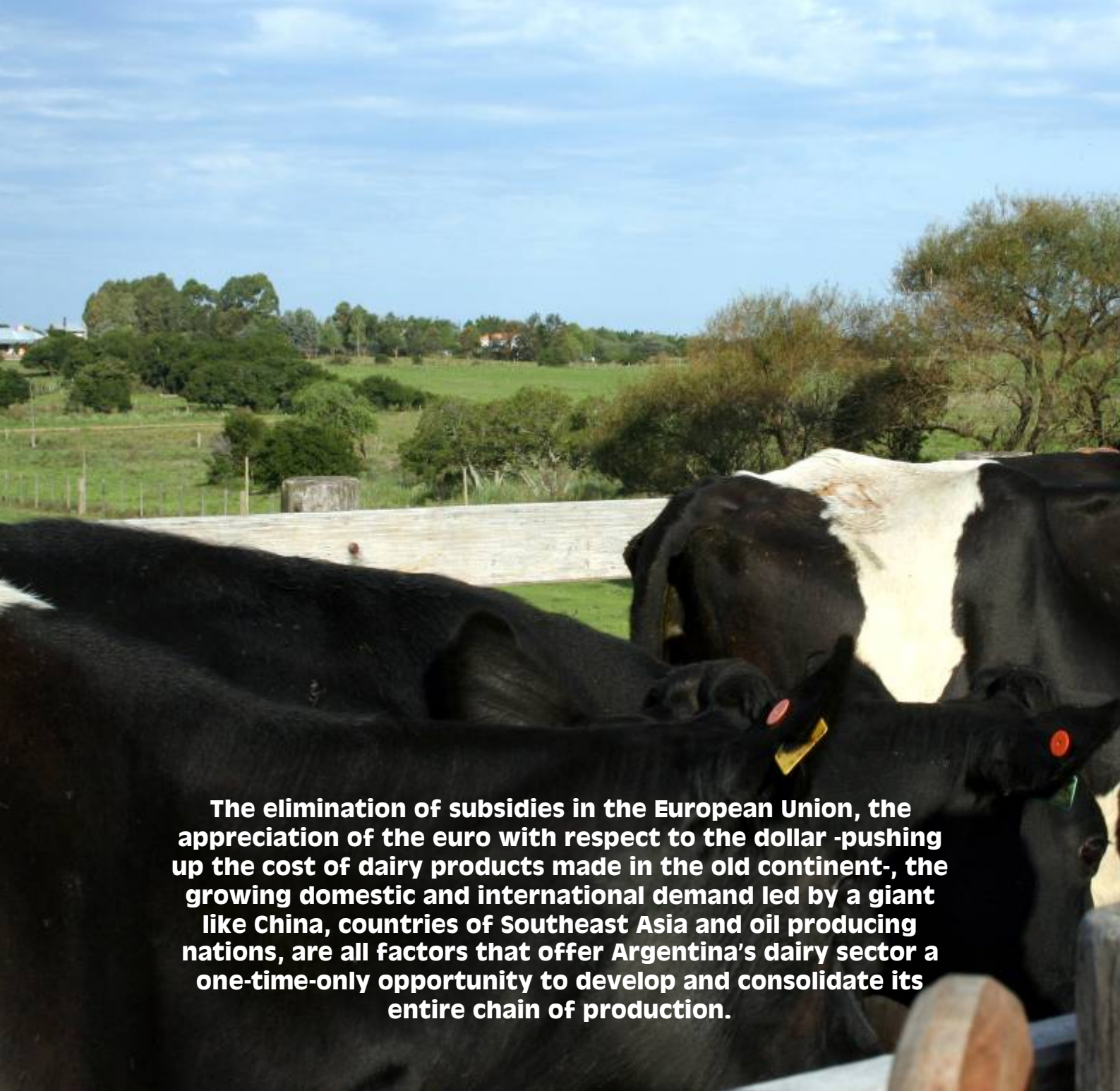




**“Unless we all work together to save  
Argentina’s dairy industry, there will be no  
saving it”**



**The elimination of subsidies in the European Union, the appreciation of the euro with respect to the dollar -pushing up the cost of dairy products made in the old continent-, the growing domestic and international demand led by a giant like China, countries of Southeast Asia and oil producing nations, are all factors that offer Argentina's dairy sector a one-time-only opportunity to develop and consolidate its entire chain of production.**

Strong consumer demand has combined with limited milk production growth in exporting countries to underpin a steep rise in the price of milk in international markets.

