

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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**Date:** 11/17/2015

**GAIN Report Number:**

## **Argentina**

### **Dairy and Products Annual**

#### **Argentina - Dairy & Products Update**

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**Report Highlights:**

Argentine dairy production has remained relatively stagnant since 2011. Post forecasts Argentine milk output for calendar year (CY) 2016 to reach 11.67 million tons (equivalent to 11,328 million liters). Exports of dairy products in CY2016 are estimated at 270,000 metric tons (MT). Local dairy processors continue to struggle in a difficult domestic and international environment. As a consequence, returns in the sector are low and production rises are modest. A new president will take office in December 2015 and it may result in changes affecting macroeconomic and trade conditions.

**Commodities:**

Dairy, Butter

Dairy, Cheese

Dairy, Dry Whole Milk Powder

Dairy, Milk, Fluid

Dairy, Milk, Nonfat Dry

**Production:**

Given favorable weather conditions, Post forecasts Argentine milk output for calendar year (CY) 2016 to reach 11.67 million tons (equivalent to 11,328 million liters). The modest growth projected for CY2016 is mainly based on the following factors:

- Standard weather conditions during winter and spring
- Modest recovery in international prices for whole milk powder (WMP).
- Sustained corn/milk ratio (currently at an ideal level)

Post estimates Argentine milk output for CY2015 at 11.49 million tons (equivalent to 11,161 million liters), an increase of 1.5 percent from the previous year. The unfavorable weather conditions in the main production areas affected output marginally: excessive rain during the summer in the Santa Fe and Cordoba regions, and heat waves in Buenos Aires province during that same period. Favorable weather in April and May, production figures showed signs of recovery until July and August when there was excessive rain again. Low farm gate prices forced some producers with financial difficulties to reduce the concentrates in feed, which affected total output marginally.

Local dairy processors continue to struggle in a difficult domestic and international environment. On the local side, low farm gate prices, a strong peso and high inflation (about 30 percent average in the past few years), as well as the export restrictions through permits, have reduced competitiveness and discouraged domestic and foreign investment. On the international side, dairy exports account for roughly 20-25 percent of the country's total output, with a domestic market unable to absorb excess production, it is very important to maintain markets open and to ship at the highest price possible. The strong drop in global prices of Whole Milk Powder (WMP) during the past months, along with the other mentioned difficulties have had a strong impact both on production and on export capacity for the Argentine dairy producers.

Post revised CY2014 production estimates to 11.32 million tons (equivalent to 10,997 million liters), a three percent increase in milk output compared to USDA's CY2014 figures. The main reason behind the increase was the fact that pasture quality was excellent, and the corn/milk ratio was at record highs which gives the producers a tool to confront the low prices. Current corn/milk ratio is approximately 3.17kg/lit, this has contributed greater efficiency and thus higher milk yield growth for the year.

**Farm gate prices**

Farm gate prices weakened during CY2015 that many dairymen suffered losses. According to official estimates farm gate prices during first several months in 2015 were virtually unchanged compared to 2014 figures (i.e. in June 2015 price per liter paid was 3.069 peso/US\$0.319 while in June 2014 it was 3.062 peso/US\$0.318), while cost increases were significantly higher. According to Post's contacts production cost per liter in October 2015 was on average 3.432 peso/ 0.364US\$ per liter, and inflation for 2015 is calculated at 25 -30 percent.

Moreover, while last year's price paid could be considered representative of the situation of a wide spectrum of producers, in 2015 the price distribution varies widely among companies. The range goes from 2.5 peso/0.26 US\$/liter (or less) to 3.2\$/liter/0.33US\$. This segmentation is the consequence of the different markets in which the companies operate. On one end, those companies supplying the domestic market are able to pay better prices due to the sustained internal demand and that the oversupply has not reached yet critical levels. At the other end there are companies that are net exporters and are struggling with the depreciated international market. An interesting case to mention is the cooperative Sancor, which despite being a large exporter (they export about 50 percent of their sales mix) has not lowered the prices paid to its associates and is still paying over 3.0\$/0.32 US\$ per liter. Sancor is able to continue this as it supplies Whole Milk Powder (WMP) to Venezuela and collects the distorted high prices paid by that country.

