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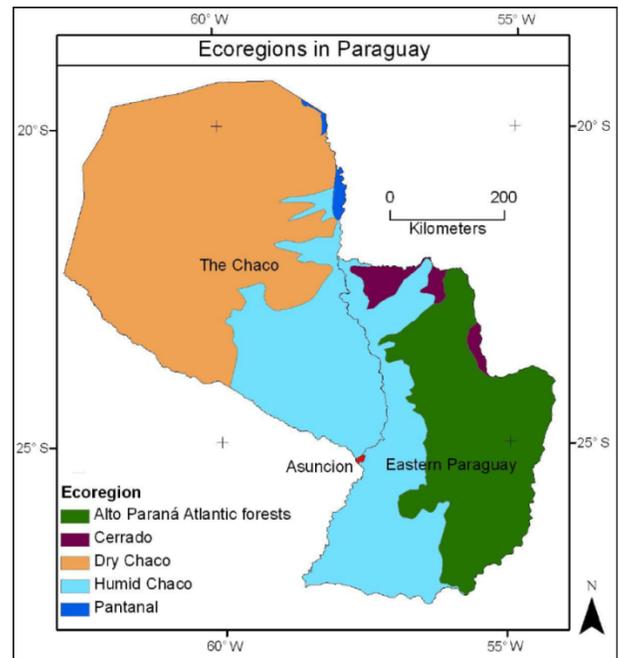
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Report Highlights:

Increased production, a weaker local demand and an expected return in demand from major export markets drive Paraguayan beef export forecast for 2021 up to 360,000 tons carcass weight equivalent, the highest since 2017. A compulsory Brucella vaccination campaign is generating improvements in herd health but an ongoing and severe drought across some production areas continues to negatively impact the calving rate.

Industry Overview

The Paraguay River slices Paraguay into eastern and western (also called Chaco) regions (see map below where the Paraguay River is drawn in a thin, black line). The eastern region is an abundant area for crop and food processing production. The Chaco Region, less populated and less abundant due to dramatic weather swings, is nevertheless an area expanding in cattle production. Phosphorous-rich soils and prolific natural and planted grasses support large cow-calf and feedlot operations. In the past ten years, although the cattle inventory in the eastern region remained flat, the Chaco Region herd has increased almost 50 percent to 2.2 million head. In addition, row crop expansion, especially in central Chaco where 60-100,000 hectares are under cultivation, primarily in corn, provides ready access for nearby fed-cattle operations. The potential for crop and pasture growth in the near future could support additional expansion across the beef supply chain.



Based on 2019 data, Paraguay's 138,000 cattle owners managed an overall herd of 13.8 million head. 123,000 ranchers had less than 100 head; 12,300 owners had between 100-1,000 head with a total of 3.7 million head; and 2,400 owners had more than 1,000 head for a total of 7.7 million head. In the eastern region, ranches average 59 head while in the western Chaco region, the average herd size rises to 475 head.

Production

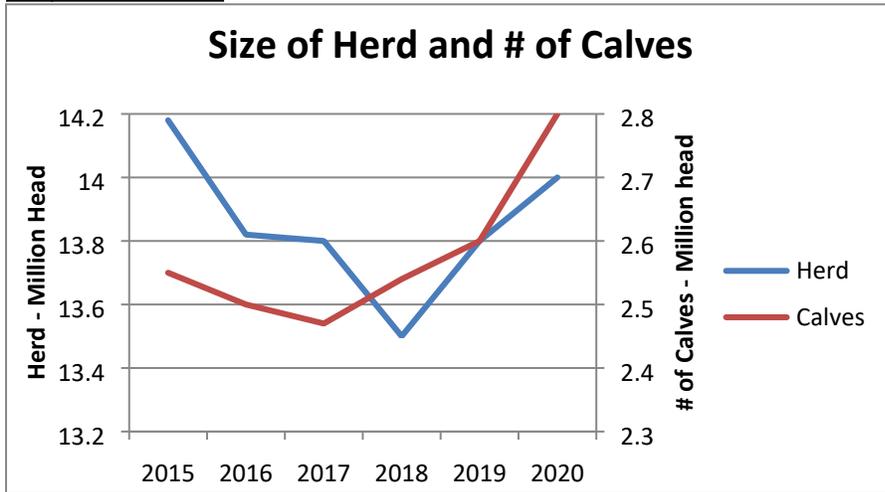
As reflected in Graph 1, Paraguay's herd size has moved in a positive direction since 2018. This trend is due to a reduction in cow slaughter in response to lower demand from Russia and to some improvement in herd health and weaning ratios following a mandatory Brucella vaccination program implemented in 2017 for female calves. Based on official data, weaned calves grew from 2.47 million in 2017 to 2.8 million in 2020. However, Paraguay's weaning ratio continues to be sub-optimal at 48-50 percent, the lowest in the region. Contacts indicate that Paraguay suffers the majority of losses between calving and weaning, indicating a need for additional skills and inputs. Overall, investments in cattle genetics continue to yield quality improvements, particularly for red and black Brangus progress, with Brazilian Nelore and Brahman also popular breeds. Contacts estimate that approximately 10 percent of beef cows are artificially inseminated.

