Eastern Europe Dairy Market Report 2006-2012

– Dairy products, ingredients and industry in Eastern Europe and Russia

With large market potential, milk supply is a real challenge

A new report from 3A Business Consulting entitled: "*Eastern Europe Dairy Market Report – Dairy products, ingredients and industry in Eastern Europe and Russia*" has been formulated to analyse both the historical development of consumer products and dairy ingredients in the region and forecast the large market potential that exists.

At present, demand for dairy products is already exceeding the milk production of the region and as economic growth and hence consumer demand continues to increase, milk production and raw material supply will become a considerable challenge. Current import levels are approximately 7 million MT of liquid milk equivalents and the increase in demand will require an additional regional milk production or import of dairy products of some 10 million MT by 2012.

Whilst the dominant growth segments are cheese and yoghurt, the rapidly developing food service and food processing industry will inevitably lead to increased demand for quality and value added dairy ingredients

"Unlike many other emerging dairy markets, this region has a cultural and historical connection with the consumption of dairy products. Consequently, a simple comparison of per capita consumption between Eastern Europe and Western Europe clearly illustrates the enormous market potential" states Tage Affertsholt, Managing Partner from 3A Business Consulting.

The report covers the 9 new Eastern European EU Member States, as well as Russia, the Ukraine and Belarus. Therefore, it encompasses a market of 270 million consumers and includes information relating to the production, importation, exportation and consumption of the specific dairy market segments:

- Liquid milk
- Yoghurt
- Butter
- Cheese
- Milk powders and dairy ingredients

The dairy sector is analysed with particular emphasis on the major national and foreign dairies that operate in the respective dairy markets.

At present, more than 30 foreign dairy companies have a presence in the region, many of which operate with local processing facilities, including such multinationals as Nestlé, Unilever, Danone and Kraft. However, it should be noted that many dairy companies have also established manufacturing plants in the region, including Campina, Friesland Foods, Hochland, Ehrmann, Müller, Nordmilch, Meggle, Lactalis, Bel, Bongrain, Euroserum, Arla Foods and Valio. Furthermore, the large Russian dairy company – Wimm-Bill-Dann – is also active in several of the markets outside Russia.

The foreign companies process a large proportion of the milk in the region and are playing a leading role in developing the dairy sector through investments in new technology, innovations, product development and marketing. In addition, vertical integration is a key area where the foreign and domestic dairy companies invest in improving the milk quality and the cooling chain to secure dairy products of high quality.

The report comprises 199 pages with a highly business-oriented and detailed commentary.
The report can be purchased for EUR 4,500
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Introduction

1. Background

Eastern Europe has undergone significant changes since 2000, and one of the main events has been the entry into the EU of 7 Eastern European countries in 2004 (Poland, the Czech Republic, Hungary, Slovakia, Estonia, Latvia and Lithuania) and 2 countries in 2007 (Bulgaria and Romania). The entry has paved the way for an economic growth twice the size of the old EU countries. This development is expected to continue in the future, as was the case in relation to earlier enlargements of the EU with Ireland, Greece, Portugal and Spain – all countries with an economic performance above the average EU-level after becoming EU members.

The creation of a common market with 27 countries and more than 500 million consumers offers a lot of opportunities for the dairy sector. The milk production in the new member states is developing both in quality and quantity, partly due to foreign investments and partly due to competition from the establishment of a huge open market. The new EU members have more than 1.5 million milk producers, a structural development has already been started, and a lot of small milk producers (1-2 cows) are leaving the sector. Larger and more efficient farms are established, and in several of the Eastern European countries farmers from the old EU countries are investing in milk production.

Since the mid nineties, the dairy companies in EU-15 have invested heavily in the new member countries in Eastern Europe and play a significant role in developing both the industry and the dairy market. All top ten European dairy companies have production facilities in Eastern Europe and will be important players in the structural development of the dairy sector in the future.

The dairy market in EU-15 and the USA is expected to grow by 10-12% from 2007 to 2012, however the Eastern European dairy market is expected to grow by 20-25% in the same period, although from a lower level.

