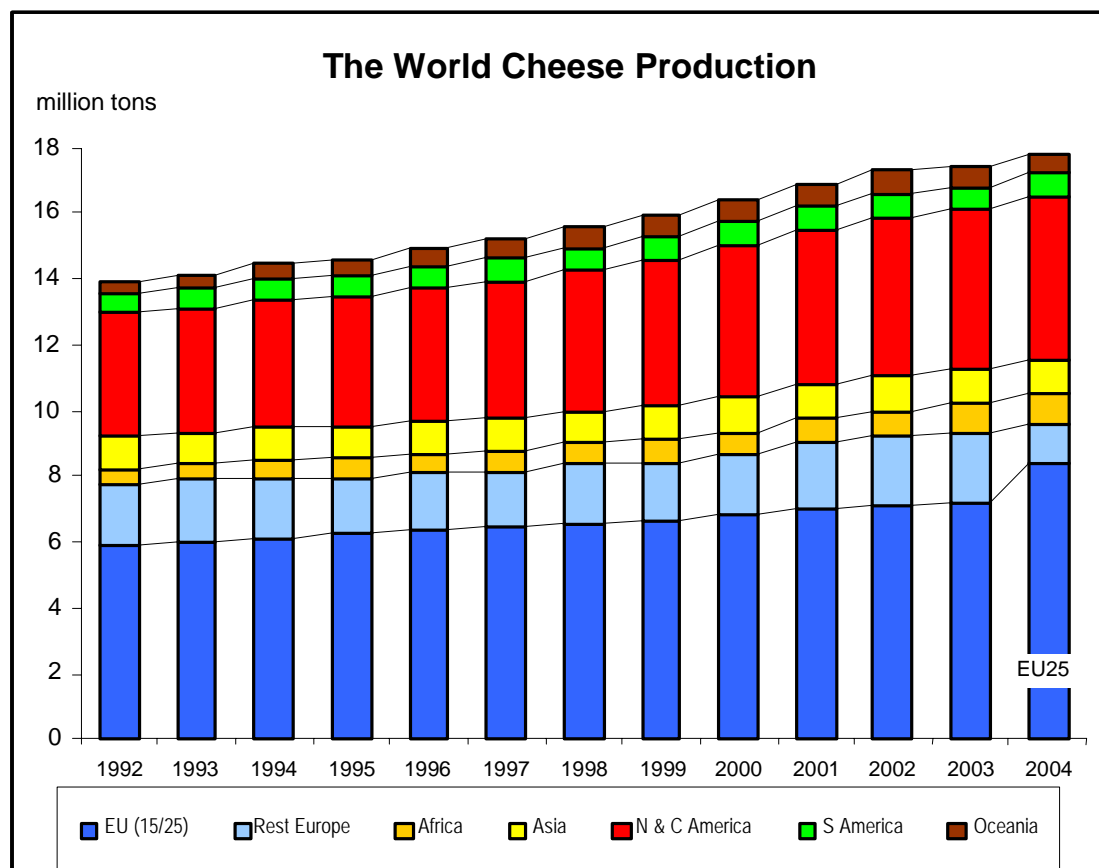


## The Role of Processed Cheese Markets for the Overall Cheese and Dairy Sector

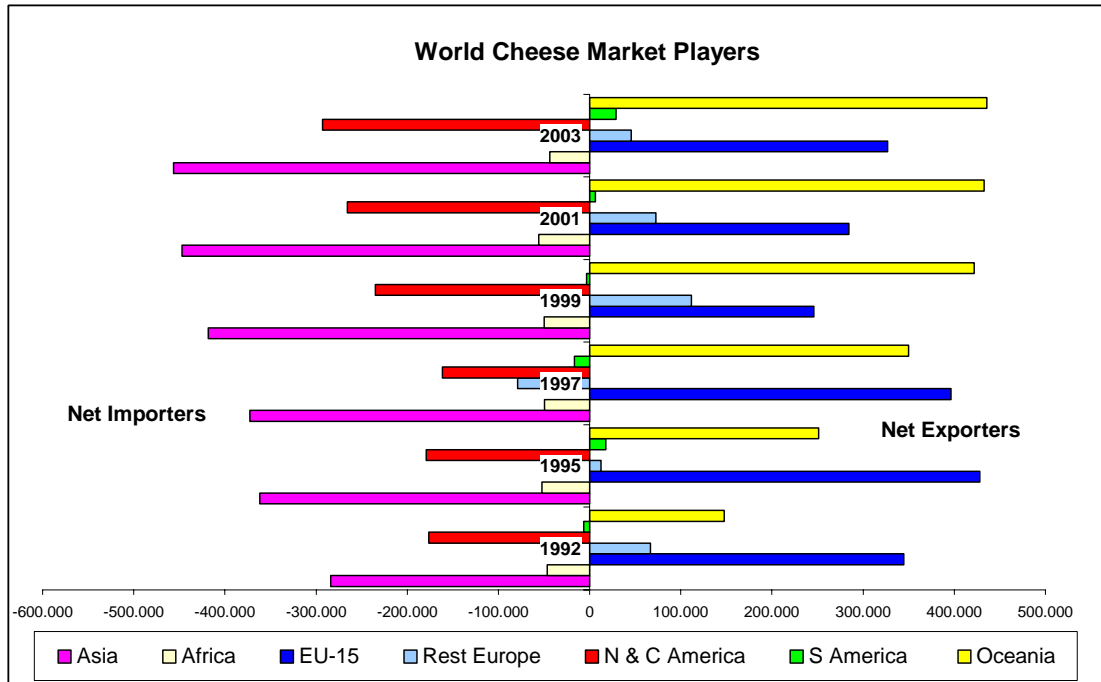
### Key Facts of the International Cheese Market

