

# Argentinean Beef Market Summary<sup>1</sup>

1. According to article 18, section a) of Law N° 25,156, the Comisión Nacional de Defensa de la Competencia (CNDC), Argentina's competition authority, has the power to commission market studies in order to understand the competitive conditions of markets that it considers relevant and have an impact on consumption and production.
2. In this context, the CNDC has requested Dr. Guillermo Sabbioni a report on the Argentinean beef market. The purpose of such study was to assess the market structure, size, agents, binding regulations and other relevant aspects of the production and distribution chain of beef for consumption. With the report at hand, the CNDC can diagnose and suggest measures needed to strengthen and improve competition conditions in the identified relevant markets.
3. The following executive summary details the main characteristics of Argentina's beef market, discussing the issues found and elaborating proposals to improve how the market functions. Section 1 describes and summarizes the value chain, Section 2 reviews the market's main regulations, Sections 3 and 4 define the relevant markets, market structure and concentration levels, Section 5, analyses prices and margins, and finally Section 6 concludes.

## 1. Beef Value Chain

4. The beef production process consists of five stages, from which stem different products, detailed in Table 1.<sup>2</sup>

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<sup>1</sup> This document is based on the report prepared by Guillermo Sabbioni, *Estudio sobre las condiciones de competencia en el mercado argentino de carne vacuna*, August 2016, from now on referred to as, Sabbioni (2016).

<sup>2</sup> It is frequent that one same participant does one or several of these activities.

**Table 1. Stages of the Beef Production Process**

Stage	Product
Breeding	Calf
Fattening	Heifer
Slaughtering	Half carcass and subproducts (leather, viscera, bones, fat, sebum)
Deboning	Cuts
Retail Sales	

Source: Sabbioni (2016).

### 1.1 Participants in the Value Chain

5. There are three different roles involved in the breeding and fattening stages: breeder, feeder (also known as feedlot) and the full-cycle breeder (who carries out both activities).<sup>3</sup> The information shows a prevalence of low-scale establishments, with few heads of cattle. There are around 205 thousand establishments dedicated to breeding and/or fattening of which 5% (around 10 thousand establishments) concentrate 40% of total production. Table 2 shows information regarding the amount of establishments classified according to the number of cattle heads collected by SENASA (Servicio Nacional de Sanidad y Calidad Agroalimentaria, Argentina's health inspection authority).

**Table 2. Cattle establishments' distribution per size- March 2016**

Establishment size	Number of establishments	% of establishments	Total cattle heads	% of cattle heads	Average cattle heads (in thousand)
Up to 250 heads	152,901	74.5%	11,304,569	21.5%	74
Between 251 and 1000 heads	42,416	20.7%	20,345,398	38.7%	480
More than 1000 heads	10,027	4.9%	20,968,811	39.9%	2,093
<b>Total</b>	<b>205,344</b>	<b>100%</b>	<b>52,636,778</b>	<b>100%</b>	<b>256</b>

Source: Sabbioni (2016) based on SENASA information.

<sup>3</sup> However, the information available about the size of the establishments in Argentina does not distinguish between those dedicated to feeding, breeding or full-cycle.

