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Paraguay
Livestock and Products
Paraguay's Cattle/Beef Sector
2006

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Report Highlights:
Paraguayan beef exports in 2007 are forecast at 290,000 tons, carcass weight equivalent (cwe). This record volume will be the result of strong world demand, high export prices, good sanitary status and growing domestic beef output. Most players in the sector agree that production and exports will continue to grow in the next decade, but increased investment is needed to expand the herd and make structural changes, especially at the ranch level.

Includes PSD Changes: Yes
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SECTION I. SITUATION AND OUTLOOK

Trade: Paraguayan beef exports for 2007 are projected at a record 290,000 tons (carcass weight equivalent – cwe). This is as the result of the combination of a number of factors, including good sanitary status, strong world demand, limited supplies from neighboring countries and high prices.

Paraguayan beef exports in 2007 are expected to continue to focus primarily on frozen boneless cuts, followed by chilled boneless cuts. The total value of beef exports in 2006 is estimated at approximately US$450 million, accounting for about 25 percent of Paraguay's expected total export revenue. Of all beef exports during the first seven months of 2006, the Russian Federation was the largest market, with 64 percent of the volume and 59 percent of the value. Chile was the second most important market, accounting for 17 percent of the volume and 23 percent of the value. Israel and Brazil followed with approximately 4 percent each of volume and value, respectively.

In 2006, frozen boneless beef will represent almost three-quarters of Paraguay's total beef exports. The Russian Federation is expected to account for over 80 percent of these exports, followed by Israel, Angola, and South Africa. The Russian Federation normally buys trimmings, chuck and blade, and forequarters. Most of this beef goes to the processing industry, although a few exporters are expected to soon be eligible to export for the retail market. Israel takes primarily forequarter cuts and small volumes of loins. Estimated FOB prices for the Russian market, as of September 2006, were US$3,300 per ton for frozen round cuts, US$2,750 per ton for frozen chuck and blade, and US$1,700 per ton for frozen trimmings. In August 2006, Paraguay's average export price for frozen boneless beef was US$2,570 per ton, an increase of 44 percent in 12 months.

Chilled boneless beef is the other important product exported by Paraguay. In 2006, Chile is expected to purchase almost 70 percent of these exports, followed by Brazil and Lebanon. Chile buys all cuts (boneless) except ribs. Brazil takes primarily chilled cover of rump and tail of rump. Paraguay's average FOB price for chilled cuts grew 43 percent in the past 12 months, abetted by the strong demand from Chile, which was not able to source beef in Argentina or Brazil because of sanitary reasons. Most traders indicate that FOB prices to Chile will drop in 2007 as regional countries regain access to that market.

In 2002, the European Union (E.U.) granted Paraguay a 1,000-ton allotment within the Hilton Quota for premium chilled beef cuts. However, Paraguay's participation in this quota was suspended in 2003, and it is in the process of regaining access, which could happen soon. This quota is very lucrative since the beef shipped under this agreement is sold at premium prices.

The U.S. market is currently closed for Paraguayan beef products. Both fresh and thermoprocessed beef are not eligible for export. However, Paraguayan sanitary officials are seeking to gain access to the U.S. market, and have supplied USDA with requested information, which is currently being analyzed. Local exporters believe there are great opportunities in the U.S. market. Their focus would primarily be on fresh boneless beef exports. The interest in thermoprocessed beef is significantly lower because: a) packing houses are exporting higher priced frozen and fresh cuts at full capacity, b) there is only one very small processing plant in the country which produces corned beef; and c) the raw material which could be used, primarily old cows, is consumed within the domestic market.

Paraguay currently enjoys a good sanitary status. It is considered by the Organization of International Epizootics (OIE) free of foot-and-mouth disease with vaccination (since January

2005), and also free of BSE. Paraguay's beef can currently be exported to more than 35 markets.

Paraguay regularly imports between 400-600 tons of processed beef a year. Most of it is imported from Argentina, and a smaller portion from Brazil. Corned beef is by far the most important import product, followed by beef patties. However, because of current strong exports, Paraguayans are analyzing the possibility of importing beef over the next 2-3 months to better supply the domestic demand, and to brake ascending retail prices. Initial findings indicate that fresh boneless beef could be sourced from Argentina and that prices could be slightly lower than Paraguayan beef.

Production: Paraguayan beef production for 2007 is forecast at 425,000 tons. Good returns, improved management, and somewhat heavier average slaughter weights are expected to result in one of the highest outputs, if not the highest, ever.

