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Uruguay

Livestock and Products Annual

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Report Highlights:
Uruguayan beef exports for 2017 are forecast down marginally at 382,000 tons carcass weight equivalent. This is a result of a projected small drop in beef production. Overall, most industry players do not foresee significant changes from 2015 and 2016.

Commodities:

Animal Numbers, Cattle

Meat, Beef and Veal

Production

Uruguayan beef production for 2017 is projected at 570,000 tons carcass weight equivalent (cwe), practically unchanged from the past two years. Neither the number of cattle slaughtered nor the average carcass weight are forecast to change significantly from 2016 and 2015. A combination of the country's cattle cycle, with the herd peaking in 2015 at over 12 million head, and weak FOB prices is affecting the local industry negatively with lower fed cattle prices. The industry reports a higher-than-normal level of slaughter of cows and heifers, resulting in slight herd liquidation. However, and contradictory enough, the price of feeder cattle remains strong. This is explained by the robust demand of live cattle for export and demand for feeders to repopulate land which was converted to crop production in the past few years and is now returning to livestock production. A greater number of cows slaughtered, weather problems, and tighter producer returns are expected to result in somewhat smaller calf crops in 2016 and 2017.

Although Uruguay's average FOB prices have lately stabilized, prices in the first semester of 2016 dropped 12 percent compared to the same period last year. Prices in China, Uruguay's main destination, were the lowest since 2011. FOB prices in most other markets were also lower, but not as much. Exports in Uruguay account for roughly 65-70 percent of the total beef production, having a direct impact on local cattle prices. Through July 2016, the average price for fed steers was US$1.51 per live kilo (in August prices increased to US$1.70 per kilo), the lowest prices since 2010. Current male calves are selling for US$2.10-2.15 per live kilo, resulting very high compared to fed cattle prices.

The feedlot business in Uruguay continues quite stable, with approximately 250-300,000 head going to market each year. However, it is expected to contract somewhat in 2016 and 2017 as returns are very tight because feeder prices are way higher than those of fed cattle and feed costs have gone up. Most cattle finished in feedlots are steers. There are approximately 1.8 million head finished on pastures, of which 45-50 percent are cows (and a small number of heifers) and the balance are steers, which many cattlemen supplement with grains during the last stage of production. Sorghum is the main grain used as it is widely produced in the country. Some large feedlots have incorporated the use of corn DDGS imported from Argentina which has recently developed a new grain ethanol industry. In 2015/16 feedlots have also used wheat due to its poor protein content and low price. There are only two large custom feedlots in Uruguay with an instant capacity of 15-20,000 head each and 2-3 operations of 500-1,000 head. All the rest are feedlots operated exclusively by cattlemen in their own ranches/farms. The 481 beef quota provided by the EU is the main driver of the local feedlot business. Contacts estimate that some 200,000 head per year are fed to attend this special, profitable niche business. Typically producers feed steers weighing 360-400 kilos and send them to slaughter weighing 500-520 live kilos after 100-120 days.

Uruguay has very good natural conditions for raising cattle with temperate weather and good productive pastureland. The average weaning ratio is good compared to other countries in the region. However, contacts indicate that the improvement of the herd's efficiency will be a slow process as many cattlemen will need to change deep-rooted management habits. Another reason is that fed cull cows sell for only 20 percent less than fed steers, resulting in a significant share of the producers' income. The current price of a breeding cow is about the same than a fed cow (US$550 each).

Cattle in Uruguay are almost all based on Hereford and Angus breeds. Until ten years ago, Hereford was by far the dominant breed, but lately Angus has expanded significantly.

Uruguay currently has 36 processing plants in operation. There are two Brazilian companies which own 7 plants in total. A Chinese meat company recently purchased two medium-sized plants and the country's number one slaughter plant is owned by British capital. These plants together account for approximately 50 percent of the country's processing capacity, which totals roughly 3.0-3.5 million head. In general, the economic and financial condition of the industry is good.

Since 2006, Uruguay has all its cattle identified and 85 percent traced. It also has a traceability system in place in most slaughter plants by which the different processing stages are controlled and each beef cut can eventually be traced back to the animal from which it originated. These systems, the quality of its beef, and the marketing of "Uruguayan Natural Beef", have helped Uruguay position successfully its beef around the world.

