

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Argentina

### Livestock and Products Annual

**2012**

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**Report Highlights:**

Argentine beef production in 2013 is projected at 2.78 million tons carcass weight equivalent. The cattle herd is expected to continue to recover at 52.3 million head, as a larger calf crop is expected to more than offset an increase in slaughter. Beef exports are forecast at 180,000 tons carcass weight, somewhat larger than the very low level of 2012. High cattle prices, a strong local currency, a cattle retention and government policies limit exports.

**Commodities:**

Animal Numbers, Cattle

Meat, Beef and Veal

**Production:**

Argentine beef production for 2013 is projected at 2.78 million tons carcass weight equivalent (cwe), the highest since 2009. This is a result of an expected increase in slaughter at 12.4 million head due to an increasing cattle supply as a consequence of the cattle rebuilding initiated in 2010 after a severe drought and cattle liquidation. Beef production could be higher, but the significantly reduced export business discourages producers to market heavy cattle and instead finish cattle at lighter weights and higher prices. Younger and lighter cattle are typically demanded by the domestic market which is expected to account for 93 percent of the total beef supply.

Despite expected high inflation and continuous increase in production costs, historic high cattle prices are still expected to provide positive returns in the cattle sector in 2013, encouraging the continuation of the cattle rebuilding, but at a more moderate pace. Most analysts project that feeder and fed cattle prices will lose value against a projected inflation of over 20 percent for next year. Current price of feeder cattle is about \$12 pesos per live kilo, while heavy fed steers is \$8.80 per live kilo (and \$16 pesos per kilo in carcass), and fed light steers for the domestic market is \$9.50 pesos per live kilo.

Ending stocks for 2013 are forecast at 52.3 million head, up from 48.2 million in 2010. In the past few years more female cattle have been retained and put into production as result of the excellent prices of calves and cattle in general since 2010. The combination of fewer cattle and more pastures available, good returns and good weather is expected to continue to increase calf crops, which in 2013 is projected at 14.2 million head, the highest since 2009, but still lower than previous years.

The feedlot business will continue to be key for the finishing of cattle as most pastures in the temperate area of the country were turned into cropland. However there are some uncertainties which will define the volume and profitability of the sector in 2013: 1) the price relation between feeder cattle and fed cattle, which is expected to get smaller, encouraging a larger number of cattle in feedlots, and 2) the price of feed which has increased significantly due to the severe drought suffered in the US. The government's policy to reserve 8 million tons of corn for domestic use at lower prices than world market is expected to continue throughout 2013, but most likely prices will be higher. Corn prices in the domestic market are lower due to a 20 percent export tax, export quotas and an overvalued local currency. At current prices it is profitable to convert corn into beef. Beef export plants had a significant share of cattle on feed lots in the past, but since the export market has shrunk considerably, their volume of cattle on feed have diminished significantly. This is expected to continue in 2013.

Private analysts estimate that some 5 million head of cattle will be finished in feedlots in 2012. Due to official limitations by which cattle cannot be slaughtered below 300 kilos, feedlots have had to extend 30-50 days the production cycle, to add the necessary weight. Light steers typically enter weighing 180-200 kilos and are marketed for slaughter at 330-370 kilos. Heifers are finished lighter because they put on too much fat, which

buyers then penalize. Cattle which are not finished in feedlots typically come out from ranches which producers feed with grain (generally corn silage) the last 100-120 kilos.

The quality of cattle in Argentina has improved significantly in the past few years. The incorporation of better genetics in the temperate area is producing heavier calves at weaning, while converting feed more efficiently. The size of cows has remained unchanged. The feedlot industry would like to have a somewhat bigger frame cow, to produce bigger calves, especially heifers which can be fed heavier without exceeding in fat, but most cattlemen resist the change. In the northern part of the country, where conditions are harsher, there has also been a big improvement in cattle quality, especially with the vast incorporation of Braford and Brangus. In the center-south part of the country, Angus is the predominant breed.

The government has a few programs to assist small cattlemen to improve management and technology, increase pastureland and/or increase the number of cattle.

Argentina is free of foot and mouth disease with vaccination, vaccinating twice a year. The Patagonian region is free without vaccination. The OIE considers the country to have a negligible risk of BSE.

Argentina is one of the world's largest grain and oilseeds exporters. Therefore, there is plenty of feed for the development of any industry based on these. The poultry, pork and dairy industries continue to expand, representing no threat to the recovery of the cattle sector. The continuous expansion of the poultry sector in the past years is now suffering due to the government's elimination of subsidies and higher feed costs. The processors continue to increase output, export more, but finally send surplus output to the local market which has reached a ceiling, putting a lot of pressure on poultry and beef prices. The government is promoting the consumption and production of pork. Although Argentina has all the resources to become an exporter, it still imports about half of its pork consumption. In the past several years there has been quite a lot of investment (especially medium and large size) at the farm level as returns are very good.

