

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Argentina

Dairy and Products Annual

Argentina Dairy and Products Annual Report

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Report Highlights:

Argentina dairy sector continues its recovery from the 2009/10 drought and breaking production records. Argentine milk production for CY2012 is projected at 12.45 million metric tons (MMT); a new record high, the result of very good weather during 2011 and in anticipation of relatively strong farmgate prices. Total dairy exports are expected to grow significantly in response to the increase in milk production. Whole Milk Powder (WMP) is by far Argentina's number one dairy export product.

Commodities:

Dairy, Cheese

Dairy, Dry Whole Milk Powder

Dairy, Milk, Fluid

Dairy, Milk, Nonfat Dry

Production:

Post forecasts milk production for 2012 to reach a new record high of 12.45 MMT - equivalent to 12.09 billion liters. 2011 milk production is estimated at 11.99 MMT - a revised increase of 920,000 MT over the previous forecast. This is due to the excellent weather conditions during the period Jan - Sept 2011, abundant and high quality feed, and high farmgate prices. Milk production in 2012 is forecast to increase further but at a slower pace due to expected inflation that would lower returns.

Most existing producers are expanding their operations; at the farm level dairymen are purchasing new equipment, improving nutrition, and using higher quality genetics which is mostly purchased in the United States. The current cost of feed encourages farmers to produce more milk (approximately 2.5 kg corn to produce one liter of milk).

Despite the huge increase in production in 2011 (almost 13 percent increase compared to 2010) there are no new producers expected to come into the sector, mainly due to the significant capital investment required. Some of the smaller inefficient producers are switching over to soybean production. Current returns on soybeans are significantly lower compared to dairy, but crop production demands less investment and management. One of the biggest problems the Argentine dairy industry currently faces is labor. Costs due to salary agreements at the processing plants are continuously increasing and it is becoming more and more difficult to retain personnel at the farm.

Currently, Argentina has approximately 2,15 million head in the dairy herd composed mostly of Holstein cows, and distributed mainly in the central region. The increase over 2010 follows a drought period in 2009/2010 when 30 percent of the calves died. Contacts estimate that

due to the high margins, the dairy herd will grow up to 2,2 million head in 2012.

The processing sector is dominated by 6 or 7 large firms that process about 60 percent of the total production. There are two big investments projected to be operational in 2013. One is a dry milk plant that will process 500,000 liters per day, and the other one is a dry whey plant that will free up capacity of 1 million liters a day of WDP production.

Whole Milk Powder (WMP) production is expected to increase in 2012 to 330,000 tons. Most of the surplus milk produced in 2011 and 2012 will be processed into Whole Milk Powder, which will then be exported. The big increase in WMP production is the result of the surplus in fluid milk that occurred in 2011. The industry's current processing capacity is approximately 14 million liters per day, running at full capacity during the spring.

Cheese production is forecast to grow in 2012 to 575,000 tons, a small increase from 2011. Approximately 40 percent of total milk production will be processed into cheese, mostly soft and semi soft varieties. Some of the additional milk produced this year will also be processed into cheese.

Consumption:

Domestic consumption is forecast to expand moderately in 2012. The slight increase in consumption is linked to the increase in population (estimated at 40 million as per the 2010 National Census) and the introduction of new products. Argentina is among the largest per capita consumers of milk in the world at 210 liters per capita. Argentines consume the most cheese out of any dairy product. Post forecast this trend to remain the same. To stimulate consumption, the industry continuously introduces in the market new products, such as yogurts or milk with nutritional additives, and bio-engineered products. The average level of milkfat and skim solids content is 3.5 percent fat, 3.4 percent protein and 5 percent lactose.

Trade:

Exports

Total exports of dairy products are expected to increase significantly in response to the anticipated increase in milk production. Most of the milk production surplus will be exported as WMP, given the limited opportunities for expanding sales in the domestic market. Argentina exports about 20 percent of its total milk production, mostly as WMP and cheese in second place.

Contacts foresee that markets for Argentine exports will remain the same. Argentina exports mainly to Brazil, Venezuela and Algeria, followed by China and Chile. Argentina exports to Brazil under a bilateral MERCOSUR agreement. The agreement has been renewed and will be valid until November 2012, and Brazil has increased the monthly import quota of 3,600 MT for WMP. There is an agreement signed with Venezuela that sets an import quota of 6,315 MT under a preference system. According to contacts, Argentina's exporting efforts are now geared to maintain current markets opened and also towards increasing exports to China and the Asian countries.