The worldwide cheese production totalled 18 million t in 2004, of which around 16 m. t. are manufactured in industrial plants. The EU-25 is the main producer with a share of 48 % of world production in 2004. North America is another major producer.

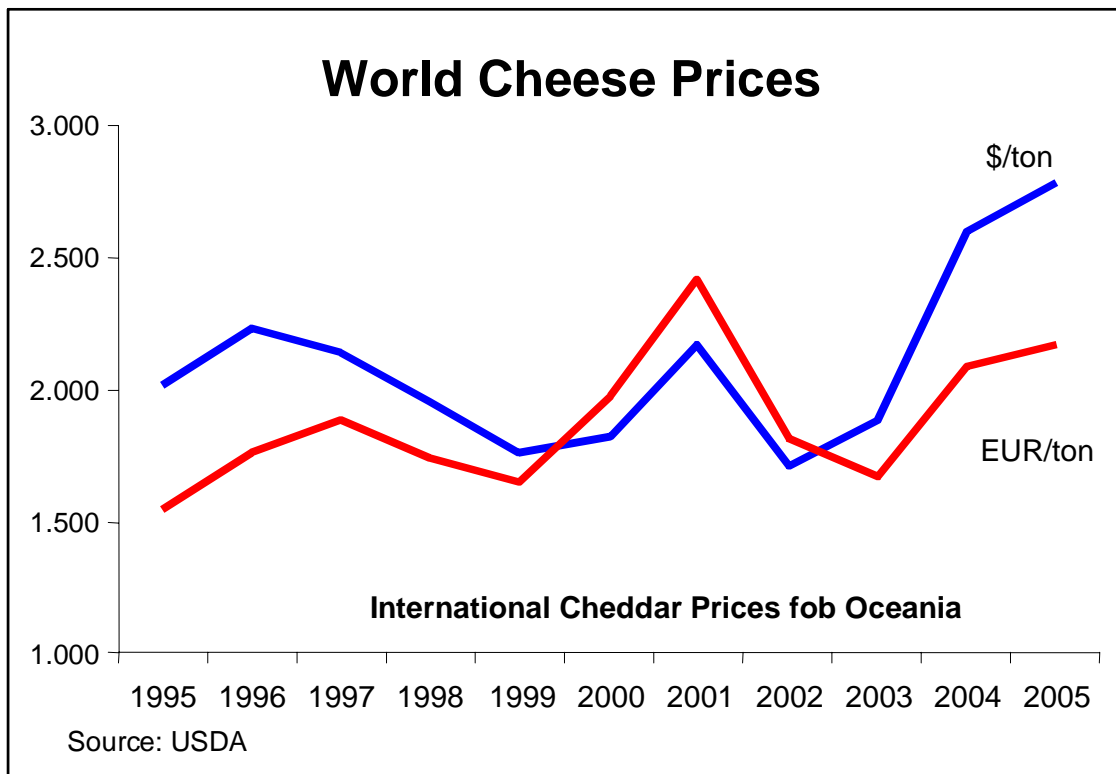
In the most parts of the world the cheese production is increasing.



