

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Uruguay

### Livestock and Products Annual

### Uruguay Annual Livestock 2019

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**Report Highlights:**

Uruguayan beef exports for marketing year (MY) 2020 are projected at 454,000 tons carcass weight (cwe), marginally lower than in 2019, as large calf exports from 2016-2018 reduced fed cattle inventory. China is expected to account for more than 70 percent of beef exports. Rising imports and weaker domestic demand result in exports remaining almost unchanged. High calf prices are expected to limit live cattle exports in 2019 and 2020.

## **Production**

### **Beef**

Uruguay's cattle herd has varied slightly from 11.2 to 12 million head over the past decade with the 2020 herd forecast at 11.6 million head. However, the export of more than one million male calves from 2016-2018 is expected to reduce slaughter cattle inventory in 2019 and 2020. Uruguayan beef production in marketing year (MY) 2020 is forecast at 552,000 tons carcass weight equivalent (cwe), a 3 percent drop from 2019 and the lowest since 2013.

### **Breeders**

Uruguay's livestock sector consists of 44,000 cattle operations, of which more than 80 percent are less than 500 hectares. Cow calf operations, mostly family-owned, favor natural pasture due to its lower costs. Breeders are expected to continue to enjoy higher-than-normal returns primarily due to strong prices for calves and fed cows. A short cattle supply due to foreign demand for beef has pushed feeder cattle prices to historical levels. Male calves are selling for \$2.40/ kilo, the highest price since 2012-13, with female calves also in demand by operations looking to repopulate ranches after crop production profits fell. Although some females are kept for breeding, the high price of fed cows for slaughter, mostly for export to China, discourages greater retention. Nevertheless, high feeder prices are negatively affecting some cattle exports as buyer's source from less expensive origins.

### **Finishers**

Feedlot operations in Uruguay, roughly 150 stand-alone operations and 30-40 in broader cattle operations that tend to finish their own cattle rather than custom feed, are expected to grow in 2020 due to strong fed cattle demand and low feed prices. Backgrounded cattle normally come to the feedlot at 360-380 kilos and add 140 kilos in 120 days on corn, corn and sorghum silage and DDGS which is purchased domestically or imported from Argentina. Grain-fed cattle accounts for roughly 15 percent of the country's total slaughter as most cattle is finished on grass.

### **Processors**

Uruguay's slaughter capacity is currently 3.2-3.5 million head a year. Consolidation in the meat packing industry over the past 10-15 years has six large companies slaughtering more than 70 percent of the country's total. Of total slaughter, two large Brazilian companies operate 7 plants and account for more than 40 percent of slaughter. However, tighter margins due to high production costs in dollar terms, especially the high price of fed cattle which is the most expensive in the region, and currency issues have seen new investment activity slow significantly.

## **Domestic Consumption**

In MY 2020, Uruguay is projected to consume 142,000 tons cwe of beef, the lowest volume in at least 60 years. Contacts indicate that the current economic slowdown, and probable economic adjustments implemented after the Presidential elections in late 2019, could have impacted domestic beef consumption as well as stimulated the availability of cheaper pork imports.

Imported beef in 2020 will account for 25-30 percent of the total beef consumption due to consumer demand. Independent importers/distributors import roughly 70 percent of the total and the balance is brought in by a few large meat packers, primarily sourced from Brazil with a smaller volume from Paraguay. Argentine beef may also be an option after its recent currency devaluation.

In 2019, Uruguayans will consume roughly 95 kilos of animal protein, with beef consumption at the top with approximately 50 kilos per capita, followed by poultry and pork, both at about 20 kilos each. Sheep meat is

approximately 3-4 kilos. Following are current retail prices at a large supermarket in Montevideo: beef tri-tip \$6.66 per kilo, pork neck \$3.60 per kilo and whole, fresh broiler \$2.77 per kilo.