### **Consumption:**

Domestic beef consumption for 2013 is forecast at practically 2.6 million tons (cwe), the highest of the past three years. This is a combination of expected increased beef output and practically unchanged low exports which are not competitive primarily due to a strong currency and high cattle prices.

Beef consumption in Argentina is very high. All what is available is finally consumed. There are some contradictory signals for 2013, as the current slowdown in the economy would indicate lower beef prices but at the same time, there will be mid-term elections and most likely the government will try to boost consumption.

In 2013, per capita consumption of beef is estimated at 63 kilos, of poultry above 40 kilos and pork about 8-10 kilos. Beef is facing strong competition from inexpensive poultry as over production in that industry is putting downward pressure on prices.

Based on private calculations cattle and beef prices increased approximately 170 percent since late 2009 when cattle prices jumped significantly. During this same period, poultry prices decreased significantly vis-à-vis beef prices. Nowadays, poultry prices represent only 30 percent of the average price of 6 popular beef cuts. However, due to the elimination of official subsidies to the poultry sector, broiler prices increased more than beef prices in the past year.

Argentines like small, tender beef cuts. This explains the large percentage of light fed steers and heifers which are marketed for the domestic market. This concept comes from when all cattle were finished on grass back in

mid-1990s, with a high variability in quality and tenderness. However, nowadays with the important share of feedlot production, this is not necessary any more, but consumers continue to demand such cuts. Short ribs and flank are the most popular cuts for the typical Argentine barbecue. Breaded beef is also a very popular dish, which is normally sliced from knuckles, rumps or topsides.

### **Trade:**

Argentine beef exports for 2013 are projected at 180,000 tons (cwe), somewhat higher than 2012, but the government will have the final word on the total volume shipped. Most of the projected larger beef production is expected to go to the domestic market. Although lately the government is somewhat more flexible with exports, they are still monitored, controlled and regulated. The government has in place several tools by which it administers beef exports: 1) 15 percent export tax, 2) Register of Export Operation (ROE), by which it provides export permits, 3) administers the few beef quotas which the country has access too, such as the Hilton Quota, and 4) export certificates by which companies need to sell beef in the domestic market at low prices in order to obtain export permits. For every 1 ton sold to the domestic market at set low prices, the exporter receives the authorization to export 3.5 tons of beef.

The trade indicates that nowadays the biggest limitations to exports are the high cattle prices and the overvalued peso which make Argentina uncompetitive. It is better business to sell domestically than export most cuts. The Hilton Quota and some niche markets/cuts are the exception. Most contacts indicate that this situation most likely will remain unchanged in 2013. In dollar terms, Argentine fed steer prices in the last week of July 2012 were US\$2.10 per kilo, 40 percent higher than in Brazil and Paraguay and 17 percent higher than in Uruguay. Production costs have and are expected to continue to increase in dollar terms, due to high inflation and a devaluation of the peso which runs from behind.

Argentine exports for 2013 are forecast to account for 6.5 percent of the total beef output, the same as in 2012. The average of 2000-09 (with the exception of 2001, with the large foot and mouth disease outbreak) was 16.5 percent of the total production.

Based on private information, more than 100 plants closed in the past two years. Most plants work far from full capacity, while others continue to reconvert to supply the domestic market. The two US companies owning meat plants in Argentina have recently left the country, while two Brazilian companies which in the past 6-7 years purchased many local plants are struggling to stay in business.

Exports are basically going to markets which pay the highest prices possible, while exports to markets of large volumes but lower prices have diminished significantly. That is why exports to the EU, Israel and some cuts to Chile account for the largest share, while exports to the Russian Federation, Venezuela and countries in northern Africa dropped significantly. Thermoprocessed beef exports in 2012 were very small due to the suspension of the number one export plant of these types of products in Argentina due to technical problems.

Based on official data (in product weight), in the first seven months of 2012, exports to the EU accounted for 31 percent of the total volume while Chile and Israel accounted for 21 percent each. The balance went primarily to the Russian Federation, Brazil and Venezuela.

The EU is the most profitable market as most exports go under the Hilton Quota, a quota of 29,000 tons of chilled premium high value cuts which pay 20 percent import duty. Germany is the market which uses most of it. In July 2012 the average price of rump and loin was about US\$13,000 per ton. Since it was established in 1980, Argentina fulfilled the quota almost every time. However, in the past three years Argentine exports were

short of 9,400 tons, 2,200 tons and 10,700 tons respectively. Local exporters point out that this was because the government delayed the distribution of the quota. Argentine exports are perceived as unreliable and EU importers shift their purchases to other suppliers such as Brazil and Uruguay.

