

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Livestock and Products Annual

Annual Report 2010

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Report Highlights:

Argentine beef exports for 2011 are projected at 300,000 tons (carcass weight equivalent), unchanged from the reduced level of 2010. A smaller cattle herd, the beginning of a rebuilding phase, and government controls on export shipments are expected to result in the lowest export level of the past decade in both 2010 and 2011. Higher cattle prices and increased profitability are expected to result in additional investment in the breeding sector. Per capita consumption is forecast to be the lowest level in recent decades due to limited beef output, higher prices and increased consumption of pork and poultry.

Executive Summary:

SITUATION AND OUTLOOK

Trade: Argentine beef exports for 2011 are forecast at 300,000 tons carcass weight equivalent (cwe), the second year in a row of low volumes. This is the result of a strong contraction of beef supply due to an unusually high slaughter in 2009 and a smaller calf crop following the severe drought of 2008-09. Low prices in previous years due to government export restrictions to maintain low consumer prices also reduced investment in the sector.

Cattle and beef prices in the local market started to increase in December 2009, after a year and a half of relatively stable prices. In five months, prices increased nearly 70percent. Contacts indicate that higher cattle prices will play against 2011 beef exports in two ways: 1) by increasing pressure on the government to restrict exports to maintain retail beef prices under control; and 2) higher prices and a stable exchange rate are forcing exporters to pay high prices in dollar terms for their raw material, hurting export competitiveness.

With limited export volumes, Argentina is expected to focus more on exporting higher value cuts, as forequarter cuts compete with demand from the domestic market. Boneless frozen and chilled cuts will account for the bulk of the exports. Roughly 15 percent is expected to be processed beef.

Germany, which has the largest portion of the Hilton Quota, will be one of the top markets measured in volume, and most likely the number one market measured in dollar terms. Israel, with kosher cuts, and the Russian Federation are expected to continue to be the most important markets for frozen beef. Chilled cuts are likely to continue to flow to Chile and other European countries, but in smaller volumes than usual.

Production: Beef production in 2010 and 2011 is forecast at nearly 2.6 million tons (cwe), the lowest since 2002, and almost 500,000 tons less than the average output during 2003-2008. This is the result of reduced slaughter due to a liquidation phase and the drought suffered in 2008-09 which reduced the number of cattle and negatively affected the number of calves born in 2009 and 2010. Moreover, current and expected firm future prices for cattle are encouraging producers to begin rebuilding their depleted herds by retaining more female cattle. Smaller beef output will affect both the domestic market and export surpluses. Per capita beef consumption is forecast to be about 56 kilos, 10 kilos lower than the average of the past five years.

The local processing industry is facing increased costs of production and a significantly smaller business due to a considerably reduced cattle supply. Argentina's slaughter capacity is estimated at approximately 18 million head, significantly higher than slaughter projected for 2011. Beef exporters have reduced their operations by either shutting plants or reducing drastically the number of cattle slaughtered, with a negative impact on the cost of production. Most exporters have focused more and more on the domestic market, where it is hard to compete with plants focused exclusively on the local market. Little investment is expected in the sector in the next couple of years.

Most local economists predict for the rest of 2010 and 2011 an appreciation of the peso against the

dollar in real terms, as they expect inflation to be higher than devaluation of the peso.

Local cattle producers are enjoying high prices and increased profitability. The government has discontinued subsidies for feedlot production due high costs for the program, criticism of management of the program and higher cattle prices.

The Argentine Beef Promotion Institute (IPCVA), which is funded through a check off program paid by producers and processors, continues to promote beef in foreign markets. It also works closely with the government to open markets. In the past few years the institute has also focused on disseminating information on efficient and low cost management tools among producers.

Commodities:

Meat, Beef and Veal

Animal Numbers, Cattle

Production:

The National Animal Health Service (SENASA) recently reported that Argentina's cattle herd (to March 2010) was almost 49 million head, a drop of 8.5 million head from 2008 and the lowest stock level since 2002. Contacts in the sector believe that a herd rebuilding phase has begun, which is expected to show a moderate herd increase by late 2011. Many producers indicate, however, that uncertainty about future prices and government policies is causing them to be cautious about increased investment.

Rebuilding of herds will be slowed by the strong competition of crop land with pasture land. High profitability in crop production has resulted in several million hectares of good pasture being converted into soybean production during the last five years. Cattle breeding moved to land not suitable for crop production, and in many cases, with some supplemental feed. Part of the drop in pasture area in traditional regions has been offset by increased production in new areas, especially in the northern part of the country where new, highly productive pastures were developed. These new areas are not, however, as productive as more traditional producing areas.

Low or negative returns and the worst drought in the last 50 years forced an extraordinary high slaughter in 2009. The drought and unusually high slaughter of cows in recent years also reduced the number of calves produced. The significant reduction of cattle and beef supply and firm domestic consumption made cattle and beef prices increase rapidly in the first months of 2010.

