

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **Argentina**

### **Dairy and Products Semi-annual**

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**Report Highlights:**

Post revises down 2016 Argentine milk output to 10.39 million tons (equivalent to 10.094 million liters) as result of severe weather damage, an increase in production costs, and low farm gate prices. Adverse weather has resulted in significant flooding in the main production provinces of Cordoba, Entre Rios, and Santa Fe. Total dairy exports for CY2016 are revised down to 211,000 MT due to lower supplies.

**Commodities:**

Dairy, Butter

Dairy, Cheese

Dairy, Dry Whole Milk Powder

Dairy, Milk, Fluid

Dairy, Milk, Nonfat Dry

**Production**

Post forecasts Argentine milk output for calendar year (CY) 2016 down to 10.39 million tons output (equivalent to 10.094 million liters). The revised production estimate represents a 10 percent decline from 2015. The Argentine dairy sector is currently facing one of the worst crises in the last 20 years. An exceptionally strong “El Niño” caused the extreme floods in the main production areas. These floods along with a sharp increase in production costs and low farm gate prices have placed downward pressure on output. It is estimated that 80 percent of the dairy areas are in a critical situation due to the adverse weather and lingering financial problems. Local sources have been careful in pointing out that it is still too early to evaluate the full extent of the damage.

Most dairy producers with financial difficulties have been forced to reduce concentrates in feed, which is negatively affecting total output. Low farm gate prices, high inflation (estimated at about 30 percent average in the past few years according to industry sources), and increased production costs, have reduced competitiveness and discouraged domestic and foreign investment. Based on these conditions, small and less efficient producers, many of which produce on rented land, find it increasingly difficult to produce. These factors are accelerating ongoing concentration in the dairy sector as a growing number of producers are forced to shut-down. More than half producers finance production to some level. This year, parastatal banks are expected to provide producers with attractive lines of credit that give producers a year at zero interest to repay loans. Producers also use rural credit cards from private banks to finance inputs.

The new government inherited an already deteriorated dairy sector and is facing an extreme crisis due to the adverse weather. In this environment, the dairy industry has requested immediate assistance from the government on a number of issues, such as the limited financing, low farm gate prices and the improvement of export conditions.

### *Lower Prices*

Private analysis<sup>1</sup> concludes that Argentine farm gate prices are the lowest among major world producers. In February 2016, Argentine producers received about USD 20 cents per liter, while producers in the European Union, the United States, and Chile received USD 32, 35, and 27 cents per liter, respectively. Moreover, dairy prices for Argentine producers fell 47 percent between February 2015 and February 2016 – USD 38 cents to 20 cents per liter. However, local industry analysts indicate that the prices should begin to recover and they estimate a price floor of about 3.3 Argentine pesos per liter (USD 23 cents per liter) to emerge. Most producers are hoping for prices to approach 4 Argentine pesos per liter (USD 27 cents per liter) in order to cover costs and secure adequate returns.

### *Extreme Weather Hurts Output*

In a country where dairy production is still strongly dependent on the weather, whenever there is a climatic problem such as the current floods, many producers go out of business. Moreover, the exceptionally bad weather is exacerbating long-standing financial problems due to accumulated debts. Because of weather issues, eight dairy processors have reported a 20-23 percent decline in milk deliveries from producers. Particularly harsh conditions in April reportedly lowered milk production by 25 percent for that month. This weather has hit the two most productive dairy provinces Cordoba, Entre Rios, and Santa Fe. Producers in Buenos Aires province have been relatively unaffected by the recent weather patterns.