Strong world beef demand is projected to siphon off volume from the domestic supply, which has been shrinking in the past few years. Most contacts indicate that this should not signify a serious problem because exports of beef are one of the country's key economic mainstays. The local industry should be able to supply popular beef cuts at accessible prices, and the supply of alternative meats, especially poultry, will continue to grow.

Paraguay has 14 meat packing plants (11 slaughter plants and 3 processing plants) that export beef. Of those, only 5 are eligible to export to the demanding Chilean market and are awaiting the re-opening of the European market. Eleven of those are in Greater Asuncion, while the rest are in the interior. All of them are privately owned, and two are of Brazilian capital. There are a significant number of small slaughter plants across the country which operate only in the domestic market. The local meat packing industry is investing heavily to increase capacity for export. Industry contacts state that currently about US$40 million are being invested in expanding cold chambers, de-boning rooms and slaughter capacity. Exporting plants are currently slaughtering approximately one million head (roughly 75 percent steers/25 percent cows) and they are almost at full capacity. Once the new investments are operational, the capacity will increase by 15 percent. The financial situation of the industry is good.

The herd in Paraguay has a strong predominance of Bos Indicus cattle. Brahman and Nelore, by far the most popular breeds, account for approximately 70 percent of the total herd. In the recent past, the Brangus and Braford have been introduced, and make up the balance. The use of good genetics has brought with it a significant improvement in meat quality.

Policy: Beef exports do not receive rebates nor are they taxed. A big concern for exporters is the strengthening of the local currency, the Guarani, which in the first 8 months of 2006 gained 13 percent against the U.S. dollar. Traders expect the exchange rate to stay at a similar level or to depreciate marginally in 2007.

The Government of Paraguay (GOP) does not have a specific policy focusing on the cattle/beef sector. However, it has several programs and entities, which work closely together to expand beef production and exports. Examples of this are the modernization of SENACSA, the official sanitary service, Pro Paraguay, a program designed to promote products abroad, and Rediex, a program created by the Ministry of Industry and Commerce which works closely with the private sector, by which its beef division has set a goal to duplicate the value of its exports in four years. Low-interest rate funds are also available through the official Financial Agency for Development, and the "Fondo Ganadero."

Rediex together with the Paraguayan Beef Chambers works to promote Paraguayan beef abroad through activities such as participating at international food shows in France and Germany, and in organizing promotions in Chile.

Outlook: Based on current developments in the world beef market and Paraguay's growing exports, most local players are very enthusiastic about the future of the cattle/beef sector. Most agree that over the next ten years, the herd could increase about 30 percent and beef exports could reach 400,000 tons. In order for this to happen, several things will be needed: 1) continuity of the good sanitary status, with the focus on the opening of new markets, especially the U.S. and the E.U.; 2) availability of low rate credit for herd expansion, pastures, and ranch infrastructure; 3) significant improvement in herd management, through extension programs which transfer low-cost technology; 4) strong investment to increase slaughter plant capacity; and 5) an official policy which does not negatively affect the sector's development and growth. Current good returns, the sector's healthy economic situation, the outlook of a strong world beef market, the improvement in production of the local top producers, and the strong investment of regional cattlemen which normally apply good technology, form a solid base which should translate into increased prosperity. However, the continued joint effort between the official and the private sectors will be needed to implement significant structural changes, and to ensure that Paraguay's potential is fully tapped.

SECTION II. STATISTICAL TABLES

PSD Table

Country	**Paraguay**					
Commodity	**Animal Numbers, Cattle**			(1000 HEAD)		
	2005	Revised	2006	Estimate	2007	Forecast
	USDA Official [	Estimate[N	USDA Official [	Estimate[N	USDA Official [	Estimate[N
Market Year Begin		01/2005		01/2006		01/2007
Total Cattle Beg. Stks	0	10500	0	10552	0	10502
Dairy Cows Beg. Stks	0	0	0	0	0	0
Beef Cows Beg. Stocks	0	3900	0	4000	0	4200
Production (Calf Crop)	0	1950	0	2050	0	2200
Intra EC Imports	0	0	0	0	0	0
Total Imports	0	2	0	0	0	0
TOTAL Imports	0	2	0	0	0	0
TOTAL SUPPLY	0	12452	0	12602	0	12702
Intra EC Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Cow Slaughter	0	700	0	750	0	800
Calf Slaughter	0	0	0	0	0	0
Other Slaughter	0	1000	0	1150	0	1200
Total Slaughter	0	1700	0	1900	0	2000
Loss	0	200	0	200	0	200
Ending Inventories	0	10552	0	10502	0	10502
TOTAL DISTRIBUTION	0	12452	0	12602	0	12702

