, the area that remained became Argentina. The country's population and culture were heavily shaped by immigrants from throughout Europe, but most particularly Italy and Spain, which provided the largest percentage of newcomers from 1860 to 1930. Up until about the mid-20th century, much of Argentina's history was dominated by periods of internal political conflict between Federalists and Unitarians and between civilian and military factions.

After World War II, an era of Peronist populism and direct and indirect military interference in subsequent governments was followed by a military junta that took power in 1976. Democracy returned in 1983 after a failed bid to seize the Falkland (Malvinas) Islands by force, and has persisted despite numerous challenges, the most formidable of which was a severe economic crisis in 2001-02 that led to violent public protests and the successive resignations of several presidents.

Key indicators for Argentina

Subject	Information	World ranking
Area	2,780,400 km^2	8
Population	41.3 million	32
Population growth rate	0.98%	118
Capitol	Buenos Aires	
Arable land	10.0%	
Religion	Roman Catholic 85%	
Urbanization	92 %	
GDP	$755 billion	23
GDP growth rate	1.9% (2012) 8.9% (2011)	152
GDP per capita	$18,400	82

Source: Economist, CIA, OECD, PM Food & Dairy Consulting

Argentina benefits from rich natural resources, a highly literate population, an export-oriented agricultural sector, and a diversified industrial base. Although one of the world's wealthiest countries 100 years ago, Argentina suffered during most of the 20th century from recurring economic crises, persistent fiscal and current account deficits, high inflation, mounting external debt, and capital flight. A severe depression, growing public and external indebtedness, and an unprecedented bank run culminated in 2001 in the most serious economic, social, and political crisis in the country's turbulent history. Interim President Adolfo Rodriguez Saa declared a default - at the time the largest ever - on the government's foreign debt in December of that year, and abruptly resigned only a few days after taking office. His successor, Eduardo Duhalde, announced an end to the peso's decade-long 1-to-1 peg to the US dollar in early 2002. The economy bottomed out that year, with real GDP 18% smaller than in 1998 and almost 60% of Argentines under the poverty line. Real GDP rebounded to grow by an average 8.5% annually over the subsequent six years, taking advantage of previously idled industrial capacity and labor, an audacious debt restructuring and reduced debt burden, excellent international financial conditions, and expansionary monetary and fiscal policies. Inflation also increased, however, during the administration of President Nestor Kirchner, which responded with price restraints on businesses, as well as export taxes and restraints, and beginning in 2007, with understating inflation data. Cristina Fernandez de Kirchner succeeded her husband as President in late 2007, and the rapid economic growth of previous years began to slow sharply the following year as government policies held back exports and the world economy fell into recession. The economy in 2010 rebounded strongly from the 2009 recession, but has slowed since late 2011 even as the government continued to rely on expansionary fiscal and monetary policies, which have kept inflation in the double digits. The government expanded state intervention in the economy throughout 2012. In May the Congress approved the nationalization of the oil company YPF from Spain's Repsol. The government expanded formal and informal measures to restrict imports during the year, including a requirement for pre-registration and pre-approval of all imports. In July the government also further tightened currency controls in an effort to bolster foreign reserves and stem capital flight.

