

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Argentina

Dairy and Products Annual

Argentine Dairy Sector Continues Recovery

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Report Highlights:

Argentine dairy production continues to recover after massive industry consolidation and weather damage in 2016 and 2017. Post forecasts 2019 milk output to increase by 5 percent to 11.38 million tons based on lower feed costs, greater industry efficiency, and a recovery in prices. Dairy exports are expected to increase by nearly 22 percent to 225,000 tons due to a more competitive exchange rate and stronger milk powder exports.

Commodities:

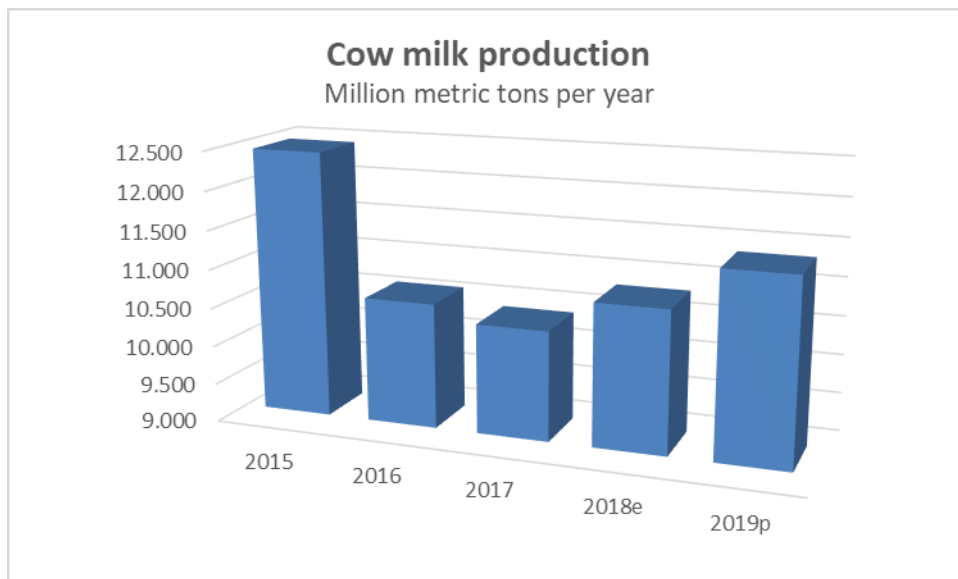
- Dairy, Butter
- Dairy, Cheese
- Dairy, Dry Whole Milk Powder
- Dairy, Milk, Fluid
- Dairy, Milk, Nonfat Dry

Production:

2019

Post forecasts fluid milk production for calendar year (CY) 2019 to increase by 5 percent to 11.38 million tons. The Argentine dairy sector is expected to resume its long-term growth path of an annual average rate of 4 - 5 percent after difficult years in 2016 and 2017. This recovery is supported by expected higher prices, lower feed costs, greater productivity (due to the consolidation of operations and the culling of less productive cows), and structural changes that will make the sector more competitive.

Although the sector is expected to recover in 2019, both producers and industry will face a number of difficulties due to the economic developments of the prior year. CY 2018 resulted in significantly reduced competitiveness, lack of domestic and foreign investment, and greater concentration in the dairy sector as a growing number of producers were forced to shutdown due financial difficulties. The sector anticipates next year's growth to be fueled by greater domestic consumption (based on a recovery in economic activity and incomes) and elevated exports to Algeria, China, and other traditional markets.



