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Uruguay

Livestock and Products

Annual Report

2006

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Report Highlights:

Uruguay's beef exports for 2007 are expected to increase to 520,000 metric tons (MT) due to stronger demand from export markets, especially the U.S. and Mexico. Cattle exports for 2007 are expected to remain stable as domestic prices will continue to be high. Cattle stocks are forecast to decrease to 12 million head due to a large slaughter caused by strong demand from export markets.

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

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SECTION I. SITUATION AND OUTLOOK**Trade**Uruguay's beef exports are projected to increase to 520,000 MT

Uruguay's beef exports for 2007 are projected to increase marginally to 520,000 metric tons (MT), compared to the previous year, due to stronger demand from exports markets, especially the countries which belong to the North American Free Trade Agreement (NAFTA), i.e. the United States (U.S.), Canada, and Mexico. In 2005, the U.S. accounted for 72 percent of Uruguay's total beef exports, and Mexico, which reopened its market to fresh, boneless beef from Uruguay in August 2006, is expected to become a significant export market, especially in 2007. Greater production in 2007 and stable domestic consumption - although recovering gradually - will increase export supplies.

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 prohibited entry into the U.S. due to Foot-and-Mouth Disease (FMD) (Brazil had two new FMD outbreaks in October 2005, and one in August 2006). Furthermore, in November 2005, the Government of Argentina (GOA) prohibited slaughter of cattle weighing less than 300 kilograms (kg) in an effort to increase beef production. In March 2006, the GOA virtually prohibited beef exports with the intent of lowering domestic beef prices. This created unprecedented opportunities to Uruguayan beef exports which, in 2006, are expected to reach record levels of 510,000 MT. Beef exports for 2006 are expected to increase to 510,000 MT, up 30,000 MT compared to 2005, as a result of stronger demand from export markets.

Following the FMD crisis in April 2001, to date, 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 the past three years between sanitary authorities of Uruguay and Mexico, the Mexican market reopened in August 2006. The Asian high-value beef markets, Japan and Korea, are not expected to resume exports while the country continues vaccinating against FMD. However, they could become more flexible depending on stronger demand and restrictions imposed on beef from the U.S. and Canada, as a consequence of Bovine Spongiform Encephalopathy (BSE) cases found in those countries.

Although the U.S. continues to be the number one market for Uruguayan fresh boneless beef, its share has decreased to approximately 38 percent during January-July 2006. This has resulted from beef export restrictions to Argentina and Brazil, which encouraged the Uruguayan beef industry to redirect exports primarily to Chile and the Russian Federation. The opening of the Mexican market in the second half of 2006, due to strong competition from other export markets paying relatively high prices for Uruguayan beef will not lead to a significant increase in shipments to that country. The impact of the Mexican market will be more significant in 2007, assuming that Argentina and Brazil are fully back, as major players, in the international beef market.

The main beef cuts exported to the U.S. in 2005 were frozen boneless fore and hindquarters, and trimmings. In 2005, Uruguay not only exceeded its 20,000 MT U.S. beef quota but also exported an additional 310,000 MT (CWE) outside the quota, paying 26.4-per cent out-of-quota tariff. As in past years, Uruguay has filled completely its 6,300 MT share of the Hilton beef quota.

Uruguay's primary beef export destinations are illustrated below:

(MT-CWE)

Country	Jan-June 2005	Country	Jan-June 2006
U.S.	178,256	U.S.	109,358
United Kingdom	12,198	The Russian Federation	45,318
Canada	7,530	Chile	30,972
Israel	5,201	Israel	15,666
Brazil	3,881	United Kingdom	12,660
Germany	3,188	Algeria	12,583
The Russian Federation	3,104	South Africa	11,091

Cattle exports for 2007 are expected to remain stable as domestic prices will continue to be high, although contacts assert that they will not remain at the record levels of 2006. Primary cattle destinations in 2005 were: Jordan (5,700 head), Tunisia (1,800 head), Brazil (1,400 head), Peru (1,300 head), and Turkey (1,000 head). Other cattle export markets were Syria and Argentina.

Uruguay is a traditional beef exporting country. Thus, beef imports will continue to be negligible. Moreover, imports from Brazil are not feasible due to the high value of the Brazilian Currency, the "real". In 2005, due to more competitive prices, Uruguay imported:

- fresh boneless beef from Brazil (\$7.4 million) and Argentina (\$1.8 million); and
- frozen boneless beef from Brazil (\$323,000) and Argentina (\$70,000).

Uruguay applies a 5.5 percent export rebate for boneless beef, 2.25 for bone-in beef, and between 4.5 and 6 percent, for thermoprocessed beef. These rebates will expire on December 31, 2006, and revised rebates are expected to be applied. As a Mercosur member, Uruguay applies the Common External Mercosur Tariff, which ranges from 3 to 23 percent. In general terms, intra-Mercosur trade pays no tariff.

As of August 1, 2006, the Uruguayan Government (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, in Spanish), which was 3 percent, was eliminated.

