

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **Argentina**

### **Dairy and Products Annual**

#### **Argentina - Dairy & Products Annual Report**

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**Report Highlights:**

Argentine milk production in 2013 is expected to reach 12.2 million tons, a 3.5 percent increase from 2012 Post estimates. Domestic consumption is relatively stable therefore virtually all the increase in milk production is attributed to exportable commodities and products. However, higher production costs and an overvalued peso make Argentine dairy products less competitive in the world market.

**Commodities:**

Dairy, Cheese

Dairy, Dry Whole Milk Powder

Dairy, Milk, Fluid

Dairy, Milk, Nonfat Dry

### **Production:**

For calendar year (CY) 2013, Post estimates milk production at 12.2 million tons, up 3.5 percent from Post's 2012 revised estimate. Argentine milk output is forecast to increase albeit at a slower pace than in previous years. Higher production costs (that are expected to continue to increase in dollar terms), high inflation, and an overvalued local currency will have an impact in 2013 production.

This growth is based on the following factors:

a) standard weather conditions under the El Niño pattern, meaning sufficient water supply especially during the June/December 2013 period;

b) the positive trends in per cow and per hectare productivity; and

c) sustained international prices over US\$ 3,100 per ton for whole milk powder (WMP)

Contacts estimate that in this scenario, the Argentine dairy sector will resume its long term slow steady growing path, at an annual average of 3 - 4 percent.

Post estimates CY 2012 milk output at 11.8 million tons, 1 million lower than USDA's official estimate. This is the result of the 2012 summer drought followed by excessive rain (and in some areas even flooding) combined with higher production costs and deteriorated returns from milk.

Although the current conversion rate between corn and milk is still good (approximately 2 Kg of corn – 1 liter of milk), the Argentine producers' profitability has been impacted during the current year by the increase in other costs such as labor and energy, but specially as a result of the 25 percent domestic inflation. Analysts expect the inflation rate in Argentina to continue at 25 percent or more over the next few years, which will surely continue to impact in production.

### **Farm gate prices**

The farm gate price of milk is not based on any statutory law or regulation, but is instead the result of free negotiation between the individual farmer and the dairy company. Although production costs increased significantly in annual terms (12 percent), the farm gate price per liter of milk increased 2 percent in the same period. Currently farmers are collecting, on average, about 1.57 peso (US\$ 0.33) per liter. According to contacts, farmers are slightly above breakeven levels.

### **Investment**

With the exception of the dry milk plant that will process 500,000 liters per day which is expected to be operational by the end of 2013, most of the expansion plans previously announced by the industry will be put on hold as a result of domestic economic uncertainties, and the import restrictions in place that do not allow companies to acquire equipment that is not manufactured in Argentina. If milk output continues to increase in the upcoming years as projected, and there are no investments to further expand the drying capacity, the industry will find it difficult to handle record peak flows during the October/December period.

The current Argentine dairy herd is of 2,193 million heads, composed of 80 percent Holstein and 20 percent Jersey 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. The number of dairy farms has decreased by an average of about 4.5 percent in the last years and Argentina has now approximately 10,200 dairy farms. Small inefficient operations are switching to soybean production tempted by international soybean prices and also because soybean production demands less investment and management. Thus, milk production in Argentina is more and more being concentrated in the hands of medium to large producers who are efficient, use more technology and are intensifying their production schemes.

The average percentage of milk fat and protein content are estimated at 3.6 and 3.3 percent respectively.

### **Whole Milk Powder Production**

WMP production for 2013 is expected to increase to 329,000 tons; a 3.5 percent increase from Post's revised 2012 estimates. The industry's current drying capacity is approximately 14 million liters per day, running at full capacity during the spring.

### **Cheese production**

Post forecast cheese production to grow in 2013 up to 609,000 tons, a 3.5 percent increase from Post's 2012 revised estimates. Cheese is the second most important dairy product of Argentina, constituting over 43 percent of the total milk production. Soft/fresh types (Cremoso, Saint Paulin and Mozzarella) dominate the cheese categories constituting 50 percent of the market. Semi-soft varieties such as Gouda and Swiss type hold 38 percent of the market share followed by hard cheese (Provolone and Sardo) accounting for 12 percent of the market.

### **Consumption:**

Most local dairy companies forecast a relatively stable domestic consumption in 2013 estimated at 210 liters per capita. Retail prices are expected to significantly increase in 2013. Consumption is expected to remain relatively stable despite the high inflation that is eroding purchasing power.

Cheese consumption is currently high (estimated at 12 kg per capita) and it is expected to grow only marginally. Over 90 percent of the cheese production is consumed domestically, and there is little room for further expansion.

Consumption of yogurt and dairy desserts has grown in the past couple of years and Post forecasts this trend to continue into the near future. To stimulate consumption, the industry periodically introduces new enhanced bioengineered products, such as yogurt or milk with nutritional additives.

### **Trade:**

#### **Exports**

Post forecasts dairy commodity exports to grow 3.5 percent across the board in 2013, in line with the projected increase in fluid milk production. Approximately 25 percent of total milk output is projected

to be exported, primarily in the form of whole milk powder (WMP) followed by cheese, reaching about 107 markets.

A saturated domestic market forces surplus to be exported, even when high production costs and the overvalued local currency do not make exports the most profitable option. Contacts report that the biggest limitations to exports are not only the high production costs and the overvalued peso, but also the lack of agreements signed between Argentina and potential importing countries, which make Argentina less competitive in the world market. Exporters are confident that with Venezuela as a new Mercosur partner new agreements will be signed and greater volumes would be exported to that country under the Mercosur tariff scheme.

