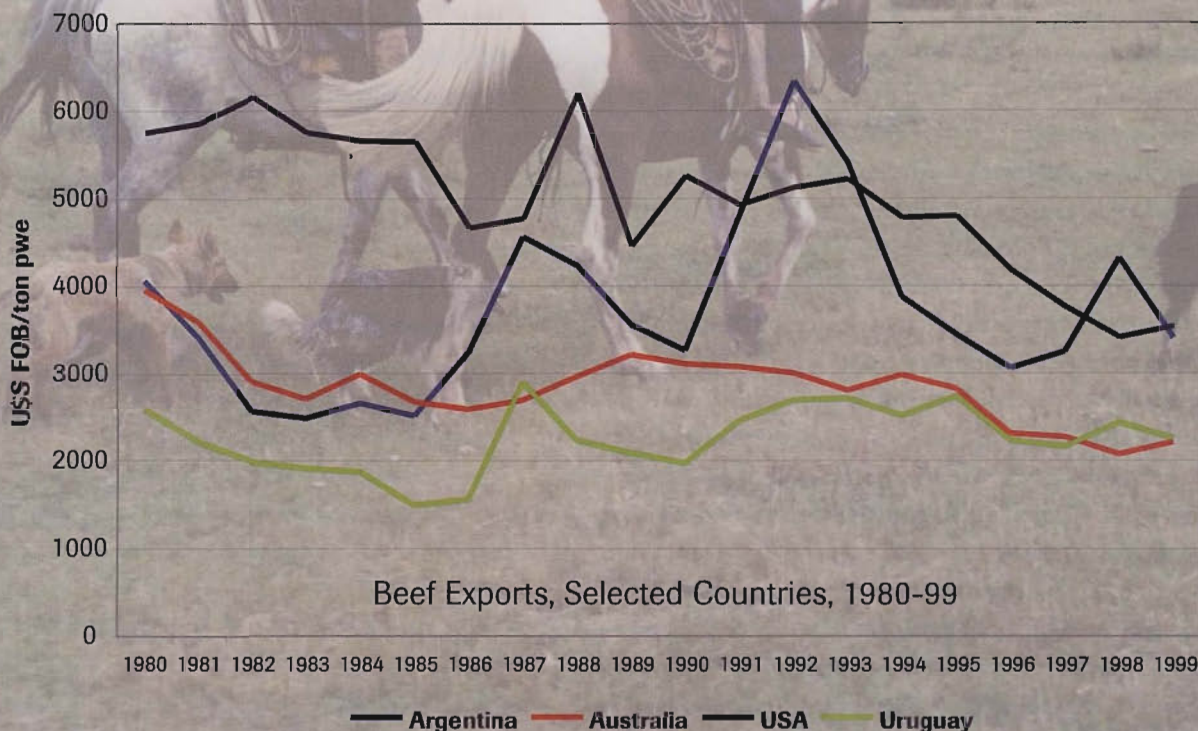


South-of-the-Border Beef:

Changing Beef Industries in Argentina and Uruguay

Head 'em up, move 'em out: Argentina and Uruguay are fast becoming powers in the beef export market, with Argentina often exporting more beef than the U.S. in several recent years.



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Uruguay and Argentina, two of South America's most important beef exporters, eradicated foot-and-mouth disease (FMD) in 1995 and 2000, respectively. They thus gained access to the FMD-free segment of the world beef market — including the United States — for the first time in many decades. Although new outbreaks of FMD occurred in both Argentina and in Uruguay in late 2000 and early 2001, forcing suspension of Argentina's beef exports, it appears certain that both countries will eradicate FMD again and increase their sales to the FMD-free market. This article focuses on the domestic and international implications of beef industry modernization in Argentina and Uruguay. Specifically, it investigates the degree to which beef industry modernization might contribute to higher supply in the FMD-free market.

The Uruguay Round helped expand and liberalize the world beef market, especially by opening Asian markets and reducing European Union (EU) beef export subsidies. The emergence of the North American Free Trade Agreement (NAFTA) and MERCOSUR (a customs union among Brazil,

Argentina, Uruguay, and Paraguay, with Chile and Bolivia as associate members) is liberalizing the beef trade in much of the Western Hemisphere. A growing trade in beef cuts as opposed to whole carcasses is reshaping world beef markets by making trade more profitable. The shift in Argentina and Uruguay's beef exports, from FMD-endemic to FMD-free markets, has and will occur within this context.