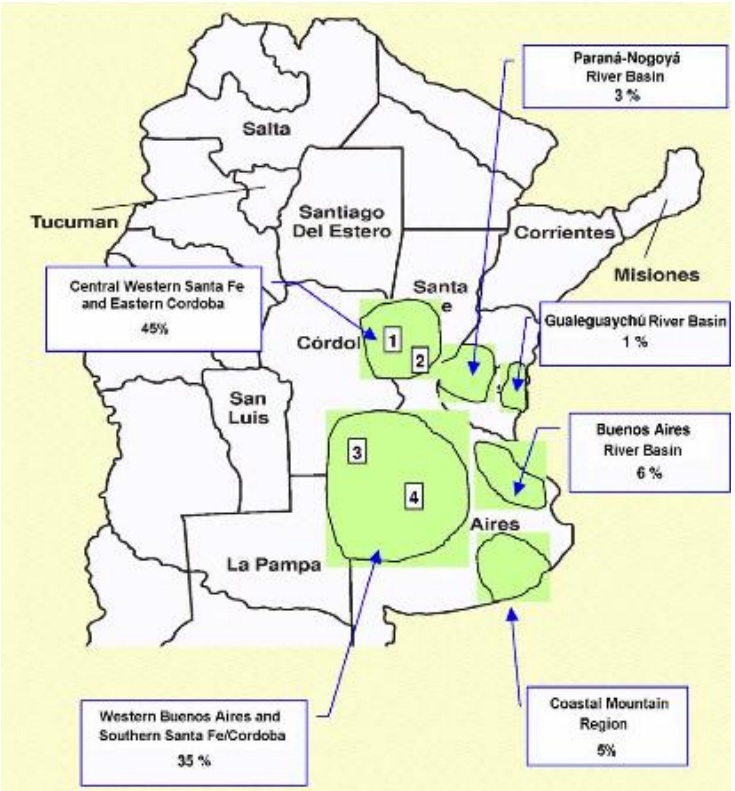
2. The dairy sector in general

Argentina is together with Brazil the major dairy countries in South America with an annual milk production of approximately 10 million MT and it has been growing the last decade as well as the export from Argentina. The dairy industry is highly developed with a high degree of investments from foreign companies like Fonterra, Nestlé, Saputo, Arla Foods, Danone, Bongrain, and Agropur.

The dairy industry in Argentina can trace its origins back in the 1880s where the cream separator was introduced in the dairy industry and created the basis for processing dairy products. As early as 1895, Argentine creameries began to export butter to Europe. However, like several other countries growing milk supplies relative to processing capacity in the early 1900 caused milk prices to decline, and producers responded by forming cooperatives to improve profitability. Recognizing the vast milk production potential in Argentian´s Pampa region, investors from Europe and Australia brought new technologies to the country and helped finance the expansion of the dairy industry in the early years.

Argentina´s dairy industry is concentrated in the central and east-central parts of the country, in Córdoba, Santa Fee, and Buenos Aires provinces.

Milk production regions in Argentina



Source: Argentinean Agricultural Ministry, PM Food & Dairy Consulting

The figure shows the primary milk production areas in and their shares of total milk production. These areas are located in the cropland regions of the Pampas. The exception to this is the Buenos

Aires River Basin, which is part of the more humid Flooding Pampa. The cropland Pampa is the primary cropping area in Argentina, so dairy pastures compete with soybeans, corn, and wheat production for land. Many dairy farms are diversified operations devoting between 10% and 50% of their land to crop production. Sowing fields to improve pastures – typically alfalfa, tall fescue, and clover – is part of the crop rotation pattern to preserve soil fertility. However, the direct competition between crops and dairy pastures makes milk production in Argentina unusually sensitive to the relatively profitability of crop and dairy activities. Farmers in the region suggest that as much as 25% of planted area may move in and out of pasture depending on crop and milk prices.

Farms located in the two primary dairy regions of Santa Fe and Córdoba are typically pasture based operations, and dairy cows are not confined while they are lactating. Dairy operations in western Santa Fe and eastern Córdoba often milk 150 to 250 cows, while farms in southern Córdoba and western Buenos Aires may have 350 to 600 head. Roughly 50% of dairy farms in Santa Fe province have fewer than 200 head; however, these farms in total own less than 20% of the province´s dairy cattle inventory. The majority of dairy cattle are on farms with 300 to 500 cows. Producers in both regions supplement cattle diets with corn silage and some grain concentrates. Supplemental feeding tends to increase with the size of the operation. The primary dairy cattle breeds in Argentina are Holstein breeds and milk output per cow runs between 4,000 – 7,300 kg/year. The national average was 4,900 kg in 2010. Productivity increases with supplementary feeding, but costs also increase.

The variable cost for milk production run between $0.07 and $0.09 per liter. The cost of capital is about $0.03-$0.05 per liter, and total production costs are $0.15-$0.17 per liter. An index of dairy product prices in Argentina tends to follow international market conditions and trade policies.

Key information on the Argentinean milk production

	2003	2005	2008	2009	2010	2011	2012
Milk production (1,000 MT)	7,975	9,778	10,100	10,356	10,616	11,542	11,650
Deliveries to dairies (1,000 MT)	7,576	9,070	9,450	9,586	9,828	10,755	10,850
Cow numbers (1,000 head)	2,100	2,300	2,150	1,809	1,749	1,884	1,850
Yield pr cow (kg/years)	4,200	4,310	4,698	4,838	4,903	5,055	5,100

Source: FAPRI, ZMB, PM Food & Dairy Consulting

The milk production has increased by 38% from 2003 to 2012 and this dynamic development will continue in the future.

FAS Buenos Aires forecasts Argentine milk output for calendar year 2014 to reach 12.2 million ton. This production increase is basically due to producers' response to exceptionally high international milk prices. This estimated growth is also based on the following factors:

a) Standard weather conditions under a soft the “El Niño” pattern is expected, meaning sufficient water supply especially during the winter/spring 2014 period (June/December),
b) Stable high international prices for whole milk powder (WMP) and
c) Profitable margins for producers.