### **Whole Milk Powder exports**

Argentina continues to be the third largest exporter of WMP. Exports of this commodity for 2013 are projected at 239,000 tons. The three most important markets for Argentina continue to be Venezuela, Brazil and Algeria. During the last couple of years, Argentina has become a bigger presence on the WMP world market, due to the larger volumes purchased by Venezuela.

### **Nonfat Milk Powder exports**

Nonfat dry milk exports for 2013 are projected to slightly increase to 20,000 tons, a very small volume compared to WMP. Brazil, Venezuela and Russia are expected to continue to be the largest markets for this product.

### **Cheese exports**

Cheese is the second most important dairy product exported. Brazil is the main market for Argentine cheese, followed by Russia, Chile, Venezuela and the United States.

Up until March 2012, Argentina received a 6,800 ton tariff rate quota for cheeses shipped to the United States, but on March 26, 2012, the U.S. government announced the suspension of Argentina's trade benefits under the Generalized System of Preferences given Argentina's failure to abide by its bilateral investment treaty obligations. Argentina still needs to comply with the quota, but outside the system of preferences which in some cases represents no gain at all.

In order to increase its cheese exports in 2013, Argentina needs access to markets with similar conditions of its main competitors. This requires multilateral work at WTO and Doha Round to negotiate better tariff rates, new agreements under the Mercosur to access preferential tariff rates, and government – government agreements to minimize the impact of restrictions and or trade distortions.

### **Imports**

Dairy imports are negligible, and are expected to reach about 36 million dollars in 2012. Post forecasts the same trend for 2013. Most imports are whey, caseinates and casein derivatives from Uruguay and the Netherlands. During the period of Jan – Aug 2012, Argentina imported some small quantities of cheese, which come primarily from Brazil and Uruguay for a total amount of 11 million dollars.

### **Policy:**

The government of Argentina does not have a specific policy to promote the dairy sector, and there is no specific entity which promotes and markets Argentine dairy products abroad. Many contacts believe that the biggest challenge for Argentina is to open new markets for exports, and in order to do this, the government needs to negotiate new agreements with potential importing countries that would provide preferential access conditions. Contacts are confident that in the future there will be opportunities to significantly increase exports to Venezuela with preferential tariff treatment derived from special agreements under Mercosur, and it has been reported that there are some ongoing negotiations with other countries such as Vietnam and Angola, although there are no formal agreements for dairy products signed yet.

There are still retail prices controls in a few mass products, but the government has allowed large dairy processors to increase prices, especially for those products not considered essential. Authorized increases for 2012 were 7 percent for massive products, 14 percent for selected products and 14 percent for premium products. Industry contacts estimate that this scheme will continue in 2013.

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

### Production, Supply and Demand Data Statistics:

Dairy, Cheese Argentina	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	37	37	30	38		40
Production	555	572	595	589		609
Other Imports	3	3	3	3		3
Total Imports	3	3	3	3		3
Total Supply	595	612	628	630		652
Other Exports	60	60	75	60		62
Total Exports	60	60	75	60		62
Human Dom. Consumption	505	514	521	530		548
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	505	514	521	530		548
Total Use	565	574	596	590		610
Ending Stocks	30	38	32	40		42
Total Distribution	595	612	628	630		652

1000 MT

Dairy, Dry Whole Milk Powder Argentina	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	27	27	56	46		42
Production	315	309	340	318		329
Other Imports	0	0	0	0		0
Total Imports	0	0	0	0		0
Total Supply	342	336	396	364		371
Other Exports	201	201	260	231		239
Total Exports	201	201	260	231		239
Human Dom. Consumption	85	89	90	91		92
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	85	89	90	91		92
Total Use	286	290	350	322		331
Ending Stocks	56	46	46	42		40
Total Distribution	342	336	396	364		371

1000 MT

Dairy, Milk, Fluid Argentina	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	2,150	2,150	2,200	2,193		2,236
Cows Milk Production	11,990	11,470	12,830	11,814		12,227
Other Milk Production	0	0	0	0		0
Total Production	11,990	11,470	12,830	11,814		12,227
Other Imports	0	0	0	0		0
Total Imports	0	0	0	0		0
Total Supply	11,990	11,470	12,830	11,814		12,227
Other Exports	16	13	18	14		15
Total Exports	16	13	18	14		15
Fluid Use Dom. Consum.	2,180	2,093	2,225	2,156		2,231
Factory Use Consum.	9,794	9,364	10,587	9,644		9,981
Feed Use Dom. Consum.	0	0	0	0		0
Total Dom. Consumption	11,974	11,457	12,812	11,800		12,212
Total Distribution	11,990	11,470	12,830	11,814		12,227
1000 HEAD, 1000 MT						

Dairy, Milk, Nonfat Dry Argentina	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	7	7	10	9		9
Production	44	39	40	40		41
Other Imports	0	0	0	0		0
Total Imports	0	0	0	0		0
Total Supply	51	46	50	49		50
Other Exports	19	18	17	19		20
Total Exports	19	18	17	19		20
Human Dom. Consumption	22	19	24	21		22
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	22	19	24	21		22
Total Use	41	37	41	40		42
Ending Stocks	10	9	9	9		8
Total Distribution	51	46	50	49		50
1000 MT						