A previous quantitative analysis of the potential effects of FMD-eradication in Argentina and Uruguay (Ekboir, et al., 2000) suggested that gaining access to the FMD-free market should significantly increase Argentina and Uruguay's export prices, stimulating greater production and exports. Rising exports from Argentina and Uruguay would then reduce prices in the FMD-free market. Indeed, the analysis predicted that prices in the U.S. market and in U.S. beef export markets would fall by about 30 percent if Argentina and Uruguay achieved full access to these markets.

Argentina and Uruguay had full access from 1995 to 2000. Prices rose less than had been expected, and their beef indus-

tries responded only gradually to the new export opportunities. To better understand the initial process, we interviewed beef producers, processors, and government officials in Argentina and Uruguay in mid-2000 and carried out a descriptive analysis of recent international beef trade.

Uruguay gained access to essentially all FMD-free markets and increased beef exports significantly. Argentina was beginning the same process during the 1995-2000 period. Nonetheless, the effects of integration were considerably smaller than those predicted by the analysis. World prices were little affected, and beef prices in Argentina and Uruguay did not increase as much as expected. We concluded that both countries are increasing efficiency and may shift from grain-fed to grass-fed beef. Both developments will increase competitiveness and should be carefully monitored by U.S. producers.

Beef Marketers Abroad

Prior to eradicating FMD, Argentina and Uruguay exported fresh beef mainly to other MERCOSUR countries, the E.U., and Israel. Thermoprocessed beef went to the U.S. and other FMD-free countries that had banned imports of fresh beef from FMD-endemic regions.

In 1995, following completion of the Uruguay Round and agreement on the Sanitary and Phytosanitary Protocol, Argentina and Uruguay each negotiated a small U.S. tariff rate quota of 20,000 metric tons of fresh beef. The U.S. agreed that the risk of introducing FMD via imports from these countries was minimal because of progress they had made in controlling the disease. Uruguay fulfilled its U.S. quota for the first time in 1996; Argentina followed in 1999. Uruguay later negotiated bilateral agreements with other FMD-free countries — Mexico, Canada, Japan, and South Korea — resulting in a considerable expansion of fresh beef exports to these countries (Table 1). Negotiating access to new markets was a slow process for Uruguay, but exports grew rapidly in 1999 and 2000 — except to the U.S., where exports are constrained by quotas. However, Uruguay was able to increase exports to FMD-free markets and still slightly increase exports to its traditional markets.

Argentina did not fill its U.S. quota until 1999 because it received higher prices in other markets, including its domestic market. As these markets became less attractive, Argentina expanded exports to the U.S. and to Canada in 1999 (Table 2). Though Argentina has exported little to other FMD-free countries to date, it is gaining entry after achieving FMD-free status in 2000, and seems likely to expand exports further.

Table 1. Uruguay Exports of Fresh Beef, 1995-2000

Total volume of chilled and frozen beef, tons shipped, by destination (1).

	1995	1996	1997	1998	1999	2000*
Traditional markets						
MERCOSUR (2)	28,272	50,641	77,903	85,141	36,250	37,642
EU-15 (3)	30,122	31,500	37,014	30,940	22,932	20,919
Israel	20,298	23,122	28,956	29,543	29,114	26,311
Other (4)	2,648	3,175	4,219	5,461	9,138	11,002
Subtotal	81,340	108,438	148,092	151,085	97,434	98,874
New markets						
USA (incl. Pto. Rico)	319	22,165	18,797	14,391	21,606	17,862
Canada	none	366	8,145	1,378	17,059	24,734
Mexico	none	none	49	202	8,006	16,027
Cent. Amer./Caribbean	818	456	312	864	2,800	3,215
East Asia (5)	1,275	650	780	397	3,170	12,839
Subtotal	2,412	23,637	28,083	17,232	52,641	74,677
TOTAL	83,752	132,075	176,175	168,317	150,075	170,551

(1) Product weight equivalent. (2) Includes Chile. (3) EU-15 + Switzerland. (4) Other FMD-endemic countries. (5) New markets: Japan, Singapore and South Korea
Source: INAC. *Preliminary.

