INTERNATIONAL FOOD & AGRIBUSINESS MANAGEMENT ASSOCIATION
19th ANNUAL WORLD SYMPOSIUM
Budapest, Hungary-June 20-23, 2009
"Global challenge local solutions"

"A STUDY OF THE PRODUCER-INDUSTRY TRANSACTION IN THE ARGENTINE MILK CHAIN. A NEW INSTITUTIONAL ECONOMICS APPROACH"

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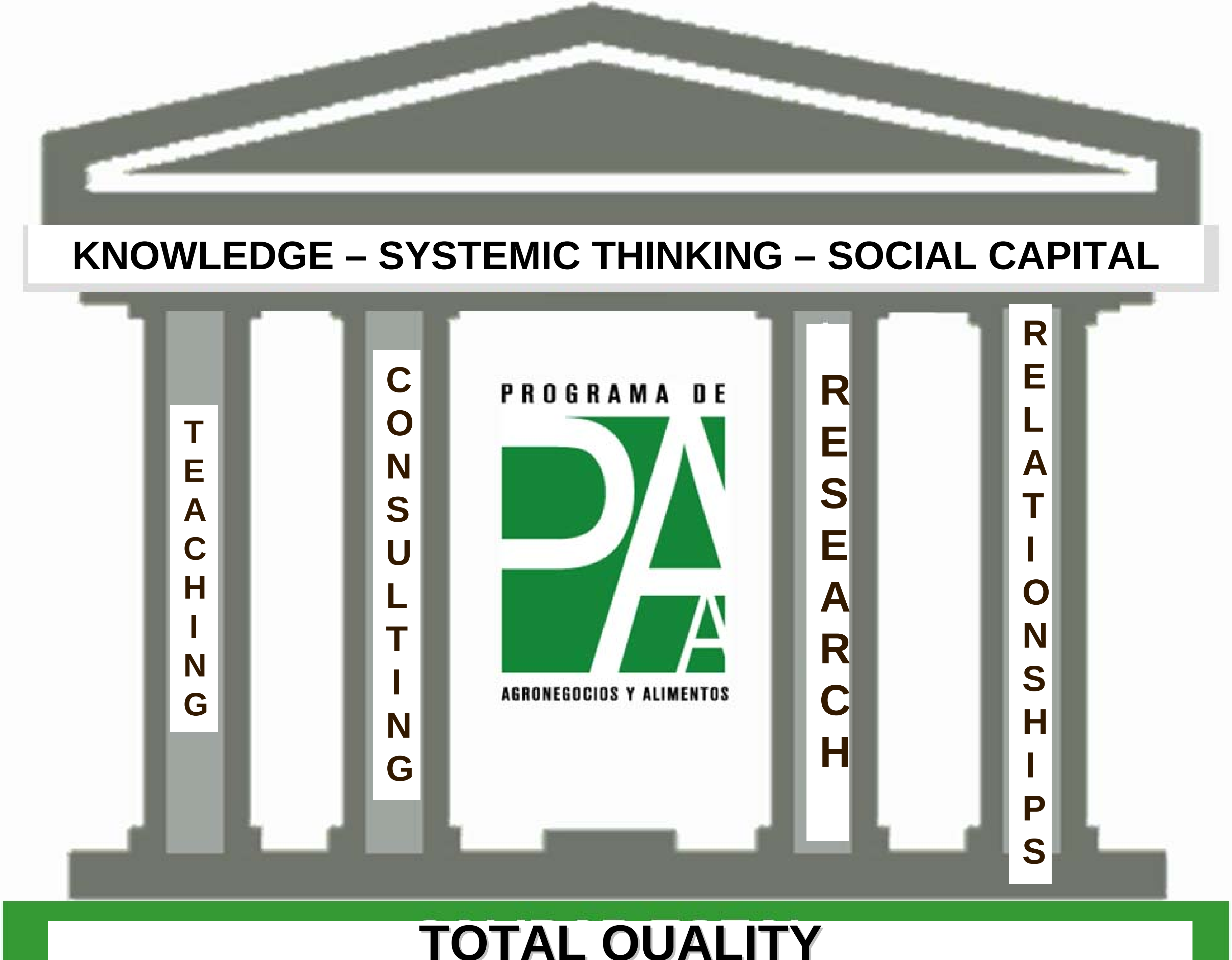
FAUBA

