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Global Agricultural Information Network

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Argentina

Dairy and Products Annual

Dairy and Products Annual

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Report Highlights:
2017 Argentine milk production is forecast to increase slightly to 10.6 million metric tons (MMT) equivalent to 10,296 million liters, roughly a 2 percent increase from CY 2016. After a devastating 2016, the Argentine dairy sector is beginning to recover from one of the worst crises in the last 20 years. For 2017, total dairy exports of main products - fluid milk, dry whole milk powder (DWMP), dry nonfat powder (DNFP), cheese, and butter - are expected to increase by two percent to 212,000 MT.

Commodities:

Dairy, Butter

Dairy, Cheese

Dairy, Milk, Fluid

Dairy, Milk, Nonfat Dry

Dairy, Dry Whole Milk Powder

Production

2017

Argentine milk production in calendar year (CY) 2017 is projected to slightly increase to 10.6 million metric tons (MMT) equivalent to 10,296 million liters, roughly a 2 percent increase from CY 2016 estimated figures. After a devastating CY 2016, the Argentine dairy sector is beginning to recover from one of the worst crises in the last 20 years. The CY2017 forecast is based on recovering domestic prices along with expected standard weather conditions and sustained international prices.

Although the sector is expected to recover in 2017, they will face a number of difficulties due to the events of the prior year. CY 2016 resulted in significantly reduced competitiveness, lower domestic and foreign investment, and greater concentration in the dairy sector as a growing number of producers are forced to shut-down. More than half producers finance production by some degree. This year, parastate and private banks are expected to provide producers with attractive financing options in order to bolster productions. Producers are also expected to maintain use of rural credit cards from private banks to finance inputs.

The new government inherited an already deteriorated dairy sector and continues to make various requests from the sector for assistance. Producers continue to express displeasure with the current exchange rate that provides little competiveness in international markets. Moreover, they continue to seek assistance on expanding financing options, and correcting farm gate prices.

2016

Argentine milk output for CY 2016 is estimated down to 10.39 million tons output (equivalent to 10.094 million liters). The revised production estimate represents a 10 percent decline from CY 2015. With very tight returns during the first half of 2016, dairy producers are in deep financial problems, worsened by the extreme floods that affected the main dairy basin.

An exceptionally strong “El Niño” in 2016 caused extensive floods in the main production areas in the provinces of Cordoba, Entre Rios, and Santa Fe. These floods along with a sharp increase in production costs and low farm gate prices during the first half of the year placed downward pressure on output. Even after the weather improved in August, an estimated 80 percent of dairy farms are still in a critical situation with lingering financial problems. This situation will be reflected in CY 2017 output as production is expected to be slow during the first third of the year, slowly recovering towards the second half, according to contacts.

Due to high inflation (estimated at about 30 percent), and increased production costs, producers shifted from more intensive production schemes to more forage-based nutrition, which is less costly but results in lower yields per cow. Even with the correction of farm gate prices in June/July (currently US$ 0.28

per lt.), many inefficient producers and those who suffered flood damage left production. It is estimated that at least 400 dairy farms closed this year. The adverse weather hit the most productive dairy provinces of Cordoba, Entre Rios, and Santa Fe. Producers in Buenos Aires province have been relatively unaffected by the recent weather patterns.

Provincial Map of Argentina
Source: Maps of World[1]

Herd Size

Post forecast Argentina's dairy herd to decline by 5 percent to 1.63 billion head as sector consolidation continues due to lingering financial problems in addition to a difficult CY 2016. The lack of expansion is indicative of a major repositioning of the dairy herd – composed of 80 percent Holstein and 20 percent Jersey cows. The average dairy farm in Argentina is increasing in land area, cow productivity, and heard size as a result of many small producers leaving the dairy business. Thus, milk production in Argentina is increasingly concentrated in the hands of medium to large producers who are efficient, use more technology and are intensifying their production schemes. Whenever a small dairy operation is purchased by a larger one, inefficient cows are discarded, contributing to reductions in the cattle herd.

Farm gate prices

Post contacts conclude that up until May/June 2016 Argentine farm gate prices were 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, the recent rise in farm gate prices – currently at of 4.43 AR$ (0.28US$) - should help producers cover costs and secure adequate returns. Moreover, sector sources that the industry expects prices could rise even further.

