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Semi-Annual Report

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Report Highlights:

Production of beef and pork is estimated to increase in 2005 by 6 and 3 percent, respectively, reflecting a rebound in domestic demand and higher exports, although at a lower pace than last year due to a less competitive exchange rate relative to the U.S. dollar.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Economic analysts foresee economic growth in 2005 in the range of 4-5 percent, lower inflation rates around 5.6 percent, a further decline in the unemployment rate, and higher real income. These indicators are likely to influence consumer confidence as domestic consumption supports economic growth in 2005. Last year, exports accounted for most of the growth in the GDP. However, market analysts are also cautious about this optimistic outlook for the economy in 2005 because of the Central Bank's tight monetary policy with higher interest rates (currently the prime rate is fixed at 19.5 percent) and the appreciation of the Brazilian currency relative to the U.S. dollar (currently averaging 17 percent).

Brazilian beef production is projected to increase 6 percent in 2005. Higher consumer confidence and purchasing power will increase demand for beef and higher beef exports, although at a lower rate than last year, will both contribute to increase in beef production in 2005. However, some analysts estimate that the current Real/U.S. Dollar exchange rate (US\$ 1.00 = R\$ 2.60) could adversely impact exports of beef in 2005.

Pork production is also expected to increase by nearly 3 percent in 2005, due to a combination of higher domestic demand and higher exports. However, pork producers are expecting lower profitability due to the relative increase in production costs and the appreciation of the Brazilian currency relative to the U.S. dollar. The increase in production will come mostly from new investments in production from the Center-West region.

Commodity Outlook, Beef

Production

Beef production is expected to reach nearly 8.5 million metric tons in 2005, slightly higher than our previous estimate made in the annual report, and 6 percent higher than last year. The following factors support our revised estimate: a) increase in domestic demand for beef due to higher consumer confidence and purchasing power; b) another record in beef exports, although the increase in exports will be at a lower pace than last year due to problems with Russia and a less competitive exchange rate relative to the U.S. dollar due to the appreciation of the Brazilian currency; c) additional funds in the federal budget for social programs to fight hunger and improve nutrition levels of the poor; d) improved pasture conditions due to higher rainfall and higher funds for the National Pasture Improvement Program; e) likely improve in profit margins to cattle breeders; and, f) continued strong market promotion efforts in non-traditional markets. However, some of these constraints may be minimized with increased exports to China and other markets

Post revised production and trade data for 2004 to include final export data. Beef production increase by nearly 8 percent last year, slightly higher than our initial forecast. The major force driving an increase in beef production in 2004 was the booming export market and to a lesser extent a small reaction in domestic consumption. Cattle breeders complained that their costs of production increased by over 10 percent in 2004, while the average price paid to cattle remained about the same. Cattle breeders are also complaining about the growing industry concentration among the beef packers and that profits do not reflect the boom in beef exports in recent years.

Trade

Post projects beef exports to increase by an average of 14 percent in 2005, and to set another record. However, the increase in beef exports will be at a lower rate than last year because Brazilian exporters are facing the following adverse factors at the beginning of 2005:

First, a less competitive exchange rate (current Real/U.S. Dollar exchange rate is US\$ 1.00 = R\$2.70) which could adversely impact exports and reduce profitability; and,

Second, the Russian ban. Except for the State of Santa Catarina, which is not a beef producing state, but is a main pork and poultry producer, Brazilian beef from other major states are still not allowed to be exported to Russia. Only production prior to September 20, 2004 was allowed after the ban imposed on Brazil on September 20, 2004 due to the outbreak of FMD in the State of Amazonas. After intense technical negotiations, including technical visits of Russian Veterinarian officials, the problem was not resolved as of January 31, 2005. The Brazilian press quoted the Minister of Agriculture by saying "the Russian ban is not a technical problem anymore, but a diplomatic problem for the two governments to resolve". The Brazilian Foreign Minister also sent a letter to his counterpart in Russia calling for an urgent solution to this problem and the Brazilian press also quoted the Governor of Rio Grande do Sul by saying that the President of Brazil will soon intervene to resolve this impasse.

Review of exports in 2004.

Brazilian beef exports in 2004 increased by 40 percent in volume (1.1 million metric tons versus 784 thousand metric tons in 2003) and 61 percent increase in value (US\$ 2.4 billion, versus US\$ 1.5 billion in 2003.) The average export price increased by 15 percent from US\$ 1,911.33 to US\$ 2,197.31 per metric ton, compared to the same period in 2003. According to the trade, this performance made Brazil the largest beef exporter in the world in 2004, both in volume and value, with nearly 28 percent share of world's beef market.

