

**Required Report:** Required - Public Distribution

**Date:** May 21, 2021

**Report Number:** AR2021-0012

**Report Name:** Dairy and Products Semi-annual

**Country:** Argentina

**Post:** Buenos Aires

**Report Category:** Dairy and Products

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**Report Highlights:**

MY 2021 fluid milk production is projected at 11.58 million tons, an increase of 1.1% over revised MY 2020 production levels. Argentine dairy producers have responded to a period of negative margins caused by rising feed costs and domestic price controls by increasing production. Recent price increases, if sustained, could lead to a return to profitability for medium to large sized dairies, but small dairies continue to struggle, leading to increased consolidation. MY 2021 dry whole milk exports are projected at 160,000 tons, up 8% over MY 2020 levels. Cheese and butter exports are projected to decline slightly.

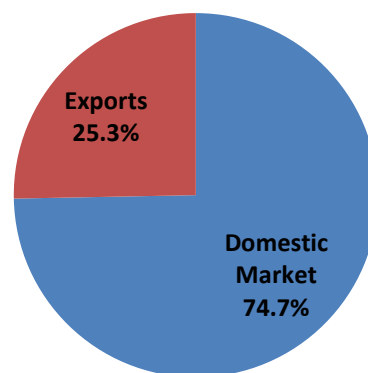
## Introduction:

The financial situation of Argentine dairies has deteriorated in recent months. Price controls intended to constrain food price inflation for consumers have generally not been updated in months, and these consumer prices have translated to stagnant (in dollar terms) farm gate milk prices. These flat prices have driven Argentine dairy margins into negative territory since September 2020 as feed prices have risen. Relatively mild weather and flat prices have incentivized farmers to produce more milk in an effort to generate revenue. Fluid milk production in the first few months of 2021 is surpassing 2020, which had the highest level since 2015. However, a reduction in the herd size since that time means that Argentina is unlikely to reach those all-time highs until the herd can be further rebuilt.

The current negative margins, especially for smaller producers, have led to continued protest by local dairy organizations who demand that current price controls be updated or abandoned. Price controls were recently extended until mid-June, but several dairy products were removed from the price control list, including: infant formula, grated cheese, cream cheese, dulce de leche, butter and margarine, yogurt, desserts and puddings. According to industry contacts, leading dairy processors are in negotiations with the government to establish minimum production levels for a variety of dairy products. The government's goal is to guarantee sufficient domestic supply to help contain food price inflation. An agreement could shield the dairy industry from export controls which the government has threatened or implemented in other agricultural sectors. The government is also implementing a new law intended to increase the diversity of food products on supermarket shelves by requiring a certain percentage of shelf space be devoted to products produced by small and mid-size businesses, and limiting how much space can be assigned to products from a single company. The effects of this law, which is beginning to be implemented in May 2021, are uncertain, but it could lead some small dairy processors to devote more production to the formal market. In the short run, supermarket chains are scrambling to diversify their suppliers to comply with the new law.

With mostly fixed domestic prices, trade continues to be important to the financial health of the dairy industry. According to a study by OCLA, a dairy industry organization, 25.3% of Argentine dairy production went into export channels. The top five destinations for Argentine dairy products are Brazil, Algeria, Russia, Chile, and China. While the domestic dairy

### 2020 Argentine Dairy Production by Destination



Source: OCLA

processing industry is less concentrated than many of its competitors, a smaller range of about 20-30 larger companies are focused on exports.

