

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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POLICY

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Report Highlights:

Argentine beef exports in 2015 are forecast at 210,000 tons carcass weight equivalent, an increase from the 2014 estimate, but still an insignificant volume for what Argentina has historically exported. Most traders expect the government to continue limiting beef exports to try to maintain control of domestic beef prices. Beef production and consumption are projected to remain unchanged.

Commodities:

Animal Numbers, Cattle

Meat, Beef and Veal

Production:

Argentine beef production for 2015 is forecast at 2.82 million tons carcass weight equivalent (cwe), practically unchanged from the previous two years. The cattle stock continues to recover at a slow pace, after the strong drop in 2010 due to the combination of a strong drought and low profitability. The number of cattle for slaughter in 2014 and 2015 is 12.8 million head, similar to 2013. The average carcass weight is also forecast to remain practically unchanged as the business continues to encourage the slaughter of young, light steers and heifers.

Most analysts agree that high inflation and increasing production costs, plus government limitations on beef exports, have discouraged cattlemen to expand their herds in the past several years. An extremely rainy season which began in February 2014 (and is forecast to continue through the end of the year), is also negatively affecting Buenos Aires, the main cattle producing province. Cow calf operations in the central and southeastern part of the province are having severe problems with flooded pastures and difficult-to-inhibited access to the ranches due to the terrible conditions of muddy roads. Many cows and especially newly born calves have died under these conditions and will condition future pregnancies for the 2015 calf crop. As a fortunate counterbalance, the rest of the cattle production areas, especially in the central-north parts of the country, have enjoyed a mild and short winter and are expected to increase production. The Argentine cattle industry continues to be very dependent on weather.

Both feeder and fed cattle prices are currently very good and they are expected to continue that way in 2015. Contacts indicate that a combination of limited supplies, higher demand, and a change in administration (there will be presidential elections in October 2015) could trigger some cattle retention. Cattle prices in the last year increased 80-90 percent, while inflation and production costs only 40 percent. This has allowed cattle producers to recover much needed profitability.

The Argentine cattle sector has gone through great production improvements in the past several years. Although there are many cattlemen who have their cows and bulls together all year around, there are many producers who have weaning ratios of over 85 percent. The use of improved genetics (either through artificial insemination or bulls), better nutritional management and smaller herds than 4-5 years ago, are resulting in heavier weaning weights and better quality calves which are more efficient in converting feed into meat. Breeding specialists indicate that the size of commercial cows has increased somewhat. British breeds (Angus and Hereford) are predominant in the temperate central area, while the hotter northern area is fully dominated by Brahman crosses, especially Braford and Brangus cattle.

The Argentine cattle/beef market continues to encourage the slaughter of young, light steers and heifers. This is primarily because beef prices in the domestic market are very good (even compared to export prices), the government's limitation to export, the better conversion that young cattle have vis-à-vis older and heavier animals, and the particular demand of local consumers which want beef cuts from

small animals. The cattle herd nowadays has a small number of steers (half of what there was in 2007), and a large proportion of cows and calves. Approximately one third of male and female calves weaned in autumn are slaughtered in spring with a live weight of 270-330 kilos. While a regulation that prohibits the slaughter of animals weighing less than 300 kilos exists on the books, implementation is irregular and infrequent.

Based on official data, Argentina has some 204,000 cattle operations. Roughly 152,000 ranches account for 11.2 million head (with an average of 75 head); 41,000 operations own 20 million head (with an average of 490 head); and 10,000 operations have 20.5 million head (with an average of 2,050 head). The cattle herd continues to move slowly to the newer production areas which are primarily the northeastern and northwestern parts of the country. The very productive subtropical pastures allow cattlemen to expand their operations. There is very good technology available, but many cattlemen are slow to adopt it. Although there are still a lot of cattle in the provinces of Buenos Aires, Cordoba and Santa Fe, row crop production is expected to continue to take over pasturelands in the future.

