

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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POLICY

Required Report - public distribution

Date: 9/11/2013

GAIN Report Number:

Argentina

Livestock and Products Annual

2013

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Report Highlights:

Argentine beef exports for 2014 are forecast to increase to 220,000 tons, carcass weight equivalent. The cattle herd has been recovering in the past years, increasing the cattle slaughter, and thus, producing more beef. As the per capita consumption of all meats is considered to have reached its ceiling, additional beef production most likely will be exported. Contacts believe the government will allow additional shipments. China stands out as a new market with great potential.

Commodities:

Animal Numbers, Cattle

Meat, Beef and Veal

Production:

Argentine beef production for 2014 is projected at 2.84 million tons, carcass weight equivalent (cwe). Beef output during the period 2004-2009 was on average above three million tons. The recovery of the calf crops in the past three years, after bottoming out in 2010 due to low returns and the severe drought which negatively affected the sector, is now being reflected in increased slaughter levels. The slaughter for 2014 is forecast to increase to 12.8 million head. Beef production could be even higher, but due to policies and market dynamics, the average carcass weight is dropping.

Cattle prices in 2014 are expected to increase, but the question is if they will be able to offset an expected inflation of 20-25 percent. Feeder cattle prices had a big jump in 2010, increasing significantly the sector's profitability after several years of thin returns. However, margins suffered strong erosion since the last part of 2010 due to inflation. Current nominal prices are practically the same as three years ago, but the accumulated inflation during this period was 80-90 percent. Most analysts coincide that the herd rebuilding experienced in the past three years is leveling off as increased production costs have practically eroded the profitability of cow-calf operations. The ratio of cows in slaughter has been increasing in the past months. It is currently at 43 percent, 2 points lower than what it is considered to be a slaughter where the herd remains in equilibrium. Due to the inertia of the cattle business, the ending stock for 2014 is expected to continue to recover at 53 million head. If feeder cattle prices do not recover sufficiently to improve returns, recovery of the herd could slow or stop all together.

The calf crop for 2014 is forecast at 14.3 million head, similar to the previous year and higher than in 2012. In these past years, the weather during service has been very beneficial. A smaller herd, improved producers' management and high prices of cattle have also added to increased calf crops in the past few years.

Fed cattle prices are also expected to increase in 2014. Although retail beef prices are nowadays considered to be inexpensive vis-à-vis other foods, a slower economy, a strong competition from alternative meats and an abundant supply of beef (primarily due to limited exports) is expected to put a cap on a significant potential increase.

The local feedlot business is projected to increase during 2014. After two years with tight returns, the business is expected to improve primarily as a result of lower feed costs and a better price relation between feeder and fed cattle. Of the total country's slaughter, roughly 5 million head are finished on feedlots (hotel type and on-farm), another 5 million head are finished on pastures with supplementation of silage, grain and bales, and the balance is primarily cattle owned by small producers which are typically finished on grass and eventually some additional feed.

The domestic consumption, which nowadays accounts for 92-94 percent of the total beef production, prefers and pays more for young, light cattle. Heavy steers, typically demanded by exporters, are sold at lower prices discouraging their production. Due to this, Argentina is having a significant shortage of

steers in production. Most male calves are finished as light steers (weighing roughly 350 kilos live) in feedlots. In 2010, the government set a minimum weight at slaughter of 300 kilos in order to help produce more beef per animal. However, contacts indicate that due to a lack of control, this measure is not being strictly complied.

The World Organization for Animal Health (OIE) classifies Argentina as being free of Foot and Mouth Disease (FMD) with vaccination and having a negligible risk to BSE. Argentina can ship boneless fresh beef to most markets. However, NAFTA countries and Japan and Korea are significant markets which still remain closed.

Argentina is one of the world's largest grain and oilseeds exporter. Therefore it has the potential to significantly increase its production of beef cattle, dairy, poultry and pork.

The local slaughter plant industry is going through difficult times. Returns are very tight because exports are limited, low slaughter levels, significant unused capacity (the total estimated at 16-17million head), and increasing production costs (primarily energy and labor). In the past few years more than 100 slaughter plants closed in Argentina, of which 30 are important plants with federal inspection.