## **Production**

### *Fluid Milk*

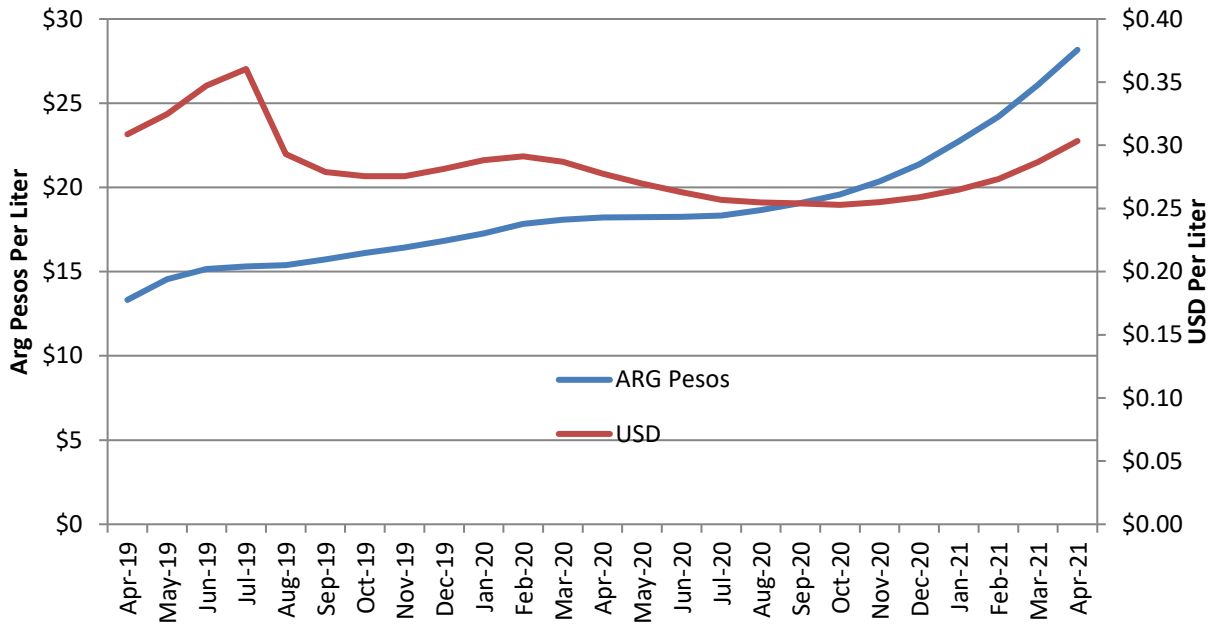
For 2021, Post maintains its production projection of 11,575,000 metric tons of fluid milk, an increase of 130,000 tons or 1.1% above revised 2020 production, which is now estimated at 11,445,000 tons, or 95,000 tons above USDA official.

Argentina's dairy sector is based primarily in the provinces of Buenos Aires, Santa Fe, and Cordoba. There are approximately 10,000 dairies in the country with about 80% having fewer than 500 cows. However, in terms of total number of cows, about equal number are on dairies with herd size above and below 500 cows. Argentine dairies utilize three types of production systems: pastoral, semi-pastoral, and stabled/indoor. By far the most common is the semi-pastoral or mixed production system, utilizing grazing when available and supplementing with compound feed. As a general trend, smaller dairies utilize proportionally more grazing and larger dairies more purchased compound feed.

A recent assessment done in conjunction between the Argentine National Agricultural Institute and a university partner (IAPUCO) estimated that in the first half of 2020, the value of a liter of milk was split by industry participants in the following manner: dairies receive 34.5% of the total value, processors 30%, retailers 23.5%, and 12% to taxes. Argentina has a low rate of concentration in the dairy processing sector relative to many of its competitors and much unused capacity. The Argentine Ministry of Agriculture estimates that only 49.8% of available industrial capacity was utilized in November 2020, the most recent month for which data is available.