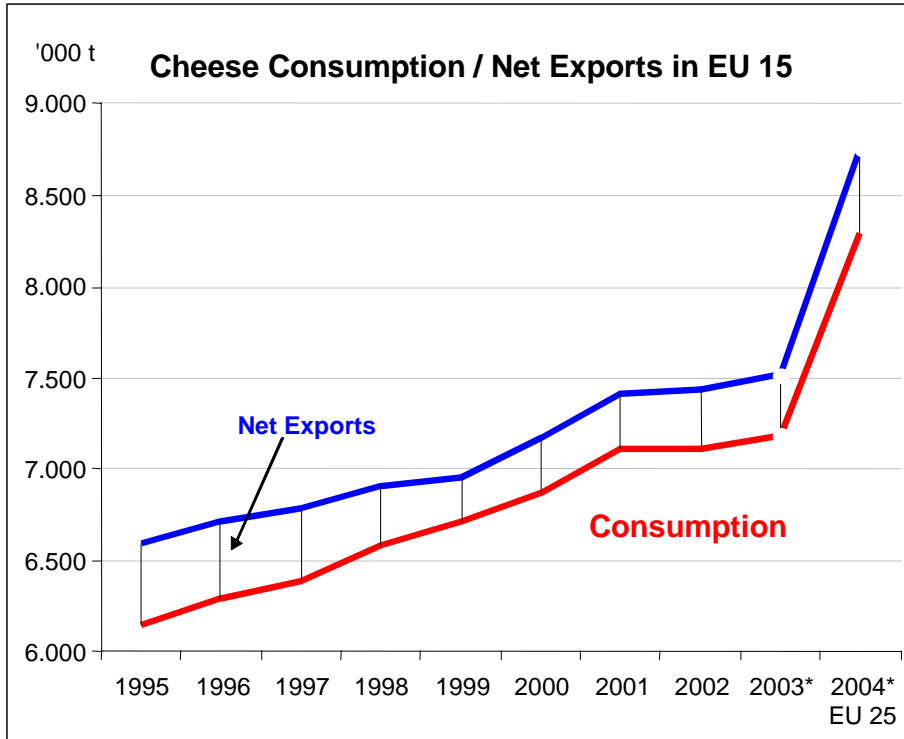
By volume the overall cheese trade is around 1.4 m. t. in 2004 and is growing in percentage terms faster than production. Major exporters are the EU with a share of more than one third up to 40% in recent years, and Oceania. But the volume of the exchange of cheese and cheese products traded within the European Single Market is more than 2 m. t. and thus exceeding the trade on the international market. Major importers are Japan, USA, Russia, the EU, Saudi Arabia and the Republic of Korea. With enlargement of 2004, EU imports from the accession countries have been changed in EU-intra-trade, thus the importance of the EU as importer from the international market has declined now but is still significant.



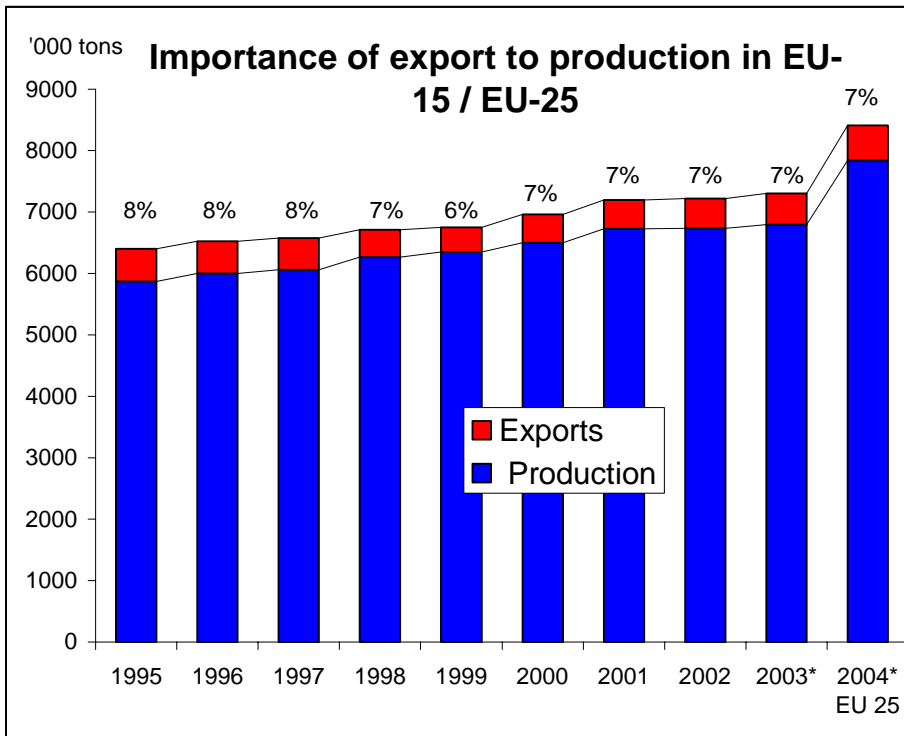
The international cheese prices increased sharply in 2004 and are on a record level in the first half of 2005. Converted in Euro the prices are on a medium level only because of the weakness of the US-Dollar.