Consumption:

Beef domestic consumption for 2014 is forecast stable at 2.62 million tons. Although beef output is expected to increase marginally the additional volume most likely will be exported as the per capita consumption of all meats is considered to have reached a ceiling of 114 kilos, one of the highest in the world. Argentines are consuming roughly 64 kilos of beef, 40 kilos of poultry and 9-10 kilos of pork.

Argentines consume typically beef from light steers weighing 350-400 kilos and heifers weighing 320-350 kilos. Very few cuts have a weak demand. Most round cuts are consumed in the way of breaded thin sliced steaks (called milanesas), while the most popular cuts for the weekend barbecue are short ribs and flank. Ground beef is also very popular and it is consumed in many different ways.

Most beef consumed domestically comes from cattle finished, at least the last 100-120 kilos, on grain. These young animals produce small cuts which domestic consumers prefer as their perception is that it guarantees tenderness.

Approximately 70 percent of the beef is sold through butcheries, while the balance is sold in supermarkets. Butcheries are normally supplied by brokers, which sell primarily full carcasses and complement with some cuts which are not exported and are highly demanded domestically such as short ribs, tail of rump and some round cuts. Beef in large supermarkets is received from the meatpacking plants already cut and in trays, ready to sell. Approximately 90 percent of the beef is sold in trays, while the balance is vacuum-packed cuts. In very large stores, supermarkets might have a butchery to attend consumers personally. There are two chains which own meatpacking plants. In general, supermarkets sell premium cuts more expensive than butcheries, and in the contrary, less expensive cuts at cheaper prices. In order to give export permits, the government makes exporters deliver a certain volume of inexpensive beef to supermarkets to sell at low prices during weekends.

Trade:

Argentine beef exports for 2014 are forecast at 220,000 tons cwe, the highest since 2010. Beef production is expected to increase marginally. The extra production most likely will be exported as domestic consumption has little room to grow further. In addition, traders believe that conditions could be somewhat better in 2014, with less pressure from the government, a steady foreign demand and an expected devaluation of the local currency which would improve somewhat the competitiveness of the sector. With such a small volume, Argentina has to be very efficient in exporting to markets which present the best opportunity and business. In 2005, the Argentine Government began to intervene in the local cattle/beef market, which at the time, accounted for 10 percent of the world's beef exports, but dropped to only 2 percent in 2013.

Of Argentina's total beef exports (in product weight), roughly half are boneless chilled cuts, with the EU and Chile as almost exclusive destinations. The other half is boneless frozen cuts, with Israel and the Russian Federation as main markets. China and Hong Kong have stood out as the markets with the highest growth in 2013. Thermoprocessed beef continues to decline at a fast pace, accounting for less than 4 percent of beef exports (processed offal exports to Hong Kong are significant).

The main markets for 2014 are expected to be:

1) The EU, with a significant volume and the highest value as most exports are premium cuts under the Hilton Quota. Chilled rump and loin are the typical cuts exported, being Germany the main buyer, followed by the Netherlands. Argentina has a 30,000 ton quota of which a little over 22,000 tons was filled in the July 2012- June 13 quota year. Exporters are optimistic that in 2013-14 a larger share could be shipped. The current price for Hilton Quota is roughly US\$15,000 per ton. Argentina has presented all the documentation to access the EU's High Quality Beef Quota – named 481 Quota - but so far it has not become eligible. Based on Uruguay's good export performance under this quota, local traders estimate that Argentina could ship some 10,000 tons a year. Exporting under this quota allows traders to ship many more cuts of the carcass than exporting under the Hilton Quota.

2) Chile is expected to be a significant market, although Argentina will now have to compete with lower-priced beef from Paraguay, which was recently reopened after it had an FMD outbreak in early 2012. Prior to the outbreak, Paraguay was the number one beef supplier to Chile. Argentina has the advantage of lower transportation costs. Chile takes primarily chilled boneless beef.

3) Israel is a very consistent market, where Argentina supplies about one third of its beef imports. Israel takes Kosher frozen boneless forequarter cuts.

4) Beef exports to China are expected to continue a rapid increase. Argentina has access to this market which is turning to be very good as it takes some cuts which not always have firm demand, and pays very good prices. China imports from Argentina primarily frozen shin/shank, leg of beef, shoulder clod, and several other cuts. It also takes small volumes of chilled tenderloin, ribeye and striploin. Until October 2012, beef exports to China were practically nonexistent. From then on, exports have grown significantly and are expected to continue to do so in the future.