There was a time, not long ago, when powdered milk, the leading dairy product commercialized in the world, stood at 1,400 and 1,600 dollars a ton, while today it stands as high as 5,000 dollars. Although the latest shipments have not reached this maximum, there are no indications that there will be depreciation in the near or medium term.



**Argentina** has positioned itself, on its own merit and in spite of internal quarrels and disagreements, as one of the few countries with no ceiling limiting the growth of its dairy production.

However, and as is common knowledge, 2007 closed with a conflict between dairy farmers and industry operators, which was waged by only a handful of the country's dairy companies.

**The drop in production, the absorption of small and medium sized dairy farms by the larger establishments, the ostensible drop in exports, and the above conflicts were decisive elements that characterized the sector during 2007.**

With such parameters, readers caught unawares may well ask themselves what reasons could there be to feel optimistic about the future.

There are many countries in the world that would kill to have the problems that **Argentina** has to solve in the organization of its chain of production, because those countries simply don't have a chain of production to organize.

So, based on that simple realization, it would be stupid on the part of the country's dairy players to miss, once again, the chance to take the opportunities now opened for the national dairy industry.

**The steep international price of soy is exerting enormous pressure on the value of land leases, and thus it looms as a permanent threat to the production of raw materials in our country.**

Consequently, only a significant incentive to production will put it back on track to resume the pyramid of growth that is essential to **Argentina's** dairy development.

The financial and economic urgencies that have relentlessly accompanied national administration after national administration, have led the government to prioritize short-term solutions in detriment of the careful planning of resources.

The dairy industry constitutes one of the country's key pillars, but it requires proper State policies that address the medium and long term and are more comprehensive in scope.

As a result, our governments, always struggling under the weight of their foreign debts, have opted for implementing the alternatives that generate quick income, such as withholdings on soy exports, to the detriment of an activity, dairy production, that has not only been a typical component of our country's resources, it is also part of the backbone holding regional economies together.



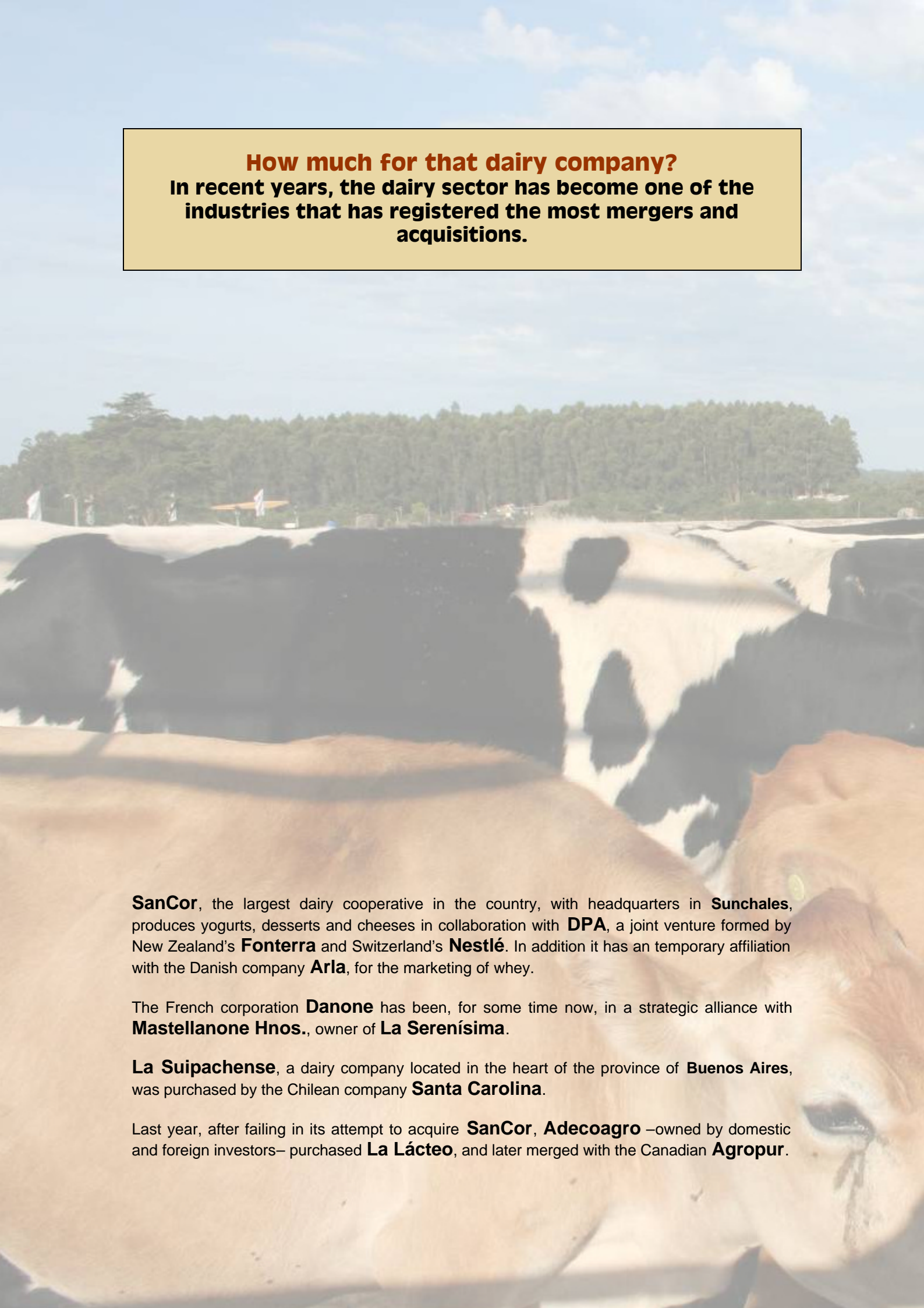
**In spite of the ups and downs, the dairy sector is alive, and the defense of the sectorial interests of dairy farmers and industrial producers, with the involvement of Argentina's government, may contribute to strengthen the sector if consensus is sought and the big picture is prioritized over the petty interests of each component of the production network.**

