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Gains and Losses in the Paraguayan Beef Market After the Boom of Beef Exports

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GAINS AND LOSSES IN THE PARAGUAYAN BEEF MARKET AFTER THE BOOM OF BEEF EXPORTS



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Picture taken by Christine Rawluk



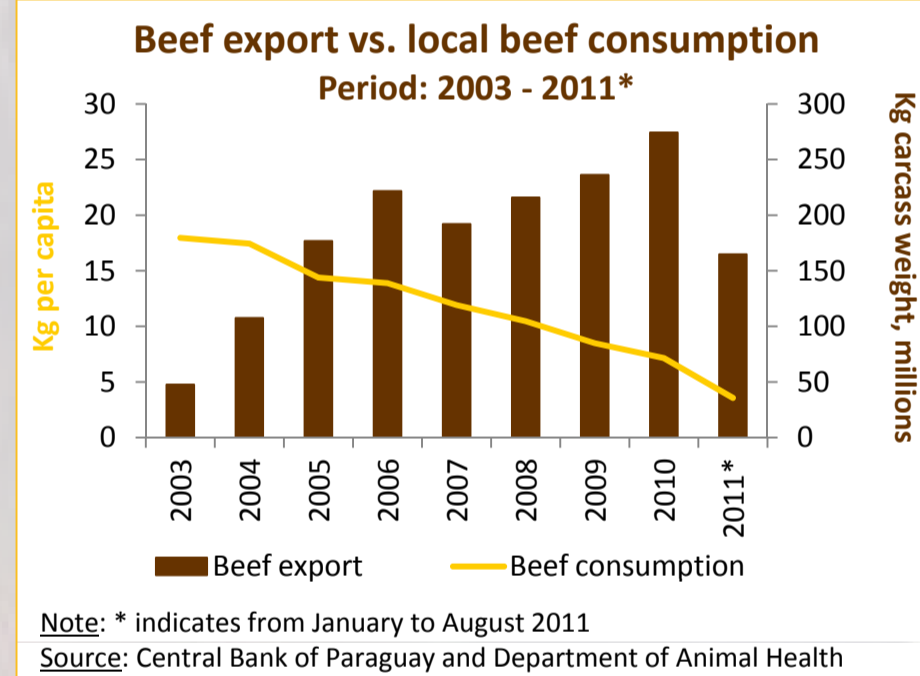
Background

Paraguayan livestock industry

- Paraguayan beef is highly competitive due to low levels of production costs and consequent low prices in the local market. There is no consumption of imported beef and historically beef production levels satisfy the local market only (Ferreira 2006).
- During January 2003 to August 2011 the volume of exports grew at the remarkable rate of 246%. In 2011 volume of exports represented more than 700 millions constant U.S. dollars for the Paraguayan economy.
- The overall effects of the boom of exports on all sectors of the supply chain is not clear. Beef exports grow imply a supply reduction for the local market because the local production is not enough to satisfy both markets at the same time (Ferreira 2006).
- What is the impact of the large increase of Paraguayan beef exports on the different sectors of the beef supply chain? While producers may have benefited from the higher prices in the export market, consumers argue that the local market was left with only low quality and overpriced cuts. Little has been done to assess the impact of the boom of exports on the beef supply chain and consumers in Paraguay.

Economic indicators	
Beef meat production over total meat	81%
Average share of livestock in GDP *	5.3%
Accumulated economic growth of livestock*	208%
Accumulated cattle herd growth*	51%
Livestock industry share on agricultural GDP	23%
Employment in livestock industry	17.5%

Note: * Indicates last 20 years
Sources: Central Bank of Paraguay, Department of Animal Health and Rural Association of Paraguay



Paraguayan Beef Supply Chain



Note: Since 2000 the Department of Animal Health passed a regulation that meat processing plants that are allowed to export cannot buy animals from cattle markets; they can only buy animals directly from producers. Therefore, meat processing plants serve international markets only and slaughterhouses serve the local market only.

Source: Ferreira (2006).

Objectives

- Estimate demand and supply equations for the *Fattening, Slaughter and Beef Markets*.
- Assess welfare changes of the economic agents in the livestock supply chain due to the increased levels of beef exports.