### **Consolidation in Sector**

The 2016 Argentine dairy herd is estimated at 1.82 million head –lower than USDA's CY2015 estimate of 1.88 million head- composed of 80 percent Holstein and 20 percent Jersey cows. The lack of expansion is a result of the strong repositioning of dairy cows. The average dairy farm in Argentina is increasing in land area, cow productivity and herd size, but there is also a significant group of smaller farms leaving the dairy business. Thus, milk production in Argentina is growing and concentrating in medium to large producers, who are much more efficient, use more technology and are intensifying their production schemes. Small and less-efficient producers, many of which produce on rented land find it difficult to produce. In a country where dairy production is still strongly dependent on the weather, whenever there are weather issues such as droughts or floods, many producers go out of business.

Whenever a small dairy operation is purchased by a larger one, the new owner acquires the most efficient cows while the lease efficient ones are discarded and sold off. This has led to particularly higher growth rates of milk yields as more milk production is concentrated in the most efficient cows in more efficient operations. The average dairy farm has good facilities, where cows are mechanically milked twice a day, with the milk passing directly into the cold storage tank which would be collected daily by the processing company.

There are no significant new investments in processing capacity projected for the next year, but it is expected that the government would issue policies to attract both local and foreign investments.

### **Feed Sources and Costs**

The most significant cost for dairy producers is feed, either pasture or mixed feed, primarily composed of corn followed by soybeans. Argentina's milk production is based in the central and east-central regions of the country, known as the Pampas, which includes parts of Cordoba, Santa Fe, Buenos Aires, Entre Rios and La Pampa provinces. In these regions, dairy farming is pasture based and depends exclusively on rainfall, with no confinement of dairy herds. Most of these regions are also crop areas, so dairies compete with soybean, corn and wheat production. Sown pastures, typically alfalfa and rye grass among others are part of the crop rotation pattern, but also reflect the ratio of milk to grain prices. Such direct competition with crops makes milk production unusually sensitive to any change in the relative profitability of both activities. In addition to sown pastures, other sources widely used for dietary cows' diet are corn silage and grain concentrates.

Because of competitive grain prices domestically, this has lessened the cost burden for producers who feed grain despite the weakening prices of their products. The lower corn prices has led to a positive and ideal corn/milk ratio that has encouraged producers to maintain cows on feed and contributes to greater yields.

### **Whole Milk Powder Production**

CY2016 production is expected to increase to 270,000 MT, an increase of over 13 percent from the previous year. This increase is based mainly on the recovery of international prices. CY 2015 production is forecast at 238,000 MT, this is 7 percent lower than CY2014 and a result of unattractive international prices. Processors decided to decrease the output derived to the dryers. The industry's current drying capacity is approximately 15 million liters per day, running at full capacity during the spring.

### **Cheese Production**

Post forecasts cheese production to grow slightly by 1 percent in CY2016 to 577,000 MT. Cheese is the second most important dairy product in Argentina. Soft/fresh types (Cremoso, Saint Paulin and Mozzarella) dominate the cheese categories constituting 50 percent of the market. The semi-soft varieties, such as Gouda and Swiss, hold 38 percent of the market share, followed by hard cheese (Provolone and Sardo), accounting for 12 percent of the market. Post forecasts CY2015 cheese production at 571,000 MT.

### **Consumption**

CY2016 domestic consumption of dairy products is forecast to only grow slightly. Per capita consumption is estimated at 211 liters per capita, with a small room for growth. Despite domestic high inflation, consumption remains stable, and even increased slightly as a consequence of the good prices and special sales offered by the companies. Approximately 85 percent of the population is aware of the importance of a healthy, natural and balanced diet in which dairy products, especially milk, are seen as a critical component and the main source of calcium. According to a survey performed by the National Institute of Surveys and Statistics (INDEC), dairy represents 3.4 percent of total household expenses, and 8 percent of food expenses. Consumers have a high regard for dairy products because of the cultural perception that milk is the most suited food for children.

Cheese consumption continues to be high (estimated at 12/13 kg per capita) despite the loss of purchasing power suffered by the Argentine consumers, and it is expected to grow slightly. Over 90 percent of the cheese production is consumed domestically, and there is little room for further expansion.

