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Report Highlights:
Paraguayan beef exports for 2017 are forecast to increase marginally at 395,000 tons carcass weight equivalent (cwe). Although beef supply is projected to drop somewhat, local exporters expect a larger demand from traditional clients and from a series of new markets which have been opened quite recently. Domestic demand is expected to be hurt as available supplies will be smaller.

Commodities:

Meat, Beef and Veal

Author Defined:

Production: Beef production for 2017 is forecast at 590,000 tons, carcass weight equivalent (cwe). This volume is slightly lower than the expected production for 2016 and the same as in 2015. The Paraguayan cattle/beef sector is very dependent on the export market as roughly 65 percent of its beef production is exported. When FOB prices are low, local cattlemen tend to market more cattle, especially a higher percentage of females. This has been the situation of the past several months. Most contacts project for 2017 better export prices which would bring improved profitability and a projected smaller slaughter. In addition, the cattle herd in Paraguay has been diminishing in the past few years; dropping from 14.4 million head in 2014 to 13.6 million head in 2016 (the herd is forecast to remain unchanged in 2017). This reduction is also expected to reduce the number of slaughtered cattle. However, this lower output could be partially offset by a rebound in the number of cattle fed with grains. Improved FOB and cattle prices together with lower corn prices are expected to encourage producers to expand the feeding of grains to more cattle, which tends to be significantly more productive. Most contacts indicate that grain fed beef diminished in 2016 as corn prices increased considerably because Brazil was very active in importing corn from its neighboring countries.

The Russian Federation, Chile and Brazil together have accounted for 65-80 percent of Paraguay's beef exports in the past 3-4 years. The following chart shows the decline in FOB prices (US$/ton) in those markets (values to June of each year):

Country/Year	***2014***	***2015***	***2016***	***Difference 2014/2016***
Russia	*$4318*	*$3538*	*$3062*	*-29%*
Chile	*$5351*	*$4960*	*$4289*	*-20%*
Brazil	*$6308*	*$5229*	*$4041*	*-36%*

The significant reduction in Paraguay's FOB prices was primarily due to strong currency devaluations by most countries in the world and their economic difficulties. The price of live fed steer in the local market dropped from US$1.80 per kilo in mid-2014, to US$1.59 per kilo in mid-2015 and down to US$1.46 in June 2016. In September 2014 fed steers were sold at US$2.00 per kilo. Although Paraguayan cattlemen continue to operate under a profitable environment, returns have shrunk significantly. Many producers had to sell more cattle in order to maintain their same income level in order to afford expenses.

The Paraguayan cattle herd has been contracting moderately in the past couple of years. The main reasons for this were floods in 2014 and 2016 which affected the cow-calf areas in the southern parts of the country, reducing pregnancy rates and smaller weaning ratios; smaller producers' returns which encouraged some cattlemen to reduce their female stock and to the negative differential between calf prices in Argentina and Paraguay. Until 2014, feeder cattle in Argentina were 20-25 percent cheaper than in Paraguay and that situation encouraged the crossing of the border of cattle to be fattened in Paraguay. At the end of 2014, the price of feeder cattle in Argentina started to increase significantly and the advantage of importing cattle ended. Currently, the price of feeder cattle in Argentina is more than 20 percent higher in dollar terms than feeder cattle in Paraguay.

Investment in the sector continues. At the ranch level, there are still a significant number of ranches purchased primarily by foreigners (many Uruguayans), incorporating fences, water reservoirs and pastures. At the industry level, almost all companies continue to expand their production capacity and invest in improving the efficiency of their plants. The slaughter capacity of the export plants is calculated to increase from 1.6 million head in 2010 to 2.5 million head in 2017. In 2015 a large export plant owned by Brazilians/Paraguayans was inaugurated in the central east part of the country, border with Brazil. In July 2016, one of the main local slaughter plants inaugurated a port in Bahia Negra, north of the country on the Paraguay River. This port will allow the company to transport a large number of cattle from areas in which the road infrastructure is quite limited to its processing plant in Concepcion city next to the river. In October 2016, JBS will inaugurate a very large new export plant in the city of Belen in the central part of the country. The government is also investing heavily in infrastructure, especially highways, bridges and roads to connect the country in a more efficient way. As of late 2016, Paraguay will have 15 large slaughter plants eligible to export, a total of 20 processing plants which are authorized to export and 13 plants eligible to export to most markets. Most large plants are in hands of Brazilian capital, while Mennonite cooperatives operate 4 plants. These large plants produce roughly 75-80 percent for export and the balance for the domestic market.

