

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **Argentina**

### **Livestock and Products Annual**

**Approved By:**

Lazaro Sandoval

**Prepared By:**

Kenneth Joseph

**Report Highlights:**

Argentine beef exports for 2018 are forecast to rise by 25 percent to 350,000 tons, carcass weight equivalent, and the largest volume of the past nine years. A steady rebuilding of herds is beginning to result in more cattle for slaughter. Additional beef output – estimated at 2.9 million tons for 2018 - is expected to be channeled to a larger domestic market and greater exports. Industry contacts indicate that despite the recently reinstated export rebates on beef, the relatively strong Argentine peso continues to put pressure on exporters who find it difficult to compete in many markets.

## **Commodities:**

Animal Numbers, Cattle

Meat, Beef and Veal

## **Production**

Argentine beef production for 2018 is expected to increase by almost 5 percent to 2.9 million tons, the highest level since 2008/09, as a result of higher slaughter and a marginal increase in the average carcass weight. Despite a greater slaughter level due to larger calf crops, most contacts believe it will take time for Argentina to increase beef production significantly while the export business continues with low profitability.

The local cattle herd is slowly recovering since 2010, the year in which the number of cattle bottomed at 48.1 million head, the lowest since 1964, due to a combination of negative returns and a severe drought. Calf crops in the last 6-7 years have ranged between 13.1-14.2 million head, while the number of cattle slaughtered ranged between 11.1-12.9 million head. On average, the herd recovered almost 1 million head a year during this period. The cow-calf business has been profitable in the past years and the herd has not increased further because of severe weather problems. The past three years have been very rainy in most of the country. Presently, important cattle-producing provinces such as Corrientes, Entre Rios, Buenos Aires, La Pampa, Cordoba and Santa Fe have vast flooded areas. Some provinces in the northern part of the country have suffered droughts in the past few years, and La Pampa province suffered in early 2017 an extensive fire which burnt over one million hectares. The ending stock for 2018 is forecast at 55.2 million head with 14.8 million calves expected to be born. This is the result of more cows being bred and excellent pasture conditions, despite flooded areas, due to a mild, rainy winter.

Many local analysts indicate that the Argentine cattle/beef chain has gained little efficiency in the past several years. The weaning ratio stands at 60-63 percent, without any improvement compared to 10-15 years back. The extraction rate, average carcass weight, and the production of beef remained practically unchanged. Because of this, the government recently launched a campaign targeted at commercial breeders with strategies to increase the weaning ratio with available technology (focusing primarily on sanitary, reproductive and nutritional aspects).

A growing cattle herd and tighter returns are expected to result in larger slaughter over the next few years. However, the local cattle/beef industry is presently structured in such a way that the market continues to slaughter young, light steers and heifers (320-350 live kilos) producing much lower volumes of beef per animal than what they could if they were finished at heavier weights as Argentina's neighbors do. Some reasons for this are: 1) inflation and high interest rates encourage production cycles to be as short as possible, 2) the strong value of the peso and high internal costs in dollar terms make exporters demand smaller volumes of cattle. Therefore, there is no price premium paid for heavier steers, the main category demanded by exporters. The availability of heavy steers (+440 live kilos) is lately half of its historic volume, 3) although back grounding is currently very profitable and some producers are expanding this business, it is still incipient, and 4) although consumers are beginning to accept larger beef cuts, they still prefer those which are smaller, from younger cattle.

The price of calves is expected to remain good. Cattlemen continue to be quite enthusiastic about the future of the business. The investment in higher quality genetics, new pastures and more cows is widely seen in different parts of the country. Bull sales, which many are taking place these days, are very active and they are bringing very good prices.

