

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Argentina

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Approved By:

David Mergen

Prepared By:

Kenneth Joseph

Report Highlights:

Argentine beef exports for 2016 are forecast up at 280,000 tons carcass weight equivalent (cwe), the highest level of the past 7 years. Most exporters expect that a new administration taking office in December 2015 will introduce policy changes that will improve the sector's export competitiveness. Traders also expect that Argentine exports of fresh beef to the United States will begin in early 2016. Beef production in 2016 is projected down at 2.68 million metric tons cwe because of a drop in the number of slaughtered cattle. More cattle are expected to be finished with grains, taking advantage of lower world grain feed prices and the opportunity to add value to corn production.

Commodities:

Animal Numbers, Cattle

Meat, Beef and Veal

Production:

Beef production in Argentina in 2016 is forecast at 2.68 million metric tons cwe. This is the lowest level of the past four years and the result of expected lower slaughter due to moderate retention of heifers for breeding as there are expectations of improvement in the cattle sector. A new president will take office in December 2015. Cattlemen generally believe that the three main presidential candidates will implement policies that will be favorable to the sector, particularly with respect to improved conditions for exports.

A combination of projected smaller slaughter and a larger calf crop are expected to expand cattle ending inventories to 53.2 million head in 2016, the highest level since 2008 when herds fell dramatically due to low returns and severe drought. Good weather, abundant pastures and cheap feed grains during the 2015 breeding season are expected to provide a higher calf crop (floods in the central part of Buenos Aires province have limited the calf crop's potential added growth).

The growing interest in returning to or expanding cattle raising (from crop production) is also expected to favor increased inventory, as current lower world grain prices result in many cases in negative returns from grain production. Some grain producers who also own cattle are expanding their herds slightly while concentrating planting in the most productive land. Many farmers who produce corn or sorghum in areas far from export ports are buying feeder cattle to add value to their grain and avoid high freight costs, which in some cases take half of their gross income from grain sold. In general, the fattening period is extending as cattle is going to the market slightly heavier and feedlots lately prefer feeder cattle who have been grown out. High feeder prices (in relation to fed cattle prices) encourage cattlemen to add more weight.

The country's average weaning ratio is stagnant as more commercial breeding cows move away from the rich grain producing area in the central part of the country. The northeastern and northwestern regions continue to expand cattle production, but breeding productivity is significantly lower.

Between 70-80 percent of fed cattle in Argentina is currently finished in confinement with grains, in either custom feedlots or on farm operations. This level has never been so high since this type of feeding was put into practice back in the mid-1990s. The conversion of corn into beef is profitable throughout the country, but especially in regions where grain production has to be hauled long distances to reach its final destination (either for consumption or export). These more remote regions normally need to import beef from other provinces as their own production does not fulfill the entire demand. In general, feedlots are starting to buy somewhat heavier feeders than in the past, weighing 200-240 kilos live weight, of which roughly 70 percent are male calves and 30 percent female calves. Some 120-150

kilos are added before marketing for slaughter at 320-380 kilos live weight. Many cow-calf operations and some feedlots are now growing out young calves in order to build larger-frame animals and finish them at heavier weights. There are also roughly 30 feedlots eligible to supply cattle for the 481 beef quota for the EU. These operations are finishing steers above 450 kilos. Beef distributors and slaughter plants have a significant share of the total cattle in feedlots.

Argentina is one of the world's largest food producers and suppliers. It has large dairy, poultry and cattle industries. Pork production is also expanding rapidly. All industries coexist well and have more than enough supplies of feed. Apart from an important livestock industry, Argentina is one of the world's top soybeans, corn and wheat exporters.

Argentina has over 600 slaughter plants of different size, but roughly 1/3 are under federal sanitary inspection, which authorizes beef movement between provinces. Roughly 100 plants are eligible to export. The country's total slaughter capacity is estimated at 16-17 million head. The sector's association estimates that of the 200 most important plants, at least 50 are currently closed. Of these, 30 are medium and large export plants. Industry contacts indicate that the strong drop in beef exports that began in the mid-2000s has cut profits, as high-priced exports of select cuts historically helped to offset thinner returns in the domestic beef market. There are two large groups of Brazilian capital which own several plants, most of which are currently closed. There is one slaughter plant owned by a Chinese company in Argentina, purchased in late 2014. It is a medium slaughter operation in the province of Entre Rios and last May exported the first shipment of beef to China.

The World Organization for Animal Health (OIE) recognizes Argentina as being free of foot and mouth disease with vaccination and of having a negligible risk for BSE. Argentine beef has access to a large number of countries, having exported beef to 58 markets in 2014 and to 71 in 2013.