6. Slaughterhouses are in charge of the slaughtering and deboning processes. They can be grouped according to two different attributes: according to their activity and according to the health accreditations they adhere to. In the first group, we consider:
  - a. Cycle I: dedicated to slaughtering only.
  - b. Cycle II: dedicated only to deboning, that is to say, “cutting up” the animal to obtain the traditional anatomic cuts (ribs, buttock, rump, etc.).
  - c. Full-cycle: carrying out both activities.
7. With respect to the second attribute, slaughterhouses are classified as:
  - a. Type A: under the inspection of SENASA, they are authorized to operate nationally and to export anywhere, including Europe and the US;
  - b. Type B: under the inspection of SENASA and authorized to operate nationally and to export to destinations with low health requirements (for example Russia, Africa and South America);
  - c. Type C: not under inspection of SENASA but under the inspection of provincial health inspection, can only operate at provincial level;
  - d. Rural: not under inspection of SENASA but under the inspection of municipal health inspection, can only operate at municipal level.
8. According to SENASA, there are 457 slaughterhouses, of which 32% are Type A and B and concentrate 81% of the production.
9. In addition, slaughterhouses function as providers of slaughtering services, that is to say, hired by third parties, which buy steers but lack the productive capacity to slaughter them. In this case, the slaughterhouse provides the slaughtering service and delivers the product (half carcass and its subproducts) to the contracting party.
10. The retailing stage is composed of butchers and supermarkets. Some butchers not only sell the cuts but also buy half carcasses and debone them. In the case of supermarkets, upstream integration may reach the stage of fattening, in some cases.
11. There are other agents in the value chain working as brokers, although not exclusively. One of them is the slaughterer-supplier, originally dedicated to brokering half carcasses, although some of them are integrated both upstream and downstream, from the fattening stage to the deboning. On the other hand, the consignee is an intermediary of live cattle, which could operate as a mere intermediary or, also in the setting up of auctioning. Lastly, spot markets are identified, of which

the most important is the Liniers Market. Given the number of actors in each stage of the value chain and the fact that 60% of the volume is commercialized without intermediaries, no competition problems have been identified.

## 2. Legal Framework

12. The main beef market regulations in Argentina are detailed below:

- a. General Resolution N° 3873 of AFIP:<sup>4</sup> dated 6 May, 2016 creates the “Tax Registry of Commercial Players in Production and Commercialization of Cattle and Beef and Stockbreeding”. It is established that the market operators (all the actors described above) have to register every natural person who operates with upstream cattle. The purpose of such resolution is to increase formality in the market because, in order to belong to the Registry, operators have to comply with all fiscal obligations, and at the same time, incentives are generated through differential fiscal regimes.
- b. Decree N° 133/2015: signed in December 2015, reduced to zero the export rights and eliminated the need to request export permits through the Export Operations Registry (ROE).
- c. Law N° 22,375 and Decree N° 473/1981: SENASA regulations establishing the health conditions which the establishments involved in the value chain have to comply with.
- d. Decrees N° 4238/1968 and 489/1981: National Health Digest, establishing the conditions that each establishment has to fulfill in order to be qualified as Type A, B, C or Rural Slaughterhouse.
- e. SENASA Resolution N° 97/1999: established the health conditions which should be fulfilled by upstream cattle transport service providers.
- f. Resolution N° 645/2005 of the Secretary of Agriculture, Livestock, Fishing and Food: with modifications in 2007, 2010 and 2013<sup>5</sup> establishing the minimal weight for slaughtering each animal category.

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<sup>4</sup> Dated 6 May, 2016, it complements the Joint Resolution N° 1/1999 (SAGPand A), 4/1999 (SENASA) and 5/1999 (AFIP).

<sup>5</sup> Resolution 60/2007, 88/2010 and 663/2013 of the Secretary of Agriculture, Livestock, Fishing and Food.

### 3. Relevant Market

13. In cases involving the beef market, the CNDC has concluded that all cuts compete with each other, even in situations where the price between the cheapest and the most expensive cuts differs up to 400%, this would imply that there is a unique relevant market of the product defined as “already slaughtered beef”.<sup>6</sup> However, it is highlighted that this definition encompasses two different stages of the value chain: slaughtering and deboning. This could be due to the lack of a transparent market for half carcasses. In addition, given that many slaughterhouses are simply service providers, merging the two last stages in one market for “already slaughtered livestock” could be the only available option. The relevant geographical market is defined as the national market because slaughterhouses exist all around the country.

14. On the other hand, there are other markets related with the beef value chain:

- a. *The market of provision of slaughtering services*, which is the instance when slaughterhouses operate specifically as service providers. There is no monetary payment for this service, but it is paid in kinds, giving the subproducts to the slaughterhouse to be commercialized. Additionally, the slaughterhouse usually pays the farm a difference called “*recovery*”, acknowledging the fact that the subproducts are worth more than the slaughtering services.
- b. *The market of subproducts generated from the slaughtering*, which accounts for 10% of the total value of the meat obtained in the slaughtering.
- c. *The beef export market*, which, according to the CNDC’s definition, responds to a substantially different demand. However, from the supply point of view beef for export and beef for the domestic market should not be treated as two different markets as the final products result from the same production process.
- d. *The market of products made from beef*, including frozen products, sausages and canned products.

