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Report Highlights:

Argentine beef production for 2003 is projected to remain stable, while exports are expected to increase to 360,000 MT. The strong devaluation of January 2002 improved cattlemen's returns and export competitiveness. More than half of the markets which closed in 2001 because of Argentina's foot and mouth disease crisis have now re-opened, with most others expected to re-open in 2003. The recently created Argentine Beef Promotional Institute is expected to commence operations before the end of this year.

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SECTION I. SITUATION AND OUTLOOK

Argentine beef exports for 2003 are projected at 360,000 MT (CWE), significantly higher than the previous two years. The two main factors supporting such increase are the reopening of many markets after the foot and mouth disease (FMD) crisis in early 2001, and the strong devaluation of the peso in early 2002 which has improved the sector's competitiveness in world markets.

After successfully controlling FMD in January 2002, over 40 countries have resumed imports of fresh beef from Argentina. Exporters are expecting most of the remaining closed markets to reopen (prior to the FMD crisis in March 2001 Argentina was trading with over 70 markets) in the second semester of 2002 or during 2003. This is a key factor for the industry as, apart from being able to ship more beef, it will allow the industry to make a more efficient use of the different cuts. Important markets like the EU, Brazil and Israel were open by early 2002, while markets such as the US, Canada and Chile continue to be closed. Chile, a key market for Argentina because of volume and type of cuts demanded is expected to resume imports before the end of 2002. This neighboring country was Argentina's number one market (in volume) for fresh/frozen beef in 1999 and 2000, accounting for 25 and 20 percent respectively of the country's total exports of those products.

FOB prices for 2003 are expected to recover as more markets reopen. This is a key factor as exporters will have the possibility of shipping cuts to the higher bidding market. The price of the Hilton Quota for 2002/03 is expected to rebound significantly. After the rush of having to export the whole quota in only four months before July 2002 deadline, the next quota will be distributed along 11 months, with expected price recovery in the EU market. In fact, rump and loin, in June 2002, was exported at US\$4,600 per metric ton, and by mid August it neared US\$7,000 per MT. Thermoprocessed beef prices are also expected to increase but more moderately.

Argentine beef imports are negligible, forecasted at 10,000 MT for 2003. Practically all imports come from neighboring Uruguay. The owners of one of the largest Argentine meat packer also own an important slaughter plant in Uruguay and they continually exchange products between companies. Chilled short ribs is the product mostly imported. With the peso devaluation, imports are expected to drop considerably. Argentina, prior to the devaluation, imported from the US about 2,600 metric tons of bovine sweetbreads a year, valued at approximately \$4 million. However, in January 2002 Argentina passed a new sanitary resolution prohibiting imports of US sweetbreads because of risk of BSE. USDA and SENASA (National Service of Animal Health) are working jointly to overcome this issue.

In March 2002, the government set taxes on exports, which in the case of beef were 5 percent. Argentina has historically taxed agricultural exports as a mean of funding government expenditure, but in the past decade they had been eliminated. However, having declared default and with no possibility of international credits, the current government saw this as an easy way of increasing much needed revenues. Export rebates for 2003 are projected to remain at least at current values. The following table shows current import duties, export rebates and export taxes for different beef products (imports from Mercosur members are duty free, but export taxes and rebates apply):

Product	HTS	Import Duty %	Export Rebate %	Export Tax %
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Bone-in beef	020120; 020220	11.5	1.35	5.0
Boneless beef	020130; 020230	13.5	2.7	5.0
Processed beef	160250	17.5	5.0 or 6.0	5.0
Offals, frozen	020629	11.5	2.05	5.0

Despite the unstable environment created by the current economic and financial crisis we do not foresee significant changes in production. Beef production and slaughter for 2003 are forecast to remain at similar levels to those of last year, with an expected slaughter of 12.5 million head and a total output of 2.73 million metric tons of beef. Strong cattle prices, providing good returns to producers, and an unstable economy in which cattlemen prefer to restrict sales, could induce a cattle retention. However, offsetting retention are limitations on the local financial system, in which credit is practically nonexistent and financial movements are restricted, and the fact that many cattlemen are shifting to crop production which would make producers sell more cattle. Another factor which would indicate equilibrium in the cattle industry is the stability of the cattle herd in the past several years, with relatively similar calf crops and slaughter levels.