In 2021, beef production is projected at 550,000 tons carcass weight equivalent (cwe), almost 4 percent higher than last year, with the trend for marginal growth expected to continue. Average carcass weight should rebound to normal levels after a 2020 drought saw fed cattle harvested earlier than expected.

During the past year, Paraguayan production has experienced significant weather impacts, including autumn floods across vast production areas and a severe, ongoing drought in the western region. In response, some producers relocated cattle to ranches in the eastern region due to abundant feed while

others sent cattle to slaughter earlier and at lighter weights than planned. The ongoing drought is expected to negatively impact calf inventory in 2020.

Graph 1: Herd size



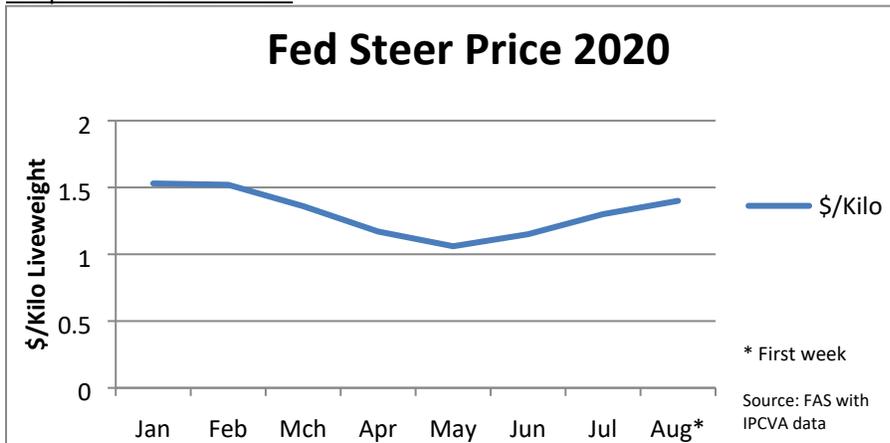
Source: FAS with Senacsa data

The drought impacts hit concurrently with the Covid-19 pandemic which saw global demand and cattle prices fall as restaurants shuttered in key export markets. In May 2020, steer prices dropped to \$1.06 per kilo (live weight), the lowest since March 2007, which prompted cattlemen to request the Government allow the export of live cattle to neighboring countries to support to cattle prices. Thereafter, as seen in Graph 2, fed cattle prices began to rebound steadily, recently recovering to \$1.45-1.50 per kilo (live weight).

Cattle Finishing: Grass and Grain

Due to its dominance in pasture-fed production, the cattle industry is targeting marketing opportunities in sustainable beef production in export markets. Targeted activities include a potential certification for sustainable beef and further development of an expanded traceability system. Currently, Paraguay's sanitary service tracks cattle movements within the country. In addition, Sitrap, an optional traceability program, is available for producers exporting cattle to Chile and/or the European Union (EU).

Graph 2: Fed Steer Price



Cattle finishing operations (grass and grain) have seen negative returns in the first quarter as higher drought-related feed costs and low prices undercut margins. (See Graph 2) However, lower prices across cost sectors, including feeder-cattle and feed, and strengthening prices for fed cattle provide improving prospects for finishing operators.

Paraguay has approximately 20 full-service custom feedlots with capacity between 1,000-7,000 head, finishing roughly 100,000 head annually. In addition, private operations that finish their own cattle on grain produce an estimated 150-200,000 head per year. Generally, cattle weighing 300 kilos (live weight) are fed a mixture of corn, silage (corn or sorghum and some protein additives) for roughly 120 days to reach slaughter weights between 420-440 kilos. Contacts indicate that custom feedlots are operating normally despite covid conditions.

Slaughter

In 2020, Paraguay cattle slaughter is estimated at 2.3 million head, primarily in plants authorized for export (1.83 million head) with the balance slaughtered in smaller-scale plants under official inspection or on-farm. The average carcass weight is expected to be roughly 230 kilos (carcass weight), 2.5 percent lighter than in 2019, as dry conditions negatively impact production optimization. Among Paraguay's 11 slaughter plants houses, 9 are operating with one temporary closure under covid-19 circumstances and one suspended operation pending potential lease /purchase by local or Brazilian-based enterprises. Separately, a Brazilian group that sold several plants in Paraguay a few years ago is reportedly interested in re-investing in operations there. The local cattle sector is also studying the possibility of building a slaughter plant to meet local and export demand. The four largest plants are operated by a group that accounts for approximately 40 percent of slaughter for export market which raises consolidation and price competition concerns for local cattlemen.

