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Report Highlights:

Argentine dairy production is projected to continue to increase, and exports are expected to expand as well.

Includes PSD changes: Yes
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Executive Summary

Argentine milk production for 1999 is projected to increase at 9.75 MMT, the highest ever. The local dairy complex is to go through important changes. Output for the next three years is expected to grow at a 3-4 percent annually, higher than the domestic consumption which is expected to grow at a slower pace. Therefore, exportable surpluses will become greater. While some claim that the domestic demand has still opportunities to grow further, the processors are more inclined to believe that they will have to export more to a world market which is extremely competitive. Brazil has been in the past 3-4 years practically an extension of Argentina's domestic market (the largest three Argentine dairy companies have purchased small Brazilian dairy processors) helping to maintain a steady growth and good prices. However, with Brazil's growing milk output and a projected strong economic recession for 1999, local exports to that market are forecast to drop in both volume and value. Therefore, projected slower economic growth in Argentina, larger milk supplies and lower export values are expected to make the domestic market very competitive. This situation, unless there are weather problems, will push farmgate prices down. A very competitive market, with lower prices, is expected to accelerate the concentration of both the industry and dairies. Most people believe that cost of production, milk collection, industrial and marketing will have to come down.

The local dairy market totals \$4 billion, of which more than 90 percent is household consumption and the balance is institutional and industrial use. Argentina's average per capita consumption of milk (in all products) is 230 liters. However, the consumption throughout the country is very uneven. There are regions in which the average is lower than 40 liters. The local industry is planning to launch consumption campaigns to offset slower economic growth. The industry, and indirectly producers, have a serious marketing problem: the large powerful retailers. Their margins for fresh dairy products are reasonable (15-20 percent), but on cheeses, they are extremely high (+50 percent). Cheese manufacturing demands a little less than half of Argentina's total milk production.

Argentine dairy exports for the next few years are projected to grow. The milk equivalent in liters exported in 1997 was 1.2 billion, representing 12 percent of the total output. Projections for 2000 indicate that total exports, in equivalent liters, would increase about 25-30 percent. With Brazil's imports flat or lower, Argentina will need to develop new markets and increase its presence in Latin America (Chile, Venezuela, Cuba, Mexico, etc.). However, in these markets it will have to compete with other important suppliers such as New Zealand, Australia and the U.S. Cheese (semi-soft), dry milk and some UHT milk are the products which most likely will be exported. Therefore, the large local processors and producers are making a great effort in improving the quality of their milk.

Argentine dairy exports for the first eight months of 1998 totaled \$210 million, 10 percent higher than the same period of 1997. Exports to Brazil accounted for 75 percent, Paraguay 7 percent, U.S. 5.5 percent, and other Latin American countries 8 percent. Some large processors are currently working together to form a pool to export products to the world market at prices which they lose money, but know that by getting rid of those surpluses which put downward pressure on the market they will better defend the other 90 percent they sell domestically.

The Argentine dairy complex is analyzing the possibility of creating an entity to promote dairy consumption and exports, similar to the U.S. Dairy Export Council. However, this is very recent and will surely take some time to become a reality.

Imports of dairy products is quite limited to specialty products and some cheese from Uruguay. However, in the central-west part of the country, Soprole, a Chilean dairy company which was recently purchased by the New Zealand Dairy Board is penetrating this region with some fresh products. Volumes are quite small, but this is a good example of this board's strategy to have a foot hold in as many Latin American countries as they can.

Table 1. Fluid Milk

PSD Table						
Country:	Argentina					
Commodity:	Dairy, Milk, Fluid					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Cows In Milk	2400	2400	2500	2500	0	2500
Cows Milk Production	9200	9060	9700	9400	0	9750
Other Milk Production	0	0	0	0	0	0
TOTAL Production	9200	9060	9700	9400	0	9750
Intra EC Imports	0	0	0	0	0	0
Other Imports	20	18	20	3	0	0
TOTAL Imports	20	18	20	3	0	0
TOTAL SUPPLY	9220	9078	9720	9403	0	9750
Intra EC Exports	0	0	0	0	0	0
Other Exports	50	47	50	25	0	20
TOTAL Exports	50	47	50	25	0	20
Fluid Use Dom. Consum.	2180	2220	2220	2275	0	2320
Factory Use Consum.	6990	6811	7450	7173	0	7410
Feed Use Dom. Consum.	0	0	0	0	0	0
TOTAL Dom. Consumption	9170	9031	9670	9448	0	9730
TOTAL DISTRIBUTION	9220	9078	9720	9473	0	9750
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Production

Argentine milk output for 1999 is projected at a record 9.75 MMT. Although farmers' returns are expected to drop somewhat, dairy production still remains as one of the best agricultural alternatives. The large investment in the sector in the past decade resulted in better efficiency but also in the need to produce more and more.

