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Annual Poultry Report

2005

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Report Highlights:

Brazilian poultry production is forecast to increase in 2006 and reach a new record due to continued booming exports and firm domestic demand. Brazilian poultry exports are benefiting from the animal health problems, mostly Avian Influenza, affecting several areas of the world. Lower production costs in 2005 and higher exports prices have contributed to higher profit margins of most poultry packers and benefited integrated broiler producers.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Brasilia [BR1]
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Executive Summary	3
Commodity Outlook, Broilers	3
Production.....	3
Industry Concentration	3
Production Factors	4
Production Costs	4
Animal Health Update.....	5
Consumption	6
Trade	6
Policy.....	7
Marketing	8
Commodity Outlook, Turkey	8
Production.....	8
Consumption	9
Trade	9
Tables	10
PSD table, Poultry, Meat, Broiler.....	10
Poultry, Meat, Broiler Exports, Jan-Jul 2004-05.....	11
Poultry, Meat, Broiler Exports, Jan-Dec 2003-04	12
PSD table, Poultry, Meat, Turkey.....	13
Poultry, Meat, Turkey, Exports, Jan-Jun 2004-05.....	14
Poultry Meat, Turkey, Exports, Jan-Dec 2003-04	15

Executive Summary

Broiler production is expected to increase by 5 percent in 2006, following a record production of 9.1 million metric tons estimated for this year. The increase in broiler production in Brazil continues to be driven by record exports as Brazil makes major in-roads in different markets due to the animal health problems faced by some competitors. In addition, firm domestic consumption contributes to the expansion in production.

Despite the complaints of Brazilian poultry packers against the appreciation of the Brazilian currency (nearly 15 percent in 2005) and higher domestic interest rates, exports of broilers are booming and profit margins have increased due to lower production costs and an increase in the average export price of broilers in 2005.

Commodity Outlook, Broilers

Production

Post forecasts an increase in broiler production in 2006 of 5 percent from this year's record production, supported by the following factors: a) continued expansion in the export market, although at a lower pace than this year; b) expansion of broiler exports to new markets, such as China, and to a wide range of approximately 135 countries; c) strong market promotion efforts jointly conducted and financed by the Brazilian government agency for market development; and, d) continued expansion in domestic demand. However, the following constraints can affect the projected performance of the Brazilian broiler industry in 2006: a) the continued appreciation of the Brazilian currency, higher domestic interest rates, and higher production costs due to projected reduction in the area planted for soybeans and tight corn supplies through March of 2006 that could negatively impact on producers profit margins.

Post revised the estimated broiler production in 2005 to nearly 9.1 million metric tons, up 8 percent from the record production level of 8.4 million metric tons last year. This year's increase in production is mostly attributed to higher than initially expected expansion in the export market due to continued animal health problems in various countries, mostly the Avian Influenza crisis in Asia, combined with firm domestic demand.

Nearly 97 percent of the poultry meat produced in Brazil is broiler meat, with the balance consisting mainly of turkey production, which is increasing rapidly but from a small base. According to trade sources, about 55 percent of the estimated broiler meat production in 2005 will consist of broiler parts and 45 percent of whole broilers. This is the result of a strategy adopted by the large broiler processors in Brazil to add value to their products in order to increase their profit margins and shift away from a "commodity" type of product, such as whole broilers. Also reflects the significant increase in the past years of exports of broiler parts and other processed broiler products, although some markets, such as Saudi Arabia still prefers whole broilers.

Industry Concentration

Ten Brazilian poultry processors account for 55 percent of total broiler slaughter and 85 percent of broiler exports, reflecting an increasing consolidation in the sector. These same companies are also leaders in pork production and exports in Brazil, which allows for economies of scale and greater use of lower-cost feeds based on volume purchases. The broiler production system of these companies is highly integrated.

Company	% Of Slaughter	% Of Exports
Sadia	14	28
Perdigao	12	19
Seara	07	13
Frangosul	06	11
Avipal	05	06
DaGranja	03	01
Aurora	02	02
Diplomata	02	02
Penabranca	02	02
Copacol	02	01
Total	55	85

Source: Trade

- Percentages have been rounded.