The demand of feeder cattle from feedlots is expected to remain high as contacts indicate that feed prices are expected to remain relatively low in the next year or so. Argentina has lost its significant capacity to finish cattle on pastures over the past decades. Greater crop production has aggressively taken most of the rich soils that once were pastures. Although it's difficult to know precisely, analysts estimate that roughly 80 percent of fed cattle are finished with grain (either on feedlots or at the ranches). Nowadays, feed lots are keeping cattle in production for 120-150 days (until a few years ago cattle would likely stay roughly 90 days). Efficient feedlots gain 1.2-1.3 live kilos per day. Excess rain during autumn/winter 2017 played against the efficiency of many feedlots located nearby Buenos Aires city, the country's main market for feedlot cattle.

Back grounding calves is becoming more popular, although the number of cattle under this system is still small. A minor portion is done in feedlots with feed rations lower in energy than those for fed cattle. Most of the back grounding is done by breeders on pastures with some supplemental feed. Cattle are typically fed 100 kilos in approximately 200 days, from weaning at 140-180 kilos to 240-280 kilos when they then are sent to feedlots to be finished.

The local meat packing sector is going through tough times. Some plants are closing, but many of those operating are slaughtering fewer cattle than what their breakeven point is. Apart from higher energy and labor costs, the fact they slaughter light animals further increases their costs. Export plants are also having difficulties due to the limited availability of heavier steers and to the strong local currency which diminishes their competitiveness in the world market.

The government is working on making the cattle/beef chain more transparent as contacts indicate tax evasion is prevalent. In May 2017, the government established that slaughter plants have to incorporate electronic weights to record the information pertaining to each slaughtered animal. Contacts indicate that this is a good measure, as long as the government keeps a strict control of its implementation, if not, it creates disadvantages to those which comply with it.

There are 300-400 slaughter plants in Argentina of which approximately 40 plants exported beef in 2016. Quite recently, Brazilian company JBS sold its southern cone beef operations to Minerva, also from Brazil. With this purchase, the company will expand its capacity in Paraguay and Uruguay, where they already operated several plants. In Argentina it now owns its first plant, one of the largest and more modern in the country. There are three Brazilian meat packers operating in the country, which together account for 5-6 percent of the country's total slaughter.

## **Consumption**

Argentine beef consumption for 2018 is forecast to grow almost 3 percent to 2.55 million tons, a

similar volume to the past five years, and a slight increase from 2017 as a result of a projected larger beef supply. Rough half of this year's production increase will go to domestic market and the other half towards exports. Per capita consumption is estimated at 58 kilos.

Most analysts project Argentina's economy will continue to grow in 2018. Most of the economic difficulties of 2016 and the first half of 2017 appear to be behind the country now. The strong peso, which most analysts believe will remain so throughout next year, discourages exports. Therefore, many meat packing houses prefer to sell most cuts in the domestic market rather than to export them. For many packing houses, selling on the domestic market delivers the same profits or more than exports and the operation is significantly easier.

The consumption of beef is still high, while pork consumption continues to increase and poultry consumption stagnates. Private sources estimate record per capita consumption of poultry at 46-48 kilos and pork at 17 kilos. Altogether, animal protein consumption in Argentina exceeds 120 kilos, one of the world's highest. Poultry, which is produced locally, is significantly less expensive than beef. Pork, almost entirely produced locally, sells a few premium cuts at prices equivalent to beef, but the rest are significantly less expensive than the equivalent beef cut. The growing consumption of alternative meats at lower prices takes pressure off domestic beef prices. If exports of beef were to increase significantly putting pressure on retail prices, local consumers could easily shift to inexpensive meat choices.

Based on official data, large supermarkets account for almost 10 percent of beef retail sales while the balance is sold through small independent supermarkets and butcheries. Supermarkets sell cuts of larger animals and normally at higher prices. They have restructured their commercial policy, shifting from selling large volumes at low prices to attract consumers into the stores to selling smaller volumes at higher prices. They no longer have in-store butcheries and many sell packaged cuts which come directly from meat packing houses.

