USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 8/25/2008

GAIN Report Number: UY8006

Uruguay

Livestock and Products

Annual Report

2008

Approved by:
Dwight Wilder
Office of Agricultural Affairs, U.S. Embassy

Prepared by:
Maria Julia Balbi

Report Highlights:
Uruguay's beef exports for 2009 are estimated to increase to 450,000 MT, compared to the previous year, due to larger slaughter to supply strong demand from export markets. Cattle stocks are forecast to increase slightly at over 11.7 million head due to larger calf production and sustained investments in pastures and herd management techniques.

Data included in this report is not official USDA data. Official USDA data are available at http://www.fas.usda.gov/psdonlineonline/

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Buenos Aires [AR1]
[UY]

Table of Contents

SECTION I. SITUATION AND OUTLOOK

Executive Summary

Uruguay's beef exports for 2009 are estimated to increase to 450,000 MT, compared to the previous year, due to larger slaughter to supply strong demand from export markets. Cattle stocks are forecast to increase slightly at over 11.7 million head due to larger calf production and sustained investments in pastures and herd management techniques. Beef production in 2009 is estimated to increase to 600,000 MT, and domestic beef consumption is projected to decrease slightly to 154,000 MT, as there will continue to be strong demand from international markets, which will keep domestic beef prices relatively high.

Trade

Uruguay's beef exports are estimated to increase to 450,000 MT

Uruguay's beef exports for 2009 are estimated to increase to 450,000 metric tons (MT), compared to 2008, due to larger slaughter to supply strong demand from export markets. Beef exports for 2008 are expected to increase to 420,000 MT, compared to 385,000 MT in 2007, as a result of high international beef prices which will encourage the industry to continue paying high domestic prices for cattle. Beef production is forecast to increase to 600,000 MT in 2009, up 12,000 MT compared to the previous year, and domestic consumption will decrease marginally, as beef prices continue to increase significantly.

Uruguay has benefited greatly from its improved sanitary status after the economic crisis of 2002, compared to its neighboring competitors, Brazil and Argentina, whose beef is still prohibited entry into the U.S. due to Foot and Mouth Disease (FMD). In addition, the Government of Argentina (GOA) continues its policy of beef export restrictions with the intent of lowering domestic beef prices. In January 2008, the EU established a ban on Brazilian beef exports, which is expected to continue throughout the year. All of these factors created unprecedented opportunities to Uruguayan beef exports which, in 2007, were lower in volume than the previous year, totaling 385,000 MT, but higher in value as the average price per metric ton was $2,137 in 2007, compared to $2,012 in 2006.

Following the FMD crisis in April 2001, most export markets have reopened for Uruguay's fresh boneless beef, beginning with the European Union (EU) and Israel in November 2001, followed by Canada in January 2003, and the U.S. in May 2003. After active negotiations during four years between sanitary authorities of Uruguay and Mexico, the Mexican market reopened in August 2006. In January 2007, it was closed again due to a labeling problem, and reopened in May 2007. The Asian high-value beef markets, Japan and Korea, remain closed. Uruguayan animal health authorities are still negotiating the opening of the Korean beef market. Japan is not expected to resume imports from Uruguay while the country continues vaccinating against FMD. Uruguay will not drop vaccination until the region is free of FMD.

The U.S. no longer is the number one market for Uruguayan fresh boneless beef, as it had been since the reopening of the U.S. beef market. Its market share has decreased to approximately 7 percent in January-July 2008, compared to 56 percent during the same period of 2007. This has resulted from the reorientation of beef exports to Russia, which has become the major beef export market for Uruguay, as it pays higher prices than the U.S. The EU has also become a primary destination for Uruguayan beef, due mainly to the ban that it imposed on Brazilian beef. The opening of the Mexican market in the second half of

2006 did not lead to a significant increase of shipments to that market, as expected, due to strong competition from other export markets paying relatively higher prices for Uruguayan beef.

The main beef cuts exported to the U.S. in 2007 were frozen boneless fore and hindquarters, and trimmings. In 2007, Uruguay not only exceeded its 20,000 MT U.S. beef tariff-rate quota but also exported an additional 97,000 MT (PWE) outside the quota, paying a 26.4-percent out-of-quota tariff. As in past years, Uruguay has filled completely its 6,300 MT share of the Hilton beef quota for export to the EU.