Stocks

Cattle stocks are forecast to decrease to 12 million head

Cattle stocks in 2007 are forecast to decrease to 12 million head due to larger slaughter caused by stronger demand from export markets, and remain stable afterwards due to the high number of breeding cows and high calf production. Slaughter in 2007 will increase slightly, compared to 2006, and will continue increasing if pregnancy rates increase and slaughter age of cattle is decreased. (These two factors are being currently addressed by livestock producers through investments in their cattle operations.) Although by the end of 2005 and beginning of 2006, there was a severe drought in the northern part of the country, cattle were not significantly affected. Moreover, the calf crop in 2006 is forecast to increase

as neither the condition of cattle nor pregnancy rates were affected by the adverse weather conditions.

Economic stability plus high calf prices have created excellent opportunities for Uruguayan livestock producers, who have been investing strongly in pastures, and improved herd management techniques, such as early weaning, pregnancy diagnoses, and insemination techniques. In addition, significant investments have been done by the industry to expand deboning and cold-storage capacities. The favorable conditions of livestock production in Uruguay are also attracting foreign investors, who show interest in buying meat plants.

Cattle prices reached record levels in mid 2006

Cattle prices have reached record levels in mid 2006, reaching \$0.97/kg for live steer and exceeding the values previous to the FMD crisis, which ranged from \$0.80 to \$0.90/kg. This has been due to the recovery of most export markets; the privileged sanitary condition of Uruguay, compared with its neighboring competitors, Brazil and Argentina; and beef export restrictions imposed by the GOA. Prices are expected to decrease slightly in the second part of 2006, assuming Argentina and Brazil re-enter export markets. Contacts opine that prices will remain stable at average historical levels of \$0.85-0.90/kg.

Production

Uruguayan beef production will increase to 650,000 MT

For 2007, Uruguayan beef production is expected to continue increasing and it is estimated at 650,000 MT, due to larger slaughter to supply a growing demand from export markets. High cattle prices in U.S. dollar terms, the demand from high-value beef export markets, such as the U.S., and the recent reopening of the Mexican market will encourage Uruguayan producers to continue investing in the livestock sector.

Beef production in Uruguay has been traditionally aimed at supplying export markets, which account for approximately 78 percent of total production. Feedlot production represents around 5-6 percent of total slaughter, and it is expected to continue growing due to favorable market access conditions, higher prices of feedlot cattle (approximately \$1.15/kg, compared to \$0.90/kg for grass-fed cattle), high value of land, new foreign investments, and because feedlot operations are considered a useful tool to increase production. High-value beef cuts produced in feedlot operations are mainly exported since the domestic market cannot afford them. The primary destination is the U.S.

Consumption

Domestic beef consumption forecast to increase to 140,000 MT

Domestic beef consumption for 2007 is projected to increase slightly to 140,000 MT due to the gradual recovery of the purchasing power. However, there will continue to be strong demand from export markets, which will keep domestic beef prices relatively high. During the past few years, the economic crisis in Uruguay, together with rapidly ascending beef exports, have led to a sharp decline in domestic consumption. Annual per capita beef consumption is estimated at approximately 40 kg. Beef is primarily consumed in urban areas, and lamb is consumed in rural areas.

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 beef domestic prices are relatively high due to their linkage to cattle prices. During the past few years, annual per capita poultry consumption has increased from 10 to 14 kg, as it is significantly cheaper than beef. Estimated comparative prices are as follows: tenderloin, \$8/kg, rumpskirt, \$4.5/kg, and chicken, \$1.70/kg. More affluent consumers buy beef cuts in supermarkets (30-35 percent), while consumers with a lower purchasing power buy in butcher shops (65-70 percent market share).

Policy/Marketing

Vaccination for all cattle will continue until FMD is under control throughout the region

The Government of Uruguay 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 2006, 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.

During the past few years, the Uruguayan National Meat Institute (INAC, in Spanish) has played a key role in developing various projects which help differentiate Uruguayan beef in international markets. Among the primary marketing initiatives carried out during the past few months have been the organization of trade missions to China and Korea, and the participation in a major Chinese trade show with a delegation of over 25 government officials, livestock producers, and meat packers. INAC is not only trying to promote Uruguayan beef in China, but also bone-in sheep meat, taking advantage of the fact that China does not have any meat quotas.

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 has Certified Hereford and Angus Meat Programs, and are developing protocols for organic beef production and marketing. Two Uruguayan meat plants are currently approved to produce and export organic beef.

In order to meet new requirements which will be eventually implemented by the primary world beef export markets, as of September 1, 2006, the GOU will put in force a mandatory cattle identification program through electronic devices financed by the GOU, with the purpose of facilitating traceability. 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. Experts from foreign countries, such as the U.S. and Argentina, have been invited to give presentations on this issue.

