

Europe's dairy giants

THE DAIRY MARKET IN EUROPE HAS UNDERGONE DRAMATIC CHANGES OVER THE PAST 20 YEARS. GLOBAL PLAYERS HAVE ACHIEVED TURNOVERS IN THE BILLION DOLLAR RANGES. FOR THE BAKERS, THEY OFFER TAILOR-MADE PRODUCTS



+ Milk plays an important role in Europe as it is produced in every single EU member state. According to reports from the EU Commission, the total amount of fresh cow's milk produced in 2008 amounted to about 148.7m tons. The milk was processed into drinking milk, yoghurt, cheeses and many more products, including ingredients for the pharmaceutical industry. According to information by the European Dairy Association, the dairy industry represents ca. 15% of the turnover for the total food and drink industry in Europe. For 2008, this was almost 138bn Euros from the total of 917bn Euros.

This interesting and manifold value added chain starts with an animal, the cow. It is often brown, although it can be also black and white. However, most of the 24m dairy cows in Europe are not picturesque ruminant animals grazing on nice little meadows. They are high performance milk producers, each with an average output of 6,200 kg milk per year. This is about 17 kg per day.

There are still differences in the output within the EU but they are about to diminish. In Germany, for example, the average annual production per cow is 8,000 kg milk. In other EU states this quantity has not yet been reached.

In terms of milk production, Germany is the leader in many respects. Most dairy cows are kept in Germany with 4.2m followed by France (3.8m), Poland (2.7m), the UK (1.9m), Italy (1.8m), the Netherlands (1.6m) and Romania (1.5m).

The largest amount of milk is thus produced in Germany: 27.5m tons per year. The second largest milk producer is France (23.8m tons), followed by the UK (13.4m tons), the Netherlands (11.3m tons) and Italy (10.5m tons).

This in turn does not mean that Germany has the most milk producing farmers. According to statistics by Eurostat and

the Dutch Dairy Board, respectively, for the year 2005, there were 110,000 dairy farms in Germany. The most were in Romania with 1,168,000 dairy farms, followed by Poland with 809,000 and Lithuania with 171,000 dairy farms. However, the farms in Eastern Europe are rather small with some only keeping one to three cows.

The trend in Eastern Europe as well as in the entire EU goes towards large industrial dairy farms with high performance animals for an even higher milk output. This is a very serious trend. The farm structures in the past ten years have changed significantly, in particular in Italy, Finland and Denmark. The figures released by the Dutch Dairy Board in its statistical yearbook show that between 1998 and 2008 in the Netherlands 60 out of 100 farmers have given up their businesses. The picture in the other countries is no better. Within the same period, it was only the farmers in Ireland and France who did not give up their farms to such a high extent; here only 33 from 100 actually quit their businesses. Fresh cow's milk, also called raw milk, consists of fat (in general 4%), proteins (3.2%), other solids (5.3%) and water (87.5%). It can be consumed as drinking milk or converted into a range of other dairy products and food ingredients using different processes.

Most dairy farmers sell their milk to dairy processors. Other dairy farmers market their milk directly to consumers at the farm while a third group uses and processes the milk on the farm.

Unfortunately, it was not possible to find reliable information about the number of dairy processors in Europe as this was not part of the EU statistics. Michael Brandl, managing director of the German Dairy Industry Association (MIV) is familiar with the different structures. There are countries

Top 10 in numbers of milk cows in the EU in 2008

1	Germany	4.2m heads
2	France	3.8m heads
3	Poland	2.7m heads
4	UK	1.9m heads
5	Italy	1.8m heads
6	The Netherlands	1.6m heads
7	Romania	1.5m heads
8	Ireland	1.1m heads
9	Spain	0.9m heads
10	Denmark	0.6m heads

Source: Eurostat

Top 10 producers of cow's milk within the EU in 2008

1	Germany	27.5bn tons
2	France	23.8bn tons
3	UK	13.4bn tons
4	The Netherlands	11.3bn tons
5	Italy	10.5bn tons
6	Poland	88.9m tons
7	Spain	58.3m tons
8	Ireland	51.1m tons
9	Denmark	44.8m tons*
10	Sweden	29.9m tons

Source: Eurostat * 2007

with predominately small and very small dairy processors, for example, Italy. Including the small cheese dairies, where Parmesan is still hand-made, Brandl estimates the number of Italian dairy processors to be 3,000. This also includes one global player that is not only at the top of Europe but also present all over the world, Parmalat Finanziaria S.p.A. With a turnover of 3.6bn Euros in 2008 in dairy products,

it ranks globally as the number 12 player and number 6 in Europe amongst the dairy processors.

