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Paraguay

Livestock and Products Annual

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Report Highlights:
Paraguayan beef exports for 2014 are forecast at 330,000 tons (carcass weight equivalent), the highest ever. This is a result of projected increased beef production and the reopening of key markets during the last half of 2013 and during 2014.

Commodities:

Meat, Beef and Veal

Production:

Paraguayan beef production for 2014 is projected at a record of 540,000 tons, carcass weight equivalent (cwe), as a result of a steady and continued growth in herd size and improved production efficiency. Despite the foot and mouth disease outbreaks of 2011 and 2012, the reopening of key export markets is expected to further boost the sector. In recent years, the Paraguayan livestock sector has received strong investment, attracting many producers from neighboring countries as land prices are significantly lower than in their respective countries and production conditions are very good. New land is continuously opened for cattle, especially in the Chaco (west) region, where 45 percent of the herd is located. Many natural grasslands are sown with improved pastures and most cattlemen continue to expand their number of cattle as the business continues to be profitable. There has also been important investment in infrastructure and improved management, but there is still much to do. The Paraguayan herd has been growing in the past few years at an average rate of 5-6 percent and it is expected to continue to do so in the future. In fact, private projections indicate that the country's cattle stock could total 19-20 million head by 2020. The improvement in cattle genetics in the recent past has been impressive. Cattle are finished at a younger age and provide improved beef quality which is already recognized in several foreign markets.

The Paraguayan cattle stock is projected at 15 million head in 2014. There are 130,000 producers, of which 90 percent have less than 100 head, and the other 10 percent accounts for 12 million head of cattle, primarily located in the eastern region. The government together with the private sector is beginning to work on a program to improve the reproductive efficiency as the average weaning ratio is about 50 percent, very low compared to neighboring countries. While there are many medium and large efficient producers, there are a good number of cattlemen who need to improve the management of their herd (focusing primarily in health and nutrition).

The extraction rate (slaughter divided the total inventory) is estimated at 19 percent. There are 12 large slaughter plants in the country. In total there are 10 plants eligible for export. Brazilian capital owns 7 plants, presenting market opportunities thanks to their global business. Meat companies continuously invest in their plants, but lately the focus was to expand their freezing capacity (due to the FMD outbreak most chilled beef exported to Chile shifted to frozen beef to the Russian Federation). Export plants normally slaughter between 1.3-1.5 million head per year, and have a total capacity of slaughtering 1.8 million head a year. Of this slaughter, roughly half goes to the domestic market and the other half is exported. Steers account for approximately 65 percent of their slaughter. There are also about 50 small slaughter plants close to Asuncion city which primarily source cattle from close-by auction markets, which sell about 200,000-300,000 head a year only for the domestic demand. In the rest of the country there is a significant slaughter of about 600,000 to 1,000,000 head a year which is not closely tracked as this group is formed by small slaughter plants in the interior of the country and on-farm slaughter.

Foot and mouth disease, which last affected the country with an outbreak in September 2011 and another in January 2012, remains the biggest threat which could affect negatively the growth of the sector. However, contacts indicate that the official and private sector have been working very well in controlling and eradicating the disease in the past years. In fact, after the two last outbreaks, the sector has recovered quite rapidly from their impact. Chile, the country's most significant market, has recently reopened entirely its market to beef imports from Paraguay (in late 2012 it had partially reopened it). Paraguay is expecting before the end of the year to regain the status of foot and mouth disease free with vaccination from the OIE. The government has recently begun the process to have the EU reopen its market, which many believe it could happen during the first semester of 2014. The OIE classifies Paraguay as having a negligible risk to BSE.

Paraguay has in place two cattle traceability programs, one for the Chilean market, which currently has over one hundred approved operations (prior to the last FMD outbreak there were more than 1500 registered ranches with 3 million head of cattle), and one for exports to the EU (currently suspended, but with approximately 40 ranches with 300,000 head of cattle). The number of ranches eligible to export to Chile is expected to grow significantly by the end of 2013.

Weather anomalies are quite normal and can be a threat to the sector as Paraguay has been affected in the past years by drought and floods. For example, in the last part of 2012 and the first semester of 2013 the west region of the country and the north part of the eastern region were badly affected by drought which made ranchers sell cattle in advance as feed supplies were getting tight. Then, in mid 2013, there were excessive rains, with several flooded rivers in the eastern region.

Paraguay has a vast extension and much of it is in the process of being put into production. Therefore, there is still room for agricultural or livestock production to grow. In the past decade we have seen a significant shift from pastures into cropland, especially in the eastern and central parts of the country where the best soils are. This process is expected to continue in the future. There are currently some 3 million hectares planted to crops and private analysts indicate that this area could be doubled. The investment in the crop sector is also very important, with recent inaugurations of new ports and large soybean crushing facilities.

Paraguay has a zero deforestation law for the eastern part of the country, while some organizations are claiming that a similar law should be put in place in the western region. Nowadays, ranchers in this area have to leave between 25-50 percent of the forest standing. Most of the western area is quite dry and therefore dedicated primarily to cattle production.

Consumption:

Domestic beef consumption for 2014 is projected to increase marginally at 212,000 tons (cwe) as higher exports would not fully offset an expected higher beef production. However, with the Chilean market open and the possibility of regaining the EU market during 2014, most likely Paraguayans will return to consume less expensive beef cuts as higher priced cuts will likely be exported. There will be more ribs and bones available for the local demand, while most boneless beef cuts will be exported.