Dairy experts in Argentina estimate that in this scenario, the Argentine dairy sector will resume its long term slow steady growth pattern, averaging three to four percent annually.

In 2020, the milk production is expected to reach 13.7 million MT which equalizes an expansion with 3 million MT (+26%)

The dairy industry in Argentina is highly developed and the most modern in the South American region with large domestic companies and substantial engagement from foreign international dairy giants. The industry process all types of dairy products inclusive milk and dairy ingredients for both the domestic and international markets.

Production of dairy products in Argentina 2003-2012

1,000 MT	2003	2005	2008	2009	2010	2011	2012
Drinking milk	1,388	1,647	1,789	1,740	1,781	1,777	1,750
Yoghurt	275	405	583	577	545	574	585
Butter	35	40	45	52	51	43	44
Condensed milk	8	6	7	7	8	6	6
WMP	198	260	200	192	205	280	290
SMP	31	32	25	33	34	37	39
Dulce del leche	99	110	125	129	131	127	130
Casein	4	5	9	8	7	9	10

Source: ZMB, FAPRI, PM Food & Dairy Consulting

The production of all dairy products has increased in the last decade and this trend will continue in the next. Yoghurt is growing very rapidly due to increasing domestically demand and from 2009 to 2015 the growth is expected to be 25%. Cheese will increase with 21% and most of the growth will be exported and the same is the case for WMP where the growth is expected to be 30%.

3. Cheese production

3.1 Traditional Argentinian cheeses

Argentina produces a wide variety of cheeses including many European types, but two types are special Argentinean:

Reggianito:

This grating cheese is a hard, cow´s milk cheese very reminiscent of Parmigiano Reggiano. The cheese has a rich salty flavor and grainy texture.

Sardo:

It is a firm cow´s milk cheese with a white-yellow color. Sardo borrows its name from the Italian sheep´s milk cheese Pecorino Sardo. Argentinean Sardo is mellow, but rich and hearty. Its mild saltiness makes it perfect for snacking or cocking.

3.2 Production

Argentina is the seventh cheese producer in the world, and the cheese production uses 50% of the milk produced in the country

The cheese production has increased by 20% from 2000 to 2012 and the growth has taken place from 2005 to 2010.

Cheese production in Argentina 2000-2020

1,000 MT	2000	2005	2009	2010	2011	2012	2020
Total	443	408	508	520	536	564	700

Source: ZMB, IDF, CNIEL, PM FOOD & DAIRY CONSULTING

The Argentinean milk production has recovered since 2010 and this has also affected the cheese production with an increase of 8% from 2010 to 2012.

Post forecast cheese production to grow in 2014 up to 589,000 MT, a 3.5 percent increase from 2013. Cheese is the second most important dairy product of Argentina. Soft/fresh types (Cremoso, Saint Paulin and Mozzarella) dominate the cheese categories constituting 50 percent of the market. Semi soft varieties such as Gouda and Swiss type hold 38 percent of the market share followed by hard cheese (Provolone and Sardo) accounting for 12 percent of the market

In 2020, the cheese production will increase to 700,000 MT up 24% from 2012. The majority of the extra 150,000 MT of cheese will be exported.

4. Export and import

The fast growing cheese production from 2005 has paved the way for a growing export of cheese at the same time as the increasing domestic demand has been met.

Cheese export and import 2000-2020

1,000 MT	2000	2005	2009	2010	2011	2012	2020
Export	22	53	47	45	60	54	122
Import	8	5	2	3	2	2	4
Net-export	14	48	45	42	58	52	118

Source: IDF, ZMP, PM FOOD & DAIRY CONSULTING

The export of chees has more than doubled from 2000 to 2012 and the major export markets are Russia, Japan, South Korea, Chile, Brazil, and Taiwan.

The import of cheese is low and stable between 2-8,000 MT mainly from Brazil and Uruguay.

In 2014 cheese exports are expected to be 60,000 MT. Cheese is the second most important dairy product exported. Brazil (42 percent) continues to be the main market for the Argentine cheese, followed by Russia (12 percent), Chile (11 percent) and Venezuela (10 percent).

Up until March 2012, Argentina received a 6,800 MT tariff rate quota for cheeses shipped to the United States, but on March 26, 2012, the U.S. government announced the suspension of Argentina's trade benefits under the Generalized System of Preferences given Argentina's failure to abide by its bilateral investment treaty obligations. Argentina still has access to the quota every year, but outside the system of preferences in some cases without profit given tariff increase from zero to 15 percent.