2. Content of the report

This report will focus on the dairy sector in the Eastern European countries and includes the EU countries, Poland, the Czech Republic, Slovakia, Hungary, Bulgaria, Romania, Estonia, Latvia, and Lithuania. The countries are all part of EU-27 and will benefit from the opportunities from the open market, but will also be forced to a rapid structural and economic development of the dairy industry and the dairy market.

To complete the picture of the dairy sector in Eastern Europe, the report also includes non-EU countries like Ukraine, Belarus and Russia. These countries were together with the other Eastern European countries either part of the former USSR or the Comecon, and they formed a single communist market in opposition to the EU market. The EU membership of the nine countries has changed the market and the trade pattern significantly, and it is therefore regarded important to analyse these changes as regards the dairy industry both in the region and in EU-15.

The report will analyse the dairy market in the 12 countries in relation to general country information, milk production, production of dairy products, the dairy market, the dairy industry including foreign dairy companies and finally the market potential in the future.

The report also focuses on the emerging dairy ingredient market in Eastern Europe and CIS. The food service and food industry is developing in these countries at the moment, and the need for dairy ingredients is increasing. The question is: Will these ingredients be produced locally and by whom, or will they be imported?

3. Objective and scope

The main objective of this report is to provide the reader with an overview of the dairy sector in Eastern Europe and European CIS and thus provide the background for analysing the future opportunities of the respective dairy markets in the region.

3.1. Geographic scope

- 9 EU member states in Eastern Europe
  - 2004: Poland, the Czech Republic, Slovakia, Hungary, Estonia, Latvia and Lithuania
  - 2007: Bulgaria and Romania
- European CIS: Ukraine, Belarus and Russia
- In the report, “Eastern Europe” or “the region” refers to the above-mentioned 12 countries.

3.2. Product coverage

The report describes the following dairy product segments for each country in the region:

- Milk production in general
- Liquid milk
- Yoghurt and fermented products
- Butter
- Cheese
- SMP
- WMP
- Dairy ingredients
  - Casein/caseinates
  - Whey products
  - Lactose
  - MPC

The calculation of the whey potential is made on the total cheese production in each country, although a certain percentage, which is processed cheese, does not give liquid whey.

The country description also covers:

- Export and import of dairy products
- Structure of the dairy industry
- Market potential in the future

The general analysis for the whole region covers:

- The dairy ingredients sector and the future potential (Chapter 3)
- The future market potential with focus on the supply and demand situation
- The impact of the foreign dairy companies on the development of the dairy industry
- Strategies for engagement based on the experience since 1990 and given future challenges

3.3. Time scale

- Descriptive market analyses: 2000-2006
- Prognoses for market developments: 2006/2011/2012

3.4. Report sources

This report is based on 3A Business Consulting's research of the dairy industry in Eastern Europe and European CIS, and the main sources are:

- National agricultural statistics
- International statistics: FAO, EUROSTAT, ZMP, OECD, IDF, Euromonitor International, USDEC , USDA and others
- Dairy company websites
- Professional publications
- Embassy enquiries
- Interviews with key dairy industry persons
- National dairy associations
- Dairy equipment suppliers

The prognoses for the future development are made by 3A Business Consulting based on the collected data materiel.

Language: English

Price: EUR 4,500

Timing: Available now

Sample from the report (1)

2.1.3. Production of dairy products

In 2007, 75% of the milk production was delivered to dairies for processing into dairy products, and this is a significant increase from 55% in 2000. Liquid milk and cheese are the main products, and the overall picture is described in the table below.

Table 3 Production of dairy products

'000 MT	2003	2004	2005	2006	2007
Liquid milk	1,830	2,054	2,192	2,180	2,285
Cream	224	235	253	–	–
Milk drinks, fermented products	455	469	487	550	590
Butter	154	163	170	166	170
Cheese	482	501	534	544	570
Quark (tvarog)	290	295	284	332	335
WMP	23	33	31	37	28
SMP	131	138	140	130	120

Source: IDF, Polish NCIDF and Warsaw

In the following, focus will be set on different products and market segments.