The use of grain supplementation is expected to increase in 2014 and 2015 as world feed grain prices have dropped significantly. At current cattle and grain prices, the feedlot business is very profitable. This is expected to increase the production of custom feedlots and the use of grains in ranches. There are strong indications that Argentina will soon be declared eligible to export beef to the EU under the High Quality (grain-fed) Beef 481 quota. The first shipments are expected for early 2015. Although the government restricts beef exports, there is a lot of enthusiasm of using this quota which allows the export of a larger number of cuts paying no tax (against exports under the Hilton Quota which usually use 5-7 cuts and pay a 20 percent import duty). This quota is expected to encourage the production of heavier steers for this market which most contacts expect will pay a premium. Although returns nowadays are very good, many feedlots near Buenos Aires city are having serious production difficulties due to the excess rain and muddy conditions.

Argentina is recognized by the World Organization for animal Health as being free of foot and mouth disease (FMD) with vaccination and having a negligible risk to BSE. Therefore, it has access to most markets, with exports to more than 80 countries in 2013. The Animal and Plant Health Service (APHIS) of the United States announced on August 29, 2014, that Patagonia, the most southern part of the country, was now eligible to export fresh (and frozen) beef to the US. It also announced that it was opening a period for comments on a proposed rule to accept Argentine fresh beef from the rest of the country. Thirteen years ago, the United States closed the market for the importation of Argentine fresh beef due to a widespread FMD outbreak.

Argentina has large dairy and poultry industries. The local pork sector has been expanding quite significantly over the past five years, although some frozen pork is still imported to meet a growing domestic demand. The different livestock industries have plenty of resources to produce and expand in the future, as Argentina has millions of hectares of pastureland and is one of the world's top producers and exporters of grains and oilseeds.

Consumption:

Domestic beef demand for 2015 is forecast at 2.6 million tons (cwe), practically unchanged from 2014, as production and exports are also expected to remain at somewhat similar levels. This volume represents an annual per capita consumption of 63 kg.

Consumption of other meats continues to grow. Poultry consumption in 2014 is estimated at 42-44 kg per capita. Consumption doubled over the past ten years primarily thanks to very competitive prices vis-à-vis beef. Consumption of pork has also grown rapidly over the past few years, with per capita consumption estimated at 12-14 kg. Increased domestic production, improved quality, better distribution and some marketing have positioned pork as one of the preferred meats. Practically all supermarket and butcheries nowadays currently sell a variety of pork cuts at prices which on average are 10-15 percent less expensive than beef. Pork still has room to continue growing. Ideally, the local meat sector envisions a mix of per capita consumption of about 50 kg of beef, 40 kg of poultry and 25 kg of pork.

Until the mid-1990s, practically all beef consumed in Argentina was grass-fed. Grain high prices and good crop returns since then have more than tripled the country's crop area. Several million hectares of good pastureland were turned into crop land. Therefore, in order to maintain cattle and beef production producers intensified their cattle production on fewer hectares. Today most of the beef consumed in Argentina is grain-fed beef. Most consumers have practically not noticed the shift from grass-fed to grain-fed beef.

The most popular beef cuts are short ribs and flank for the weekend barbecues. Round cuts are also demanded to prepare sliced, breaded beef (milanasas), which are very popular. Ground beef is also widely consumed and prepared in many different ways.

Only 30 percent of the total beef is sold through supermarkets. The rest is sold through small independent butcheries which normally have better prices and a more personal service. Butcheries usually receive half carcasses, while most supermarkets receive cuts in trays directly from meat packers.

Trade:

Argentine beef exports for 2015 are forecast at 210,000 tons cwe, 20,000 tons cwe more than what is expected to be shipped in 2014. Trade contacts expect beef exports to continue to be limited by the government as a way of trying to take pressure off domestic prices, especially in a year with presidential elections. However, the government also needs to collect as much revenues as possible, since the local economy is expected to continue under pressure in 2015.

Despite the good situation of the international beef market, with strong demand and good prices, local exporters in many cases prefer to sell domestically as current prices in dollar terms are many times better than those of the export market. With inflation running high from 2007 through the present day (private source 2014 inflation estimates range from 35 to 40 percent), and a steady devaluation of the peso, Argentina has lost export competitiveness. In addition, beef exports are taxed 15 percent. At current local market prices, meat packers sell half carcass at the equivalent of US\$4,700-5,000 per ton, bone-in and fat-in. As a point of comparison, exports of chilled, boneless forequarter cuts to Chile are currently sold at US\$5,800 per ton.