In the past decade, domestic beef consumption accounted for roughly 90 percent of total beef output. However, in 2002 it is expected to drop to 88 percent and to 85 percent in 2003. If market conditions to export improve further, Argentina would be capable of reacting rapidly, meeting new demand by shifting beef from domestic consumption.

The local beef industry is one of the very few sectors which have benefitted from the strong devaluation. Cattlemen have almost tripled their income while their costs only increased marginally. While cattle prices have almost tripled, most of their debts were converted into pesos and production costs such as labor, electricity, taxes, communications, etc. have remained almost unchanged as before the devaluation. However, fuel has almost doubled in price and imported inputs, such as seeds, fertilizers, and agricultural chemicals have increased 3.5 times, the same proportion as the devaluation. Processors' too, have benefitted from lower costs, but also from larger income due to greater competitiveness in world markets and higher prices of by-products (usually they keep these as payment for their processing of cattle to third parties), especially raw hides which have increased almost five times since December 2001. Good returns in the business have resulted in the opening of most plants which were closed during 2001 when Argentina was out of the world market because of the FMD crisis. If returns in the export business continue to be strong, we foresee investment in the sector, especially in plants which export to the EU. Meat packers for the domestic market are also expected to improve their facilities.

In late 2001, the Argentine Congress passed Law 25,507 creating the Argentine Beef Promotional Institute. It is expected to begin operating before the end of the year. It is mainly represented by producers and packers and its main goals are to promote beef in the domestic and export markets. The Institute will be financed by producers and packers under a check-off system. Prior to the devaluation, sources estimated that roughly \$12 million could be collected. Although most within the industry are looking forward to its kick off, some are quite reluctant as they doubt the Institute will be able to meet its goals effectively.

SECTION II. STATISTICAL TABLES

PSD Table						
Country	Argentina					
Commodity	Animal Numbers, Cattle				(1000 HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Total Cattle Beg. Stks	50167	50167	50369	50669	50266	51264
Dairy Cows Beg. Stocks	2450	2450	2350	2300	0	2150
Beef Cows Beg. Stocks	18500	18500	18300	18300	0	18100
Production (Calf Crop)	14200	14200	14000	13800	0	13000
Intra EC Imports	0	0	0	0	0	0
Other Imports	2	2	2	0	0	0
TOTAL Imports	2	2	2	0	0	0
TOTAL SUPPLY	64369	64369	64371	64469	50266	64264
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	5	5	0	5
TOTAL Exports	0	0	5	5	0	5
Cow Slaughter	4000	4000	4100	4200	0	4100
Calf Slaughter	1730	1830	1800	1700	0	1600
Other Slaughter	6770	6670	7100	6300	0	6800
Total Slaughter	12500	12500	13000	12200	0	12500
Loss	1500	1200	1100	1000	0	1000
Ending Inventories	50369	50669	50266	51264	0	50759
TOTAL DISTRIBUTION	64369	64369	64371	64469	0	64264
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						
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Country	Argentina					
Commodity	Meat, Beef and Veal				(1000 MT CWE)(1000 HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Slaughter (Reference)	12500	12500	13000	12200	0	12500
Beginning Stocks	26	26	27	0	22	0
Production	2625	2680	2750	2640	0	2730
Intra EC Imports	0	0	0	0	0	0
Other Imports	14	30	10	8	0	10
TOTAL Imports	14	30	10	8	0	10
TOTAL SUPPLY	2665	2736	2787	2648	22	2740
Intra EC Exports	0	0	0	0	0	0
Other Exports	163	168	230	280	0	360
TOTAL Exports	163	168	230	280	0	360
Human Dom. Consumption	2475	2568	2535	2368	0	2380
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	2475	2568	2535	2368	0	2380
Ending Stocks	27	0	22	0	0	0
TOTAL DISTRIBUTION	2665	2736	2787	2648	0	2740
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Prices Table			
Country	Argentina		
Commodity	Animal Numbers, Cattle		
Prices in	Pesos	per uom	Kilo Live (steers)
Year	2001	2002	% Change
Jan	0.88	0.82	-6.82%
Feb	0.89	0.94	5.62%
Mar	0.89	0.97	8.99%
Apr	0.9	1.4	55.56%
May	0.88	1.33	51.14%
Jun	0.87	1.4	60.92%
Jul	0.82	1.56	90.24%
Aug	0.76	1.94	155.26%
Sep	0.71		-100.00%
Oct	0.72		-100.00%
Nov	0.68		-100.00%
Dec	0.71		-100.00%
Exchange Rate	3.55/1	Local currency/US \$	