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Methods

1. Simultaneous equations

Partial Equilibrium Model for the Paraguayan beef supply chain. Three groups affected by the recent market changes were identified: beef producers, slaughterhouses and consumers. Estimation of supply and demand system of equations is performed using 3-Stage Least Squares (Jeong, Garcia, and Bullock 2003).

Fattening market:

$$\text{Demand: } Q_{c,t}^d = f(P_{cm,t}, P_{sl,t}, S_t)$$

$$\text{Supply: } Q_{c,t}^s = f(P_{cm,t}, P_{cf,t}, Q_{cf,t}, R_t, F_t, P_{st,t}, P_{vt,t}, Q_{c,t-1})$$

$$\text{Market clearing: } Q_{c,t}^d = Q_{c,t}^s$$

Slaughter market:

$$\text{Demand: } Q_{sl,t}^d = f(P_{sl,t}, P_{bf,t}, E_t, Q_{bf,t-1}, Q_{bf,t-2}, Q_{bf,t-12})$$

$$\text{Supply: } Q_{sl,t}^s = f(P_{sl,t}, P_{cm,t}, P_{cf,t}, P_{st,t}, D, R_t, F_t)$$

$$\text{Market clearing: } Q_{sl,t}^d = Q_{sl,t}^s - X_t$$

Beef market:

$$\text{Demand: } Q_{bf,t}^d = f(P_{bf,t}, P_{ck,t}, P_{pk,t}, Y_t, Q_{bf,t-1}, Q_{bf,t-2})$$

$$\text{Supply: } Q_{bf,t}^s = f(P_{bf,t}, P_{sl,t}, K_t, Q_{bf,t-7})$$

$$\text{Market clearing: } Q_{bf,t}^d = Q_{bf,t}^s$$

Variable description

Endogenous variables

Quantities demanded and supplied (Q) and prices (P): c : male calves, sl : carcass and bf : beef (kilogram per capita).