### **Trade**

Post estimates total dairy exports for CY2016 at 270,000 MT, up 19 percent from the previous year driven by greater dry whole milk powder shipments. This forecast is mainly based on signs of recovery

in the international prices, China increasing their purchases after exhausting their high stock volumes (China represents 25 percent of total global trade), and producer expectations that the burden of the current export permit system will be lessened under a new government. Approximately 23 to 25 percent of total milk output is projected to be exported, primarily in the form of WMP and cheese, reaching about 95 markets. Argentina's best markets for dairy products continue to be Venezuela (24 percent), Brazil (23 percent), China (10 percent), Algeria (8 percent), and Russia (6 percent).

In September 2013 the Government of Argentina (GOA) announced that the use of export permits (ROE), previously required for just a few products, would be mandatory for most dairy products effective immediately. During CY2014 and several months of CY2015, in an attempt to keep domestic prices low, the GOA limited the issuance of ROEs. However, it is expected that the situation will normalize (with the possibility of their elimination) with the new government taking office in December 2015.

### **Whole Milk Powder Exports (WMP)**

Exports for CY2016 are projected at 160,000 MT. The five most important markets for Argentina are expected to continue to be Venezuela, Brazil, Algeria, Mexico, and Nigeria.

During the first 8 months of CY2015, exports of WMP significantly decreased around 20 percent, compared to the same period in CY2014. The main reason for that market behavior is low international prices. It is expected that the situation will slightly improve in the last quarter of 2015 as international prices slowly began to recover. Of the total output exported, there was a huge price dispersion, on one end the 2,327US\$/ MT for product shipped to Algeria to the 4,032 US\$/MT in Venezuela. The average export prices reported for the period of January - September of CY2015 was approximately US\$ 3,652. This high average price is the result of the important volumes shipped to Venezuela, which continues to pay prices above the market average.

### **Nonfat Milk Powder Exports**

Nonfat dry milk exports for CY2016 are projected to increase to reach 27,000 MT, a fraction compared to WMP.

Despite the low international prices, CY 2015 exports of Nonfat Milk Powder are estimated to increase substantially due to larger volumes purchased by Brazil. Out of a total exported of 16,500 MT exported during the period Jan – Aug 2015, Brazil (56 percent), Mexico (16 percent) and Algeria (12 percent), were the main markets for this product. The average export price reported for the first eight months of CY2015 for this product was approximately US\$ 2,204.

### **Cheese Exports**

2016 cheese exports are also forecast to grow due to the recovery of the international prices and desire of exporters to drawdown higher stocks. Post estimates CY 2016 cheese exports at 58,000 MT. Cheese is the second most important exported dairy product.

During the period of Jan – Aug 2015, exports accounted for 29,000 MT. Brazil (24 percent), Russia (20 percent), Chile (14 percent) and Mexico (11 percent) continue to be the primary markets for the Argentine cheese. Post estimates total cheese exports for CY 2015 at 50,000MT, a significant drop of 12 percent compared to CY2014 USDA official numbers. During the period of August – December 2014, Argentina capitalized on the opportunity to supply the Russian market after the ban on agricultural product from the EU, Canada and the United States. This resulted in Argentina shipping large volumes of cheese to Russia, an opportunity that ended with the devaluation of the Russian currency in December 2014, which made Argentine cheese less competitive. Although Russia continues to be one of the top importers for Argentine dairy products, the sudden depreciation resulted in those export-destined supplies being shifted to the domestic market and others to producer stocks.

The most exported variety continues to be Mozzarella and the main destination of this product is Brazil. The average export price for the period Jan – Aug 2015 was US\$ 3,116/MT. The semi-hard cheeses second in sales volume were mainly exported to Brazil, Chile and Japan. The average export price was US\$ 3,440/MT

## **Imports**

Dairy imports continue to be negligible, and especially now due to the strong import restriction system imposed by the GOA. Post estimates no change for CY2016 for all dairy products. Even with the expectation the current import system will change after the upcoming elections, it is uncertain how those changes would be implemented. It is unlikely that any change would be reflected in CY 2016 imports. Most imports are caseinates and casein derivatives from Uruguay, Chile and the Netherlands.