Prices Table			
Country	Argentina		
Commodity	Meat, Beef and Veal		
Prices in	Pesos	per uom	Kilo (incl. 21% VAT)
Year	2001	2002	% Change
Jan	3.68	3.41	-7.34%
Feb	3.66	3.65	-0.27%
Mar	3.68	3.69	0.27%
Apr	3.65	4.54	24.38%
May	3.63	4.53	24.79%
Jun	3.58	4.58	27.93%
Jul	3.56	4.62	29.78%
Aug	3.52		-100.00%
Sep	3.45		-100.00%
Oct	3.38		-100.00%
Nov	3.34		-100.00%
Dec	3.34		-100.00%
Exchange Rate	3.55/1	Local currency/US \$	

SECTION III. NARRATIVE ON SUPPLY AND DEMAND

Production

The cattle herd continues to be rather stable, roughly between 50-52 million head (there are two official estimates which differ between them). However, a projected smaller calf crop is expected to drop ending stocks for 2003 marginally. During 2002 there was a slightly higher slaughter of cows (especially dairy cows) and a severe winter which is expected to affect pregnancy rates. The cattle herd in 2002 is expected to increase marginally because the harsh winter and a strong reduction in feedlot production will reduce overall productivity, having some fed cattle delayed and finished in early 2003. As reported in the beginning, slaughter and production are also quite stable as there are conflicting signs which encourage both retention and liquidation.

As a result of the strong devaluation we can see three clear trends in local cattle production: 1) the amount of cattle finished in feedlots will diminish considerably as grain prices are tied to the US dollar, thus making feed prices very expensive and volatile (tied to the exchange rate and to world grain markets). Until last year it was estimated that approximately 1.5 million head were finished in feedlots. In 2002 and 2003 the volume could drop by more than half. Also the use of corn silage, very popular in the past several years, will decrease significantly. This has forced many cattlemen to go back to the old system of finishing cattle on pastures and with little or no grain supplementation. Therefore, production throughout the year will become more cyclical, with large supplies during autumn and spring and a gap during winter. Cattle productivity will diminish; 2) many producers will expand their crop area by reducing or converting pastures into crops which are by far much more profitable (between 2 to 4 times more) than fattening; and 3) the average weight of cattle will increase because cattle fed on pastures tend to be commercially ready at heavier weights than those finished in feedlots and to the fact that heavy steers, over 450 kilos, are receiving a good price premium from exporters. However, there are some people who think that most producers will not finish their steers at heavy weights as this means retaining the cattle for many more months, reducing overall profitability.

The following table compares average net returns in August 2001 and 2002 for calf-cow, fattening and soybean operations. Values are in pesos per hectare:

Operation	08/01 (\$/Ha)	08/02 (\$/Ha)
Cow-calf	-5	20
Fattening*	150	225
Soybean	135	790

* 08/01 based on pastures and corn silage; 08/02 based on pastures and some grain supplementation

The above table clearly shows that the agricultural sector benefitted from the devaluation. Although inflation in the past 7 months of 2002 was slightly above 30 percent, the gain in all three sectors was higher. It also shows the spread

between crops and cattle production. This is mainly because grain and oilseed prices follow the dollar directly because of their export opportunity. Also crops have higher overhead costs which have increased just above inflation, but have dropped 60 percent in dollar terms.

Land value after the devaluation in January 2002 has descended in dollar terms. A hectare in a typical fattening area in the west of the province of Buenos Aires is valued at US\$ 950, 20 percent lower than in December 2001, while values of land in cow-calf areas in the province of Buenos Aires is roughly at US\$330, 30 percent lower. Prices fell immediately after the devaluation and then stabilized. Therefore, if there are no significant changes in the economy, especially inflation, devaluation or policies directed to the sector (e.g. export taxes), we do not foresee major changes.

