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# **HONDURAS**

## **Livestock**

### **Annual Livestock-Revised**

# **1999**

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#### **Report Highlights:**

- **Mitch deals a serious blow to Honduras livestock industry accelerating the downward trend in the national her. Ending inventories could drop to 1.6 million head by the year 2000.**
  - **Mitch causes an estimated loss of 50,000 head in 1998 alone.**
  - **Although improving, pasture conditions were greatly affected by Mitch resulting in further animal losses and forces slaughter.**
  - **Beef exports grind to a near halt.**
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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Tegucigalpa, HONDURAS

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## **Executive Summary**

Hurricane Mitch has accelerated the downward momentum in Honduras' livestock industry. Herd numbers are estimated to be shrinking rapidly as a result of direct animal losses attributable to Mitch, poor pasture conditions, and depressed market conditions for both beef and milk. It is expected that ending inventories in 1999 will fall to approximately 1.7 million head. Unless improvements in producer prices and serious investment in the sector materialize, an upturn in animal numbers is not foreseen over the next 3 to 5 years.

With deteriorating disposable family income and rising consumer beef prices, demand for local beef is weak and barely keeping up with population growth. Understandably, many consumers are substituting beef with less expensive poultry meat. Even so, export opportunities do exist for animal genetics and to a lesser extent for U.S. beef in certain niche markets. While total imports of beef are falling, imports from the U.S. are increasing according to U.S. trade data. However, U.S. suppliers should understand that they must work with small volumes and assist their customers in order to find their niche in the market.

<b>PSD Table</b>						
<b>Country:</b>						
<b>Commodity:</b>						
		<b>1998</b>		<b>1999</b>		<b>2000</b>
	<b>Old</b>	<b>New</b>	<b>Old</b>	<b>New</b>	<b>Old</b>	<b>New</b>
<b>Calendar Year Begin</b>		<b>01/1998</b>		<b>01/1999</b>		<b>01/2000</b>
<b>Total Cattle Beg. Stks</b>	<b>1945</b>	<b>1945</b>	<b>1830</b>	<b>1824</b>	<b>0</b>	<b>1693</b>
<b>Dairy Cows Beg. Stocks</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Beef Cows Beg. Stocks</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Production (Calf Crop)</b>	<b>340</b>	<b>340</b>	<b>345</b>	<b>307</b>	<b>0</b>	<b>287</b>
<b>Intra EC Imports</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Other Imports</b>	<b>35</b>	<b>35</b>	<b>35</b>	<b>35</b>	<b>0</b>	<b>35</b>
<b>TOTAL Imports</b>	<b>35</b>	<b>35</b>	<b>35</b>	<b>35</b>	<b>0</b>	<b>35</b>
<b>TOTAL SUPPLY</b>	<b>2320</b>	<b>2320</b>	<b>2210</b>	<b>2166</b>	<b>0</b>	<b>2015</b>
<b>Intra EC Exports</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Other Exports</b>	<b>211</b>	<b>211</b>	<b>211</b>	<b>200</b>	<b>0</b>	<b>180</b>
<b>TOTAL Exports</b>	<b>211</b>	<b>211</b>	<b>211</b>	<b>200</b>	<b>0</b>	<b>180</b>
<b>Cow Slaughter</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Calf Slaughter</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Other Slaughter</b>	<b>128</b>	<b>110</b>	<b>128</b>	<b>123</b>	<b>0</b>	<b>123</b>
<b>Total Slaughter</b>	<b>128</b>	<b>110</b>	<b>128</b>	<b>123</b>	<b>0</b>	<b>123</b>
<b>Loss</b>	<b>151</b>	<b>175</b>	<b>111</b>	<b>150</b>	<b>0</b>	<b>110</b>
<b>Ending Inventories</b>	<b>1830</b>	<b>1824</b>	<b>1760</b>	<b>1693</b>	<b>0</b>	<b>1602</b>
<b>TOTAL DISTRIBUTION</b>	<b>2320</b>	<b>2320</b>	<b>2210</b>	<b>2166</b>	<b>0</b>	<b>2015</b>
<b>Calendar Yr. Imp. from U.S.</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Calendar Yr. Exp. to U.S.</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