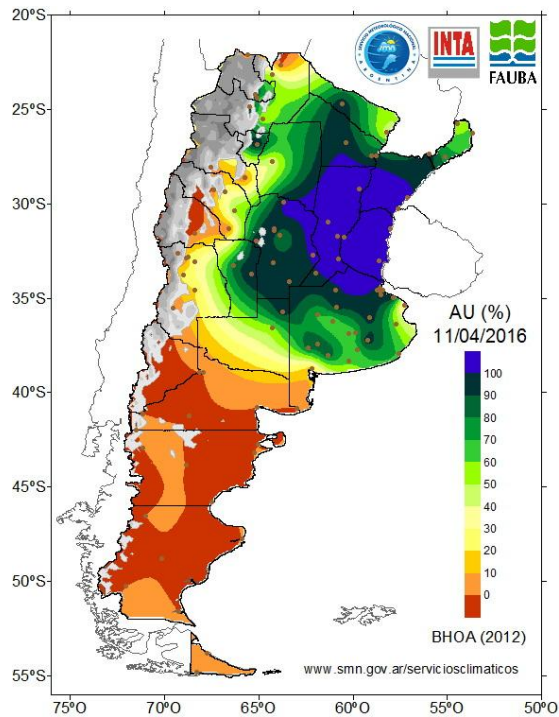
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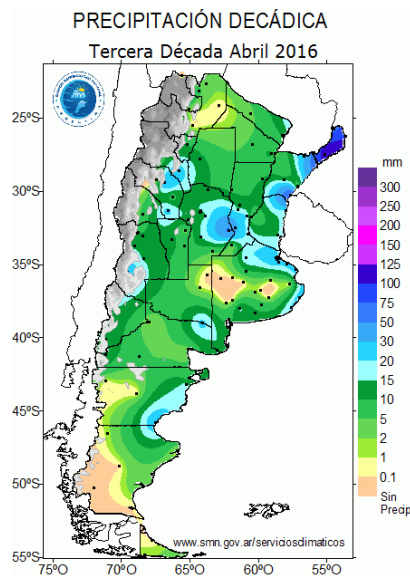
Provincial Map of Argentina

Source: Maps of World<sup>2</sup>



Soil Moisture Levels –April 11, 2016

Source: Argentine National Meteorological Service<sup>3</sup>



Precipitation Levels – Late April 2016

Source: Argentine National Meteorological Service<sup>4</sup>

<sup>2</sup> <http://www.mapsofworld.com/argentina/argentina-political-map.html>

<sup>3</sup> <http://www.smn.gov.ar/serviciosclimaticos/?mod=hidro&id=7>

<sup>4</sup> <http://www.smn.gov.ar/serviciosclimaticos/?mod=agro&id=7>

## Trade

Post estimates total dairy exports for CY2016 at 211,000 MT, down almost 7 percent from USDA's estimate for CY 2015. This forecast is mainly based on the contraction in milk production and weak international prices. The devaluation of the Argentine peso has restored some competitiveness to Argentine dairy exports, but lower supplies are keeping exports low. The recent removal of Export Permits (ROE) is expected to bolster the sector as exports will no longer be subject to restrictions. This decision along with other policy changes is expected to result in more stable policy expectations for producers and exporters.

Argentina's primary markets for dairy products are Brazil (27 percent), Algeria (18 percent), China (11 percent), and Russia (9 percent) and Venezuela (5 percent). Shipments to Venezuela resumed in March and will remain until next July, for a total of 40 MT; therefore exports are estimated to increase in the next few months.

Despite the devaluation of about 40 percent in December 2015, local dairy processors continue to struggle in a difficult domestic and international environment. Dairy exports in the past few years have accounted for 20-25 percent of the country's total output as the domestic market is unable to absorb excess production. As such, maintain markets open and exporting at the highest price is a key priority of the sector. The low prices in Whole Milk Powder (WMP) in world commodity markets have also had a negative effect on production and on export capacity for the Argentine dairy producers.

## Policy

Soon after taking office on December 10, 2015, President Macri's administration reversed the past government's main policies toward the agricultural sector. The policy changes included the reduction of the export tax on soybeans and its byproducts by 5 percentage points and eliminating export taxes on all other agricultural commodities (see [New Government Lifts Currency Controls and Cuts Export Taxes](#)), in addition to the elimination of export permits (ROEs) for grains, oilseeds, and dairy products (see [New Government Eliminates Export Permits for Grains and Oilseeds](#)). Along with these policy changes, came the removal of foreign exchange restrictions and devaluation of the Argentine peso by about 45 percent on December 17<sup>th</sup>. This boosted the competitiveness of agricultural exports, most significantly grains and oilseeds. As a result, corn exports have escalated, raising the cost of corn by 80 percent since December 2015, according to private estimates. For the months of February and March, the government allocated a subsidy of 0.5 Argentine pesos (USD 3.4 cents) per liter for all dairy producers. This subsidy along with a suspension of the value-added tax for 120 days represents support at 0.65 Argentine pesos (USD 4.5 cents) per liter for the first three thousand liters of milk.