Source: Ing. Marcos Snyder, Dairylando

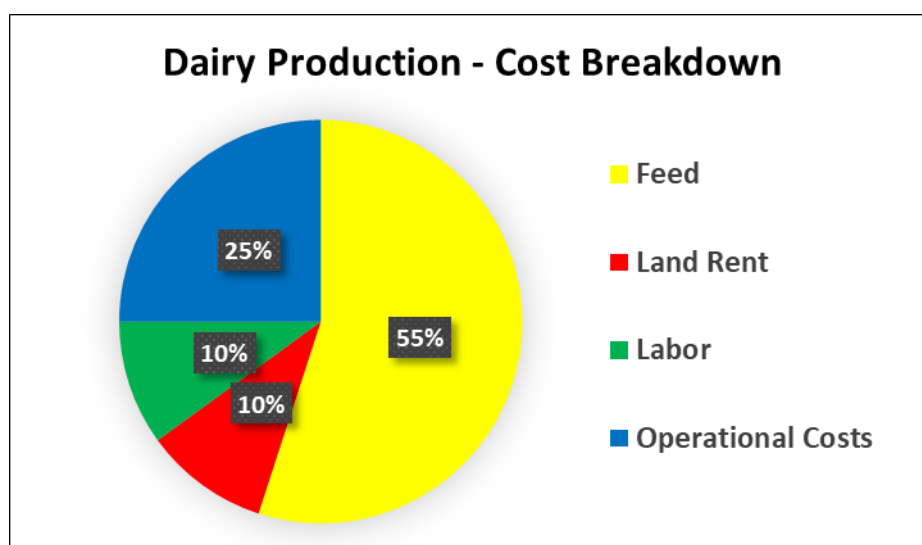
2018

After two consecutive years of production decline, Post projects milk output in 2018 to rebound at 10.8 million tons (11,124 million liters), a 5 percent increase from Post's 2017 estimate. Despite the drought conditions during the beginning of the year followed by a particularly cold winter, weather conditions normalized during the second half of the year, bringing some relief to a sector devastated by massive and damaging floods in 2016 and 2017. Improved farm gate prices also provided much needed relief to producers; however, much of this relive was diminished by this year's economic volatility. This

volatility in addition to a devastating drought (which increased the cost of feed significantly) greatly damaged an already weakened dairy sector. In one year, the Argentine peso devalued by over 100 percent. This devaluation led to a series of economic developments that hurt the sector. Financing is increasingly limited as the government was forced to raise interest rates over 70 percent in order to mitigate the devaluation. Over half of producers have to finance their production costs; many are now searching for alternative or non-conventional forms of financing to continue production. Costs have increased significantly with inflation expected to reach 45 percent for the year. Profits are also hurt by the incorporation of new taxes, especially a new tax on exports (see Trade section).

Production Costs

Production costs increased dramatically as high inflation hit internal costs (energy, transportation, and labor) while the devaluation raised the costs of those inputs pegged to the dollar, especially feed, the sector's largest cost. This situation led many producers to operate under negative margins. These factors are accelerating ongoing concentration in the dairy sector, Post contacts report that the closure rate of dairy farms doubled during the last year.

