AMERICAN MEAT INSTITUTE

# FACT SHEET

# International Trade: Latin America

## Overview

Brazil and Argentina are the region's two largest consumers and exporters of meat. Smaller nations in South America are seen as developing markets and as potential markets for the US meat and poultry industry. Both Brazil and Argentina are seen as competitors of the United States in third country markets and not as attractive as markets for US product. Brazil and Argentina look at the U.S. as a potential market for their meat and poultry trade, first needing to overcome disease and meat inspection issues.

Growing economies trend toward increased consumer spending on food and a variety of food selection, and Latin America is no exception. This is good news for U.S. exporters, but many barriers still stand between the United States and unbridled success in Latin America. In an attempt to regulate trade among the Americas, the United States has negotiated or in the process of negotiating a number of free trade agreements, such as the Colombia, Chile and Peru Ecuador Free Trade Agreements and the Central American Free Trade Agreement (CAFTA). To succeed in this new market, exporters must:

- Proceed cautiously when entering these fragile economies.
- Compete with price-competitive Argentine and Brazilian exports.
- Overcome non-tariff trade barriers

## Brazil

Brazil boasts the largest market economy in Latin America and continues to grow. The Brazilian economy is expected to rebound to a GDP of 4 percent, encouraging domestic demand for beef and pork products. Brazil exports beef and beef products to over 150 countries, with Russia and the European Union serving as the main markets. After several years of intense cow slaughter, which prompted an increase of over 35 percent in cattle prices during 2008, as compared to 2007, the Brazilian beef industry is still facing lower availability of finished cattle for slaughter. However the situation is beginning to change and there is an expected increase of nearly 4 percent in the cattle slaughter in 2010 due to increased exports,

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higher availability of cattle for slaughter and continued domestic demand for beef. Cattle inventories are expected to reach nearly 191 million by the end of 2010. Beef exports are expected to increase by 10 percent in 2010 as major markets recover and Brazil begins to explore new markets such as Indonesia and China. Brazil will also experience continued recovery in the EU beef market as more Brazilian cattle farms are enrolled in its traceability program.

Pork production is forecast to continue to increase in 2010 at an average rate of 4 percent, slightly above 2009 and pork exports are forecast to increase by 8 percent in 2010 as demand from major Brazilian customers remain firm. Brazil will continue to focus on new markets in Asia such as China and have begun to advocate for access of its beef and pork products to the US and Mexico.

## Argentina

Although Argentina is one of the world's greatest beef producers, U.S. exports to the country have shown steady increases. Argentina has one of the world's highest beef consumption rates, though it is expected to drop in 2010 to 2.43 million tons because of lower supplies.

Argentine beef exports in 2010 are forecast at 380,000 tons (carcass weight equivalent). A smaller herd and projected lower beef production are expected to result in lower exports and domestic consumption. The severe drought has had a major impact on the size of the calf crop. The local feedlot industry continues to grow with the help of a government support program, with increased production in feedlots partially offsetting the drop in cattle numbers. However production is forecast to tumble 13% to 2.8 million tons on tighter cattle inventories. Argentina is expected to begin 2010 with a herd of 50.2 million head, 10 percent lower than just two years ago.

The government increased export authorizations in 2009 due to adequate supplies, but it is expected to continue to have an active role in determining export volumes. The Government of Argentina (GOA) has focused on controlling beef prices in the domestic market since 2005.

The main export products and destinations in 2010 are projected to be high value chilled cuts to the European Union (EU) under the Hilton Quota, thermoprocessed beef products, to the EU and Hong Kong, chilled cuts to Chile, and frozen cuts to the Russian Federation, Venezuela and Israel. Exports to the US of thermoprocessed products are expected to remain stable or diminish somewhat because of lower beef supply.

Local beef output in 2010 is projected at 2.8 million tons, the smallest since 2002. After 6 years of herd expansion and large slaughter volumes, fed cattle supply in 2010 is expected to drop to 12.8 million head. A drought over the last year and a half (considered the worst in the past 50 years) in most of the cattle producing areas and low returns because of low prices has forced a significant reduction of the herd. Ending inventories in 2010 are projected to be approximately six million head lower than the peak of 2006-2007.

Argentine poultry exports for 2009 were 174,000 metric tons and are expected to increase to 204,000 metric tons. Approximately 90 percent of broiler output comes from the provinces of Entre Rios and Buenos Aires.

## Latin American Countries

While no other Latin American countries compare to Brazil and Argentina, several of the smaller nations take the lead in importing certain categories of U.S. meat. Overall, U.S. beef, pork, poultry and variety meat exports to the Caribbean, Central and South America totaled $734 million. Poultry and pork accounts for a majority of US meat exports to the region, but we have seen a significant increase in beef exports since the implementation of free trade agreements and changes to BSE-related policies. Exports of beef products increased 94% from 2005 to 19,215 metric tons in 2009.