Most contacts project a drop in slaughter for 2017 as a reflection of a smaller herd and probable better cattle prices. The slaughter in Paraguay can be divided in 3: a) large plants which export and have strict official controls; b) some 70 small abattoirs spread around the country which have health controls; and c) a substantial number of small operations or on-farm slaughter. In 2015, the large export plants slaughtered 1.89 million head and the slaughter in small abattoirs and on-farm were estimated between 500-700,000 head. During the first semester of 2016, the number of cattle slaughtered in large export plants was 13 percent higher than the same period a year ago.

The feedlot business in Paraguay is quite incipient. In 2015, with very low local corn prices, many people and producers began to fatten cattle with grains. Most feedlots operate in ranches, and typically feed steers the last 100-120 kilos before marketing them. There are very few custom feedlots providing feeding services. Some contacts calculate that in 2015 some 12-15 percent of the total slaughter was finished with grains. This percentage is expected to drop somewhat in 2016 because of the increase in the price of corn. Brazil, falling short of corn, has placed a lot of demand on the Paraguayan market, making corn prices increase significantly and thus negatively affecting feedlot returns. The volume of grain fed cattle in 2017 will depend primarily on corn prices, but contacts are quite optimistic that it will grow. In the past few years Paraguay has increased its grain and oilseed production, taking over many pastures. Many contacts believe that this trend will continue but at a very slow pace as cattle production continues to be profitable and in many environments it is more secure and less risky than cropping. Producers recognize that the expansion of crop production has complemented the cattle industry by incorporating new technologies, management and investment.

Paraguay has a lot to improve in cattle production efficiency, especially at the reproductive stage. The country's average weaning ratio ranges between 48-52 percent, low compared to countries like Argentina and Uruguay. Although there are large, progressive cattlemen who wean more than 80 calves per 100 breeding cows, there are many small and medium producers who need to improve nutrition and health management. Contacts indicate that the change will be slow and that high cattle prices are the main driver for changes. The improvement of infrastructure and extension programs is also important. Paraguay has approximately 15,000 producers who own 100-1,000 head which in total add 4 million head and many have poor efficiency. Some 3,000 large cattlemen account for 55 percent of the country's herd and average a weaning ratio of about 60 percent.

Paraguay continues to enjoy a good sanitary status. The OIE classifies the country as being free of Foot and Mouth Disease with vaccination and of negligible risk to BSE. The government has made a great effort in the past years to open new markets in order to diversify exports. Paraguay currently has more than 80 markets open, and currently trades with more than 50. The US market for Paraguayan beef is closed due to Foot and

Mouth Disease concerns. Senacsa (Paraguay's Animal Health Service) and APHIS continue to work closely to meet health requirements.

Paraguay has two traceability programs in place to supply the European market and the Chilean market. To supply Europe, which provides Paraguay access to 1,000 tons of premium chilled cuts under the Hilton Quota, there are approximately 380 ranches registered which account for approximately 1.5 million head. For Chile, the program currently groups some 2,500 ranches with almost 2 million head. In both cases, local cattlemen normally receive a premium for their fed cattle.

The Paraguayan cattle herd continues to improve in quality due to the incorporation of higher quality genetics. Breeders continue to move from straight Brahman and Nelore cattle to crosses with British breeds. Brangus and Braford continue to expand throughout the country.

Consumption

Paraguayan beef consumption for 2017 is forecast at 196,000 tons (cwe), a drop from 2016 as a result of projected smaller beef supply and somewhat larger beef exports. Consumption in 2016 is estimated at 222,000 tons, one of the highest ever. This is a result of a combination of a large beef supply due to an increased slaughter, heavier average carcass weights, and a marginal increase in exports.

