

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Argentina

Dairy and Products Annual

Argentina - Dairy and Products Annual Report

Approved By:

Melinda D. Sallyards

Prepared By:

Andrea Yankelevich

Report Highlights:

Post forecast Argentina's milk production for calendar year (CY) 2014 at 12.2 million tons, 3.5 percent increase from CY2013 Post's revised estimates. Total exports of dairy products in CY2014 are forecast at 300,000 metric tons (MT). Because domestic consumption is relatively stable, virtually all the increase in milk production goes directly to the production of commodities and products for export.

Commodities:

Dairy, Cheese

Dairy, Dry Whole Milk Powder

Dairy, Milk, Fluid

Dairy, Milk, Nonfat Dry

Select

Production:

FAS Buenos Aires forecasts Argentine milk output for calendar year (CY) 2014 to reach 12.2 million tons, a 3.5 percent increase from Post's CY2013 revised estimates. This production increase is basically due to producers' response to exceptionally high international milk prices. This estimated growth is also based on the following factors:

- a) Standard weather conditions under a soft the "El Niño" pattern is expected, meaning sufficient water supply especially during the winter/spring 2014 period (June/December),
- b) Stable high international prices for whole milk powder (WMP) and
- c) Profitable margins for producers.

Contacts estimate that in this scenario, the Argentine dairy sector will resume its long term slow steady growth pattern, averaging three to four percent annually.

For CY2013 Post revised estimates of 11.7 million tons show a modest increase in milk output of about one percent compared to CY2012 output. This is lower than USDA official estimates for the year. The reasons behind the small increase are:

- a) Weather in CY2012 with a summer drought followed by excessive rain (and even flooding in some areas). The first months of 2013 were very dry, and the beginning of the spring (September 2013) was very delayed and dry.
- b) In CY2012, higher production costs in dollars that impacted the producer's profitability (in some cases farmers were only slightly over break-even levels).
- c) Unfavorable producer's margins during the first month of CY2013.

All these factors resulted in low quality pastures and less quality feed for 2013. As a consequence, production during the first semester of CY2013 fell considerably.

However, Post estimates that during the peak months (Oct-Dec) production will rebound enough to compensate and that CY 2013 total production numbers will be 11.7 million tons, one percent over CY2012 Post revised figures.

The current Argentine dairy herd is about 2.2 billion head - the same figure as USDA's official numbers for CY2012 - composed of 80 percent Holstein and 20 percent Jersey cows. The lack of expansion has to do with 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 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.

Farm gate prices have risen considerably in the last six months, catching up with cost increases and improving the farmer's profitability. Current per liter price is paid around AR\$ 2.10 -2.20 (US\$ 0.36 – 0.40 approx.). CY 2012 had left producers in debt that they are now repaying with their improved margins. Over 25 percent inflation continues to be an issue that impacts in production.

Investment

Despite the domestic economic uncertainties, Argentina's well known natural conditions for dairy production make it very attractive not only for local, but also for foreign investment. Investors are currently looking to increase processing capacity within the country over the current and the next two years. The investment, expected at US\$221 million, will provide additional capacity to process 6.8 million liters per day, according to the GOA. Industry contacts express that even in a difficult economic scenario these expansion plans are the result of the industry's need to have a medium/long term vision. If milk output continues to increase in the upcoming years as projected, the increased processing capacity will be critical.

Whole Milk Powder Production

CY2014 production is expected to increase to 294,000 MT, a 3.5 percent increase from revised CY 2013 estimates. The industry's current drying capacity is approximately 15 million liters per day, running at full capacity during the spring.

Cheese production

Post forecast cheese production to grow in 2014 up to 589,000 MT, a 3.5 percent increase from CY 2013 revised Post estimates. Cheese is the second most important dairy product of Argentina. 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:

CY2014 domestic consumption of dairy products is forecast to only grow marginally. Per capita consumption is estimated at 21 liters per capita, with a small margin for growth. Despite the domestic high inflation, consumption remains stable.

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 dramatically in the past couple of years due to strong marketing campaigns. 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 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) and cheese. Post estimates total exports for CY2014 at 300,000 MT, reaching about 107 markets. In order to expand its exports, Argentina would have to achieve improved access to markets compared to competitors who have free trade agreements in place. This will require multilateral work at WTO and in the Doha Round to negotiate better tariff rates, new agreements under the Mercosur to access preferential tariff rates, and government to government agreements to minimize the impact of restrictions and/or trade distortions.

CY2014: Because domestic consumption is relatively stable, virtually all the increase in milk production goes directly to the production of commodities and products for export. Current high international prices will make exports even more attractive.

CY2013: Lower production during the first semester, also had an impact in Argentine dairy exports. Exports of WMP fell 16 percent during the period of Jan – July compared to the same period in 2012, and cheese exports fell 17 percent during the same period. In the meantime, whey exports increased 34 percent during the same period. Post estimates dairy exports to rebound in line with increased production and CY2013 total exports will be 1 percent over CY2012 level.

Whole Milk Powder exports (WMP)

Argentina continues to be the third largest exporter of WMP. Exports of this commodity for 2014 are projected at 211,000 MT. The three most important markets for Argentina are expected to continue to be Venezuela (30 percent), Brazil (23 percent) and Algeria (15 percent).

During the last couple of years, Argentina has become a bigger presence on the WMP world market, due to the greater volumes purchased by Venezuela.