Production Factors

The following table provides an overview of the production of parent stock and day-old chicks in Brazil:

Year	Parent Stock		Broiler Chicks (1,000)
	Layers (1,000)	Broilers (1,000)	
2000	60,949	27,536	3,254,100
2001	63,606	28,597	3,473,600
2002	67,769	30,499	3,819,570
2003	77,367	31,035	3,907,100
2004	83,931	33,293	4,277,700
2005 (est.)	95,723	36,100	4,600,000
2006 (forecast)	103,200	38,300	4,830,000

Source: Trade

Note: Monthly average quantities for layers.

Production Costs

Although Brazilian poultry companies do not release production cost information, there are some representative costs supplied by trade sources. During the first half of 2005, the estimated average cost of broiler production reached R\$1.32 per kilogram, live weight, down 8 percent from an estimated cost of R\$1.44 per kilogram, live weight, from the same period in 2004. The average exchange rate for Jan-Jun 2005 was R\$ 2.53 per US\$ 1.00, compared to R\$ 2.98 per US\$ 1.00 during the same period in 2004.

During Jan-June 2005, the price of soybean meal declined by 13 percent, compared to the same period in 2004 due to a large U.S. crop and slightly larger Brazilian crop. However, during the same period, corn prices increased by 12 percent in dollar terms. Please see table below. Post projects feed prices to increase during the 2005-06 crop year (Oct 1/Sep 30), based on current tight supplies of corn and soybeans that are only expected to expand following the summer harvest in March of 2006. The new crop plan to be announced soon by the federal government will likely maintain the volume of subsidized funds available to corn producers to finance their cost of production at R\$400,000 (US\$ 158,000) per producer.

Sao Paulo: Broiler production costs and wholesale prices for broilers (RTC), corn, and soybean meal:

Year	Broiler Cost (US\$/KG/Live Weight)	Wholesale Prices			
		Live Weight (US\$/KG)	RTC (US\$/KG)	Corn (US\$/60/KG)	Soybean Meal (US\$/KG)
2000	0.47	0.50	0.68	7.78	0.18
2001	0.38	0.41	0.53	4.64	0.19
2002	0.39	0.39	0.50	6.26	0.18
2003	0.47	0.47	0.54	6.54	0.21
2004	0.51	0.51	0.54	6.31	0.23
2005 (Jan/Jun)	0.51	0.51	0.55	7.09	0.21

Source: Trade

RTC= Ready to Cook

Animal Health Update

Since the outbreaks of Avian Influenza in Asia, the Brazilian government has activated the Chamber for Poultry and Swine to develop preventive measures against the possibility of Avian Influenza being introduced in Brazil. In addition to the animal health requirements, which are part of the National Poultry Health Program, several preventive measures have already been adopted, such as: tightening controls at ports and airports for tourists and visitors arriving from Asia, prohibition to import paddy rice from Asian countries, prohibitions for visitors from Asia to visit Brazilian poultry farms, and new restrictive import requirements for imported poultry genetics, such as day-old chicks.

The most recent policy recommendation has been the so-called "Regionalization of Sanitary Controls for Poultry". This concept, which is expected to be in place by early 2007, involves a protocol between 6 states from the center-south regions of Brazil, by which these states would establish tight border controls on transit of birds, eggs, and any other related poultry products and byproducts for inter-state commerce.

Brazil established in 2002 a program to monitor migratory birds from the South Pole, Argentina, and Paraguay. Since 2003, this program was improved to monitor and tests birds with potential to carry the Avian Influenza virus. The program is a joint effort of the Ministry of Agriculture, Ministry of Health, and Ministry of the Environment.

A case of nonpathogenic Newcastle Virus was officially diagnosed in late may 2005 in Jaguari, state of Mato Grosso do Sul by the official government laboratory – Lanagro. The results indicated an Intracerebral Pathogenicity Index (IPC) of 0.41. Samples collected and analyzed also showed a negative result for Avian Influenza by using Agar-gel Immunodiffusion test (AGID). Although the incident occurred away from the major producing areas, the Brazilian Animal Health Department (DSA) placed the area under quarantine and culled about 17,000 birds.

The Department of Inspection for Animal Origin Products (DIPOA) of the Ministry of Agriculture, Livestock, and Food Supply (MAPA) released the results of the Dripping Test to measure the water content in Brazilian frozen broilers. Since the beginning of the testing, DIPOA tested 2,155 samples, which resulted in 450 positive results (frauds). DIPOA has applied fines of more than US\$ 10,000 to those companies involved and it is recommending that all processors purchase equipments for dripping tests. Brazilian legislation allows a limit of 6% percent water content in frozen broiler.