Argentina and Uruguay increased combined exports to FMD-free countries by 120,000 tons (product weight equivalent) between 1995 and 2000, or about 6 percent of total exports within the FMD-free beef market in the Pacific Rim.

Historically, beef prices are lower in the FMD-endemic market than in the FMD-free market (Figure 1). Nonetheless, these comparisons are somewhat deceiving since the composition of cuts exported and the level of protection in destination markets influenced the average export price. The average U.S. export price was higher than the average Australian export price because the U.S. exported mainly high quality cuts while Australia exported mainly manufactured beef.

The U.S. export price was also high because the U.S. exported mainly to the Japanese and South Korean markets, where the level of domestic protection was high. Australia sold mainly to the U.S. market, where protections were fewer. As protection levels declined and trade expanded, U.S. and Australian export prices converged.

Uruguay's average export price was generally lower than Australia's price because Uruguay exported to lower-priced markets accepting FMD-endemic beef. However, after eradicating FMD and improving beef quality, Uruguay's export price converged to Australia's price. Uruguay exported a variety of products to FMD-free markets, including manufacture/trimmings to the U.S. and Canada, chilled boneless beef to Mexico, and frozen bone-in cuts to South Korea.

Argentina's average export price was the most variable of the price series, having been generally lower, but sometimes higher than that of the United States. Argentina exported only

a small proportion of its output, and a significant proportion of beef exports was composed of high quality cuts sold to the EU under the "Hilton quota," a regulation designed to supply beef to elite hotels and restaurants, mainly in Germany. The high prices paid for Hilton beef increased Argentina's average export price.

Although these export price series are not fully comparable, the convergence reflects ongoing market liberalization, the shift in trade flows resulting from FMD eradication in Argentina and Uruguay, and a growing trade in special cuts. Each series exhibits a declining price trend. Uruguay's average export price has declined the least because Uruguay has improved quality and increased exports to higher priced markets.

Because of Argentina and Uruguay's low production costs, U.S. producers will face increased competition from cheaper beef. Argentina and Uruguay produce mainly grass-fed beef and compete most directly with Australian and New Zealand grass-fed beef in Canada and Mexico. In the mid-1990s, Australia and New Zealand together accounted for 45 percent of Canadian fresh beef imports. In 2000, their share of the Canadian market had dropped to 27 percent, while Argentina and Uruguay's joint share had risen to 31 percent. During 2000, Uruguay also began exporting significant amounts of beef to Japan and South Korea. High transportation costs were expected to make beef exports from Argentina and Uruguay to Asia uncompetitive, but they have not done so.

Rising exports by Argentina and Uruguay to Canada, Mexico, and Asia in late 1999 and the first half of 2000 encouraged Australia and New Zealand to export more beef to the U.S. At the same time, Argentina and Uruguay were negotiating with the U.S. to gain some of the unused Australian and New Zealand quotas.

Export Potential of Argentina and Uruguay

Argentina and Uruguay will have to expand production and/or reduce domestic consumption if they expect to increase beef exports. Export prices may improve if both countries continue to penetrate higher-priced markets, but higher prices alone may not suffice to produce rising exports. Both countries expected that their export prices would increase sharply after achieving FMD eradication, but the price effects to 2000 were small. Anecdotal evidence suggested that FMD eradication had increased export prices in Argentina and

Uruguay by perhaps 10-15 percent, though actual export prices had declined in real terms since 1995 (Figure 1). In both countries, FMD-eradication is now seen primarily as one aspect of a continuing modernization of the livestock sector, not simply a means to achieve higher prices.

Argentina and Uruguay produce grass-fed beef using traditional ranching practices. By adopting more intensive management and using grain supplements and silage, they could raise output significantly. Argentine exports could more than double if its slaughter were to increase by only 10 percent without varying domestic consumption.

Beginning in the 1970s and extending into the 1990s, Argentina's beef production stagnated because of rising competition from grain production. Land use shifted from pasture to grains, and the cattle herd declined by about 10 million animals over the longer period. However, producers began to incorporate grain and silage into the farm production system, and a small feedlot industry emerged.