Average price paid to farmers (per liter in Argentine pesos) Average Rate of Exchange: 1US$ - 15.20 AR$												
Year	**JAN**	**FEB**	**MAR**	**APR**	**MAY**	**JUN**	**JUL**	**AUG**	**SEP**	**OCT**	**NOV**	**DEC**
2011	$ 1,42	$ 1,49	$ 1,54	$ 1,57	$ 1,54	$ 1,54	$ 1,51	$ 1,50	$ 1,50	$ 1,48	$ 1,48	$ 1,47
2012	$ 1,50	$ 1,53	$ 1,57	$ 1,59	$ 1,59	$ 1,58	$ 1,58	$ 1,56	$ 1,54	$ 1,55	$ 1,58	$ 1,63
2013	$ 1,73	$ 1,81	$ 1,94	$ 2,04	$ 2,08	$ 2,11	$ 2,14	$ 2,15	$ 2,17	$ 2,20	$ 2,25	$ 2,30
2014	$ 2,47	$ 2,69	$ 2,79	$ 2,94	$ 2,97	$ 3,06	$ 3,15	$ 3,11	$ 3,15	$ 3,18	$ 3,25	$ 3,22
2015	$ 3,17	$ 3,25	$ 3,23	$ 3,28	$ 3,26	$ 3,19	$ 3,07	$ 2,84	$ 2,68	$ 2,68	$ 2,60	$ 2,58
2016	$ 2,75	$ 2,81	$ 2,89	$ 3,35	$ 3,96	$ 4,12	$ 4,19	$ 4,27	$ 4,38	$ 4,43		-

Source: Argentine Ministry of Agriculture, Subsecretariat of Dairy

Investment

La Serenisima (Mastellone Group, one of the main dairy companies in Argentina) is building up a dual drying plant for DWMP and whey, in Trenque Lauquen, Buenos Aires Province. The investment is estimated in $ 50 million and the plant is expected to be operational in 2017.

Consumption

Domestic consumption of dairy products in 2017 is forecast to grow only marginally, with most growth in fluid milk consumption. The Argentine consumer is experiencing serious economic difficulties and lower purchasing power. Despite more affordable prices and special sales offered by companies, there is small margin for growth. Fluid milk in Argentina retails between US$0.39 and $1.10 per liter. 2017 fluid milk consumption is expected to grow 2 percent to 1.8 million tons, while consumption for cheese, butter, and milk powder are expected to grow marginally.
Post estimates cheese consumption for CY 2016 at 460 MT, down 9 percent from USDA's CY 2015 official numbers. CY 2016 dairy consumption fell about 7 percent to an estimated per capita consumption of 190 liters. Over 90 percent of the cheese production is consumed domestically, despite

the loss of purchasing power suffered by the Argentine consumers. CY 2017 consumption is estimated to grow and recover to CY 2015 figures.

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 CY2017 to increase by two percent to 212,000 MT. This increase is due primarily to growth in cheese, DWMP, and butter exports. The modest recovery in milk production and signs of recovery of international prices are lifting 2017 export prospects. The devaluation of the Argentine peso in December restored some competiveness to Argentine dairy exports, but still not enough for most producers.

Lower production in CY 2016 impacted exportable supplies significantly. Exports of DWMP fell 5 percent during the first 8 months of CY 2016 compared to the same period of CY 2015, while cheese exports fell about 7 percent despite the larger purchases made by Russia.

Last June, Argentina signed an agreement with Brazil to export DWMP and DNFP. Both the private sector and the Ministry of Agro-Industry were involved in this agreement, under which 4,300 tons will be shipped monthly during 2016-17, and 4,500 tons monthly during 2018.

Brazil is once again Argentina's best market with a share of 35 percent followed by Russia (12 percent), Algeria (10 percent), China (9 percent), and Venezuela (7 percent).

Cheese varieties exported during the first half of the year in are soft (52 percent), semi soft (26 percent), and hard (15 percent). Russia has appeared again as an important market for Argentina with increased purchases of semi soft varieties of cheese.

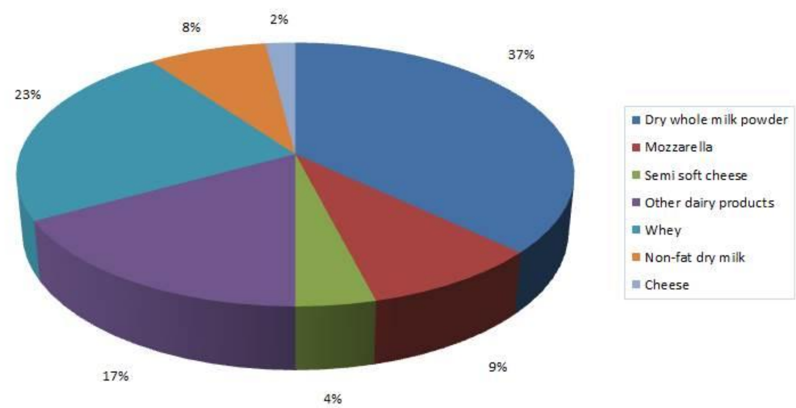
Argentina Export Statistics
Commodity: Dairy Products, Ex 04, 21, 17, 35
Year To Date: January - September

Partner Country	Unit	Quantity			% Share			% Change
		2014	2015	2016	2014	2015	2016	2016/2015
World	T	238165	205070	204274	100.00	100.00	100.00	- 0.39