Domestic Consumption

Post forecasts 2021 domestic beef consumption at 193,000 tons, 5 percent lower than 2020 following a local economic contraction projected by the International Monetary Fund and strong exports assuming global markets post-covid normalization.

Paraguay's consistent economic growth continues to transform the demand for more sophisticated and higher-value food products. Supermarkets in large urban areas stock a wide selection of beef cuts with different breed brands, vacuum packed or in special packages for retail and rising on-line sales. Paraguay's per capita consumption of beef is approximately 28 kilos versus 22 kilos for broilers and 7-8 kilos for pork. A recent survey of retail prices at a major supermarket in the capital of Asuncion (all chilled) showed: beef short ribs \$2.30 per kilo, round cuts \$4.00 per kilo, rump \$4.7 per kilo, average pork cuts \$2.85 per kilo, and whole broilers \$1.30 per kilo.

Trade

Beef exports in 2021 are forecast at 360,000 tons cwe, the highest of the past three years as ample inventory, lower domestic consumption, recovered export demand and improved prices influence Paraguay's beef buyers.

Despite market access to more than 70 eligible export markets, Paraguay ships roughly 90 percent of its beef to just five markets: Chile, Russia, Israel, Taiwan and Brazil. Recently opened markets include South Africa and Saudi Arabia. The local beef sector acknowledges the need to diversify markets, especially to those paying higher prices, such as the United States, Japan, Korea and China and Singapore, Vietnam and Malaysia in southeast Asia. The Paraguayan livestock sector continues to discuss the creation of a check-off type beef promotion board to support expanding markets.

Bilateral discussions for the resumption of market access to the US for Paraguayan beef are ongoing and are deemed significant for Paraguay's ability to show high sanitary standards that facilitate access to additional export markets, such as Canada and Mexico. In anticipation of market access, industry representatives have indicated an interest in engaging with US authorities on establishing a beef tariff rate quota, similar to that of Argentina and Uruguay, to avoid the 26.4 percent import duty for out-of-quota beef imports. Beef trimmings for industrial use are expected to be a key export product. Paraguay currently exports trimmings to Russia, the Middle East and Chile at prices below that expected from US buyers.

Despite Russia's top export ranking in 2018 and 2019 (in product weight), exports have been declining since 2015 as Russia increased its sourcing from Brazil, Argentina and India. In addition, Russia suspended 4 local slaughter facilities late last year due to the detection of ractopamine, an animal growth promoter, which is allowed for use in Paraguay. Shipments in the first semester of 2020 were almost 25 percent below the same period in 2019 and are expected to decline further in 2021.

On the other hand, over the past decade, Chile has remained a key export destination for Paraguayan beef. In the first 6 months of 2020, sales to Chile accounted for 35 percent of Paraguay's total beef shipments, the top market. In recent years, Paraguay followed Brazil in supplying beef to Chile, but during the first quarter of 2020, Paraguay has held the top spot, and traders expect shipments will continue to expand in 2021. Chile imports tend to be dominated by boneless chilled cuts from young cattle.

Fluid exports to Israel are also expected to increase in 2021. Paraguay has 6 slaughter plants which meet Israel's slaughter requirements for knock boxes. Paraguay exports kosher frozen boneless forequarters.

Taiwan continues to develop as a major destination for Paraguayan beef. In 2014 shipments totaled 1,700 tons (product weight), rising in 2019 to 16,000 tons and topping 11,000 tons in the first quarter of 2020, more than double the same period in 2019. Traders project exports in 2021 will increase to 25-28,000 tons. In May 2019 Paraguay air shipped 6 tons of high value-chilled cuts, a sector of continuing development for Paraguay.

Paraguay has an annual 1,000 ton Hilton quota for high-value beef cuts to the European Union. In 2019, Paraguay exported roughly 4,200 tons, primarily chilled cuts, to Italy, the Netherlands and Germany. Exports in 2020 are expected to soften in response to lower beef consumption in the food service industry due to covid-19 shutdowns. Exports in 2021 are forecast to rebound somewhat.

Brazil remains a key market for Paraguay, primarily for chilled high-value cuts. Although export performance to Brazil has weakened over the past two years, in the first quarter of 2020, sales rebounded.

The following chart 3 shows average FOB price for exports of boneless chilled and frozen beef of the four Mercosur members (Uruguay, Paraguay, Brazil and Argentina) since 2015. Uruguay has market access to the highest number of markets, including those which pay the highest prices while Brazil and Argentina focus strongly on China. Paraguay has restricted access to many higher-priced markets.