Nonfat Milk Powder exports

Nonfat dry milk exports for CY2014 are projected to slightly increase to 15,000 MT, a very small volume compared to WMP. Brazil, Venezuela, Russia and Chile are expected to continue to be the largest markets for this product.

Cheese exports

Post estimates CY 2014 cheese exports at 60,000 MT. Cheese is the second most important dairy product exported. Brazil (42 percent) continues to be the main market for the Argentine cheese, followed by Russia (12 percent), Chile (11 percent) and Venezuela (10 percent).

Up until March 2012, Argentina received a 6,800 MT 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 has access to the quota every year, but outside the system of preferences in some cases without profit given tariff increase from zero to 15 percent.

Whey exports

Argentine whey exports have increased in CY2013 to 70,000 MT, a record high. During the period of Jan - Sep 2013 almost 70,000 MT (equivalent to 135 US\$ million FOB) were exported, while during the same period in 2012 Argentina exported 46,000 MT (96 US\$ million FOB). Main markets for this product are China (48 percent), Brazil (18 percent), Indonesia (7 percent) and Vietnam (5 percent). Post forecasts the same trend for CY 2014.

Imports

Dairy imports are negligible, and especially now due to the strong import restriction system imposed by the government of Argentina (GOA). Post forecasts the same trend for CY2014. Most imports are caseinates and casein derivatives from Uruguay and the Netherlands. Post forecasts the same trend for CY2014. For further information on Argentine import restrictions please see GAIN report "[Food Exporter Guide Argentina 2013](#)".

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 the government of 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.

Resolution 344/2013: issued by the Ministry of Agriculture on September 1 , 2013 sets the parameters for milk payment based on quality attributes, that is, solid content of fat and protein. Under the new scheme, 95 percent of the price corresponds to quality and hygiene, and the remaining 5 percent of the price is used for commercial bonuses (bonuses included in this 5 percent include a premium paid to the producer for growth of the farm, customer loyalty,, sanitation, etc) The resolution generated opposition among different players in the sector. Most processors claim that companies have no margin to negotiate with just 5 percent left for that purpose, and that this margin was used in the past to compete with the “informal” industry. On the other hand, there are some producers and some farm organizations that believe that the new resolution will compensate high quality and high sanitary standards, and will provide incentive to producers to enhance their quality standards.

There are still retail prices controls on basic products such as milk, butter and some soft cheeses However, the government has allowed large dairy processors to increase prices, especially for those products not considered essential. Authorized increases for 2013 were seven percent for mass consumption products, 14 percent for selected products and 18 percent for premium products split in two tranches. First tranche was authorized in April and the second one after October. Industry contacts estimate that this scheme will continue in CY 2014.

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

In September 2013 the GOA announced that the use of export permits (ROE) previously required for just a few products, are now mandatory for most of the dairy products. Post contacts expressed that this resolution aroused complaints from the industry as they understand that it only creates delays and makes it difficult to comply with international contracts.

Dairy, Milk, Fluid Argentina	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	2,193	2,193	2,236	2,193		2,193
Cows Milk Production	11,815	11,679	12,230	11,796		12,209
Other Milk Production	0	0	0	0		0
Total Production	11,815	11,679	12,230	11,796		12,209
Other Imports	0	0	0	0		0
Total Imports	0	0	0	0		0
Total Supply	11,815	11,679	12,230	11,796		12,209
Other Exports	14	13	15	13		14
Total Exports	14	13	15	13		14
Fluid Use Dom. Consum.	2,157	2,133	2,232	2,155		2,230

Factory Use Consum.	9,644	9,533	9,983	9,628		9,965
Feed Use Dom. Consum.	0	0	0	0		0
Total Dom. Consumption	11,801	11,666	12,215	11,783		12,195
Total Distribution	11,815	11,679	12,230	11,796		12,209
1000 HEAD, 1000 MT						

Dairy, Cheese Argentina	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	38	38	40	38		38
Production	589	564	609	570		589
Other Imports	3	3	3	3		2
Total Imports	3	3	3	3		2
Total Supply	630	605	652	611		629
Other Exports	60	54	62	55		60
Total Exports	60	54	62	55		60
Human Dom. Consumption	530	513	548	518		528
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	530	513	548	518		528
Total Use	590	567	610	573		588
Ending Stocks	40	38	42	38		41
Total Distribution	630	605	652	611		629
1000 MT						

Dairy, Dry Whole Milk Powder Argentina	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	46	46	42	46		46
Production	318	281	329	284		294
Other Imports	0	0	0	0		0
Total Imports	0	0	0	0		0
Total Supply	364	327	371	330		340
Other Exports	231	201	239	203		211
Total Exports	231	201	239	203		211
Human Dom. Consumption	91	80	92	81		83
Other Use, Losses	0	0	0	0		0

Total Dom. Consumption	91	80	92	81		83
Total Use	322	281	331	284		294
Ending Stocks	42	46	40	46		46
Total Distribution	364	327	371	330		340
1000 MT						

Dairy, Milk, Nonfat Dry Argentina	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	9	9	9	9		9
Production	40	32	41	32		33
Other Imports	0	0	0	0		0
Total Imports	0	0	0	0		0
Total Supply	49	41	50	41		42
Other Exports	19	14	20	14		15
Total Exports	19	14	20	14		15
Human Dom. Consumption	21	18	22	18		18
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	21	18	22	18		18
Total Use	40	32	42	32		33
Ending Stocks	9	9	8	9		9
Total Distribution	49	41	50	41		42
1000 MT						