

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Report Highlights:

Paraguay beef exports for 2018 are forecast at 380,000 tons carcass weight equivalent, unchanged from 2017. Beef production is projected to increase marginally because of a stagnant herd due to low weaning ratios. Cattle finishing is slowly becoming more efficient as the use of grains as feed expands. Paraguay domestic beef consumption for 2018 is forecast at 241,000 tons, higher than the previous two years. This rise is supported by the country's economic growth, which is incorporating more consumers with higher purchasing power.

Commodities:

Meat, Beef and Veal

Author Defined:**Production**

Paraguayan beef output in 2018 is forecast at 620,000 tons cwe (carcass weight equivalent), a marginal increase from the previous two years. There are several factors in the local cattle sector which are expected to impact in the near future in different ways: 1) a smaller cattle herd since the peak of 2014, falling 700,000 head in two years; 2) weather impact, which in most areas has been beneficial, but in some southern regions floods have negatively affected the number of cattle and production efficiency; 3) ongoing (but at a somewhat slower pace) expansion of new operations with significant investments mostly in the Chaco region; 4) expected positive returns for most cattle producers; 5) growing use of corn as a feed ration, although still relatively minor,; and 6) a growing number of fed and breeding cattle coming in from neighboring Brazil.

The cattle herd dropped in the past two years from 14.5 million in 2014 to 13.8 million in 2016 (and 2017) due to greater slaughter demanded by rising beef exports and smaller domestic calf crops. Although there is no official estimate of Paraguay's total cattle slaughter and beef production, the slaughter in plants that export (which are closely monitored) practically doubled in ten years, reaching 2 million head in 2016. Paraguay still has a significant cattle slaughter in small abattoirs and on the ranch in the interior of the country. This beef is all consumed domestically. Post's contacts estimate that some 400,000-700,000 head are slaughtered every year outside the large export plants. There are approximately 250 municipalities in the whole of Paraguay and all of them have at least one abattoir. Contacts estimate that over 70 percent of these slaughters are cull cows, 15 percent bulls and the balance are heifers and steers. The cattle herd has also been negatively affected by the lack of Argentine feeder cattle imports since 2014. During the peak of these imports, feeder cattle from Argentina was roughly 25 percent cheaper in dollar terms than in Paraguay.

The low productivity of the Paraguayan herd is becoming an issue. While the country opens new markets for its beef and demand grows, its cattle herd is slowly declining. The main problems of a low weaning ratio are related to poor cow nutrition, reproductive diseases, and a high loss rate of born calves. Paraguay has approximately 135,000 small cattle producers (with less than 100 head) which together hold 3 million head, 15,000 medium producers (between 110-1,000 head) which hold 4 million head; and 3,000 large producers (+1,000 head) which own 7 million head. Most large producers use good technology and management, and their weaning ratio ranges between 55-62 percent. Small producers' weaning ratio is very low, ranging between 28-35 percent. The private sector and the government are implementing some programs to instruct producers how to become more efficient by providing information on animal health, nutrition and reproductive management. Also, as of 2017, the government has made mandatory the vaccination of young female calves between 8-15 months of age against brucellosis. This measure is expected to start delivering positive results in 3-5 years' time.

The past two/three years have been mostly wetter than normal in most of Paraguay. This was beneficial for many cattle areas and especially local crop production. However, in some areas of the cow-calf region of southern Paraguay it has resulted in severe flooding, increasing losses, and impacting negatively on weaning ratios.

Chaco, the western part of the country, continues to receive large investments. Many local, but primarily foreign investors have purchased land over the last 10-15 years. Some contacts estimate that there are over 2 million hectares owned by Uruguayan investors. These operations are developed from almost scratch, with significant investment in fences, water reservoirs, and very productive tropical pastures. These new operations are expanding the country's cattle production capacity significantly.

Economic returns are positive at all different stages of cattle production. Backgrounding cattle is very profitable, but it is more lucrative to finish steers with corn (despite the need of higher investment and knowledge). Local cattlemen convert 8-9 kilos of corn to one kilo of live steer, with a return of over 50 percent in dollar terms. Many of the large meat packers have feedlots of their own to supply their production lines cattle are scarce. Some medium and large producers have feedlots of their own while others are beginning to supply grain to cattle directly on pastures. In addition, some small producers are starting to feed grain to animals they have close to their homes. Steers typically enter a feedlot when they weigh between 300-350 kilos and spend between 80-120 days there until they are ready for slaughter.