Consumption in EU-15 is increasing continuously with temporarily lower growth rates in 2002 and 2003. The domestic consumption absorbed most of the production increase.



Only a small part of the production increase was exported. In the last years just 7 % of the EU cheese production were exported to destinations outside the Union.



Cheese prices are largely depending on milk prices in the respective producing area. The milk prices in the EU and the USA are moving in similar ranges. Milk prices in New Zealand are significantly lower than in USA and EU. Other low-cost-producers are Argentina, Chile and Ukraine.

## Milkprices

EUR/100 kg	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004x
EU	29,78	29,25	29,94	30,53	28,83	29,18	31,40	29,65	28,90	28,50
USA	21,54	25,28	25,93	30,33	29,74	29,59	37,01	28,39	24,46	28,41
New Zealand	14,58	14,76	13,75	15,83	15,42	19,62	20,05	14,29	17,30	19,00
Argentina	.	.	.	.	.	14,62	13,96	8,14	13,26	11,25

Source: ZMP, all figures for EU-15

The different production costs in the world are the reason that many cheese products of the European Union (and the USA) need restitutions to be competitive on the world markets. The EU export refunds have been erratic in the past years depending on the international cheese prices and the declining level of the market support carried out by the EU. Exports without refunds increased. The United States cheese export is only small compared to the role of Europe and Oceania but increasing.

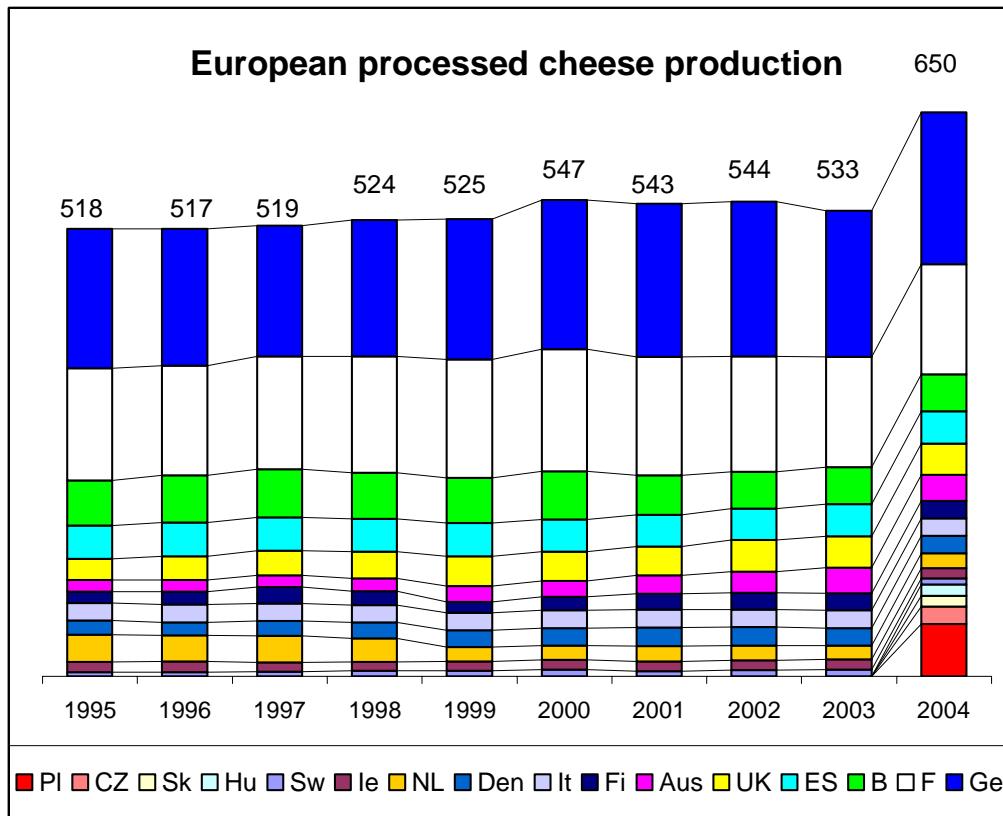
## Cheese Export and Restitutions by WTO Year

000 tons	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04
Total Cheese exports	427	420	368	270	380	418	455	514	507
- with refunds	422	402	324	226	305	305	279	317	321
Budget spent (m. EUR)	438	271	176	149	236	238	189	268	239
Refund/kg	1,04	0,67	0,54	0,66	0,77	0,78	0,68	0,84	0,74
without refunds	5	18	44	44	75	113	176	197	186

