



## Red Meat Market Report

# South America

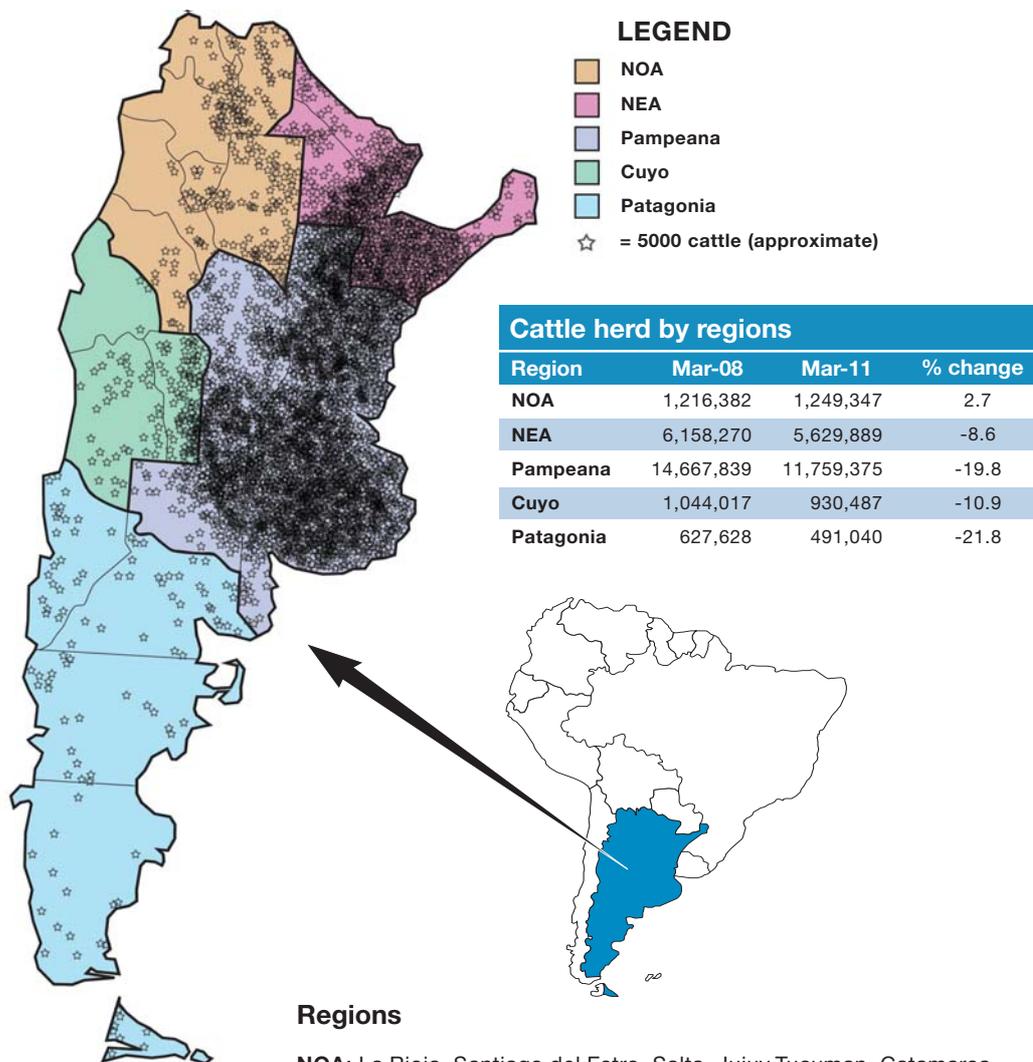


**Argentina  
Red meat update  
April 2013**

## Overview

- Argentina’s economy has traditionally been focussed on agriculture, but the industry and service sectors have also grown in recent years.
- During the past decade, Argentina faced an economic crisis, persistent fiscal and current account deficits and high inflation.
- Argentina has traditionally produced beef and has one of the largest per capita beef consumption levels in the world, at 58.7 kg per head in 2012.
- Argentina has become one of the major grain producers in the world with growing production of soybean, corn and wheat.
- The production and consumption of competitor proteins, such as chicken and pork, rose significantly in the last 10 years.
- The structure of the Argentinean cattle industry has changed rapidly in recent years. High production costs combined with uncertain future government policies has hampered the herd from rebuilding and beef production.
- Although Argentina was historically among the top five beef exporters in the world, it moved to 11<sup>th</sup> in 2012 with the lowest export volume for the last 10 years.