Argentine dairymen have made great progress in herd nutrition in the last few years. Corn silage and alfalfa pastures, plus balanced feed, are the base of the typical diet of a local dairy. There is always a great debate on the “dairy system” to be implemented. Most people believe that the truth is somewhere in the middle between the U.S. and the New Zealanders. Cow productivity has increased significantly and it is currently at about 3,800 liters per year, much lower than the U.S.’ and also lower than the Australians, which have a more similar system to the one found here. The high humidity, mud and heat are the main problems which dairies in Argentina have to face. Feed availability is no problem as Argentina is a large exporter of grains, oilseeds and by-products. The 1997/98 crop was record.

The weather in most dairy regions in the country has been very erratic in the past three years. It was dry in 1995 and 1996. In 1997 and the first half of 1998 the country was affected by the El Nino current, causing greater rainfall than normal, which in some areas turned into floodings. The weather forecast is now anticipating La Nina (dryness) for November-December and next autumn. Although this past winter was extremely mild and beneficial, the condition of the pastures is not as good as expected for the time of the year. Feeding costs have dropped in the past year as result of the world’s lower grain and oilseed prices.

There are approximately 1,400 dairy processors operating in the whole country. Most of these are very small cheese manufacturers which are very competitive as they are able to evade government controls. The country’s two largest dairy processors account for more than 30 percent of the total output, the largest 6-7 companies account for about 60 percent of the total, the first 20 companies process approximately 75 percent of the total, and the balance is in hands of more than one thousand small processors. Based on this, we can divide the industry in three: a) the largest ones, which produce a wide line of products, have well known brands, dominate some key region and also attend Buenos Aires city and are exporters as well. They are in good shape, although some owe large sums as result of huge investments in the past few years; b) the small ones, which in general are cheese producers which process between 1,000-10,000 liters per day. There are more than 1,000 of these processors and they are doing good business as most of them evade taxes (value added tax is 21 percent) and have extremely low costs. As long as the Government of Argentina (GOA) does not tighten controls, they will continue to operate. However, the power and the concentration of the retailers will make their lives tougher; and c) the medium ones which are caught in the middle. They don’t have an efficient production scale, they cannot evade and they generally don’t have well known brands. There is currently a strong movement of these medium companies which are changing hands or are bought by larger ones. This trend to concentration is forecast to continue for some more time.

The local dairy processing industry has received more than \$1.5 billion in investment in the past years. Most of it went to modernize and make more efficient the processing and distribution, and a large portion to expand capacity, especially to dry milk. Although there are no official numbers, some sources estimate that the average capacity use throughout the year is 70-80 percent. Due to the current world financial crisis, most of the investment projects were stopped.

Although there is no official data, some sources estimate that nowadays there are only 20,000 dairy farms in Argentina. The number of producers has been dropping year by year and it is expected to continue to do so. Generally speaking, operations producing more than 2,000 liters per day and over are in good condition, but the smaller ones which are below 1,000 liters per day and drag debts are in

real trouble. These are mostly located in the central part of Santa Fe and Cordoba provinces.

At the farm level, there has also been a lot of investment, mainly associated to nutrition and quality of milk. As an example, the two largest processors receive 100 percent of their milk refrigerated. Local processors are making a lot of pressure to improve the quality of the raw material as they foresee that the export business will become more important every year, and to be competitive they need to have high quality products. The popularity of corn silage has been a tremendous success, as well as other means of preserving forage in the best manner possible. The improvement in cattle genetics has also been surprising. The U.S. is the largest supplier of top genetics, followed by Canada. Most of the importation is semen but some embryos and cattle are also imported. Well over 95 percent of the local dairy herd are Holsteins. The use of BST is not allowed in Argentina.

