

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Report Highlights: Argentine beef exports are projected to increase in 2017 to 240,000 tons carcass weight equivalent. This is a marginal increase and still very low compared to Argentina's historic export performance. Despite recent measures that the new government implemented at a national level and sector specific, which improved the cattle/beef sector, a relatively flat beef supply, a strong local currency, and high cattle prices are expected to keep exports at low levels. Local beef production is forecast to remain at a similar level to the past two years, with roughly a similar cattle slaughter volume. The domestic demand is projected to continue to drive the market, demanding more than 90 percent of the country's total beef output.

Commodities:

Meat, Beef and Veal

Animal Numbers, Cattle

Production: Argentine beef production for 2017 is forecast at 2.7 million metric tons (mmt), carcass weight equivalent (cwe). This is a slight increase from 2016 and very similar to 2015. The volume of cattle slaughtered is also expected to increase marginally. The Argentine cattle herd is projected to continue a rebuilding phase with average carcass weights a little higher than the past few years.

Local producers are expected to continue investing in the cattle business. In December 2015, the new government implemented significant policy changes to encourage the sector to revive after several years of government intervention and low profitability. The main measures implemented were the liberation of the currency exchange market (with an initial devaluation of 45 percent), the elimination of export quotas and taxes on beef and the removal of other measures which distorted the domestic beef/cattle market which negatively affected the sector. Most analysts and industry contacts were pleased with the measures that the government implemented and they are optimistic that Argentina again will become an important player in the world beef market. However, they agree that this will take time.

Following are some key factors in favor of a recovery of the cattle herd, and larger beef production in the next few years: a) cow-calf profitability. Calf prices in local currency have increased approximately 40 percent in the past year, similar to the inflation. Economic returns are positive. Sales and prices of breeding cows, heifers and bulls are strong; b) good returns in cattle fattening on pastures with/or without grain supplementation (last 100 days) as result of significantly higher fed cattle prices (55 percent increase in the past 12 months; c) reasonable profitability in the feedlot business despite higher feeding costs primarily due to higher corn prices in peso terms after the change in policy; d) more cattle being slaughtered at heavier weights. Of Argentina's cattle slaughter in 2015, almost 65 percent were very young, light cattle. Nowadays, there is an increasing trend of producers (at the ranches and feedlots) to grow out more cattle than before as they see it as more economically efficient, and e) strong optimism of increasing exports in the future. There are no more volume or tariff limitations limiting local beef exports. Local contacts believe that the US market for fresh beef will reopen soon and that will help open other markets as well.

However, there are some factors which currently play against a faster rebound in production and exports. Some of these are: A) a strong local currency. The local meat packing industry sees this as a serious factor as industry costs are high in dollar terms, making the local industry less competitive; B) cattle prices in Argentina are still higher than those of its neighbors which are important players in the world market. In the first week in September, carcass steers (on the hook) for export were selling at US\$3.40 per kilo, while the price in Brazil was 15 percent lower, in Uruguay 9 percent lower and in Paraguay 12 percent lower; C) the recent hike in local energy prices and high salary increases have most slaughter plants under great pressure; D) weaker FOB prices than a couple of years ago; and E) Argentine beef is still closed to several high end beef markets.

The local meat packing sector is going through difficult times, with more than 150 plants closed after several years of government intervention and scarce profitability. Despite the new policies in place, a large idle

slaughter/processing capacity due to low slaughter volumes; low prices of hides, offals and by-products (normally processing plants get paid for their services with these); and high costs continue to hurt the companies' profitability. Based on official data for 2015, 81 percent of the local slaughter was in hands of 148 plants subject to national inspection, 17 percent in 172 plants with provincial inspection (they can only market beef within the province), and 2 percent in 140 county-level plants. Of the total slaughter, 51 percent took place in Buenos Aires province, 16 percent in Santa Fe and 9 percent in Cordoba. The industry is very atomized, with just a handful of companies owning several plants.

In the past several years, most local beef export plants had to reconvert their businesses and focus more on the domestic market than what they did before. However, they continue to claim that they face unfair competition from smaller plants which supply exclusively to the local market. They state that they have stricter sanitary and tax controls that result in higher costs and loss of competitiveness. The government is aware of this situation and has promised to work on a solution.

Based on the World Organization of Animal Health (OIE), Argentina is categorized as being free of foot and mouth disease with vaccination and has a negligible risk to BSE. The local herd enjoys a good sanitary status, which is reinforced by progress throughout the region.