**Figure 1**  
Argentina – Regions and cattle distribution



Source: INTA, SENASA

## History and geography

Argentina is South America's second largest country in land area and population. It occupies most of the continent's southern region between the Andes Mountains and the Atlantic Ocean. Diverse geographical landscape produces varying climates from tropical in the north to tundra in the far south. Argentina's land mass is 2.79 million km<sup>2</sup> with large areas suitable for beef and grain production (The World Fact book).

Raising cattle for beef is related to the cultural, social and economic history of Argentina. Argentina has traditionally produced beef and has one of the major per capita beef consumption levels in the world.

European cattle and sheep were first introduced and released in the Pampa region. The Pampa region covers roughly one-quarter of the nation, and has the most extensive grassland area in South America. The region has some of the richest topsoil in the world, producing wheat, soybean and corn, providing year-round pasture for Argentinean cattle.

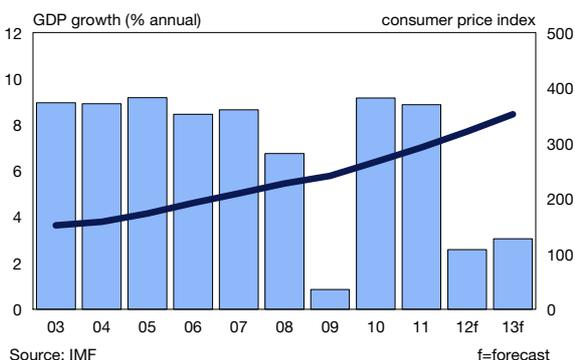
Beef production in Argentina has historically been located in the Pampa area, with Argentina's herd still farmed in this region. However, the increase in more profitable activities such as grain production has resulted in a relocation of cattle to the northwest and northeast of the country.

During the last decade grain production growth in Argentina has been the largest registered in history. One of the major factors that contributed to this surge was the incorporation of new technologies which resulted in a higher yielding crop fields (Economic Study Institute – Bolsa de Cereales Argentina).

## Economy and government policy

Argentina is rich in natural resources with a diversified industrial base and an export-oriented agricultural sector. Argentina's economy has traditionally been based on agriculture, but the industrial and service sectors have also grown in importance in recent years.

**Figure 2**  
Economic indicators



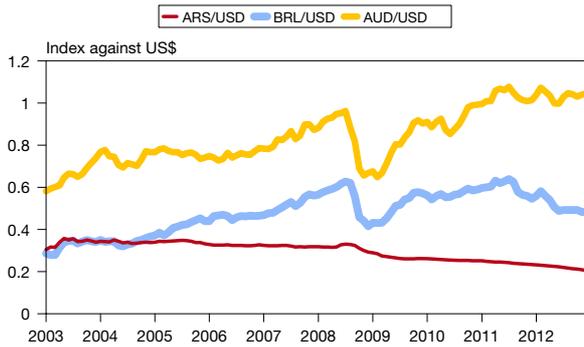
Argentina has faced an economic crisis, persistent fiscal and current account deficits and high inflation. A severe depression, growing public and external debts in 2001 culminated in the most serious economic, social and political crisis in the country's history.

The move after 2001-02 crises to a more flexible exchange rate, along with sustained global and regional growth, a surge in domestic aggregate demand via monetary, fiscal, income distribution policies, favourable international commodity prices and interest rate trends were major factors in supporting the five following years of average annual GDP growth of 8% until 2007. Global financial problems and declines in world commodity

prices resulted in reduced growth in 2008, and recession in 2009. In 2010, stronger exports assisted a slight recovery in the Argentinean economy, despite high inflation.

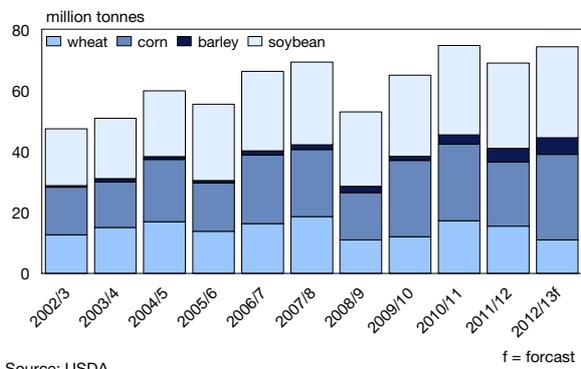
The Argentinean economy slowed in 2012 as a result of uncertain politics, high inflation taxes and a continuing appreciation of the Argentinean peso against the US\$ throughout the year.

