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Argentina

Dairy and Products Semi-annual

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Report Highlights:
Post revises down 2017 Argentine milk output to 10.39 million tons (equivalent to 10.094 million liters). This represents a modest two percent increase from revised CY2016 output, and is the result of severe weather damage during the first months of 2017 and elevated production costs. Total dairy exports for CY2017 are revised down to 186,000 MT due to lower supplies.

Commodities:

Dairy, Butter

Dairy, Cheese

Dairy, Dry Whole Milk Powder

Dairy, Milk, Fluid

Dairy, Milk, Nonfat Dry

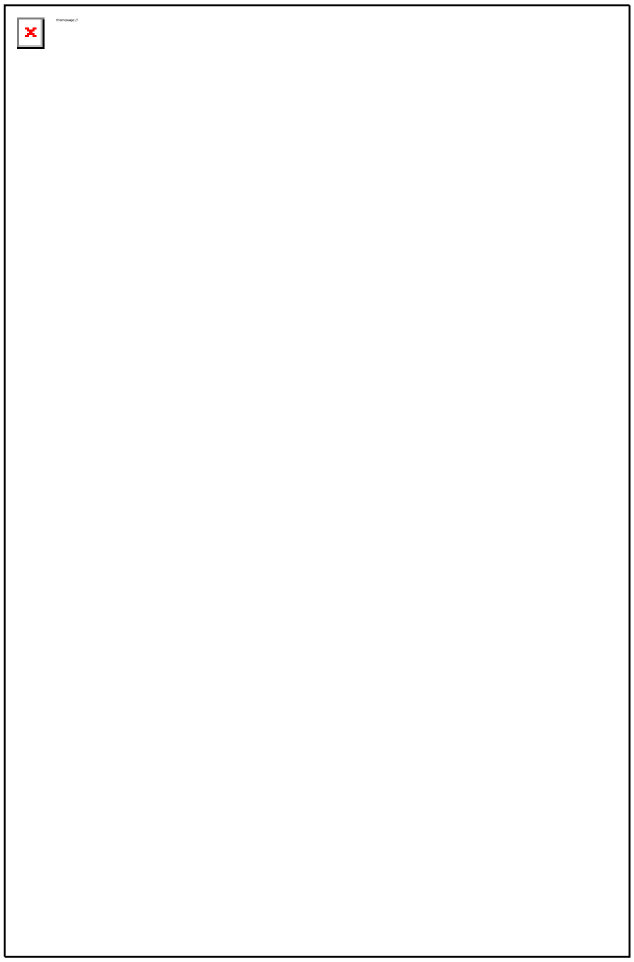
Production:

2017

Post revises Argentine milk output for calendar year (CY) 2017 down to 10.39 million tons output (equivalent to 10,094 million liters). The revised production estimate represents a 2 percent increase over CY 2016 revised figures. Post forecasts modest growth for 2017 as weather conditions are expected to improve and thanks to better prices and consolidation in the sector which has streamlined costs and ensured grater efficiencies.

Argentina's dairy sector continues to consolidate due to relatively lower international prices, weather damage, and rising costs.

2017 milk output suffered during the first three months of the year (similar to the same period last year) due to above average rainfall. However, conditions have begun to normalize since and weather conditions are expected to improve for the rest of year.



Soil Moisture levels May, 2017
Source: Argentine National Meteorological Service [1]

This year's recovery in dairy production is partly due to significantly higher farm gate prices. The reported milk price for April 2017 was 0.34 US$ per liter, which represents a 2 percent increase from the previous month and a 59 percent increase from the April 2016 price. Production costs remain high due primary to high inflation. The current corn/milk (2.3 kg corn/liter in April 2017) ratio is leading many producers to operate under negative margins. This cost burden is especially cumbersome for most small and less efficient producers, many of which produce on rented land. These factors are accelerating ongoing concentration in the dairy sector as a growing number of producers are forced to shut-down. In the primary producing province of Santa Fe province, dairy closures were significantly higher than historical averages, especially for those dairies hit by floods during 2016. Reports show that between 500 to 600 dairy farms closed in 2016/2017. For this reason, the productive capacity of the sector and its recovery is significantly limited. Moreover, sector experts describe the environment among the producers as one of fatigue, resignation, and lack of expectations due to the accumulation of debt and unsolved structural problems that they do not see a resolution of in short term.

The Macri government inherited an already deteriorated dairy sector back in December 2015; however, this crisis has been aggravated due to the developments of 2016. As such, the dairy sector is requesting immediate assistance from the government on a number of issues, such as operation financing and infrastructure investments. This crisis reached a critical point with the news of Sancor, Argentina's largest dairy cooperative, facing the possibility of bankruptcy earlier this year.

Sancor: Argentina's Largest Dairy Cooperative Hit by Financial Difficulties

Argentina's largest dairy cooperative, *Sancor,* is facing deep financial problems due to a number of longstanding issues and factors. This company has a processing capacity of up to 6 million liters of milk per year. However, only a third of this capacity is being utilized as the company has been forced to suspend operations in four of their plants.