Consumption

Post forecasts domestic broiler consumption to increase by 4 percent in 2006. Current economic forecasts are for continued expansion of economic growth, inflation at lower levels, stable unemployment rates, and continued improvement in consumer purchasing power. Competition from other meats is not expected to affect broiler consumption since broiler meat is more affordable to lower income consumers compared to beef and pork. In addition, demand is expected to increase from the food service industry for products such as frozen chicken meals, pre-cooked meals, and chicken burgers.

There are no statistics on the structure of domestic broiler consumption between whole birds and parts. However, Brazilian consumers still have an overwhelming preference for large whole broilers as a result of lower prices relative to beef products. However, the structure of broiler demand is changing in Brazil according to some market analysts. Since the economic stabilization in late 1994, there has also been a shift in consumption toward more highly processed broiler products, mostly among the Brazilian middle and upper classes. The traditional diet staples, rice and dried beans, are losing ground to animal protein products such as poultry and dairy products. Large Brazilian poultry processors are responding to these changes by shifting their sales mix strategies toward broiler parts (mostly leg quarters and breast meat) and further processed value-added branded products, such as frozen chicken meals, pre-cooked meals, chicken nuggets, and chicken burgers. The institutional, food service, and fast food markets also offer great potential for Brazilian firms. Tailoring products to these sectors' needs is key to the processors' new strategies.

Trade

Post projects broiler exports in 2006 to increase by 7 percent in volume, about half of the expected growth estimated for this year's record. The following factors support our forecast: a) continued expansion into new markets due to market promotion programs and new sanitary agreements, such as with Korea; and, b) positive impact on Brazilian poultry exports due to the outbreaks of Avian Influenza in different regions of the world. However, the continued appreciation of the Brazilian currency and expected higher production costs may affect the profit margins of exporters and their competitive edge.

January-July 2005 broiler exports reached 1.6 million metric tons, up 20 percent from the same period in 2004, while the value of exports for the same period reached US\$ 1.8 billion, up 27 percent from last year. The average export price for January-July 2005 was US\$ 1,141 per metric ton compared to US\$ 1,084 per metric ton for the same period last year.

Broiler parts exports increased by over 23 percent during Jan-July 2005, while whole broilers increased by over 12 percent, and processed broilers increased by over 71 percent. Major destinations of Brazilian broiler exports during January-July 2005 were: China (up 224 percent), Russia (up 53 percent), Japan (up 30 percent), and European Union (up 13 percent).

Policy

There have been no changes in poultry production policy since our previous annual report. The poultry sector outlined its policy goals in the so-called "Brasilia Letter", in which, leading poultry producers requested from the Brazilian government the following policies and/or actions:

- a) Strengthening Animal Health and Inspection Services, including the implementation of the new National Poultry Inspection Program (PNSA);
- b) Restructuring of taxes on agricultural inputs, including exemption from the state ICMS, similar to a value-added tax;
- c) Infrastructure (road and storage facility) improvement programs aimed at reducing the cost of transporting and storing grains;
- d) Establishment of new production financing and export credit programs for the poultry and pork sectors; and,
- e) Support from the government in multilateral negotiations to combat subsidies and protectionist measures by competitors and importing countries abroad.

The National Bank for Economic and Social Development (BNDES) provides meat packers with subsidized long-term loans to build or modernize their meat packinghouses. BNDES does not provide the loan directly to the producer or packer, but through other state and commercial private banks. Total funds allocated under BNDES for the livestock sector are estimated at US\$ 300 million in 2005. BNDES also offers the following programs aimed at financing exports, which are used by meat packers:

(1) ACC - Advance on Export Contracts and ACE - Advance of Exchange Delivered:

These programs represent an alternative for exporters to reduce the financial costs of their export operations. ACC enables an exporter to obtain a cash advance based on his export contract, prior to shipment of the product, while ACE is a cash advance after shipment of the product. Repayment terms are 180 days before or after shipment of the products. The cost to the exporters of obtaining ACC or ACE advances is equal to the international cost of financing exports (LIBOR plus a spread), now approximately 12 percent.