**Figure 3**  
Exchange rates



Source: FxTop

**Figure 4**  
Grain production



Source: USDA

There has been a trend of increasing government intervention in the Argentinean economy, including policy related to restrictions on imports, limiting economic freedom.

## Argentinean agriculture

Argentina is rich in natural resources, including over 49 million head of cattle (United State Department of Agriculture - USDA). Annual grain production exceeded 90 million tonnes in 2011-12, with Argentina one of the main exporters of soybean and corn and their derivatives.

Argentina is one of the major grain producers in the world. Investment in developing technology and management improved grain production. During the last decade, soybean production rose 37%, totalling 40.1 million tonnes in 2011-12 which made Argentina the third largest soybean producer in the world. Corn and barley production also registered significant growth, totalling 21 million tonnes and 5.5 million tonnes in 2011-12, respectively.

According to the USDA, Argentinean grain production is forecast to increase in 2012-13 with barley and corn up 22% and 26%, respectively. Soybean production is expected to have the largest increase for the same period, up 28%, totalling 51.5 million tonnes.

## Argentinean beef - production and consumption

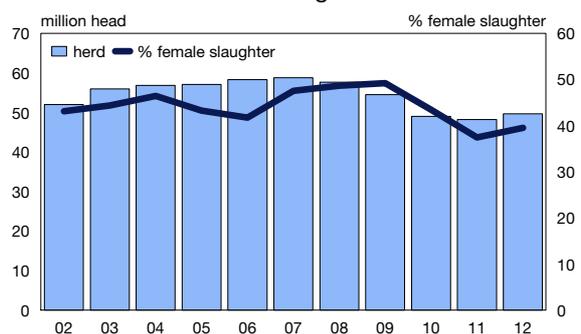
The structure of the Argentinean cattle industry has changed rapidly in recent years. The high cost of production, combined with uncertainty regarding future government policies and more profitable activities such as grain production, has compromised the cattle herd and beef production. Grain production (especially soybean in Argentina) has grown and occupied fields that were previously used for beef production.

Argentina has a large area recognised as naturally suitable for extensive beef production. As noted earlier, the Pampa area was originally only for beef production, but now has a large area dedicated to producing grains. The majority of cattle still remain in Pampa region, but moving slightly to the northeast and northwest of the country.

Argentina has been successful in controlling diseases such as Foot-and-Mouth disease (FMD) – the last case was registered in 2006. World Organization for Animal Health - OIE recognises the country as a BSE negligible risk status and with two free zones of FMD without vaccination (from Rio Negro to the South) and the north, with compulsory vaccinations.

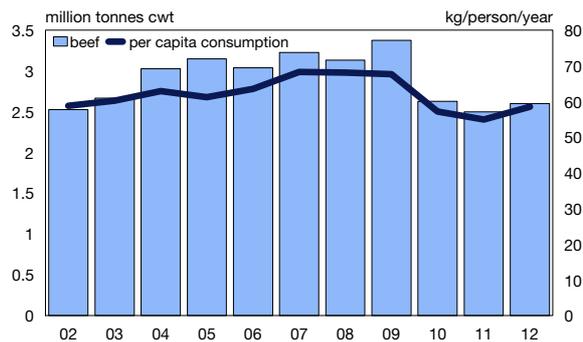
The Argentinean cattle herd fell 6% during the last decade, to 49,597 head in 2012 (USDA). A significant decline was registered in 2010 due to the combination of two major factors: severe droughts and low-returns in 2008-09 which resulted in a substantial rise in cattle slaughter, with female slaughter for the three year period (2008, 2009 and 2010) averaging 47% of total slaughter and compromising any possibility of growth or rebuilding of the cattle herd.