Uruguay's primary beef export destinations are illustrated below:

(MT-CWE)

Country	Jan-Mar 2007	Country	Jan-Mar 2008
U.S.	53,389	**Russia**	31,618
Israel	5,620	**United Kingdom**	11,555
United Kingdom	4,981	**U.S.**	8,215
Chile	2,417	**Israel**	6,346
Spain	2,057	**Spain**	5,046
Brazil	2,019	**Malaysia**	3,696
South Africa	1,974	**Brazil**	3,381
Russia	1,897	**Hong Kong**	2,867
Malaysia	1,586	**South Africa**	2,808
Germany	951	**Chile**	2,041
Argentina	818	**Netherlands**	1,655
Netherlands	430	**Argentina**	1,147
Hong Kong	15	**Germany**	728
Italy	5	**Italy**	215
Belgium-Luxembourg	0	**Belgium-Luxembourg**	213

Source: FAS Buenos Aires based on statistical data from the Global Trade Atlas

Cattle exports for 2009 are expected to decrease as domestic cattle prices will remain high. The Uruguayan beef industry will continue to pay high prices in their struggle to secure cattle supply. On some specific occasions, a relatively high number of calves are exported to Arab countries but this does not happen every year or on a regular basis. Primary cattle destinations in 2007 were: Egypt, Brazil, Jordan, and Syria.

Uruguay is a traditional beef exporting country. Thus, beef imports will remain negligible. In 2007, Uruguay imported beef primarily from Brazil, as a result of high domestic beef prices. Total beef imports were as follows:

- fresh boneless beef ($4.2 million)
- frozen boneless beef ($1.5 million)
- thermoprocessed beef ($200,000)

Stocks

<u>Cattle stocks are forecast to increase slightly at over 11.7 million head</u>

Cattle stocks in 2009 are forecast to increase slightly at over 11.7 million head due to larger calf production and sustained increasing demand from beef export markets. In addition, there will continue to be investments in pastures and herd management techniques, and the relation between grain and oil prices, and beef prices, is expected to remain profitable for cattle producers. Cattle stocks in 2008 are expected to decrease, compared to the previous year, due to larger slaughter in 2007 (especially of pregnant cows), and poor pregnancy rates as a consequence of a harsh winter which delayed the planting of pastures, negatively affecting cattle condition. The calf crop in 2009 is forecast to increase due to improved pregnancy rates. Slaughter in 2009 is expected to increase slightly, compared to the previous year, and will likely continue to grow if pregnancy rates and calf production improve, and if slaughter age of cattle is decreased. By 2010-2011, with a cattle stock of around 12 million head, it is expected that slaughter will reach 2.8-3 million head. Slaughter in 2008 is expected to increase due to demand from beef export markets, which continues to be strong, excellent international beef prices, and higher efficiency.

Economic stability plus unprecedented high calf prices have created excellent opportunities for Uruguayan livestock producers, who have been investing strongly in pastures, and improved herd management techniques. However, during the past couple of years, livestock production has been rapidly losing area to field crops (mainly soybean crops) and forestry. Thus, it is expected that livestock production will gradually become more intensive in the short-mid term. Significant investments have been made by the industry to expand deboning and cold storage facilities in meat packing plants. The favorable conditions for livestock production in Uruguay have also attracted foreign investors, mainly from Brazil, who purchased several meat plants. Private sources estimate that about 45 percent of Uruguayan meat plants are owned by Brazilian capital and 10-15 percent by Argentine capital. Currently, there are no meat packing plants in Uruguay owned by U.S. investors. One modern meat plant is being built with English investment.

Cattle prices reached record levels in mid 2008

Cattle prices have reached an average record level of $1.75/kg for live steer in mid 2008, significantly exceeding the values prior to the FMD crisis, which ranged from $0.80-$0.90/kg. This has been due to the recovery of most export markets, the strong pressure of international demand, the privileged sanitary condition of the country, not shared by its neighboring competitors, Brazil and Argentina, beef export restrictions from Argentina, and a reduced cattle supply in Australia due to persistent droughts. Cattle prices are expected to remain high -- especially if beef export sanitary and government restrictions remain for Brazil and Argentina -- as the presence of Uruguay in the international beef market remains strong.