PSD Table						
Country:	Honduras				< -Conversion factor for CWE	
Commodity:	Cattle					
		1998		1999		2000
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1998		01/1999		01/2000
Slaughter (Reference)	128	110	128	123	0	123
Beginning Stocks	0	0	0	0	0	0
Production	22	19	22	21	0	21
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	22	19	22	21	0	21
Intra EC Exports	0	0	0	0	0	0
Other Exports	6	3	6	3	0	3
TOTAL Exports	6	3	6	3	0	3
Human Dom. Consumption	16	16	16	18	0	18
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	16	16	16	18	0	18
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	22	19	22	21	0	21
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

## PRODUCTION

In analyzing the Honduran livestock sector, it is important to keep in mind that hard data on the subject are hard to come by. Therefore, PS&D numbers should not be viewed as precise figures but rather as estimates of probable trends.

After having endured many years of hardship culminating in a severe drought brought about by El Niño in 1997 and 1998, Honduras' livestock industry has been crippled by hurricane Mitch. Although precise numbers are not available, it is estimated that Mitch caused roughly 50,000 animal deaths. In a preliminary analysis conducted soon after Mitch, the Honduran Farmer and Cattlemen's Federation (FENAGH) reported bovine animal losses of about 45,000 head, based on reports from its member associations throughout the country. Besides the direct cattle losses, the dramatic damage caused to pastures around the country also brought about an ensuing decline in animal numbers. Cattle ranches in the northeastern Aguan Valley and in

the southern and southeastern parts of the country were the hardest hit. Many pastures throughout Honduras that were adjacent to rivers suffered greatly, either by excess rainfall, flooding, sand and silt damage, and/or erosion. Consequently, many cattlemen who did not have the means to feed their animals were temporarily forced to sell part of their herds for slaughter. Many cattlemen also suffered losses to their productive infrastructure, namely fences, corrals, sheds, equipment, etc. With most producers having outstanding loans of some sort, this loss of productive capacity became an incentive for further slaughter. Given the poor prospects for the industry's future, many livestock producers on Honduras' Atlantic coast are switching to African palm production. Some of Honduras' largest cattle ranches have already been sold for this purpose.

As if the devastating effects of Mitch were not enough, over the years market conditions have slowly been taking their toll on Honduras livestock sector, particularly on the beef side. Honduras has five plants approved to export beef to the United States but in recent years most of them have been shutdown more often than they have operated due to depressed beef prices in the United States. Rather large illegal exports of live animals have also drawn animal supplies away from the beef industry.

On the dairy side of the business, the situation is not much better. FENAGH estimates that 60 percent of all dairy operations were affected to some extent. Mitch reaped havoc on Honduras' road network, particularly on secondary and tertiary roads in rural areas which are the lifeline of dairy producers. Without being able to get their milk to the major dairy plants, many dairy producers suffered dearly. Rather large volumes of donated powder milk reportedly found their way to artisan cheese producers, which normally buy a large share of raw milk from dairy producers. With donated product on their hands, these cheese producers dropped the farm-gate milk price from about Lps. 4.50 to Lps. 2.00 (\$0.31 to \$0.14) per liter in 1999. Dairy plants are currently buying raw milk at approximately Lps 5.00 (\$0.35) per liter, but it is estimated that they absorb less than half of the country's fluid milk production. The fact that El Salvador, which normally buys a large share of Honduran cheese, is making it increasingly difficult for Hondurans to export their product to El Salvador vis-a-vis pasteurization requirements does not bode well for the future.

The overall sectoral outlook over the next three to five years is grim. Despite the fact that this year's rainy season seems to be contributing to a recovery of pastures and that road repairs (albeit temporary in many cases) are allowing livestock producers to transport their animals and products to market, the market conditions they are encountering are less than favorable. Cattlemen are facing overwhelming odds and relief is nowhere to be found. Thus, the downward trend in animal numbers is expected to continue with herd levels possibly dropping to 1.6 million head by the end of the year 2000.

