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Argentina

Livestock

1999

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Report Highlights:

Argentine beef production in 1999 is projected to rebound as result of larger supplies and depressed cattle prices. The retention initiated a year ago is expected to phase out due to low returns. Beef exports are forecast to rebound as well.

Includes PSD changes: Yes
Includes Trade Matrix: No
Semi-Annual Report
Buenos Aires [AR1], AR

Semi-Annual Livestock Report

The Argentine Secretariat of Agriculture has recently revised its slaughter numbers for the last eight years based on information released by the division which controls and fiscalizes the slaughter and movement of livestock in the country. However, their data is based only on their actual inspections (in 1997), and therefore lack the volume of slaughter which is not officially registered (i.e., slaughter in some very small abattoirs, on-farm slaughter, but primarily the black market). Although it is very difficult to know what percentage this represents, based on post's findings, it is estimated between 8 and 14 percent of the official number, e.g., the official slaughter for 1997 is 12.8 million head, and our estimate is 10 percent higher. This number should be quite close to the real slaughter. The readjustment of the slaughter data forces adjustments in the cattle, meat, hides and tallow Production, Supply & Distribution tables.

Cattle

PSD Table						
Country:	Argentina					
Commodity:	Cattle					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Total Cattle Beg. Stks	51696	51696	50138	49238	50873	49633
Dairy Cows Beg. Stocks	2400	2400	2400	2500	2400	2500
Beef Cows Beg. Stocks	21000	18600	21000	18000	22000	18400
Production (Calf Crop)	12500	13300	13500	14200	14000	14500
Intra EC Imports	0	0	0	0	0	0
Other Imports	26	26	40	100	30	30
TOTAL Imports	26	26	40	100	30	30
TOTAL SUPPLY	64222	65022	63678	63538	64903	64163
Intra EC Exports	0	0	0	0	0	0
Other Exports	84	84	5	5	10	10
TOTAL Exports	84	84	5	5	10	10
Cow Slaughter	3900	4950	3200	3950	3200	4050
Calf Slaughter	1100	1700	1000	1350	1100	1400
Other Slaughter	7400	7450	6800	7000	7200	7250
Total Slaughter	12400	14100	11000	12300	11500	12700
Loss	1600	1600	1800	1600	1400	1400
Ending Inventories	50138	49238	50873	49633	51993	50053
TOTAL DISTRIBUTION	64222	65022	63678	63538	64903	64163

PSD Table						
Country:	Argentina				<-Conversion factor for CWE	
Commodity:	Cattle					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Slaughter (Reference)	12400	14100	11000	12300	11500	12700
Beginning Stocks	26	26	20	20	20	50
Production	2570	2975	2250	2570	2330	2650
Intra EC Imports	0	0	0	0	0	0
Other Imports	11	11	40	35	40	10
TOTAL Imports	11	11	40	35	40	10
TOTAL SUPPLY	2607	3012	2310	2625	2390	2710
Intra EC Exports	0	0	0	0	0	0
Other Exports	437	437	280	280	300	350
TOTAL Exports	437	437	280	280	300	350
Human Dom. Consumption	2150	2555	2010	2295	2065	2330
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	2150	2555	2010	2295	2065	2330
Ending Stocks	20	20	20	50	25	30
TOTAL DISTRIBUTION	2607	3012	2310	2625	2390	2710
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Argentine cattle slaughter for 1999 is projected at 12.7 million head, equivalent to 2.65 MMT of beef (cwe). This rebound is expected because of slightly larger cattle supplies than in 1998 (1996 calf crop was very low on account of drought) and to the fact that the retention initiated a year ago could phase out due to the strong drop in cattle prices. Perspectives for the rest of 1999 are not good as returns are expected to be low for both breeding and finishing (on pastures and feedlot).