Production

Uruguayan beef production will increase to 600,000 MT

For 2009, Uruguayan beef production is estimated to increase to 600,000 MT due to larger slaughter to supply strong demand from export markets. Beef production in 2008 will increase to 588,000 MT, up 28,000 MT from the previous year, as a result of improvement in herd management practices and higher efficiency. Although cattle prices remain high in U.S. dollar terms, some producers prefer to rent the land to foreign investors, who pay high prices per hectare to plant soybeans, instead of continuing to invest in the livestock sector. Thus, livestock production is becoming more and more intensive.

Beef production in Uruguay has been traditionally aimed at supplying export markets, which account for 70-75 percent of total production. Feedlot production represents around 6-7 percent of total slaughter, and it is expected to increase as larger meat packing plants are planning to incorporate feedlots to their operations. However, traditional feedlot production is not expected to expand significantly in Uruguay due to the following reasons: (1) use of anabolics and hormones is forbidden throughout the country; (2) Uruguay is not a major grain producer, thus, domestic grain prices will remain high; and (3) government policies are aimed at intensifying grass-fed cattle production. High-value beef cuts produced in feedlot operations are mainly exported since the domestic market cannot afford them.

Consumption

<u>Domestic beef consumption forecast to decrease to 154,000 MT</u>

Domestic beef consumption for 2009 is projected to decrease slightly to 154,000 MT, as there will continue to be strong demand from export markets, which will keep domestic beef prices relatively high. Domestic beef consumption had been recuperating gradually since the economic crisis of 2002 due to a slow recovery of purchasing power and decrease of the unemployment rate. All beef cuts are consumed in Uruguay, although the rib plate is the most popular cut. However, there is a stronger demand for cheaper forequarter cuts since domestic beef prices are relatively high.

Annual per capita beef consumption is estimated at approximately 50 kg. Beef is primarily consumed in urban areas, and lamb is preferred in rural areas. During the past few years, annual per capita chicken consumption has increased from 10 to 18 kg, as it is cheaper than beef, although domestic prices have been gradually increasing. Annual per capita lamb consumption is 6-7 kg., pork consumption is negligible, and fish is too expensive to compete with beef. Estimated comparative beef prices are as follows: tenderloin, $15/kg; rump skirt, $8/kg; and chicken, $4.00/kg. More affluent consumers buy beef cuts in supermarkets (40-45 percent market share), while consumers with a lower purchasing power buy in butcher shops (55-60 percent market share). Butcher shops tend to remain in the suburbs of Montevideo and the interior of the country as more women are being incorporated into the workforce and they prefer to buy all types of food products at the supermarket, including beef, making a more efficient use of time.

Policy / Marketing

<u>Vaccination for all cattle will continue until FMD is under control throughout the region</u>

The Government of Uruguay (GOU) has made great efforts to achieve the total eradication of FMD, whose last outbreak was detected in August 2001. Vaccination for all cattle will continue in 2008, and will not stop until there is a guarantee that the disease is under control throughout the region. A Permanent Veterinary Committee, composed of members from the Veterinary Services of the Governments of Argentina, Brazil, Bolivia, Chile, Paraguay, and Uruguay, was created in 2003 as a tool to anticipate and overcome difficulties resulting from FMD occurrence. Member countries meet on a regular basis to discuss regional sanitary issues.

In order to meet new requirements that will be implemented by the primary world beef export markets, in September 2006, the GOU put in force a mandatory cattle identification program using electronic devices financed by the GOU, with the purpose of facilitating traceability. In addition, all parties in the beef market, the GOU, the beef industry, and livestock producers, are aware of the need to implement new measures related to animal welfare and they are working on the subject. Experts from foreign countries, such as the U.S. and Argentina, have been invited to give presentations on this issue. In addition, the Uruguayan National Meat Institute (INAC) has recently implemented a monitoring system, called "Black Boxes", which consists of the installation of electronic equipment in all slaughter plants, aimed at facilitating traceability, providing information on yields to the producer, preventing tax evasion, and fostering rapid access to information on the livestock sector. So far, around 95 percent of slaughter is being monitored through the "Black Boxes" system.