Movement toward grain fattening has been slow, because neither Argentine nor Uruguayan consumers have a taste for marbled beef. Foreign markets have demanded only a few specific cuts, meaning that the rest of the animal must be

sold at a discount in the domestic market. However, in the long run, cheap grain may provide Argentina with a comparative advantage in grain-fed as well as grass-fed beef. If Argentina can develop secure and profitable markets for grain-fed beef, it can greatly increase beef exports.

Uruguay, lacking in land for crop production, exports some live cattle to Argentina. It would be profitable for the two countries to further integrate livestock operations. Much of Uruguay is well suited for producing calves and feeder steers that could be fed more cheaply in Argentina. Uruguay might also import Argentine grain to fatten steers. Although Uruguay will continue to increase beef exports, its long-term production capacity is less than Argentina's.

Beef processors in both Argentina and Uruguay have improved production and marketing efficiency in recent years, but still lag behind international standards. Processing plants are small, are not fully used throughout the year, and most make poor use of many by-products. Firms operate on small margins, and most are poorly capitalized.

In general, processors are not vertically integrated backward or forward, nor do they have contractual relationships that would allow efficiencies through coordinated action.

Both (Argentina and Uruguay) expected that their export prices would increase sharply after achieving FMD eradication, but the price effects to 2000 were small.

Table 2. Argentina Exports of Fresh Beef, 1994-2000.

Total volume of chilled and frozen beef, tons shipped, by destination (1)

	1995	1996	1997	1998	1999	2000*
Traditional markets						
MERCOSUR (2)	103,073	96,269	82,887	44,918	49,351	33,688
EU-15	63,933	61,277	53,320	41,968	41,045	38,403
Israel	11,244	10,476	10,822	7,007	11,660	14,698
Other (3)	14,375	25,45	24,549	7,454	3,738	17,098
Subtotal	192,625	193,478	171,578	101,347	105,794	103,887
New markets						
USA (incl Pto.R.)	none	none	6,365	6,704	23,576	17,614
Canada	none	none	none	79	15,198	22,838
Cent. Amer/ Caribbean	1,664	1,628	1,899	2,781	3,957	1,371
East Asia (4)	1,092	1,344	2,124	N/A	2,420	3,795
Subtotal	2,756	2,972	10,388	9,564	45,151	45,618
TOTAL	195,381	196,450	181,967	110,911	150,945	149,505

Source: SAGPYA. *Partial year (January-November).

(1) Product weight equivalent. (2) Includes Chile. (3) Other FMD-endemic countries. (4) Philippines, Singapore, Taiwan.

Industry consolidation has begun, in part spurred by a rise in supermarkets' share of retail beef sales. Additional consolidation will lead to improved efficiency, including more effective international marketing efforts. Both countries intend to promote their beef in Europe as "BSE free."

Declining domestic consumption could also free up additional exports. Beef is a staple food in Argentina and Uruguay. Per capita beef consumption in these two countries is the highest in the world, averaging about 61kg (approximately 134 pounds) annually. Beef consumption has been declining in recent decades due to competition from poultry. Declining tariffs within MERCOSUR should accelerate the decline in beef consumption as cheaper Brazilian pork and chicken become available for consumption in Argentina and Uruguay. A 10 percent reduction in domestic beef consumption would allow Argentina to increase beef exports by 70 percent.

Conclusions

In 2000, expanded exports from Argentina and Uruguay to the FMD-free market were limited and had small effect on international beef markets, though they had displaced U.S., Australia, and New Zealand in several important markets. This effect is likely to grow in coming years as further development in Argentina and Uruguay allows expanded exports. Currently, Argentina and Uruguay are suffering the consequences of new FMD outbreaks that have put a halt on the recent trend. If these two countries can successfully set up an effective regional system of eradication and surveillance, they will become serious competitors in the international market in a few years, not only with grass-fed beef but also grain-fed beef.

The world beef market is becoming increasingly integrated due to innovations in transportation and marketing, greater trade in cuts (which allows taking better advantage of differences in pre-trade relative prices that result from differences in special national preferences), eradication of FMD (though the Argentinian and Uruguayan experiences show that countries can be re-infected), changing production techniques that allow countries to meet the demand of a number of different markets, liberalization of trade restrictions and more scientific treatment of sanitary problems following the new SPS protocol. Together, these changes should make the beef industry more competitive and gradually erode beef price differentials throughout the world.

For More Information

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