Because domestic consumption is relatively stable, virtually all the increase in milk production goes directly to the production of commodities and products for export. Current high international prices will make exports even more attractive.

The export of cheese is expected to more than double from 2012 to 2020 with nearly 70,000 MT reaching 122,000 MT.

The import will remain at a very low level due to the wide range of high quality cheese produced in Argentina.

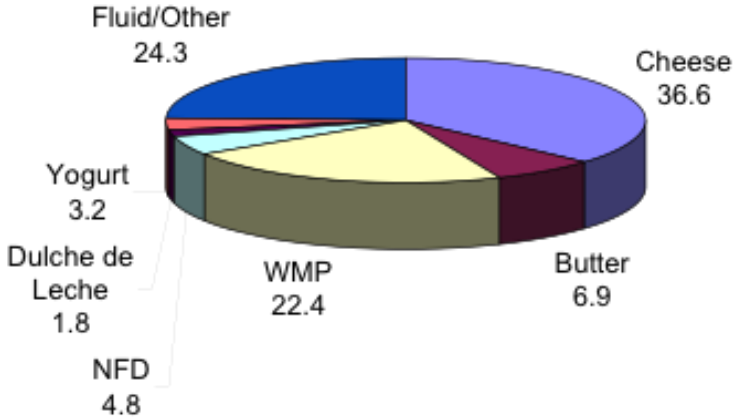
5. Major cheese producing companies

Argentina has a competitive processing sector dominated by a number of large firms with a clear export orientation. Many of the top firms have long been involved with export markets and have built brand recognition in foreign markets. Moreover, the connections between domestic firms and international partners such as Nestlé, Fonterra, Danone, and Saputo, give Argentine processors access to expanded marketing expertise abroad. These processors have proven they have the ability to meet international consumer´s demand for quality and product safety.

Argentina´s dairy processing industry is as the milk production concentrated in the central and east-central parts of the country, in Córdoba, Santa Fe, and Buenos Aires provinces.

Argentina´s dairy processing sector is dominated by 10 large dairy companies that process more than half of the milk produced in the country. The three largest dairy companies are SanCor, Mastellone, and Saputo. There are also about 1,000 mid-sized plants that specialize primarily in cheese production. The utilization of the processing capacity is relatively high at 90% according to an industry analysis from 2005. Argentina´s dairy industry is divided into two distinct components: an export-oriented segment and an informal or domestic segment. The export oriented firms account 50-55% of Argentina´s dairy production, and the remaining 45-50% stays at the domestic market.

Distribution of milk for processing in Argentina 2012



Source: CIL, PM Food & Dairy Consulting

With a high level of cheese consumption per capita 12kg – the highest in South America – and a substantial export it is not surprising that more than 1/3 of the milk processed is utilized for cheese production of which 21% is used for hard cheeses, 42% for soft cheeses, and the remaining 37% is processed into semi-hard cheese. Semi hard cheeses are the most common types exported, accounting for 62% of all Argentine exports in 2008. WMP is the second largest use for industrial milk. More than half of the WMP produced in Argentina is bound for export markets. Domestic consumption of drinking milk products is approximately 50%.

The dairy industry is due to the high degree of engagement from the international dairy companies combined with a long tradition for dairy processing in Argentina at a very high level in relation to technology, know-how, product quality, and marketing skills also in an international comparison. The major dairy companies are:

Major dairy companies in Argentina

Company	Milk intake (1,000 MT)	No of plants
SanCor	1,800	12
Mastellone	1,700	
Saputo	1,000	2
Milkaut	750	4
Dairy Partners of Americas (DPA)	750	3
Sucesors de Alfredo Williner	480	5
Corlassa	300	2
La Lacteo	120	1

Source: PM Food & Dairy Consulting

SanCor Cooperative

SanCor began in 1938 as a milk cooperative association of dairy farmers. The majority of the cooperative´s farms are located in the Pampas in the provinces of Santa Fe and Córdoba, hence the name SanCor. The cooperative controls about 20% of Argentina´s milk production equalizing 1.8 million MT of milk annually and it receives milk from about 2,000 milk producers. Milk quality has not been a problem for SanCor since 1995, when the company stopped collecting warm milk from the milk producers. The bulk of SanCors products are destined for the domestic market. SanCor uses independent marketing agent to distribute its products to smaller stores and shops, but it deals directly with supermarkets. SanCor has a research and development lab to develop new products. It currently has two product lines: a premium brand and a value brand. SanCor operated a joint venture with DPA (Nestlé and Fonterra) in relation to marketing cheese and yoghurt domestically in Argentina. However, this was dissolved in 2009 because SanCor wanted to strengthen their position on the cheese market.

