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Poultry and Products

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Report Highlights:

Argentine poultry exports for 2004 are projected at 70,000 tons, almost twice as high as those in 2003. This record high is a result of Argentine products being very cost and quality competitive after the 2002 devaluation, and the heavy investment of the past several years. In addition from the current 32 markets to which Argentina already has access, new ones are expected to open. Foreign demand is expected to continue to be strong. Local broiler production is expected to increase significantly as returns in both the domestic and export markets are very good.

Includes PSD Changes: Yes
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Annual Report
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[AR]

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SECTION I. SITUATION AND OUTLOOK

Argentine poultry meat exports for 2004 are forecast to grow significantly to a record of 70,000 metric tons (MT). The strong devaluation initiated in early 2002 resulted in increased competitiveness and generated good business for local processors. For 2004, exporters forecast continued strong world poultry prices, and somewhat weaker domestic prices. This should encourage companies to expand foreign sales further. Most current investment in the sector is focused primarily on exports, while local sanitary officials continue working hard in opening new markets for Argentine poultry products.

The combination of the devaluation, together with the sector's efficiency buoys the optimism of domestic processors with regard to future export prospects. The local association that represents over 80 percent of the country's production and a higher percentage of exports, forecasts Argentine poultry exports at roughly 320,000 tons in 2010. Although some people consider this level rather optimistic, it clearly shows a fast growing trend. During the 1990's, when the peso was pegged to the dollar at a one-to-one ratio and imports were inexpensive, the local industry fought low-priced Brazilian product with large investment in order to improve efficiency. Private sources indicate that over \$250 million were invested in the sector during that period, resulting in an industry comparable to top world producers. However, due to the strength of the peso during the convertibility program throughout the 1990's, Argentine costs were significantly higher than the competition, limiting exports to very few markets and niche products, such as special boneless breasts to Germany and the United Kingdom, and chicken wings and paws to Asian countries.

The following table shows the average total cost of production for broilers, wholesale and FOB prices (in dollars per kilo, ready-to-cook):

Year	Total Cost*	FOB Price**	Wholesale Price***
2001	0.92	0.79	0.97
2002	0.52	0.61	0.51
2003	0.65	0.72	0.81
2004	0.66	0.78	0.70

* and *** chilled; ** frozen

The current Argentine Government, which has been in office since May 25, 2003, has indicated that it will encourage exports and that the value of the dollar will continue to be free. Most analysts predict for 2004 an inflation rate of about 10 percent and a value of the dollar close to 3 pesos.

Although the costs of production of Argentina and Brazil are quite similar, local exporters are aware that competing against Brazil solely based on price is a risky business. Brazilian exporters are quite aggressive and handle large volumes. Therefore, they are trying to focus primarily in higher value markets, supplying very good quality, differentiated high value products, and exporting to niche markets. Individually quick frozen calibrated breasts and precooked products to Germany, the UK and the Netherlands; and low water-content Halal certified broilers to Saudi Arabia, are some of the products which are doing well. Several local processors are investing in new product development, such as precooked and pre-fried chicken, and steam-oven breasts. There are about 6 local companies eligible for exports to the European Union (EU), and about ten which can export to other markets.

Argentina has opened several new markets in the past months. While in 2002 it could only export to ten countries, in 2003 it could ship to more than thirty. Saudi Arabia, Barbados, China, Tahiti and Japan are some examples. Argentina has a very good sanitary status,

which permits the opening of various markets. Trade with Saudi Arabia is mostly done by the largest local processor, which co-packs for Tysons. Although this business has started quite recently, it is expected to grow considerably in the near future. Moreover, volumes could already be much bigger if the local processor would have a larger production. The opening of the Japanese market back in March will provide exporters the possibility of integrating their business in a more efficient way. Although business is developing very slowly (the first three containers are on their way), Japan will buy large-sized manually deboned hindquarters. This could fit well with exports of breasts to the EU. Chile has become one of the largest markets for Argentina, taking significant volumes of frozen whole broilers and poultry preparations. Sanitary problems negatively affected Chilean production and they are now exporting a large tonnage of breasts to the EU. Most local traders believe Chile will become a good stable market.

