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Argentina

Poultry and Products

Annual Report

2005

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Report Highlights:

Argentine poultry production, consumption, and exports are projected to achieve records in 2006. Production, consumption, and exports are forecast at 1.18 million metric tons (MMT), 1.0 MMT, and 150,000 tons, respectively. This is as a result of good profitability in the sector, very competitive broiler prices in the domestic market, and the opening of many new markets worldwide which look upon Argentina as an alternative supplier.

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SECTION I. SITUATION AND OUTLOOK

Argentine poultry exports for 2006 are projected at 150,000 tons, a new record high. This is the result of a strong world demand (mainly replacing supplier countries with sanitary problems) and the continued expansion of the local production. Argentine poultry exports became very competitive after the devaluation in 2002. The serious efforts to maintain an excellent sanitary status, and the opening of new markets, have helped local exporters to insert themselves rapidly in the world market. Until 2002, Argentina's exports ranged between 10-20,000 tons a year, of which the majority were chicken paws for the Chinese market. Argentina also imported annually 30-50,000 tons of broilers, primarily from Brazil. Argentine poultry processors are learning the business and are investing to expand the number of products and markets. Argentina, due to its capacity and relatively small volume can produce a wide variety of products, meeting the need of almost any market.

In 2006, local exports of whole frozen broilers and frozen chicken parts are expected to continue to grow. In both cases, FOB prices are forecast to remain strong. The average 2005 (through June) FOB prices for whole frozen broilers were US\$900 per ton, practically 50 percent higher than in 2002. Something similar happened with frozen chicken cutup parts. Prepared chicken meat prices are also expected to remain strong. Exports of prefried products will also grow, primarily in high-income markets, with two local companies having capacity to produce these types of products. Exports of cooked hen to Germany are expected to grow, with 4 local processors capable of producing this product. Trade sources indicate that Argentine poultry exports for the rest of 2005 are already committed.

Current Argentine FOB prices are US\$1,020 per ton for whole frozen broilers (with giblets) to Russia, US\$2,550 per ton for calibrated frozen breast for the E.U., and \$1,050 per ton for frozen whole broiler (without giblets) for the Chilean market.

The local poultry industry has great expectations of the opening of the U.S. market. After completing a Newcastle disease risk analysis, APHIS has recently published a rule for public comments. The local sector hopes to have the final rule and the permission to begin exporting in late 2005 or early 2006. However, traders believe that the market will move slowly, with many things to learn and adjust. Frozen breasts seem to have the greatest market potential.

China, Argentina's largest poultry market (volume-wise) is expected to continue to grow. Although most of the exports up to now have been chicken paws and wings, this is expected to start changing slowly as 12 local plants were recently approved to export poultry meat to that country. Another factor which will help increase exports is the fact that from now on not only large importers are eligible to buy Argentine product, but some supermarkets and fast food chains can also import. Traders believe that the products with best chances are chicken leg quarters, breasts, and whole birds.

Chile is expected to continue to be one of the best markets for Argentine poultry exporters during 2006. There is a private agreement between the two countries to limit Argentine exports to about 1,000 tons a month. In 2005 this goal will be met, and the same is expected for 2006. Exports to neighboring Chile sometimes diminish somewhat if there are

markets paying better prices such as the Russian Federation, which is currently taking large volumes at very good values. The typical products exported to Chile are whole broilers, and some cutup parts. Prefried chicken products are just starting to be exported.

South Africa has become a very important market and it is expected to continue to demand good volumes of Argentine mechanically deboned meat (MDM), small whole broilers and leg quarters in 2006. Other African countries have become a very important market for Argentine exports. While sales in 2001 totaled 450 tons, shipments through June 2005 were 3,400 tons, of which the majority were whole broilers, followed by parts. The main importing countries were Namibia, Gabon, The Congo, Angola and Liberia.

The Russian Federation has become a very important market, especially for its volume and value. However, it is an erratic and difficult market. Exports for 2006 are projected at about 10,000 tons, a similar volume to 2005. The products most shipped are whole broilers (with weight ranging between 1.2 and 1.7 kilos), chicken wings and MDM.

Germany and several other European countries like Netherlands and the United Kingdom are good markets for higher quality and value products. However, these markets are expected to remain flat or increase marginally in 2006. The products exported primarily to these markets are calibrated individually quick frozen (IQF) breasts and cooked hen meat. The United Kingdom also buys extra large whole broilers. Spain and Italy have great potential growth for products such as whole broilers, leg quarters, breasts and prefried chicken.

Saudi Arabia has been a good market since 2002. In fact, a leading local processor is exporting products to this market under an agreement with Tyson Foods. Traders indicate that although it is a complicated market, because it takes small size broilers (0.8-1.2 kilos), it could grow marginally in 2006. Most local processors, especially with a strong market demand, prefer to put weight on their broilers rather than slaughtering them at a lower weight.

Venezuela, which had never purchased poultry products in Argentina, signed an agreement last year to import 5,000 tons from eight different local firms. However, logistical problems delayed the operation and in the meantime, world prices increased significantly. Therefore, only 700 tons from one company were shipped. So far, the government has handled imports, but some private companies are now eligible to import directly. Some business has already occurred with supermarkets. Products most demanded are whole broilers and parts.