Higher cattle prices have brought greatly increased profitability to the sector. Calf prices increased 130 percent in a year, while returns in a medium breeding operation improved 3 times. Limited supplies and a retention phase have increased expectations of good returns to breeders for the next few years. Current price for a British breed male calf ranges between US\$2.0-2.25 per live kilo. High prices for feeder cattle have encouraged producers to pay more attention to dairy breed calves, which can supply a

significant volume of additional beef. Fed cattle are selling at around US\$1.65 per live kilo, a record in at least the last 20 years.

The local feedlot sector has expanded significantly in the past ten years as the area of highly productive pastures has decreased significantly. There are approximately 2,200 feedlots officially registered in the country. In 2009 the sector accounted for 40 percent of the total slaughter and 70 percent of the slaughter supplying the domestic consumption. The current cost of conversion from corn to beef is very good. However, calf prices are very high compared to fed cattle prices which has cut into the returns of commercial feedlots.

Production from commercial feedlots in 2010-11 is expected to drop, due to small feeder calf supplies and elimination of the government subsidy. The government recently increased the minimum slaughter weight from 260 to 300 kilos live weight in order to encourage more beef production per head, which could cut into the profitability of feedlot operations. This requirement shortens feedlots' number of cycles in a year.

Commercial feedlots are also facing increased competition from on-farm operations, which feed their own cattle. Many cattle advisors are now encouraging breeders to grow out their calves on pastures in order to sell them to feedlots with a bigger frame and be finished at heavier weights. Breeders can easily market their calves at 250 kilos (instead of 160 kilos), with a small penalty in the price, making this operation very profitable. Breeders usually have access to relatively inexpensive feed or by products.

In March 2010, the government eliminated the support program for feedlots. The program was implemented in 2009 to encourage beef production and provided subsidies of US\$60-65 per fed animal. Feedlots currently have a large unused capacity, mainly due to limited cattle availability and lower returns. Most cattle in the sector are owned by beef distributors, supermarkets and some meat packers which need to secure their supply during times of cattle scarcity.

Based on the recent SENASA report, there are 210,000 cattle operations in Argentina, with an average herd of 233 head. Buenos Aires province leads the number of head with almost 16 million, followed by Santa Fe with 6 million head, and Corrientes, Cordoba and Entre Rios with 4-5 million head each. In the past two years, the highly productive provinces in the central part of the country have seen their herds reduced significantly, while in the center-north part of the country the number of cattle is expanding.

The government recently implemented a Federal Plan for Cattle and Meat, with the primary objective of improving supply of all meats. Private sector contacts indicate that the program will not, however, have a major impact on beef exports. For beef production, small and medium producers present, through their municipalities or provincial governments, investment plans to obtain funds. There are two tools which producers can access in order to invest in their operations: 1) there is a credit line of US\$150 million through state or provincial banks under which breeders can obtain credit to be paid back in 5 years at low rates, with 6 percentage points waived by the government; and 2) a non-refundable loan of US\$55 million.

The government is also leading the design of a strategic plan for the sector which could be passed into law 2011. Over 40 experts from the public and private sectors in the cattle beef chain are working to design this plan for the next 5 years.

Higher beef prices have allowed poultry and pork producers to increase prices, encouraging additional production. Poultry and pork production continue to expand. The Federal Plan of Cattle and Meats focuses also in these two sectors.

Disease Status: The OIE defines the northern part of the country as free of foot and mouth disease with vaccination, and the southern Patagonian region as free. It also considers Argentina as being a negligible BSE risk country.

Consumption:

Beef consumption in 2011 is forecast to continue to be very low at 2.255 million tons due to smaller cattle supplies and increased prices. Per capita consumption is expected to drop to 56 kilos, very similar to 2010, but the lowest of the past 50 years. Consumption of poultry and fresh pork is increasing significantly.

Retail beef prices are expected to remain firm in 2011. Despite high inflation, consumer purchasing power is expected to remain relatively stable. Beef prices have increased 60-65 percent since late 2009.

The most popular cuts in Argentina are short ribs and flank, which are generally consumed in barbecues, and top sides and knuckles to make “milanesas” (breaded veal), a very popular dish.

Over the last ten years, Argentines have transitioned from consuming grass-fed beef to mostly grain-fed beef almost without noticing it. The flavor and color has changed somewhat, but the quality in general has become more consistent since grain fed cattle account for the majority of the slaughter for the domestic market.

The recent increase in retail beef prices has created space for larger broiler and pork consumption. Argentines consume approximately 100 kilos per capita of meat, which shifts somewhat depending on availability and prices.