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 Production Systems of Natural Beef)

Newspapers containing agricultural supplements:

<http://www.elpais.com.uy> (El País)

<http://www.observa.com.uy> (El Observador)

SECTION II. STATISTICAL TABLES

PSD Table

Country	Uruguay						
Commodity	Meat, Beef and Veal				(1000 MT CWE)		(1000 HEAD)
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [	Estimate[1]	USDA Official [	Estimate[1]	USDA Official [	Estimate[New]	
Market Year Begin	01/2005		01/2006		01/2007		MM/YYYY
Slaughter (Reference)	2400	2450	2600	2650	0	2700	(1000 HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT CWE)
Production	600	600	650	635	0	650	(1000 MT CWE)
Intra EC Imports	0	0	0	0	0	0	(1000 MT CWE)
Total Imports	5	10	5	10	0	10	(1000 MT CWE)
TOTAL Imports	5	10	5	10	0	10	(1000 MT CWE)
TOTAL SUPPLY	605	610	655	645	0	660	(1000 MT CWE)
Intra EC Exports	0	0	0	0	0	0	(1000 MT CWE)
Total Exports	460	480	470	510	0	520	(1000 MT CWE)
TOTAL Exports	460	480	470	510	0	520	(1000 MT CWE)
Human Dom. Consumpti	145	130	185	135	0	140	(1000 MT CWE)
Other Use, Losses	0	0	0	0	0	0	(1000 MT CWE)
TOTAL Dom. Consumpti	145	130	185	135	0	140	(1000 MT CWE)
Ending Stocks	0	0	0	0	0	0	(1000 MT CWE)
TOTAL DISTRIBUTION	605	610	655	645	0	660	(1000 MT CWE)
Calendar Yr. Imp. from U	0	0	0	0	0	0	(1000 MT CWE)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT CWE)

Not Official USDA Data

PSD Table

Country	Uruguay						
Commodity	Animal Numbers, Cattle						
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [	Estimate[1]	USDA Official [	Estimate[1]	USDA Official [	Estimate[New]	
Market Year Begin	01/2005		01/2006		01/2007		MM/YYYY
Total Cattle Beg. Stks	12546	12546	12516	12334	12316	12054	(1000 HEAD)
Dairy Cows Beg. Stks	390	350	410	350	0	350	(1000 HEAD)
Beef Cows Beg. Stocks	4300	4145	4400	4150	0	4160	(1000 HEAD)
Production (Calf Crop)	2800	2600	2850	2690	0	2750	(1000 HEAD)
Intra EC Imports	0	0	0	0	0	0	(1000 HEAD)
Total Imports	0	0	0	0	0	0	(1000 HEAD)
TOTAL Imports	0	0	0	0	0	0	(1000 HEAD)
TOTAL SUPPLY	15346	15146	15366	15024	12316	14804	(1000 HEAD)
Intra EC Exports	0	0	0	0	0	0	(1000 HEAD)
Total Exports	30	12	50	20	0	20	(1000 HEAD)
TOTAL Exports	30	12	50	20	0	20	(1000 HEAD)
Cow Slaughter	1160	1110	1250	1200	0	1220	(1000 HEAD)
Calf Slaughter	60	40	75	50	0	60	(1000 HEAD)
Other Slaughter	1180	1300	1275	1400	0	1420	(1000 HEAD)
Total Slaughter	2400	2450	2600	2650	0	2700	(1000 HEAD)
Loss	400	350	400	300	0	280	(1000 HEAD)
Ending Inventories	12516	12334	12316	12054	0	11804	(1000 HEAD)
TOTAL DISTRIBUTION	15346	15146	15366	15024	0	14804	(1000 HEAD)
Calendar Yr. Imp. from U	0	0	0	0	0	0	(1000 HEAD)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 HEAD)

Not Official USDA Data

Prices Table

Country Uruguay

Commodity Animal Numbers, Cattle

Prices in **US\$** per uom **kg.** (*)

Year	2005	2006	% Change
Jan	0.85	0.89	5%
Feb	0.85	0.92	8%
Mar	0.87	0.92	6%
Apr	0.86	0.9	5%
May	0.87	0.91	5%
Jun	0.91	0.97	7%
Jul	0.94		-100%
Aug	0.95		-100%
Sep	0.95		-100%
Oct	0.94		-100%
Nov	0.92		-100%
Dec	0.89		-100%

Exchange Rate **23.9** Local Currency/US \$

Date of Quote **7/28/2006** MM/DD/YYYY

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(*) Live steer

Not Official USDA Data

Prices Table

Country Uruguay

Commodity Meat, Beef and Veal

Prices in **US\$** per uom **kg** (*)

Year	2005	2006	% Change
Jan	1.62	1.67	3%
Feb	1.62	1.72	6%
Mar	1.64	1.73	5%
Apr	1.62	1.71	6%
May	1.63	1.72	6%
Jun	1.69	1.8	7%
Jul	1.73		-100%
Aug	1.73		-100%
Sep	1.74		-100%
Oct	1.72		-100%
Nov	1.71		-100%
Dec	1.67		-100%

Exchange Rate **23.9** Local Currency/US \$

1

Date of Quote **7/28/2006** MM/DD/YYYY

(*) Wholesale prices

No Official USDA Data