Month	\$/Kg Beef (Retail)	\$/Kg Steer (Live)	\$/Kg Calf (Live)
Jan '98	4.16	1.028	1.30
Feb	4.35	1.115	1.32
Mar	4.42	1.138	1.35
Apr	4.45	1.149	1.36
May	4.56	1.190	1.34
Jun	4.78	1.242	1.41
Jul	4.82	1.280	1.46
Aug	4.83	1.237	1.53
Sep	4.79	1.044	1.33
Oct	4.57	0.964	1.22
Nov	4.45	0.900	1.23
Dec	4.42	0.855	1.10
Jan '99*	4.30	0.800	1.10
Jan'99/Jul'98	-11%	-38%	-25%
Jan'99/Jan'98	+3%	-22%	-15%

* estimated

As mentioned earlier, the local cattle sector is expected to face a difficult 1999. Cattle and beef prices were extremely erratic during 1998. Live cattle prices increased in the first half of 1998, reaching a record in July at \$1.28 per kilo of live steer. Both calf and beef prices accompanied the same trend, reaching the peak in August. Until then, the cattle retention, a smaller cattle supply due to 1996's low calf crop and a strong domestic demand had made prices increase steadily. During this period, beef exporters reduced their shipments significantly as they were caught between extremely high cattle prices and a weak international beef market. However, in August cattle prices began to decline and they have continued to slide. This drop is a result of several factors: 1) the world financial crisis, especially in Brazil, has slowed down the local economy and thus consumption; 2) in the last part of 1998 beef supply increased as result of more cattle slaughtered and with heavier individual weights; 3) retail beef prices have not dropped in line with cattle prices (as shown in the table above) preventing demand to rebound. Supermarkets, which currently sell between 30-40 percent of the total beef, are operating with high margins and it is doubtful they will modify this policy.

Under the above circumstances, plus the current Brazilian economic crisis which will hurt especially Argentina's economy due to the high volume of trade between the two countries, domestic consumption is expected to remain quite flat. Most economists project no GDP growth in 1999 and some believe that

unemployment could increase, while average salaries could drop somewhat. Beef exporters, which are now increasing volumes, will not have strong influence on local cattle prices as world values are forecast to continue weak. Another factor which is playing against higher cattle prices is the continuous increase in broiler consumption supported by declining prices. Therefore, cattle prices for 1999 are forecast to range between \$0.75 and \$0.90 per kilo of live steer.

Although the country is weakly influenced by La Nina effect, which tends to be dry, the weather in general has been good in the past months, with good availability of pastures and grains. However, the southern part of Buenos Aires province has been suffering drought. Winter is forecast to be somewhat dryer and colder than normal.

High cattle prices and good returns during most of 1997 and 1998 spurred vast investment in the cattle sector. Most producers retained more females in the ranch for breeding. There has also been a lot of enthusiasm and investment primarily in the production and conservation of feed for cattle. More balers are now seen, but bagged corn silage, bagged humid grain, bagged alfalfa silage, etc. are widely found throughout the cattle producing areas. During 1997 and 1998 there was also a boom in feedlot production. There are quite a few commercial feedlots, but a large number of them are on-farm, taking advantage of low grain values, high cattle prices and the possibility of feeding their own-produced grain which would pay between 25 and 50 percent of marketing costs if sold to a grain company. Private sources estimate that of 1998 total slaughter, about 1.5 million head came from feedlots. Female calves are the preferred, which are marketed fat at 230 kilos live. During the first part of 1998, feedlots had good margins (ranging between \$40 and \$70 per head), but in the last part of the year, margins were negative in most cases. Lower prices for finished cattle and relatively still high calf prices will discourage somewhat the feedlot business. More feedlots will work on a custom basis especially for cow-calf operations, not getting involved in huge investment (and risk) of purchasing cattle for finishing. Nonetheless, more than 1 million head are projected to be finished in this way in 1999, of which most of them are consumed domestically.

The local meat market has recently gained transparency, after many years of disorder. The GOA has reduced the VAT on cattle and beef (except in the retail stage) from 21 percent to 10.5 percent. Also the two or three largest groups which are thought to be the great evaders have been legally processed and some are currently in jail. These two measures, plus tighter official controls have reduced significantly the black market in the local beef marketing. This was a longstanding complaint of the large beef exporters which had to compete unfairly with companies which could evade greatly. There have been lately some mergers and acquisitions in the meat packing sector, especially in those oriented to the export market.

The GOA has taken the decision to stop the foot and mouth disease vaccination campaign in April 1999, after five years of no outbreaks. The sanitary status of being free without vaccination should allow Argentine beef in the few remaining countries which apply the "zero risk" status like Japan, Mexico and Indonesia. There is currently a big debate in Argentina in reference to the EU's compulsory requirement of cattle traceability as from 2000. Argentina will have to implement a system for its beef exports to satisfy the EU, and there are currently several systems (double tags, micro chips, etc.) under analysis.