PROGRAMA DE PAA AGRONEGOCIOS Y ALIMENTOS

FOOD & AGRIBUSINESS PROGRAM


KNOWLEDGE – SYSTEMIC THINKING – SOCIAL CAPITAL
TEACHING
CONSULTING
PROGRAMA DE
AGRONEGOCIOS Y ALIMENTOS
RESEARCH
RELATIONSHIPS
TOTAL QUALITY

Introduction

- The Argentine milk sector has been undergoing a profound crisis in the past decades

- 11th position in the world's fresh milk production in 2007 with 9,527 million liters

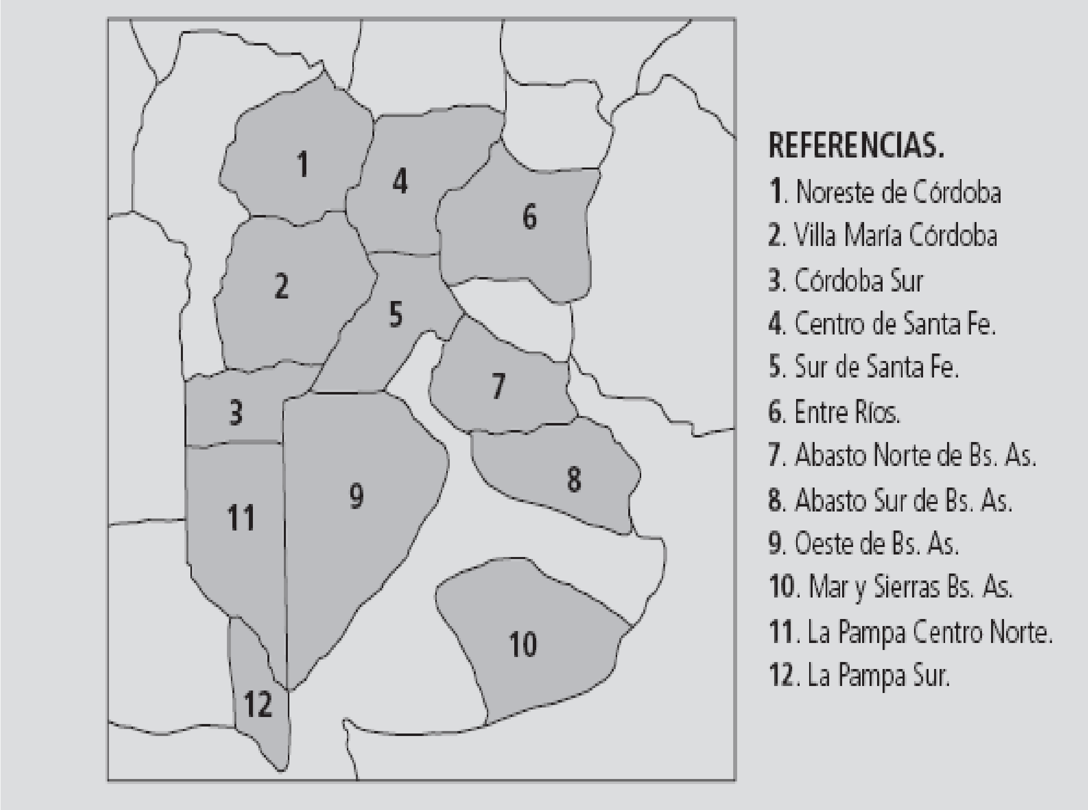
- Exports have dropped since government intervention (Resolution 61/07 of the Ministry of Economy, which established a maximum price for powdered milk sales abroad, thus discouraging exports)

- The chain's lack of transparency => its asymmetrical information!!! (evolution of prices and margins that represent one of the most complex problems concerning coordination and decision-making of Argentine dairy policy).

- This triggers recurring conflicts between producers and industrialists

Introduction

Mapa argentina



- Regional concentration: production and industrialization.
- Production: great atomization; Industry: monopoly

Objectives

The objective of this paper is to study the production-industry transaction in the cow's milk chain in Argentina, in order to find alternative contractual solutions

Procedures

The work was structured on two levels of analysis:

•macro analysis (sector statistics and institutional environment) and

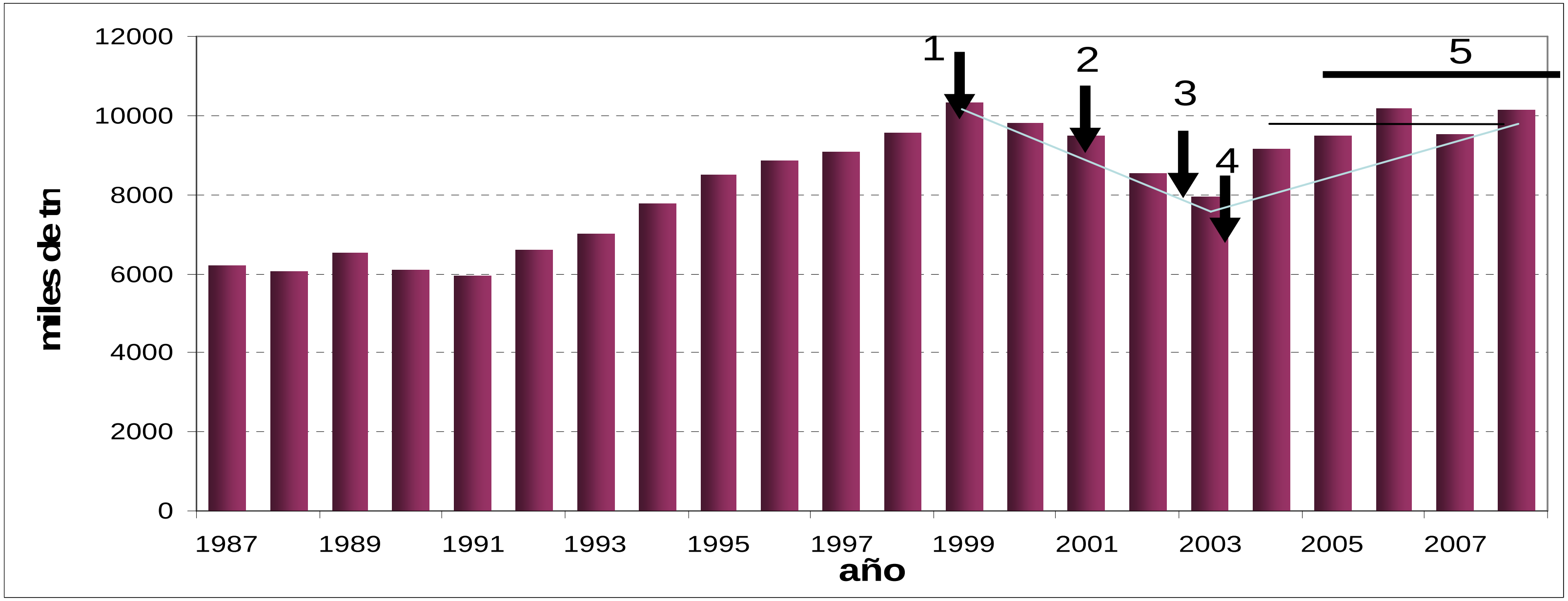
•microanalysis (governance structures)

✓Market, hybrids and vertical integration

✓Related to atributes of transaction (frequency, uncertainty, specif assets) and transaction costs

Argentine dairy facts

Milk production evolution in Argentina (1967-2008)



References: 1) Brazilian Crisis (devaluation); 2) Dairy Sector Crisis (Arg. devaluation); 3) Dairy Export taxes (5%); 4) International Prices Recovery; 5) Strong State Intervention (higher export taxes).

Argentine dairy facts

Intervention policies

1	**2002 – Great economic crisis in Argentina.**	**First implementation of export taxes: 5% for cheeses and 10% for powdered milk**
2	**July 25, 2005 – MEyP 406/05 resolution**	**20% increase in export rights for powdered milk and dairy and 10% for cheeses export rights**
3	**November 11, 2005 – MeyP 616/05**	**Suppression of export refunds raging from 3.4% for powdered milk to 6% for some cheeses**
4	**August 25, 2006 – MEyP 672/06**	**New reduction for export rights: 5% for cheeses and 10% for powdered milk**
5	**February 12, 2007 – MEyP 61/2007**	**2.100 USD/tn maximum price (price cut) for whole milk powdered external retail**
6	**December 31, 2007 – MEyP 370/07**	**Price cut increased to 2,650.0 USD/tn**
7	**August 2008**	**Price cut increased to 2770 USD/tn**
8	**July 21, 2008**	**Price cut increased to 3116 USD/tn**