**Argentina's companies export to more than 120 countries in the world, a fact that clearly attests to the presence that local dairy products have gained in international markets; and this without organizing, without reaching any agreements, without State policies aimed at promoting the increase in the volumes of raw material.**

For this reason, in spite of the differences, the discouragement, the pessimism, and the door slamming, producers, industrialists and even the government may just realize that they might be taking a big leap forward by seeking alternatives that can satisfy the expectations and needs of both themselves and others.

If producers and industrialists were capable of building a globally competitive dairy sector, without the aid of a State policy to encourage it and provide incentives for it, how much more would this activity be able to grow if this government understands the reality of the situation -as we think it does- and without neglecting its role as guardian of the food security of all Argentines, it takes the lead to guide the general interests of the sector to project Argentina's dairy industry once and for all to the predominant place that the world has reserved for it, if we are able to do things right.

We dairy workers, the direct and indirect targets of the successes and errors of the players involved in this story, have never taken a passive stance in the face of these events and, one way or another, we have always ended up acting as self-appointed arbitrators of each situation.



**How much for that dairy company?**  
In recent years, the dairy sector has become one of the industries that has registered the most mergers and acquisitions.

**SanCor**, the largest dairy cooperative in the country, with headquarters in **Sunchales**, produces yogurts, desserts and cheeses in collaboration with **DPA**, a joint venture formed by New Zealand's **Fonterra** and Switzerland's **Nestlé**. In addition it has an temporary affiliation with the Danish company **Arla**, for the marketing of whey.

The French corporation **Danone** has been, for some time now, in a strategic alliance with **Mastellanone Hnos.**, owner of **La Serenísima**.

**La Suipachense**, a dairy company located in the heart of the province of **Buenos Aires**, was purchased by the Chilean company **Santa Carolina**.

Last year, after failing in its attempt to acquire **SanCor**, **Adecoagro** –owned by domestic and foreign investors– purchased **La Lácteo**, and later merged with the Canadian **Agropur**.

Also in 2006, the French **Bongrain** secured a 40 percent stake in **Milkaut**, from which the Chilean company **Bethia** withdrew. In this way, the new business added the **Santa Rosa** and **Adler** cheese brands. It should be noted that the dairy farmers organized under the Dairy Farmers Union Association (**AUT**) retain 55 percent of the shares. Between assets and money, **Bongrain** paid more than 25 million dollars for 40 percent of **Milkaut**. This figure, which could seem significant, in fact is not, if we bear in mind that the buying group has a gross turnover of roughly 5 billion dollars. The Peruvian group **Gloria** entered into an association with the Argentinean family **Gonella** to create the company **Corlassa** in the city of **Esperanza, Santa Fe**. For its part, the Belgian-Dutch corporation **Campina** acquired **Inovatech**, a company that commercializes dairy components.

Only a handful of important dairy companies remain in the hands of nationals; some of the most significant of these are **Sucesores de Alfredo Williner**, **Verónica** and the cooperative **Manfrey**, headquartered in the locality of **Freyre, Cordoba**.