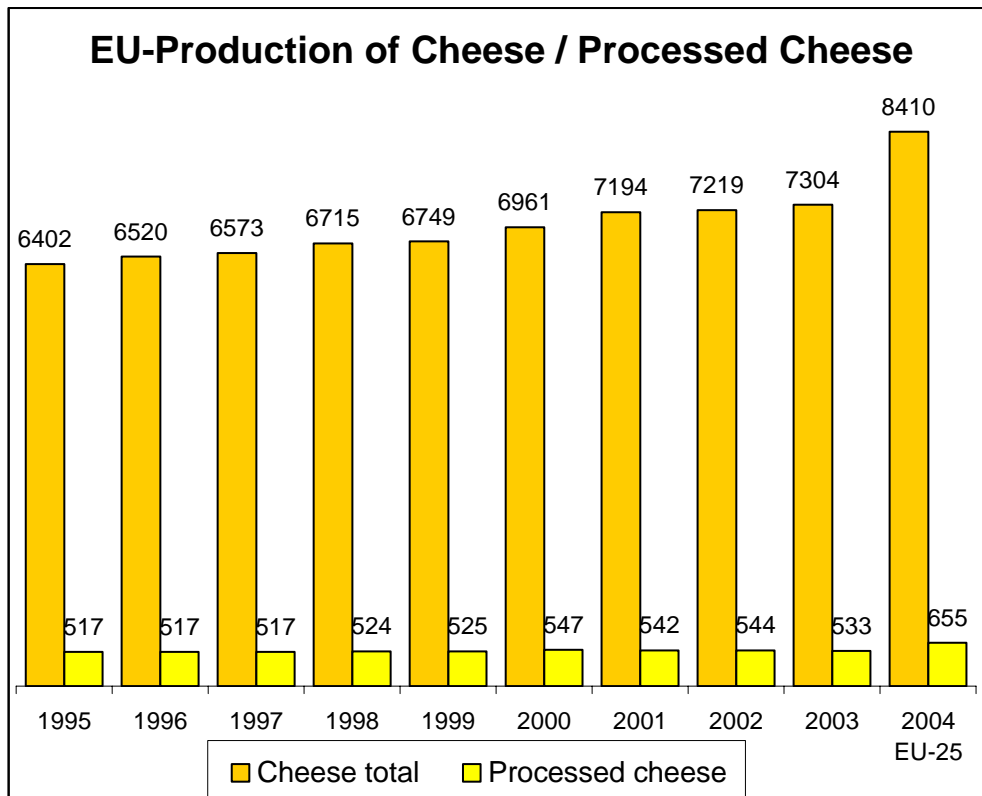
## The Role of Processed Cheese in the Cheese Market

Processed Cheese is an important part of the cheese market. The processed cheese market is very sophisticated. There is a wide range from low-priced long-living spreads to tailor-made products for the food-industry and food services and to premium products.