5) The Russian Federation has been diminishing imports from Argentina, but it is still expected to remain as one of its main markets. Argentina will face fierce competition from Brazil, which has been devaluing its currency and has improved its competitiveness. Paraguay is also a strong supplier in this

market, but with the reopening of the Chilean market it is expected to diminish exports to this market. The Russian Federation takes a wide variety of cuts and trimmings, mostly for industrial use. Argentina is currently negotiating with the Russian Government the possibility of exporting high value cuts paying 15 percent import duty and also the possibility of extending the shelf life from 90 days to 120 days for chilled beef shipments. This would allow exporting by boat.

6) Brazil is expected to continue to import chilled and frozen rump cap, the most popular beef cut there.

Exports of thermoprocessed beef to the US market have been diminishing dramatically in the past several years due to sanitary reasons (the main exporter was temporarily delisted due to ivermectine residues) and to the fact that the main local producer of these type of products is part of an international conglomerate and it has been more competitive to export from their plants in Brazil. Cooked frozen beef is practically the only product shipped to the US. In 2010 and 2011 thermoprocessed beef exports totaled some 6000 tons. In 2013 shipments are expected to be less than 1000 tons. Canned beef exports were discontinued in 2010.

Last year, Argentina filed a case in the World Trade Organization (WTO) against the U.S. on import restrictions on beef and other meat products, claiming that the restrictions did not have scientific sanitary justification. In August 2013, a panel was composed. The U.S. market for Argentine fresh beef has been closed since 2001, when Argentina had a wide spread foot-and-mouth disease (FMD) outbreak. In 2007, the OIE declared Argentina as free of FMD with vaccination.

Argentine beef exports are taxed 15 percent.

Policy:

Since 2005, the government has implemented a policy on the cattle/beef sector with the main goal of fully supplying the domestic market at reasonable prices. To achieve this goal it implemented different measures, which some are still in place and some are not. Cattle producers and the industry claim that since then, cattle and beef prices have quadrupled, beef exports have dropped to the lowest in the past 50 years, there are more than 100 slaughter plants that have closed and the cattle herd dropped by more than 8 million head (in conjunction with a strong drought). The private sector claims that with the implementation of several measures the sector could come back with strength. These measures include the removal of export taxes, have a more competitive exchange rate, the elimination of supplying beef at low prices to supermarkets in order to receive export certificates (exporters estimate that this is an additional cost of 8-10 percent), and enforce the local distribution of beef in boxes (this would provide greater transparency to the market and would make the distribution more efficient depending on what is demanded in each different area). Although some of the above measures could be implemented in the future, most contacts do not expect significant changes.

Production, Supply and Demand Data Statistics:

Animal Numbers, Cattle Argentina	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	49,597	49,597	51,195	51,095		52,195
Dairy Cows Beg. Stocks	2,100	2,100	2,100	2,100		2,100
Beef Cows Beg. Stocks	20,000	20,000	20,900	20,900		21,500
Production (Calf Crop)	13,800	13,700	14,200	14,200		14,300
Total Imports	0	0	0	0		0
Total Supply	63,397	63,297	65,395	65,295		66,495
Total Exports	2	2	0	0		0
Cow Slaughter	2,900	2,900	3,600	3,400		3,600
Calf Slaughter	3,500	3,500	3,500	3,700		3,800
Other Slaughter	5,200	5,200	5,400	5,400		5,400
Total Slaughter	11,600	11,600	12,500	12,500		12,800

Loss	600	600	600	600		600
Ending Inventories	51,195	51,095	52,295	52,195		53,095
Total Distribution	63,397	63,297	65,395	65,295		66,495
1000 HEAD, PERCENT						

Meat, Beef and Veal Argentina	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	11,600	11,600	12,500	12,500		12,800
Beginning Stocks	0	0	0	0		0
Production	2,620	2,620	2,800	2,800		2,840
Total Imports	2	2	2	0		0
Total Supply	2,622	2,622	2,802	2,800		2,840
Total Exports	164	164	180	180		220
Human Dom. Consumption	2,458	2,458	2,622	2,620		2,620
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	2,458	2,458	2,622	2,620		2,620
Ending Stocks	0	0	0	0		0
Total Distribution	2,622	2,622	2,802	2,800		2,840
1000 HEAD, 1000 MT CWE, PERCENT, PEOPLE, KG						