There are several ways of combining ACC with other export credit programs, but the two most important for agricultural and food exports are:

— ACC+PROEX. This program combines the benefits of ACC and PROEX programs described above. Established through Circular 2,825 of the Central Bank of Brazil on June 24, 1998, the program is mostly used by exporters of high-value food products or processed agricultural commodities.

— ACC + RURAL. This program allows exporters of coffee and soybeans to obtain cash advances (ACC) on their exports from the Bank of Brazil, using as collateral the Rural Promissory Note (CPR). The cash advance is limited to 50 percent of the export value of the shipment.

(2) BNDES-Exim:

The main objective of this program is to expand Brazilian exports in general, including agricultural commodities, by making three types of credit lines available to the exporters at costs competitive with international financing. The most widely used line of credit is similar to a buyer or supplier's credit. Financing covers 100 percent of the shipment and repayment terms vary between 181 days to 12 years with interest rates based on LIBOR plus a spread. This program is also referred as the Brazilian "Eximbank" within BNDES. The amount allocated for this program in 2005 is estimated US\$ 6.8 billion, of which meat plants (including poultry) may take up to US\$ 800 million.

Marketing

The Brazilian Poultry Exporters Association (ABEF) is a private, non-profit organization formed by the largest poultry processors and exporters. ABEF has similar goals and programs compared to the U.S. Poultry and Egg Export Council (USAPEEC). ABEF has worked in the past as a national lobbying group for poultry exporters with program activities aimed at the Brazilian government, international organizations, and foreign governments to guarantee market access and reduction of non-tariff barriers for Brazilian broiler exports. The five largest poultry exporters account for nearly 90 percent of all poultry exports from Brazil, and the two leading poultry processors - SADIA and PERDIGAO account for nearly half of all exports.

ABEF was one of the first private organizations to implement its export promotion together with the federal government's market promotion agency - APEX. Since 2000, ABEF has participated in several trade shows overseas, mostly in Europe, Asia, and the Middle East. Promotion activities include in-store promotions, general media activity, and market research. Although similar to FAS's market promotion programs, ABEF includes several market access activities such as eliminating sanitary barriers and conducting trade servicing, under the budget for market promotion. ABEF's 2005 budget for market promotion is estimated at US\$ 1.8 million, of which APEX funds 43 percent.

Commodity Outlook, Turkey

Production

Note: There is no official data on turkey production in Brazil. Data provided in this report is derived from interviews with sources from SADIA, which accounts for nearly 70 percent of turkey production in Brazil.

Post forecast Brazilian turkey production to increase by 11 percent in 2005 against a record increase of 17 percent in 2004. The increased in turkey production reflects booming turkey exports and firm domestic demand. In addition, some investment projects to increase turkey production have matured and production is now reaching the market.

Consumption

The projected economic growth of 5 percent, lower unemployment rate, and higher disposable income will likely contribute to maintain domestic demand firm for turkey at around a 5 percent increase. Most of this demand comes from the food service industry.

Frozen Ready to Cook (RTC) turkey consumption remains highly seasonal in Brazil. Trade sources estimate that 85 percent of whole turkey sales occur during the pre-Christmas period, because consumer habits in Brazil favor turkey consumption during this holiday season. However, processed turkey products, such as sliced loaf and nuggets are consumed throughout the year. This is part of Sadia's business strategy to increase consumption of processed turkey products and to expand consumption of whole turkeys during other major holidays in Brazil.

Trade

Turkey exports are expected to continue to increase in 2006, after an all-time export record estimated for this year. During Jan-Jun 2005, turkey exports in volume increased by nearly 25 percent compared to the same period last year, which reflects the competitiveness of the Brazilian product. The value of turkey exports during Jan-Jun 2005 also increased by 12 percent compared to the same period last year due to an increase of the average export price.