## Free Trade Agreements

The Central American Free Trade Agreement or CAFTA-DR involves the United States, Costa Rica, Dominican Republic (added later), El Salvador, Guatemala, Honduras and Nicaragua and was completed in January 2004. The agreement was implemented on a rolling basis. El Salvador, Guatemala, Honduras and Nicaragua entered into force in 2006 and the DR in 2007. Costa Rica joined on January 1, 2009.

The CAFTA-DR is designed to open up trade among Central American countries and reinforce free-market reforms in the region. The agreement provides duty-free access for a limited quantity of U.S. beef exports to Guatemala and Costa Rica – two of the largest import markets in the region.

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As part of the agreement, all 6 CAFTA-DR countries are working toward the recognition of the U.S. meat inspection and certification systems in order to facilitate U.S. exports. As a result of USDA's FSIS meat inspection course in May 2007, El Salvador, Guatemala, Honduras and Nicaragua passed laws that recognize the U.S. meat and poultry inspection system as equivalent.

Since the implementation of the agreement began in 2006, U.S. beef exports have grown from $16 million in 2006 to $26 million in 2009.

## Bilateral Trade Agreements

**Chile**

The United States signed a free trade agreement with Chile in June 2003, marking the first such agreement with any South American country. The agreement was implemented January 1, 2004. Since that time three quarters of U.S. agricultural goods exported to Chile were duty free by 2008 with full agricultural liberalization by 2016. Before the agreement, US beef and other meats were restricted due to differences in meat inspection regulations. Consumer cuts of beef were also denied access unless labeled and graded according to Chilean standards which differed from U.S. standards. Without preferential access, US beef was at a disadvantage to product from Brazil, Uruguay, Paraguay and Argentina, regional countries that have advantages in transportation and existing trade agreements with Chile. On June 22, 2009, the US and Chile came to an agreement that would allow American beef shipments to Chile. Shipments had been halted since September 2008 pending clarification of a provision of the FTA regarding the certification of beef grade labeling.

Before the agreement U.S. pork was at a 6 percent import tariff disadvantage, but Chile agreed upon implementation of the agreement to eliminate all tariffs on pork.

Access for poultry on both sides will be completely liberalized over 10 years. This began in year 2 with an 8,000 metric-ton tariff-rate quota, a 5 percent annual growth factor, and a linear phase-out of the out-of-quota tariff rate.

**Columbia**

The Columbian Free Trade Agreement was signed in November of 2006, but has not yet been implemented. Currently most Colombian applied tariff rates range from 5 percent to 20 percent for agricultural products, and in many cases these tariffs restrict U.S. exports. Moreover, there is no assurance that Colombia will not raise tariffs to its permitted WTO limits (or tariff bindings), which range from 15 percent to 388 percent. Over 99.9 percent of Colombia's exports into the US enjoy duty-free treatment under the Andean Trade Promotion and Drug Eradication Act (ATPDEA), legislation passed through Congress in 2002 and through December 31, 2009. Once implemented, Columbia will immediately eliminate its price band system, which affects over 150 products, including dairy, pork and poultry.

Beef: In 2009, the US exported approximately $436,000 of beef and beef products to Colombia. Colombia's WTO tariff bindings on beef range from 70 to 108 percent, with applied tariffs ranging from 5 to 80 percent. Under the agreement, the US secures immediate duty-free treatment on products most important to the beef industry: high quality, USDA Prime and Choice beef cuts.

Pork: In 2009, the US exported $12.4 million of pork and pork products to Colombia. Colombia's WTO tariff rate bindings on pork range from 70 to 108 percent. Colombia's applied tariff rates range from 20 to 30 percent on some products, while other products are subject to Colombia's price bands with tariffs ranging from zero percent up to the WTO bound rate, depending on world prices. The agreement provides for tariff phase-outs on most key pork products within 5 years, including immediate tariff elimination for bacon and pork skin. All other pork tariffs will be eliminated within 10 years.

Poultry: In 2009, the US exported $20.7 million of poultry and poultry products to Colombia. Colombia's WTO tariff bindings on poultry range from 70 to 209 percent. Colombia's applied tariff rates range from 5 to 20 percent on some products while other products are subject to Colombia's price bands with tariffs ranging from zero percent up to the WTO bound rate depending on world prices. The US secures a 27,040 TRQ at zero duty with 4 percent annual growth for chicken leg quarters. Colombia will phase-out the out-of-quota tariff of 164.4 percent for fresh, chilled and frozen chicken leg-quarters and of 70 percent for processed chicken leg-quarters over 18 years with a grace period during the first 6 years. Colombia will have access to a safeguard on chicken leg-quarters in the event of an annual import surge during the 18-year tariff phase-out period. The agreement eliminates tariffs on most other poultry products and on the rest within 10 years.