Weather in 2015 and 2016 has been much wetter than normal. Many areas were badly affected by floods, forcing producers to move cattle to other places. Many producers lost pastures, dirt roads were ruined and some cattle lost. Weather for the rest of the year and for 2017 is forecast to return to more normal conditions.

The official sanitary service reports that the herd in March 2016 totaled 52.6 million head, approximately 1.0 million head more than the previous year. In comparison with 10 years ago, the local herd shows a greater share of breeding cattle (cows, heifers, bulls, and calves) and a smaller share of steers, the main category demanded by exporters. The weaning ratio in the country is roughly 60 percent, fluctuating every year depending primarily on weather conditions. The number of calves born in 2017 is projected to rebound at 14.1 million head, as the current condition of the cows and pastures are good, promising a good breeding season. Post increased the 2015 calf crop by 500,000 head as the official data shows that the final number of calves resulted to be larger than expected earlier.

There are approximately 320,000 cattle operations in Argentina of which 80 percent account for 40 percent of the country's total stock (these operations have less than 500 head each). Roughly 18 percent of the operations account for more than 50 percent of the herd, while the larger 1,200 operations, with over 5,000 head each, account for 7 percent of the country's total herd.

The feedlot business is forecast to continue strong. The government's new policies made domestic corn prices increase significantly, mostly affecting the cost of production of those sectors with an intensive use of corn. The grain ethanol industry and all the livestock businesses (eggs, broilers, pork, feed lots, and dairy) were initially affected. The price hike on corn was a result of the combination of deregulating the currency exchange rate (with an initial devaluation of 45 percent), the elimination of the 20 percent export tax and the removal of export restrictions. The price of corn in the domestic market in early September was Pesos 2,360 per ton (USD154 per ton), while a year ago it was Pesos 920 (USD99 per ton). In Peso terms, this represents an increase of 156 percent. In feedlots, the higher cost of production due to more expensive corn was compensated by a higher increase in fed cattle prices (50 percent in the same period) vis-à-vis feeder cattle prices which increased only 30-35 percent. Based on information published by Margenes Agropecuarios, a local agricultural economic magazine, feedlots are currently earning between US\$10-50 per head, depending on the finishing weight.

Official data indicates that 28 percent of the total slaughter in 2015 came from registered feedlots. There are many cattlemen who also finish their cattle on pastures and feed them grain or silage during the last 100-120 days. There is a great variety of feed lots in the country. Many meat packers and beef distributors own their own or use custom feeding yards. Although still moderate, there is a trend of growing out calves (primarily on pastures) by adding weight and increasing their frame at a low cost to produce heavier carcasses with more beef per unit. Beef traders point out that consumers are slowly starting to get accustomed to somewhat larger beef cuts. Argentine cattle at slaughter are the lightest of the region.

In the central temperate region of Argentina most cattle are mainly Angus and Hereford. In the northern region, which in many areas it is a subtropical environment, the cross with Brahman is very popular. Cattlemen in this area have made significant quality progress in the past decade, with the use of Braford and Brangus cattle. On average, these types of bulls currently receive higher prices on sale than British breeds. Local breeders indicate that the type of animal they are using today can easily adapt to a system in which cattle is slaughtered at heavier weights.

Consumption

Domestic beef consumption for 2017 is forecast at 2.46 million tons (cwe), quite similar to the past two years, as Post expects relatively stable beef production and continued small beef exports. However, the final volume will depend on the dynamics of several economic factors which are still quite uncertain. Inflation, purchasing power, exchange rate, the domestic price of cattle, and FOB prices will be key to determine the final volumes to supply the domestic and export markets. Historically 85 percent of the total beef demand in Argentina is to supply local consumption. However, in 2017 we forecast that approximately 91 percent of the beef will be consumed domestically. In most cases, meat packers are expected to continue making more money selling in the local market than exporting.