Sample from the report (2)

Table 12 Producers of dairy ingredients in Poland

Casein and caseinates	Whey powder	MPC
Lacpol	Mlekovita	Mlekovita
Kazeina	Mlekpol	Mlekpol
Polsero	SM Ostrowia	OSM Kolo
	SM Ryki	SML Ostroleka
	SM Spomlek	Lacpol
	Lacpol	Polmlek
	SM Skierniewice	OSM Wielu
	Euroserum	SM Skierniewice

Source: The Polish Agricultural Ministry and 3A Business Consulting

The large number of dairy companies producing ingredients means that the potential to increase the production of ingredients is available if the milk production can be increased in the future.

Description of the companies producing dairy ingredients:

Sample from the report (3)

Table 15 Key dairy companies

Name	Milk intake	Key products	Further
SM Mlekpol	725 million kg	UHT	
Mlekovita	600 million kg	UHT, cheese, butter	www.mlektovita.pl
Lowicz S.A.	210 million kg	Powder, UHT, cheese	www.mleczarnia.lowicz.pl
Danone	150 million kg	Yoghurt	www.danone.pl
Ostrowia	135 million kg	Cheese, cream cheese, processed cheese	www.ostrowia.pl
Arla Foods	60 million kg	Cheese	www.arla.pl
Hochland Polska Sp.	50 million kg	Cheese	www.hochland.pl

Source: Polish association of private dairy companies and 3A Business Consulting

The Polish dairy industry is still dominated by small and medium-size dairies. The largest company Mlekpol with a milk intake of 725 million kg is a small dairy seen in an international context. The concentration and the restructuring of the industry will accelerate in the future, and both local and foreign dairy companies will try to take the lead.

Sample from the report (4)

3. The Eastern European market for dairy ingredients

The production of dairy ingredients like casein/caseinates, whey powder, WPC, MPC and lactose is relatively small in Eastern Europe and European CIS for several reasons:

- The production of milk ingredients is more or less residual to the production of domestic consumer products like liquid milk, yoghurt and cheese. These product categories have been increasing their market shares significantly since 2000 in all the countries of the region. At the same time, the deliveries of raw milk to the dairies have been declining, which has intensified the competition for raw milk to different usages, and in this respect, the milk ingredients production has been loosing ground.

- The food industry is still relatively undeveloped in most of the countries, and therefore the major outlet for the milk ingredients is missing, but in the medium-long term the demand will increase along with the development of a more advanced food industry.

- The dairy industry in the Eastern European countries also needs the technology and capital to build up a milk ingredient industry. The countries are very dependent on foreign dairies to invest in the sector, but until now their focus has been on consumer oriented products like yoghurt and cheese.

The next five to ten years will no doubt bring increased attention to the dairy ingredient sector. As an example, the large cheese producers will increasingly be looking for ways to exploit the value of liquid whey.

3.1. Casein/caseinates

Since 2000, the production of casein and caseinates has been declining in Eastern Europe in all the major producing countries.

Table 135 Production of casein and caseinates in Eastern Europe 2001-2006

'000 MT	2001	2002	2003	2004	2005	2006
Poland	6.6	5.3	3.4	3.3	0.1	0.1
Czech Republic	0.5	0.6	0.5	1.0	0.5	0.7
Ukraine	16.5	17.0	15.6	20.2	17.8	12.8
Belarus	8.5	11.0	8.1	13.0	12.5	10.9
Russia	16.0	12.0	6.7	5.5	3.8	3.1
Other CEEC countries	3.1	2.7	2.9	2.1	1.9	1.5
Total	51.2	48.6	37.2	45.1	36.6	29.1

Source: ZMP and 3A Business Consulting estimates

Sample from the report (5)

4.2. The major foreign players

More than 30 foreign companies have established dairy production in Eastern Europe, and they all come from EU-15, except the multinational companies Kraft Foods, Unilever and Nestlé.

The French, German and Dutch companies are the main players with production facilities established already in the nineties, and they hold a very strong position now that some of the Eastern European countries have become members of the EU.

Table 146 Foreign dairy companies with production in Eastern Europe and CIS 2006

Country / Company	Poland	Czech Republic	Slovakia	Hungary	Bulgaria	Romania	Estonia	Latvia	Lithuania	Ukraine	Belarus	Russia
French												
Danone	x	x	x	x	x	x				x		x
Lactalis	x		x		x	x				x		
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