

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Uruguay

## Livestock and Products Annual

**2015**

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**Report Highlights:**

Uruguayan beef exports for 2016 are forecast at 395,000 tons carcass weight equivalent (cwe), the highest in the past ten years. An expected larger slaughter will result in higher beef output and exports. Uruguayan domestic consumption is forecast to remain quite similar to the previous two years, as result of a slowdown in the world and local economy. Consumption of poultry and pork are forecast to continue to expand.

## **Executive Summary:**

### **Commodities:**

Animal Numbers, Cattle

Meat, Beef and Veal

### **Author Defined:**

#### Production

Uruguayan beef production for 2016 is projected at 600,000 tons cwe, the highest since 2006. This is a result of an expected firm demand from slaughter houses needing to maintain market share and an expected steady demand from foreign buyers. The total country's slaughter is forecast at 2.4 million head, the highest of the past ten years, as the record calf crops of 2013 and 2014 will provide abundant fed cattle to the market.

Most contacts agree that the herd is no longer in a retention phase as the number of cows in the slaughter has increased, mainly due to the lower price of feeder cattle and tight returns in cow-calf operations. The calf crop in 2016 is forecast to drop marginally because there will be fewer cows put into breeding. However, the calf crop is expected to be somewhat in balance with slaughter levels plus cattle losses along with the exportation of a significant number of animals is expected to put downward pressure on ending inventories. Most analysts project lower ending stocks for 2016 at 11.9 million head.

Although the local feedlot business in Uruguay is relatively small, it is growing, taking advantage of low feed grain prices and stable export beef prices. Cattle coming out from feedlots in 2014 accounted for about 9 percent of the total country's slaughter, share which is projected to increase to a record 12-14 percent in 2016. The main reasons for the expansion are: 1) low world feed grain prices, 2) good price relation between feeders and fed cattle, 3) good prices obtained from beef exports to the EU under the 481 quota, and 4) the implementation of the land use plan that is expected to increase the area and supply of feed grains in the future. The country has a capacity to feed about 250,000 head in confinement with the possibility of having 3 shifts a year. Large export plants own 4-5 feedlots accounting for roughly 50 percent of the capacity, while the rest is in hands of independent producers. About 80 percent of the cattle placed in feedlots are steers which enter with 350-380 kilos and are finished at 480-500 kilos. There are practically no custom cattle feeding services in Uruguay.

Despite lower world beef prices (Uruguay's average export price has only dropped 3 percent in the first six months of 2015), local exporters are optimistic about 2016 and 2017 as the big world beef exporters will likely have somewhat lower supplies to offer. They indicate that Brazil and the US will be in a cattle retention phase, while Australia is forced to slaughter more cattle than desired due to weather problems.

Since 2013, Uruguay has a law which regulates the use of land and soil as a way to preserve soil productivity. Producers who plant more than 100 hectares have to comply with a crop rotation scheme. This could make

some 200,000 hectares of soybeans in fragile production environments go into feed grain production or even pastures in crop season 2015-16. This situation could favor the demand of feeder cattle.

As of mid-August, local fed steer prices averaged US\$2.10 per live kilo, and male calves are sold at US\$2.30 per kilo. Some cattle analysts forecast cattle prices in 2016 to be slightly weaker than current values. This could somewhat hurt returns of cow calf operations.

There are 36 meat packing plants in Uruguay with a slaughter capacity of 3.0-3.5 million head. In 2016 the capacity in use is projected at 75 percent. Three large Brazilian companies own 7 plants which represent about 40 percent of the country's slaughter. A few months ago a Chinese company bought a small packing plant as a way of entering the market. Most contacts believe that this plant will be expanded and do not discard that some other local plants could be purchased in the future. There is one plant owned by British capital and one owned by an Argentine company. All the rest are owned by local capital.

The local sector and the government put a lot of effort to position Uruguayan beef as natural and wholesome to differentiate it from other beef suppliers. The cattle and beef traceability programs are key aspects of this strategy. All cattle are traced with electronic tags. In September 2015 Uruguay is expected to export the first shipment of beef to the US under USDA's "Never Ever 3" certification, by which the exported beef is produced from cattle that never received antibiotics, growth promoters or any animal by-products.

Uruguay continues to enjoy a very good sanitary status recognized by the World Organization for Animal Health (OIE). It is free of foot and mouth disease with vaccination and has a negligible risk to BSE. The country has access to roughly 120 markets, with Japan the only major market closed. Having so many markets open is very important for the sector, as exports represent roughly 60-70 percent of total beef production and the industry is one of the country's key economic industries.

