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Argentina

Dairy and Products

Annual Report

2006

Approved by:

Kari Rojas
U.S. Embassy

Prepared by:

Ken Joseph

Report Highlights:

Argentine dairy exports for 2007 are forecast to continue to grow as a result of a larger milk output and better expected returns than selling domestically. Most growth will be in dry whole milk powder, which is already shipped to more than 70 markets. Milk production is projected to grow, but at a slower pace, mainly because of tighter returns. Domestic consumption is also expected to grow as retail prices of dairy products are expected to continue to be controlled and due to increased purchasing power.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Buenos Aires [AR1]
[AR]

SECTION I. SITUATION AND OUTLOOK

Trade: Argentine dairy exports for 2007 are forecast to continue to grow, reaching a new record level. This is as a result of expected larger milk production, a continued strong world market, and positive returns in most cases. Approximately 22 percent of total milk output is projected to be exported, primarily in the form of dry whole milk powder (DWM) and cheese. Total dairy exports for 2006 are estimated at \$650 million, reaching almost 100 markets.

Exports of DWM for 2007 are forecast at 205,000 tons, the highest ever. Most of Argentina's milk that is not marketed domestically is dried. During 2006 exports of DWM will have gone to more than 70 markets throughout the world. Most sources indicate that exporting dry milk is a better alternative than selling dairy products in the domestic market, which has controlled prices. At current prices, and even with 10 percent export taxes (last August they were reduced from 15 percent), returns are still profitable. Most exports are focused primarily on South American and Northern African countries. The most important countries are expected to continue to be Algeria, Venezuela, Brazil, and Mexico. About half of the exports are made in 25-kilo bags and the other half in 500-gram packages. Large companies can provide 24-month shelf life on dry whole milk powder. A few local companies are supplying private label dry milk products for supermarkets in South Africa, Chile, and Brazil.

Cheese is the second most important dairy product exported and is also expected to total a record at 58,000 tons in 2007. Until 2004, Argentine cheese exports were about half of current volumes. Lowered production costs after the 2002 devaluation, improved FOB prices, and important investment in local medium and large processors stimulated cheese exports. The United States is expected to continue to be the largest market in 2007. Argentina receives a 6,800-ton tariff rate quota for cheeses shipped to the United States, of which 94 percent is for Italian-type cheese. Some exports are also done outside the quota. Other markets which are expected to expand are the Russian Federation, currently the second largest market, Japan, Korea and Taiwan. These countries are continuously increasing their purchases, primarily of semi-hard cheese and mozzarella. China is also a market that local cheese exporters hope will expand in the future. Industry contacts indicate that exporting cheese is currently not very profitable, but it has improved since last August, when the GOA brought down the export taxes on cheese from 10 percent to 5 percent.

Nonfat dry milk exports for 2007 are projected to increase to 20,000 tons, very small compared to WDM. Brazil, Chile, and Mexico are expected to continue to be the largest market. Exports of whey and modified whey products are expected to continue to grow quite rapidly as a result of several investments, which are now in operation.

Chile, the second largest market of Argentine dairy products through August 2006, has recently announced a 23 percent provisional countervailing duty on Argentine fluid milk, milk powder and semi-soft cheese. Chileans state that this safeguard will protect their dairy industry from price distortions caused by increased imports from Argentina. The safeguard will expire on April 2007. Through August 2006, Chile imported 26,000 tons of products, valued at US\$41 million. The main products were UHT fluid milk, DWM, semi-soft cheese and non-fat dry milk.

Dairy imports are negligible, expected at about \$12 million for 2006. Most imports are cheeses, which come from a wide variety of countries (primarily from Brazil, Uruguay, France). Imports from the United States are primarily whey products and other ingredients used in the food industry.

Production: Milk production for 2007 is forecast to grow at a record 10.8 million tons. Most sources indicate that the strong recovery initiated in 2004, after the economic crisis that negatively affected the sector, will slow down in 2007 due to, among other factors: 1) lower returns at the farm level due, primarily, to higher production costs and flat farmgate milk prices, 2) poorer conversion ratio between corn/milk, 3) low or negative returns at the processing level focusing on the domestic market, due to a maximum price agreement and growing costs, 4) a severe drought suffered during winter and early spring 2006 which will affect somewhat the availability of feed reserves, 5) strong production growth in 4 straight years with a very small herd expansion, and 6) a deceleration in investment after the increase in 2005 of export taxes (and the elimination of export rebates), and retail price agreements.

Most contacts foresee for 2007 a growing milk output, a stronger domestic demand, and also larger exports of dairy products. On one hand, exports are expected to be more profitable than selling in the domestic market, but on the other, most people forecast steady domestic demand. At the end of next year there will be Presidential elections and the government wants to have controlled inflation, mainly through price agreements, and stronger purchasing power. The industry will have to fine-tune the balance between the domestic supply and exports, in order not to put pressure on retail prices. If this were the case, most contacts predict that export taxes could be increased again to augment supply in the domestic market and keep retail prices under control.

