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Report Highlights:

Argentina's foot and mouth disease crisis has severely affected its cattle and beef industries. Argentine beef exports for 2002 are projected to rebound as long as the EU market opens before the end of 2001. Other key markets, such as Chile and Israel, are expected to then follow. Exports of fresh boneless beef to the US and Canada will have to wait for several years, once Argentina is again free of FMD. Beef production in 2002 is forecast to remain quite stable. The US meat industry has new opportunities to expand into this market, especially in exporting fresh pork and beef short ribs.

SECTION I. SITUATION AND OUTLOOK 2
 Beef 2
 Pork 4
SECTION II. STATISTICAL TABLES 6
SECTION III. NARRATIVE ON SUPPLY AND DEMAND, POLICY &
 MARKETING 14
 Production 14
 Consumption 15

SECTION I. SITUATION AND OUTLOOK

Beef

Argentine beef exports in the next 3-4 years will be limited to its historic markets as its status of country with foot and mouth disease (FMD) has set back all the efforts and new markets developed during its short period free of the disease. In mid-March 2001, Argentina officially admitted the presence of foot and mouth disease, while at the same time practically all foreign markets closed automatically. Although the EU market is expected to reopen before the end of the year, Argentina will not be exporting beef to the US and Canada for a long time and the opening of the Mexican, Japanese and Korean markets seems even further away.

Argentine beef exports for 2002 are projected to rebound at 300,000 metric tons (MT). However, this level is conditioned in the reopening of the European market in late 2001. Once the EU authorizes the entry of Argentine fresh boneless beef, we expect other important markets, such as Chile and Israel, to follow. Meanwhile, exports of fresh beef are only limited to small markets such as Brazil, Peru and Hong Kong. Argentina will continue to export thermoprocessed beef, primarily cooked frozen and corned beef, to its regular markets, including the US, its major customer.

The FMD crisis began in August 2000, when Argentina found some cattle with antibodies for foot and mouth disease. As a preventive measure, most markets were closed, and reopened in late December 2000 after the Argentine Government announced it had controlled the problem. Three months later, after denying the presence of the disease, the Government admitted to FMD outbreaks and all markets for fresh beef were closed. Since then about 1,900 outbreaks were reported and SENASA, the animal sanitary authority, has launched in a serious program to eradicate the disease through vaccination.

Beef production in 2002 is expected to be 2.9 million metric tons, practically unchanged from the previous two years. The cattle stock has remained very stable in the past few years, with no significant changes in calving and slaughter. This is probably because of the stability in the market which has neither encouraged great investment nor discouraged continued production, even though returns are quite small. The FMD crisis has not caused a significant drop in cattle numbers or in beef production as SENASA chose to combat the disease through vaccination. Some cattle were killed last year to control FMD, but only a few thousand.

As exports are expected to increase in 2002, domestic consumption is forecast to decline to a more normal level, after the increase in 2001, as result of reduced exports. Argentines are the largest per capita beef consumers in the world. Only 12-16 percent of the total beef supply is normally exported. The balance is consumed domestically.

The local meat packing industry is going through difficult times. The exporters have been dragging large debts in the past few years and the fact that they are almost shut out of most markets, except for the low margin business of thermoprocessed beef, has complicated further their situation. In March this year, when exports were going to all over the world, there were 24 exporters operating, nowadays there are only ten. Several of the large players are in chapter eleven. The main problems which they have had to face in the recent past were weak world beef prices, high domestic cattle prices, large unused processing capacity, huge atomization (the largest four meat packers account for less than 15 percent of the total market), high production costs and serious competition from smaller local meat packers which are able to evade taxes. On the other hand, there are locally-oriented packers which are in good shape, but most of them are also suffering difficulties associated to the

country's three-year-long recession. In general the industry has not received new investment in the past several years. On the contrary, the closing of a few plants, including some of the top export packers, could affect somewhat the productivity of the local beef sector. Approximately 90 percent of the total slaughter is done in about 250 plants which are federally inspected, while the balance is done in small facilities which have doubtful controls and only supply near-by towns.