Founded in 1938, *Sancor* is one of the leading dairy producers and exporters in Argentina. It represents one fifth of total dairy production in the country, producing fluid milk, powdered milk, cream, cheese, butter, yogurt, and desserts. and has been historically one the biggest Argentine exporters of dairy products. The company is based on the main dairy basin, the provinces of Santa Fe and Cordoba provinces. Sancor owns 16 industrial plants (currently operating with 12) with 4000 employees.
Sancor's financial problems are rooted in longstanding problems. The cooperative overcame the 2001 Argentine crisis with debt and little chance of investment. In 2006, AdecoAgro almost acquired the cooperative, but a last minute agreement signed by former president Nestor Kirchner with his Venezuelan counterpart Hugo Chavez stopped the deal. Under that agreement, Venezuela primarily purchased Dry Milk Powder at lucrative prices, generally above international market ones. The agreement continued for several years and Venezuela became Argentina's main market for some time. This arrangement came to an end as Venezuela was increasingly unable meet its payment obligations due to its economic crisis. According to private sources, it's estimated that the cooperative has incurred a debt level of US$ 32 million. In several instances, the Government of Argentina had to provide financial assistance to *the firm, with the last loan* valued at US$ 28 million signed at the beginning of last May. Contacts report that the future of the cooperative is still unclear. The government continues to evaluate other options to assist the company. Sancor's difficulties and its decrease in production are reflected in the sharp decline in Dry Milk Powder total output.

2016

CY 2016 production is revised down to 10.2 MMT based on updated figures from the Argentine government. This represents a 12 percent decline compared to CY 2015 with production estimated at 11.6 MMT (equivalent to 9895 million liters). This sharp decline in output is due to a combination of floods in the main dairy basins, the lack of infrastructure and high production costs (mostly feed and salary costs).

CY 2016 Fluid Milk Use

Domestic market	75.8%	7500 million liters	7,725 MT
Exports	16.6%	1642 million liters	1,691 MT
Milk not processed by the industry	7.6%	752 million liters	774 MT

Consumption:
Consumption is expected to rebound gradually in CY 2017, especially with inflation at lower levels and an improvement in consumer's incomes. However, this recuperation will be slow.
Domestic consumption declined in CY 2016 as a result of high inflation and the loss of purchasing power of the Argentine consumer due to an economic recession. Despite the promotions and discounts at retail level, consumers purchased second brands and were mostly limited to basic products.
Trade:
Exports

Post estimates dairy exports of main products (fluid milk, Dry Whole Milk Powder, Dry Non Fat Powder, Cheese and Butter for CY2017 at 186 MMT down almost 23 percent from USDA's estimate (243 MMT). This sharp decrease is based on lower production levels and slow recovery in the dairy sector. The current situation in Brazil, Argentina's primary market, could negatively overall exports due to lower purchases.

Argentina's primary markets for dairy products in CY2016 were Brazil (35 percent), Russia (13 percent) Algeria (11 percent), and China (9 percent). **Exported products that performed with better performance in dollar terms were Dry Whole Milk Powder (35 percent), soft cheeses (13 percent), Dry Non Fat Powder (9 percent) and Whey (8 percent).**

Imports

Imports increased in 2016 although volumes were marginal. The increase is made up of specialty cheese from the United States and Europe.
Policy:
There has been no change in policy except for the government's intention to introduce initiatives to provide more financing options for dairy producers and the **strong control in marginal production and commercialization**.
Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid	2015		2016		2017	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	1786	1786	1715	1715	1630	1630
Cows Milk Production	11552	11552	10397	10191	10605	10395
Other Milk Production	0	0	0	0	0	0
Total Production	11552	11552	10397	10191	10605	10395
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	11552	11552	10397	10191	10605	10395

Other Exports	13	13	11	11	11	11
Total Exports	13	13	11	11	11	11
Fluid Use Dom. Consum.	2100	2084	1743	1708	1779	1744
Factory Use Consum.	9439	9455	8643	8472	8815	8640
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	11539	11539	10386	10180	10594	10384
Total Distribution	11552	11552	10397	10191	10605	10395
(1000 HEAD) ,(1000 MT)						

Dairy, Dry Whole Milk Powder	**2015**		**2016**		**2017**	
Market Begin Year	**Jan 2015**		**Jan 2016**		**Jan 2017**	
Argentina	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Beginning Stocks	45	45	45	45	43	30
Production	252	0	218	148	222	158
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	297	45	263	193	265	188
Other Exports	138	0	130	92	132	92
Total Exports	138	0	130	92	132	92
Human Dom. Consumption	114	0	90	71	92	71
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	114	0	90	71	92	71
Total Use	252	0	220	163	224	163
Ending Stocks	45	45	43	30	41	25
Total Distribution	297	45	263	193	265	188
(1000 MT)						

Dairy, Milk, Nonfat	**2015**	**2016**	**2017**

Dry						
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	41	41	40	37	44	38
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	41	41	40	37	44	38
Other Exports	24	24	24	21	26	21
Total Exports	24	24	24	21	26	21
Human Dom. Consumption	17	17	16	16	18	17
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	17	17	16	16	18	17
Total Use	41	41	40	37	44	38
Ending Stocks	0	0	0	0	0	0
Total Distribution	41	41	40	37	44	38
(1000 MT)						

Dairy, Cheese	2015		2016		2017	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	40	40	40	40	42	40
Production	548	548	535	480	545	490
Other Imports	1	5	3	6	3	6
Total Imports	1	5	3	6	3	6
Total Supply	589	593	578	526	590	536
Other Exports	43	47	55	54	70	55
Total Exports	43	47	55	54	70	55
Human Dom. Consumption	506	506	481	432	490	446
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	506	506	481	432	490	446
Total Use	549	553	536	486	560	501
Ending Stocks	40	40	42	40	30	35
Total Distribution	589	593	578	526	590	536

(1000 MT)						

Dairy, Butter	2015		2016		2017	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	4	4	4	4	4	4
Production	50	45	45	45	50	47
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	54	49	49	49	54	51
Other Exports	9	9	5	5	8	7
Total Exports	9	9	5	5	8	7
Domestic Consumption	41	36	40	40	42	40
Total Use	50	45	45	45	50	47
Ending Stocks	4	4	4	4	4	4
Total Distribution	54	49	49	49	54	51
(1000 MT)						