Poultry imports for 2004 are forecast at 10,000 tons, somewhat larger than the previous year, but significantly lower than in the last part of the 1990's. The devaluation of 2002 has made imported products more expensive, but products from Brazil are expected to come into the market.

During the last decade Brazil exported to Argentina relatively large volumes of whole broilers and to a lesser extent, high value frozen poultry products. In 2001, local processors filed an antidumping case against low Brazilian export prices. Therefore, imports from the neighboring country had to be imported at a minimum price of \$920-980 per MT. However, in March 2003, prior to its expiration date, the Argentine Government withdrew the measure. Imports resumed without restrictions, and once again product started coming in at low prices. Local processors, with the support of the Argentine Government, met with their counterparts in Brazil to try to agree upon a minimum price, which would not harm their business. Argentines claimed that while Brazilian average FOB price to all its markets during the first months of 2003 was a little over \$700 per ton, product into Argentina was exported at \$525. The price was increased \$80 per ton and today, it is even higher as domestic prices in Brazil have lately increased. With current export prices, plus freight and other minor costs, Brazilian product would wholesale just below local product. Given that most sources expect a drop in local wholesale prices for 2004, volumes of imported product would be quite limited. A few large supermarkets and distributors are typically the main importers.

Poultry imports from the U.S. are currently prohibited due to last year's outbreak of Newcastle in California. USDA and Argentine sanitary officials are working together to lift the ban soon. Even if the market were open, the high price of the dollar in Argentina would probably make imports difficult.

The following table shows Argentina's current import duties, export rebates and export taxes for poultry products (in percentage):

Product	Import Duty	Export Rebate	Export Tax
Broilers	11.50	3.40	5.0
Processed Products	17.50	5.0	5.0

Broiler production for 2004 is forecast at 780,000 MT, a significant recovery from the previous two years, which were negatively affected by the economic crisis. Some analysts indicate that production growth could be even higher. Very good returns in both the domestic and export markets are encouraging most processors to recover breeding flocks. Last year, Argentina prohibited the entry of commercial baby chicks and eggs due to Avian Flu outbreaks in some regional countries. This together with the economic crisis forced a

reduction of baby chicks' supply. However, this situation is already normalized as the two main genetic companies have recomposed their production and supplies.

Most players in the sector forecast a steady increase in production for the next decade. However, in the short term, processors will have to invest to achieve such growth. The main bottleneck at present is the shortage of grow-out houses, when the crisis took place, many were closed and not maintained. The current capacity in use is estimated at about 85-90 percent. Most processors are expected to provide support to their contract growers for expansion. Other links of the chain to be expanded in the future are hatcheries, feed mills, and processing plants.

Prior to the devaluation, many local poultry processors were in a difficult financial situation, as profitability during the 1990's was very thin, and indebtedness big due to large investments. During the crisis of 2002, the largest local processor and a medium-sized one closed. However, the steep devaluation with a controlled inflation allowed local companies to improve their returns significantly, and to pay back a good portion of their debts. Poultry companies are currently investing significantly in their plants. Three of the largest processors are constructing freezing tunnels. Once these are finished, there will be at least eight processors with this capacity, which is key for expanding exports. Other companies are also expanding cold storage, cutup rooms, and slaughter capacity.

Argentina has about forty poultry processing plants certified by the local sanitary service which are operating. The first two companies account for 38 percent of the total, while the first ten account for 75 percent. The largest and most efficient companies slaughter between 8-10,000 birds an hour. Of the total slaughter of 2002, 53 percent was done in Entre Rios province, and 37 percent in Buenos Aires province.

Roughly 90 percent of the grow-out is done through independent growers, while a few processors own the balance. Growers provide labor, infrastructure, and heating and in exchange they receive payments of roughly \$0.12 per broiler. In the first 6 months of 2003, the grow-out period was 52 days, mortality averaged 6.5 percent, and liveweight at slaughter was 2.65 kilos per bird.