PSD Table

Country **Paraguay**

Commodity **Meat, Beef and Veal** (1000 MT CWE)(100(

	2005	Revised	2006	Estimate	2007	Forecast
	USDA Official [	Estimate[I	DA Official [	Estimate[I	DA Official [	Estimate[N
Market Year Begin		01/2005		01/2006		01/2007
Slaughter (Reference)	0	1700	0	1900	0	2000
Beginning Stocks	0	0	0	0	0	0
Production	0	360	0	400	0	425
Intra EC Imports	0	0	0	0	0	0
Total Imports	0	1	0	5	0	5
TOTAL Imports	0	1	0	5	0	5
TOTAL SUPPLY	0	361	0	405	0	430
Intra EC Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
TOTAL Exports	0	183	0	260	0	290
Human Dom. Consumptio	0	0	0	0	0	0
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumptio	0	178	0	145	0	140
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	0	361	0	405	0	430

SECTION III. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

Production

Ending cattle inventories for 2007 are projected to remain at 10.5 million head. The official number for 2005 was 9.5 million head (which has been quite stagnant over the past decade), but most sources agree that there is a somewhat larger herd. Contacts state that the herd expansion will begin once low-rate credit is available and some extension programs, which focus on herd management, become effective. This could start happening in 2007, but it will take time to bear fruit.

The slaughter for 2007 is forecast to be a record high at 2.0 million head. This is a result of improved production at the ranch level, strong demand for cattle, and good returns. There are no reliable slaughter data because small facilities, especially in the interior, have limited or no official control. The large meat packinghouses slaughter approximately 1.0-1.1 million head, and the small facilities that have official control, slaughter between 250,000-300,000 head per year. Another factor that contributes to show a larger slaughter level is the fact that until 2003, several thousand heavy fed steers were sent to Brazil for slaughter since they had a better market there. After several sanitary incidents, the two countries put severe controls and stopped this traffic. Since then, and with Paraguay regaining access to many export markets, these cattle are now being slaughtered and processed domestically. The official slaughter in 2002 and 2003 totaled 760,000 head, respectively. In 2004 it jumped to 1.0 million head, and rose to 1.2 million head in 2005.

Beef output for 2007 is also forecast to be record high at 425,000 tons (cwe). A slightly larger slaughter and heavier average cattle weights are expected to increase the beef supply. Average weights have increased in the past years as the large number of heavy fed steers which used to go to Brazil are now processed domestically. Another factor, which contributes to heavier weights, is the fact that export plants encourage ranchers to produce heavier cattle (above 430 kilos) through price premium (1-2 percent more for every additional 10 kilos).

The combination of a good sanitary status and of the strong sustained world beef demand are factors which should favor the development of the cattle industry. These conditions together with enhanced profitability should encourage producers to improve efficiency. However, due to the particularities of the sector, it will take time and much effort because many producers need to improve herd management. The good news is that by applying available low-cost technology, the expansion of production could really be significant. The sector needs to work on improving weaning ratios, daily weight gains, and reducing cattle losses. With current good returns, top producers are expected to expand their herds, and with the help of low-interest credit, medium and more inefficient producers will likely increase their herd size as well. Most cattle producers will need to improve animal nutrition and apply strict sanitary controls on their herds to increase their reproductive efficiency. Measures such as testing bulls, cow selection, the concentrating of service in a 3-4 months period, and vaccinating against reproductive diseases, will need to be applied widely to improve the calf crop. The weaning ratio of top producers is above 80 percent; contacts estimate that Paraguay's average is near 50 percent, significantly lower than neighboring countries. Shifting natural grasslands into improved pastures will allow more animals and higher daily gains per hectare. Since the GOP has strict laws that limit deforestation, cattle producers will need to carefully plan the expansion of pastureland. One other challenge is Paraguay's extraction rate, which is low. For 2007 it is estimated at 19 percent, while other countries in the region range between 22-26 percent.