## **Policy**

Since September 2013, the use of import permits (ROEs) continues in place. This affects primarily exports of cheese and dry milk. Large dairy processors report that these controls combined with increasing production costs create significant problems. Local industry expects that the new government could make modifications or even eliminate this system.

There are retail price controls on basic products such as milk, butter and some soft chesses. However, the government has allowed large dairy processors to increase prices, especially for those products not considered essential.

Export taxes were eliminated in 2009; yet, the dairy sector continues to keep a well-supplied domestic market.

In March 2015 the government issued Resolution 82/2015, creating the “Reconstruction Regime for the Small Dairy Producer”. Through this subsidy scheme, the GOA established a compensation of 0.3 \$/lt (about 0.04 US\$) to those producers with an average production below 2,900 liters per day. Along with this, in August 2015, and through Resolution 769/2015 the benefit was extended to farms that produce up to 6,000 liters daily. However, this group of producers receives the subsidy only for the first 3,000 liters produced. Although this measure provides some relief to those farmers, they still face severe financial difficulties and delays in payments of the subsidy.

Dairy, Milk, Fluid Market Begin Year	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Argentina						
Cows In Milk	1900	1950	1786	1875	0	1815
Cows Milk Production	11100	11326	10700	11496	0	11668
Other Milk Production	0	0	0	0	0	0
Total Production	11100	11326	10700	11496	0	11668
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	11100	11326	10700	11496	0	11668
Other Exports	13	13	13	13	0	13
Total Exports	13	13	13	13	0	13
Fluid Use Dom. Consum.	2004	2044	1957	2074	0	2105
Factory Use Consum.	9083	9269	8730	9409	0	9550
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	11087	11313	10687	11483	0	11655
Total Distribution	11100	11326	10700	11496	0	11668
(1000 HEAD) ,(1000 MT)						

Dairy, Dry Whole Milk Powder Market Begin Year	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Argentina						
Beginning Stocks	36	36	40	42	0	42
Production	253	258	230	238	0	270
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	289	294	270	280	0	312
Other Exports	144	147	125	128	0	160
Total Exports	144	147	125	128	0	160
Human Dom. Consumption	105	105	107	110	0	110
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	105	105	107	110	0	110
Total Use	249	252	232	238	0	270
Ending Stocks	40	42	38	42	0	42
Total Distribution	289	294	270	280	0	312
(1000 MT)						

Dairy, Milk, Nonfat Dry Market Begin Year	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Argentina						
Beginning Stocks	0	0	0	0	0	0
Production	37	37	40	41	0	42
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	37	37	40	41	0	42
Other Exports	22	22	25	26	0	27
Total Exports	22	22	25	26	0	27
Human Dom. Consumption	15	15	15	15	0	15
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	15	15	15	15	0	15
Total Use	37	37	40	41	0	42
Ending Stocks	0	0	0	0	0	0
Total Distribution	37	37	40	41	0	42

(1000 MT)

Dairy, Cheese Market Begin Year	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Argentina						
Beginning Stocks	39	39	42	40	0	43
Production	564	564	571	571	0	577
Other Imports	3	1	1	1	0	0
Total Imports	3	1	1	1	0	0
Total Supply	606	604	614	612	0	620
Other Exports	57	57	55	50	0	58
Total Exports	57	57	55	50	0	58
Human Dom. Consumption	507	507	519	519	0	520
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	507	507	519	519	0	520
Total Use	564	564	574	569	0	578
Ending Stocks	42	40	40	43	0	42
Total Distribution	606	604	614	612	0	620

(1000 MT)

Dairy, Butter Market Begin Year	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Argentina						
Beginning Stocks	4	4	5	5	0	5
Production	56	55	56	54	0	56
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	60	59	61	59	0	61
Other Exports	14	13	12	10	0	12
Total Exports	14	13	12	10	0	12
Domestic Consumption	41	41	44	44	0	44
Total Use	55	54	56	54	0	56
Ending Stocks	5	5	5	5	0	5
Total Distribution	60	59	61	59	0	61

(1000 MT)