An expansion in grain feeding in the livestock sector in Paraguay is expected over the next few years. The country has excess production of animal feed. In the case of corn, it produces roughly 3.5-4.0 million tons a year, of which more than half is exported, while it produces roughly 9.0-10.0 million tons of soybeans, of which roughly 40 percent is locally crushed (and practically all is exported) and the rest is exported as beans. Most feedlots are located in the eastern part of the country where these crops are mostly grown. The use of grain will accelerate the production of beef in Paraguay and contacts add that it will also improve the quality of beef and provide greater consistency. The local industry estimates that nowadays there are some 300,000-500,000 head of cattle finished with grains.

Contacts indicate that cattle is coming in from Brazil due to the current price differential. This cattle varies by category and includes fed cattle for slaughter. Based on information published in Paraguay, in mid-July 2017 the price in dollars of fed steers was 20 percent higher in Paraguay than in Brazil. This cattle does not show up in the country's trade statistics, making it very difficult to measure the number of cattle and the volume of beef produced from them.

Paraguayan producers continue to invest heavily in improving their herd quality through the use of superior genetics. Contacts indicate that based on slaughter data from the exporting plants, half of the animals are hybrid (primarily Brangus and Braford), and half Bos Indicus (Brahman and Nelore). Local cattle are increasingly more skillful in finishing fed cattle more rapidly. While 10-12 years ago most steers were slaughtered with about 30-40 months of age, nowadays they are slaughtered with roughly 20-24 months of age.

Based on 2016 data, Paraguay had 11 large beef plants eligible for export. The slaughter capacity of the export plants currently totals approximately 2.8 million head, 800,000 head higher than the slaughter of 2016. Most plants are in hands of Brazilian companies, while three are in the hands of local Mennonite cooperatives, which together accounted for almost 32 percent of the total slaughter. The recent sale of JBS's slaughter plants in Argentina, Paraguay and Uruguay to Brazilian firm Minerva will result in the company having 5 plants and accounting for 36-40 percent of the slaughter of the export plants. Local cattlemen are very interested in

determining how this new player operates its business. The local industry is continuously investing in expanding capacity and/or becoming more efficient. Local export plants receive sanitary inspections from Chile, the Russian Federation, Israel, and the EU (every two years).

In May 2017, the World Organization for Animal Health (OIE) fully recognized Paraguay as free of Foot and Mouth Disease (FMD) with vaccination, unifying the two zones (including the high vigilance border area) in one whole unit. Paraguay had an FMD outbreak in 2011 and regained its status of FMD-free country in 2013. The OIE also recognizes Paraguay as having a negligible risk to BSE. The government and the private sector continue working together to improve the country's sanitary status. As of 2017, there are more than 90 markets opened to Paraguayan beef.. Cattlemen and the government aim at opening in the future important markets such as China, NAFTA countries, and South Korea. Exporters would like to access to the 481 beef quota of the EU and be eligible to export high quality beef to the Russian Federation. The US market for Paraguay beef is still closed.. However, authorities from the both countries continue to work closely to secure access for Paraguay's beef exports.

Paraguay has in place SIGOR, an official traceability system which is compulsory to all cattle operations and herds in the country. It is not individual but group traceability and it tracks all cattle movements within the country. There is also SITRAP, a private and voluntary traceability system which is based on individual cattle tracking with tags, which goes from the animal's birth to its slaughter. Through mid-2017 there were more than 400 operations with over 1.6 million head registered under this system. Beef exported to the EU has to be originated from cattle with individual traceability.

Consumption

Beef domestic consumption for 2018 is projected at 241,000 tons cwe, an increase from the previous two years. Consumption continues to improve slowly but steadily as more consumers are able to afford buying beef and better cuts. Paraguay's economy has been growing since 2002, except two years which were negative due to severe droughts which affected its agricultural sector. This has resulted in a significant increase of the middle class, which now represents more than 50 percent of the population (15 years ago it was approximately 30 percent). Also, contacts indicate that beef sales in border cities with Argentina have increased heavily as tourists cross the border to buy all sorts of items and products as they are significantly less expensive. They also consume beef in restaurants on the Paraguayan side.

Local consumers are becoming more demanding. In the past few years vacuum branded beef from some breeds and meat packing houses are now widely seen in Asuncion and large cities throughout the country. Demand of more expensive cuts has increased in supermarkets, restaurants, and also butcheries.

Most large export plants sell 20-30 percent of their production to the domestic market, while the balance is exported. However, some plants in the interior of the country focus more on supplying the local market. Contacts in the industry indicate that there is still a significant volume of puchero (bones with small pieces of flesh) sold domestically. Other popular cuts are ribs and flank for the weekend barbecues and round cuts for breaded meats.