Brazil	T	45571	47071	72635	19.13	22.95	35.56	54.31
Russia	T	22404	11859	24578	9.41	5.78	12.03	107.25
Algeria	T	40840	16459	20384	17.15	8.03	9.98	23.85
China	T	24407	20702	18321	10.25	10.10	8.97	- 11.50
Venezuela	T	42151	50116	14791	17.70	24.44	7.24	- 70.49
Chile	T	7986	7819	11322	3.35	3.81	5.54	44.79
Japan	T	3197	4735	4033	1.34	2.31	1.97	- 14.83
Mexico	T	1000	6255	3519	0.42	3.05	1.72	- 43.74
Uruguay	T	4482	4514	3430	1.88	2.20	1.68	- 24.02
Indonesia	T	5950	3200	3083	2.50	1.56	1.51	- 3.65
United States	T	4005	6298	2986	1.68	3.07	1.46	- 52.58

Despite the devaluation of about 45 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, maintaining markets open and exporting at the highest price is a key priority of the sector. The low prices in DWMP in world commodity markets have also had a negative effect on production and on export capacity for the Argentine dairy producers. There are high hopes in the sector with the latest recovery in international DWMP prices.

Argentina's exports participation per product



Source: Argentine Ministry of Agriculture, Under secretariat of Dairy

Imports

Dairy imports continue to be negligible; despite the change in import policy after the Macri administration took office in December 2015. Based on information obtained from customs database, dairy imports for the period January through August 2016 totaled roughly $ 11 million.
Imported dairy products are usually ingredients used for food processing. Imported products from this

past year included whey, modified whey, caseinates and milk albumin mainly from Germany and Netherlands.

Policy

The most important policy update for the sector is the removal of production subsidies during March of this year. Through this subsidy scheme, the government established a compensation of 0.3 $/lt (about 0.04 US$) to those producers with an average production below 2,900 liters per day. In August 2015, Resolution 769/2015 extended this support to farms that produce up to 6,000 liters daily. However, this group of producers received the subsidy only for the first 3,000 liters produced.

This subsidy was established by the government in March 2015 through Resolution 82/2015, and it was called the "Reconstruction Regime for the Small Dairy Producer". The subsidy was removed in March 2016.

Producers continue to adjust to the policies taken by the Macri Administration soon after it took power – most importantly the rise in grain prices. 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 17th. This boosted the competiveness 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.

PSD Tables

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	0	1630
Cows Milk Production	11552	11552	10000	10397	0	10605
Other Milk Production	0	0	0	0	0	0
Total Production	11552	11552	10000	10397	0	10605
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	11552	11552	10000	10397	0	10605
Other Exports	13	13	13	11	0	11
Total Exports	13	13	13	11	0	11
Fluid Use Dom. Consum.	2100	2084	1800	1743	0	1779
Factory Use Consum.	9439	9455	8187	8643	0	8815
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	11539	11539	9987	10386	0	10594
Total Distribution	11552	11552	10000	10397	0	10605
(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	50	45	0	43
Production	252	252	210	218	0	222
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	297	294	260	263	0	265
Other Exports	138	150	130	130	0	132
Total Exports	138	150	130	130	0	132
Human Dom. Consumption	109	102	90	90	0	92

Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	109	102	90	90	0	92
Total Use	247	252	220	220	0	224
Ending Stocks	50	45	40	43	0	41
Total Distribution	297	45	260	263	0	265
(1000 MT)						

Dairy, Milk, Nonfat Dry	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	0	0	0	0	0	0
Production	41	41	38	37	0	38
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	41	41	38	37	0	38
Other Exports	24	24	20	20	0	20
Total Exports	24	24	20	20	0	20
Human Dom. Consumption	17	17	18	17	0	18
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	17	17	18	17	0	18
Total Use	41	41	38	37	0	38
Ending Stocks	0	0	0	0	0	0
Total Distribution	41	41	38	37	0	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	0	35
Production	548	548	520	493	0	503
Other Imports	1	5	2	2	0	2
Total Imports	1	5	2	2	0	2
Total Supply	589	593	562	535	0	540
Other Exports	43	47	45	40	0	42
Total Exports	43	47	45	40	0	42
Human Dom. Consumption	506	506	495	460	0	468
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	506	506	495	460	0	468
Total Use	549	553	540	500	0	510
Ending Stocks	40	40	22	35	0	30
Total Distribution	589	593	562	535	0	540
(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	7	4	0	6
Production	50	45	42	42	0	43
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	54	49	49	46	0	49
Other Exports	9	9	6	7	0	8

Total Exports	9	9	6	7	0	8
Domestic Consumption	38	36	36	33	0	35
Total Use	47	45	42	40	0	43
Ending Stocks	7	4	7	6	0	6
Total Distribution	54	49	49	46	0	49
(1000 MT)						