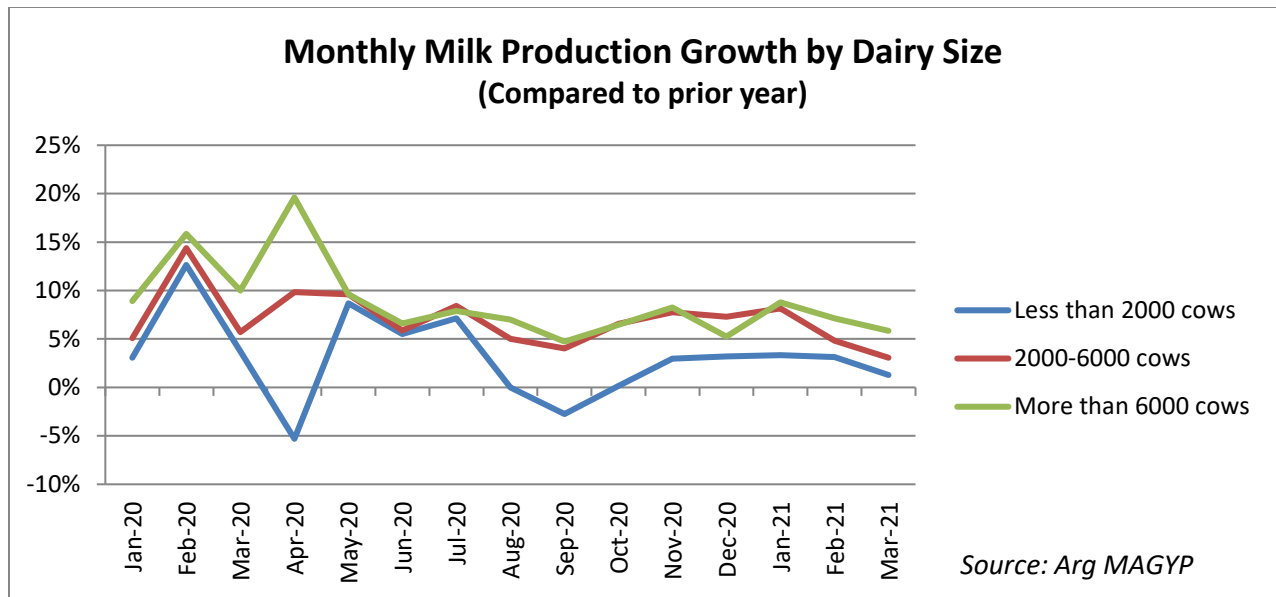
Increased input costs for dairies, notably feed, and flat to now slowly-rising (dollar) prices for milk have put pressure on the Argentine dairy sector. A trend toward continued consolidation is accelerating in 2021 as margins for smaller dairies under current prices are negative, while mid and large-size dairies are breakeven to slightly positive. Less pastureland will be available for grazing as dairy farmers plant available land to crops such as wheat, corn, and soybeans to reinvest current earnings in future commodities. Argentine dairies have access to lower cost feed than many of their international competitors because export taxes keep grain and oilseed prices artificially low. However, Argentine dairy farmers also receive a lower price per liter of milk than most of their competitors and export taxes on dairy products decrease profitability.

## Argentine Fluid Milk Prices Per Liter



Sources: Arg MAGYP, BCRA, St. Louis Federal Reserve

According to OCLA, margins for the median dairy turned negative in September 2020, but may now be approaching breakeven with recent increases in milk prices, but the situation varies by farm size. Small dairies have fallen further behind larger-scale rivals as their limited capacity means that they are unable to take advantage of high prices to produce more milk during times of higher prices (as was seen during 2019 and early 2020) but are also unable to use local market power to negotiate for lower feed prices when input costs rise. While smaller dairies used the higher prices of the recent past to retrench and recover from the crisis year of 2017, larger and medium-sized dairies invested in new barns to protect cows from hot summer weather conditions, road improvements, and in some cases, new robotic milking parlors. Industry contacts suggest that the investment in robotics is primarily driven by a desire to meet future consumer demand for ethically sourced dairy products (cows can choose their own milking times) and increased efficiency of operations. The new parlors reportedly don't reduce the number of employees needed, but, as the new systems require fewer experienced dairymen, the dairy can hire a more economical mix of low-skilled workers and higher-skilled technicians. Another factor which has affected dairy farms has been the relatively strong export demand from China for low-quality beef. The higher than average slaughter prices for older cows, have allowed some dairy farms to lower the average age of their milking cows by selling off older cows for slaughter, improving milk production per cow. Argentina's recent 30 day suspension of beef exports will negatively affect the dairy industry by reducing the market value of these cows.



### *Butter*

Post maintains its projection of 37,000 tons of butter for 2021, matching USDA official. For 2020, Post reduces its production estimate to 34,000 tons on weaker than expected domestic and international demand and latest government production statistics.

