

Government policy woes from Argentina's beef industry

Export restrictions, which will probably result in Argentina exporting little more than a quarter of last year's record 730,000 tonnes this year, could cause serious damage to an industry which had been gearing up to increase production.

By Patrick Knight

Last year was one for the record books for the Argentine beef industry. More than 730,000 mt of fresh and processed beef, twice the average of recent years and the largest amount for several decades, was exported. Spurred by strong demand, prices rose steadily during the year to average about USD2,330 per tonne. As a result, beef exports earned Argentina a record USD1.4 bn in 2005.

Because the Argentine currency has been losing ground steadily against the US dollar in the past few months, farmers' earnings in local currency, in which virtually all the cost of producing and processing beef are incurred, rose by even more.

With the Argentine economy growing fast for the third year running, demand for beef on the domestic market strengthened last year as well. After having fallen to less than 55 kg in the first



years of the new decade, when the Argentine economy was in deep recession, per capita consumption averaged about 63 kg in 2005. In some months of high demand, consumption touched an annualised rate of more than 70 kg per capita.

Ten-year plan

Encouraged by all the good news and by the prospect of growth in demand for beef continuing strong for the foreseeable future, as well as the hope that the US market, closed to fresh beef from Argentina since the major outbreak of FMD in 2001, would re-open some time

this year, the leading association of cattle producers, the Sociedad Rural, published a ten-year plan for the industry at the end of last year.

The plan anticipates the Argentine cattle herd, static at about 55 million head for the past 30 years, increasing to 67 million head by 2015. This would be achieved by increasing the number of calves born to 100 cows from the present 60 or so each year, to more than 80. By then the average weight of a steer at slaughter is anticipated to have risen from the current 384 kg, to 426 kg. These improvements would allow output to increase from the current 3mn mt



(cw) to 4.3mn mt by 2015. The plan envisages each inhabitant continuing to consume about 60 kg of beef each year.

Because the country's population will grow by about four million during the next ten years, 200,000 mt more will be needed on the domestic market by 2015 than the 2.4 mn mt consumed in Argentina in 2005. Even so, Argentina would have 1.7mn mt available for export in 2015, about 1.0mn mt more than was shipped last year. The average price of exports is expected to rise to USD2,500 per tonne by 2010. As a result beef exports would generate USD4.2 bn by then, almost USD3 bn more than last year.

Industry confusion

But the industry has been thrown into deep confusion by the government's decision in early March this year that all exports, apart from the 28,000 mt Hilton quota and beef already paid for, were to be suspended. The ban was ini-

tially to last for six months, but because prices on the domestic market showed little sign of falling as the government wanted, the ban was subsequently extended for a year. Only 28,300 mt (CW) of beef was exported in April, compared with the average of 61,130 mt in each of the first three months of this year.

During May, the government announced that from then on, exporters would be allowed to ship 40% of the amount they had sold last year. But according to Jerry O'Callaghan, responsible for beef exports with the Brazilian Coimex trading company, obtaining export licences continues to be almost impossible. Some contracts agreed before the ban came into force have yet to be fulfilled. O'Callaghan feels that the government will continue to restrict exports, to suit its own desire to keep supplies abundant, and prices low on the domestic market. As a result, he does not anticipate Argentina being able to

export more than about 200,000 mt this year. He thinks that priority will be given to Hilton quota beef for EU members.

Competing with crops

Many cattle ranchers, who had already been planting oilseeds and grains on at least part of their land, which they say has become far more profitable, as well as being easier than raising beef cattle, which has frequently been subject to interference for political reasons, now suggest that the time may have come to halt raising cattle altogether. As a result of the ban, many importers are switching orders to neighbouring Brazil and Uruguay increased demand, and some of them may not come back.

Relationships between the beef industry and government's in Argentina have always been tense, particularly at times when inflation is rising, as is now the case. An important factor is that the first term of the current president, Nestor Kirchner, ends in 2007, and he plans to



stand for re-election. To ensure popularity, he wants to be able to offer the Argentine population plenty of low cost beef, as well as cheap bread. Beef has a 5% weighting in the country's crucial inflation index. So as the price of beef rises, so does the government's concern about it.

According to the chief economist with the Sociedad Rural, Marcello Fielder, the beef industry has lost ground steadily to oilseeds and grains in Argentina in recent years, with the result that the industry is now far less powerful than it used to be. Beef is now responsible for only about 12% of the country's export earnings, compared with the 30 - 40% for the rest of agriculture. For Fielder, the export ban is just the latest in a long line of measures aimed at keeping beef prices down, none of which has ever had the desired effect.

Red tape for red meat

In the past, exports have been banned or heavily taxed, the sale of meat at butch-

ers and restaurants in Argentina has been restricted, the tax on animals in the fields has been raised, and a series of other measures have been tried. But none of them has persuaded farmers to sell their stock at less than they think it is worth, and it is difficult to see how this can be done.