Brazilian exporters also increased the number of markets for their products to 143 countries in 2004, up from 123 in 2003. In 2004, they diversified their product mix, although frozen boneless beef remains as the largest share of exports – about 66 percent. Other cuts such as forequarters also increased, mostly to the Middle East and Eastern Europe. In 2004, Brazil also increased exports of processed beef, mostly corned beef, by nearly 7 percent. The United Kingdom and the United States account for 68 percent of all processed beef exports from Brazil.

The European Union remains as the main export market for all Brazilian beef. The E.U. increased its market share of imports of Brazilian beef from 26 percent in 2003 to 30 percent in 2004. Russia follows the European Union with a market share of 14 percent of all Brazilian beef exports. Despite two bans, beef exports to Russia increased by 86 percent in volume in 2004. Other major markets for Brazilian beef are Egypt and Chile, with 10 percent each.

Note: Differences between export data reported by Brazilian trade sources and those used by Post are due to the use of different conversion factors. Brazilian sources use a 2.5 percent factor for conversion of processed beef into Carcass Weight Equivalent (CWE), while post uses 1.79. The same applies for boneless beef, as Post uses 1.42 as the conversion factor, while Brazilian trade sources use 1.36.

Commodity Outlook, Pork

Production

Pork production is expected to reach nearly 2.7 million metric tons in 2005, slightly higher than our previous estimate made in the annual report, and nearly 3 percent higher than last year. The increase is the result of higher demand from both export and domestic markets. The Center-West region of Brazil will drive most of the increase in pork production as a result of large investments by foreign and Brazilian companies. Post also revised pork production in 2004 to show an increase higher than initially estimated due to higher exports and strong consumer demand.

Trade

Post estimates pork exports to increase by 3 percent in 2005, and set another record, despite the problems of related the appreciation of the Brazilian currency and the Russian ban on Brazilian meat in general. The Russian ban was partially suspended on November 20, 2004 to allow exports from the State of Santa Catarina, which partially benefits pork exports.

Review of exports in 2004.

Brazilian pork exports in 2004 increased by 3 percent in volume (478 thousand metric tons versus 464 thousands metric tons in 2003) and 41 percent in value (US\$ 753 million, versus US\$ 532 million in 2003). The average export price increased 37 percent from US\$ 1,147.14 to US\$ 1,574.23 per metric ton, compared to the same period in 2003.

Note: Above export data is official data and shows some differences from the data reported by the trade to our office. Brazilian pork exporters association reports the total volume exported in 2004 was 504 thousand metric tons, valued at US\$ 774 million with an average export price of US\$ 1,525 per metric ton.

In 2004, Brazilian pork exporters increased their shipments of pork cuts by over 6 percent, which now account for 75 percent of all pork exports. The balance consists of pork carcasses. The increase in pork cuts reflects the strategy of Brazilian exporters to increase profitability by exporting higher value products. In 2004, pork exporters also increased the number of markets for their products to 75 countries, up from 66 in 2003.

Russia remains as the main market for Brazilian pork exports. However, the market share of Russian imports of Brazilian pork decreased from 65 percent in 2003 to 59 percent in 2004. Despite two Russian bans imposed in 2004, Brazil exported 276,239 metric tons to Russia in 2004, down 8 percent from 301,315 metric tons exported in 2003. However, the increase in value was 41 percent higher than 2003, due to an increase in the average export price to Russia from US\$ 1,143.88 to US\$ 1,599.24 per metric tons, or 40 percent higher than 2003.

Note: The Brazilian pork exporters association reports that total exports of pork to Russia in 2004 were 288,129 metric tons, or 11,890 metric tons more than officially reported.

Hong Kong is the second largest Brazilian market for pork exports with a 9 percent market share of all imports from Brazil. In 2004, official exports to Hong Kong increased to 65,872 metric tons, up nearly 16 percent from 2003.

Note: Official Brazilian data shows a major discrepancy with trade data that reported a decrease of 4.5 percent in exports to Hong Kong in 2004.

The major surprise in exports in 2004 was the significant increase in exports to Ukraine, which is now the third largest market for Brazilian pork exports with nearly 7 percent market share. Exports of pork to the Ukraine increased from near zero to 51,813 metric tons in 2004. Argentina, European Union, Singapore, and South Africa are other important markets for Brazilian pork.