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**Peru**

The Peru Trade Implementation Act was signed into law in December 2007 and was implemented in February 2009. It will create further opportunities for U.S. beef. The largest impact will be on imports of beef variety meats, such as livers and hearts, which will receive a 10,000 metric ton duty-free quota. Also, prime and choice quality cuts will have immediate duty-free access and the remaining products (standard and select quality) will be under a 6 percent annual growth zero duty tariff rate quota starting at 800 metric tons. Regarding SPS measures, Peru reopened its market to U.S. boneless beef and certain offals on April 12, 2006 and agreed to fully open to U.S. beef and beef products other than specified risk materials no later than May 31, 2006. Peru agreed to continue to recognize the equivalence of the U.S. meat inspection system and to accept beef shipments accompanied by a USDA FSIS Export Certificate of Wholesomeness with content of the certificate agreed between the two countries.

The agreement provides for tariff phase-out in 10 years or less on all pork products, with many key pork tariffs eliminated in 5 years. Regarding SPS measures, Peru agreed to continue to recognize the equivalence of the U.S. meat inspection system and to accept pork shipments accompanied by a USDA FSIS Export Certificate of Wholesomeness with content of the certificate agreed between the two countries. Under the Andean Trade Preference Act, U.S. tariffs on pork imports from Peru were zero and the Peru FTA continues the zero-duty treatment.

Under the agreement the United States secured a 12,000-ton TRQ at zero duty with 8- percent annual compound growth for chicken leg quarters. Under the deal, the 25-percent above-quota tariff will begin phase-out after an 8-year grace period and will be completely eliminated in 17 years. Peru will have access to safeguards on chicken leg quarters in the event of import surges during the 17-year tariff phase-out period. Phase-out tariffs on other poultry products range from 2 to 10 years. Regarding SPS measures, Peru agreed to fully reopen its markets to U.S. poultry and products from all states. Peru also agreed to continue to recognize the equivalence of the U.S. poultry meat inspection system and to accept poultry shipments accompanied by a USDA FSIS Export Certificate of Wholesomeness with content of the certificate agreed between the two countries. Under the Andean Trade Preference Act, U.S. tariffs on imports from Peru were zero and the Peru FTA continues the zero-duty treatment.

## Helpful Links

**American Meat Institute**
http://www.meatami.com

**Foreign Agricultural Service**
http://www.fas.usda.gov

| Beef and Veal Summary (1,000 MT – Carcass Weight Equivalent) | | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 (e) | 2010 (f) |
| Production | | | | | | |
| Brazil | 8592 | 9025 | 9303 | 9024 | 8935 | 9290 |
| Argentina | 3200 | 3100 | 3300 | 3150 | 3200 | 2800 |
| Consumption | | | | | | |
| Brazil | 6795 | 6969 | 7144 | 7252 | 7410 | 7445 |
| Argentina | 2451 | 2553 | 2771 | 2732 | 2642 | 2420 |
| Exports | | | | | | |
| Brazil | 1845 | 2084 | 2189 | 1801 | 1555 | 1870 |
| Argentina | 754 | 552 | 534 | 422 | 560 | 390 |
| | | | | | | (e) – estimated<br>(f) - forecasted |

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| Pork Summary (1,000 MT – Carcass Weight Equivalent) | | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 (e) | 20010(f) |
| Production | | | | | | |
| Brazil | 2710 | 2830 | 2990 | 3015 | 3123 | 3249 |
| Consumption | | | | | | |
| Brazil | 1949 | 2191 | 2260 | 2390 | 2478 | 2549 |
| Exports | | | | | | |
| Brazil | 761 | 639 | 730 | 625 | 645 | 700 |
| e – estimated<br>f - forecasted | | | | | | |

| Broiler Summary (1,000 MT – Carcass Weight Equivalent) | | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 (e) | 2010 (f) |
| Production | | | | | | |
| Brazil | 9350 | 9355 | 10305 | 11033 | 10980 | 11420 |
| Argentina | 1030 | 1200 | 1320 | 1430 | 1500 | 1600 |
| Consumption | | | | | | |
| Brazil | 6612 | 6853 | 7384 | 7792 | 7831 | 8076 |
| Argentina | 941 | 1109 | 1200 | 1270 | 1331 | 1400 |
| Exports | | | | | | |
| Brazil | 2739 | 2502 | 2922 | 3242 | 3150 | 3345 |
| Argentina | 92 | 94 | 125 | 164 | 174 | 204 |
| e – estimated<br>f - forecasted | | | | | | |

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