Argentine dairy facts

Evolution of prices paid to farmers

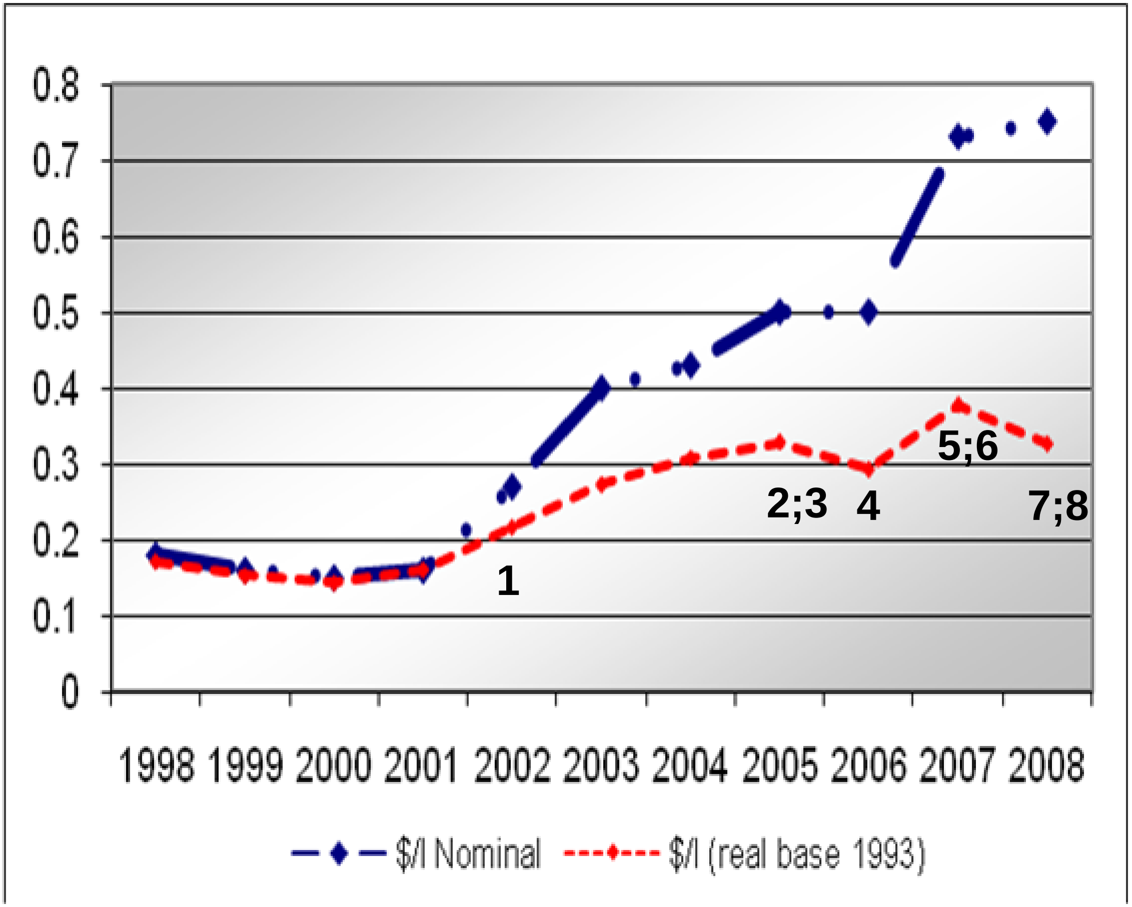
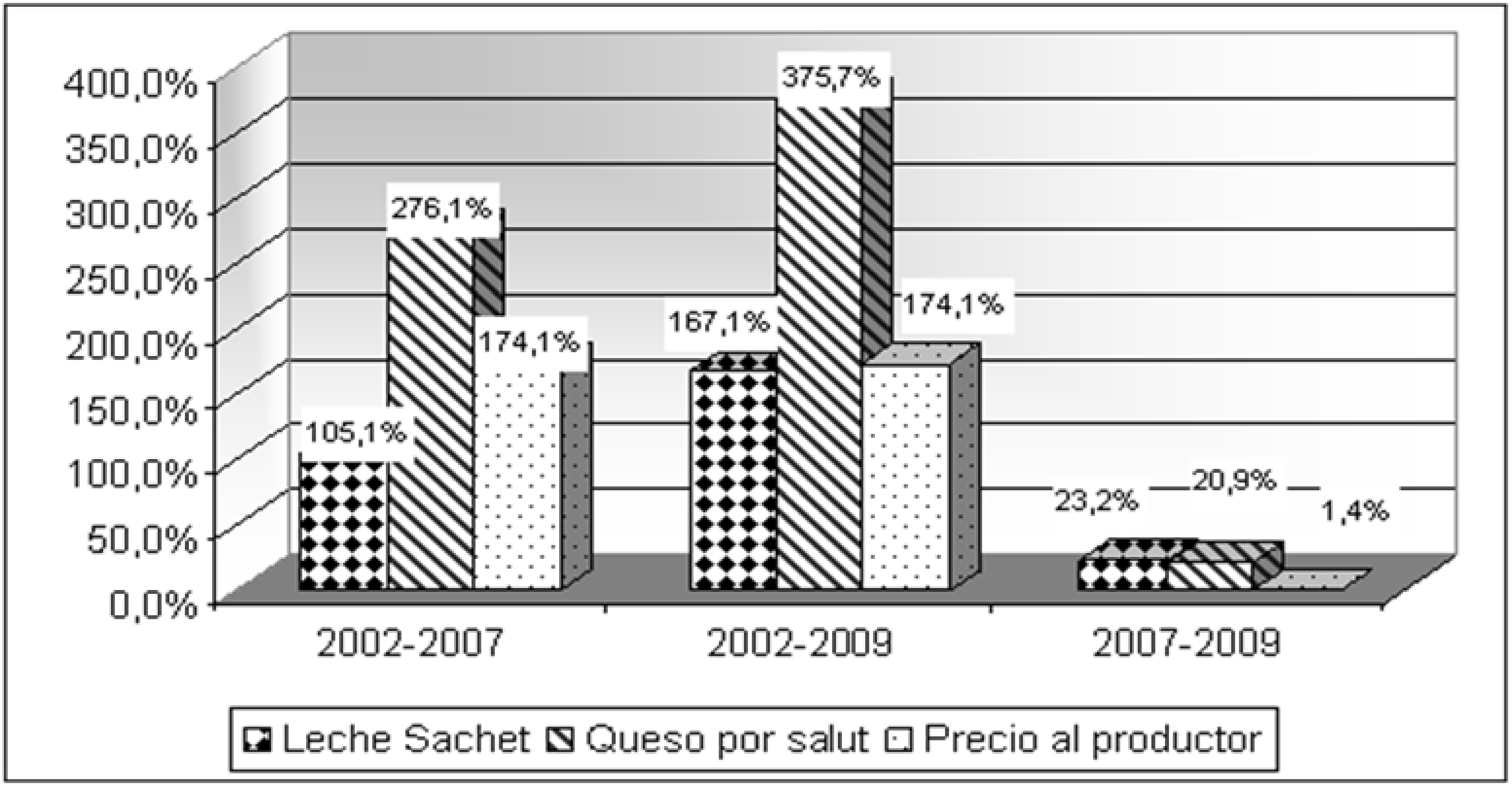