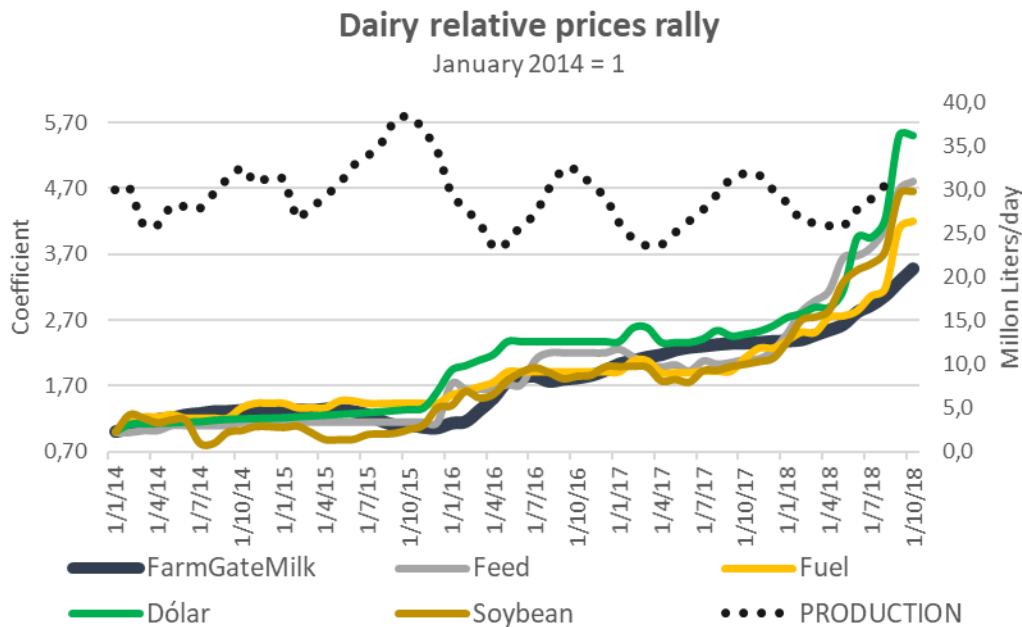


Note: Operational costs include administrative, taxes, energy, and equipment maintenance, etc.

Source: Based on the aggregation of data from multiple local dairy analysts.

Farm Gate Prices

Although farm gate price increased by 28 percent in December 2017 to August 2018, production costs increased 42 percent in annual terms. Producers are collecting, on average, about 8 pesos (US\$ 0.20) per liter. Post contacts estimate that in order to compensate for the higher costs and break even, the farm-gate price should be 11 pesos per liter (approx. 0.28 US\$), 38 percent higher than the current price. Producers expect that ongoing sector consolidation as well as a recovery in domestic consumption and processing will raise prices in 2019.



Source: Ing. Marcos Snyder - Dairylando

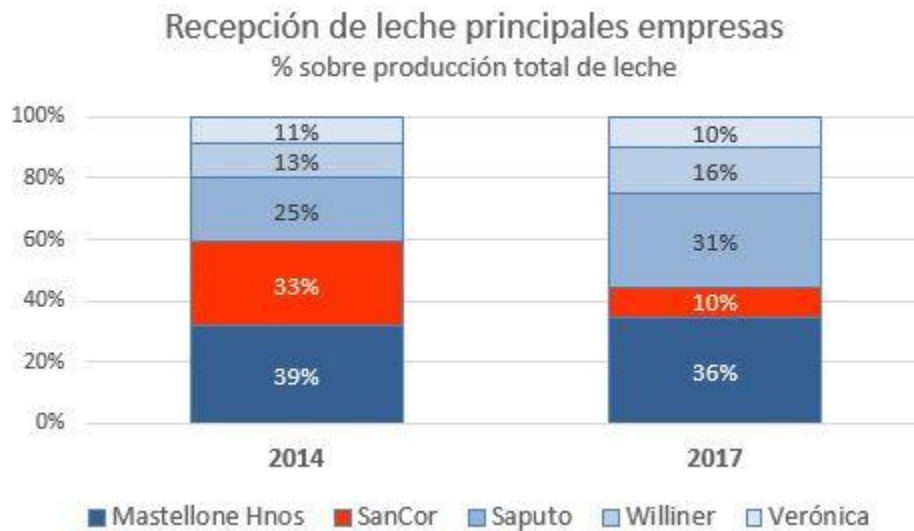
SanCor: Argentina's Largest Dairy Cooperative Restructures

Argentina's largest dairy cooperative, *SanCor*, is in the process of restructuring its operations after years of serious financial problems due to a number of longstanding issues. After several attempts to sell the company to different firms, including New Zealand-based Fonterra, reports indicate AdecoAgro is finalizing an agreement to acquire two of SanCor's plants and brands. Industry analysts view this acquisition positively as it will aid the recovery in milk production and processing. SanCor has a processing capacity of 6 million liters of milk per year. However, only a third of this capacity is utilized currently as the firm has been forced to suspend operations in several of their plants. AdecoAgro's potential acquisition would facilitate the use of this idle capacity as the firm plans to use these plants in the development of value-added products. AdecoAgro initially planned to acquire the majority of the company at a cost of \$400 million. However, towards the middle of year, AdecoAgro revised its plan and scaled down its acquisition plan due to the current economic climate among other issues.

