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## Argentina

### Poultry and Products

#### Annual

#### 2002

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#### Report Highlights:

**Argentine poultry exports in 2003 are forecast up at 14,000 metric tons. The strong devaluation of early 2002 has provided Argentina with improved export competitiveness. However, weak world prices and limited export capacity will restrain a larger expansion. Broiler production in 2003 is projected at 600,000 MT, the lowest level in the past ten years. Retail broiler prices have doubled due to increased feed costs as result of the devaluation, while prices of alternative meats and foods have increased less or remain more inexpensive, lowering domestic demand. Imports for 2003 are expected to increase to 20,000 MT as it is expected that the antidumping case filed by Argentina against low Brazilian export prices would be withdrawn before it expires in mid-2003.**

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
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## **SECTION I. SITUATION AND OUTLOOK**

Argentine exports of broiler meat are projected at 14,000 MT in 2003, higher than the 10,000 MT estimated for 2002. The devaluation of the local currency in early 2002 has improved the competitiveness of the export sector. Although the local poultry industry has never been very active in world markets, it is expected to open new markets as a way of partially offsetting the downfall in domestic demand.

Although world poultry prices are weak, returns in the export business in 2003 are forecast to continue to be relatively good. Average Argentine FOB prices of frozen whole broilers in the first 6 months of 2002 were \$640 per metric ton, a drop of 25 percent since the same period last year. There are about 6 processing plants eligible to export to the EU and approximately 15 more which can export to other markets. It is possible that a few of these plants could be upgraded in order to be eligible to export to the EU in 2003. Although some sources report that the industry is operating at 60 percent of its capacity, the capacity for exports is much tighter and more investment is needed to expand exportable volumes.

Argentine poultry meat products are considered of good quality. Most of the leading processing plants have efficient and modern equipment with tight sanitary controls. Exports of poultry products is led by chicken paws which are primarily destined for China. Cuts and parts go primarily to South Africa and the EU (Germany, Netherlands and UK). While some new low-priced markets such as Congo and Angola have also recently appeared, the majority of processed poultry product exports are sent to Germany and Netherlands. Frozen whole broilers whose main markets are Congo, Peru and Qatar are small in volume, but expanding. The following table shows Argentine poultry exports in the first semester of 2002 by type of product:

<b>Product</b>	<b>Volume (MT)</b>
Chicken Paws	5,473
Processed Poultry	2,436
Boiled Chicken	1,469
Whole Broilers	842

Source: SENASA

In March 2002, the government set taxes on poultry exports at 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. Despite the increase in export taxes, 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 poultry products (imports from Mercosur members are duty free, but export taxes and rebates apply):

<b>Product</b>	<b>HTS</b>	<b>Import Duty %</b>	<b>Export Rebate %</b>	<b>Export Tax %</b>
Whole broilers	0207.11-12	11.5	3.40	5.0
Chicken cuts & offals	0207.13-14	11.5	2.7	5.0
Chicken preparations	1602.32	17.5	5.0 or 6.0	5.0

In late 2001, the Argentine Congress passed a law creating the Argentine Beef Promotional Institute, expected to begin operating before the end of the year. Represented mainly by producers and packers, its main goals are to promote beef in the domestic and export markets. There were talks of incorporating all meats, but this did not happen. The local poultry industry sporadically organizes marketing activities, for example, setting booths at large international food shows, such as Sial and Anuga in Europe.

Argentina is free of Avian Flu and Newcastle (declared free in 1997 by the OIE - Organization International of Epizootics). Although it is not compulsory, most producers continue to vaccinate against Newcastle disease. Due to recent outbreaks of Avian Flu in Chile and some other American countries, Argentine officials have forbidden the importation of commercial baby chicks and eggs. Only 1-day chicks and fertile eggs to obtain pure breeds can be imported (the two main genetic companies operating in the country are Ross and Cobb).

Broiler imports for 2003 are projected at 20,000 MT, roughly back to the level of 2001. Currently, the antidumping case filed by the local chamber of poultry processors against low Brazilian export prices, set to expire in July 2003, requires Brazilian broilers to have a minimum price of \$0.92-0.98 per kilo. However, some sources state that the Argentine Government will withdraw the measure in late 2002 in agreement with its neighboring country to "clean" most trade disputes. If this were to occur, the very competitive export prices Brazil is currently offering (\$0.50 per kilo), would encourage some large Argentine retailers and distributors to import. Brazil has been very aggressive and once they break into a market they will make every effort to remain. Prior to the antidumping case, Argentina had been Brazil's second largest market. At current prices, and assuming no minimum price regulation, Brazilian broilers would be sold at wholesale at roughly 2.10 pesos per kilo, while the domestic price is only 10 percent below.

US poultry products are permitted in Argentina. However, with the strong devaluation, internal prices in dollar terms are very weak, discouraging trade.

Broiler production for 2003 is projected to drop for the second year in a row to 600,000 MT, far below the record of 885,000 in 1999. The strong devaluation of early 2002, the long economic recession, the financial crisis, and weak perspectives of economic growth are all expected to negatively affect poultry output in 2003. The local industry is shrinking as returns have been negative or very slim in the past few years and even more so now. Last year the largest

local poultry processor went bankrupt and a few smaller ones also discontinued production. Current production costs are estimated at 2.0 pesos per kilo, while wholesale prices are about 1.85 per kilo. Most large poultry companies are in a delicate financial situation and will not be able to continue operating under such an environment for much longer, especially with the lack of commercial credit available in the country since late December 2001. If profitability does not improve, most of the companies will be forced to reduce production. On the other hand, if broiler prices increase and returns improve, demand will likely drop, also limiting output.