It is hard to evaluate current export prices for Argentina as it is practically out of the market. However, average indicative prices for the first five months of 2001 were \$3,800 per MT for chilled boneless cuts, \$2,200 per MT for frozen boneless cuts, \$3,350 per MT for cooked frozen and \$1,750 per MT for corned beef. Currently there is not much of a market for Argentine fresh beef, but thermoprocessed beef exports have to compete strongly with Brazilian exports which as result of their periodic devaluations, have become very competitive.

Argentina has recently launched a new "convergence factor" for its trade currency. Both imports and exports now are ruled by this system which basically sets the commercial exchange rate as the difference between the US dollar and the Euro. Imports pay roughly 7 percent more, and exports receive a payment of approximately 7 percent. When the new system was introduced, all export rebates were reduced by 7 percentage points. The net effect on the export side is that most beef export rebates remained in practice practically unchanged, except for those exports to the Mercosur region which before did not receive rebates. See report AR1040 dated 6/20/2001 for a report on the convergence factor.

There is no federal policy to encourage or support cattle or beef production. The whole business operates in a free economy, where more than 50 million head of cattle occupy 150 million hectares owned by 250,000 cattlemen. There 10 provinces which have over 1 million head of cattle.

After many years of several attempts of creating a Beef Promotion Institute, the Lower House has recently made great advances in the bill which would create such an entity. The basic goal is to promote larger Argentine beef consumption both locally and internationally; it will be formed by the representatives of the farm lobby groups and meat industry; and the financing will come from each slaughtered animal for which cattlemen will pay 69 percent of the total and the balance the slaughter plant. The expected fund would collect about \$12 million.

As a small importing country, Argentina normally buys some beef primarily from Uruguay, which in CY2000 accounted for 85 percent of the total 13,000 MT (product weight) imported. The main products purchased are fresh short ribs, hamburgers and frozen cuts. The largest beef importer is one of the major Argentine slaughter plants which owns a large meat packer in Uruguay. The southern Patagonian region, which is free of FMD, can no longer import bone-in beef from Argentina or Uruguay. Therefore, the very popular cut called "asado" (short ribs) will most likely be imported from the US as happened a few years ago. Traders estimate that if the price is reasonable, this could be a business of about 200 MT a month, and if prices are too high, it would be only of about 60 MT a month. Other suppliers could be Australia or New Zealand, but with high freight costs. Argentina continues to be the largest market for US sweetbreads. In CY2000, imports totaled 2,700 MT, valued at nearly \$4 million. These are sold in both supermarkets and restaurants. Most sweetbreads are considered a delicacy and are typically served in barbecues, which Argentines are very fond of. Despite the strong economic recession, imports in the first half of 2001 are running at about the same pace as last year. However, sales in the domestic market are slowing down, putting pressure on prices. US sweetbreads are retailing at about \$3.0-3.5 per kilo, significantly lower than local product.

The following table shows the current import duties and export rebates for different beef products (imports from

Mercosur members are duty free):

Product	HTS	Import Duty %	Export Rebate %
Bone-in beef	020120 020220	12.5	0
Boneless beef	020130 020230	14.5	0
Processed beef	160250	28.0	3-5

Pork

US fresh pork can now be imported into Argentina. After several years of prohibition because of sanitary reasons, both countries have signed a protocol and approved the sanitary certificates which allows imports of fresh or frozen bone-in pork for processing and boneless for direct consumption. Argentina's total pork market is roughly 300,000 MT, of which 90 percent is demanded by cold cut processors and only the balance is consumed directly (less than 1 kilo per capita). Although there is local pork production and it is improving in both quality and in volume, Argentina needs to import a significant amount of fresh/frozen pork and pork products to meet local demand. Imports in CY2000 were as follows:

Product	MT	\$ Million	Main Product	Main Origin
Fresh/Fr. Pork HTS 0203	38,860	66.5	Fzen boneless ham Fzen boneless shoulder Fzen boneless other	Brazil 83% Chile 11%
Pig Fat HTS 0209	10,800	5.3		Brazil 41% Chile 23% Denmark 20%
Salted Pork HTS 0210	3,500	20.5	Hams	Spain 56% Italy 30%
Processed Pork HTS 16024	9,100	18.2	Hams Shoulders	Brazil 88%
Total	62,260	110.5		Brazil 72%

Most imports of frozen boneless pork are made by the same cold cut processors which find a shortage of local raw material. Salted hams and processed pork is mainly imported by local subsidiaries of foreign processors, such the case of Brazilian, Italian and Spanish companies, a few supermarkets and some distributors.