Chart 3. Average FOB Prices

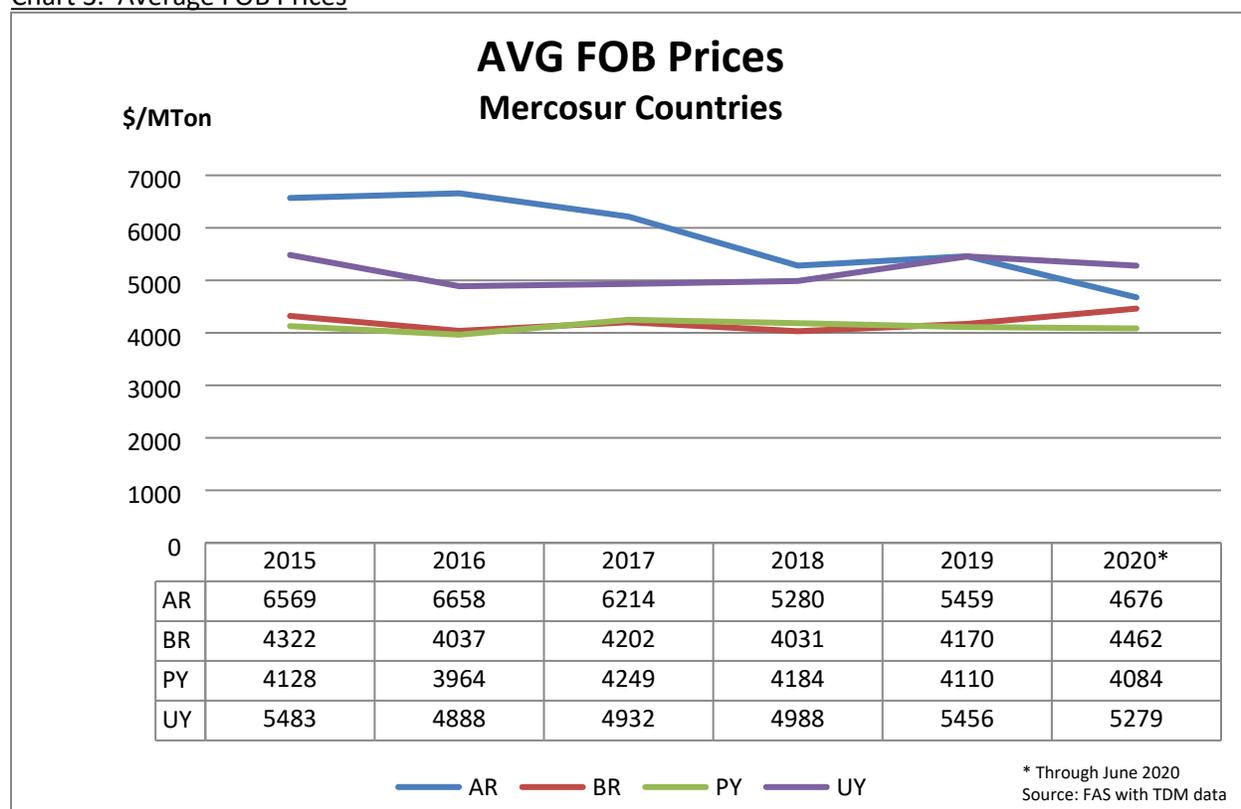


Chart 4: Production, Supply, and Distribution

| Meat, Beef and Veal Market Year Begins Paraguay | 2019 | | 2020 | | 2021 | |
|---|---------------|----------|---------------|----------|---------------|----------|
| | Jan 2019 | | Jan 2020 | | Jan 2021 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Slaughter (Reference) (1000 HEAD) | 0 | 0 | 0 | 0 | 0 | 0 |
| Beginning Stocks (1000 MT CWE) | 0 | 0 | 0 | 0 | 0 | 0 |
| Production (1000 MT CWE) | 530 | 530 | 535 | 530 | 0 | 550 |
| Total Imports (1000 MT CWE) | 3 | 3 | 3 | 3 | 0 | 3 |
| Total Supply (1000 MT CWE) | 533 | 533 | 538 | 533 | 0 | 553 |
| Total Exports (1000 MT CWE) | 339 | 339 | 330 | 330 | 0 | 360 |
| Human Dom. Consumption (1000 MT CWE) | 194 | 194 | 208 | 203 | 0 | 193 |
| Other Use, Losses (1000 MT CWE) | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Dom. Consumption (1000 MT CWE) | 194 | 194 | 208 | 203 | 0 | 193 |
| Ending Stocks (1000 MT CWE) | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Distribution (1000 MT CWE) | 533 | 533 | 538 | 533 | 0 | 553 |

(1000 HEAD) ,(1000 MT CWE)

Attachments:

No Attachments