Beef exports for 1999 are now projected at 350,000 MT (with a range between 320,000/380,000), a strong rebound from the previous year. Significantly lower cattle prices throughout 1999 are expected to improve beef exporters' returns. During 1998, exports were the lowest since 1986, losing some markets and in others, market share. Argentine beef exports through November 1998 totaled 252,000 MT (cwe) and \$ \$560 million.

Germany was the number one market (value wise) with 34 percent, followed by the U.S. with 15 percent, Chile 14 percent, the Netherlands 6 percent, Brazil 5 percent, the U.K. 4 percent and Italy and Israel 2 percent each. Exporters will work hard to regain what was lost, especially in Chile (to Uruguay and Paraguay), the EU, Israel and the United States. Beef exports to Brazil are forecast to drop but especially in value due to its strong devaluation and economic crisis. Exports to the United States under the quota are expected to increase to about 12/15,000 MT, after a very low 1998 performance, due to expected lower beef production in that market and to cheaper domestic cattle here. The following table shows Argentine 1998 exports of fresh and frozen beef under the 20,000 MT U.S. Beef Quota:

Product	Volume MT	Value \$	Avg. Price \$/MT
Trimmings	557	1,015,820	1,824
Quarters	2,118	3,266,336	1,542
Chilled Cuts	2,037	7,923,110	3,890
Frozen Cuts	2,439	5,537,520	2,270
Manufacturing	26	41,121	1,581
Total	7,177	17,783,907	2,478

Local beef exporters are concerned about a new competitor which has recently come back to the scene: Brazil. With its huge currency devaluation, which has yet not found its ceiling, Brazil will become more competitively-priced than Argentine exports. This will certainly affect local FOB values, especially in products such as corned beef and frozen cuts, where both countries compete for basically the same markets.

Beef imports for 1999 are forecast at 10,000 MT, significantly lower than last year because of the large drop in local cattle prices. Imports in 1998 are estimated to total approximately 35,000 MT (cwe) and \$50 million, the highest in the past 25 years. Imports during the first half of 1998 were averaging 2,000 MT a month, but when cattle prices surged in July, imports jumped rapidly to a monthly average of 3,500 MT. Through November, Uruguay accounted for 87 percent of Argentina's 1998 beef imports, followed by Paraguay with 9 percent. Half carcasses, short ribs and quarters were the products most imported. For the first time ever beef from New Zealand was imported and some from Australia almost entered the country.

Argentina continues to import sweetbreads from the United States. This is a business of \$2-3 million dollars a year handled by a few operators in Argentina. Most of the sweetbreads are sold through the main local supermarkets and restaurants. The U.S. price is very competitive.

The GOA recently launched the Plan Nacional Ganadero, a program to promote cattle business, which consists of helping producers with 25 percent of the interest rate for credits used in cattle production. The impact of this measure is very doubtful.

Sheep

PSD Table						
Country:	Argentina					
Commodity:	Sheep					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
TOTAL Beginning Stocks	17295	17295	16432	15232	17252	14000
Ewes, Beginning Stocks	9500	9000	9000	7800	9500	7200
Production (Lamb Crop)	6200	5800	6200	5300	7000	4600
Intra EC Imports	0	0	0	0	0	0
Other Imports	137	137	120	100	100	120
TOTAL Imports	137	137	120	100	100	120
TOTAL SUPPLY	23632	23232	22752	20632	24352	18720
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
Ewe Slaughter	900	1000	600	800	600	700
Lamb Slaughter	1600	1800	1000	1400	1100	1300
Other Slaughter	1100	1200	900	1200	950	1100
TOTAL Slaughter	3600	4000	2500	3400	2650	3100
Loss	3600	4000	3000	3232	3202	2600
Ending Inventories	16432	15232	17252	14000	18500	13020
TOTAL DISTRIBUTION	23632	23232	22752	20632	24352	18720

PSD Table						
Country:	Argentina				< -Conversion factor for CWE	

Commodity:	Sheep					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Slaughter (Reference)	3600	4000	2500	3400	2650	3100
Beginning Stocks	0	0	0	0	0	0
Production	52	58	35	48	38	45
Intra EC Imports	0	0	0	0	0	0
Other Imports	2	2	6	2	6	3
TOTAL Imports	2	2	6	2	6	3
TOTAL SUPPLY	54	60	41	50	44	48
Intra EC Exports	0	0	0	0	0	0
Other Exports	1	1	1	1	1	1
TOTAL Exports	1	1	1	1	1	1
Human Dom. Consumption	53	59	40	49	43	47
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	53	59	40	49	43	47
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	54	60	41	50	44	48