Based on 2005 official data, there are 112,000 producers with 9.5 million head of cattle. Of those, roughly 1.2 million head are in the hands of 93,000 cattle producers who own less than 50 head; 550,000 head in the hands of 7,500 producers who own between 50-100 head; and 7.8 million head (82 percent) are in the hands of 11,000 cattle producers who own more than 100 head (the largest 1,500 producers own 50 percent of the total herd). Contacts indicate that there are about 1,000 top cattle producers in Paraguay. Of those, some 570 are registered to export to Chile, and comply with strict sanitary requirements. This group of producers most probably will supply the cattle for the E.U. when the market reopens.

Cattle production costs in Paraguay are very low, primarily because feed costs are negligible, tropical pastureland abounds, and feed supplementation is practically not used. Land prices are low, labor is relatively inexpensive and the use of agricultural and veterinary inputs is moderate. Efficient producers take about 18 months to turn a 180-kilo calf into a 430-kilo fed steer, with a daily gain of about half a kilo.

Paraguay has about 26 million hectares devoted to cattle production. Of that, half of it is natural grassland; 35 percent is forest and marshland, and the balance is planted pastureland. These pastures are typically sub-tropical grasses; legumes are not widely used. Paraguayans mostly follow the technology and trends implemented in Brazil. The Paraguay River divides the country from north to south. The eastern area ("Region Oriental") is formed by grassy plains and wooded low hills. There are almost 10 million hectares devoted to cattle production, and this is also the primary area where crops are produced. The western part ("Region Occidental") known as Chaco, accounts for 60 percent of the country's total land. It is mostly a low marshy plain near the river, and dry forest and thorny scrub elsewhere. This region has 16 million hectares for cattle, and production is more extensive.

The peak season of pasture production is November-February, while winter (July-October) is dry and the least productive. During this period, there are some frosts. The climate in the eastern area is subtropical with abundant precipitation fairly evenly distributed throughout the year (annual average rainfall of 127 centimeters) with moderate changes of temperature. In contrast, the Chaco Region has a tropical wet-and-dry climate. Its temperatures are normally high, with modest variations. Rainfall diminishes as one travels west, ranging between 50 and 100 centimeters per year, with the exception in the northeast where rainfall is somewhat greater. Precipitation occurs during summer months, and extensive areas, which are dry in winter, become swamps in summer. Water evaporation is significant.

Cow-calf operations are usually located in areas where natural grasslands are of lower quality (needing 1-3 hectares per cow). The production is extensive, and in most cases, there are reproductive diseases, and nutritional, and environmental problems. These factors explain the country's low weaning ratio. Cattlemen typically use a high percentage of bulls to compensate for deficiencies. Artificial insemination is used among top producers. Normally they use it on purebred and commercial cattle, and on cows that are given a second chance to be bred. Most of the semen used is of local origin. Calves are weaned when they are 6-8 months old, weighing approximately 180 kilos. Male calves, and just a small percentage of female calves, are sold as feeder cattle. The current price of male calves is about US$0.85 per kilo, and female calves bring in about 7-8 percent less. Commercial breeding cows cost about US$300 and purebred bulls range between US$1000-1,500.

Based on 2005 official data, Paraguay imported 155,000 doses of semen, valued at US$433,000. The main supplier was the U.S., with 55 percent of the total, followed by Brazil and Argentina. Angus semen accounted for 25 percent of the total, followed by Nelore and Brahman (20 percent each), Brangus 18 percent, Holstein (for dairy) with 11 percent, and

Braford with 8 percent. Imports from the U.S. were primarily of Angus, Holstein, and Brahman semen.

Cattle feeding operations are mainly distributed in two distinct areas: in the center of the Chaco Region, and in the central-northern part of the eastern region. These two areas have better natural grasslands, and have the highest concentration of artificial pastures. Normally one hectare will be enough to raise and finish between 1-1.5 steers. Male calves, generally weighing 180 kilos, are the main type of animals put into production.

The GOP does not intervene in the cattle market. Prices are set by supply and demand. As stated previously, export meat packers pay premiums for cattle weighing over 430 kilos.

Private banks offer credit for the cattle sector and the beef industry. In the case of producers, loans focus on cow-calf and feeding operations. Credit terms are usually between 2 and 3 years with interest rates ranging between 13 and 15 percent in Guaranies and 8 percent in dollars. The Fondo Ganadero, an official financial entity, offers longer-term loans. These credits are primarily used to buy cattle and to sow pastures. The local cattle sector has a very low rate of indebtedness, but most contacts indicate that production will only increase steadily if low rate loans are widely available. The GOP is currently working on this issue.