Uruguay has a very good sanitary standard recognized by the World Organization for Animal Health (OIE). The country is recognized as free of Foot and Mouth Disease with Vaccination and of negligible risk to BSE. Japan is the only major beef importing market which is still closed to Uruguayan beef. However, local exporters are confident it will open soon.

Consumption

Domestic beef consumption for 2017 is forecast at 192,000 tons (cwe), slightly lower than the previous two years. A projected smaller beef output is expected to have a minimal negative impact on the volume of exports as well as the local demand. The Uruguayan economy has also slowed down somewhat, resulting in a slightly weaker domestic demand. Most contacts forecast a minimal drop in beef consumption while poultry and pork demand are projected to rise marginally as prices are less expensive than beef.

INAC, Uruguay's National Meat Institute recently published a report on meat consumption in 2015 and how it has varied in the past ten years. The table below is a summary showing the per capita consumption in kilos by each different meat in 2006 and 2015, its variation in kilos and their price increase over the last 10 years:

Meat	Kg P.C. 2006	Kg P.C. 2015	Vol. Variation 2015-2006 in Kg	Price Variation 2015/2005 in %
Beef	51.2	57.6	6.4	160%
Sheep meat	6.2	3.8	-2.4	n.a.
Pork	9.0	16.9	7.9	107%
Broiler	17.7	20.4	2.7	103%
Total	84.1	98.7	14.6	114%*

* total inflation

Most beef consumed domestically is of heifers. However, there are a few cuts which traders sell domestically at higher prices than if they would sell abroad. This is the case of short ribs and point of rump, very popular in weekend barbecues. Also ground beef and round cuts for breaded veal have high demand.

The domestic beef distribution is split in halves between supermarkets and independent butcheries. Vacuum packed beef is small as it is normally more expensive and not everybody is use to it. Some breed associations and packers have branded beef to attend the higher end market.

Trade

Uruguayan beef exports for 2017 are forecast at 382,000 tons cwe, a marginal decrease from what is expected for 2016. This is a result of a projected lower beef production. Most traders see very little change in Uruguay's beef export product mix and its destinations. More than 50 percent of the volume is expected to be exported to China, followed by shipments to the US, EU and Israel. These four markets together are projected to account for more than 80 percent of Uruguay's beef exports. Other markets will likely be Canada, Brazil, and Chile. Beef exports through May 2016 totaled $560 million and 112,000 tons (product weight). Almost 84 percent (in volume) were frozen cuts, 14 percent chilled cuts and the balance thermoprocessed beef.

China imports primarily frozen trimmings and forequarter, boneless cuts. Imports of frozen bone in forequarter cuts started to increase in 2010-2011 and have been growing ever since. Exports of shin shank continue to be important. Of Uruguay's top destinations, China is the market which pays on average the lowest price. Local contacts indicate that Uruguay was the top exporter of beef to China in July 2016, outpacing Australia and New Zealand.

The US is expected to be the second largest market for Uruguayan beef in 2017. Frozen, forequarter boneless cuts and lean trimmings are the most demanded products. Exports of chilled, boneless cuts are relatively small. The US is by far the number one destination for Uruguay's exports of thermoprocessed beef, consisting primarily of corned beef and IQF beef. The US grants Uruguay a 20,000 tons (product weight) beef quota every year with a very low duty. In early 2016, the Uruguayan sanitary authorities suspended an important local slaughter plant which exported to the United States a few containers of beef were found to have residues of ethion, a pesticide commonly used to control ticks and flies which is prohibited in the US. This problem had a strong impact in Uruguay and beef exports slowed down somewhat. The government of Uruguay suspended temporarily the use of ethion. Traders indicate that exports are back to normal.

In late July 2016, USDA announced that Brazilian boneless chilled and frozen beef was eligible to enter the US market under a quota of 64,000 tons open to “other” suppliers, or paying the out of quota duty of 26.4 percent. Local traders seem not very concerned about the impact on their business in the short/medium term as they indicate that exports will be limited by the quota or duties. Their rational is that whatever Brazil exports to the US will result in lower shipments to other markets such as China, the Russian Federation or the Middle East.