Argentine flock numbers for 1999 have been revised downward at 13 million sheep. Since our last report in mid 1998, the effects of the Asian financial crisis on the global economy have been significantly worse than expected. The international wool market has also been negatively affected. Therefore, the previously projected flock rebuilding due to expected better wool prices, has not occurred. On the contrary, continuously low returns in the local sheep industry have deepened the several-years-long crisis resulting in a smaller flock year after year. Argentine wool exports in the first half of this year's season have been 30 percent lower than last year, resulting in even larger wool stocks.

Lamb and mutton production is expected to continue to fall as result of the smaller flock. Most domestic consumption is still on-farm. Consumption (and supply) in large cities is practically insignificant. The fact that a lower supply is not compensated with larger lamb imports shows the little interest and the weak demand on this kind of meat.

Hides & Skins, Bovine

PSD Table						
Country:	Argentina				<MT piece conversion	
Commodity:	Hides & Skins, Bovine					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Beginning Stocks	0	0	0	0	0	0
Production In MT	295	330	255	285	260	295
Production In Pieces	12400	14100	11000	12300	11500	12700
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	2	0	6	0	5
TOTAL Imports	0	2	0	6	0	5
TOTAL SUPPLY	295	332	255	291	260	300
Intra EC Exports	0	0	0	0	0	0
Other Exports	1	0	1	0	1	0
TOTAL Exports	1	0	1	0	1	0
Domestic Consumption	294	332	254	291	259	300
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	295	332	255	291	260	300

Based on new readjusted cattle slaughter, Argentine raw hide production for 1999 is projected at 295,000 MT or 12.7 million pieces.

Raw hide exports continue to be taxed. However, the EU has recently accused the Argentine Government of subsidizing tanneries. The Europeans claim that their industry has suffered great losses and the closure of many tanneries in their region as result of Argentina's low and very competitive leather prices. They state that they cannot buy raw hides here because of a 10 percent export tax and to the fact that the Argentine tannery industry is allowed to control hide exports in customs discouraging foreign sales. Therefore, local cattlemen and slaughter plants are obliged to sell their raw hides to the local tanneries at prices well below the international market. The GOA has promised that by the end of this year, raw hide exports from Argentina will be liberalized.

By-Products,Tallow & Grease

PSD Table						
Country:	Argentina					
Commodity:	By-Products,Tallow & Grease					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Beginning Stocks	0	0	0	0	0	15
Production	233	265	200	230	210	235
Intra EC Imports	0	0	0	0	0	0
Other Imports	7	7	33	36	25	5
TOTAL Imports	7	7	33	36	25	5
TOTAL SUPPLY	240	272	233	266	235	255
Intra EC Exports	0	0	0	0	0	0
Other Exports	15	15	3	8	5	20
TOTAL Exports	15	15	3	8	5	20
Domestic Consumption	225	257	230	243	230	230
Ending Stocks	0	0	0	15	0	5
TOTAL DISTRIBUTION	240	272	233	266	235	255
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Argentine tallow production for 1999 is projected at 235,000 MT (there are no official numbers and not all private sources agree upon production data). Currently the local tallow market is over supplied which will cause lower imports and a drop in prices.

The financial crisis in Brazil will affect many Argentine companies which export to that market. The strong Brazilian currency devaluation will affect in two ways: 1) will cause recession in that market, with lower sale volumes and cheaper prices; 2) imported products will be more expensive in reals. Exports to that country will drop due to the strong value of the dollar and Brazilian products will be significantly cheaper competing with local products here. Tallow prices in the domestic market are expected to drop between 10 and 20 percent in 1999.

Imports for 1999 are expected at 5,000 MT, which will probably come from Brazil. During 1998, imports totaled 36,000 MT of which about 30,000 MT came from the U.S. Based on the latest official trade data, imports in the first half of 1998 were as follows:

Country	Volume MT	Value \$	\$/MT
United States	14,307	7,530,241	526
Uruguay	4,348	2,220,165	510

In most of 1998, the volume of cattle slaughter dropped significantly (15 percent), but in November and December it rebounded. Large tallow imports, a higher domestic supply and a slowing economy resulted in high stocks, which will have to be exported in 1999 to reduce them.