### *Cheese*

Post maintains its projection of 537,000 tons for 2021, matching USDA official. 2020 production is unchanged at 488,000 tons also matching USDA official. Cheese production is expected to recover in 2021 from low levels caused by long stretches of restaurant closures during the COVID-19 pandemic in 2020. Some cheese manufacturers stopped production for part of the year and sold their milk supply to larger processors for conversion into milk powder. In response to continued higher demand for cheese for at-home consumption, some traditional mozzarella manufacturers have transitioned to producing “queso cremosa” a related cheese with slightly lower moisture content that is easier to store and handle than mozzarella. There are approximately 300 small-medium sized cheese producers in Argentina. While there remains a strong informal market for cheese (especially mozzarella) in the greater Buenos Aires metropolitan area, economic pressures over the last year have led to greater formalization of the market. COVID-19 relief loans were only available to market participants on declared production and sales.

### *Whole Milk Powder*

Post maintains its 2021 whole milk powder production at 250,000 tons, matching USDA official. Post reduces its 2020 whole milk powder production estimate to 213,000 tons on latest government data.

## *Skim Milk Powder*

Post raises its 2021 skim milk powder production projection slightly to 51,000 tons, 2,000 tons more than USDA official on strong export demand and first quarter production numbers. Post revises its 2020 production estimate up to 52,000 tons on latest government data.

### **Consumption:**

Both fluid milk domestic consumption and factory use domestic consumption for 2020 have been revised upward in alignment with final official production statistics. Fluid milk domestic consumption is estimated at 1,800,000 tons, up 50,000 tons over USDA official and 9.4% over 2019 levels. Increased fluid milk consumption was driven by the COVID-19 pandemic consumption patterns. Argentina implemented strict lockdown measures at the start of the pandemic, with the greater Buenos Aires metropolitan area remaining under one of the longest lockdowns in the world. This encouraged more fluid milk consumption as families consumed more meals within the home. Additionally, price controls helped to make dairy protein affordable relative to other sources.

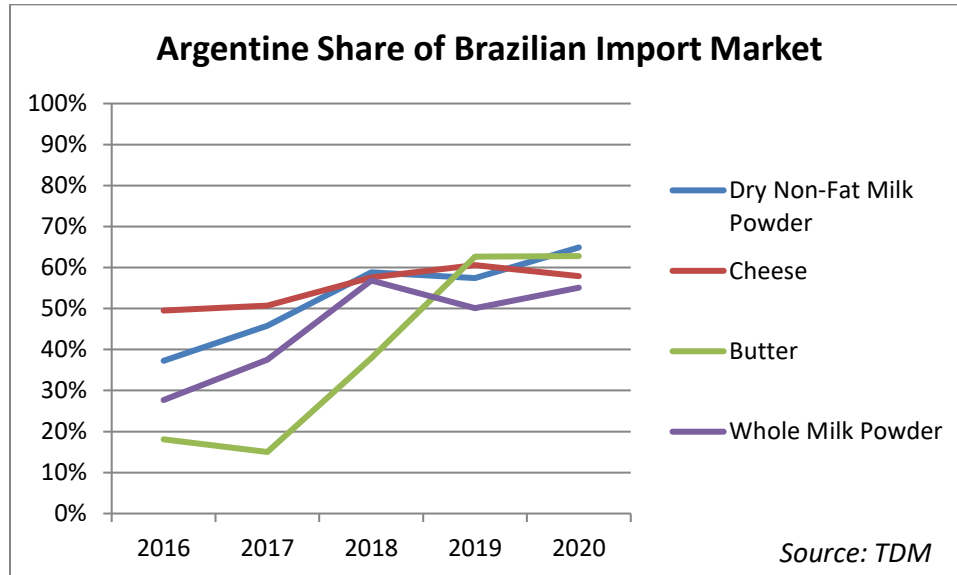
In contrast, Post lowers its estimates for domestic consumption of whole milk powder, cheese, and butter. Consumption declined as production decreased and the economic effects of COVID-19 measures and ongoing economic distress affected the market in different ways. The baking industry suffered a difficult year with more than 1,300 bakeries across the country closing during the year according to Argentine Bread-Industries Association (FAIPA). This affected demand for all three products, but especially butter and powdered milk. However, a dramatic rise in the home consumption of butter helped drive consumption upward relative to the prior year. The shuttering of much of the restaurant industry, particularly pizzerias which relied on foot traffic, was particularly damaging to cheese demand. Despite some recovery, this trend has continued into 2021 as many white-collar workers continue to work remotely, and government restrictions have limited nighttime operating hours for restaurants. Post reduces its estimates for 2020 domestic consumption of whole milk powder to 80,000 tons, 16,000 tons below USDA official and 4.8% below 2019 levels. Strong exports have led to lower ending stocks of whole milk powder in 2020, which reduces the available supply for 2021. Strong export prices and weak domestic demand lead Post to reduce its 2021 whole powdered milk consumption to 88,000 tons, 10,000 tons below USDA official but a 10% increase over 2020. Post reduces its estimate of 2020 domestic cheese consumption to 420,000 tons, 21,000 below USDA official 8.9% below 2019 levels. For 2021, Post reduces projected domestic cheese consumption to 460,000 tons, 13,000 tons below USDA official, but 9.5% over 2020. Post reduces its estimate for 2020 domestic butter consumption slightly to 20,000 tons which is 1,000 tons below USDA official, but still an increase of 42% over 2019. 2021 butter consumption is left unchanged at 18,000 tons, matching USDA official. Post leaves nonfat dry milk consumption unchanged and in line with USDA official for both 2020 and 2021.