Argentina hasn't had a foot and mouth disease outbreak since April 1994. It has been declared by the IOE as free of FMD with vaccination. There is currently a great push in the country to eliminate cows with brucellosis and tuberculosis from the dairies. SENASA, the National Service of Animal Health, has been working together with producers and the industry, but a few months ago, one of the largest processors launched a program in which their producers have to eliminate sick cows in a short period if they still want to deliver milk to them. The payment scheme in Argentina is based on bonuses paid to the producer in order to encourage better quality. The factors which decide the final price of the delivered milk are: fat and protein content, purity, temperature (below 4 degrees C), volume, herd's sanitary condition, low somatic cell count, cleanliness of the equipment, etc.

Farmgate milk prices are free and vary depending upon the different regions and processors. The companies which normally pay more are those which are closer to Buenos Aires city as the cost of production is somewhat higher and the freight costs for the processors are somewhat lower. The other region is basically the one located in Santa Fe and Cordoba provinces in which a great proportion of the milk goes into cheese manufacturing. As an idea, last August producers were receiving on average \$0.21 close to Buenos Aires and \$0.19 in the other region. Top producers generally can get higher prices (\$0.25). Farmgate prices usually drop at the last part of winter as production in spring increases significantly. As an example, the processor which has the largest market share in Buenos Aires city has recently announced that the milk delivered in October will have a discount of about 4 percent. Although there are great discrepancies between farmers and processors about the real cost of production, most people agree that it is close to \$0.15/0.16 per liter for the efficient operations.

Producers' average gross margins have remained quite stable in the past year. While income diminished somewhat because of lower prices of rejected cattle sales it has been offset by lower feeding costs. However, farmgate milk prices for 1999 are forecast to decline (5%) because of a larger milk supply, depressed international prices and strong competition in the domestic dairy market. However, if the weather comes dry, a drop in production could support prices up.

The GOA's policy is generally free market without intervention. In the case of the dairy sector, this is especially true. There are no quotas, limitations nor subsidies to production.

Consumption

Argentine fluid milk consumption for 1999 is forecast at 2.32 MMT, the highest ever. Although the domestic economy is expected to slow down on account of the world's financial crisis, the industry is still estimating that the per capita consumption will be about or slightly higher than the population growth (1.2 percent). Of the country's total milk production, about 25 percent is destined for fluid milk.

Argentines continue to buy milk in 1-liter bags. However, since 1993 the growth of UHT milk in 1-liter cartons has been very important. This trend started as a way of stocking milk and being able to export to Brazil which represented a very interesting market. All the large processors developed lines of UHT (whole and non-fat). The abundance of milk and the fact that most large retailers now have private label UHT milk (generally produced by small or medium companies), has transformed this market into an extremely competitive one, putting downward pressure on the prices. Based on a recent study, Argentine per capita consumption of milk in 1997 was as follows:

Type	P.C. Cons. Liters
Pasteurized	43.9
UHT	14.3
Chocolate	1.2

The current price of a liter of fresh milk is about \$0.75/0.80, while UHT milk can be bought for about the same price or even lower.

Trade

Fluid milk exports for 1999 are expected to drop to 20,000 MT. The main reason for this is that Brazil, where consumption of UHT milk has gained tremendous popularity, is expected to import less as result of increased domestic production. Argentine exports of fluid milk (UHT) in the first eight months of 1998 totaled 21,600 MT, 43 percent less than the same period of 1997. Over 99 percent went to Brazil.

Imports of fluid milk for 1999 are forecast to phase out after continued imports of raw milk from Uruguay since 1991. This milk was bought by a few local processors which had difficulties to fulfill all their needs of milk and was further processed in Argentina. Now with excess production, these imports will disappear.

Policy

Argentina is a member of Mercosur together with Brazil, Paraguay and Uruguay. Bolivia and Chile are associate members. Mercosur had an external common tariff for dairy products of 14-16 percent. However, last year duties were increased by three points for all products. Therefore, current import

duties range between 17-19 percent. However, Brazil has an exemption for dry milk and is allowed to set a different duty to products imported from outside the region. Currently the import duty into Brazil is 33 percent, representing a very good advantage for dairy suppliers as Uruguay and Argentina pay no duty. Argentina has a statistical tax which used to be 3 percent on all imports, but last year it was reduced to 0.5 percent.

Marketing

Argentina is a large dairy producer with a good industry and an extensive line of products. Therefore, the importation of dairy products is quite limited. However, there is room in niche markets for some high value products which are not produced in the country, such as specialty cheeses, some ice-creams, etc.