Uruguay's export rebate for all beef cuts is 2.5 percent. There have been rumors that the GOU would revoke the rebate but no change has been made so far. As a Mercosur member, Uruguay applies the Common External Mercosur Tariff, which ranges between 3 and 23 percent. In general terms, intra-Mercosur trade pays a zero tariff.

As of August 1, 2006, the GOU implemented a reduction of domestic taxes affecting beef, as follows: the value-added tax was reduced from 14 to 10 percent, and the social security financing tax (COFIS), which was 3 percent, was eliminated.

During the past few years, INAC has played a key role in developing various projects which help differentiate Uruguayan beef in international markets. Among the primary marketing initiatives carried out on an annual basis is the organization of promotional activities and trade missions to China, Korea, Europe, the Unites States, Mexico, and the United Arab Emirates, among others, and participation in major food shows.

In 2004, INAC's Certified Natural Meat Program was included in the "Approved USDA Process Verified Programs," published in the USDA website. INAC has also implemented Certified Hereford and Angus Meat programs, has developed protocols for organic beef production and marketing, and has finalized GLOBALGAP (EUREPGAP) certification standards for beef.

Useful Websites

http://www.inac.gub.uy (National Meat Institute)
http://www.mgap.gub.uy (Ministry of Livestock, Agriculture, and Fisheries)
http://www.ine.gub.uy (National Statistics Institute)
http://www.aduanas.gub.uy (Customs)
http://www.aupcin.com (Uruguayan Association of Intensive Natural Beef Producers)

Newspapers containing agricultural supplements:

http://www.elpais.com.uy (El Pais)
http://www.observa.com.uy (El Observador)

II. STATISTICAL TABLES

Prices Table				
Country	Uruguay			
Commodity	Meat, Beef and Veal			
Prices in	US$	per uom	KG.	(*)
Year	2007	2008	% Change	
Jan	1.88	2.13	13%	
Feb	1.9	2.33	23%	
Mar	1.98	2.49	26%	
Apr	2.03	2.57	27%	
May	2.03	2.59	28%	
Jun	2.04	2.91	43%	
Jul	2.17	3.25	50%	
Aug	2.22		-100%	
Sep	2.3		-100%	
Oct	2.28		-100%	
Nov	2.2		-100%	
Dec	2.11		-100%	
Exchange Rate	19.1	Local Currency/US $		1
Date of Quote	8/15/2008	MM/DD/YYYY		
(*)	Wholesale prices			

Prices Table

Country	Uruguay			
Commodity	Animal Numbers, Cattle			
Prices in	US$	per uom	KG.	(*)
Year	2007	2008	% Change	
Jan	1	1.12	12%	
Feb	1	1.23	23%	
Mar	1.05	1.32	26%	
Apr	1.07	1.35	26%	
May	1.07	1.33	24%	
Jun	1.08	1.53	42%	
Jul	1.16	1.75	51%	
Aug	1.2		-100%	
Sep	1.25		-100%	
Oct	1.24		-100%	
Nov	1.16		-100%	
Dec	1.11		-100%	
Exchange Rate	19.1	Local Currency/US $		1
Date of Quote	8/15/2008	MM/DD/YYYY		
(*)	Live steer			