The European Union is also forecast to be one of the main destinations in 2017. In 2015 it was Uruguay’s third top destination measured in volume and second after China measured in value. The EU provides Uruguay with a 6,300 ton Hilton Quota which has to be fulfilled with chilled high value cuts. This quota is mostly completed with boneless rump and loin cuts. The current value of a ton under the Hilton Quota is roughly US$12,500. Uruguay is also an active participant under EU’s 481 beef quota (with a total of 45,000 tons), by which fed cattle has to be slaughtered under 30 months of age and the last 100 days or more have been fed with grains or their by-products. In the past couple of years Uruguay has been fulfilling about 25 percent of this quota which has the United States and Australia as the main suppliers. Under this quota, Uruguay exports approximately 18 different cuts and its current price is approximately US$9,500 per ton. Uruguay exports a significant volume outside these two quotas. As an example, in 2015 more than 37,000 tons of beef (product weight) were shipped to the EU.

Exports to Israel are projected to continue relatively stable at approximately 20,000 tons (product weight). The main products are Kosher, boneless, frozen forequarter cuts. Canada is a market which varies year to year, but it always imports beef from Uruguay. The cuts are quite similar to those exported to the US. Brazil normally buys about 10,000 tons of chilled and frozen beef, boneless and bone in. However, the most important cuts imported are sirloin and point of rump which are highly demanded locally. Brazil is going through political and economic difficulties which could negatively impact its beef imports. So far, average export prices dropped 25 percent in the first five months of 2016 compared to the same period last year. Beef exports to Chile continued to drop in the past three years coinciding that Paraguay resumed exports after its last case of FMD in early 2012.

Exporters hope to see the Russian economy improve in 2017 and recover somewhat its imports of Uruguayan beef. During 2008-2012, the Russian Federation was the country’s top destination. In 2013 as result of economic difficulties, it started falling, being replaced by China as the leading destination. In 2015 Russia ranked 8^{th} in the list of Uruguay’s main markets.

Uruguay cattle exports are expected to slow down somewhat in 2017. Local contacts indicate that import policies in Turkey, the main destination by far, are changing. As of this year the government will open bids to import cattle and import duties for cattle from Uruguay will increase from 15 percent to 60 percent. If exports to Turkey drop, Uruguay could supply alternative markets such as Jordan, Egypt and Lebanon, but at lower prices. These exports are normally fulfilled with young bulls.

Policy

The sector operates under a free environment. The government focuses on keeping a high sanitary status and a strict traceability system to insure clients the wholesomeness of its products. It also continues its efforts in opening markets. The private sector recognizes that the sanitary standard is very good, but that Uruguay has a large deficiency in trade agreements with most client countries.

Statistical Tables

Animal Numbers, Cattle	2015		2016		2017	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Uruguay	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	12053	12053	11960	11950	0	11845
Dairy Cows Beg. Stocks	370	360	360	350	0	350
Beef Cows Beg. Stocks	4200	4200	4150	4150	0	4100
Production (Calf Crop)	2750	2700	2700	2670	0	2600
Total Imports	0	0	0	0	0	0
Total Supply	14803	14753	14660	14620	0	14445
Total Exports	217	217	215	200	0	150
Cow Slaughter	1135	1120	1150	1150	0	1130
Calf Slaughter	15	16	15	15	0	15
Other Slaughter	1155	1129	1155	1110	0	1110
Total Slaughter	2305	2265	2320	2275	0	2255
Loss	321	321	305	300	0	280
Ending Inventories	11960	11950	11820	11845	0	11760
Total Distribution	14803	14753	14660	14620	0	14445
(1000 HEAD)						

Meat, Beef and Veal	*2015*		*2016*		*2017*	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Uruguay	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	2305	2265	2320	2275	0	2255
Beginning Stocks	0	0	0	0	0	0
Production	570	565	575	575	0	570
Total Imports	4	4	4	4	0	4
Total Supply	574	569	579	579	0	574
Total Exports	373	373	380	385	0	382
Human Dom. Consumption	201	196	199	194	0	192
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	201	196	199	194	0	192
Ending Stocks	0	0	0	0	0	0
Total Distribution	574	569	579	579	0	574
(1000 HEAD) ,(1000 MT CWE)						