## Consumption

Domestic beef consumption for 2016 is forecast at 207,000 tons cwe, practically unchanged from the previous two years. Contacts indicate that despite an expected larger beef output, the domestic demand is forecast to remain flat because the world and Uruguay's economy are expected to slow down and alternative meats are expected to continue to grow in popularity.

Uruguayans are very fond of beef; in fact they consistently rank as one of the world's top per capita consumers. However, consumption of less expensive poultry and pork is growing. Per capita consumption in 2015 is estimated at 58 kilos of beef, 23 kilos of poultry and 13 kilos of pork. However, there has lately been in the news information about significant volumes of poultry coming in from Brazil that is mainly marketed in the northern part of the country. Half of the pork consumed is imported from Brazil which is mainly used for processed products such as sausages and cold cuts. Fresh pork is now seen in most supermarkets. Sheep meat used to be relatively popular but its consumption has diminished significantly.

The most popular beef cuts are ground beef, due to its versatility and easiness of cooking. Then follow "milanesas" which is breaded veal made from round cuts, short ribs and point of rump for weekend barbecues. Meat packers usually sell locally these two cuts at higher prices than if exported.

Roughly half of the beef sold in Uruguay is through supermarkets and the other half through independent butcheries/groceries. This share is quite stable. Beef distributors typically sell quarters and vacuum packed complements. At the supermarket customers can either buy beef in trays prepared at the stores or choose cuts from the store's butchery. Vacuum packed beef cuts represent a small share of sales, as people are not too used to them, and they are normally more expensive. Angus and Hereford have their own beef brands. Some meatpackers also have their own brands.

## Trade

Beef exports for 2016 are forecast at 395,000 tons cwe, the highest since 2006. An expected larger slaughter would provide additional beef which is projected to be entirely directed to the export market as the domestic market is expected to remain stagnant.

Roughly 80 percent of Uruguayan beef exports is frozen boneless beef with the remaining balance is chilled boneless beef and a small volume of thermoprocessed beef products. However, in 2015 and 2016, exports of chilled beef are expected to diminish somewhat as shipments to Brazil and Chile are expected to drop slightly.

China is forecast to continue to be the dominant market, which in the first half of 2015 accounted for 44 percent of the country's beef exports. However, there are doubts about the impact of the recent economic changes in that country. Uruguay exports to China all types of cuts with the exception of rump and loin which is primarily directed to the EU. Exports are primarily frozen and boneless cuts, but bone in cuts and very small volumes of premium chilled cuts are also shipped. Shin shank is exported in large volumes.

The second most important market is projected to be the US, which in the first 6 months of 2015 accounted for roughly 20 percent of total beef exports. This is a large share compared to normal years, as the US market is in great demand for beef and pays good prices. The average export value in the first semester of 2015 to the US was US\$5,630 per ton and to China it was US\$4,150 per ton. The bulk of the exports to the US are normally frozen, lean trimmings (90 percent chemical lean). Uruguay also exports hind quarter cuts, chilled premium cuts for niche markets and thermoprocessed beef (primarily corned beef and IQF beef). In the next few weeks Uruguay is expected to export to the US the first shipment of "Never Ever 3", a program by which USDA certifies that cattle never received antibiotics, growth promoters or animal by-products. This is a niche market for export only.

The third most important market (in volume) in 2016 is forecast to be the EU. Uruguay is expected to fulfill the 6,300 tons of Hilton Quota with chilled premium beef cuts. Exports to the EU under the 481 Quota, which requires cattle to be younger than 30 months and that at least the last 100 days have been fed with grains or their by-products, are projected to continue at a good pace. Exports under this quota in 2014/15 totaled 11,000 tons and are forecast to increase in 2015/16. About 70-80 percent of the cattle slaughtered for the 481 Quota are steers weighing 480-500 kilos. Until recently, Uruguay fulfilled this zero tariff rate quota with 17-18 different cuts, but nowadays, exporters are shipping only 6-8 cuts. Uruguay also exports to the EU significant volumes of beef outside these two quotas.

Israel is a very stable market for Uruguayan beef, purchasing roughly 20-25,000 tons a year. Contacts indicate that in 2015 exports are somewhat delayed as the Kosher certification groups delayed their arrival. Israel buys typically frozen, boneless, forequarter cuts.

Brazil is a market which primarily buys top sirloin and point of rump. However, exports are projected to slow down in 2015 and 2016 due to their economic difficulties and the strong devaluation.