Poultry imports for 2006 are projected to remain negligible. After Argentina's devaluation in 2002, inexpensive Brazilian poultry imports stopped. Imported products are still quite expensive for Argentine consumers and local processors meet, in volume and quality, the domestic market needs.

The following table shows Argentina's current import duties, export rebates and export taxes:

	Import Duty	Export Rebate	Export Tax
Whole broiler, fresh/frozen	10.0%	3.4%	5.0%
Chicken cuts, fresh/frozen	10.0%	2.7%	5.0%
Chicken preparations	16.0%	5.0%	5.0%
Chicken preparations, IQF	16.0%	6.0%	5.0%

Local broiler production in 2006 is forecast to reach 1.18 million tons, the highest ever. Good profitability in the domestic and export markets, which is expected to continue in the near future, should encourage local poultry processors to invest strongly to accompany this

growth in demand. Over US\$60 million were invested in the local poultry sector during the last 12 months. Investment was focused on almost all sectors of the industry: housing facilities, grain storage capacity, feed mills, processing capacity (several started to operate a second shift), ovens, freezing tunnels, IQF freezing facilities, cutup rooms, etc. However, the key bottleneck is the number of growout houses, which they are working at full capacity. Although credit availability is very limited, some processors and a few provincial banks are facilitating credit lines to contract growers and processors to expand their capacity.

There are about 43 officially inspected poultry plants operating in Argentina. There are a few smaller ones which are not inspected by the Federal Government. Approximately 11 plants account for almost 60 percent of the total output of which most have implemented HACCP and ISO programs.

The local poultry sector benefits from the excellent land, climate and environment. Also costs are very competitive as a result of the availability of large volumes of good quality feed produced at low cost in the same poultry areas and with practically no freight expenses. The cost of hand labor and energy in dollar terms is also low. The fact that the local industry is strongly vertically integrated allows for production efficiency, excellent product quality, product standardization, and tight traceability. The average cost of production is about US\$0.75 per kilo and it is expected to increase 5-10 percent in 2006 as labor and energy costs are expected to increase.

Approximately 90 percent of broiler output comes from the provinces of Entre Rios and Buenos Aires. Other minor producers are in Cordoba and Rio Negro. Practically all local companies are owned by local families. There are a few announcements of large investments in this sector, but no foreign capital has entered the sector so far.

The very good sanitary status, without avian influenza or Newcastle Disease, permits the opening of most foreign markets. There are currently over 50 markets open on 5 continents. The U.S. and Canadian markets are expected to open soon.

Domestic demand for 2006 is forecast at slightly over one million tons. This record high represents approximately 27 kilos per capita. Most contacts indicate that there is still room for growth as per capita consumption in neighboring countries is higher. Domestic demand is very strong, primarily because of high beef prices (Argentines are the largest beef consumers in the world), diet concerns and growing purchasing power. The current retail price for a kilo of broiler is US\$1.33 (including 21 percent VAT), while a kilo of beef short ribs (the competing beef cut) is retailing at US\$2.45 per kilo. In the past two and a half years, retail prices for broilers increased 5 percent, beef prices 21 percent, while inflation in the same period was 13 percent.

Inflation in the last several months has been higher than what the government was expecting, especially in an election year. Therefore, in the last few months it has put pressure on processors and sectors to limit price increases, especially basic food products. This has been the case of the dairy, beef and poultry industries. The local poultry association signed an agreement by which the wholesale price will not exceed \$2.7 pesos (US\$0.93) per kilo in the next few months. Wholesale prices are expected to increase slightly during 2006 as result of higher costs of production and a firm demand.

The government has indicated that in 2006 it will try to maintain the exchange rate at about the current level of \$2.90 pesos to a dollar to continue to support exports and thus employment. Several economists believe that if the government did not intervene in the financial market, the value of the dollar would be significantly lower.

The government does not have a specific policy for the poultry sector. However, maintaining a weak local currency helps exports, which are very profitable. Grain and oilseed exports are taxed 20 percent, and therefore, local poultry processors have an advantage while buying their feed. The government is also working very hard in controlling diseases and opening new markets. Also through some official programs, poultry exporters are assisted and encouraged to participate actively in international food shows and trade missions. The private sector does not have an entity or program to coordinate and finance such efforts.

SECTION II. STATISTICAL TABLES

PSD Table

Country Commodity	Argentina Poultry, Meat, Broiler					
	2004		2005	Estimate	2006	Forecast
Market Year Begin	USDA Official [Revised Estimate[1]	USDA Official [Estimate[1]	USDA Official [Estimate[1]
	01/2004		01/2005		01/2006	
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	900	910	990	1080	0	1180
Whole, Imports	1	0	2	0	0	0
Parts, Imports	1	1	2	3	0	4
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	2	1	4	3	0	4
TOTAL SUPPLY	902	911	994	1083	0	1184
Whole, Exports	30	26	50	45	0	65
Parts, Exports	45	43	40	65	0	85
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	75	69	90	110	0	150
Human Consumption	827	842	904	973	0	1034
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	827	842	904	973	0	1034
TOTAL Use	902	911	994	1083	0	1184
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	902	911	994	1083	0	1184
Calendar Yr. Imp. from U.	0	0	0	0	0	0