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Brazil

Livestock and Products

New Brazilian Poultry and Pork Trading Company

2001

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Report Highlights:

The two leading Brazilian meat processors, SADIA and PERDIGAO, created the Brazilian Food (BRF) Trading Company to export poultry and pork to specific markets overseas. BRF will operate from an overseas headquarters, and it is expected to be in operation within 90 days.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Brasilia [BR1], BR

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SUMMARY:

SADIA and PERDIGAO, respectively, Brazil's first and second largest processors and exporters of poultry and swine meat, decided to join forces to create the BRF (Brazilian Food) Trading Company, aimed at selling Brazilian chicken and pork in the so-called "emerging markets". BRF is expected to be in operation within 90 days, with sales in the first year of 120,000 metric tons of both chicken and pork, valued at US\$150 million.

BUSINESS PROFILE OF BRF TRADING COMPANY:

The new company is equally owned by SADIA and PERDIGAO, and will operate from an overseas headquarters (not yet defined, but likely to be located in Europe). BRF will target the following specific markets: Russia (including the republics of the Former Soviet Union), Egypt, South Africa, Angola, Cuba, Dominican Republic, Iran, Iraq, and Jordan. BRF is expected to be in operation in 90 days, and trade sources note that BRF will be officially inaugurated in June 2001, during the official visit to Russia of the Brazilian President

According to the officials of both companies, BRF Trading will not compete in those markets where SADIA and PERDIGAO have already established their presence, such as the European Union, Saudi Arabia, Japan, Singapore, and Hong Kong.

BRF Trading is expected to be competitive in the markets listed above by sharing operational costs, and by offering a comprehensive list of "product mix" based on the competitive advantages of each company, SADIA (whole broilers) and PERDIGAO (broiler parts). The company has a sales goal for the first year of operation of US\$150 million, or 120,000 metric tons of both pork and chicken meat.

BRF Trading is based on the Italian marketing promotion model "export consortiums", by which producers or companies go into "partnership" to explore specific export markets, by sharing promotion and logistical costs. This idea is being promoted in Brazil by the Ministry of Development, Industry, and Foreign Trade (MDIC). In Brazil, the "export consortium" already exists in the fruit sector. It is not clear whether MDIC through its Export Promotion Agency (APEX) will provide funds to BRF for market promotion. The poultry and swine sectors already have export promotion programs valued at US\$2.5 million (poultry), and US\$3.0 million (swine), of which APEX contributes 50 percent. APEX rules do not allow marketing promotion programs for an individual company, but it permits the formation of "export consortiums" to receive market promotion funds.

Officials from SADIA AND PERDIGAO have publically stated that, in the future, other Brazilian food companies may take advantage of BRF logistics to export their products to these specific markets. Other trade sources have also noted that this decision to create BRF could be the first move by the largest Brazilian poultry and pork processors to survive a possible buy out by foreign multinationals, mostly U.S. meat processors, since the French Doux is already in the Brazilian market.

BUSINESS PROFILE OF SADIA AND PERDIGÃO

Both companies are leaders in the poultry and pork sectors in Brazil. SADIA is still a family operated family, while PERDIGAO is now a corporation with stocks in the capital market. The following is business profile of both companies based on their 2000 Income Statement Reports:

Category	SADIA	PERDIGAO
Gross Income	R\$ 3,258	R\$ 2,066
Net Profit	R\$ 112	R\$ 45
Net Asset	R\$ 948	R\$ 555
Investments	R\$ 156	R\$ 195
Exports	R\$ 885	R\$ 512
Number of Workers	28,800	19,291
Ebitda*	229	195

* Index of profits before taxes, interest rates, and depreciation.

Notes (1) Values are in Million Reais

(2) Average Exchange Rate in 2000: US\$1.00=R\$1.83

(3) Exchange Rate as of 4/27/2001: US\$1.00=R\$2.24

PRODUCTION AND EXPORT OF SADIA AND PERDIGAO

In 2000, SADIA produced 705,286 metric tons and PERDIGAO 260,353 metric tons of broilers, representing 11.8 and 9.0 percent of the total Brazilian broiler production. SADIA also accounts for over 90 percent of turkey production in Brazil, estimated in 2000 at 127,000 metric tons. In terms of pork production in 2000, SADIA and PERDIGAO accounted for 11.6 and 6.9 percent of total pork production, respectively.

In 2000, SADIA exported 260,353 metric tons, and PERDIGAO 193,337 metric tons of broiler meat, representing 28.7 and 21.3 percent of the total Brazilian poultry exports. In terms of pork exports in 2000, SADIA exported 22,766 metric tons, and PERDIGAO 14,144 metric tons, representing 17.8 and 11.1 percent of the total Brazilian pork exports. The largest Brazilian pork exporter is Seara, Bunge Group, with 27.5 percent of the total Brazilian pork meat exports.