Table 2. Cheese

PSD Table						
Country:	Argentina					
Commodity:	Dairy, Cheese					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Beginning Stocks	26	26	30	33	0	38
Production	405	415	420	420	0	425
Intra EC Imports	0	0	0	0	0	0
Other Imports	3	1	3	1	0	1
TOTAL Imports	3	1	3	1	0	1
TOTAL SUPPLY	434	442	453	454	0	464
Intra EC Exports	0	0	0	0	0	0
Other Exports	20	19	28	16	0	20
TOTAL Exports	20	19	28	16	0	20
Human Dom. Consumption	384	390	392	400	0	405
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	384	390	392	400	0	405
TOTAL Use	404	409	420	416	0	425
Ending Stocks	30	33	33	38	0	39
TOTAL DISTRIBUTION	434	442	453	454	0	464
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Argentine cheese production for 1999 is forecast at a record 425,000 MT. This is a result of larger milk output and an expected slightly higher domestic consumption.

The two largest local dairy processors have, or are in the process of expanding and improving their cheese manufacturing operations. Some sources estimate that there are more than 1,000 small cheese manufacturers in Argentina. Of the country's 1997 total milk output, cheese manufacturing accounted for 43 percent of the total use:

Type	% of Total Milk
Soft	9
Semi-soft	15
Hard	19

Although the world financial crisis has already affected the local economy, and the GDP for 1999 is expected to remain practically the same, the industry is preparing a consumption campaign to offset a potentially weaker demand. Cheese manufacturers are suffering a serious problem as the large retailers are working with extremely high margins. This problem gets worse every spring when milk and cheese production grows rapidly. Wholesale prices then usually drop significantly and supermarkets take advantage to increase their margins but they don't translate the drop in price to the consumer. This is a problem very difficult to solve due to the marketing and buying power of the large supermarkets, which are currently selling more than 50 percent of the total food, and to the very atomized cheese supply. However, some sources believe that the only way to reduce the current retail margins of 50-80 percent is the expansion of the hard discount stores which are beginning to spread out in Buenos Aires city.

Cheese per capita consumption in 1997 was approximately 11.3 kilograms. The following table shows the per capita consumption and average retail price of cheese by type:

Type	Consumption (Kg)	Price (\$/Kg)
Soft	6.4	5.00
Semi-soft	3.4	7.50
Hard	1.5	11.50

Cheese exports for 1999 are expected to rebound to 20,000 MT. This will be a result of larger milk output and to the need to export surpluses and not stock large volumes which are financially expensive. Cheese exports during the first eight months of 1998 totaled 9,500 MT and \$30 million, 23 percent lower than the same period of the previous year. Following are 1998 (through August) exports by country:

Country	MT	\$ (1,000)
Brazil	4,582	14,000
United States	2,970	10,455
Paraguay	921	2,813
Mexico	425	939
Bolivia	279	672
Chile	182	643
Other	135	487

Imports of cheese in the same period of 1998 totaled 589 MT and \$2 million. The main suppliers were the Netherlands (356 MT and \$1.1 million), Uruguay (128 MT and \$428,000) and Austria (66MT and \$257,000).

Import duties for cheese are currently at 19 percent, plus a 0.5 percent statistical tax. Exports benefit with an 8.1 percent rebate.

Table 3. Butter

PSD Table						
Country:	Argentina					
Commodity:	Dairy, Butter					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Beginning Stocks	9	9	16	7	0	10
Production	56	49	65	52	0	55
Intra EC Imports	0	0	0	0	0	0
Other Imports	1	1	0	2	0	2
TOTAL Imports	1	1	0	2	0	2
TOTAL SUPPLY	66	59	81	61	0	67
Intra EC Exports	0	0	0	0	0	0
Other Exports	4	4	12	2	0	6
TOTAL Exports	4	4	12	2	0	6
Domestic Consumption	46	48	48	49	0	50
TOTAL Use	50	52	60	51	0	56
Ending Stocks	16	7	21	10	0	11
TOTAL DISTRIBUTION	66	59	81	61	0	67
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Butter production for 1999 is forecast at 55,000 MT. This increase is result of expected larger milk output as well as non-fat dry milk.

Consumption for 1999 is expected to increase marginally. The retail price for a 200-grams loaf of butter is \$1.40.

Exports for 1999 are projected to rebound somewhat at 6,000 MT. Exports during the first eight months of 1998 were 931 MT and \$1.9 million. Brazil accounted for 715 MT at \$1.49 million, followed by Russia with 100 MT at \$186,000. Other markets were Paraguay, Bolivia and Chile.