The dollar increased 250 percent in peso terms since the devaluation in early 2002, after a decade of having been pegged at a 1:1 exchange rate. Of the total broiler production cost, approximately 75 percent is feed (last year it accounted for 60 percent), which is valued in dollars, as are most tradeable commodities. Therefore, poultry processors had to increase their wholesale prices to cover huge cost increases. While retail broiler prices increased 100 percent in the first 8 months of 2002, beef prices increased only 68 percent and at a slower pace. Beef is by far the number one meat consumed in Argentina and its price influences the other meats.

The following table shows the effects of the devaluation on the poultry industry:

<b>Product/Index</b>	<b>December 2001</b>	<b>August 2002</b>	<b>Difference</b>
1 Dollar	1 Peso	3.5 Pesos	250%
Inflation			38% (first 8 months)
Broiler Cost Prod.	0.95 Pesos/Kilo	2.0 Pesos/Kilo	110%
Broiler Retail	1.70 Pesos/Kilo	3.41 Pesos/Kilo	100%
Beef Retail	3.34 Pesos/Kilo	5.60 Pesos/Kilo	68%

Of the total poultry production in Argentina, roughly 95 percent are broilers, while the balance is primarily made up of spent hens and a small volume of turkey. Roughly 80 percent of the production occurs in federally inspected plants. There are about 45 poultry plants in the country, with 90 percent of the production distributed between Entre Rios and Buenos Aires provinces. The largest 5 processors account for about 45 percent of the official slaughter and the first 10 account for about 62 percent. The financial situation of the industry in general is quite weak. Smaller processors are reported to be in a better situation as they have more flexibility to operate and have not invested heavily as the large ones have had to do in order to remain competitive against imports of inexpensive Brazilian broilers during the nineties. Some years ago a few of the larger companies were moving towards more vertical integration, including crop production. However, with the financial problems, they have reduced grain and oilseed production, which they now purchase in the market. Most companies contract with independent growers who provide the growout house, labor, heating and electricity. The rest is provided by the processing company, including 0.20 pesos per finished broiler. It is doubtful that major investment will take place as the industry is already well equipped and its financial situation is weak, although some processors may upgrade specific areas oriented to the export business.

Argentines prefer large, yellow broilers. However, we are now starting to see that the average weight is coming down and that in some cases the color is whiter. The overall efficiency of the industry is expected to be somewhat affected

negatively. In May 2002, the average live weight at slaughter was 2.72 kilos per bird. Mortality was roughly 5.5 percent, feed conversion ratio was 2.26 (feed/live broiler) and the average grow-out period was 56 days (in 2001 it was 53 days. The difference is that due to market conditions, processors have delayed slaughter).

Domestic broiler consumption for 2003 is forecast at 605,000 MT, lower than the already reduced 640,000 MT of 2002, and back to the level of ten years ago. The reasons for such a downfall are: 1) retail broiler prices have doubled, while inflation increased less than 40 percent and beef, "the king of the meats" has only increased 68 percent; 2) unemployment is record high, weakening Argentines' purchasing power; 3) people are shifting to more inexpensive foods, such as rice, pasta, etc.; and 4) the economic recession, which is expected to continue into 2003, has negatively affected volume sales of all products. Broiler per capita consumption for 2003 is forecast at 16 kilos, far from the 25 kilos of 1999.

Roughly 90 percent of the local broiler output leaves the plants as fresh whole broilers. The balance are cuts, specialty broilers (such as dry and seasoned/flavored), and frozen processed products (primarily nuggets and burgers). Approximately 35 percent of the total broiler output is marketed through supermarkets, where they are sold as is or are roasted and sold ready to consume. There are some small specialized stores called "granjas" in which they cutup and prepare specialty products like boneless breasts, breaded products, etc.

**SECTION II. STATISTICAL TABLES**

PSD Table						
Country	Argentina					
Commodity	Poultry, Meat, Broiler				(1000 MT)(MIL HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	7	7	2	5	2	6
Production	870	870	860	650	0	600
Whole, Imports	18	18	28	1	0	15
Parts, Imports	6	6	7	0	0	5
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	24	24	35	1	0	20
TOTAL SUPPLY	901	901	897	656	2	626
Whole, Exports	1	1	1	2	0	3
Parts, Exports	18	5	19	8	0	11
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	19	6	20	10	0	14
Human Consumption	880	890	875	640	0	605
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	880	890	875	640	0	605
TOTAL Use	899	896	895	650	0	619
Ending Stocks	2	5	2	6	0	7
TOTAL DISTRIBUTION	901	901	897	656	0	626
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0

Prices Table			
Country	Argentina		
Commodity	Poultry, Meat, Broiler		
Prices in	Pesos	per uom	kilo (retail incl.21% VAT)
Year	2001	2002	% Change
Jan	1.76	1.91	8.52%
Feb	1.77	2.1	18.64%
Mar	1.94	2.1	8.25%
Apr	1.9	2.55	34.21%
May	1.72	2.41	40.12%
Jun	1.66	2.66	60.24%
Jul	1.64	2.77	68.90%
Aug	1.67	3.41	104.19%
Sep	1.63		-100.00%
Oct	1.63		-100.00%
Nov	1.64		-100.00%
Dec	1.7		-100.00%
Exchange Rate	3.55/1	Local currency/US \$	