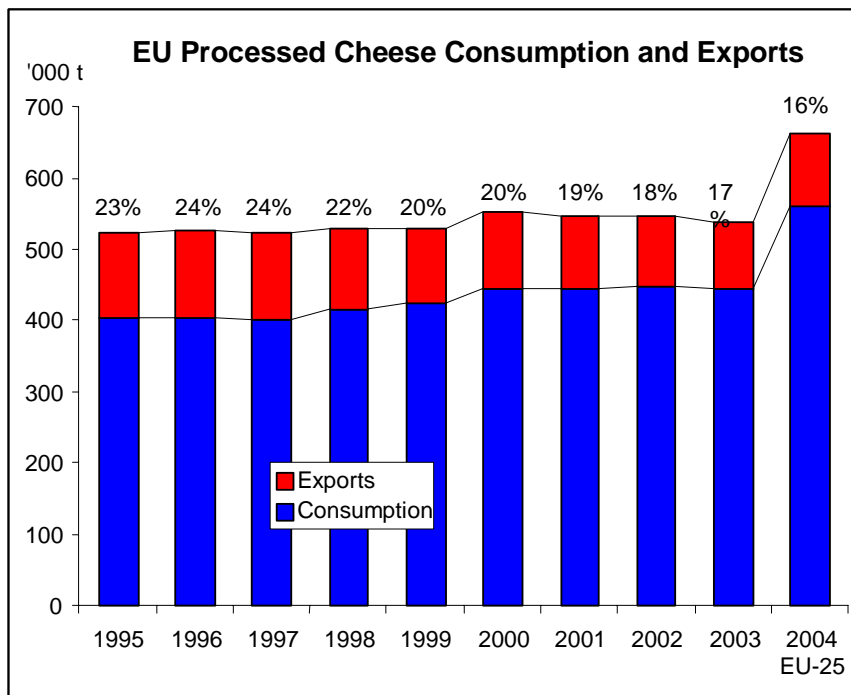
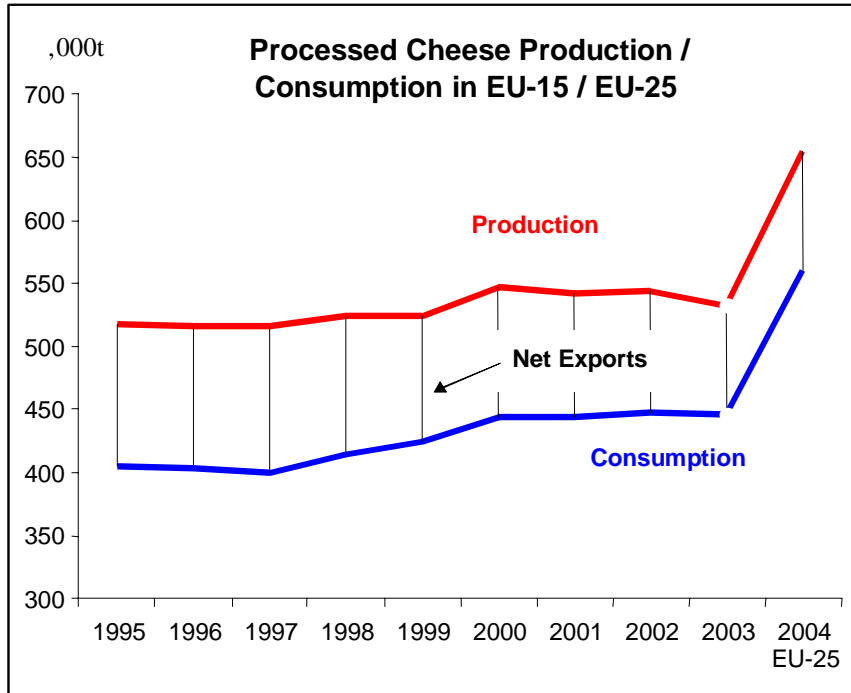
In the European Union the production of processed cheese have been more or less stable in the last years. The main producing countries are Germany and France, the countries with the biggest milk production in the Union. Also Belgium, Spain, the United Kingdom and Austria are important too. In Austria the production increased sharply in the last years. Among the New Member States the major producers are Poland, the Czech Republic, Slovakia and Hungary. The production in these countries was boosted by direct investment of Western manufacturers in the New Member States. As processed cheese producer coexist small-scale specialized manufacturers and multinational groups.



On the long term, however, the production of processed cheese in the European Union does not grow as fast as the production of natural cheese.



The share of the European processed cheese production which is exported has declined. Exports of processed cheese are decreasing too. One major reason is the transfer of technology to and investments in so far importing countries. Thus the production of processed cheese in emerging markets is increasing, to a large extent on the basis of raw materials which are less expensive in the international market than in the EU.



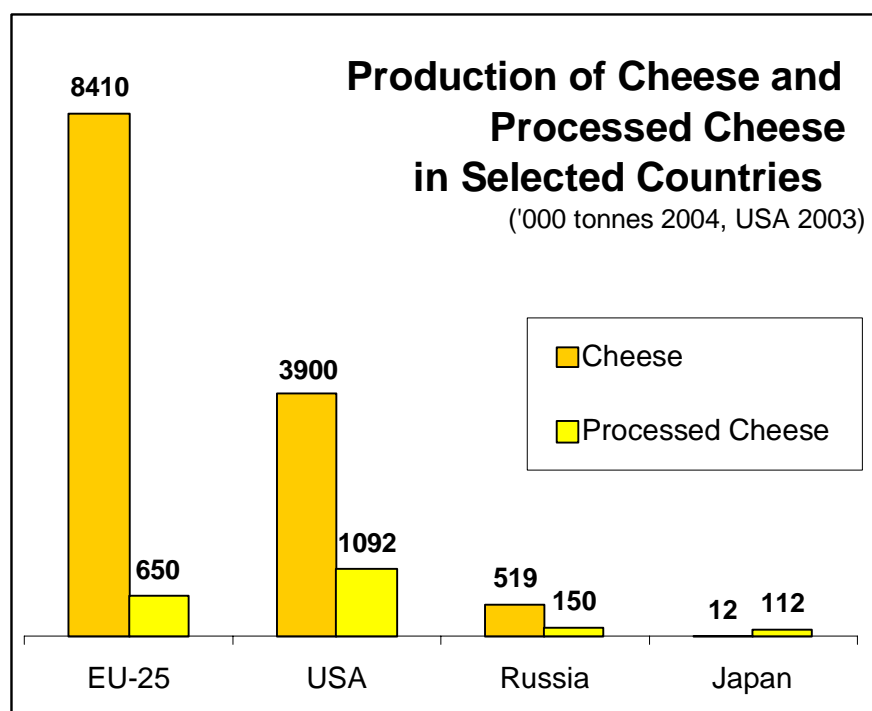
The importance of processed cheese for local cheese industries is very different. Largest producer of processed cheese in the world is the USA where more than 20 % of all cheese consumed is