Land values are very attractive compared to other parts of the region. Prices in feeding areas, such as San Pedro and Amambay, are about US$450 per hectare, and US$200 in the Central Chaco area. Land in cow-calf areas ranges between US$100-200 per hectare.

Beef production does not encounter much competition from other livestock industries. Dairy production is circumscribed to the area close to the capital city of Asuncion and the central part of the Chaco area, where Mennonites produce about half of the country's dairy output. Pork domestic production is very low. Poultry production has increased in the past few years, but does not present any competition to the cattle sector, which is based primarily on pastures. The biggest competition comes from profitable crop production, especially soybeans. Crop area, almost exclusively soybeans, has grown 1 million hectares since 2000. The main crop producing area has always been the Southeastern part of the country, although most of the recent expansion has gone north of this area. After 2 or 3 bad crop seasons affected by weather problems, some of the new cropland is going back into pastures for cattle production. However, there is news about new investments coming into different parts of the country for crop production.

There are only a few feedlots in Paraguay in hands of large producers for their own cattle. Contacts believe that feedlot production will expand in the future, since cattle can be finished much quicker. A few top producers supplement cattle with corn silage and cotton expeller at the end of the finishing period. Some cow-calf operations supplement weaned calves with expeller or dry grain during the first winter.

Consumption

Paraguayan beef consumption for 2007 is forecast at 140,000 tons. This is one of the lowest, if not the lowest ever, of the past several decades (there is a lack of accurate historic data, primarily due to uncontrolled slaughter in rural areas). Annual per capita consumption is estimated at 23 kilos, significantly lower than neighbors Brazil and Argentina, but still high.

Historically, domestic demand accounted for over 80 percent of the total output. However, for 2007, and despite larger output, it is projected to represent only 30 percent. Low purchasing power, the opening of many new markets as result of an improved sanitary status, high world prices, and strong demand, have encouraged exporters to ship large amounts of beef. Therefore, a large portion of local beef has shifted from the domestic market into the world market. This is a sensitive issue since several countries in the region have gone through a similar situation where strong world demand has pushed up domestic prices and reduced local supply. Industry contacts believe that the GOP will not limit beef exports, but it will implement some measures to minimize the impact on domestic consumers. To that end, the GOP, cattle producers and supermarkets signed a price agreement by which the price of some popular beef cuts is controlled. The recent authorization to import beef is another measure to keep retail prices under control.

The domestic market is supplied by export meat packers and by local slaughterhouses. Exporters usually sell domestically the products which they cannot sell abroad, such as ribs and bone with meat, and what is left over after the de-boning process. The smaller local slaughterhouses supply only to domestic supermarkets, wholesalers and butchers. Large retailers and boutique butcheries sell primarily beef of young steers (live weight 380-400 kilos, lighter than those used for export), while the rest of the market is supplied mostly with beef from cows. The average of the past few years shows that 52 percent of the cattle slaughtered in local plants for the domestic market were cows, 44 percent were steers, and the balance were bulls.

Of the approximately 6 million Paraguayans living in the country, 2.5 million live in Greater Asuncion, the capital city. Private sources estimate that roughly 50-60 percent of the total domestic beef supply is consumed in this area. The most popular cuts are bone with meat, fore cuts, ribs, flank and brisket, which account for approximately 70-80 percent of the total. The balance is made up of premium cuts such as loin, strip loin, and heart of rump. Although difficult to estimate, some private sources indicate that supermarkets market roughly 20-25 percent of the country's total beef, and the balance is sold through butcher shops.

Poultry consumption has increased significantly in the past few years. Industry contacts place current per capita consumption at 20-23 kilos; historically, per capita poultry consumption was around 16 kilos. Domestic broiler prices are very competitive. Pork consumption is low, and pork is mainly consumed in the form of processed products.

Stocks

There are no governmental stocks of beef. Meat export plants stock production when putting together an order. Practically all beef for the domestic market is distributed immediately with little or no refrigeration.

Marketing

Much of the investment done in processing plants in the past years has focused on expanding cold storage, and giving companies more flexibility in their operations in order to satisfy a growing world beef demand. Industry contacts indicate that today's main bottleneck is the country's limited highway network. The fact that Paraguay has no direct exit to the sea frequently creates logistical problems and the delay of cargo shipments.

Producers can market their fed cattle through two different ways: 1) directly to the export processing plants (the plants are not allowed to buy at cattle auctions), and 2) through daily local auctions (typically these are cattle for the domestic market). Export slaughter plants sell beef to the export market, local distributors, supermarkets and also directly to consumers.