Tables

PSD table, Poultry, Meat, Broiler

PSD Table Country Brazil Commodity Poultry, Meat, Broiler (1000 MT)(MIL HEAD)							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	
Market Year Begin		01/2004		01/2005		01/2006	MM/YYYY
Inventory (Reference)	33	33	34	36	0	38	(MIL HEAD)
Slaughter (Reference)	4278	4278	4492	4600	0	4830	(MIL HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	8408	8408	8830	9080	0	9530	(1000 MT)
Whole, Imports	0	0	0	0	0	0	(1000 MT)
Parts, Imports	0	0	0	0	0	0	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	8408	8408	8830	9080	0	9530	(1000 MT)
Whole, Exports	0	975	1065	1790	0	1980	(1000 MT)
Parts, Exports	2451	1495	1530	1050	0	1060	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	2451	2470	2595	2840	0	3040	(1000 MT)
Human Consumption	5957	5938	6235	6240	0	6490	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	5957	5938	6235	6240	0	6490	(1000 MT)
TOTAL Use	8408	8408	8830	9080	0	9530	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	8408	8408	8830	9080	0	9530	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)

Poultry, Meat, Broiler Exports, Jan-Jul 2004-05

Export Trade Matrix Country Brazil Commodity Poultry, Meat, Broiler			
Time Period	Jan-Jun	Units:	Metric Tons
Export for:	2004		2005
U.S.		U.S.	
Others		Others	
Angola	18919		14596
China	19681		63707
European Union	133368		150366
Hong Kong	92111		67487
Japan	148624		190756
Kuwait	49557		66119
Russia	87773		134276
Saudi Arabia	156883		177798
Singapore	27443		34443
South Africa	53786		76560
UAE	54807		61320
Venezuela	21904		43144
Total for Others	842952		1080572
Others not Listed	288225		271038
Grand Total	1131177		1351610

Poultry, Meat, Broiler Exports, Jan-Dec 2003-04

Export Trade Matrix Country Brazil Commodity Poultry, Meat, Broiler			
Time Period	Jan-Dec	Units:	Metric Tons
Exports for:	2003		2004
U.S.		U.S.	
Others		Others	
Angola	32134		34648
China	11644		60176
European Union	338669		309685
Hong Kong	199982		179299
Japan	185179		325959
Kuwait	60626		102674
Russia	201716		200944
Singapore	64063		66387
Saudi Arabia	288555		333223
UAE	100772		121740
Total for Others	1483340		1734735
Others not Listed	476433		734961
Grand Total	1959773		2469696

PSD table, Poultry, Meat, Turkey

PSD Table Country Brazil Commodity Poultry, Meat, Turkey (1000 MT)(MIL HEAD)							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	
Market Year Begin		01/2004		01/2005		01/2006	MM/YYYY
Inventory (Reference)	29	29	32	32	0	33	(MIL HEAD)
Slaughter (Reference)	0	0	0	0	0	0	(MIL HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	226	240	246	280	0	310	(1000 MT)
Whole, Imports	0	0	0	0	0	0	(1000 MT)
Parts, Imports	0	0	0	0	0	0	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	226	240	246	280	0	310	(1000 MT)
Whole, Exports	7	7	8	10	0	0	(1000 MT)
Parts, Exports	129	129	144	160	0	190	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	136	136	152	170	0	190	(1000 MT)
Human Consumption	90	104	94	110	0	120	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	90	104	94	110	0	120	(1000 MT)
TOTAL Use	226	240	246	280	0	310	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	226	240	246	280	0	310	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)

Poultry, Meat, Turkey, Exports, Jan-Jun 2004-05

Export Trade Matrix Country Brazil Commodity Poultry, Meat, Turkey			
Time Period	Jan-Jun	Units:	Metric Tons
Export for:	2004		2005
U.S.		U.S.	
Others		Others	
Angola	974		1052
Bulgaria	2010		3918
France	336		1971
Gabon	1092		1303
Germany	12708		20510
Italy	2095		2669
Netherlands	13997		11986
Russia	3535		6238
South Africa	7360		5681
Spain	864		2799
U.K.	3631		860
Total for Others	48602		58987
Others not Listed	8668		13154
Grand Total	57270		72141

Poultry Meat, Turkey, Exports, Jan-Dec 2003-04

Export Trade Matrix Country Brazil Commodity Poultry, Meat, Turkey			
Time Period	Jan-Dec	Units:	Metric Tons
Exports for:	2003		2004
U.S.		U.S.	
Others		Others	
Angola	1474		2086
Bulgaria	2588		6222
France	2381		704
Gabon	1387		2344
Germany	25539		35414
Italy	2535		4197
Netherlands	21755		30701
Russia	10929		8406
South Africa	10123		14948
Spain	1994		2360
U.K.	10932		5284
Total for Others	91637		112666
Others not Listed	20114		23804
Grand Total	111751		136470