Argentina applied to export under the EU's 620 Quota (former 481) opened in 2009 for imports of hormone-free beef from young animals which are fed at least 100 days with high energy rations, but has yet not been approved. The quota for 2012-13 is 48,300 tons and only the USA, Canada, Australia, New Zealand, and Uruguay have access to it. Local traders are optimistic of the potential of this quota indicating that Argentina could eventually export more than a quarter of it. This special market could boost the local feedlot industry.

Exports to Chile are expected to slow down somewhat in 2013 as most traders expect Paraguay to reenter that market after the foot and mouth disease outbreaks occurred in late 2011 and early 2012. Until the outbreaks, Paraguay was the main supplier of beef to this market. Argentina exports to Chile 18 cuts of boneless chilled beef, at an average price of US\$6300 per ton in July 2012.

Israel is forecast to remain an important market in 2013. Export to this market are frozen boneless Kosher fore quarter cuts, which during the past month were exported at an average price of US\$6400 per ton.

Exports to Brazil are forecast to remain at similar volumes, made of practically rump cap, a very popular cut in the neighboring country. Shipments to the Russian Federation and Venezuela are projected to remain at small volumes. During the first seven months of 2012 exports to both countries were half the volume exported during the same period in 2011.

Thermoprocessed beef exports for 2013 remain uncertain, as the main meat packer in Argentina which exports these types of products was suspended in late 2011 by Argentina to export to the US, the main market by far, due to technical problems. The sanitary services of the two countries and the company are working to resolve this problem, but it is uncertain when the company will be relisted to commence exporting again.

Beef exports are taxed a 15 percent. However, in April 2012, the Argentine government reduced export taxes of thermoprocessed beef to 5 percent, as a way to improve the situation of this sector. Most analysts indicate that this will not boost the export of these products, as this is a very small market. The local thermoprocessed market is currently in the hands of two companies, as 6 plants were closed claiming they are not sufficiently competitive against Brazilian product.

In late August, Argentina filed in the World Trade Organization (WTO) a case against the US on import restrictions on beef and other meat products. Argentina notified the WTO Secretariat of a request for consultations, claiming that the restrictions do not have scientific sanitary justification. The two countries now have 60 days to find a satisfactory solution, if it fails, then Argentina may request the adjudication of a panel. The US market for Argentine fresh beef is closed since 2001 when Argentina had a wide spread foot and mouth disease outbreak. In 2007, the OIE declared Argentina as free of foot and mouth disease with vaccination.

### **Production, Supply and Demand Data Statistics:**

Animal Numbers, Cattle Argentina	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	48,156	48,156	49,297	49,597		51,097
Dairy Cows Beg. Stocks	2,100	2,100	2,100	2,100		2,100
Beef Cows Beg. Stocks	18,000	19,100	18,400	20,000		20,900

<b>Production (Calf Crop)</b>	12,800	13,100	12,400	13,800		14,200
<b>Total Imports</b>	1	1	0	0		0
<b>Total Supply</b>	60,957	61,257	61,697	63,397		65,297
<b>Total Exports</b>	0	0	0	0		0
<b>Cow Slaughter</b>	2,500	2,570	2,900	2,700		3,200
<b>Calf Slaughter</b>	3,000	3,040	3,400	3,600		3,700
<b>Other Slaughter</b>	5,560	5,450	5,200	5,400		5,500
<b>Total Slaughter</b>	11,060	11,060	11,500	11,700		12,400
<b>Loss</b>	600	600	600	600		600
<b>Ending Inventories</b>	49,297	49,597	49,597	51,097		52,297
<b>Total Distribution</b>	60,957	61,257	61,697	63,397		65,297
1000 HEAD, PERCENT						

Meat, Beef and Veal Argentina	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
<b>Slaughter (Reference)</b>	11,060	11,060	11,500	11,700		12,400
<b>Beginning Stocks</b>	0	0	0	0		0
<b>Production</b>	2,530	2,530	2,600	2,620		2,780
<b>Total Imports</b>	3	3	2	2		2
<b>Total Supply</b>	2,533	2,533	2,602	2,622		2,782
<b>Total Exports</b>	254	213	280	170		180
<b>Human Dom. Consumption</b>	2,279	2,320	2,322	2,452		2,602
<b>Other Use, Losses</b>	0	0	0	0		0
<b>Total Dom. Consumption</b>	2,279	2,320	2,322	2,452		2,602
<b>Ending Stocks</b>	0	0	0	0		0
<b>Total Distribution</b>	2,533	2,533	2,602	2,622		2,782
1000 HEAD, 1000 MT CWE, PERCENT, PEOPLE, KG						