SanCor processes 1.8 million MT of milk annually and has 16 production plants and 12 are processing dairy products and the remaining are a juice plant and 3 cheese ripening plants

SanCor dairy processing plants

Plant	Address	Products
Córdoba	Bv. Bulnes esq. Antonio Machoni Cordoba	Yoghurt Desserts and SanCor Bio
Chivilcoy	Rute 5 B6622 CVA Buenos Aires	Standardized milk, cream UHT-milk
Funchales	Tte. Gral.Richeri 15 S2322FYA Santa Fe	Powdered milk UHT-milk La dulce lechte
San Guillermo	General Roca 402 S2347 San Guillamos	Cheese: Por Salut, Azul
Brinkmann	A Zampol 318 X2419 CLF Brinkmann Córdoba	Soft cheese
Devoto	Rute National N X2424WCJ Devoto Córdoba	Soft cheese Milk powder Cream
Gálvez	Bv. Argentino 464 Santa Fe	Storage Cheese ripening
La Carlota	Ruta 8 La Carlota Cordoba	Hard cheese Semi hard cheese
Baineraria	Cruce Rutas no.17 Balnearia, Cordoba	Special cheeses
Centeno	Ruta no 34 Centeno, Santa Fe	Hard cheese
Ceres	Ruta no 34 Ceres, Santa Fe	Butter SMP, WMP
Coronel Charlone	Av. Anzoategui Buenos Aires	Drinking milk Yoghurt
Coronel Moldes	Ruta Provincial no 24 Coronel Moldes, Cordoba	SMP, WMP Whey powder
Morteros	Av. Arturo Frodizzi 3151 Morteros, Cordoba	SMP, WMP Casein
Pozo del Molle	Missiones 64 Pozo del Molle Cordoba	WMP, SMP Casein/caseinates

Source: PM Food & Dairy Consulting

SanCor operates joint venture with several international dairy companies besides Nestlé. In the whey processing the company has established a joint venture with Arla Foods and with FrieslandCampina in relation to milk powder and ingredients.

SanCor is the leading cheese processor in Argentina with a production of 130,000 MT annually and it accounts for the majority of the Argentinian cheese export.

Through its 10 sales branches, 8 commercial offices and 3 distribution centers, 270 exclusive distributors and more than 150 independent wholesalers can be supplied with products. SanCor's nationwide coverage allows its products to be sold in 1,600 supermarkets and 80,000 retail shops.

SanCor manages its international sales with the same dedication it gives to the domestic market. Traditionally, SanCor has been the largest Argentine dairy exporter, having pioneered the integration of Argentina into the global economy.

SanCor's products have always been present in international markets and the company thus became Argentina's most important dairy exporter. Besides selling its products in more than 30 countries from the 5 continents, the Cooperative has exclusive distributors in the main countries of our region (Paraguay, Chile, Bolivia, Peru and Uruguay) and subsidiaries in Brazil (SanCor do Brasil Produtos Alimentícios) and the U.S.A. (SanCor Dairy Corporation), as well as delegations in Mexico and other Latin American countries.

At current, the main products exported by SanCor are whole and skim milk powder, butter and gouda, edam & mozzarella cheese.

Mastellone Hermanos

La Serenísima was established in 1929 by Antonino Mastellone, a cheese-maker from Sardinia who arrived in Argentina in 1925. Mastellone named his venture in honor of *La Serenissima*, a World War I-era Italian Air Force battalion which on orders to bombard Vienna, released a load of fliers urging peace, instead. The battalion itself had been named for the medieval Republic of Venice, which was widely known as *La Serenissima* (though the word also translates as the "most serene," or peaceful).

Antonio and his brother, Giuseppe Mastellone founded *Hermanos Mastellone* in General Rodríguez, a pampas city west of Buenos Aires, in 1927. The company became a leading area provider for a rapidly growing market in mozzarella, provolone and ricotta cheeses for Argentina's large Italian community (of the 6 million Europeans who arrived in Argentina, over half were Italians).

Antonino Mastellone married Teresa Aiello on October 26, 1929, and on that date, reestablished the company as *La Serenísima*. Mastellone brought his first delivery truck in 1935 and incorporated the company in 1942; by 1960, the company had become one of the few in Argentina which mass-produced pasteurized milk, allowing it to sell the product year-round.