Livestock operations in Honduras, which total nearly 100,000, are characterized by mostly small to medium sized producers. Approximately half of all cattle ranches are 50 hectares or less, and 95 percent of all ranches have less than 100 head. Dual-purpose operations dominate the Honduran livestock scene. Only 9 percent of livestock operations specialize in meat production and a mere 7 percent in dairy production. The lack of specialization is reflective of the limited level of technology utilized in most cattle operations. Depending on relative prices of beef and milk, dual-purpose operations concentrate efforts on one product or the other, which results in a high degree of inefficiency overall.

The vast majority of bovine animals in Honduras are grass fed only. While a large percentage of land area is devoted to pastures, improved varieties are not widespread and soil conditions often do not permit adequate pasture growth. Forage management practices are rudimentary in many cases as well. Supplemental feeding is prevalent only among a small percentage of operations which possess a high degree of technology.

As a result of the poor nutritional state of the majority of animals and inadequate herd management, reproductive efficiency is low.

## CONSUMPTION/UTILIZATION

Although beef is one of the main components of the typical Honduran meal, rapidly escalating beef prices over the years have forced most Hondurans to cut back sharply on beef consumption. Despite the fact that most Hondurans prefer beef over other meats, many are having to make the switch to chicken meat strictly for price reasons. With an annual per capita income below \$700 (one of the lowest in the western hemisphere) and inflation chipping away at family budgets, price has inevitably remained the main factor affecting consumer spending. The table that follows illustrates the rise in beef prices relative to chicken.

(All prices per pound)					
April 1998			April 1999		
	Lempiras	\$ 1/	Lempiras	\$ 2/	% Change 3/
-----					
Beef					
Cutlet	22.13	1.66	23.83	1.70	7.7
Liver	16.14	1.21	17.37	1.24	7.6
Ribs	13.48	1.01	14.72	1.05	9.2
Pork					
Chops	22.88	1.71	23.86	1.70	4.3
Ribs	21.99	1.65	23.16	1.65	5.3
Cutlet	25.57	1.91	26.05	1.86	1.9
Chicken					
Broiler	14.09	1.05	13.87	0.99	-1.6
-----					
1/ - Avg. exchange rate in 04/98:	US\$1.00 = Lempiras 13.36				
2/ - Avg. exchange rate in 04/99:	US\$1.00 = Lempiras 14.04				
3/ - Lempira terms.					
SOURCE: Central Bank of Honduras.					

Animal slaughter, which has increased temporarily in 1999 due to reasons outlined above, is not expected to exhibit any increase in the foreseeable future given prevailing market conditions for beef.

<b>Import Trade Matrix</b>		<b>Animal Numbers</b>		
<b>Country:</b>			<b>Units:</b>	<b>1000 MT CWE</b>
<b>Commodity:</b>			<b>Partial Begin:</b>	<b>Jan</b>
			<b>Partial End:</b>	
<b>Exports for</b>	<b>1997</b>	<b>1998</b>	<b>1998</b>	<b>1999</b>
	<b>Full</b>	<b>Full</b>	<b>Partial</b>	<b>Partial</b>
<b>U.S.</b>				
<b>Others</b>				
<b>Nicaragua</b>	<b>35000</b>	<b>35000</b>	<b>35000</b>	<b>35000</b>
<b>Total for Others</b>	<b>35000</b>	<b>35000</b>	<b>35000</b>	<b>35000</b>
<b>Others not listed</b>				
<b>Grand Total</b>	<b>35000</b>	<b>35000</b>	<b>35000</b>	<b>35000</b>



<b>Export Trade Matrix</b>		<b>Animal Numbers</b>		
<b>Country:</b>			<b>Units:</b>	<b>1000 MT CWE</b>
<b>Commodity:</b>			<b>Partial Begin:</b>	<b>Jan</b>
			<b>Partial End:</b>	
<b>Exports for</b>	<b>1997</b>	<b>1998</b>	<b>1998</b>	<b>1999</b>
	<b>Full</b>	<b>Full</b>	<b>Partial</b>	<b>Partial</b>
<b>U.S.</b>				
<b>Others</b>				
<b>Guatemala</b>	<b>163000</b>	<b>163000</b>	<b>163000</b>	<b>160000</b>
<b>El Salvador</b>	<b>48000</b>	<b>48000</b>	<b>48000</b>	<b>40000</b>
<b>Total for Others</b>	<b>211000</b>	<b>211000</b>	<b>211000</b>	<b>200000</b>
<b>Others not listed</b>				
<b>Grand Total</b>	<b>211000</b>	<b>211000</b>	<b>211000</b>	<b>200000</b>