If the latest ban has not caused the price of beef on the domestic market to fall, it has caused several slaughterhouses to close their doors, causing thousands of workers to be laid off. Attempts at reaching a compromise formula, whereby the price of the most popular cuts would be held down, and those of the higher quality, mainly rear-quarter cuts destined for export allowed to find their own level, have not been successful so far. In any case, it would be virtually impossible to implement and control such an agreement for any length of time.

Mainly because of pressure from oilseeds and grains, the beef industry in Argentina has experienced a revolution

in the past 15 years. Cattle have been steadily pushed off much of the prime land in the "humid pampa" of Buenos Aires and neighbouring provinces, where the land is rich and the natural pasture needs little or no fertilising. Farmers have been forced to move stock to parts of the country where the quality of the land is inferior, so achieving similar yields is far more difficult and costly.

Well-nourished cows become pregnant easily and at least 80 calves are born to each 100 cows on the better quality land each year. On the other hand, 100 cows in the parts of the country to which cattle have migrated, produce little more than 60 calves.

Beef production rises

Despite the fact that at least 6.5 million hectares of top quality land has been lost to cattle grazing in recent years, Fielder points out that improvements in the genetic quality of the stock, as well as the use of better grasses, have allowed the amount of beef produced to rise. If farmers were given incentives to improve their pastures, this process could be accelerated.

Irritated by the fact that the beef industry did not cut prices last year, as the government wanted, the official response to the Sociedad Rural's plan has been very cool. The government seems unwilling to give the industry the tax breaks which would be essential if the plan is to work. Despite the fact that the plan could result in the country's earnings from beef exports rising from the USD1.4 bn of 2005, to USD4.2 bn by 2015.

Until now, most farmers have resisted the temptation to give up producing beef entirely and switch exclusively to growing grains. This is mainly because cattle continue to be seen as one of the best ways of protecting capital against the ravages caused by inflation. Periods of extremely high inflation occurred at fre-



quent intervals in Argentina during the second half of the last century. Many farmers worry that its root cause, that governments continue to spend more than they raise in taxation, still exists.

Many prices, notably those of energy and those of other public utilities, continue to be kept well below their true cost. There is concern that this state of affairs, notably for energy, cannot last much longer, and it is feared that another round of inflation will start soon, probably as soon as next year's elections are over.

Even if the government had not decided to severely restrict exports this year, many analysts suggest that Argentina would not have been able to export as much beef this year as it did in 2005. Since demand and prices were so strong, a record 26% of the herd was slaughtered last year, close to the limit. A higher than normal proportion of the animals slaughtered were cows, which has compromised the herd's potential. With the economy growing by at least 8% this year, domestic demand continues strong, even as prices rise. If prices were lower,

the per capita level could easily return to the 70 or even 80 kg per capita common in the 1970s and early 1980s.

Export dreams

O'Callaghan predicts that even without the ban, Argentina will export less beef than in 2005, for at least two more years. In addition to the restrictions on exports, the government decreed in March that no animals weighting less than 280 kg could be slaughtered from then on. This restriction is to be extended to animals of less than 300 kg soon. Up to 17% of the number of animals slaughtered last year were in this category, as many consumers in Argentina had become convinced that the younger the animal, the more tender the meat would be. The measures mean that supply will be restricted in the short term. Although up to 400,000 mt more should be available during 2006 as a whole than was last year as a result of this measure.

Hopes of being able to resume exporting beef to the United States, suspended following the serious outbreak of FMD which occurred in 2001, and which it

had been hoped would resume later this year, will also be delayed, both by the export restrictions and also because of the outbreak of FMD which occurred in Corrientes province early this year.

What's in store?

Because of the present difficulties, it now remains to be seen whether some farmers will decide that the time has come to cease raising cattle, and switch entirely to planting arable crops, as some are threatening to do. Until now, most ranchers have left the fences, stockyards and windmills needed to pump water to the surface intact. They have tended to rotate crops and stock between different areas of their properties.

But the "direct planting" of crops is becoming increasingly popular. Rather than tractors passing over the land at least half a dozen times, when it was ploughed, harrowed, and planted, the land is now sprayed with weed-killer, and then planted. Some of the money saved in fuel is being spent on fertiliser, rather than relying on the manure left behind by cattle. As a result, many farmers are ceasing to rotate crops, as the main incentive to do so, manure, has been removed.

Certainly, cattle ranching in Argentina is not hopeless, even if more cattle continue to move to less hospitable parts of the country, where costs are higher and quality more difficult to achieve; but the latest interference by a government more interested in gaining short term popularity, than in the longer term interests of the country, is doing immense damage to an industry whose prospects have never been better. It remains to be seen how it will react in a situation where ranchers have many more options than in the past. **MI**