Establishing its own research laboratory in 1964, La Serenísima became the first in Argentina to provide nutritional facts on each bottle. The company pioneered the sale of lactose-free milk in Argentina in 1984, became the market leader in the sale of yogurt (whose local consumption more than doubled between 1983 and 1988) and introduced cultured milk locally, in 1988. La Serenísima also introduced large-scale organic dairy farming in Argentina, in 1994, and became the first to fortify its products with iron sulfate.

The company is the primary domestic competitor to SanCor and owns the well-known brand La Serenisima.

The company process approximately 18% of the Argentinean milk equalizing 1.7 million MT Mastellone focuses primarily on fresh products for the domestic market, particularly in the Buenos Aires region. Mastellone also has a substantial export of mainly WMP to more than 30 countries.

In 1996 the company went into a joint venture with Danone for the sale of yoghurt and desserts and this cooperation has developed and Danone has increased the engagement successively in the last decade. Several times it has been pushed by economic problems in the Mastellone mother company. In the last two years Danone has tried to take over the company and solve the huge debt problem in the company but political resistance has delayed the process. However, Danone has now the dominating influence in the company.

Saputo

Saputo is Canada´s largest dairy processor and Argentina´s third largest processor. Saputo branched into the South American market by purchasing Molfino Hermanos SA in 2003 and it currently operates two large processing facilities in Argentina. Saputo´s processing capacity is estimated at 1 million liters, roughly 10% of total milk production. Prior to the acquisition, Molfino was exporting between 40% and 50% of its output.

Saputo operates two production facilities in Argentina with an overall excess capacity of 30%. Saputo produces and markets a wide variety of soft, semi-soft, hard and grated cheeses, as well as butter, cream, milk powder and dairy ingredients. These products are sold under the recognized brand names of La Paulina, Molfino and Ricrem.

The sale products manufactured in Argentina is well balanced between the national and international markets. The products are sold nationally to the retail and the industrial market segments and internationally to over 30 countries.

The company distributes its products through third party distributors which are supplied through the Saputo´s three distribution centers located across the country. This network services large retail chains, distributors and industrial customers.

Saputo produces approximately 60,000 MT of cheese annually in Argentina and 50-60% is exported. In recent years Saputo (Molfino) has lost market shares on the domestic market to the other major player and Danone has surpassed the company in 2012.

Milkaut

Milkaut was founded in 1925 as a dairy cooperative and through amalgamations and take over the company has become of the major players on the Argentinean dairy scene. The company is located in the Santa Fe region and operates 4 plants of which the Franck´s Industrial Complex process 80% of the milk intake of 750,000 MT annually and the total market sales is around $ 300 million. The company employs 1,000 people on the 4 processing plants and 6 selling branches. Milkaut exports to more than 30 countries with the main markets in South America.
Milkaut processing plants are:

The Franck´s Industrial Complex is one of the most modern in South America and the first to introduce the technology to produce MPC. On the plant Milkaut process fresh dairy products like drinking milk, cream, yoghurt and desserts, UHT-products, cheese, milk powder, WPC and MPC. The plant process 600,000 MT of milk annually of which the cheese production utilize 500,000 MT,

Colonia Nueva process 60,000 MT of milk to hard and semi-hard cheeses and the factory is certified for the EU market.

Planta Chemical is located in the province of La Rioja and manufactures grated cheese and dehydrated products. The direct milk intake is limited.

Planta San Luis manufactures UHT-milk and the plant process 50,000 MT of milk.

The structure of the company has changed from a traditional cooperative owned by the dairy farmers to a stock holding company but the dairy farmers still have the majority shares. The French cheese giant, Bongrain, has a 40% share of the company and this has brought capital, new technology, knowhow, brands and marketing skills to Milkaut.

In 2010, the Argentinian dairy farmer´s organization Asociación Unión Tamberos negotiated to sell their 54% stake in Milkaut to a consortium consisting of the pharmaceuticals company Chemom soya processor Louis Dreyfus, agricultural chemicals group Vicentin and Los W, part of the Groupo Werthein investment group but this failed.

Instead, Bongrain which owned 40% of Milkaut, bought the 54% belonging to Asociación Unión Tamberos Coop so the company now owns 94% and is in control of the company. In exchange for shares Bongrain has committed itself to start a debt refinancing process, which amounts to $50 million, and inject capital into the company.

Dairy Partners of Americas (DPA)

DPA (Nestlé and Fonterra´s joint venture in South America) operates their own milk processing with an annual milk intake of 750,000 MT.