The local trade has received well the possibility of importing pork from the US. However, most say that at current prices, it will be difficult to make large volumes with the US because of the prices, duty and freight

differential with Brazil, the main supplier by far. Moreover, they state that the cuts, as made in the US, are not the ones required by the local industry. However, all importers are willing to start contacts with US exporters and try to do business. As a reference, following is information on pork imports during June 2001:

Product	Origin	MT	\$/MT
Bone-in ham & shoulders	Chile	113	1,230
Fresh boneless hams	Chile	248	1,810
Fresh boneless shoulders	Chile	58	1,530
Frozen boneless hams	Brazil	804	2,111
Frozen boneless shoulders	Brazil	544	1,935
Pig Fat	Brazil	245	796
Pig Fat	Chile	3	670
Pig Fat	Denmark	30	850

The following table shows the current import duty and export rebates for different pork products (imports from Mercosur members are duty free):

Product	HTS	Import Duty %	Export Rebate %
Fresh bone-in hams, shoulders	020312	12.5	0
Fresh boneless hams, shoulders	020319	12.5	0
Frozen bone-in hams, shoulders	020322	28.0	0
Frozen boneless hams, shoulders	020329	28.0	0
Pig Fat	020900	8.5	0
Salted hams, shoulders	021011 021019	28.0	0
Processed pork	160241 160249	28.0	3

As it can be derived from the above table, in early 2001 the Argentine Government increased the import duty on frozen pork from countries outside Mercosur. This was a measure taken as response to the pressure of the local hog producers which were unhappy with the opening of imports of fresh pork from the US.

SECTION II. STATISTICAL TABLES

PSD Table						
Country	Argentina					
Commodity	Animal Numbers, Cattle				(1000 HEAD)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Total Cattle Beg. Stks	49832	49832	50052	50167	50457	50572
Dairy Cows Beg. Stocks	2470	2470	2450	2450	0	2450
Beef Cows Beg. Stocks	18300	18300	18500	18500	0	18500
Production (Calf Crop)	14600	14600	14800	14400	0	14700
Intra EC Imports	0	0	0	0	0	0
Other Imports	50	45	45	5	0	5
TOTAL Imports	50	45	45	5	0	5
TOTAL SUPPLY	64482	64477	64897	64572	50457	65277
Intra EC Exports	0	0	0	0	0	0
Other Exports	30	10	40	0	0	10
TOTAL Exports	30	10	40	0	0	10
Cow Slaughter	4000	4300	4100	4200	0	4300
Calf Slaughter	1500	1780	1700	1800	0	1800
Other Slaughter	7800	7120	7600	7000	0	7200
Total Slaughter	13300	13200	13400	13000	0	13300
Loss	1100	1100	1000	1000	0	1000
Ending Inventories	50052	50167	50457	50572	0	50967
TOTAL DISTRIBUTION	64482	64477	64897	64572	0	65277
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table						
Country	Argentina					
Commodity	Meat, Beef and Veal				(1000 MT CWE)(1000 HEAD)	

	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Slaughter (Reference)	13300	13200	13400	13000	0	13300
Beginning Stocks	27	27	25	26	21	22
Production	2900	2880	2900	2860	0	2900
Intra EC Imports	0	0	0	0	0	0
Other Imports	8	19	6	16	0	10
TOTAL Imports	8	19	6	16	0	10
TOTAL SUPPLY	2935	2926	2931	2902	21	2932
Intra EC Exports	0	0	0	0	0	0
Other Exports	360	340	310	150	0	300
TOTAL Exports	360	340	310	150	0	300
Human Dom. Consumption	2550	2560	2600	2730	0	2610
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	2550	2560	2600	2730	0	2610
Ending Stocks	25	26	21	22	0	22
TOTAL DISTRIBUTION	2935	2926	2931	2902	0	2932
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Export Trade Matrix					
Country	Argentina		Units:	Head	
Commodity	Animal Numbers, Cattle		Partial Begin		