A recent study on consumer habits, conducted for the National Meats Institute, found that 40 percent of Uruguayans consumed beef at least 4 times per week, peaking on Sundays when 86 percent of consumers included beef in their diet. Half of Uruguayans purchase beef in independent butcheries and the other half in supermarkets. Tenderness is the main attribute, followed by price, color and finally, fat content. Consumption of short ribs, one of the most popular cuts typically used for weekend barbecues, has decreased significantly since China started buying bone-in beef from Uruguay.

## **Trade**

### **Beef Exports**

Uruguayan beef exports in MY 2020 are forecast to drop marginally at 454,000 tons cwe due to a smaller beef output. An increasing volume of imported beef and a drop in overall consumption will partially offset lower beef production and allow exports to remain relatively stable. Most contacts in the beef value chain recognize that imported beef facilitates the industry's export of higher-value beef and import of lower-priced options to meet domestic demand.

In response to the demand and prices from China, Uruguay has increased its exports of frozen beef and reduce its exports of chilled products. During the first 6 months of 2019, Uruguay exported 152,000 tons (product weight) of frozen beef, an increase of 8 percent from the same period last year, and 18,600 tons (product weight) of chilled beef, a 5 percent drop from the same period last year. Exports to China have mostly displaced exports to Israel, the EU (outside the quotas) and the Russian Federation. Through June 2019, Uruguay's average export price of chilled beef remained unchanged, while the average price of frozen beef increased almost 3 percent. Export prices to China increased 8 percent but dropped significantly to the EU.

Of the four members of Mercosur, which together account for one third of the world's beef exports, Uruguay enjoys the highest average FOB price. Taking the average export price for January-June 2019 of frozen boneless beef, Uruguay's price was \$4949 per ton, followed by Argentina at \$4507 per ton, Brazil at \$3700 per ton and Paraguay at \$3547 per ton. Uruguay needs these higher prices due to its higher cost of production compared to its neighboring competitors.

The US and the EU recently reached an agreement on imports under the grain-fed beef quota (also called 481 quota), by which the US will be allocated 35,000 of the total 45,000 ton quota, phased over the next 7 years, with the balance available for other exporters. The initial quota for the US will be 18,500 tons in MY 2020/21. Uruguay has been one of the major participants in this quota, filling roughly 30 percent in 2018, with more than 250,000 grain-fed cattle slaughtered every year to supply this quota. Phasing out of the quota will shrink Uruguay's export volume, however, the industry is confident it will replace this market with exports of grain-fed beef to Japan, Korea and China.

In July 2019, Mercosur and the EU signed a trade agreement which, in the case of beef, sets an import quota of 99,000 tons, with a 7.5 percent duty for the South American block (imports under the Hilton quota will continue but the current 20 percent duty will be eliminated). Mercosur members are now negotiating the distribution of the new quota. Most analysts expect the agreement to be in effect by mid-2021.

### **Beef export markets in 2020**

Exports of frozen bone-in beef has increased every year since 2008 and totaled 49,000 tons (product weight) in 2018. Through June 2019, these exports have increased 25 percent over last year. Chilled exports are expected to remain small, aimed at niche markets due to a shelf life of 90 days and freight time of approximately 45 days.

China is expected to continue to be the top market, accounting for 70 percent of all exports (by volume), including various cuts but primarily frozen boneless beef. Uruguay has 27 slaughter plants eligible to export to China.

The United States is an important and stable market for Uruguayan beef exports. In the past 3-4 years, the US has imported 40-45,000 tons (product weight) annually of primarily frozen, boneless trimmings and forequarter cuts. Some exporters are exploring niche markets such as organic, grass-fed and grain-fed beef. The US provides Uruguay with a 20,000-ton quota per year, which is filled with 75 percent trimmings and forequarters and 25 percent with high-value chilled and frozen cuts, including organic beef. Beef exports outside the quota pay 26.4 percent import duty.