Argentina's milk production costs are one of the lowest in the world. With a growing world demand, many foreign companies have been investing in this sector in the past few years. However, contacts indicate that after the changes of rules in 2005, investments have slowed down. There are no significant projects announced for 2007, except for the probability of selling part of the largest dairy cooperative which drags financial problems, and a strong expansion in milk production by one of the largest local farm companies. The current processing capacity is expected to be able to absorb the expected milk output growth of 2007. However, some industry people indicate that production capacity, especially drying facilities, will have to expand further if milk output continues to increase in 2008.

Argentina produces approximately 30 million liters of milk per day. Although there is no accurate data, most private sources estimate the total number of dairy operations at 12-12,500. Roughly 10 processing companies account for 25 percent of the total milk output, 100 companies process another 25 percent and 800-1,000 companies process the other half. The group of small producers is formed mainly by small fresh cheese manufacturers which do not export nor dry milk.

There are roughly 35 milk drying facilities in the hands of 20 companies. The daily processing capacity is approximately 14 million liters. Spring (August/December) is the peak period for drying milk, while the rest of the year, processing diminishes somewhat. Private sources indicate that there is unused capacity in cheese and some fresh products. The production and consumption of yogurt and dairy desserts has grown drastically in the past couple of years and it is expected to continue into the near future. All companies are at full capacity. The number one local company of fresh dairy products, which accounts for more than 60 percent of this market, is investing in expanding its processing capacity significantly.

Most local traders foresee relatively high FOB prices for 2007. Domestic retail prices of dairy products are expected to remain quite stable. In early 2005, the Government of Argentina (GOA) signed price agreements with the dairy sector to attempt to control growing inflation. Prices of most products were frozen for several months. In mid 2005, the dairy sector advised the GOA that it could no longer honor this agreement, since production costs -

especially farmgate milk prices – supported by strong export demand, had increased and they needed to raise the price of products in the domestic market. Due to lack of agreement within the industry, the GOA, in late July, decided to increase export taxes on dry milk from 5 to 15 percent and cheese from 5 to 10 percent. In early 2006, the two largest local dairy processors signed an agreement by which prices of the most popular dairy products would remain unchanged for one year. Just some minor adjustments would be possible if production costs increased significantly. On average, the price of the “dairy product basket” has not changed. Industry contacts hope to be able to increase prices marginally by the end of 2006 and in 2007 to partially offset higher production costs (labor, energy, packaging, etc.).

If retail prices increase slightly over the next 12 months, most people believe that some benefit will be passed on to milk producers. Since September 2005, after export taxes were increased, producers have received 0.50 pesos (US\$0.16-0.17) per liter of milk, practically unchanged in 12 months. During this same period, production costs increased about 10 percent, making returns shrink significantly. However, higher yields per cow partially offset higher costs. Large and very efficient producers are still enjoying reasonable profits, but if farmgate milk prices do not increase in 2007, many producers will lose money.

Policy: Since the 2002 crisis, the GOA has been trying to maintain local currency to be competitive and encourage exports, and also replace products which were imported in the 1990s. However, inflation has been running ahead of the local currency devaluation, eroding some competitiveness of the export sector. Most local economists project for 2007 an exchange rate of 3.20 pesos for each dollar (an increase of 3.2 percent) and an inflation of 10 percent.

The government does not have a specific policy to promote the dairy sector. In fact, many contacts believe that export taxes, the elimination of export rebates and price controls on dairy products are slowing down investment and thus the growth in milk output. The GOA is working on setting a system by which the price of milk will be generalized, based on quality and composition. It is also working on pricing information, through a dairy index, referential prices, and market prices.

As mentioned above, in 2005 the GOA, in order to control growing retail prices and thus inflation, increased dairy export taxes from 5 to 10 percent in the case of cheeses and from 5 to 15 percent for dry milk. It also suspended export rebates, which, depending on the products and sizes ranged between 3.4 percent and 6.0 percent. These measures had the objective of discouraging exports to enlarge the supply in the domestic market. In August 2006 the government brought down export taxes for cheeses to 5 percent and to 10 percent for dry milk as retail prices had not increased and the industry needed to improve its returns. There are several people who believe that export taxes on dry milk will come down further and even a few believe that rebates will be put back. However, several other contacts disagree, as they think that retail prices in 2007 could start to increase. A strong demand (both internal and external) and moderate milk output growth could put pressure on prices during some periods.

There is no specific entity which promotes and markets Argentine dairy products abroad. However, the government has a few programs which support the participation of local exporters at international food shows. Some provinces also have similar programs.