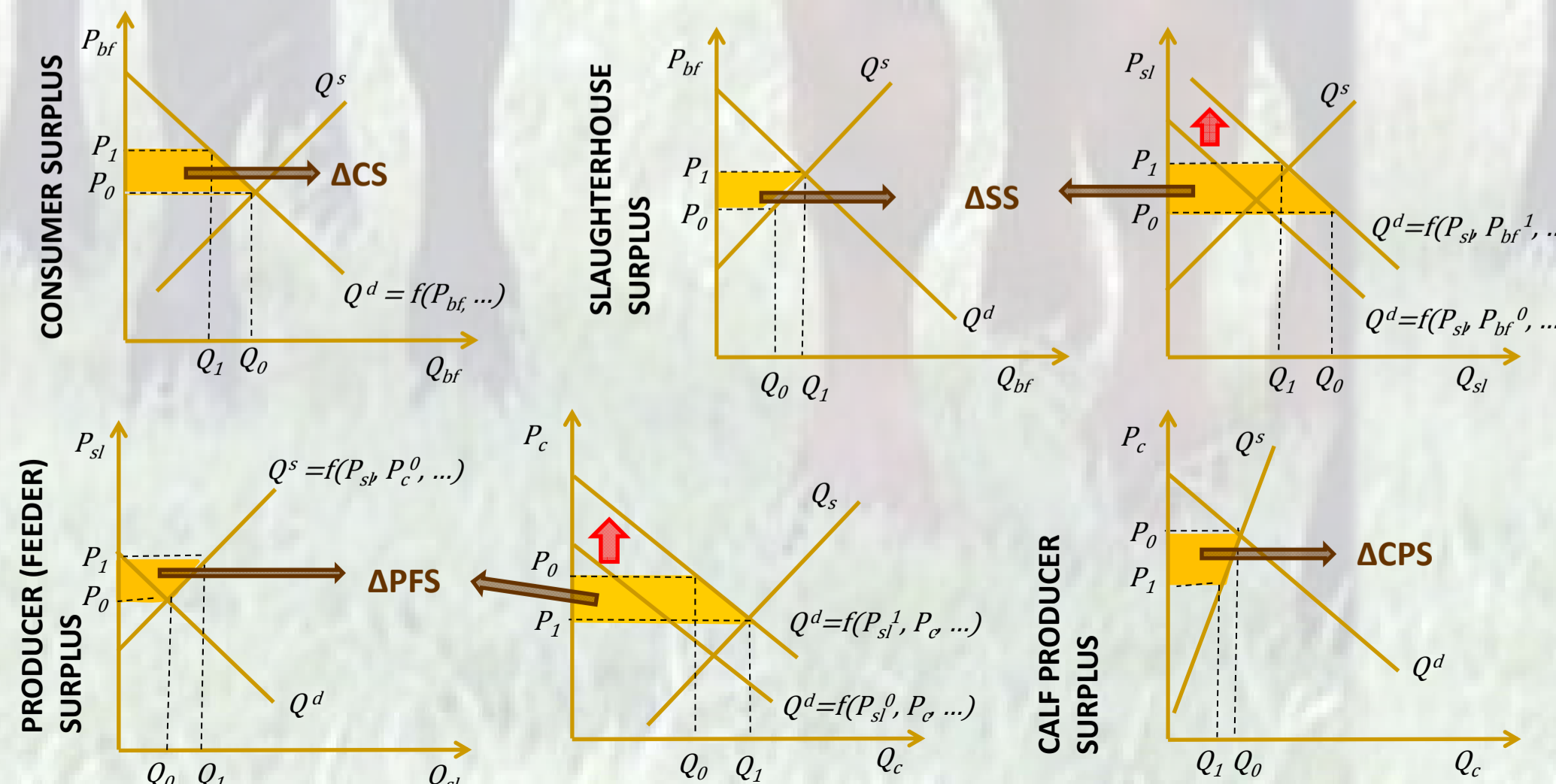
Exogenous variables

S_t is a ratio between total slaughtered animals and total herd; R_t is rains in livestock areas; F_t private livestock funding; P_{vt} is bull prices; P_{st} is cow price; E_t is exchange rate; $P_{st,t}$ is steer price; D is a dummy for winter period; X_t is volume of exports; $P_{ck,t}$ is chicken price; $P_{pk,t}$ is pork price; Y_t is income which is an index of economic monthly activity; K_t is capital cost and is commercial lending rate.

Note: all prices are in constant Guaranies (Paraguayan currency, USD 1 = Gs. 4,481)

2. Welfare changes

Welfare changes were measured by sequentially summing the areas behind the beef demand function (consumers), input demand function (slaughterhouse and feeder) and output supply function (slaughterhouse, producer (feeder) and calf producer). We follow the method proposed by Just, Hueth and Schmitz (1982) to overcome the path-dependency problem due to multiple price changes. The areas are:



Data

- Quantities and prices of calves; beef, steer, bull and cow prices and private livestock funding are from *Investor Economía*. Quantities of carcass and total herd are from *Department of Animal Health*. Carcass, chicken and pork prices; income; capital cost; exchange rate and volume of beef export are from the *Central Bank of Paraguay*. Rain is from the *Department of Meteorology*. Population is from the *International Monetary Fund*.
- Monthly data, from February 2008 to August 2011 (42 observations, except for Fattening market, 40 observations)

Results

Short-run elasticities

Product	Own-price demand	Own-price supply
Beef	- 1.30	3.89
Carcass	- 3.59*	16.03*
Calf (male)	- 1.84*	0.57

Note: * regression coefficient significant at 5% level.

- All demand and supply elasticities show the expected signs.
- All three markets are elastic, with the slaughter market being the most sensitive to price shocks.
- Male calf own-price supply appears to be inelastic; in the short-run quantities of calf are fixed as they cannot change with an increase/decrease of beef demand due to biological constraints.

Welfare changes

Supply chain sector	Guaranies
Δ CS (per capita)	- 125.45
Δ CS (total population, millions)	- 795.44
Δ SS (millions)	- 17,723.52
Δ PFS (millions)	55,499.44
Δ CPS (millions)	- 241.28

- Consumers are worse off due to the increase of local beef prices.
- Welfare change for *slaughterhouses* show the highest lost from all sectors in the supply chain.
- Producer (feeders)* are better off as they serve both slaughterhouses and meat processing plants.
- Calf producers* are worse off mainly due to a decrease in the calf price.

Conclusions

- The structural change observed in Paraguay given by the unprecedented increase in beef exports conveyed changes in welfare at all levels in the beef supply chain.
- Only cattle producers (feeders) show a positive welfare change while consumers, slaughterhouses and calf producers experienced a negative welfare change. Cattle producers' (feeders) positive change is large and exceeds all other sectors' negative change, yielding an overall positive change for the beef supply chain.

Selected References

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