Argentines are some of the top consumers of beef in the world. In 2017, Post forecast that per capita consumption will be approximately 56 kilos. About 50 years ago, Argentines ate 100 kg per year and little chicken and pork. Nowadays, Argentines also consume 40-45 kilos of chicken and 15-17 kilos of pork. In total this adds up to roughly 115 kilos of animal protein per capita, one of the highest in the world. The price of chicken has been very competitive in the past 15 years and pork prices have gotten very competitive in the past five years, encouraging a significant increase in demand. The average price of beef cuts at the butcher is approximately Pesos 85-90 per kilo, the average price of pork cuts is Pesos 55-60 per kilo, while a whole broiler sells for Pesos 30-35 per kilo. Pork continues to grow in popularity and acceptance. Nowadays most supermarkets carry many different pork cuts (in general comparable to beef cuts) and there are more butchers specialized in selling pork. Argentines currently buy pork 3 times a month, while ten years ago it was just once a month.

The local beef promotion institute has done a series of market analyses trying to understand local beef consumers. Some interesting highlights: 1) if retail prices increase 10 percent, consumption drops 4 percent (many years ago the drop was much smaller); 2) perception of quality. Female calves are considered to have the best meat, followed by young steers and heavy steers; 3) 80 percent of the consumers cannot tell (and do not know) the difference between beef from cattle produced in feedlots or pastures; 4) 70 percent of the consumers think that what it is exported is higher quality than what it is consumed domestically; 5) Argentines believe that beef exports are much higher than what they really are; 6) 80 percent of consumers perceive beef

as expensive; and 7) consumers have preferred cuts and they usually stick to them. If retail prices increase, they will rather buy less, but the same cut.

The most popular cuts are those demanded for the weekend barbecues such as short ribs and flank. Also ground beef and round cuts for breaded veal have a high demand. The consumption of hamburgers continues to grow.

Local supermarkets account for approximately 25-28 percent of beef sales, while the balance is sold through independent butchers. Beef prices in supermarkets are usually more expensive. Butchers normally buy half carcasses which they then debone at their stores, while supermarkets normally own meat packing houses or utilize the service of one, slaughtering the cattle they buy in the market or directly from feedlots or medium/large producers.

Trade

Argentine beef exports for 2017 are forecast at 240,000 tons (cwe), just 20,000 tons more than in 2016. This volume continues to be significantly lower than what Argentina historically exported. In the past few decades Argentine exports ranged between 350-450,000 tons cwe, with a peak in 2005 of 750,000 tons cwe. Once in the world's top five exporters, in 2016 it will not rank among the top 10. In December 2015 a new administration took office. President Macri rapidly implemented policy changes to encourage production and exports under a free market environment. The previous government had in place high taxes and market limitations which played against the size of the herd, beef production, and exports. Despite the freeing of the currency exchange market, the strong devaluation, the elimination of export restrictions and taxes, and the removal of controls on the domestic market, shipments for 2016 and 2017 are not expected to recover significantly because: 1) high inflation (roughly 40 percent in the past 12 months. Economists forecast an inflation of 17-22 percent for 2017; 2) exporters claim that the strong peso limits their competitiveness. Despite the devaluation of the end of 2015, inflation and production costs have recently increased significantly, while the exchange rate has remained fairly stable; 3) the price of fed cattle in pesos has increased 40-50 percent since October 2015, prior to the devaluation; 4) local cattle prices are higher than in neighboring countries which happen to be the biggest competitors; 5) in most cases it is more profitable for meat companies to sell domestically than to export. Apart from receiving better prices in dollar terms, product standards are generally lower; 6) a small volume of heavy fed steers to supply the export business due to the slaughter of very young, light cattle; and 7) FOB prices are weaker than a few years ago.

Argentine beef exports through July 2016 totaled approximately 88,000 tons (product weight) and US\$580 million. This represents a growth in volume of 5 percent from the same period last year. Boneless frozen beef accounted for 61 percent of the exports, followed by boneless chilled beef which accounted for the balance. Some official data might report relatively large exports of thermoprocessed beef (under HTS code 160250), but the reality is that practically all of that are frozen offals, which USDA does not include in this report. Less than 300 tons of thermoprocessed beef is expected to be exported in 2016.

Of frozen beef exports in 2017, China is projected to remain the number one market. The main cuts exported to this market are boneless beef cuts from cows. Exports of shin shank are very significant, being the market that pays the best for this cut. Exports to Israel are also expected to remain strong ranging between 17-20,000 tons (product weight) per year. This market purchases frozen kosher, boneless, forequarter cuts. The Russian Federation, the top market for Argentine beef exports in 2014 continues to drop to negligible volumes. This

market competes with product which is primarily exported to China and in the future with beef which could be shipped to the US once the market opens.