## **Trade**

Beef exports in 2018 are forecast up by 25 percent to 350,000 tons, the highest since 2009. Most traders believe beef production will increase next year and that half of the additional supply could be exported. The domestic market is expected to remain relatively stable as it would seem it has reached a ceiling. Consumption of beef and other meats is very high. The local export sector continues to go through difficult times as cattle and processing costs in dollar terms are very high, hurting the competitiveness of the local product worldwide. At the beginning of 2017, the government placed export rebates of 3.5 percent on chilled beef and 4 percent on frozen beef. In July 2017 an additional 1.8 percent rebate was placed for 12 months. Contacts in the export sector indicate that this helps, but margins continue to be very thin.

Local exporters are enthusiastic about the probable opening of two export markets in the near term: 1) chilled and bone-in beef to China, and 2) the US market for chilled and frozen boneless beef. In the case of China, Argentina currently exports large volumes of frozen beef. Traders estimate that by the

end of 2017 or early 2018 the country should be eligible to supply higher-priced, chilled beef for restaurants, supermarkets and hotels. In the case of the US market, local exporters believe that it will soon be opened. The opening of the United States is important because of the volume and value of potential exports to it, but it will also help Argentina open some markets which have high sanitary requirements. The local industry is also looking forward to the opening of the Korean and Japanese markets, but it is aware that it will take more time.

In the past decade, export plants have had to adapt to market conditions and participate more in the domestic market than what they were used to because of the limitations on beef exports. Nowadays, these plants sell domestically or export to the most profitable client trying to maximize the price per cut. With a strong peso, domestic beef prices compete strongly with FOB prices.

Argentine beef exports for 2017 are expected to reach 280,000 tons cwe, somewhat higher than USDA's official number. Shipments through July 2017 totaled 111,000 tons (product weight), a 25 percent increase from the same period last year. Almost 64 percent was boneless, frozen beef, with an average FOB price of \$4,550 per ton. China accounted for 66 percent of these exports. Israel was the second largest market, followed far away by the Russian Federation. Chilled, boneless beef exports accounted for 36 percent of the total, with an average FOB price of \$8,880 per ton. The EU was the number one market, followed by Chile and, further away, Brazil. Thermoprocessed beef exports in the first 7 months of 2017 totaled 477 tons product weight, a marginal volume.

Exports to China are expected to continue to grow at a good pace (exports in the first 7 months of 2017 increased 45 percent from last year). In general, China is buying large volumes of boneless, frozen beef from manufacturing cows. Chinese demands large volumes of shin shank, forequarters and round cuts. Although local exporters indicate that it is not a very profitable business, the large volume allows them to keep the plants running at a pretty high capacity. The average FOB price in the first 7 months was \$4,067.

Through July 2017, the EU was Argentina's top market in value and the second largest in volume. It is a very mature market. Local traders project stable volumes for 2018 but with improved FOB prices. The EU provides Argentina a Hilton Quota of about 29,000 tons of premium chilled beef cuts, which in the past few years the country has not fulfilled. The current price under the quota is roughly \$14,500 per ton. The main destination is Germany, followed by the Netherlands and Italy. Exports under the 481 quota (beef has to be of young cattle fed with grain at least the last 100 days), have grown somewhat, with an average monthly volume of 400 tons. Local exporters are alert as there have been rumors indicating that the EU could interrupt this quota. Negotiations under the EU-Mercosur Free Trade Agreement have lately speeded up, with some governments in the region being quite optimistic that an agreement will be reached by late 2017 or early 2018. In the past, negotiations on beef exports to the EU have been an issue. However, local analysts indicate that the EU currently buys (under different quotas) some 120,000 tons of beef from Mercosur countries and that doubling this volume should not have a significant impact in the EU.

Chile is the third most important market for Argentina, and traders believe shipments could increase somewhat in 2018. This market is characterized by strong competition between regional suppliers.