Founded in 1938, SanCor was one of the leading dairy producers and exporters in Argentina. In 2014, the cooperative used to receive a third of the country's total milk output. However, due to the fall in prices, loss of the Venezuela export market, and structural inefficiencies; production has been reduced significantly and as of 2017, the firm only receives 10 percent of the country's milk output. SanCor represented one fifth of total dairy production in the country, including fluid milk, powdered milk, cream, cheese, butter, yogurt, and desserts. SanCor used to represent 9 percent of the country's export share in 2014 while today it supplies less than 1.5 percent of the country's dairy exports. The company is

based in the main dairy basin, the provinces of Santa Fe and Cordoba provinces. SanCor owned 16 industrial plants with 4,000 employees.

The following graph shows the abrupt change in the Argentine companies receiving milk between 2014 and 2017:



Source: Ing. Marcos Snyder - Dairylando

SanCor’s financial problems are rooted in longstanding problems. The cooperative overcame the 2001 Argentine crisis with large debt and little new investment. In 2006, *AdecoAgro* almost acquired the cooperative, but a last-minute agreement between former president Nestor Kirchner and his Venezuelan counterpart Hugo Chavez, stopped the deal. Under that agreement, Venezuela purchased dry milk powder at lucrative values, above international prices. The agreement continued for several years until the economic crisis in Venezuela made it unable to meet its payment obligations. According to private sources, the cooperative has incurred an estimated debt of USD \$32 million. In several instances, the Government of Argentina provided financial assistance to the firm, yet this still not enough to help the firm recover.

Consumption:

Post estimates fluid milk consumption for CY 2019 to increase by 5 percent to 11.4 million tons. The sector expects a recovery in consumer salaries and lower inflation will bolster demand. Nonetheless, this recuperation will be slow. The significant currency devaluation in 2018 combined with high inflation levels caused a loss of purchasing power for consumers. Consumers were able to maintain and increase their dairy consumption by purchasing discounted and more basic dairy products.

Trade:

Exports

Post estimates total dairy exports of main products (Fluid Milk, Dry Whole Milk Powder (DWMP), Dry Non Fat Powder (DNFP), Cheese and Butter) for CY2019 to increase by over 20 percent to 225,000 MT. This forecast is mainly based on the recovery in milk production, stronger DWMP exports, and a more competitive exchange rate. An estimated 16 percent of Argentina's dairy production is exported.

Argentine exports for CY 2018 are estimated at 185,000 MT, an increase of 8 percent from the previous year. This export growth is driven by a more competitive exchange rate due to this year's massive devaluation. While many local analysts expected a more significant increase in exports thanks to this devaluation, contacts report that several factors are still making it difficult for the industry to consolidate marketing efforts in foreign markets.

The trade scenario was complicated this year by the lowering of export rebates from 3 percent to 0.75 percent. This rebate was aimed at incentivizing the export of value-added products. At the same time, the government imposed new export taxes in an effort to generate more revenue and reduce its fiscal deficit. Dairy products are subject to a 3 Argentine pesos per \$1 U.S. dollar (placed on the export value), which at the current exchange rate is equivalent to an export tax rate of 8 percent.

In the last few years, Argentina lost market share in many key international markets, including Brazil, Russia, and China. The recent currency devaluation is expected to make the sector much more competitive, spurring more exports. However, as mentioned before, new taxes and higher local costs in addition to unattractive global dairy prices will stymie greater export growth.

Argentina's primary markets for dairy products in CY2018 were Brazil (36 percent), Algeria (28 percent), China (11 percent), Russia (6 percent) and Chile (5 percent). Exported products that performed well in volume terms were Dry Whole Milk Powder (38.3 percent), Whey (24.7 percent), and Cheese (20.4 percent).

Imports

In 2017, Argentina imported over \$57 million in dairy products, supplied primarily by Uruguay, Brazil, and the European Union. In 2018, Argentine imports of dairy products dropped 57 percent in January-August compared to the same period in 2017, due to the currency devaluation, which made imports much more expensive. Based on an expected normalization of economic conditions, dairy imports (Fluid Milk, Dry Whole Milk Powder (DWMP), Dry Non Fat Powder (DNFP), Cheese and Butter) are expected to recover and reach 10,000 tons in 2019.