Apart from an expected growth in exports, the domestic demand is also projected to improve as the economy is coming back and broiler prices compared to beef are very competitive. The price of beef short ribs has historically been on a par with the cost of a kilo of broiler. In the last few years, chicken began to be significantly cheaper than beef. In September 2003, broilers were retailing at \$3.74 per kilo, while beef short ribs were at \$5.52 per kilo. Roughly 90 percent of the output is marketed as whole broilers and the other ten percent as parts and further processed products. Whole broilers are sold to supermarkets (which they then sell as whole, roasted or parts), restaurants and small-specialized poultry stores, which also further process most of them. Sources estimate that supermarkets account for roughly 30 percent of market share.

The Argentine Government does not subsidize the poultry sector. However, it is realizing the importance of it as an exporter, creator of jobs and transformer of bulk feed into animal protein. Through the Secretariat of Agriculture and SENASA (sanitary service), the government is forcing some changes that will favor the sector. As examples of this, it has implemented a sanitary program of poultry improvement, which focuses on controlling the main diseases. It has also created a register of breeding flocks, and has started working on a traceability program. SENASA's goal in the medium term is to have the same quality standard in products for the domestic as well as the export market. The government continues to work on opening new markets, and helping local companies participate in major food shows around the world.

SECTION II. STATISTICAL TABLES

**PSD
Table**

Country	Argentina		Poultry,		(1000 MT)(MIL HEAD)	Meat,		UOM
	Commodity		Broiler					
Market Year Begin	2002	Revised Post Estimate	2003	Estimate Post Estimate	2004	Forecast Post Estimate		
	USDA Official [Old]	Estimate [New]	USDA Official [Old]	Estimate [New]	USDA Official [Old]	Estimate [New]		
	01/2002		01/2003			01/2004	MM/YYYY	
Inventory (Reference)	0	0	0	0	0	0	0	(MIL HEAD)
Slaughter (Reference)	0	0	0	0	0	0	0	(MIL HEAD)
Beginning Stocks	0	0	0	0	0	0	0	(1000 MT)
Production	650	640	600	670	0	780		(1000 MT)
Whole, Imports	1	1	5	5	0	7		(1000 MT)
Parts, Imports	0	0	5	2	0	3		(1000 MT)
Intra EC Imports	0	0	0	0	0	0		(1000 MT)
Other Imports	0	0	0	0	0	0		(1000 MT)
TOTAL Imports	1	1	10	7	0	10		(1000 MT)
TOTAL SUPPLY	651	641	610	677	0	790		(1000 MT)
Whole, Exports	2	5	3	16	0	35		(1000 MT)
Parts, Exports	8	11	11	17	0	35		(1000 MT)
Intra EC Exports	0	0	0	0	0	0		(1000 MT)
Other Exports	0	0	0	0	0	0		(1000 MT)
TOTAL Exports	10	16	14	33	0	70		(1000 MT)
Human Consumption	641	625	596	644	0	720		(1000 MT)
Other Use, Losses	0	0	0	0	0	0		(1000 MT)
Total Dom. Consumption	641	625	596	644	0	720		(1000 MT)
TOTAL Use	651	641	610	677	0	790		(1000 MT)
Ending Stocks	0	0	0	0	0	0		(1000 MT)
TOTAL DISTRIBUTION	651	641	610	677	0	790		(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0		(1000 MT)

Prices Table

Country Argentina

Commodity Poultry, Meat, Broiler

Prices in per uom

Year	2002	2003	% Change
Jan	1.91	3.69	93%
Feb	2.1	3.5	67%
Mar	2.1	3.62	72%
Apr	2.55	3.65	43%
May	2.41	3.46	44%
Jun	2.66	3.5	32%
Jul	2.77	3.56	29%
Aug	3.41	3.67	8%
Sep	3.27	3.74	14%
Oct	3.53		-100%
Nov	3.5		-100%
Dec	3.59		-100%

Exchange Rate Local Currency/US \$

Date of Quote MM/DD/YYYY