After the devaluation, cattle production has become the most favorable industry within the livestock sector. Poultry is suffering the increase in feed costs, which has forced broiler retail prices to increase over 90 percent, and the 4 year long economic recession. Production in 2002 is forecast to drop at least 20 percent. Domestic pork output is relatively stable, but demand has decreased dramatically, forcing imports to drop accordingly (about half of domestic pork use was imported). As long as the exchange rate remains high, we expect a similar pattern in the years to come. The dairy sector is going through a tough crisis as feed costs have also increased dramatically. Despite an increase of over 100 percent in farmgate milk prices, slim returns forced many operations to close or reduce in size and shift to crop production. Milk output in 2002 is forecast to decline by at least 15 percent.

Vertical integration is not very common in the local cattle/beef industry. However, there are some programs which producers contract with processors to supply certain type of cattle. This is the case of the certified Angus and Hereford programs. There are also some agreements made between cattlemen/feedlots and supermarkets or packing houses.

There are over 250,000 cattle producers in Argentina. Although the number has been declining in the past years, we do not expect a rapid movement towards concentration, especially now that profitability in the farm sector has improved. In the processing sector, concentration is expected, but in a few more years. Today there are approximately 400 slaughter plants (of all sizes), of which the first five slaughter 15 percent of the country's total (many provide slaughtering service to third parties). Over 40 companies are eligible to export to the EU. Under the current situation, we expect more plants to reopen and more companies applying to export to the EU.

Apart from having vast extensions of natural and implanted pastures, Argentina is one of the world's largest grain and oilseed producer and exporter. Therefore, availability of feed is not a problem. However, current domestic economic measures and policies (devaluation, export taxes, etc.) limit the use of feeds.

The last foot and mouth disease outbreak occurred in January 2002 (there was one reported episode in early June in southern Buenos Aires province, but test results were negative). By the end of August 2002, the fourth round of vaccination will begin. As from now on, producers will have to pay, while the first three rounds were funded by the government. The cost of the vaccine plus the vaccination is estimated at 1.40 pesos each.

Consumption

Total beef domestic consumption in 2003 is projected at 2.38 million MT, very similar to the previous year. A slightly larger production will be offset by larger exports.

Retail beef prices in peso terms are expected to remain high in 2003. Although the economic recession and high unemployment are not expected to improve significantly, a strong dollar will continue to encourage large beef exports. Therefore, cattle prices are expected to continue strong, primarily driven by exporters. However, very high raw hide prices will continue to help meat packers to somewhat "subsidize" beef prices in the weak domestic market. While cattle prices increased 200 percent from December 2001 to August 2002, retail beef prices increased only 70 percent. Argentines will probably begin to consume more inexpensive cuts, while higher value cuts will tend to be exported.

The following table shows some current meat prices taken from a large supermarket in an upscale neighborhood (prices are in pesos and include 21 percent VAT):

Product	\$/Kg	Product	\$/Kg
Beef tenderloin in tray	14.0	Pork tenderloin vacuum-p	18.0
Beef tenderloin vacuum-p	27.0	Broiler, low-water in tray	5.9
Beef short ribs in tray	6.7	Frozen lamb, whole	5.9
Ground beef in tray	5.6	Frozen sweetbreads (US)*	10.0

* these were imported prior to the ban in January 2002

Argentines have always consumed grass-fed beef. However, in the past decade, with the development of the feedlot industry as result of the overvalued peso, many consumers discovered grain fed beef. Although quite more expensive, consumers liked its consistency and tenderness (most fed animals were slaughtered at 240 kilos live). After the devaluation this type of beef is more scarce and even more expensive. Grass-fed steers of about 380-420 kilos live and heifers of 280-300 kilos live are the cattle most demanded by domestic consumers.

Broiler prices in 2002 doubled as its cost of production increased heavily with the increase in feed prices as a result of the devaluation. This negatively impacted demand, which fell almost 30 percent in the first seven months of 2002. Beef demand benefitted because prices increased much slower and at a lower rate than broilers.