processed cheese, followed by the EU. In Japan nearly the whole cheese production is used for processed cheese. In Russia processed cheese has a high share of cheese production too.

### Processed Cheese Production of Selected Countries

'000 tonnes	1990	1995	2000	2001	2002	2003	2004
EU 25 <sup>1)</sup>	478	600	654	655	655	655	665
EU 15	.	518	547	542	544	533	540
Switzerland	15	21	20	20	19	.	.
Norway	1	1	3	3	3	3	.
Russia			80	87	120	141	150
Ukraine			15	24	26	30	42
Croatia			3	3	3	3	.
USA	1070	1045	1038	1001	1055	1092	.
Canada	82	76	67	76	67	64	70
Argentina	5	7	10	10	6	7	.
Australia	39	48	.	.	.	45	.
New Zealand	6	12	.	.	22	24	25
Japan	74	95	111	109	109	111	.

1) Estimated



The largest processed cheese exporter in the world is the European Union, followed by Australia. Australia export the half of the volume of the EU but produces less than the thenth part of the milk of the EU. Other main exporters are New Zealand, the USA and Switzerland . In the last years increased the exports of Brazil.

## Exports of Processed Cheese

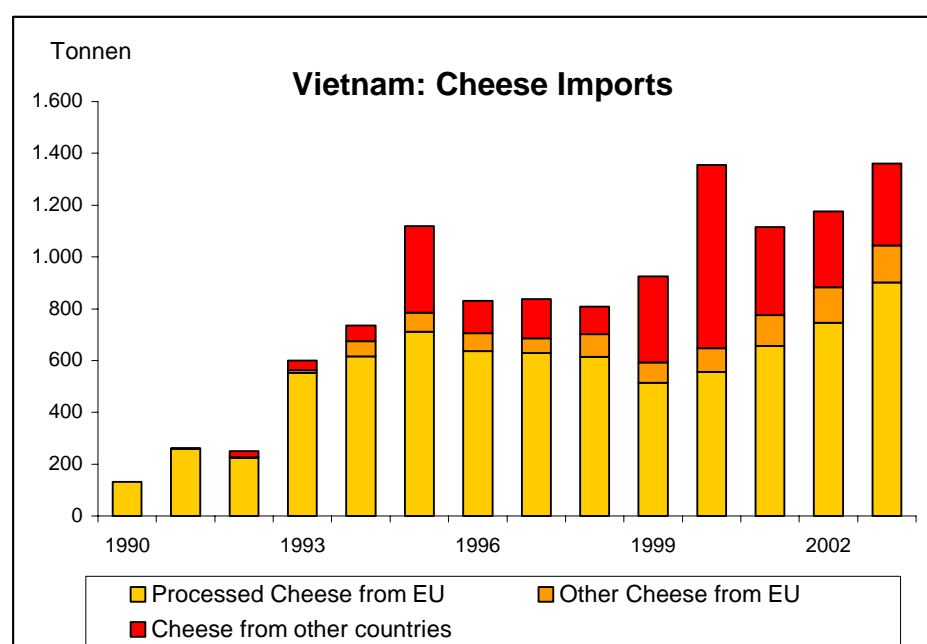
tonnes	2000	2001	2002	2003	2004
EU-15	107000	102000	100300	90900	.
EU-25	.	.	.	.	103000
USA	10019	8770	9896	9030	8161
Canada	.	.	304	194	70
Argentina	112	108	59	186	704
Brazil	.	.	1252	1551	2099
Switzerland	6020	5147	4609	4431	4895
Australia	50272	40276	34931	53456	48811
Norway	235	132	165	123	130
New Zealand	18655	18502	16878	19966	21967

a large number of countries are importers, but many of them with small volumes. Important importers are USA, Russia, Japan and Australia. Particularly China has increased the import volumes very fast.