Trade:

Argentine beef exports in 2011 are forecast at 300,000 tons (cwe), similar to 2010, which is projected to be the smallest volume since 2001. The main constraints on exports in 2011 are expected to be: 1) very high local cattle prices in dollar terms, impacting on companies' export returns; 2) a big slaughter reduction due to the large drop in cattle supply; 3) official limitations on exports, making the business uncertain, and many times resulting in high financial costs (due to the uncertainty, exporters often prefer to produce frozen cuts instead of chilled, with strong losses in value); 4) in order to be able to obtain export permits from the government, large meat packers are required to sell popular cuts in the local market with strong discounts; 5) constant increases in dollar terms of processing costs.

Exports in 2011 are expected to be focused heavily on the EU, with Germany the main market for high value chilled cuts. Historically, Argentina ships about 60,000 tons (cwe) to the EU, of which more than half normally goes under the 28,000 ton Hilton Quota. Exporters forecast that other markets of importance will be the Russian Federation, Chile, Israel, Venezuela and Brazil. Thermoprocessed beef exports are projected to be limited as the price of raw materials is expected to remain high. Special products, such as IQF products are still expected to be exported. In the first half of 2010 Argentina exported 38 percent less thermoprocessed beef than in the same period of 2009.

Argentina did not fill the 2009-10 Hilton Quota. Local exporters claim the government issued permits too late and by that time the supply of heavy steers was scarce. The EU is expected to give Argentina an additional 1,000 tons under the quota. The EU and Mercosur are negotiating a trade agreement under which the EU would increase its import quotas significantly, but this is not expected to happen in 2011.

Argentina has applied to export beef under the EU quota that was established as part of the EU settlement with the United States in the hormone dispute (Brazil and Uruguay are also working with the EU to comply with the requirements).

The approval for Argentina to export fresh beef to the US is still pending (due to foot and mouth disease).

Local traders expect good FOB prices for 2011 as beef supplies from South America will be limited. Domestic consumption in these markets is growing, producing less surpluses for export. However, there is uncertainty on how fast the international market recovers after the world financial situation.

Stocks:

The cattle stock at the end of 2011 is forecast at almost 50 million head. It is expected to begin a mild recovery, after three years of contraction. Good prices, and diminished herds because of the liquidation and drought during 2008-09, encourage breeders to retain more females for breeding. Also, greater investment in the sector is expected to improve the low productivity of the local herd. Better genetics, together with stricter health programs and improved nutrition are likely to result in higher weaning ratios.

Production, Supply and Demand Data Statistics:

Animal Numbers, Cattle Argentina	2009			2010			2011		
(1,000 head)	Market Year Begin: Jan 2009			Market Year Begin: Jan 2010			Market Year Begin: Jan 2011		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Total Cattle Beg. Stks	54,260		54,260	49,057		49,057			48,656
Dairy Cows Beg. Stocks	2,100		2,100	2,100		2,100			2,100
Beef Cows Beg. Stocks	18,900		18,900	17,900		17,900			18,400
Production (Calf Crop)	12,000		12,000	12,200		12,200			13,200
Intra-EU Imports	0		0	0		0			0
Other Imports	0		0	0		0			0
Total Imports	0		0	0		0			0
Total Supply	66,260		66,260	61,257		61,257			61,856
Intra EU Exports	0		0	0		0			0
Other Exports	3		3	1		1			1
Total Exports	3		3	1		1			1
Cow Slaughter	5,800		5,800	3,850		3,850			3,750
Calf Slaughter	3,000		3,000	2,500		2,500			2,300
Other Slaughter	7,300		7,300	5,650		5,650			5,550
Total Slaughter	16,100		16,100	12,000		12,000			11,600
Loss	1,100		1,100	600		600			600
Ending Inventories	49,057		49,057	48,656		48,656			49,655
Total Distribution	66,260		66,260	61,257		61,257			61,856

Meat, Beef and Veal Argentina	2009			2010			2011		
(1,000 Metric Tons)	Market Year Begin: Jan 2009			Market Year Begin: Jan 2010			Market Year Begin: Jan 2011		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Slaughter (Reference) (1,000 head)	16,100		16,100	12,000		12,000			11,600
Beginning Stocks	0		0	0		0			0
Production	3,375		3,375	2,600		2,600			2,550
Intra-EU Imports	0		0	0		0			0
Other Imports	2		2	3		3			5
Total Imports	2		2	3		3			5
Total Supply	3,377		3,377	2,603		2,603			2,555
Intra EU Exports	0		0	0		0			0
Other Exports	655		654	300		300			300
Total Exports	655		654	300		300			300
Human Dom. Consumption	2,722		2,723	2,303		2,303			2,255
Other Use, Losses	0		0	0		0			0
Total Dom. Consumption	2,722		2,723	2,303		2,303			2,255
Ending Stocks	0		0	0		0			0
Total Distribution	3,377		3,377	2,603		2,603			2,555