Exports for:	CY2000	1	2	0	1
	Full	Full	Full	Partial	Partial
U.S.	33641				
Others					
Chile	32257				
Germany	30794				
Canada	23744				
Israel	16441				
UK	9883				
Netherlands	9629				
Brazil	8721				
Italy	5042				
Total for Others	136511	0	0	0	0
Others not Listed	38772				
Grand Total	208924	0	0	0	0

Import Trade Matrix					
Country	Argentina		Units:	Head	
Commodity	Animal Numbers, Cattle		Partial Begin		

Imports for:	CY 2000	1	2	0	1
	Full	Full	Full	Partial	Partial
U.S.	493				
Others					
Uruguay	11130				
Canada	600				
Brazil	563				
Chile	225				
Total for Others	12518	0	0	0	0
Others not Listed	193				
Grand Total	13204	0	0	0	0

Prices Table			
Country	Argentina		
Commodity	Animal Numbers, Cattle		
Prices in	Pesos	per uom	Live Kilo*

Year	2000	2001	% Change
Jan	0.8	0.88	10.00%
Feb	0.85	0.89	4.71%
Mar	0.9	0.89	-1.11%
Apr	0.91	0.9	-1.10%
May	0.92	0.88	-4.35%
Jun	0.94	0.87	-7.45%
Jul	0.92	0.83	-9.78%
Aug	0.89		-100.00%
Sep	0.91		-100.00%
Oct	0.93		-100.00%
Nov	0.89		-100.00%
Dec	0.86		-100.00%
Exchange Rate	1/1	Local currency/US \$	

Prices Table			
Country	Argentina		
Commodity	Meat, Beef and Veal		
Prices in	Pesos	per uom	Kilo*

Year	2000	2001	% Change
Jan	3.9	3.68	-5.64%
Feb	3.89	3.66	-5.91%
Mar	3.93	3.68	-6.36%
Apr	3.96	3.65	-7.83%
May	3.99	3.63	-9.02%
Jun	3.98	3.58	-10.05%
Jul	3.98		-100.00%
Aug	4.01		-100.00%
Sep	3.98		-100.00%
Oct	3.71		-100.00%
Nov	3.72		-100.00%
Dec	3.67		-100.00%
Exchange Rate	1/1	Local currency/US \$	

SECTION III. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

Production

The Argentine Government is currently estimating a cattle stock of between 48 and 52 million head. In the past few years there has been a slow rebuilding as a result of good cattle prices, decent returns compared to other

alternatives, improved efficiency and excellent beef export prospects. The adoption of better nutrition, both in cow-calf and feeder operations, a more rigorous sanitary control, and improved management practices is resulting in better production efficiency measured in a greater number of weaned calves and higher daily gains. Cattle prices are expected to continue to fall during the rest of 2001, but we do not believe this will affect production significantly. Returns are expected to fall as cattle prices slide, but there is still room before producers start losing money. The number of weaned calves in 2002 will be significant as the weather in most parts of the cattle area has been excellent in the past year.

Although Argentina has large cattle, dairy and poultry industries, the wide availability of land and feed is plenty for all creating no problems among them. Argentina continues to be one of the world's main grain and oilseed exporter. The local feedlot industry has stabilized at approximately 1.2-1.5 million head of cattle per year, representing approximately 10 percent of the total slaughter. There are approximately 250 commercial feedlots and 500 small ones, typically in farms. Light calves, especially females, continue to be the ones preferred by local feed lots. They usually enter weighing 130-140 kilos and are finished, 90 days later, at 240 kilos, ready for slaughter. Supermarkets and butcheries in upscale neighborhoods are the ones demanding such product which retails at much higher prices than beef from a standard grass-fed steer. Current returns are \$15-25 per head for light heifers and steers (maximum of 240 kilos live), while heavier steers (fed over 450 kilos) all lose between \$15-45 per head as costs are significantly higher than the gain.