Tables

PSD Table, Meat, Beef and Veal

	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Slaughter (Reference)	34398	34398	36343	36343	38065	38065	(1000 HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT CWE)
Production	7385	7385	7830	7975	8222	8455	(1000 MT CWE)
Intra EC Imports	0	0	0	0	0	0	(1000 MT CWE)
Total Imports	63	63	55	53	63	50	(1000 MT CWE)
TOTAL Imports	63	63	55	53	63	50	(1000 MT CWE)
TOTAL SUPPLY	7448	7448	7885	8028	8285	8505	(1000 MT CWE)
Intra EC Exports	0	0	0	0	0	0	(1000 MT CWE)
Total Exports	1175	1175	1470	1628	1620	1850	(1000 MT CWE)
TOTAL Exports	1175	1175	1470	1628	1620	1850	(1000 MT CWE)
Human Dom. Consumption	6273	6273	6415	6400	6665	6655	(1000 MT CWE)
Other Use, Losses	0	0	0	0	0	0	(1000 MT CWE)
TOTAL Dom. Consumption	6273	6273	6415	6400	6665	6655	(1000 MT CWE)
Ending Stocks	0	0	0	0	0	0	(1000 MT CWE)
TOTAL DISTRIBUTION	7448	7448	7885	8028	8285	8505	(1000 MT CWE)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT CWE)
Calendar Yr. Exp. to U.S.	95	83	100	89	110	100	(1000 MT CWE)

Beef Exports, Jan-Dec 2003-04 (metric tons)

Export Trade Matrix Country Brazil Commodity Meat, Beef and Veal			
Time Period	Jan-Dec	Units:	Metric Tons
Exports for:	2003		2004
U.S.	49,843	U.S.	55,602
Others		Others	
Algeria	8,522		38,808
Angola	8,810		10,177
Bulgaria	8,558		20,630
Chile	95,707		105,000
Egypt	77,821		114,177
European Union	208,007		330,508
Hong Kong	19,262		23,334
Iran	36,616		63,594
Israel	19,771		23,377
Lebanon	9,554		13,264
Phillippines	21,745		34,623
Russia	83,658		154,463
South Africa	4,492		10,107
U.A.E.	6,631		7,834
Total for Others	609154		949,896
Others not Listed	125355		95292
Grand Total	784352		1100790

PSD table, Meat, Swine

	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Slaughter (Reference)	28490	28490	28573	28573	28650	28650	(1000 HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT CWE)
Production	2560	2560	2585	2600	2640	2670	(1000 MT CWE)
Intra EC Imports	0	0	0	0	0	0	(1000 MT CWE)
Total Imports	0	0	0	0	0	0	(1000 MT CWE)
TOTAL Imports	0	0	0	0	0	0	(1000 MT CWE)
TOTAL SUPPLY	2560	2560	2585	2600	2640	2670	(1000 MT CWE)
Intra EC Exports	0	0	0	0	0	0	(1000 MT CWE)
Total Exports	603	603	570	621	580	640	(1000 MT CWE)
TOTAL Exports	603	603	570	621	580	640	(1000 MT CWE)
Human Dom. Consumption	1957	1957	2015	1979	2060	2030	(1000 MT CWE)
Other Use, Losses	0	0	0	0	0	0	(1000 MT CWE)
TOTAL Dom. Consumption	1957	1957	2015	1979	2060	2030	(1000 MT CWE)
Ending Stocks	0	0	0	0	0	0	(1000 MT CWE)
TOTAL DISTRIBUTION	2560	2560	2585	2600	2640	2670	(1000 MT CWE)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT CWE)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT CWE)

Pork Exports, Jan-Dec 2003-04 (metric tons)

Export Trade Matrix Country Brazil Commodity Meat, Swine			
Time Period	Jan-Dec	Units:	Metric Tons
Exports for:	2003		2004
U.S.	0	U.S.	0
Others		Others	
Albania	3,740		5,154
Angola	1,643		1,981
Argentina	29,335		22,459
Bulgaria	2,277		4,953
China	2,080		2,736
European Union	16,982		21,878
Georgia	3,858		3,162
Haiti	3,699		1,544
Hong Kong	54,340		50,545
Lithuania	0		3,435
Moldavia	0		1,950
Russia	301,315		276,239
Singapore	14,951		15,656
South Africa	8,014		12,234
U.A.E.	2,491		2,275
Ukraine	96		32,290
Uruguay	7,963		7,836
Total for Others	452784		466,327
Others not Listed	11,131		11,736
Grand Total	463915		478063