### 4. Market Structure and Concentration

15. Both in the retailing and breeding and fattening stages, agents are atomized and, therefore, none of them can exercise market power. In retailing, supermarkets concentrate 25% of the sales, while the remaining 75% is commercialized through butchers. The most important player in this market would be Carrefour whose market share is below 6%.

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<sup>6</sup> CNDC’s Opinion N° 600 of 2007.

16. Regarding the slaughtering stage, the available information indicates that agents are also atomized and that the most important player would be slaughtering around 5% of the total volume in the entire country. It is important to note that this percentage was calculated using the volume slaughtered by the meat processing plants. That is, these calculations were based on the important assumption that 100% of the slaughtering corresponds to animals owned by the slaughterhouse and not by third parties.<sup>7</sup> Additionally, in the Liniers Market the brokerage fee is paid by the seller, implying that the buyer has a better bargaining position than the cattle owner. This might explain why the concentration in the slaughtering stage is high compared to the previous stages.
17. In the beef subproducts' markets, either high concentration levels or low market transparency have been found. Among the subproducts, the leather market is the most relevant one and represents between 55% and 60% of the total value of subproducts.
18. Finally, in the export market the 10 biggest companies commercialize approximately 75% of the total volume, which is a signal that there is some level of concentration which could affect domestic supply and, therefore, the domestic price. Table 3 shows the companies participating in this market.

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<sup>7</sup> Particularly, if there were slaughterhouses specialized in delivering slaughtering services, this market could have a higher concentration. However, the available information does not allow doing this analysis.

**Table 3. Main exporting slaughterhouses – 2012**

Name	Ton	% of total
JBS ARGENTINA S.A	32,778	18%
MARFRIG	23,153	13%
GORINA SLAUGHTERHOUSE	16,902	9%
ARRE BEEF S.A	14,411	8%
FRIAR S.A	13,180	7%
ECOCARNES Se ECOCARNES S.A	9,892	5%
LA ANÓNIMA	9,259	5%
CAMPO DEL TESORO	8,031	4%
LOGROS	6,239	3%
RIOPLATENSE SLAUGHTERHOUSE	5,637	3%
SUBTOTAL 10 LARGEST	139,482	76%
<b>TOTAL</b>	<b>183,439</b>	<b>100%</b>

Source: Sabbioni (2016) based on IPCVA (2012, p. 16).

19. No important barriers to entry are perceived in this market. Evidence of this is the great number of upstream and downstream integrations which have taken place in the industry over the last years. Likewise, no dominant position in any of the stage of the value chain markets is observed.<sup>8</sup>

## 5. Evolution of Prices

20. There is reliable data about the beef price to consumers and about the price of the cattle to be slaughtered. However, the market for half carcasses lacks transparency and estimates of prices “on the hook” given by the Ministry of Agroindustry are used. The analysis of the evolution of prices shows that the consumer price and steer price do not move jointly due to the introduction of maximum prices in the Liniers Market. These regulations, however, did not prevent the inflationary context from having an effect on the final price to consumers. Additionally, and according to information of the Ministry of Agroindustry, the price on the hook and the steer price shared the same trend. This indicates that the retail sector has greater degrees of freedom to modify its margins than the other stages of the value chain.

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<sup>8</sup> The scope of the study is circumscribed to the beef production and commercialization stages and does not encompass the subproducts’ markets.

## **6. Conclusions**

21. The findings or results obtained by the consultant, which are the most relevant for the CNDC are presented as follows.
22. The main conclusion of the analysis is that the markets that make up the beef production chain have competitive characteristics, with relatively low levels of concentration and low barriers to entry for new economic agents.
23. However, the important degree of informality identified in the study at different stages of the production chain and in the retail stage generates asymmetries between the various suppliers, which can distort competition.