**Figure 5**  
Cattle herd and female slaughter



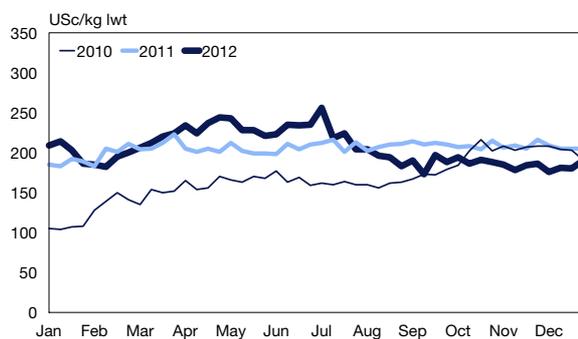
Source: Magyp - INDEC

**Figure 6**  
Beef production and per capita consumption



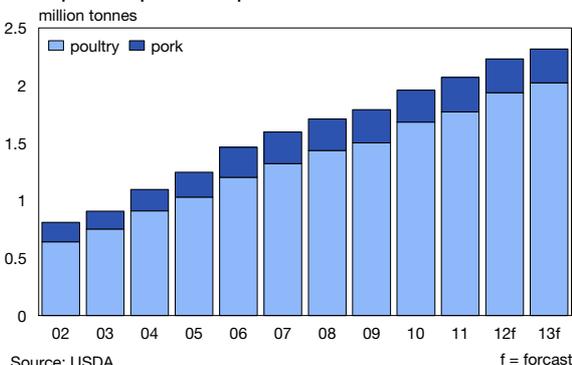
Source: USDA

**Figure 7**  
Trade steer price



Source: IPCVA

**Figure 8**  
Competitor proteins production



Source: USDA

f = forecast

Argentinean beef production over the past 10 years has fluctuated, with peak production from 2005 to 2007 due to lower production costs, a higher number of cattle slaughtered and foreign companies investing in the beef industry. Last year, production rose 4% year-on-year, to 2.6 million tonnes cwt with female slaughter also rising 5.6% for the same period, compromising the herd rebuild expected for 2012.

Argentina has one of the largest beef consumption levels in the world, beef is part of the popular culture and dairy diet and is also believed to be a superior quality. After a continuous fall in beef consumption since 2007 which averaged 69.4 kg per head, beef consumption rose 7% year-on-year in 2012, averaging 58.7 kg per head (CICCRA – Argentinean Beef Promotion Institute), although still below historical levels. The rise in domestic consumption helped absorb the production growth registered last year.

Argentina faced an intense drought in 2011 and 2012, which reduced pasture areas and increased production costs, especially for cattle on feed. As a consequence, producers were discouraged to invest, which explains the increase in slaughter and beef in the domestic market.

## Meat production - competitor proteins

In contrast to beef production in recent years, poultry and pork production has increased significantly, resulting in a strong industry in Argentina, with the consumption of cheaper proteins such as chicken and pork rising.

The continuous growth in poultry production in the last decade has resulted in Argentina being the eighth largest poultry meat producer and the sixth largest exporter in the world (IICA – Inter-American Institute for Cooperation in Agriculture).

The investment in technology which began in 2002, and stronger domestic and international demand helped Argentinean poultry production rise 158% throughout the last decade, with further growth of 9.3% year-on-year in 2012, to 1.936 million tonnes swt (USDA).

The higher prices in almost all beef cuts assisted average chicken consumption to rise 17% since 2009, with per capita poultry meat consumption averaging 39 kg per head in 2012 (SENASA – National Health Service and Food – Argentinean Government). Poultry consumption in Argentina is expected to rise again in the near future, while consumption of others meats is expected to remain stable.

The Argentinean government has no specific policy for the poultry sector. However, in compensation for keeping domestic prices low, poultry processors receive government financial support to partly offset high feed costs.

The government is working hard in trying to open new markets and stimulating investment in the sector, providing the industry with access to several beneficial lines of credit. Poultry production totalled 1.9 million tonnes cwt in 2012, an increase of 27% since 2009.

Likewise, but with small volumes, the pork industry has registered substantial increases in the last decade, again underpinned by a solid foundation of strategic planning and government investments.

Pig slaughter in 2012 rose 11% year-on-year, to 3.8 million head (ONCCA – National Bureau of Agricultural Trade Control). Average pork meat consumption has been stable in the past three years, averaging 8.43 kg per head/year.

Pork exports also rose during the last decade, with further growth in 2012, up 12% year-on-year, to 6,986 tonnes swt. Pork production is expected to grow with exports.