The FOB price in the first 7 months of 2017 averaged \$5,600 per ton. Argentina typically exports 18 different chilled, boneless cuts from cows and heifers. They are primarily forequarters and round cuts. Contacts indicate that in early August 2017, 12 Argentine export plants were delisted to export to Chile due to minor issues. These plants account for roughly 50 percent of the exports to that market.

Exports to Israel are quite significant, being the 4<sup>th</sup> largest market in 2017. It typically buys certified-Kosher frozen, boneless forequarters (normally from the same steers used to supply the Hilton Quota), with an average FOB of \$6,240 per ton (through July 2017). Shipments next year could drop because as of mid-2018 new animal welfare requirements from Israel will demand that slaughter plants incorporate new knocking boxes. Apart from the investment, most local plants are not willing to make the changes as they indicate that the speed of the line of production drops significantly, increasing production costs considerably. Contacts are waiting to see if these changes are adopted in the region and how it will affect the availability of product and its impact on prices.

Brazil is a relatively small market, but buys high-priced frozen and chilled boneless cuts. These are mostly sirloin cap and point of rump, two of the most popular cuts there. The average FOB price in the first 7 months of 2017 reached \$9,540 per ton.

Exports to the Russian Federation, once one of Argentina's top markets, are projected to remain small due to the strong competition from China's demand. In 2014-15, Argentine beef exports shifted significantly from Russia to China. Both countries compete for similar cuts. In the first 7 months of 2017, Argentina's average FOB price to China was \$600 per ton higher than to Russia.

There is the expectation that the US market will reopen after being closed in 2001 due to an FMD outbreak. Most local contacts believe it will occur soon. Their first analysis is that its impact on the country's volume of exports will be relatively limited as China buys similar cuts to those which could be initially exported. In 1997 the US granted Argentina a 20,000 ton quota for boneless, fresh beef. Exports outside the quota will pay 26.4 percent import duty. Exporters believe that once the market is open, Argentina will mostly export frozen beef trimmings (90 CL – chemical lean) for industry use. Exports of premium chilled cuts for high end supermarkets and restaurants will start slow and will develop with time into a niche market.

## **Policy**

As reported above, the government is working on a program to help small and medium cattle breeders to become more efficient and allow the country to produce a larger number of calves. On the industry side, it has reinstated export rebates on beef to give back part of the taxes incurred prior to the

exportation. The local industry welcomes such support as it partially helps compensate for the very strong local currency. The government is also focusing in making the domestic marketing of cattle/beef more transparent as they indicate that tax evasion throughout the chain is significant.

## Statistical Tables

Animal Numbers, Cattle Market Begin Year Argentina	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	52565	52565	53815	53515	0	54215
Dairy Cows Beg. Stocks	1900	1900	1850	1850	0	1850
Beef Cows Beg. Stocks	21600	21600	21800	21800	0	22000
Production (Calf Crop)	13900	14000	14100	14200	0	14800
Total Imports	0	0	0	0	0	0
Total Supply	66465	66565	67915	67715	0	69015
Total Exports	0	0	0	0	0	0
Cow Slaughter	3100	3100	3400	3300	0	3700
Calf Slaughter	3300	3300	3400	3400	0	3400
Other Slaughter	5400	5400	5400	5600	0	5700
Total Slaughter	11800	11800	12200	12300	0	12800
Loss	850	1250	800	1200	0	1000
Ending Inventories	53815	53515	54915	54215	0	55215
Total Distribution	66465	66565	67915	67715	0	69015

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Meat, Beef and Veal Market Begin Year Argentina	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	11800	11800	12200	12300	0	12800
Beginning Stocks	0	0	0	0	0	0
Production	2650	2650	2760	2760	0	2900
Total Imports	0	0	0	0	0	0
Total Supply	2650	2650	2760	2760	0	2900
Total Exports	216	216	250	280	0	350
Human Dom. Consumption	2434	2434	2510	2480	0	2550
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	2434	2434	2510	2480	0	2550
Ending Stocks	0	0	0	0	0	0
Total Distribution	2650	2650	2760	2760	0	2900

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