Most people in the sector are looking forward to a significant change in policies come December 2015, when a newly-elected president is sworn in. The few presidential candidates are all aware of the difficulties the cattle/beef sector is in. In general, they indicate that they will phase down or eliminate export taxes, free exports, allow the market to operate freely and combat inflation. In addition, many economists are expecting a peso devaluation over the next few months as the country is spending at a higher rate than what it is adding to its reserves, and has difficulties obtaining credit from international sources, due to the recent debt default. If these measures are taken, Argentina would be in a position to start increasing beef exports and reaching levels more in line with its past export performance (nowadays, beef exports account for seven percent of total beef production, while in the period 1995-2005 they averaged 15 percent). However, the cattle production cycle takes several years. The most rapid way of increasing beef exports is to lower somewhat the high domestic consumption (at a time where other meats are now good alternatives) and to provide cattlemen with signals to add more weight on their steers and heifers than current practice.

Argentina in the first seven months of 2014 exported 88,000 tons product weight (pw) of beef, for a value of US\$618 million. Approximately 43 percent of the volume was frozen, boneless beef, with the main destinations being the Russian Federation, Israel and China. Frozen beef exports during the same period in 2012 and 2013 were smaller. This is explained by larger shipments to Russia and China. Boneless, chilled exports in the first seven months of 2014 accounted for 40 percent of the total, with the EU and Chile being the major destinations. The balance was thermo-processed beef, which continues to drop year after year. The highest FOB prices are obtained by exports of high value chilled cuts to the EU and Russia and top sirloin cap to Brazil. Then follow exports to Chile and Israel. The lowest average prices are exports of frozen beef to Russia and China.

The EU continues to be the main market (in value) for Argentine beef. Most beef exports go under the 30,000 ton Hilton Quota of chilled high value cuts. Exports in 2014 and, especially 2015, are expected to increase because the Hilton Quota for the period 2014/15 was distributed by the Argentine Government in a timely manner (the 2013/14 quota was not totally fulfilled) and because Argentina is expected sometime soon to be eligible for additional exports under the 481 Quota of grain-fed beef. Local traders indicate that once the EU officially announces Argentina's access, they will need to work on the approval of local feedlots. The first shipments of beef under the 481 Quota are expected to take place in the first semester of 2015. However, meat packers are not very enthusiastic about the performance in 2015 due to the government's export limitation.

Chile continues to be an important market for Argentine traders, although exports in 2015 are forecast to remain stable. Chile normally buys chilled, boneless forequarters and round cuts from steers or heifers.

Since May 2014, Russia has increased beef imports from Argentina, totaling 12,152 tons pw in the first seven months of the year, double the volume exported during the same period in 2013. Of that total, 11,950 tons were frozen, boneless beef for industry use at an average FOB price of US\$3,532 per ton and 202 tons of chilled, boneless high quality beef cuts at an average price of US\$11,700 per ton. Although exports of chilled cuts are very small, Argentine product which now has 120 days shelf life is slowly increasing in importance and is especially focused on restaurants. From Argentina's perspective, it is difficult to measure the impact of the recent ban imposed by Russia on beef imports from the US, EU and other countries. Despite limited beef exports, if prices increase, some product could shift from other markets to attend the Russian market. However, Post does not expect a significant trade impact as

Russia has authorized over 50 additional meat plants in Brazil, which could supply greater volumes of beef (and other meats) than Argentina. Also Argentina is receiving pressure from the EU not to increase food sales to Russia due to the current conflict.

Argentine beef exports to China resumed in late 2012 and are projected to continue their rapid growth. In 2013 Argentina exported directly to Chinese ports 11,300 tons pw of frozen, boneless beef, and in January-July 2014, 9,000 tons, more than double of the volume exported in the same period last year. Shin shank, brisket and round cuts are the main products shipped. If exports to the Russian Federation grow, most likely the Chinese market could be negatively affected as these two markets purchase similar cuts.