Meat, Beef and Veal Uruguay	2007			2008			2009			
	2007			2008			2009			
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			
	Annual Data Displayed		New Post Data	Annual Data Displayed		New Post Data	Annual Data Displayed		Jan Data	
Slaughter (Reference)	2200	2700	2300	2450	2495	2400			2450	(1000 HEAD)
Beginning Stocks	0	0	0	0	0	0			0	(1000 MT CWE)
Production	550	650	560	590	610	588			600	(1000 MT CWE)
Intra-EU Imports	0	0	0	0	0	0			0	(1000 MT CWE)
Other Imports	4	10	4	4	3	2			4	(1000 MT CWE)
Total Imports	4	10	4	4	3	2			4	(1000 MT CWE)
Total Supply	554	660	564	594	613	590			604	(1000 MT CWE)
Intra EU Exports	0	0	0	0	0	0			0	(1000 MT CWE)
Other Exports	385	520	385	415	400	420			450	(1000 MT CWE)
Total Exports	385	520	385	415	400	420			450	(1000 MT CWE)
Human Dom. Consumption	169	140	179	179	213	170			154	(1000 MT CWE)
Other Use, Losses	0	0	0	0	0	0			0	(1000 MT CWE)
Total Dom. Consumption	169	140	179	179	213	170			154	(1000 MT CWE)
Ending Stocks	0	0		0	0	0			0	(1000 MT CWE)
Total Distribution	554	660	564	594	613	590			604	(1000 MT CWE)
CY Imp. from U.S.	0	0		0	0	0			0	(1000 MT CWE)
CY. Exp. to U.S.	0	0		0	0	0			0	(1000 MT CWE)
Balance	0		#VALUE!	0	0	#VALUE!			#VALUE!	(1000 MT CWE)
Inventory Balance	0		#VALUE!	0	0	#VALUE!			#VALUE!	(1000 MT CWE)
Weights	250		243	241	244	245			245	(1000 MT CWE)
Production Change	-14		0	9	2	0			0	(PERCENT)
Import Change	0		0	0	0	0			0	(PERCENT)
Export Change	-16		0	8	3	0			0	(PERCENT)
Trade Balance	381		#VALUE!	411	397	#VALUE!			#VALUE!	(1000 MT CWE)
Consumption Change	-8		0	13	0	0			0	(PERCENT)
Population	0			0	0					(HEAD)
Per Capita Consumption	0		0	0	0	0			0	(KG)
TS=TD			0			0			0	

Animal Numbers, Cattle Uruguay	2007			2008			2009			
	2007			2008			2009			
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan	
			Data			Data			Data	
Total Cattle Beg. Stks	11915	12054	11915	11995	11604	11865			11780	(1000 HEAD)
Dairy Cows Beg. Stocks	350	350	350	350	350	350			350	(1000 HEAD)
Beef Cows Beg. Stocks	4020	4160	4119	4100	4100	4200			4220	(1000 HEAD)
Production (Calf Crop)	2620	2750	2650	2750	2750	2650			2780	(1000 HEAD)
Intra-EU Imports	0	0	0	0	0	0			0	(1000 HEAD)
Other Imports	0	0	0	0	0	0			0	(1000 HEAD)
Total Imports	0	0	0	0	0	0			0	(1000 HEAD)
Total Supply	14535	14804	14565	14745	14354	14515			14560	(1000 HEAD)
Intra EU Exports	0	0	0	0	0	0			0	(1000 HEAD)
Other Exports	65	20	50	45	30	45			30	(1000 HEAD)
Total Exports	65	20	50	45	30	45			30	(1000 HEAD)
Cow Slaughter	1000	1220	1035	1100	1148	1080			1103	(1000 HEAD)
Calf Slaughter	25	60	30	25	25	32			35	(1000 HEAD)
Other Slaughter	1175	1420	1235	1325	1322	1288			1312	(1000 HEAD)
Total Slaughter	2200	2700	2300	2450	2495	2400			2450	(1000 HEAD)
Loss	275	280	350	225	150	290			290	(1000 HEAD)
Ending Inventories	11995	11804	11865	12025	11679	11780			11790	(1000 HEAD)
Total Distribution	14535	14804	14565	14745	14354	14515			14560	(1000 HEAD)
CY Imp. from U.S.	0	0		0						(1000 HEAD)
CY. Exp. to U.S.	0	0		0						(1000 HEAD)
Balance	0		#VALUE!	0		#VALUE!			#VALUE!	(1000 HEAD)
Inventory Balance	80		#VALUE!	30		#VALUE!			#VALUE!	(1000 HEAD)
Inventory Change	-3		0	1		0			0	(PERCENT)
Cow Change	0		0	2		0			0	(PERCENT)
Production Change	-2		0	5		0			0	(PERCENT)
Production to Cows	60		59	62		58			61	(PERCENT)
Trade Balance	65		#VALUE!	45		#VALUE!			#VALUE!	(1000 HEAD)
Slaughter to Inventory	18		19	20		20			21	(PERCENT)
TS=TD			0			0			0	
Comments										
AGR Number										
Comments To Post										
NOT OFFICIAL USDA DATA										