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Report Highlights: El Salvador's total cattle herd size continues to decline mainly due to lack of technology transfer, inadequate financing, high input costs and continued contraband of dairy products. Production in 2002 is forecast at 1,038,000 head. The Government of El Salvador (GOES) is actively supporting dairy production over beef production. A territorial constraint on grazing and increased competition from lower priced beef from Nicaragua, makes beef production no longer profitable. U.S. beef exports should benefit from a reduction in the import duty from 30 to 15 percent.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

The Salvadoran livestock sector continues to be plagued by problems that are gradually reducing total herd size. Lack of access to credit, high input costs, dairy product contraband and lack of government resources for technology transfer are the main causes keeping the sector from growing. Cattle numbers for 2001 are expected to reach 1,086,000 head and continue decreasing in 2002 to 1,038,000. Calf crop is also expected to decline in 2002 reaching 170,000 head. However, investment by the dairy sector compensates for the rapid decline of the beef herd.

A new administration that took office in June 1999 offered deep changes in agricultural policy. Differing from the previous administration, they view the agricultural sector as the base for continued economic growth. Based on this belief, the government through the Ministry of Agriculture (MAG) has elaborated a National Livestock Agenda which is expected to provide direction to the sector by using the SWOT (Strength, Weaknesses, Opportunities and Threats) approach. Through this study, the MAG has elaborated a guide which identifies the different players that can help to resolve the different issues that are truncating the sector's growth. Members of the Salvadoran Dairy Producers Association, the Dairy Processors Association, the National Center for Agricultural Technology Transfer, MAG officials and respected cattle producers participated in the creation of the agenda.

Beef production continues to gradually decrease and is expected to reach 20,000 metric tons in 2002. Due to a territorial constraint on grazing, beef production is no longer profitable in El Salvador. For this reason, the MAG has decided to support dairy production over beef production. Imports from Nicaragua are substituting local production to fulfill demand.

A slower economy due to historically low coffee prices and damage from the early 2001 earthquakes is expected to decrease local demand for beef. Consumption of U.S. beef continues to be limited to high-end users such as restaurants and hotels. However, Post is working closely with the U.S. Meat Export Federation and the Texas Beef Council to promote the consumption of U.S. beef. Approximately 6 promotional activities are programmed for 2001, which include the participation of a U.S. chef that trains local restaurant and hotel staff on how to prepare U.S. beef with a Latino flavor. In addition, Post in coordination with the Economic Section, managed to reduce beef tariffs from 30 to 15 percent. U.S. beef sales are expected to benefit from this reduction. The long-range outlook (3-5 years) for beef, breeder-cattle and genetics will ultimately depend on the Government of El Salvador's commitment to revive the agricultural sector and a recovery of the Salvadoran economy.

PSD Table						
Country	El Salvador					
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	1136	1136	1086	1086	0	1038
Dairy Cows Beg. Stocks	292	292	291	291	0	291
Beef Cows Beg. Stocks	566	566	565	565	0	565
Production (Calf Crop)	173	173	172	172	0	170
Intra EC Imports	0	0	0	0	0	0
Other Imports	60	60	62	62	0	62
TOTAL Imports	60	60	62	62	0	62
TOTAL SUPPLY	1369	1369	1320	1320	0	1270
Intra EC Exports	0	0	0	0	0	0
Other Exports	2	2	2	2	0	0
TOTAL Exports	2	2	2	2	0	0
Cow Slaughter	34	34	34	34	0	45
Calf Slaughter	48	48	48	48	0	33
Other Slaughter	43	43	42	42	0	44
Total Slaughter	125	125	124	124	0	122
Loss	156	156	156	156	0	113
Ending Inventories	1086	1086	1038	1038	0	1035
TOTAL DISTRIBUTION	1369	1369	1320	1320	0	1270
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	El Salvador					
Commodity	Meat, Beef and Veal				(1000 MT CWE)(1000 HEAD)	
	Revised		Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Slaughter (Reference)	125	125	124	124	0	122
Beginning Stocks	0	0	0	0	0	0
Production	21	21	21	21	0	20
Intra EC Imports	0	0	0	0	0	0
Other Imports	16	16	17	16	0	16
TOTAL Imports	16	16	17	16	0	16
TOTAL SUPPLY	37	37	38	37	0	36
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	36	36	37	36	0	35
Other Use, Losses	1	1	1	1	0	1
TOTAL Dom. Consumption	37	37	38	37	0	36
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	37	37	38	37	0	36
Calendar Yr. Imp. from U.S.	1	1	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Production