DPA plants in Argentina

Plant	Milk intake (MT)	Products
DPA operates 3 plants in Argentina	750,000	
DPA Ville Nueva **Ruta Provencial No 2** **5903 Ville Nueva** **Provincia de Cordoba** **Ph: 353 4919261**		Milk powder, Infant formula
DPA Firmat **Boulevard Solis 2435** **2630 Firmat** **Prvincia de Santa Fe** **Ph: 3465 423011**		Milk powder
PDA San Andres **Camino Real S/n Arenaza** **6075 Lincoln** **Provincia de Buenos Aires**		Liquid milk, Yoghurt, Infant nutrition, Milk powder

Source: PM FOOD & DAIRY CONSULTING

The plant in the Buenos Aires region is orientated towards the domestic market whereas the two other plants are mainly used for sourcing milk for export to the whole region and the world market.

Sucesors de Alfredo Williner

Sucesors de Alfredo Williner S.A. is a dairy products company situated in Rafaela which plays a leading role in the region and the country as source of production and jobs. It is one of the few Argentinean dairy companies remaining in the hands of nationals.

The company grew in a region that has been economically and socially based on the settlement of European immigrants who arrived at the end of the 18th and beginning of the 19th centuries. These immigrants colonized the region with deep values of sacrifice, work, honesty and community participation.

José María Williner was one of these pioneers, a determined person and lover of progress, who was born in Switzerland and came all the way down to Argentina at the end of the 19th century.

Sucesors de Alfredo Williner S.A. owns five manufacturing plants. The production area is situated at the west-center of Santa Fe and east of Cordoba provinces, an area that allows a consistent quantitative and qualitative dairy development due to high quality soil, propitious weather and excellent pastures.

Williner processes approximately 500,000 MT milk annually that is converted into a complete line of dairy products (hard, semi-hard and soft paste cheeses; processed cheeses; grated cheese; dulce de leche; whole and skimmed milk powder; butter; yogurt; custard and dairy desserts;

ricotta; milk cream; long life milks [U.H.T.] - whole, partially skimmed, partially skimmed with calcium, skimmed with active fiber, chocolate and protein-based nutritional drinks.

For the supply of the internal market, the company has nine sales branches strategically located: Rafaela and Rosario (Santa Fe), Beccar (Buenos Aires), Garupá (Misiones), Corrientes, Salta, Córdoba, Mendoza and Neuquén. A great network of distributors and representatives covers the entire country.

Corlassa

The company is located in Esperanza in Santa Fe and has an annually milk intake of 300,000 MT. The company was created by the Peruvian group Gloria and the Argentinean family Gonella. The company operates modern two processing plants where the largest produces SMP, WMP and the other butter oil both to the domestic market and for export. Corlassa produces approximately 35,000 MT of milk powder and 15,000 MT of butter oil annually and the company is the largest exporter of anhydrous milk fat exporter

La Lacteo

Grupo La Lácteo is a joint venture between Agropur from Canada and Adecoagro. Adecoagro, founded in 2002, is strongly oriented towards administration through values. Through sustainable production systems, cutting edge technology and risk diversification, Adecoagro is seeking to become the lowest cost producer, of ethanol, milk, sugar, grains, rice, coffee, cotton and beef in Argentina, Brazil and Uruguay. The company has established a primary milk production on 300,000 hectares with more than 40,000 cows that deliver the milk to La Lacteo.

The production is located in Cordoba on an export certified plant that process 120,000 MT of milk annually to drinking milk, yoghurt, butter, cheese and milk powder. The fresh dairy products utilize 60,000 MT of milk, the cheese production 15,000 MT, the milk powder production 25,000 MT, and the remaining 20,000 MT is used for cream, butter and dulce de lecte.

6. Consumption

The Argentinian cheese consumption developed positively in the last decade stimulated by the economic growth from 2003 to 2008 but since then it has declined and first in 2012 it regained the earlier level.

Cheese consumption 2000-2020

	2000	2005	2009	2010	2011	2012	2020
Total (1,000 MT)	298	360	503	464	464	513	580
Per capita (kg)	8.8	9.8	12.5	11.4	11.4	12.5	13.4

Source: IDF, PM FOOD & DAIRY CONSULTING

From 2000 to 2012 the consumption increased by 70% and the per capita consumption is on the level with several European countries at 12.5 kg.

In 2014 domestic consumption of dairy products is forecast to only grow marginally. Per capita consumption is estimated at 211 liters per capita, with a small margin for growth. Despite the domestic high inflation, consumption remains stable.

Cheese consumption is currently high (estimated at 12.5 kg per capita) and it is expected to grow only marginally. Over 90 percent of the cheese production is consumed domestically, and there is little room for further expansion.