Imports for 1999 are estimated at 2,000 MT. Through August 1998, butter imports totaled 1,344 MT. The main suppliers were: Uruguay with 932 MT, Finland with 300 MT and Chile with 113 MT.

Import duties for butter are currently at 19 percent, plus a 0.5 percent statistical tax. Exports benefit with an 8.1 percent rebate.

Table 4. NFDM

PSD Table						
Country:	Argentina					
Commodity:	Dairy, Milk, Nonfat Dry					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Beginning Stocks	8	8	17	11	0	14
Production	40	40	45	40	0	45
Intra EC Imports	0	0	0	0	0	0
Other Imports	1	1	1	1	0	1
TOTAL Imports	1	1	1	1	0	1
TOTAL SUPPLY	49	49	63	52	0	60
Intra EC Exports	0	0	0	0	0	0
Other Exports	16	17	25	15	0	20
TOTAL Exports	16	17	25	15	0	20
Human Dom. Consumption	16	21	17	23	0	24
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	16	21	17	23	0	24
TOTAL Use	32	38	42	38	0	44
Ending Stocks	17	11	21	14	0	16
TOTAL DISTRIBUTION	49	49	63	52	0	60
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Nonfat dry milk output for 1999 is forecast at 45,000 MT, higher than the previous two years. This is a result of larger milk surplus which will be dried. The final production volume will vary depending on the export market prospects for whole or nonfat dry. At this point, most traders believe that Argentina is more competitive with whole dry milk.

There are 20 local processors which produce dry milk, of which the leading seven account for 97 percent of the total output. Dry milk for household use is typically consumed more in the interior of the country than in Buenos Aires city. In 1997 per capita consumption of nonfat dry milk was less than 1 kilogram. The retail price for a 400-500 gram-carton is \$2.87.

Exports for 1999 are projected at 20,000 MT as result of larger milk surpluses. Exports through the first eight months of 1998 were 9,170 MT at \$18.6 million. Brazil accounted for 87 percent of all exports, followed by Mexico and Paraguay with 5 percent each.

Import duties for nonfat dry milk are currently at 19 percent, plus a 0.5 percent statistical tax. Exports benefit from a 5.4 percent rebate.

Table 5. Dry Whole Milk

PSD Table						
Country:	Argentina					
Commodity:	Dairy, Dry Whole Milk Powder					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Beginning Stocks	22	22	39	20	0	24
Production	168	166	174	203	0	215
Intra EC Imports	0	0	0	0	0	0
Other Imports	9	9	5	1	0	1
TOTAL Imports	9	9	5	1	0	1
TOTAL SUPPLY	199	197	218	224	0	240
Intra EC Exports	0	0	0	0	0	0
Other Exports	55	62	65	80	0	92
TOTAL Exports	55	62	65	80	0	92
Human Dom. Consumption	105	115	107	120	0	122
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	105	115	107	120	0	122
TOTAL Use	160	177	172	200	0	214
Ending Stocks	39	20	46	24	0	26
TOTAL DISTRIBUTION	199	197	218	224	0	240
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Total output for 1999 is forecast at a record 215,000 MT. Greater milk production is expected to result in larger supplies of this product which is the most exported by far by Argentina. Considering the production of both dry milks, they account for about 20 percent of the country's total milk production.

Dry whole milk domestic consumption for 1999 is expected to increase marginally. Per capita consumption in 1997 was a little over 3 kilograms, more than four times that of nonfat dry.

Exports for 1999 are expected to continue to increase as Argentina is quite competitive with dry whole milk. However, if Brazil reduces imports, there could be some shift to nonfat dry production and fewer exports. Shipments in the first eight months of 1998 totaled 59,000 MT, and \$128 million, 66 percent more than in the same period of 1997. The following table shows exports through August 1998:

COUNTRY	MT	\$ (1,000)
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Brazil	49,452	105,982
Venezuela	3,776	7,640
Paraguay	2,597	8,033
Mexico	1,100	2,032
Chile	941	1,808
Bolivia	434	1,263
Ecuador	375	732
Peru	105	225
Colombia	100	177
Syria	60	110
Other	95	253

Imports of whole dry milk in 1998 and 1999 are forecast at 1,000 MT. Imports in 1998 have come so far from Australia, Uruguay and Chile.

Import duties for nonfat dry milk are currently at 19 percent, plus a 0.5 percent statistical tax. Exports benefit from a 5.4 percent rebate.