<b>Import Trade Matrix</b>		<b>Meat</b>		
<b>Country:</b>			<b>Units:</b>	<b>1000 MT CWE</b>
<b>Commodity:</b>			<b>Partial Begin:</b>	<b>Jan</b>
			<b>Partial End:</b>	
<b>Exports for</b>	<b>1997</b>	<b>1998</b>	<b>1998</b>	<b>1999</b>
	<b>Full</b>	<b>Full</b>	<b>Partial</b>	<b>Partial</b>
<b>U.S.</b>	<b>50</b>	<b>22</b>	<b>22</b>	<b>30</b>
<b>Others</b>				
<b>Guatemala</b>	<b>193</b>	<b>101</b>	<b>101</b>	<b>95</b>
<b>El Salvador</b>	<b>3</b>			
<b>Total for Others</b>	<b>196</b>	<b>101</b>	<b>101</b>	<b>95</b>
<b>Others not listed</b>		<b>1</b>	<b>1</b>	
<b>Grand Total</b>	<b>246</b>	<b>124</b>	<b>124</b>	<b>125</b>

<b>Export Trade Matrix</b>		<b>Meat</b>		
<b>Country:</b>			<b>Units:</b>	<b>1000 MT CWE</b>
<b>Commodity:</b>			<b>Partial Begin:</b>	<b>Jan</b>
			<b>Partial End:</b>	
<b>Exports for</b>	<b>1997</b>	<b>1998</b>	<b>1998</b>	<b>1999</b>
	<b>Full</b>	<b>Full</b>	<b>Partial</b>	<b>Partial</b>
<b>U.S.</b>	<b>5425</b>	<b>767</b>	<b>767</b>	<b>750</b>
<b>Others</b>				
<b>Guatemala</b>		<b>705</b>	<b>705</b>	<b>700</b>
<b>El Salvador</b>	<b>11</b>	<b>194</b>	<b>194</b>	<b>200</b>
<b>Portugal</b>	<b>20</b>			
<b>UAE</b>	<b>16</b>			
<b>Total for Others</b>	<b>47</b>	<b>899</b>	<b>899</b>	<b>900</b>
<b>Others not listed</b>		<b>126</b>	<b>126</b>	<b>125</b>
<b>Grand Total</b>	<b>5472</b>	<b>1792</b>	<b>1792</b>	<b>1775</b>

## TRADE

As mentioned earlier, illegal movement of live animals to neighboring countries is one of the main culprits of Honduras' poor livestock situation. A sizeable demand for cattle in Mexico's Yucatan peninsula prompts rather large northern movement of Central American cattle each year. Honduras, which has traditionally been one of the regions' largest cattle producers, often supplies this market indirectly through its exports to Guatemala. It is estimated that Honduras exports approximately 160,000 head to Guatemala. Another 50,000 head are also exported to El Salvador, bringing total live animal exports to an estimated 211,000 head in 1998. For the same reasons outlined above, between 25,000 to 35,000 head of cattle move into Honduras each year from Nicaragua, partially offsetting the rather large export numbers. Given the rapid

depletion of the national herd, illegal exports of live animals are expected to slow somewhat in the coming years.