## Imports of Processed Cheese

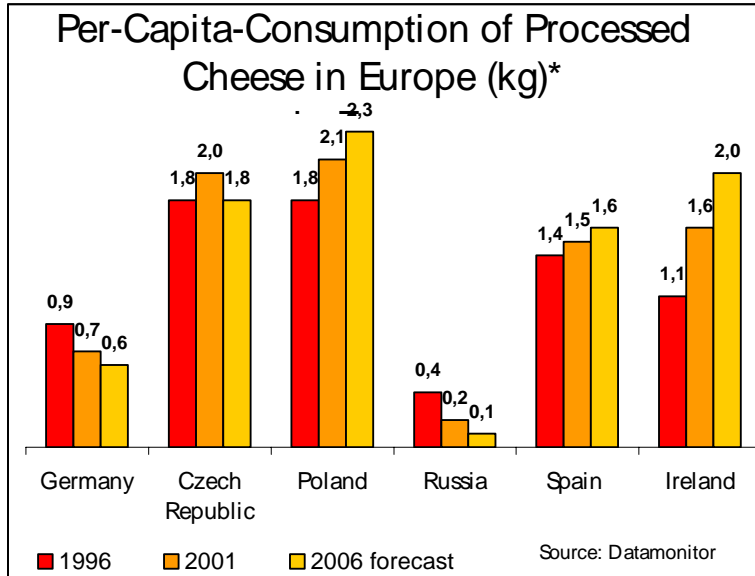
tonnes	2000	2001	2002	2003	2004
EU-15	5	4	4	4	.
EU-25	.	.	.	.	8
USA	7376	9378	11614	11617	12149
Japan	4968	5176	7182	6006	7708
Australia	7816	8753	6039	6823	6870
China	307	141	477	1428	3397
Russia	6670	17243	16195	17403	.
Brazil	303	311	163	96	121
Argentina	1975	1551	837	856	1093

In Countries without any cheese-tradition (e. g. here: Vietnam) the consumers have the first contact with cheese by imports of processed cheese.

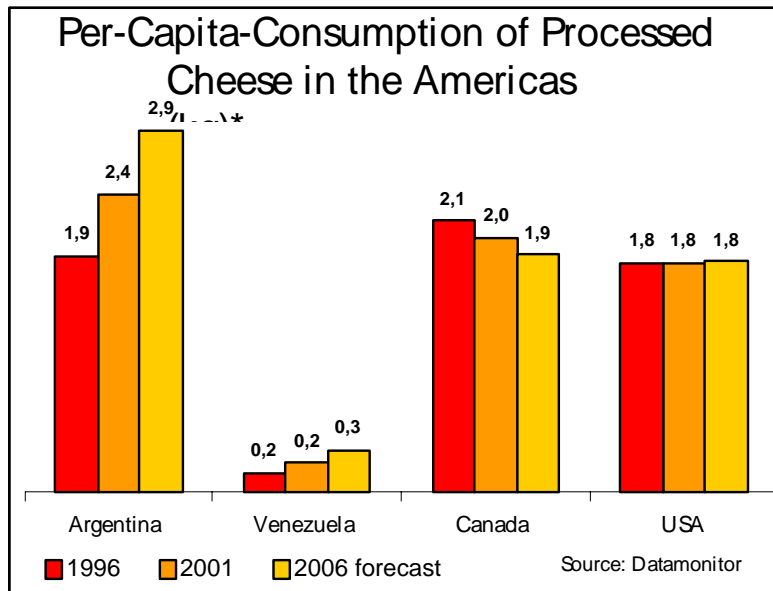




The Household-Per-Capita-Consumption of Processed Cheese is very different between and also within the world regions. In the European Union a high consumption is observed in Poland, Czech Republic, Ireland and Spain. Experts anticipate consumption growth in Poland, Spain and Ireland in the next years.



In North America the consumption of processed cheese is on a high level and in Latin American countries consumption is growing fast. The figures in the graph below are from Datamonitor. However, according to the IDFA publication Dairy Facts 2004 the U.S.-consumption per capita was 3,7 kg in 2003, and after several years of stagnation or decline the recent years show an upward tendency.



In the Asia/Pacific region a high consumption is observed in Australia and Japan and a fast growing consumption in countries like Japan, South Korea and the Philippines. In countries without a traditional consumption of milk products and without “cheese cultures” processed cheese is one of the first milk products and it is very important for the introduction of milk products in the nutrition in these countries.

The possibilities to “design” the taste and the usage in Western styled food services can be regarded as key factors for the success of processed cheese in Asian markets.