In June 2015, USDA's Animal and Plant Health Inspection Service (APHIS) amended its regulations to allow imports of fresh beef from the northern part of Argentina (the southern part, known as the Patagonia region, was already eligible). The rule took effect in early September, 60 days after being published in the Federal Register. Argentina will be able to ship fresh/frozen beef to the United States after the USDA's Food Safety Inspection Service (FSIS) completes an equivalency review. There is no set timetable for completing the review, but the local beef industry hopes to begin exports in early 2016. Argentina is now expected to follow up by focusing on gaining approval to export to additional markets such as Canada, Mexico and others.

Consumption:

Domestic beef consumption in 2016 is projected at 2.4 million tons cwe. This is the lowest volume since 2011. Slightly lower beef production and higher exports are forecast to limit beef supplies in the domestic market. Per capita consumption is forecast to drop at 56 kilos, down from 59 kilos in 2015. Moreover, many analysts believe that in 2016 there could be some upward adjustment in retail beef prices that could negatively impact demand.

Beef continues to be the preferred meat in Argentina, with one of the highest per capita consumption rates in the world. Culturally, Argentines have always consumed large volumes of beef, almost at a daily basis. This has been changing over the past few years with a more diversified diet. Weekend barbecues are very popular and many celebrations or social meetings at homes are organized around them.

The most popular cuts are ground beef, round cuts to prepare milanesas (breaded veal), and the typical cuts used in barbecues - short ribs and flank. As pointed out earlier, 70-80 percent of cattle going to slaughter come from grain-based production systems. Today's beef has a different flavor to the one consumed in the past in Argentina, which was mostly grass-fed, but current quality is considered to be better and more consistent. Argentines continue to demand cuts from young, light, small cattle, typically heifers and steers weighing around 350 kilos live weight. This method is less efficient, but local consumers perceive that the only tender beef is that of small sized cattle, being heifers the preferred category.

Argentines enjoy a diet based on animal protein. Total per capita consumption in 2015 is expected at 120 kilos, distributed as follows: 59 kilos of beef, 45 kilos of poultry, 15 kilos of pork and 1 kilo of sheep meat. Fish per capita consumption is close to 10 kilos.

Beef in the domestic market is sold through butchers (70-75%) and supermarkets (25-30%). Despite the continued growth in food sales in supermarkets, butchers still represent a large share of beef sales as consumers prefer the proximity of the store and the personal interaction with their known butcher. Butchers normally buy half carcasses, either from beef distributors, meat packers or if they are big enough, they purchase cattle and use plants that provide slaughter services. Most large supermarket chains are vertically integrated in the cattle/beef chain - involved from the fattening stage to the end consumer. Small and medium supermarkets usually debone half carcasses at the stores and sell cuts in either trays or in in-store butchers.

Trade:

Argentine beef exports in 2016 are forecast up to 280,000 tons cwe. This is the highest volume since 2009-2010. Some analysts indicate that exports could be even higher, depending on the policies that could be implemented by the newly elected government in December 2015. There is currently a lot of uncertainty in the sector, but many players point out that adjustments will be needed to improve the country's export competitiveness. Local beef traders believe that export limitations, export taxes and the strong local currency could be revised.

Through July 2015 Argentine beef exports increased 8 percent compared to the same period of last year. Exports to China (plus Hong Kong) increased 61 percent in this same period. China has become the country's number one destination. On the other hand, beef exports to the Russian Federation dropped 61 percent. Exports to China, the EU, Chile and Israel currently account for more than 80 percent of Argentina's beef shipments. Local exporters expect that once the US market for fresh beef is open, it will become an important export destination.

In June 2015, USDA announced the reopening of the market to fresh and frozen beef imports from Argentina. As mentioned earlier, shipments will start after the sanitary approval process has been completed. Local exporters expect this to happen by early 2016. The US provides Argentina a TRQ for fresh beef imports of 20,000 tons (product weight) that is subject to a nominal fixed tariff of 4.4¢ per kilo, while exports outside the quota pay 26.4 percent. Local contacts estimate that between 10,000-20,000 tons could be exported in 2016, as long as prices remain similar to current quotes. The US market today pays higher prices than China and the Russian Federation. Frozen, boneless trimmings, briskets and manufacturing beef are expected to be the cuts fulfilling shipments in the first years. While

this market was open in 1997-2001, exports reached a record 23,500 tons in 1999, with only 1,950 tons of chilled beef cuts. Traders believe that the market of premium cuts will slowly take off, with a supply of tenderloins, strip loins and rib eyes for steak houses in large cities.