## Trade:

Post projects 2021 exports of cheese at 65,000 tons, up 5,000 tons over USDA official but down 7% from 2020. Non-fat dry milk exports are projected at 29,000 tons, 4,000 over USDA official and 3.6% over 2020. All other 2021 export projections are unchanged from USDA official estimates.

Based on latest available trade data Post revises 2020 dry whole milk powder exports to 148,000 tons, down 12,000 tons from USDA official. However this still represents a 53% increase over 2019. Butter and non-fat dry milk are both revised slightly, 1,000 tons over USDA official, to 20,000 and 28,000 tons respectively. Cheese exports are unchanged.

Algeria and Brazil have been the top two markets for Argentine whole milk powder in recent years and increased exports to Algeria were the primary driver of higher 2020 exports. Brazil is the largest market for Argentine non-fat dry milk exports, though China has also made important purchases in 2020. Industry contacts indicate that Brazilian demand for Argentine dairy products remains strong and that international exchange rates are favorable toward continued exports. In recent years, Argentina has exceeded 50% market share in Brazil for all four products tracked. At a recent hearing of the Agriculture Committee in the lower house of the Brazilian Congress, Brazilian dairy groups recently claimed that Argentina (and other exporters) have been illegally dumping milk in Brazil.



On October 15, 2020 Argentina regained dairy market access to South Korea, a market it last exported to in 2016, when sanitary authorities blocked imports. Argentina will be permitted to export butter, cheese, whey, powdered milk, and cream. Prior to 2016, Argentina shipped limited quantities of fluid milk and cheese to South Korea.

Argentina is a strong net exporter of dairy products, importing only limited quantities of dairy products from neighboring countries. These limited imports are projected to continue at low levels due to the difficult economic situation in Argentina.

### Stocks:

End of year stocks for 2020 were revised downward for cheese, butter, and whole fat powdered milk due to strong exports and lower than expected production in the last quarter of 2020.

Dairy, Milk, Fluid Market Year Begins	2019		2020		2021	
	Jan 2019		Jan 2020		Jan 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Argentina						
Cows In Milk (1000 HEAD)	1598	1598	1610	1610	1615	1615
Cows Milk Production (1000 MT)	10640	10640	11350	11445	11575	11575
Other Milk Production (1000 MT)	0	0	0	0	0	0
Total Production (1000 MT)	10640	10640	11350	11445	11575	11575
Other Imports (1000 MT)	1	1	1	1	1	1
Total Imports (1000 MT)	1	1	1	1	1	1
Total Supply (1000 MT)	10641	10641	11351	11446	11576	11576
Other Exports (1000 MT)	0	0	0	0	0	0
Total Exports (1000 MT)	0	0	0	0	0	0
Fluid Use Dom. Consum. (1000 MT)	1645	1645	1750	1800	1825	1825
Factory Use Consum. (1000 MT)	8996	8996	9601	9646	9751	9751
Feed Use Dom. Consum. (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	10641	10641	11351	11446	11576	11576
Total Distribution (1000 MT)	10641	10641	11351	11446	11576	11576
(1000 HEAD) ,(1000 MT)						