In addition to the APHIS August 28, 2014 decision announcing that the Patagonia region was now eligible to export fresh beef to the United States, APHIS also opened a 60-day comment period on a proposed rule to allow as eligible Argentine fresh beef from the rest of the country. The United States market has been closed to Argentine fresh beef due to the 2001 FMD outbreak in Argentina. The United States grants Argentina a quota for fresh (and frozen) beef of 20,000 tons pw, which prior to the closing was fulfilled primarily with manufacturing frozen beef. The United States imports thermo-processed beef (primarily frozen cooked beef) from Argentina. However, in the past two years, shipments have dropped dramatically because the very few local plants which produce these products prefer to export from their sister plants in Brazil. There is currently only one plant that continues to export small volumes.

Policy:

The cattle/beef sector does not expect any changes in policy before the current government departs in December 2015. The main tool which the government has used with significant impact on the sector is the limitation of beef exports every time that the price of cattle increased in a significant way. Beef exports continue to be taxed 15 percent.

Production, Supply and Demand Data Statistics:

| Animal Numbers, Cattle Argentina | 2013 | | 2014 | | 2015 | |
|----------------------------------|-----------------------------|----------|-----------------------------|----------|-----------------------------|----------|
| | Market Year Begin: Jan 2013 | | Market Year Begin: Jan 2014 | | Market Year Begin: Jan 2015 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Total Cattle Beg. Stks | 51,095 | 51,095 | 51,745 | 51,545 | | 51,695 |
| Dairy Cows Beg. Stocks | 2,100 | 2,100 | 2,100 | 2,100 | | 2,100 |
| Beef Cows Beg. Stocks | 20,900 | 20,900 | 21,500 | 21,300 | | 21,300 |
| Production (Calf Crop) | 14,200 | 14,000 | 14,300 | 13,700 | | 13,900 |
| Total Imports | 0 | 0 | 0 | 0 | | 0 |
| Total Supply | 65,295 | 65,095 | 66,045 | 65,245 | | 65,595 |
| Total Exports | 0 | 0 | 0 | 0 | | 0 |
| Cow Slaughter | 3,400 | 3,400 | 3,600 | 3,600 | | 3,700 |
| Calf Slaughter | 3,900 | 3,900 | 4,000 | 3,900 | | 3,900 |
| Other Slaughter | 5,600 | 5,600 | 5,600 | 5,300 | | 5,200 |

| | | | | | | |
|---------------------------|--------|--------|--------|--------|--|--------|
| Total Slaughter | 12,900 | 12,900 | 13,200 | 12,800 | | 12,800 |
| Loss | 650 | 650 | 600 | 750 | | 650 |
| Ending Inventories | 51,745 | 51,545 | 52,245 | 51,695 | | 52,145 |
| Total Distribution | 65,295 | 65,095 | 66,045 | 65,245 | | 65,595 |
| | | | | | | |
| 1000 HEAD, PERCENT | | | | | | |

| Meat, Beef and Veal Argentina | 2013 | | 2014 | | 2015 | |
|---|------------------------------------|-----------------|------------------------------------|-----------------|------------------------------------|-----------------|
| | Market Year Begin: Jan 2013 | | Market Year Begin: Jan 2014 | | Market Year Begin: Jan 2015 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Slaughter (Reference) | 12,900 | 12,900 | 13,200 | 12,800 | | 12,800 |
| Beginning Stocks | 0 | 0 | 0 | 0 | | 0 |
| Production | 2,850 | 2,850 | 2,900 | 2,820 | | 2,820 |
| Total Imports | 0 | 0 | 0 | 0 | | 0 |
| Total Supply | 2,850 | 2,850 | 2,900 | 2,820 | | 2,820 |
| Total Exports | 186 | 186 | 200 | 190 | | 210 |
| Human Dom. Consumption | 2,664 | 2,664 | 2,700 | 2,630 | | 2,610 |
| Other Use, Losses | 0 | 0 | 0 | 0 | | 0 |
| Total Dom. Consumption | 2,664 | 2,664 | 2,700 | 2,630 | | 2,610 |
| Ending Stocks | 0 | 0 | 0 | 0 | | 0 |
| Total Distribution | 2,850 | 2,850 | 2,900 | 2,820 | | 2,820 |
| | | | | | | |
| 1000 HEAD, 1000 MT CWE, PERCENT, PEOPLE, KG | | | | | | |