Cattle production continues to decrease in El Salvador. Cattle numbers are expected to decrease by 4.4 percent both in 2001 and 2002. Total herd size is forecast at 1,038,000 head in 2002. Major decline is taking place in beef cattle numbers. Cattle raising costs are much higher in El Salvador than the rest of the region due to limited land available for cattle farming, and the need to use imported inputs to feed cattle. Lower priced Nicaraguan beef has managed to capture approximately 95 percent of the market. The Government of El Salvador (GOES) has decided to place all the marbles in the dairy cattle operation, because they believe that this sub-sector can have a comparative advantage over the rest of the region. The GOES has implemented many actions to assist dairy production, such as an increase in import duties for dairy products from 20 to 40 percent and a law that bans the use of powdered milk for the processing of cheese and cream. As a result, the dairy operations have managed to improve production and compensate for the rapid decrease in beef. However, this effort is still not sufficient to stabilize the reduction of the national cattle herd.

As a direct result of cattle number reduction, the 2002 calf crop is expected to decrease by 2,000 head reaching a total of 170,000. Cattle slaughter is also declining and is expected to decrease by 1.6 percent in 2002 reaching a total slaughter of 122,000 head. Due to continued reductions in cattle slaughter, beef production is also lower than previously reported reaching 16,000 MT in 2001. For 2002, beef production is expected to remain at the same level of 2001.

The decrease in slaughter is not only attributed to the overall reduction in the cattle herd, but also to a slower economic growth and to increased competition from imported beef. Slaughter facilities continue to run without much regulation from local health officials. No Salvadoran meat plant is currently authorized to export beef to the United States.

The local livestock industry continues to be in urgent need of advanced genetic technology to improve production at a faster and more competitive pace. The GOES is working with limited resources to provide technology transfer programs for the sector. In addition, cattle farmers argue that access to softer loans is a must if the sector is to rebuild outdated infrastructure.

In an effort to improve dairy production, the MAG through the National Center for Agricultural Technology (CENTA) has joined forces with the Dairy Producers Association (PROLECHE) to upgrade milking equipment and facilities. An Israeli expert has been working with the CENTA/PROLECHE program to develop effective production techniques. In addition, the Japanese International Cooperation Agency (JICA) is running various artificial insemination and embryo transplant programs to upgrade Salvadoran cattle genetics. PROLECHE members have approximately 16,000 dairy cows in production and produce 70.7 million liters of fresh milk per year.

Consumption

El Salvador's GDP growth for 2001 is expected to barely reach 2.5 percent affecting overall disposable income. As a result, demand for consumer products will be lower than in 2000. Beef is no exception to the rule and is expected to experience a reduction in consumption levels.

Preliminary 2001 domestic beef consumption is 36,000 MT. In 2002, consumption is forecast to decrease by 1,000 MT and reach 35,000 MT. Lower priced cuts from Nicaragua dominate the market. Prime cuts usually imported from the U.S. are only consumed by the HRI (Hotel/Restaurant/Institutional) sector. However, recent incursion in the market by U.S. wholesaler PriceSmart has provided an increased variety of U.S. cuts at more accessible prices. In addition, the U.S. Meat Export Federation has developed beef cuts for the institutional market that are similar to local cuts at very competitive prices.

The poultry sector continues to gain consumer preference in the meat market. Poultry meat has become the least expensive caloric intake of all meats. The Salvadoran poultry industry continues to be the strongest agribusiness in the agricultural sector. The Salvadoran Poultry Association (AVES) is very well organized and takes advantage of economies of scale when purchasing raw materials for their feed mixes.

Consumer preference for meat products varies based on income level. Higher and middle-upper income households purchase their beef at supermarket chains and prefer the leaner and more expensive beef cuts. These consumers also have enough purchasing power to purchase imported cuts and sausages. However, this segment represents a very small percentage of the total population. Middle income consumers prefer the least expensive cuts and higher fat content ground beef. Lower income consumers buy their meat in open-air markets and usually purchase offal and bones which are used to prepare soups. Current prices for top round beef range form

$ 5.49 to $ 5.83 per pound and ground beef from $ 1.37 for chuck to $ 2.51 for lean.