After having exported over 16,000 MT of beef annually to the United States only five years ago, beef exports have dropped off precipitously in recent years. According to the Central Bank of Honduras which reports export numbers on a product weight basis, in 1998 Honduras exported a mere 1,792 MT of beef, down 67 percent from its 1997 level. The average export price actually increased from \$0.91 per pound in 1997 to \$1.00 per pound in 1998 according to Central Bank data. However, the dramatic decline in export volume offset this increase in value. As mentioned earlier, the lack of cattle has forced many of Honduras' beef export plants to shut down. In past years about 60-65 percent of Honduran beef was directed to the U.S. mainland (primarily to the Miami market) with the remainder going to Puerto Rico. However, a few shipments to the U.S. make up almost the totality of Honduras beef exports now. Usually industrial quality meat is exported to the Miami market while more expensive cuts are exported to Puerto Rico.

## **POLICY**

With the enormous level of damage Mitch brought to Honduras' commercial export crops (bananas, sugarcane, cultivated shrimp, coffee, and others) livestock production has had to take a back seat to other priorities. The Government of Honduras (GOH) is trying to inject funds into the agricultural sector but so far it is having little success in effectively reaching the livestock industry. Through the National Production and Housing Fund (FONAPROVI) the GOH has made available roughly Lps. 900 million (\$63 million) in credit to private financial institutions for use in the agricultural sector. FONAPROVI provides the funds to commercial banks at subsidized rates but so far little is being loaned to farmers and cattlemen. Despite their excess liquidity, as a rule of thumb banks are usually reluctant to lend to high-risk agricultural ventures. Most banks are no longer willing to accept rural collateral while producers have little else to offer. Moreover, many cattlemen were already in debt prior to Mitch and with their new losses they are simply unable to repay their loans. Consequently, refinancing their old loans and obtaining fresh credit under these circumstances is not an easy task. FENAGH is trying to reach an agreement with the banking industry and the GOH which would allow cattlemen fresh credit at soft terms. The GOH, which maintains informal control over consumer milk prices, is also considering raising milk prices in order to benefit dairy producers. However, raising consumer milk prices is a political game and with an impending drastic increase in fuel prices scheduled for August, the GOH may be hard pressed to keep consumer prices in check for the time being.

## **MARKETING**

The immediate potential for market development in the animal genetics field is small. Nonetheless, imports of breeding animals, semen, and even embryos do take place by the larger and more sophisticated operations. If market conditions for animal products improve and credit is made available, imports of genetics could expand in order to rebuild the sector. However, U.S. suppliers need to be aware that a special effort is required to promote their products and make sales in Honduras, such as having a greater presence in local livestock shows, providing technical assistance to their customers, working with livestock associations to disseminate information, and exploring credit possibilities such as GSM-102 or 103.

The potential for U.S. beef is also small but growing. According to U.S. trade statistics, the United

States exported a record high \$2.3 million worth of fresh/chilled/frozen red meats to Honduras in 1998, up from nearly \$0.5 million in 1997. The development, albeit slow, of Honduras' food distribution and tourism sectors is gradually opening the door to U.S. products. New hotels, U.S. restaurant chains, and U.S. membership warehouses springing up in major urban areas promise to pave the way for more U.S. beef imports in the future. Although still in their infancy, food service operations are becoming active in the market as well. Unfortunately, there is still a noticeable shortage of refrigerated and frozen storage space at practically all levels of the distribution chain. Scarce foreign exchange and low disposable income are also a limitation. Therefore, special effort by U.S. suppliers is also required to establish a presence in the market and build on the quality image enjoyed by U.S. food products. At the moment there is little U.S. product or brand recognition even among the most sophisticated consumers. U.S. firms must be prepared to work with small volumes at first as well as help distributors and retailers effectively promote the product.

Domestic marketing is dominated by dozens of municipal slaughter plants in rural areas which in many cases go unchecked by government inspection. Consequently, sanitary conditions are generally less than ideal in most of these plants. In the few major urban areas the larger and more sophisticated slaughter facilities, including those which produce for export, are subject to government inspection. Generally speaking, in urban areas there are several intermediaries involved in the distribution chain which supply open markets, supermarkets, butcher shops, and other retailers. Even in urban areas, refrigeration and sanitary conditions are adequate only in establishments which cater to the middle and upper income groups. Marketing by export plants is quite different. For the most part, export plants work closely together as an oligopoly offering producers similar prices for their animals and often marketing their product in the United States in a joint manner.