During 2012 and the first half of 2013 Paraguayans shifted their beef consumption in a significant way. With the Chilean market closed, which normally takes 18-20 boneless beef cuts, and a high slaughter level, local consumers were able to buy better cuts and higher quality beef at very accessible prices. However, as export markets reopen, it still remains to be seen how consumers will react to expected higher retail prices.

A few years ago, the local Association of Braford breeders launched a branded beef with very good consumer acceptance. The local Brahman Association will launch their branded beef shortly.

Following are some indicative retail prices of beef cuts and alternative meats (dollars per kilo): beef ribs $3.10, ground beef $4.30, tenderloin $7.30, eye of round $4.10, knuckle $5.0, bones with little pieces of flesh $1.45, pork chops $3.80, pork loin $4.50, whole broiler $2.20. Even at these good prices, which are somewhat similar to FOB prices, beef exporters prefer to export the most they can. In a few months the Chilean market will be fully operational and this is expected to make average export prices increase.

Paraguayans prefer beef. However, in the past few years broiler prices became very competitive (with domestic production and illegal importation from neighboring countries) and its consumption has increased significantly, reaching nowadays approximately 17 kilos per capita. Pork consumption is also growing but at a slower pace, with a similar per capita consumption. Lamb producers are launching a marketing action to promote its consumption as it is currently very small.

In Asuncion city, roughly 60 percent of the beef is sold through supermarkets, 25 percent at stores owned by slaughter plants and 15 percent in independent butcheries. Supermarkets either buy cuts directly from the slaughter plants or they receive half carcasses which are then deboned in each store and are prepared for the public. In the interior of the country, butcheries increase their share significantly.

Trade:

Paraguayan beef exports for 2014 are projected the highest ever at 330,000 tons (cwe). An expected larger beef output and the reopening of key markets in the second half of 2013 and during 2014 are estimated to boost exports further. In the first half of 2013 Paraguay exported beef to 33 countries.

In July 2013, Chile announced that it was fully opening its market to Paraguayan beef, provided they comply with the sanitary and quality standards. This announcement is key for the local beef and livestock sector as Chile had been the country's number one market both in volume and value prior to the September 2011 FMD outbreak.

Of the total beef exports, Paraguay normally ships half chilled cuts and half frozen cuts. However, due to the FMD outbreaks and the closing of several markets, in 2012 and the first semester of 2013 frozen beef accounted for 86-88 percent of total exports. During this period, exports which used to go to Chile were redirected primarily to the Russian Federation, increasing significantly the volume normally exported to them. With the reopening of the Chilean market we project a return to the historic 50-50 share in the coming years. During the first semester of 2013, the average FOB price of chilled beef to Chile was $6100 per ton, while the average FOB price of frozen beef to the Russian Federation was $3880. The unit price difference was over 50 percent in favor of the product shipped to Chile.

There are two other factors which are expected to increase exports of higher value chilled cuts during 2014. One is the recent authorization from the Russian Federation to export chilled beef (350 tons through June 2013) with a shelf life of 5 months. The other is the probable reopening of the EU market somewhere in 2014 once the sanitary requirements are met. The EU provides Paraguay with a 1000 ton Hilton Quota, but in 2010 and 2011 the country also exported a similar volume outside the quota.

The local beef sector is very optimistic about the reopening of the Chilean market, which in 2009-10 purchased from Paraguay 55-60 percent of its beef imports. During the year and a half that Paraguay was excluded, Brazil took over most of the Chilean beef market. Other suppliers, such as Argentina, Uruguay, the United States and Australia increased their exports as well. Most traders believe that Paraguay will be able to recover a significant portion of that market, but it will take time. Chilean importers highlight the good quality, flavor and price competitiveness of Paraguayan beef. However, importers are expected to spread out the number of suppliers and avoid depending so much on only one supplier.

The Russian Federation has been the top market in the past two years and it is expected to remain that way in 2014. This country is fond of Paraguayan beef as it is leaner than other regional suppliers and prices are competitive. The vast majority of exports will be frozen boneless cuts for industrial use such as round cuts, chuck and blade, and trimmings. Fresh beef exports will be primarily rump and loin for direct sale.

Israel is expected to continue to be one of the most important markets, buying Kosher frozen boneless forequarter cuts. Israel discontinued beef imports from Paraguay when the September 2011 FMD outbreak occurred, but trade resumed in August 2012.

Brazil is also expected to remain one of the top importers, taking primarily chilled top sirloin, tail of rump and some strip loin (Brazilian-owned companies in Paraguay export significant volumes to their sister companies there). During Paraguay's absence in the Chilean market, Brazil increased imports from Paraguay, and at the same time it increased exports to Chile.

Hong Kong, Angola and several Middle East countries are expected to be markets which will grow slowly as FOB prices are generally somewhat lower than in other markets.

Policy:

In mid-August 2013, Horacio Cartes, the newly elected President will be sworn in. Contacts indicate that most likely his government will support the sector as he is one of the country's largest land and cattle owner and understands the business. Prior governments have not had a specific policy directed to the sector, letting it operate freely.

Production, Supply and Demand Data Statistics:

Meat, Beef and Veal Paraguay	2012		2013		2014	
	Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: Oct 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	0	0	0	0		0
Beginning Stocks	0	0	0	0		0
Production	435	460	465	500		540
Total Imports	2	2	2	2		2
Total Supply	437	462	467	502		542
Total Exports	251	251	275	300		330
Human Dom. Consumption	186	211	192	202		212
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	186	211	192	202		212
Ending Stocks	0	0	0	0		0
Total Distribution	437	462	467	502		542
1000 HEAD, 1000 MT CWE, PERCENT, PEOPLE, KG						