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Argentine Government Bans Beef Exports for 180 Days

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Report Highlights:
On March 14, 2006, in an attempt to control inflation, the Government of Argentina banned cooked and fresh beef exports. The central thrust of the measure was to increase domestic supply. The 28,000-ton Hilton Quota, and insignificant country-to-country agreements (e.g. Venezuela), were exempted. Although the future is uncertain, beef exports for 2006 could total 300,000-350,000 tons, less than half of 2005. Some industry contacts believe that soon, the ban will be partially lifted. However, if it is maintained, the negative impact will be significant.

Includes PSD Changes: No
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Unscheduled Report
Buenos Aires [AR1]
[AR]

Argentine Beef/Cattle Sector Situation
180-Day Ban on Exportation of Fresh and Cooked Beef

Background

The Argentine Government (GOA) has launched an aggressive initiative to fight inflation. President Kirchner is personally leading this, jawboning CEOs of major local food companies and asking them to sign price agreements. Historically, price control programs have been a recurring feature of GOA economic policy. Inflation totaled 12 percent in 2005 and is projected to be higher in 2006.

Of all foods, beef is the most sensitive when it comes to its impact on the Consumer Price Index (CPI) due to: 1) culture - Argentines are the world's largest per capita beef consumers, and 2) the price of beef accounts for 4.5 percent of the CPI, and thus, has a significant impact on the inflation rate. Inflation affects the country in several ways, contributing to the loss of purchasing power, and increasing government outlays in the payment of refinanced bonds.

Strong demand caused domestic beef prices to rise 29 percent in 2005. The two main reasons were: 1) improved purchasing power, as result of the GOA's wage policy, and 2) unusually strong external demand due to lower production in the European Union (EU), and sanitary problems in several major beef exporting countries (e.g. Brazil). In order to contain beef prices, the GOA has implemented various measures in an attempt to increase domestic supply and thus bring down beef prices. However, to date, they have not been as successful as the GOA would have liked (without taking into account the negative impact on beef exports of a Foot and Mouth Disease outbreak in Corrientes province in February 2006). Following is a list of measures taken by the GOA to stop increases in domestic beef prices:

- March 2005: 90-day agreement to reduce by 10 percent the price of 5 widely consumed beef cuts.
- September 2005: 90-day agreement to freeze wholesale beef prices.
- November 2005: Prohibition to slaughter cattle below 260 kilos (570 pounds).
- November 2005: Suspension of export rebates (roughly 5 percent) on beef.
- November 2995: Increase in export taxes on fresh beef from 5 to 15 percent.
- January 2006: One-year agreement to freeze wholesale beef prices.
- January 2006: Creation of the Register of Export Operations (to authorize, regulate, and ultimately control exports).
- March 2006: Prohibition to slaughter cattle below 280 kilos (616 pounds).
- March 2006: Increase in export taxes on processed beef from 5 to 15 percent.
- March 2006: Implementation of Resolution 114, which imposed a total ban on beef exports for 180 days (excluding the EU's 28,000 ton Hilton Quota, and small country-to-country agreements, e.g. Venezuela).

An Uncertain Future

The GOA has clearly demonstrated that it is willing to relentlessly wage the battle against rising domestic beef prices. As examples of this, President Nestor Kirchner, after announcing the export ban, exhorted Argentines to "consume less beef if prices don't go down", instructed Argentine public sector entities and institutions not to buy beef for their programs and consumption, and threatened to extend the export ban to one full year. Also, major cattle auctioneers at the largest cattle concentrating market in Argentina (Mercado de Liniers

- which sets reference prices for the sector) had their operating licenses suspended because of alleged tax debts (this measure made a lot of noise in the local press, but the suspension was lifted shortly thereafter). The GOA also hurriedly signed price control agreements with the pork and fish sectors, although domestic consumption of these commodities is quite low. With regard to poultry prices have not increased since the industry signed a price agreement last year.

Based on a recent private sector study, since the announcement of the export ban, cattle prices have dropped 14 percent, but retail beef prices have increased 1.3 percent. This clearly shows that several components of the beef marketing chain are improving their returns. Domestic demand continues to be very strong, and cattle and beef prices are expected to drop somewhat once exports stop. Private industry estimates that beef exports will continue strong for 30-45 more days until open contracts lapse. Once these contracts are fulfilled, then the beef supply in the domestic market is expected to increase, exerting a dampening effect on prices. Some people speculate that if supply increases and beef prices come down, increased demand will again put pressure on prices.

Although the GOA is very firm in its position with regard to the beef export ban, several beef/cattle entities and companies are preparing recommendations for the GOA so a negotiated solution can be achieved. Several of these measures would be to limit exports, fix prices for a few widely consumed cuts, and to reduce the value added tax. Some sources indicate that the GOA will only be open to a proposal if it has the consensus of the entire sector (production, marketing, processing, retailers, exporters). Private sources state that it will be difficult to have all players agree on a common proposal, as there are many who have opposing interests.

Based on an article published in one of Buenos Aires major newspapers, several Argentine Embassies have received complaints from importers in Germany, the United Kingdom, Italy and Israel. Also authorities of the Russian Federation, by far the largest market prior to the ban, have expressed serious concerns. In some cases, importers have indicated that they would initiate legal actions against Argentine exporters.

After the 2001-Foot and Mouth Disease crisis, trade with the U.S. has been limited to thermo-processed beef. Almost 25,000 tons, valued at US$86 million, were exported to the U.S. in 2005. The export ban affects these products. There are several large U.S. food companies that have been buying large volumes of Argentine thermo processed beef and now they will need to source product from other suppliers. Within Argentina, there is only one local meat packer owned by U.S. capital, and it focuses primarily on exports of fresh beef. This company will face a difficult situation if the ban is not lifted.

The measures taken in the past year against the local cattle/beef industry are expected to impact negatively on future production. Many ranchers will continue to shift more arable land from pastures into more profitable crop production. Cattlemen who were producing more costly, heavier steers for the export market, will stop adding extra weight and produce a lighter animal more suited for the domestic demand. At current prices, top producers, who were finishing their cattle very efficiently in feedlots, are not making a profit. Also the prohibition to slaughter lightweight cattle obliges producers to slow down production. Therefore, less intensive production systems will be used, with a negative impact on output.

Expected Outcome of the Current Cattle/Beef Policy

Most sources indicate that it is unclear what will happen in the future since the GOA has implemented measures whose impact is not wholly understood and from which will most likely arise unintended consequences. Assuming the ban on exports will last 180 days, as written in Resolution 114 (which went into effect on March 14, 2006), we can probably expect the following:

- Lower beef production due to the slaughter of lighter cattle, a reduced use of grains and supplemental feed, and a longer fattening cycle;
- Less investment, especially at ranches and export slaughter plants;
- Significantly reduced beef exports. Post places total shipments for 2006 at 300-350,000 tons, 55 percent less than in 2005;
- Somewhat larger domestic beef supply,
- Slightly lower cattle prices in the next few months, and continued high retail prices,
- The sullying of Argentina's reputation as a reliable exporter. Once the ban is over, Argentine beef exporters will probably need to overcome this negative image. However, strong world demand could make shipments restart relatively fast.

Some contacts hope that the GOA will soon lift the export ban partially, one the beef sector promises to freeze the prices of widely consumed cuts for one year. However, others believe that beef prices will not come down and when the time (September 2006) comes to lift the ban, opening the export market will put pressure on prices again. Moreover, they indicate that the closer we get to Argentine Presidential elections (April 2007), the harder it will be to re-establish exports.