According to a statistic by Rabobank in July 2008, eleven European dairy processors are amongst the top 20 in the world. Most of them are located in France where Brandl estimates a total of about 600 dairy processors. This includes a number of small cheese dairies but also three companies from the

top of the list. One of them is Groupe Danone and with a turnover of 9.2bn Euros it is the second largest dairy processor in the world behind the Swiss-based Nestlé S.A. Groupe Lactalis, which has a 9.2bn Euro turnover, is ranking third on a global level. Bon-grain, with a turnover of 3.4bn Euros ranks thirteenth globally and seventh within Europe while Groupe Bel still holds the 14th spot amongst the European top 20.

In Germany, according to Brandl, there are 100 dairy processors with 234 production facilities. "We have a healthy mixed structure", he reports. This figure does not include the small regional companies that account for almost another 100 dairy processors. Eight dairy companies in Germany are billion dollar enterprises followed by a well-set center field and the small regional companies which process very small quantities and have only regional importance. ▶



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Top 15 European dairy processors

	Company	Dairy turnover in bn Euro	Share of total turnover in %
1	Nestlé S.A., Switzerland	16.9	27
2	Groupe Danone, France	9.2	72
3	Groupe Lactalis, France	9.2	95
4	Royal FrieslandCampina N.V., the Netherlands	9.1	98
5	Arla Foods amba, Denmark	6.4	100
6	Parmalat Finanziaria S.p.A., Italy	3.6	92
7	Bongrain S.A., France	3.4	100
8	Groupe Sodiaal, France	2.8	100
9	Dairy Farmers of America Inc., USA	2.3	100
10	Nordmilch AG, Germany	2.3	100
11	Theo Müller GmbH & Co. KG., Germany	2.2	100
12	Humana Milchunion e.G., Germany	2.2	100
13	Tine BA, Norway	2.0	100
14	Groupe Bel, France	2.0	100
15	Glanbia plc, Ireland	1.8	82

Source: www.milchindustrie.de based on figures by PZ/zuivrecht from 2008 and supplemented by research by baking + biscuit international

Among the top 15 in Europe are Nordmilch AG (rank 10, 2.3bn Euros), Theo Müller GmbH & Co. KG (rank 11, 2.2bn Euros) and Humana Milchunion e.G. (rank 12, 2.2bn Euros). Currently, a merger between Humana and Nordmilch is being discussed. The latest large merger within the European dairy industry took place in 2008 when Dutch Campina BV. pooled with Royal Friesland Foods N.V. to form Royal FrieslandCampina N.V. headquartered in Amersfoort, the Netherlands.

Friesland was the first dairy cooperation worldwide. It was founded about 130 years ago and born out of necessity as the dairy farmers, at that time, hardly had the chance to chill their milk. The product itself is highly perishable making the individual farmer vulnerable to their customers. Therefore, the dairy farmers cooperated to preserve their milk by producing butter, cheese and milk powder while sharing investments and risks.

About half of the largest dairy companies on the European top 10 are still cooperatives. However, the relationship between the members and the cooperative is no longer as romantic as it might have been 130 years ago.

Today, 16,000 dairy farmers from the Netherlands, Belgium and Germany are members of FrieslandCampina. The company employs 21,000 people worldwide and has a total turnover of 9.1bn Euros. There are branch offices in eleven European, eight Asian and two African countries.

In its first Annual Report 2009 and also on the internet, the dairy processor announced its objectives: "FrieslandCampina aspires to be the world's most professional, successful and attractive dairy company."

For 20 years now, the dairy industry has undergone dramatic changes, which also includes the large multi-national

dairy processors. They predominately originated from medium sized companies that grew constantly and then merged with others and finally adopted an international orientation.