Dairy, Dry Whole Milk Powder Market Year Begins	2019		2020		2021	
	Jan 2019		Jan 2020		Jan 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Argentina						
Beginning Stocks (1000 MT)	20	20	29	29	40	14
Production (1000 MT)	188	188	267	213	250	250
Other Imports (1000 MT)	2	2	0	0	0	0
Total Imports (1000 MT)	2	2	0	0	0	0
Total Supply (1000 MT)	210	210	296	242	290	264
Other Exports (1000 MT)	97	97	160	148	160	160
Total Exports (1000 MT)	97	97	160	148	160	160
Human Dom. Consumption (1000 MT)	84	84	96	80	98	88
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	84	84	96	80	98	88
Total Use (1000 MT)	181	181	256	228	258	248
Ending Stocks (1000 MT)	29	29	40	14	32	16
Total Distribution (1000 MT)	210	210	296	242	290	264
(1000 MT)						



Dairy, Milk, Nonfat Dry Market Year Begins	2019		2020		2021	
	Jan 2019		Jan 2020		Jan 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Argentina						
Beginning Stocks (1000 MT)	5	5	8	8	7	10
Production (1000 MT)	45	45	48	52	49	51
Other Imports (1000 MT)	0	0	0	0	0	0
Total Imports (1000 MT)	0	0	0	0	0	0
Total Supply (1000 MT)	50	50	56	60	56	61
Other Exports (1000 MT)	22	22	27	28	25	29
Total Exports (1000 MT)	22	22	27	28	25	29
Human Dom. Consumption (1000 MT)	20	20	22	22	22	22
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	20	20	22	22	22	22
Total Use (1000 MT)	42	42	49	50	47	51
Ending Stocks (1000 MT)	8	8	7	10	9	10
Total Distribution (1000 MT)	50	50	56	60	56	61
(1000 MT)						

Dairy, Cheese Market Year Begins	2019		2020		2021	
	Jan 2019		Jan 2020		Jan 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Argentina						
Beginning Stocks (1000 MT)	30	30	64	33	42	32
Production (1000 MT)	523	523	488	488	537	537
Other Imports (1000 MT)	2	2	1	1	1	0
Total Imports (1000 MT)	2	2	1	1	1	0
Total Supply (1000 MT)	555	555	553	522	580	569
Other Exports (1000 MT)	61	61	70	70	60	65
Total Exports (1000 MT)	61	61	70	70	60	65
Human Dom. Consumption (1000 MT)	430	461	441	420	473	460
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	430	461	441	420	473	460
Total Use (1000 MT)	491	522	511	490	533	525
Ending Stocks (1000 MT)	64	33	42	32	47	44
Total Distribution (1000 MT)	555	555	553	522	580	569
(1000 MT)						

Dairy, Butter Market Year Begins	2019		2020		2021	
	Jan 2019		Jan 2020		Jan 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Argentina						
Beginning Stocks (1000 MT)	3	3	2	2	3	1
Production (1000 MT)	29	29	39	34	37	37
Other Imports (1000 MT)	0	0	0	0	0	0
Total Imports (1000 MT)	0	0	0	0	0	0
Total Supply (1000 MT)	32	32	41	36	40	38
Other Exports (1000 MT)	15	14	21	20	18	18
Total Exports (1000 MT)	15	14	21	20	18	18
Domestic Consumption (1000 MT)	15	16	17	15	18	18
Total Use (1000 MT)	30	30	38	37	36	36
Ending Stocks (1000 MT)	2	2	3	1	4	2
Total Distribution (1000 MT)	32	32	41	36	40	38

(1000 MT)

**Attachments:**

No Attachments