Exports to the Russian market in 2015 and 2016 are projected to continue to drop. This market was number one in 2008-2012. It first suffered great competition from China and also lately from the US.

Chile was a very important market during 2010-13, when Paraguay, its main supplier had problems with foot and mouth disease. However, since the reopening in late 2012, Paraguayan beef has been regaining its historic market share, displacing other suppliers such as Uruguay.

Uruguay regularly exports live cattle. Although difficult to estimate, these could range between 140-160,000 head for 2015 and 2016. Turkey and Egypt are the main markets, buying primarily uncastrated male calves. China every now and then buys primarily dairy cattle.

## Stocks

Ending stocks for 2016 are forecast to drop marginally, primarily as a result of a smaller calf crop and an expected larger slaughter.

## Policy

Contacts indicate that the sector continues to develop in a free environment. The government together with the local industry works hard in maintaining a high sanitary standard and in promoting and positioning Uruguayan beef as natural and wholesome.

## Production, Supply and Demand Data Statistics:

| Animal Numbers, Cattle<br>Market Begin Year<br>Uruguay | 2014          |          | 2015          |          | 2016          |          |
|--|---------------|----------|---------------|----------|---------------|----------|
|  | Jan 2014      |          | Jan 2015      |          | Jan 2016      |          |
|  | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Total Cattle Beg. Stks                                 | 11903         | 11903    | 12108         | 12053    | 0             | 12063    |
| Dairy Cows Beg. Stocks                                 | 380           | 380      | 380           | 370      | 0             | 360      |
| Beef Cows Beg. Stocks                                  | 4300          | 4300     | 4200          | 4200     | 0             | 4150     |
| Production (Calf Crop)                                 | 2800          | 2800     | 2700          | 2750     | 0             | 2700     |

|                           |       |       |       |       |   |       |
|---------------------------|-------|-------|-------|-------|---|-------|
| <b>Total Imports</b>      | 0     | 0     | 0     | 0     | 0 | 0     |
| <b>Total Supply</b>       | 14703 | 14703 | 14808 | 14803 | 0 | 14763 |
| <b>Total Exports</b>      | 155   | 140   | 70    | 160   | 0 | 140   |
| <b>Cow Slaughter</b>      | 1000  | 1030  | 1100  | 1100  | 0 | 1175  |
| <b>Calf Slaughter</b>     | 15    | 15    | 15    | 15    | 0 | 15    |
| <b>Other Slaughter</b>    | 1125  | 1155  | 1135  | 1135  | 0 | 1210  |
| <b>Total Slaughter</b>    | 2140  | 2200  | 2250  | 2250  | 0 | 2400  |
| <b>Loss</b>               | 300   | 310   | 300   | 330   | 0 | 300   |
| <b>Ending Inventories</b> | 12108 | 12053 | 12188 | 12063 | 0 | 11923 |
| <b>Total Distribution</b> | 14703 | 14703 | 14808 | 14803 | 0 | 14763 |
|                           |       |       |       |       |   |       |
| (1000 HEAD)               |       |       |       |       |   |       |

| Meat, Beef and Veal<br>Market Begin Year<br>Uruguay | 2014          |          | 2015          |          | 2016          |          |
|---|---------------|----------|---------------|----------|---------------|----------|
|   | Jan 2014      |          | Jan 2015      |          | Jan 2016      |          |
|   | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Slaughter (Reference)                               | 2140          | 2200     | 2250          | 2250     | 0             | 2400     |
| Beginning Stocks                                    | 0             | 0        | 0             | 0        | 0             | 0        |
| Production  | 550           | 555      | 575           | 565      | 0             | 600      |
| Total Imports                                       | 3             | 3        | 1             | 2        | 0             | 2        |
| Total Supply  | 553           | 558      | 576           | 567      | 0             | 602      |
| Total Exports                                       | 350           | 350      | 375           | 360      | 0             | 395      |
| Human Dom. Consumption                              | 203           | 208      | 201           | 207      | 0             | 207      |
| Other Use, Losses                                   | 0             | 0        | 0             | 0        | 0             | 0        |
| Total Dom. Consumption                              | 203           | 208      | 201           | 207      | 0             | 207      |
| Ending Stocks                                       | 0             | 0        | 0             | 0        | 0             | 0        |
| Total Distribution                                  | 553           | 558      | 576           | 567      | 0             | 602      |
|   |               |          |               |          |               |          |

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