For multinational dairy corporations, buying companies in our country involves a relatively low investment; this is possible primarily because Argentinean companies are financially distressed. In any case, what sets this activity apart is that local dairy companies, with a few exceptions, have not lost their majority stake nor have they relinquished control.



## **A bit of information**

**Although the year 2007 was not a significant milestone that we could use to plant optimism for the future, with seriousness, responsibility and the right strategic policies, Argentina could get back on the path of growth and position itself again in a privileged position in the international level.**

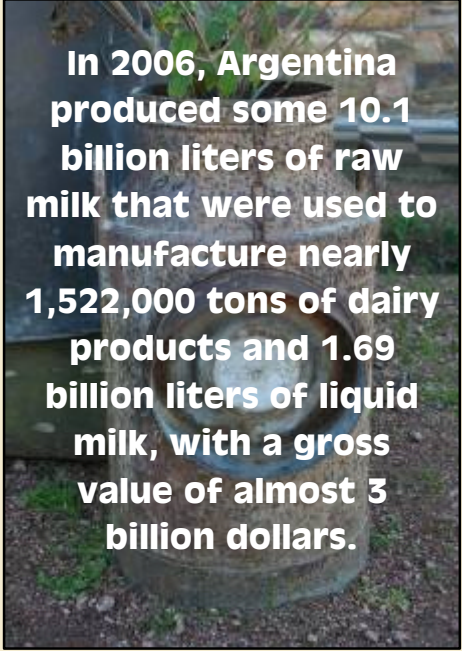
According to **FAO**, in **2006 Argentina was the fourteenth largest exporter of dairy products in the world by volume, with a 2.5 percent market share.**

Food Industry Board (**DIA**) estimates indicate that in 2006 **Argentina** produced some 10.1 billion liters of raw milk which were used to make nearly 1,522,000 tons of dairy products and 1.69 billion liters of liquid milk, with a gross value of almost 3 billion dollars.

**With respect to end products, it had a much more significant role: that year it was the world's third largest producer of powdered milk (with 9 percent of total global production) and the seventh producer of cheeses (with 3 percent of the total).**

In this setting, the increasing participation of certain categories of high value-added products –such as whey and its byproducts, semi-hard cheeses, modified milks, and, most recently, casein– is a promising sign.

According to **FAO** previsions, by 2030 the demand for products derived from animals will double, and milk and dairy product consumption will go from 45 to 66 kg. per capita in developing countries, and from 212 to 221 kg. per capita in industrialized countries.



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## Conclusion

**The dynamics seen in the prices of inputs over the last few months has made things difficult for dairy farm producers.**

In this scenario, the Secretary of Agriculture designed a system of compensations that range from 0.03 to 0.23 dollars per liter, depending on the size of the dairy farms (the bigger the farm, the lower the compensation).

This is obviously not the best measure for producers, as they themselves have pointed out; however, both farmers and industrial operators agree that a solution must be found to supply dairy products at reasonable prices to a portion of the population that is unable to pay exorbitant prices for such a vital staple as milk.

But both parties also acknowledge that that need must be accompanied by a consolidation and growth in production, and for that to happen the State needs to give out clear and concrete signs to stimulate dairy farmers to continue investing in an activity that, unlike others, once dismantled, cannot be rebuilt overnight. Closing down a dairy farm is not cheap, be it because of the loss of jobs, the uprooting of families forced to migrate from rural areas, the elimination of female animals, or other factors.

Even so, dairy farmers warn that it would be easier for many of them to decide to change to a different activity or to rent out their land, considering that dairy farming represents an economic effort that is 5 to 7 times greater than that of agriculture.

As things stand, most producers are asking for a floor of 0.3 dollars per liter of milk; this demand from dairy farmers clashes with the limitations imposed on the industry as a result of the maximum prices set for their own products.

In this context, the government is set to play a key role with respect to the scenario where this complex open-ended drama will play out.

The worst thing that can happen is a sequel of the conflicts between dairy farmers and dairy industrial producers, as in the past they were both involved in situations that got beyond their control.

**Since that time –a time of picketing and conflicts–, and even though very few have noticed, at ATILRA we have been actively involved in discussions with both parties, trying to build bridges through dialogue and consensus between farmers and industrial producers, and we have appealed to the highest authorities of the national government with the aim of overcoming conflicts and finding new ways to negotiate, discuss and reach agreements; because, in the end, and paraphrasing an old adage, “Unless we all work together to save Argentina’s dairy industry, there’ll be no saving it.” ■**