Trade

Argentine beef exports consist of three main type of products: chilled boneless cuts, frozen boneless cuts and processed cooked beef. In 1999 and 2000, when almost all markets were open (some closed temporarily in 2000 due to an FMD outbreak), these three categories accounted for roughly 1/3 each of total exports measured by product weight. Since the FMD crisis in 2001, fresh and frozen beef diminished dramatically, while processed beef declined significantly less. Beginning with the opening of the EU market for exports of fresh and frozen beef in early 2002, Argentina has been rapidly gaining its normal export mix. Shipments in 2003 for all three categories are forecast to increase. Larger increases are expected in chilled boneless cuts due to the EU having granted Argentina an extra 10,000 MT of Hilton Quota (only for the 2002/03 quota) and the expected opening of the Chilean market which demands primarily boneless chilled forequarter cuts. Frozen boneless cuts are also projected to increase, despite the continuity of the ban to export to the US and Canada. Apart from the traditional markets (primarily Israel and the EU) for this type of beef, Argentina is expected to ship inexpensive frozen cuts to markets such as Bulgaria, Albania, Angola, Egypt, Suriname and

Uruguay. Russia and Chile, once open, are markets which are expected to import relatively important volumes of frozen boneless beef in 2003.

The following table shows the type of beef products which Argentina shipped in 1999 through May 2002. Data is in product weight (metric tons):

Product	1999	2000	2001	2002*
Chilled Carcass	2,601	1,543	204	0
Chilled Cuts, Bone-in	1,327	332	74	0
Chilled Cuts, Boneless	74,417	70,249	14,885	24,431
Frozen Carcass	80	0	0	0
Frozen Cuts, Bone-in	1,214	1,829	124	17
Frozen Cuts, Boneless	82,984	86,069	27,533	12,634
Processed Cooked Beef	71,296	72,758	59,990	23,595

* January-May

Argentine average FOB prices dropped in the first semester of 2002 mainly due to the following reasons: 1) reentering the world market of fresh beef after more than a year virtually without trading; 2) the hurry to fulfill the 28,000 MT Hilton Quota before July 2002 forced exporters to ship large volumes which clogged the EU market and depressed prices. Also the quota was filled with other lower value cuts (apart from the typical rump and loin) to make volume which reduced the average price; 3) few markets were open which made exporters try to ship the most possible to them; with large exports to markets (such as Egypt and Bulgaria) which tend to import inexpensive beef; and 4) good returns in the export business softened prices.

The following table shows average FOB prices per metric ton for major destinations during January-May 2002 compared to the same period in 2001 (when most markets were closed for chilled and frozen beef) and 2000:

Product	Country	AVG \$ 2002	AVG \$ 2001	AVG \$ 2000
Chilled boneless cuts	All	3,240	3,820	4,410
	Brazil	1,720	4,770	4,030
	Germany	3,910	4,920	6,660
	Netherlands	3,290	5,050	5,990
	U.K.	2,990	4,670	6,150

Frozen boneless cuts	All	1,490	2,040	1,940
	Brazil	2,010	4,160	3,730
	Bulgaria	830	1,360	1,290
	Israel	1,760	1,900	1,990
	U.K.	1,030	5,760	1,930
Processed beef	All	1,840	2,110	2,130
	Hong Kong	650	970	1,090
	U.K.	1,850	1,900	1,940
	US	3,040	3,450	3,790

Argentina's beef has a very good reputation in the world market and is imported by top meat distributors, processors, and retailers around the world. Apart from having an excellent herd, with predominance of British breeds (Angus and Hereford), and a production system under a natural environment, it has good export packers. These are regularly inspected by US and EU sanitary officials which require very high quality standards. Argentina is recognized by the OIE (International Organization of Epizootic) as free of BSE (mad cow disease). FMD was and is the only factor which restricts exports (of fresh and frozen beef) to a very small number of markets, but which are major beef importing players such as the US, Canada, Japan, Korea and Mexico.

Argentine official export data in carcass weight equivalent will defer from that reported by FAS as conversion factors used are different. While Argentina uses 1.05 for bone-in beef, 1.50 for boneless beef and 2.5 for cooked/processed products, FAS uses 1.42 for fresh and frozen beef and 1.79 for cooked/processed products.

Marketing

Most beef in Argentina is sold through butcheries. Roughly 30 percent of total beef was sold through supermarkets in the past years. However, with the economic recession and the increase in food prices, consumers are shopping in many different stores, looking for the cheapest price. Large supermarkets are losing market share as consumers perceive that they have increased prices more than smaller stores.

Most large supermarkets offer beef in three ways: 1) branded vacuum packed (small market share); 2) in trays packed by supermarkets; and 3) a butcher who personally attends consumers.

Beef is primarily distributed in carcasses or in quarters. Deboning is made at the butchery or supermarket. On weekends, some special cuts may be ordered to meet the higher demand for barbeques, such as short ribs and thin flank cuts.