Exports to the EU are expected to drop somewhat as traders indicate that both demand and prices have fallen lately. Uruguay has a Hilton quota for high-value chilled cuts of 6,300 tons which is expected to fill next year. The current price of the Hilton quota is \$11,800 per ton. In 2018, Uruguay exported almost 15,000 tons but exports under the grain-fed beef quota will start to diminish in MY 2020/21 when Uruguay's volume access begins to diminish. Beef exports to the EU outside both quotas will be small.

Exports to Israel, once an important market, have been displaced by demand from China. Israel buys primarily frozen boneless forequarter beef.

In late 2018, Japan reopened its market for Uruguayan fresh beef after its closure in 2000 due to an outbreak of Foot and Mouth Disease. The first shipment took place in February 2019. Exporters believe there are many opportunities for both grass and grain-fed beef. So far, exports are small and include boneless chilled and frozen cuts. The main limitation to increasing exports is Japan's 38.5 percent import tariff on beef. To date, Uruguay has 16 plants eligible to export to this market.

#### Beef Imports

In MY 2020 Uruguay is forecast to import a record 44,000 tons cwe of beef. Imports are expected to average 2500-2800 tons (product weight) of beef per month with higher amounts limited by available cold storage. Most of the imports will be sourced in Brazil, but product will also be imported from Paraguay and likely Argentina. Butchers and supermarkets pay roughly 15 to 20 percent less for imported beef than for the same cuts produced domestically.

#### Live Cattle Exports

After a record 406,000 head were exported in 2018, live cattle shipments are expected to drop significantly in 2019 and 2020 as high feeder cattle prices and limited inventory in 2019 and 2020 induce the industry to keep the cattle in-country. The price in dollars for male calves in August 2019 was roughly 15 percent higher than a year ago. The main cattle exported are 200 kilo male calves with Turkey as the main destination historically.

#### Live Cattle Imports

Due to high local cattle prices and the significant difference of prices with its neighbors, some Uruguayans are analyzing the possibility of importing cattle, with Argentina a probable source due to its current low prices in dollar terms and similarity of breeds. Most agree that bred cows and heifers would be the categories in demand

due to the EU's requirement that imported beef imported must come from cattle born and raised in the country. Importing cattle from neighboring countries for slaughter for the domestic market is unlikely due to Uruguay's high production costs compared to neighboring sources. Importing beef is likely to be more a cost-effective method of supply.

#### Statistical Tables

Animal Numbers, Cattle Market Begin Year Uruguay	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	11744	11744	11500	11396	0	11441
Dairy Cows Beg. Stocks	320	320	330	310	0	305
Beef Cows Beg. Stocks	4000	3940	4050	3900	0	3890
Production (Calf Crop)	2750	2750	2800	2700	0	2810
Total Imports	0	0	0	0	0	0
Total Supply	14494	14494	14300	14096	0	14251
Total Exports	430	406	300	150	0	180
Cow Slaughter	1120	1190	1000	1170	0	1135
Calf Slaughter	16	18	15	13	0	13
Other Slaughter	1164	1164	1135	1072	0	1042
Total Slaughter	2300	2372	2150	2255	0	2190
Loss and Residual	264	320	250	250	0	250
Ending Inventories	11500	11396	11600	11441	0	11631
Total Distribution	14494	14494	14300	14096	0	14251
(1000 HEAD)						

Meat, Beef and Veal Market Begin Year Uruguay	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	2300	2372	2150	2255	0	2190
Beginning Stocks	0	0	0	0	0	0
Production	575	596	545	568	0	552
Total Imports	23	23	30	39	0	44
Total Supply	598	619	575	607	0	596
Total Exports	466	466	440	460	0	454
Human Dom. Consumption	132	153	135	147	0	142
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	132	153	135	147	0	142
Ending Stocks	0	0	0	0	0	0
Total Distribution	598	619	575	607	0	596
(1000 HEAD) ,(1000 MT CWE)						

#### Commodities:

Meat, Beef and Veal

Animal Numbers, Cattle