## Beef exports

Argentina has always been among the major beef exporters in the world, but has recently lost place in the international market. During the 1960's and 70's, Argentina was among the three largest beef exporters, and in the 1980's belonged within the

five, mainly due to the surge of European countries and Australia in the beef export market. From 1990's, Argentina was among the 10 top exporters, and according to the latest USDA figures, Argentina was in 11<sup>th</sup> place in 2012.

The recent decline in export volumes has largely mirrored the drop in cattle numbers, beef production and rising production costs.

Also contributing to the decline in exports in recent years was the decision by the Argentinean Government in 2006 to ensure adequate domestic beef supply. In order to achieve this, the government implemented export

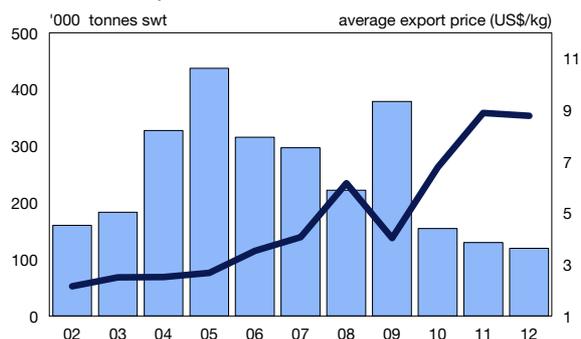
quotas, which increased beef prices for the international market and reduced the competitiveness of Argentinean beef. Such controls also impacted the slaughter market, with the number of abattoirs decreasing 65% in the last five years, according to SENASA.

Following this, exports continuously declined, with the exception of 2009 when a widespread drought resulted in a significant increase in cattle slaughter which temporarily increased the volume of Argentinean beef entering domestic and export markets.

In 2012, beef exports reached the lowest level since 2001, totalling 111,053 tonnes swt. Shipments declined to all destinations, with the exception of Chile, the only country to increase imports from Argentina and consequently become Argentina's major market in 2012, totalling 28,173 tonnes swt (IPCVA – National Institute of Beef Promotion – Argentina).

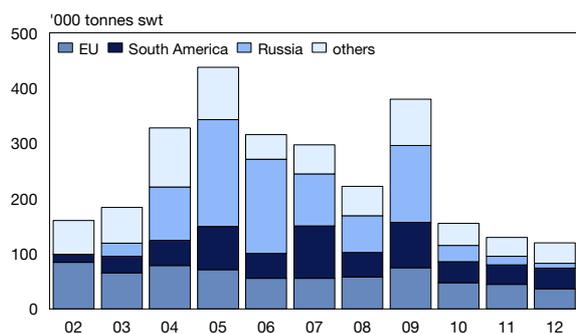
In contrast, Argentinean beef exports started 2013 on the rise, with shipments for January increasing 14% year-on-year, to 10,538 tonnes swt, with Chile and Israel the major destinations. However, while exports were up year-on-year, they still remained well below historical levels.

**Figure 9**  
Total beef exports



Source: IPCVA

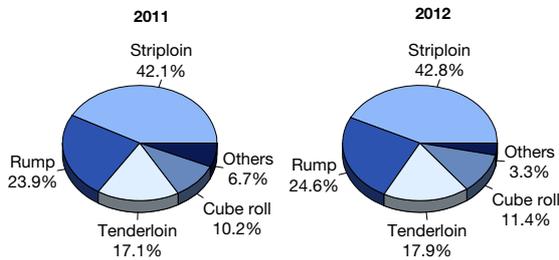
**Figure 10**  
Beef exports - Major markets



Source: GTA

In 1979, an agreement with the European Union established a quota (Hilton) for exporting high-quality boneless beef. Argentina holds half of this quota which is 28,000 tonnes swt per year. The US and Canada has the second largest allocation (11,500 tonnes swt) followed by Brazil (10,000 tonnes swt), Australia (7,500 tonnes swt), Uruguay (6,300 tonnes swt), New Zealand (1,300 tonnes swt) and Paraguay (1,000 tonnes swt).

**Figure 11**  
Beef exports - Hilton Quota by cut



Source: Agriculture Department - Argentina

In the last fiscal year (2011-2012), Argentina only shipped 64% of its allocation, exporting a total of 18,800 tonnes swt.

Recently, the volume of Hilton cuts exported declined 7% in January 2013, to 1,824 tonnes swt – which will make it very difficult for Argentina to fulfil their EU quota for 2012-13. To date Argentina has exported 12,232 tonnes swt from its Hilton quota.

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