Policy

At present, the government has not announced any policy initiative to aid the sector. Instead, the government is focusing on addressing long-standing issues such transportation/logistical improvement, export facilitation, and easier credit accessibility that service the agriculture sector as a whole. In 2016, the government provided some price supports to aid producers during the crisis of that moment. These supports were removed at the end of 2016. Due the government's current financial situation, it is unlikely that the government will introduce any supports in the near future.

PSD Tables

Dairy, Milk, Fluid Market Begin Year	2017		2018		2019	
	Jan 2017		Jan 2018		Jan 2019	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	1672	1672	1663	1645	0	1598
Cows Milk Production	10090	10090	10795	10837	0	11380
Other Milk Production	0	0	0	0	0	0
Total Production	10090	10090	10795	10837	0	11380
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	10090	10090	10795	10837	0	11380
Other Exports	5	5	6	6	0	6
Total Exports	5	5	6	6	0	6
Fluid Use Dom. Consum.	1681	1681	1798	1762	0	1782
Factory Use Consum.	8404	8404	8991	9069	0	9592
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	10085	10085	10789	10831	0	11374
Total Distribution	10090	10090	10795	10837	0	11380

(1000 HEAD) ,(1000 MT)

Dairy, Milk, Nonfat Dry Market Begin Year	2017		2018		2019	
	Jan 2017		Jan 2018		Jan 2019	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	12	12	10	10	0	3
Production	42	42	55	34	0	40
Other Imports	0	0	0	0	0	2
Total Imports	0	0	0	0	0	2
Total Supply	54	54	65	46	0	45
Other Exports	20	24	25	21	0	22
Total Exports	20	24	25	21	0	22
Human Dom. Consumption	24	20	25	22	0	20
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	24	20	25	22	0	20
Total Use	44	44	50	43	0	42
Ending Stocks	10	10	15	3	0	3
Total Distribution	54	54	65	46	0	45

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(1000 MT)

Dairy, Dry Whole Milk Powder Market Begin Year Argentina	2017		2018		2019	
	Jan 2017		Jan 2018		Jan 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	13	13	25	25	0	30
Production	170	170	185	185	0	198
Other Imports	1	0	0	0	0	0
Total Imports	1	0	0	0	0	0
Total Supply	184	183	210	210	0	228
Other Exports	71	90	95	100	0	135
Total Exports	71	90	95	100	0	135
Human Dom. Consumption	88	68	85	80	0	85
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	88	68	85	80	0	85
Total Use	159	158	180	180	0	220
Ending Stocks	25	25	30	30	0	8
Total Distribution	184	183	210	210	0	228

(1000 MT)

Dairy, Butter Market Begin Year Argentina	2017		2018		2019	
	Jan 2017		Jan 2018		Jan 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	3	3	2	2	0	3
Production	45	27	50	32	0	34
Other Imports	1	1	0	0	0	1
Total Imports	1	1	0	0	0	1
Total Supply	49	31	52	34	0	38
Other Exports	4	2	4	6	0	7
Total Exports	4	2	4	6	0	7
Domestic Consumption	43	27	45	25	0	29
Total Use	47	29	49	31	0	36
Ending Stocks	2	2	3	3	0	2
Total Distribution	49	31	52	34	0	38

(1000 MT)

Dairy, Cheese Market Begin Year Argentina	2017		2018		2019	
	Jan 2017		Jan 2018		Jan 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	34	34	33	33	0	37
Production	435	424	475	440	0	465
Other Imports	5	5	6	6	0	6
Total Imports	5	5	6	6	0	6
Total Supply	474	463	514	479	0	508
Other Exports	44	50	50	52	0	55
Total Exports	44	50	50	52	0	55
Human Dom. Consumption	397	380	437	390	0	402
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	397	380	437	390	0	402
Total Use	441	430	487	442	0	457
Ending Stocks	33	33	27	37	0	51
Total Distribution	474	463	514	479	0	508

(1000 MT)						