Grafico aacrea precios

Argentine dairy facts

Percentage increase in consumer prices of sachet milk and *por salut* cheese vs. dairy prices paid to farmers (nominal $/l and $/kg)



Source: PAA based in ADELCO

Governance structures

- Producers-Industry:
  - ✓High uncertainty
  - ✓High frequency
  - ✓High level of specific assets

Depending on volumes and quality:
- Market
- Hybrid forms (more or less formal)
- Vertical integration

- Price formation
- Lack of transparency
- Contractual ruptures

Governance structures

Solution to the transaction problem

- Argentina:
  - ✓Pool of production ("pool de leche")
- ✓Brasil:
  - ✓Grado de leite (EMBRAPA)
- ✓Spain:
  - ✓Ministry of Environment and Rural and Marine Environment

More formal contracts
Higher transparency
Lower level of TC

Conclusions

• The lack of transparency in the Argentine dairy chain and the product’s perishable nature have generated great tension between the agents

•Low bargaining power for producers encounter uncertain prices and payment terms.

•All of this is framed in a context of informal agreements (hybrid forms) between agents and an institutional environment with low legal security and fluctuating rules of the game.

•Not correct alignment of transaction

Conclusions

- Amid this scenario, the viable alternative is not coordination via price but rather coordination via contract, in particular, formal contracts.
- Examples in Brazil, Spain help to understand facing this problem.
- In Argentina, “pool of production” enhance bargaining power, but its rather a solution.

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THANK YOU VERY MUCH

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