Import Trade Matrix					

Country	El Salvador		Units:	1000 Head	
Commodity	Animal Numbers, Cattle		Partial Begin	Jan	
			Partial End	Dec	
Imports for:	2000	2001	2002	2000	2001
	Full	Full	Full	Partial	Partial
U.S.					
Others					
Nicaragua	56,500	59500	59500	56500	59500
Honduras	3000	2500	2500	3000	2500
Costa Rica	125	120	120	125	120
Total for Others	59625	62120	62120	59625	62120
Others not Listed					
Grand Total	59625	62120	62120	59625	62120

Import Trade Matrix					

Country	El Salvador		Units:	Metric Tons	
Commodity	Meat, Beef and Veal		Partial Begin	Jan	
			Partial End	Dec	
Imports for:	2000	2001	2002	2000	2001
	Full	Full	Full	Partial	Partial
U.S.	149	195	230	149	195
Others					
Nicaragua	14650	14650	14850	14650	14650
Guatemala	756	755	700	756	755
Honduras	97	95	90	97	95
Total for Others	15503	15500	15640	15503	15500
Others not Listed					
Grand Total	15652	15695	15870	15652	15695

Trade

Most cattle imported by El Salvador enters through illegal border crossings with Nicaragua and Honduras. The main reason for illegal cattle imports is to avoid a 13 percent value-added tax and inspection by animal health officials. In 2001, preliminary data shows that approximately 62,000 head will be imported. Of that total, approximately 26,000 come in as contraband. Cattle imports are expected to be similar in 2002. Due to lack of financing for the sector, purebred breeding animals are imported on a small scale. El Salvador has not used the GSM-103 program to import cattle due to the risk factor that local banks attribute to the livestock sector. In addition, according to PROLECHE, approximately 1,000 MT of cheese per month are smuggled into El Salvador from Nicaragua and Honduras.

Beef imports are forecasted at 16,000 MT in 2001, a decrease of 1,000 MT from previously reported numbers. In 2002, imports are expected to remain at the same level as in 2001. Nicaragua is the main supplier of beef to the local market, accounting for 94 percent of total imports. U.S. participation in the Salvadoran beef market has been very limited. However, recently supermarket chains have started to inquire Post for suppliers of U.S. beef. In addition, a recent reversal in the import duty for beef to 15 percent should make U.S. beef more competitive.

In El Salvador, most beef is sold through open air markets scattered throughout the country. These markets lack adequate refrigerated infrastructure and sanitation control is poor. Middle to higher income consumers purchase their meat products in supermarkets and wholesale clubs mainly located in the four largest cities of El Salvador (San Salvador, Santa Ana, San Miguel and Sonsonate). These stores are generally very clean and product display is adequate. Meat products are sold vacuum packed. However, special cuts can also be acquired at the fresh meat sections of the supermarkets.

Policy

At this time, no formal policies are being dictated for the beef industry. In an effort to aid the dairy sector, the GOES has increased tariff rates for dairy products from 20 to 40 percent. Also a pasteurization law is now in effect. Implementation of the law is based on milk production. Small artisan producers have been given more time to implement the process, on the other hand medium and large scale producers have to abide to the law immediately. PROLECHE has actively pursued the enforcement of this law, because lower quality unpasteurized cheese and cream from Honduras and Nicaragua directly affects their sales of fresh milk to local processors. In addition, a law that prohibits the use of powdered milk to manufacture cheese and cream or to rehydrate into fluid milk has been enacted.

In addition, a decree to charge the 13 percent value-added tax to fluid milk has been approved by the National Assembly. This change in policy is expected to assist the dairy sector by allowing them to reclaim the value-added tax that they have to pay for input purchases.

A tuberculosis and brucelosis program backed by the European Union continues to be carried out by the MAG. This program is expected to help El Salvador be declared free of these diseases within 3 years. FMD control measures have been taken by local animal health officials. Dairy and meat products are only allowed into the country if they originate from declared FMD free countries. Animal bone meal has also been banned for use in feed due to fears of a BSE outbreak.

Free trade among Central American countries is in effect and a Harmonized Tariff Schedule is used.

Tariff Table

Tariff Code	Description	General Rate 1/	Other 2/
0102.10.00	Purebred Breeding Animals	0	Free
0102.90.00	Other	10	Free
0201.10.00	Carcasses and Half Carcasses Fresh	15	Free
0201.20.00	Other cuts with bone Fresh	15	Free
0201.30.00	Boneless Fresh	15	Free
0202.10.00	Carcasses and Half Carcasses Frozen	15	Free
0202.20.00	Other cuts with Bone Frozen	15	Free
0202.00.00	Boneless Frozen	15	Free
0403.10.00	Yogurt	40	Free
0406.10.00	Fresh Cheese (including whey cheese), not fermented, and curd	40	Free
0406.20.90	Other Cheese	40	Free
0406.30.00	Founded cheese, except grated or in powder	40	Free
0406.40.00	Blue-veined Cheese	40	Free
0406.90.10	Mozzarella Cheese	40	Free

1/ Percent Over CIF Value
2/ Central American Countries
Source: Central American Harmonized Tariff Schedule (SAC)