SECTION II. STATISTICAL TABLES

PSD Table

Country Commodity	Argentina						(1000 HEAD)(1000 MT)		
	2005	Revised	Post	2006	Estimate	Post	2007	Forecast	Post
Market Year Begin	USDA Official	Post Estimate	Estimate New	USDA Official	Post Estimate	Estimate New	USDA Official	Post Estimate	Estimate New
		01/2005	01/2005		01/2006	01/2006		01/2007	01/2007
Cows In Milk	2100	2100	2100	2150	2150	2150	0	0	2180
Cows Milk Production	9850	9850	9500	10300	10300	10300	0	0	10800
Other Milk Production	0	0	0	0	0	0	0	0	0
Total Production	9850	9850	9500	10300	10300	10300	0	0	10800
Other Imports	4	4	4	5	5	0	0	0	0
Total Imports	4	4	4	5	5	0	0	0	0
Total Supply	9854	9854	9504	10305	10305	10300	0	0	10800
Other Exports	10	10	14	10	10	18	0	0	12
Total Exports	10	10	14	10	10	18	0	0	12
Fluid Use Dom. Consum.	1900	1900	1800	2000	2000	1900	0	0	1960
Factory Use Consum.	7944	7944	7690	8295	8295	8382	0	0	8828
Feed Use Dom. Consum.	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	9844	9844	9490	10295	10295	10282	0	0	10788
Total Distribution	9854	9854	9504	10305	10305	10300	0	0	10800
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0

PSD Table

Country Commodity	Argentina			(1000 MT)					
	Dairy, Cheese			2006		Estimate		2007	
Market Year Begin	2005	Revised	Post	2006	Estimate	Post	2007	Forecast	Post
	USDA	Post	Estimate	USDA	Post	Estimate	USDA	Post	Estimate
	Official	Estimate	New	Official	Estimate	New	Official	Estimate	New
		01/2005	01/2005		01/2006	01/2006		01/2007	01/2007
Beginning Stocks	23	23	23	30	30	28	34	34	30
Production	400	400	460	425	425	475	0	0	488
Other Imports	2	2	2	4	4	2	0	0	2
Total Imports	2	2	2	4	4	2	0	0	2
Total Supply	425	425	485	459	459	505	34	34	520
Other Exports	45	45	52	65	65	55	0	0	58
Total Exports	45	45	52	65	65	55	0	0	58
Human Dom. Consumptic	350	350	405	360	360	420	0	0	440
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	350	350	405	360	360	420	0	0	440
Total Use	395	395	457	425	425	475	0	0	498
Ending Stocks	30	30	28	34	34	30	0	0	22
Total Distribution	425	425	485	459	459	505	0	0	520
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0

PSD Table**Country****Argentina****Commodity****Dairy, Dry Whole Milk Powder**

(1000 MT)

Market Year Begin	2005			2006			2007		
	Revised	Post	Estimate	Estimate	Post	Estimate	Forecast	Post	
	USDA	Post	Estimate	USDA	Post	Estimate	USDA	Post	
	Official	Estimate	New	Official	Estimate	New	Official	Estimate	
	01/2005	01/2005	01/2005	01/2006	01/2006	01/2006	01/2007	01/2007	
Beginning Stocks	25	25	25	24	24	23	19	19	26
Production	270	270	255	270	270	295	0	0	310
Other Imports	4	4	3	5	5	0	0	0	0
Total Imports	4	4	3	5	5	0	0	0	0
Total Supply	299	299	283	299	299	318	19	19	336
Other Exports	185	185	162	190	190	190	0	0	205
Total Exports	185	185	162	190	190	190	0	0	205
Human Dom. Consumptic	90	90	98	90	90	102	0	0	110
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	90	90	98	90	90	102	0	0	110
Total Use	275	275	260	280	280	292	0	0	315
Ending Stocks	24	24	23	19	19	26	0	0	21
Total Distribution	299	299	283	299	299	318	0	0	336
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0

PSD Table

Country	Argentina								
	Dairy, Milk, Nonfat Dry								
Commodity	2005			2006			2007		
	Revised	Post Estimate	Post Estimate New	Estimate	Post Estimate	Post Estimate New	Forecast	Post Estimate	Post Estimate New
Market Year Begin	01/2005	01/2005	01/2005	01/2006	01/2006	01/2006	01/2007	01/2007	01/2007
Beginning Stocks	4	4	4	2	2	6	2	2	6
Production	40	40	32	42	42	32	0	0	34
Other Imports	0	0	0	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0	0	0	0
Total Supply	44	44	36	44	44	38	2	2	40
Other Exports	22	22	16	22	22	18	0	0	20
Total Exports	22	22	16	22	22	18	0	0	20
Human Dom. Consumptic	20	20	14	20	20	14	0	0	14
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	20	20	14	20	20	14	0	0	14
Total Use	42	42	30	42	42	32	0	0	34
Ending Stocks	2	2	6	2	2	6	0	0	6
Total Distribution	44	44	36	44	44	38	0	0	40
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0