This development has gone to an extreme in Denmark where there is virtually only one big dairy processor, Arla Foods amba. It controls 95% of the market and leaves hardly any room for small, regional dairies. In Sweden, Arla is also taking a high market share.

With a total turnover of 6.4bn Euros in 2008, Arla is pursuing ambitious goals. The company's motto is: "We want to create the best dairy for 250+ million consumers in Northern Europe."

On its website the company describes itself as being the number 1 in the UK, Denmark and Sweden and the number 2 in Finland and the Netherlands. At the same time, it has announced that it is striving to be amongst the top 3 in Germany and Poland before 2013.

Arla is already present in many other European countries. The most important markets for Arla outside of Europe are the Middle East with Saudi Arabia right at the top. Another key market, mainly for condensed milk, is the Asian region. Other offices and production facilities are in Brazil, Argentina and the US. In total, Arla has dairy companies in 12 countries and sales offices in 27 countries of the world. It distributes its products in more than 100 countries.

However, globalization is not the only trend in the dairy industry; specialization is another important strategy. Drinking milk is a key product at Arla for example while the Irish Glanbia plc does not have any interest in this product at all. In 2008, Glanbia, with a turnover of 1.8bn Euros, ranked fifteenth on the EU list of dairy processors. The company serves the European and American market with cheese and supplies powdered milk to Africa. It also specializes in the production of casein and whey proteins. Another business division deals with nutritional ingredients. 12% of the total turnover is generated with non-dairy products.

Cheese making is another important business for the European dairies as butter consumption within the EU has been on the decline for many years now while cheese consumption is increasing. According to information provided by the European Commission, the production of cheese rose by almost 15% between 1995 and 2004. This means an increase of the average per capita consumption by 1.5% annually. Almost 40% of the milk products within the EU are consumed as cheese. Four member states – Germany, France, Italy and the Netherlands – produce more than 75% of the entire cheese in the EU. Germany produces bulk cheese, while the other three countries make specialty cheeses. The milk quantity needed for that is barely sufficient in Italy while the Netherlands has to purchase milk from other EU states.

All the large and most of the medium sized dairy processors specializing in cheese production often also operate research labs where they test different cheese textures for their industrial customers. "These labs resemble real bakeries. They run tests on which cheese looks best au gratin," explains Brandl.

One trend in the future will be a closer cooperation with food industry customers, according to the dairy specialist. "Many more individual products will be produced tailor-made to the specifications of the customers." For the retail trade, the development is heading in a similar direction as that of the bakery trade namely towards ethnic food, functional food and health promoting products. +++

The EU and its dairy farmers

The first common market order for milk was set up in 1968 by the former EC council of ministers. Its objective was – as today for the Common Agricultural Policy CAP – to guarantee a safe income for the farmers while ensuring stable prices for the consumer, consistently high product quality and independence from non European markets as far as possible. Since then the instruments of the EU dairy policy have changed partially. Today, customs, export subsidies, direct payments, milk quotas and intervention prices (renamed into reference prices recently) are used.

Due to the growing global demand from China and Russia for example, the EU does not have to pay any export subsidies any more in order to ensure the competitiveness of the EU milk products on the world market. For the same reason, the agricultural ministers of the EU have decided to drop the milk quota completely. They intend to increase the quota in total by 5% up until 2013 and then eliminate it in 2015. The milk price shall then be determined by the market.

This policy has split the dairy farmers into two groups. For larger dairy farmers with 100 to 200 cows, the future market seems to be better than for smaller enterprises. The small and medium sized farmers are already having a hard time achieving break-even. Currently, there are protests against the EU milk policy in almost all EU member states. Dairy farmers are organizing themselves in newly founded associations. They are requesting a flexible quota adapted to the market conditions. This means that with declining demand the quota will also decrease.

The reason why the smaller dairy farmers are trying to stop the trend towards ever larger farms is that they do not want to lose their means of existence. However, there are other reasons supporting the dairy farmers, a reason the European Commission always used for justification of the high dairy subsidies: The production of milk is more than just the production of food. It is connected with the maintenance of large rural areas in Europe, areas which provide jobs, infrastructure and last but not least protect and care for ecologically important landscapes. +++

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