In June 2015, USDA announced the reopening of the market to Argentine fresh and frozen beef. The sanitary services of both countries continue to exchange data and information to finalize the sanitary approval process. Local traders expect the first shipments to happen over the next few months. The US provides Argentina a TRQ of 20,000 tons (product weight) of fresh beef, paying 4.4 cents per kilo. Exports outside the quota will pay 26.4 percent. Most contacts believe that the quota would not be totally fulfilled in 2017 if it would be open. Traders expect to ship mostly trimmings and some high value cuts.

Exports of chilled boneless beef in 2017 are expected to increase somewhat. The EU is forecast to be the main market, primarily with exports of high value cuts under the Hilton Quota, although there are some exports of other less expensive cuts outside the quota. . Additionally, Argentina is forecast to export some 5-7,000 tons of chilled beef under the 481 Quota with a large variety of cuts. Traders are quite skeptical that Argentina will fulfill the Hilton Quota 2016/17 as it has not filled it in the past 8 years. In 2015/16 it shipped almost 21,000 tons out of a total quota of 29,500 tons. The main reasons for this is the scarce availability of heavy steers and a significant reduction of plants eligible to export to that market.

Chile is projected to be the second most important market for chilled beef in 2017. However, exports to this market continue to diminish every year as Paraguay continues to regain market share. Argentina exports good quality beef to this market, being primarily chilled, boneless cuts from steers and heifers.

Brazil is a stable customer of Argentine chilled and frozen beef. It imports primarily high value cuts which are very popular such as rump cap. An economic recovery in the neighboring country in 2017 could result in greater beef exports to that market.

Policy

The current administration, which took office in December 2015, made important macroeconomic changes in order to normalize the local economy after 12 years of governments which had a tight control on most aspects of the local economy. The main general measures were the liberalization of the currency exchange market (with an initial devaluation of 45 percent); the reaching an agreement with creditors to enable the country to put behind a default to access international credit, and allowing foreign companies to transfer money to their headquarters. Sector specific policies included the elimination of the 15 percent export tax on beef, the removal of a system by which exports were in essence "quotified", and the elimination of many minor measures which were in place and distorted the market (such as ceiling prices, supplying volumes to specific retailers, etc.).

The government, through some official banks, has provided a credit line (at lower interest rates) of some US\$50 million to small and medium cattlemen (and pork and poultry producers as well) to encourage and facilitate investment in expanding herds and production while improving product quality.

Local slaughter plants continue to be in a complicated economic situation, with negative or very thin profitability. The government has offered the possibility of obtaining some credit and financing at lower interest rates to cope with the current situation until the environment changes. Some companies have also requested the reestablishment of export rebates which were eliminated in 2005 as a way to improve the

sector's competitiveness against the neighboring countries. Beef cuts had a 2.7 percent and thermoprocessed beef had a 5 percent export rebate. So far the government has made no public comment.

Statistical Information

Animal Numbers, Cattle Market Begin Year Argentina	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	51545	51545	51995	52565	0	53515
Dairy Cows Beg. Stocks	2000	2000	2000	1900	0	1900
Beef Cows Beg. Stocks	21300	21300	21800	21600	0	21800
Production (Calf Crop)	13700	14200	14000	13500	0	14100
Total Imports	0	0	0	0	0	0
Total Supply	65245	65745	65995	66065	0	67615
Total Exports	0	0	0	0	0	0
Cow Slaughter	3200	3170	3100	3000	0	3400
Calf Slaughter	3900	3900	3800	3600	0	3400
Other Slaughter	5400	5360	5200	5200	0	5200
Total Slaughter	12500	12430	12100	11800	0	12000
Loss	750	750	700	750	0	700
Ending Inventories	51995	52565	53195	53515	0	54915
Total Distribution	65245	65745	65995	66065	0	67615

(1000 HEAD)

Meat, Beef and Veal Market Begin Year Argentina	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	12500	12430	12100	11800	0	12000
Beginning Stocks	0	0	0	0	0	0
Production	2740	2720	2680	2600	0	2700
Total Imports	0	0	0	0	0	0
Total Supply	2740	2720	2680	2600	0	2700
Total Exports	186	186	230	220	0	240
Human Dom. Consumption	2554	2534	2450	2380	0	2460
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	2554	2534	2450	2380	0	2460
Ending Stocks	0	0	0	0	0	0
Total Distribution	2740	2720	2680	2600	0	2700

(1000 HEAD) ,(1000 MT CWE)