Dairy, Milk, Fluid	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Market Begin Year						
Argentina						
Cows In Milk	1950	1826	1875	1786	1815	1730
Cows Milk Production	11326	11326	11496	11552	11650	10396
Other Milk Production	0	0	0	0	0	0
Total Production	11326	11326	11496	11552	11650	10396
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	11326	11326	11496	11552	11650	10396
Other Exports	13	13	13	13	13	13
Total Exports	13	13	13	13	13	13
Fluid Use Dom. Consum.	2044	2044	2074	2084	2105	1875
Factory Use Consum.	9269	9269	9409	9455	9532	8508
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	11313	11313	11483	11539	11637	10383
Total Distribution	11326	11326	11496	11552	11650	10396
(1000 HEAD) ,(1000 MT)						

Dairy, Dry Whole Milk Powder	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Market Begin Year						
Argentina						
Beginning Stocks	36	36	45	42	45	42
Production	258	258	238	252	255	185
Other Imports	0	0	0	0	0	0

<b>Total Imports</b>	0	0	0	0	0	0
<b>Total Supply</b>	294	294	283	294	300	227
<b>Other Exports</b>	144	147	128	150	145	130
<b>Total Exports</b>	144	147	128	150	145	130
<b>Human Dom. Consumption</b>	105	105	110	102	110	90
<b>Other Use, Losses</b>	0	0	0	0	0	0
<b>Total Dom. Consumption</b>	105	105	110	102	110	90
<b>Total Use</b>	249	252	238	252	255	220
<b>Ending Stocks</b>	45	42	45	42	45	7
<b>Total Distribution</b>	294	294	283	294	300	227
(1000 MT)						

<b>Dairy, Milk, Nonfat Dry</b>	<b>2014</b>		<b>2015</b>		<b>2016</b>	
	<b>Jan 2014</b>		<b>Jan 2015</b>		<b>Jan 2016</b>	
	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>
<b>Market Begin Year</b>						
<b>Argentina</b>						
<b>Beginning Stocks</b>	0	0	0	0	0	0
<b>Production</b>	37	37	45	41	42	38
<b>Other Imports</b>	0	0	0	0	0	0
<b>Total Imports</b>	0	0	0	0	0	0
<b>Total Supply</b>	37	37	45	41	42	38
<b>Other Exports</b>	22	22	30	24	27	20
<b>Total Exports</b>	22	22	30	24	27	20
<b>Human Dom. Consumption</b>	15	15	15	17	15	18
<b>Other Use, Losses</b>	0	0	0	0	0	0
<b>Total Dom. Consumption</b>	15	15	15	17	15	18
<b>Total Use</b>	37	37	45	41	42	38
<b>Ending Stocks</b>	0	0	0	0	0	0

<b>Total Distribution</b>	37	37	45	41	42	38
(1000 MT)						

<b>Dairy, Cheese</b>	<b>2014</b>		<b>2015</b>		<b>2016</b>	
	<b>Jan 2014</b>		<b>Jan 2015</b>		<b>Jan 2016</b>	
	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>
<b>Market Begin Year</b>						
<b>Argentina</b>						
<b>Beginning Stocks</b>	39	39	40	40	45	40
<b>Production</b>	564	564	570	548	580	520
<b>Other Imports</b>	3	1	1	5	0	8
<b>Total Imports</b>	3	1	1	5	0	8
<b>Total Supply</b>	606	604	611	593	625	568
<b>Other Exports</b>	56	57	45	47	55	40
<b>Total Exports</b>	56	57	45	47	55	40
<b>Human Dom. Consumption</b>	510	507	521	506	525	501
<b>Other Use, Losses</b>	0	0	0	0	0	0
<b>Total Dom. Consumption</b>	510	507	521	506	525	501
<b>Total Use</b>	566	564	566	553	580	541
<b>Ending Stocks</b>	40	40	45	40	45	27
<b>Total Distribution</b>	606	604	611	593	625	568
(1000 MT)						

<b>Dairy, Butter</b>	<b>2014</b>		<b>2015</b>		<b>2016</b>	
	<b>Jan 2014</b>		<b>Jan 2015</b>		<b>Jan 2016</b>	
	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>
<b>Market Begin Year</b>						
<b>Argentina</b>						
<b>Beginning Stocks</b>	4	4	4	5	5	5
<b>Production</b>	55	48	54	45	56	40



<b>Other Imports</b>	0	0	0	0	0	1
<b>Total Imports</b>	0	0	0	0	0	1
<b>Total Supply</b>	59	52	58	50	61	46
<b>Other Exports</b>	14	12	10	9	12	8
<b>Total Exports</b>	14	12	10	9	12	8
<b>Domestic Consumption</b>	41	35	43	36	44	33
<b>Total Use</b>	55	47	53	45	56	41
<b>Ending Stocks</b>	4	5	5	5	5	5
<b>Total Distribution</b>	59	52	58	50	61	46
(1000 MT)						