WMP exports: is the top dairy product exported. The main markets are Venezuela, Algeria and Brazil for WMP and Brazil, Philippines and Chile for Nonfat Dry Milk. The total exports for the period of Jan - Aug 2011 totaled US\$ 473 million (equivalent to 112,122 MT).

Cheese exports: The export market has the potential for growth but there are a limited number of companies with the expertise to export. The industry prefers to process excess milk output into WMP, and most of the cheese production is for domestic consumption. The types of cheeses currently exported are mainly hard and semi-hard, Individually Quick Frozen (IQF) and grated. Main markets for Argentine cheese are Brazil, Chile and the Russian Federation.

Imports

Argentine imports of dairy products are negligible. In 2011 Argentina imported mainly caseinates and casein derivatives from Denmark and the Netherlands. No big changes are expected in 2012.

Stocks:

Stocks of dairy products are estimated to be higher in 2011 and 2012 due to the significant growth in production.

Policy:

With the recent re-election of current President Cristina Fernandez de Kirchner, no major changes in the government's policy are expected. The government controls dairy prices to guarantee the domestic market is well supplied and price increases are moderate. However large dairy processors have been authorized to increase prices for those products considered not essential, such as yogurt and cheese. The system implemented for retail price control is structured in 3 segments: Basic (massive products, includes milk), selective, and premium. The government allows maximum price increases for each segment.

Exporters indicate that export permits are easy to obtain, there are no export taxes and no maximum export prices.

Marketing:

Farmgate prices remain relatively strong but margins are lower than in 2010 due to increased production costs. Costs are expected to continue to increase in 2012, partially due to increasing labor costs and high inflation.

According to private sources, retail prices for dairy products have increased 38.5 percent during Jan- Sep 2011, while producers received an increase of 4.93 percent for their milk price during the same period (farmgate price per liter AR\$ 1.42 in January and AR\$ 1.49 in September). These increases in retail prices are observed even with the surplus milk production of the first 8 months of 2011.

Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid Argentina	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	2,100	2,100	2,100	2,150		2,200

Cows Milk Production	10,600	10,600	11,070	11,990		12,450
Other Milk Production	0	0	0	0		0
Total Production	10,600	10,600	11,070	11,990		12,450
Other Imports	0	0	0	0		0
Total Imports	0	0	0	0		0
Total Supply	10,600	10,600	11,070	11,990		12,450
Other Exports	22	18	25	16		18
Total Exports	22	18	25	16		18
Fluid Use Dom. Consum.	2,130	2,140	2,160	2,180		2,225
Factory Use Consum.	8,448	8,442	8,885	9,794		10,207
Feed Use Dom. Consum.	0	0	0	0		0
Total Dom. Consumption	10,578	10,582	11,045	11,974		12,432
Total Distribution	10,600	10,600	11,070	11,990		12,450

Dairy, Milk, Nonfat Dry Argentina	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	10	10	10	7		9
Production	38	35	37	50		55
Other Imports	0	0	0	0		0
Total Imports	0	0	0	0		0
Total Supply	48	45	47	57		64
Other Exports	20	20	19	28		33
Total Exports	20	20	19	28		33
Human Dom. Consumption	18	18	18	20		21
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	18	18	18	20		21
Total Use	38	38	37	48		54
Ending Stocks	10	7	10	9		10
Total Distribution	48	45	47	57		64

Dairy, Dry Whole Milk Powder Argentina	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	20	20	17	27		40

Production	220	210	260	315		330
Other Imports	2	0	1	0		0
Total Imports	2	0	1	0		0
Total Supply	242	230	278	342		370
Other Exports	170	128	200	222		250
Total Exports	170	128	200	222		250
Human Dom. Consumption	55	75	58	80		80
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	55	75	58	80		80
Total Use	225	203	258	302		330
Ending Stocks	17	27	20	40		40
Total Distribution	242	230	278	342		370

Dairy, Cheese	Argentina	2010		2011		2012	
		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
		USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks		29	29	28	37		40
Production		540	540	555	555		575
Other Imports		4	3	4	3		3
Total Imports		4	3	4	3		3
Total Supply		573	572	587	595		618
Other Exports		45	45	55	50		55
Total Exports		45	45	55	50		55
Human Dom. Consumption		500	490	505	505		523
Other Use, Losses		0	0	0	0		0
Total Dom. Consumption		500	490	505	505		523
Total Use		545	535	560	555		578
Ending Stocks		28	37	27	40		40
Total Distribution		573	572	587	595		618