Consumption of yogurt and dairy desserts has grown dramatically in the past couple of years due to strong marketing campaigns. Post forecasts this trend to continue into the near future. To stimulate consumption, the industry periodically introduces new enhanced bioengineered products, such as yogurt or milk with nutritional additives.

Until 2020, the cheese consumption will only increase modestly compared to the 2000s due to the saturation of the market and this implies a growth of 70,000 MT (+13%) reaching 580,000 MT.

7. Cheese market

The most popular cheese in Argentina is soft cheese. The per capita consumption of cheese is 12.5 kg in 2012 and soft cheese account for 10 kg of this. This high consumption depends on per capita incomes, and also on the fact that soft cheese addresses the trend towards healthier foods. Soft cheese is consumed as a snack, with food and as a dessert. The most popular soft cheeses are Cuartirolo, Cremoso, Port Salut and Mozzarella.

In 2012, the cheese market increased 17% in value terms but declined slightly in volume terms. This is caused by a high inflation rate in the country. The official inflation rate is considered to be an underestimation by all private players operating in the country.

Company cheese market shares 2006-2012 (market value share)

% retail value	2005	2009	2010	2011	2012	Brands
SanCor	18.9	20.8	22.1	22.1	22.3	Sancor, Tholem, Por Salut Untable, Tholem, Mendicrim
Mastellone Hnos SA	16.2	17.1	19.3	19.5	19.6	La Serenisima, Finlandia
Sucesores de Alfredo Williner	5.2	5.7	5.8	5.9	6.0	Ilolay
Danone	2.8	3.9	4.3	4.6	.4.8	La Paulina
Molfino	6.4	5.6	5.7	4.4	4.4	Veronica
Veronica	3.8	4.1	4.2	4.3	.4.3	Casancrem, Ser
Milkaut SA	3.1	3.0	2.5	2.4	2.3	Milkaut, Chis
Cabana y Estancia Santa Rosa	1.3	1.6	1.5	1.7	1.8	Santa Rosa, Bavaria
Others	42.0	38.0	34.6	35.1	34.5	
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	

Source: Euromonitor International, PM Food & Dairy Consulting

The cheese market is characterized by a lot of players without dominating status like on the market for drinking milk and yoghurt. The two major players have accumulated 41% of the market and the top 8 only 65%. Domestic manufactures have a clear edge over multinationals in cheese, as a result of the strong dairy industry in Argentina. This facilitated the development of major companies like SanCor, Mastellone, Sucesors de Alfredo Willinier and Veronica SA. The long-standing presence of local manufactures enabled them to forge strong relationships with dairy farmers, thereby absorbing all of their production.

Sancor was the leading player in 2012 with a market value share of 212with a wide range of cheeses and brands like SanCor. Mastellone was second with 20% market value share and the company has in recent years concentrated on cheese by reducing the processing of drinking milk that is more price-sensitive. The joint-venture between SanCor and Dairy Partners Americas Argentina (Nestlé and Fonterra) was dissolved in 2009. Following the split, SanCor retained Mendicrim, the spreadable unprocessed cheese brand formerly owned by Nestlé. SanCor intends to enlarge and modernize its plant with the aim of defending its leadership of cheese in Argentina against the growth of Mastellone.

Private label plays an insignificant role on the Argentinean market and the same is the case for cheese utilization in food service and food industry.

Premium brands such as Rosenborg and Président are imported and are marketed mostly through specialist stores, Jumbo and other up-scale markets. Standard brands such as Sancor and la Serenisima compete by establishing a presence in all distribution channels, and by offering a wide variety of products to meet the needs of the vast majority of consumers. Economy brands such as La Paulina are mostly focused on soft cheese, as it is easier to produce and takes less time to mature.

8. Future prospects

The Argentinean dairy sector is without comparison at the highest level in South America with an efficient milk production on large farms and a dairy industry with a tradition for modern dairy processing as long as in USA and Europe. The structure and the foreign engagement are excellent and further contribute to the leading position in South America and improve its position on the world market.

The prospects for the Argentinian cheese sector from 2012 to 2020 are:

- The milk production is expected to increase by 3 million MT reaching 13.2 million MT in 2020 (26%).
- A major part of the extra milk will be utilized for the cheese production which is expected to increase by 150,000 MT (+24%) amounting to 700,000 MT in 2020.
- The export will benefit from this and will be more than doubled from 54,000 MT in 2012 to 122,000 MT in 2020.
- The import will remain extremely low at 4,000 MT
- The consumption of cheese will grow modestly compared with the 2000s with 13% from 513,000 MT to 580,000 MT.