Around Asuncion there are 5-6 small cattle auctions where butchers buy cattle which are then sent to small nearby slaughter plants. From there, they supply to all their clients which can be small supermarkets, butcheries, and/or restaurants. Some even have their own stores to sell directly to customers. Cattle sold in

the local auctions are not eligible for export. The large meat packers generally purchase cattle directly from medium/large producers.

Beef per capita consumption for 2017 is estimated at 33 kilos, while poultry is estimated at 17 kilos and pork at 6 kilos. The following are retail prices of some meat cuts (mid-July 2017): beef short ribs US\$3.30 per kilo, beef loin US\$9.00 per kilo, whole broiler US\$3.00 per kilo and pork ribs US\$3.00 per kilo.

Trade

Paraguayan beef exports for 2018 are forecast at 380,000 tons cwe, unchanged from last year. Although beef production is forecast to increase marginally, contacts expect that most of the growth will be demanded by the local market. The domestic market is forecast to remain steady, and in some cases, paying higher prices than the export market.

The Paraguayan beef export sector is starting to work in trying to position their product in an upper price level as they realize that due to the quality improvement they could get better prices for a good share of the exports. They know they will have to continue working on the quality and packaging of the products.

There are currently significant differences between the export data published by the Central Bank (the official statistics entity) and Senacsa, the animal health service. For the first semester of 2017 the Central Bank data shows a drop in exports, while Senacsa (corroborated by the local export industry) indicates shipments to be 1-2 percent higher than the same period a year ago. Post's export estimate for 2017 is based on Senacsa's current data. During the first semester of 2017, beef exports to the top three markets, Chile, the Russian Federation and Brazil accounted for 75 percent of total exports. The EU was the highest value market for chilled beef, with exports of premium cuts under the Hilton Quota. Brazil and Chile followed as the best average unit price per ton. Taiwan and Israel were the best paying markets for frozen boneless beef exports.

The private sector is working with the local animal health service in creating a carcass grading system. Paraguay is the only country in Mercosur which does not have a system in place. Many believe this is will be very important to access higher demanding markets.

Paraguay beef can access to more than 90 markets, of which more than 10 were opened last year. The sector knows that it needs to focus on opening key markets which buy larger volumes at higher prices. These markets include the United States,, China, the EU (including the 481 quota), and the high quality beef quota of the Russian Federation.

There is a bill in the Paraguayan Congress that would create a Meat Institute to promote local beef, provide educational extension to small and medium producers, implement a carcass grading system, and to study the possibility of providing financing to retain female cattle at the ranch. While cattlemen are pushing for its implementation, local processors are not quite convinced as they are. Moreover, these processors are already funding successful promotions in different world food fairs. The institute would be funded through a check off program, collecting US\$2 per slaughtered animal, half from producers and half from the industry. The government has indicated that while it cannot be part of it, it will collaborate especially in the opening of new markets.

In 2017, the United Arab Emirates authorized the importation of Paraguayan beef. The local beef sector estimates that 5,000-10,000 tons could be shipped yearly. This is a large market which demands high quality beef.

Taiwan provides Paraguay a beef quota with preferential tariffs. This quota was recently increased from 3,551 to 10,406 tons a year. There are seven local plants eligible to export which primarily focus on high quality beef. The local sector indicates that their goal is to export to Taiwan 20,000 tons of beef in 2018.

Chile, Paraguay's top beef market is expected to continue steady in 2017 and 2018. Chile recently recognized Paraguay as a country free of FMD with vaccination, opening the possibility of exporting more beef products such as burgers and trimmings. Paraguay normally exports 19 different cuts of boneless, chilled beef. Local beef exporters will try to work in positioning their product in a higher level than what it is today. Most high-end supermarkets in Chile do not carry Paraguayan beef.

The local and U.S. sanitary services continue to work in the process to make Paraguay eligible to export fresh boneless beef to the US. Based on information published in the local media, this would take at least two years.

The local industry is very optimistic about the opening of the market of Hong Kong soon. In June 2017, there was a sanitary audit which inspected plants, ranches, laboratories and animal feed plants. The local sanitary service indicated that the results had been good. Paraguay currently exports beef to Hong Kong but only for the maritime industry.

Paraguay's average beef prices in the first semester of 2017 compared to the same period of 2016 increased 12 percent in chilled products and 8 percent in frozen beef.

Statistical Table

Meat, Beef and Veal Market Begin Year	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Paraguay						
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	610	610	610	610	0	620
Total Imports	2	2	1	1	0	1
Total Supply	612	612	611	611	0	621
Total Exports	389	389	380	380	0	380
Human Dom. Consumption	223	223	231	231	0	241
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	223	223	231	231	0	241
Ending Stocks	0	0	0	0	0	0
Total Distribution	612	612	611	611	0	621
(1000 HEAD) ,(1000 MT CWE)						