The Paraguayan domestic market (primarily in large cities) has changed in the past few years, partly due to a stronger purchasing power of the middle class. Before, most beef available were inexpensive cuts which were not exported. Nowadays, contacts indicate that the concentration of the beef processing industry and the new companies are developing a more stable, larger local beef market at reasonable prices. Apart from the typical cuts, Paraguayans are now demanding higher quality cuts. As an example of this, most cattle breeds market their vacuum packed branded beef in local retailers. The weekend barbecue remains very popular. The most popular cuts are short ribs, flank and round cuts to prepare breaded veal.

Industry contacts estimate that beef sales in Asuncion are channeled in similar volumes between supermarkets and butcheries, while in the rest of the country the relation is closer to 30:70.

Per capita beef consumption for 2017 is forecast at 28 kilos. Poultry consumption is expected to continue increasing, which duplicated in the past ten years to 16 kilos. Pork consumption is low, with 5 kilos per capita. However, industry contacts indicate that the product is well accepted and that it could triple over the next few years.

Trade

Paraguayan beef exports for 2017 are projected at 395,000 tons cwe, 5,000 tons higher than what is estimated for 2016. Most beef packers expect the world beef market to recover over the next few months, resulting in better prices and somewhat stronger demand. It is also important to note that Paraguay has lately opened many new markets (more than 21 in the past year) and will continue to do so in the short and medium term. Cuba could be the next market to open and it is particularly interested in high value cuts to attend the tourist industry. Although still small individually, shipments to these new markets add an interesting volume. Local meat packers are working hard in diversifying their exports as depending on just very few large clients has shown to be risky.

In 2017 Paraguay is projected to continue exporting primarily to Chile, the Russian Federation and Brazil, but it will seek to expand further beef exports to Middle East and Asian countries such as Taiwan (under a quota of 3,550 tons product weight which could duplicate by the end of 2016), Egypt, Iraq, Iran, and Qatar. These markets buy primarily frozen boneless forequarters. Exports of Kosher beef to Israel are expected to remain stable at around 15,000 tons (product weight). Exports to Vietnam have increased in 2016, but exports to Hong Kong have dropped quite significantly. The Chinese market continues to be closed due to diplomatic issues. Exports to the EU are also expected to continue, especially fulfilling the 1,000 ton (product weight) Hilton

Quota. Paraguay also exports chilled rump and loin outside the quota paying a higher duty than within the quota.

Beef exports through June 2016 totaled 138,000 tons (product weight), 10,500 tons more than the same period a year ago. The additional volume is entirely chilled beef, explained primarily due to the growth in exports to Chile, Brazil and the EU. However, average export prices are down compared to 2015 and 2014. Chilled cuts are 14 percent lower than in 2015 and frozen cuts 6 percent. Exports to Chile in the past three years have grown steadily, replacing the Russian Federation as the number one destination in total volume and value. Chile buys primarily chilled beef while Russia buys mostly frozen beef. Brazil is consistently the third largest destination, buying primarily high quality chilled cuts such as top sirloin, tail of rump and strip loin. There is a close relation between the two countries as several of the large Paraguayan export plants are owned by Brazilian meat packing companies.

The local cattle association and the beef processing chamber, with the support of the government, are working on the creation of a Beef Promotion Institute through a check off program supported entirely by the private sector. The objective of the Institute is to promote Paraguayan beef abroad. Contacts indicate that they are expecting Congress to pass a Law before the end of this year.

Policy

The Paraguayan government allows the sector to operate freely. It works hard in controlling and improving the country's sanitary status and opening as many markets possible.

Statistical Table

Meat, Beef and Veal	2015		2016		2017	
Market Begin Year	Oct 2015		Oct 2016		Oct 2017	
Paraguay	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	590	590	590	610	0	590
Total Imports	1	1	1	2	0	1
Total Supply	591	591	591	612	0	591
Total Exports	381	381	380	390	0	395
Human Dom. Consumption	210	210	211	222	0	196
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	210	210	211	222	0	196
Ending Stocks	0	0	0	0	0	0
Total Distribution	591	591	591	612	0	591
(1000 HEAD) ,(1000 MT CWE)						