Frozen beef exports are expected to continue to grow as a share of total exports, primarily driven by increased exports to China. Moreover, when the US market becomes open, it could reinforce this trend. On the contrary, exports of chilled beef are slowly diminishing as Argentina faces stronger competition in the Chilean market due to Paraguayan beef which continues to regain market share after the market closed around 2011-2012 because of two food and mouth disease outbreaks. In the first 7 months of 2015, Argentina's average export price for frozen beef was US\$4,600 per ton, while chilled beef was US\$9,000 per ton, practically double. The country's average export price in the same period dropped 16 percent for chilled beef and 10 percent for frozen beef. Argentine thermoprocessed beef exports continue to decline to minimal volumes as global beef companies prefer to export primarily from their plants in Brazil.

Although there is uncertainty on the status of future Chinese imports due to their recent economic adjustments, local traders expect China to continue to expand beef purchases in 2016. Exporters indicate that due to the recent devaluation of the Yuan, export beef prices have fallen around 5 percent. China buys primarily frozen, boneless beef cuts from cows, except rump and loin. Exports of chilled beef are not authorized.

The EU is expected to be the second most important market for Argentine beef, measured in volume for 2015. However, in value terms, it is the number one market as it primarily exports premium chilled cuts. The EU provides Argentina a reduced-tariff TRQ (at a 20 percent duty) called Hilton Quota, which is mainly fulfilled with chilled, boneless cuts from the rump and loin. The quota totals 29,500 tons (product weight) and has not been completely filled in the past several years. For example, in 2014-15 only 22,900 tons were shipped. The current value for Hilton quota is roughly US\$12,500 per ton, down from US\$16,000 per ton last year. Argentina is also expected to ship some 10,000-14,000 tons of chilled beef outside the Hilton Quota. An additional channel which Argentina is starting to explore is the exportation of chilled beef under the 481 quota. This is a duty-free quota exclusively for grain-fed beef from young cattle. Local traders expect that Argentina could fulfill 8-10 percent of the quota in 2015-2016. Argentina currently supplies under this quota 17 cuts from steers and heifers, and the primary destination are steak houses in the Netherlands and Germany. The average FOB price is roughly US\$9,000 per ton.

Exports to Chile in 2016 are forecast to continue to drop due to the strong competition from other suppliers. Exports could total some 25,000 tons (product weight), lower than the past average of 30,000 tons per year. Paraguay is recovering its market share and Brazil is very competitive as result of its currency devaluation. Chile typically purchases chilled, boneless forequarter cuts and round cuts from steers and heifers.

Israel continues to be a steady market for frozen, boneless, forequarter cuts. However, as regional suppliers devalue their currency and became more competitive, Argentine beef exports are somewhat affected.

Policy:

The current government has in place several policies which impact the local cattle/beef sector. The most significant are: 1) a strong local currency, 2) beef export limitations, and 3) export taxes on beef of 15 percent. In December 2015, a new administration will take office, and much of industry expects these policies to be modified within the first few months.

Animal Numbers, Cattle Market Begin Year Argentina	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	51545	51545	51895	51545	0	51995
Dairy Cows Beg. Stocks	2100	2100	2100	2000	0	2000
Beef Cows Beg. Stocks	21300	21300	21300	21300	0	21500
Production (Calf Crop)	13500	13300	13900	13700	0	14000
Total Imports	0	0	0	0	0	0
Total Supply	65045	64845	65795	65245	0	65995
Total Exports	0	0	0	0	0	0
Cow Slaughter	3500	3500	3500	3400	0	3100
Calf Slaughter	3900	3900	3800	3900	0	3600
Other Slaughter	5000	5000	5000	5200	0	5400
Total Slaughter	12400	12400	12300	12500	0	12100
Loss	750	900	650	750	0	650
Ending Inventories	51895	51545	52845	51995	0	53245
Total Distribution	65045	64845	65795	65245	0	65995

(1000 HEAD)

Meat, Beef and Veal Market Begin Year Argentina	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	12400	12400	12300	12500	0	12100
Beginning Stocks	0	0	0	0	0	0
Production	2700	2700	2700	2740	0	2680
Total Imports	0	0	0	0	0	0
Total Supply	2700	2700	2700	2740	0	2680
Total Exports	197	197	200	230	0	280
Human Dom. Consumption	2503	2503	2500	2510	0	2400
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	2503	2503	2500	2510	0	2400
Ending Stocks	0	0	0	0	0	0
Total Distribution	2700	2700	2700	2740	0	2680

(1000 HEAD) ,(1000 MT CWE)