After admitting to foot and mouth disease outbreaks last March, the top agricultural and sanitary officials were forced to resign. The new sanitary officials launched an eradication program which they estimate will take 3-4 years to reach its goal. Since then, over 1,900 outbreaks have been reported, 80 percent in the province of Buenos Aires. In mid July the total herd was vaccinated at least once and these days they are beginning with the second vaccination which they estimate will end next October. The moving of cattle continues to be somewhat restricted. The sanitary authorities have announced that they will put a lot of pressure on cattle identification, especially when transported. At this point, they want to enforce strictly the current cattle fire branding, which in many cases, were not legible. This is one of the most important points which the EU team made a few weeks ago when they visited several places around the country. The cost of the first two vaccinations will be paid by the government, but there is uncertainty about who will pay the following rounds. Most people believe that the EU market for boneless fresh beef, primarily the Hilton Quota, will open when the second vaccination campaign is finished and there is a good identification system in place. The US and Canada fresh beef markets will open a year after no more outbreaks are detected.

BSE has never been detected in Argentina. The use of meat meal in livestock was prohibited in 1995 and imports of live animals from the UK are banned since 1990. Recently, the government has prohibited the importation of meat products from countries which are BSE-risky.

Consumption

Domestic beef consumption for 2002 is forecast to drop from the previous year as exports are projected to bounce up as result of expected market openings. Total beef supply is projected to remain at similar levels as in the past two years.

Domestic consumption in 2001 is forecast at 2.73 million MT, the highest in the past several decades. This is a result of high cattle slaughter and the fact that exports will be reduced to a minimum of 150,000 MT, the lowest

in more than 50 years, because of the FMD crisis. Argentina has a very small capacity to stock beef and therefore, whatever is slaughtered is either consumed or exported. The variable which fluctuates is price. Per capita consumption for 2001 is estimated at 73 kilos, the highest in the world.

Beef continues to be a product which Argentines believe has very good value. Supermarkets account for approximately 25-30 percent of the total country's beef sales and it has stabilized there. The leading supermarkets are selling high quality beef, which in general is more expensive than buying at a butcher. Most supermarkets buy direct from the ranches and in some cases we are noticing greater integration. All sorts of brands are being sold, such as Angus and Hereford certified beef and other commercial brands which almost all come vacuum packed. Supermarkets in upper scale neighborhoods typically package fresh beef in small trays and offer veal and beef. Some stores will even have a butcher to attend those customers which want to pick their own cut.

Despite the very cheap price of poultry, its consumption has remained relatively stable in the past few years. Fresh pork has little demand as consumers perceive it as more expensive, and less healthy than beef. However, a large supermarket chain has recently launched a program in which they are offering a great variety of fresh pork cuts at competitive prices which has been very successful.

Cattle prices for 2002 are expected to be lower than the average of 2001 as prices in the first half of this year were still very high and just started to come down in June. Steer prices were good in 2000 averaging \$0.92 per kilo, and remained steady through May 2001. In mid March when Argentina admitted to outbreaks of FMD and most markets closed, most analysts predicted a steep drop in cattle prices which did not happen as fed cattle supply diminished momentarily. However, more cattle started to be marketed in May and cattle prices began to weaken. For the last part of 2001 we forecast plenty cattle supply and most export markets still closed. Therefore, prices are expected to continue the slow, but constant trend downward and stabilize around \$0.80 per kilo. Although the weaning season finished a couple of months ago, feeder cattle are also expected to drop somewhat from the high \$1.00-1.05 per kilo which were paid during last year and most of the first half of 2001. Current prices are now just below \$1.00 per kilo for male calves. Since mid 2000, retail beef prices are slowly coming down as result of a high beef supply, strong economic recession and to the fact that some of the beef which was prepared for export is being pushed into the domestic market.