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Brazil

Fishery Products

Annual Report

2006

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Report Highlights:
Estimates for 2005 suggest continued growth for the fisheries sector. Although exports fell 15% in 2005, primarily due to decreasing lobster and shrimp exports, 2006 forecasts are slightly more optimistic. As exchange rate forecasts for the next year favor Brazilian sales abroad, the industry may recover from the great losses experienced in 2005.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Brasilia [BR1]
[BR]

Table of Contents

Executive Summary

Brazil has a coastline of about 8.500 km and a small number of islands, totaling an approximate area of 3.5 million square kilometers of EEZ (Exclusive Economic Zone). Despite its massive shoreline, Brazilian waters, though being rich in biodiversity, do not offer excellent conditions for fishing. High salinity and warm tropical water temperature, along with poor concentration of nutrients, does not allow great concentration of fish supply.

Nevertheless, according to market analysts, Brazil has strong potential for growth in the fisheries sector. Total capture has increased approximately 2.6%, reaching 1.16 million metric tons per year. Other factors, such as lack of appropriate fishing ships, are major constraints to the expansion of Brazilian production. Nearly half of landings are done through small-scale ships, with limited capacity and often obsolete.

Trade sources indicate that 2006 will continue to show the same trend as 2005. A more favorable exchange rate may boost exports, which fell 15% in 2005, but production is forecast to show little variation from the past couple of years. Positive trade balance is expected to stay above US$100 million in 2006.

Economic Situation

Current economic indicators suggest that the Brazilian economy fared well despite the effects of the political crisis Brazil is experiencing in Congress, directly involving President Lula. Inflation (IPCA) in 2005 was estimated at 5,31%, while the annual interest rate (Selic) closed 2005 at 18%. Economic growth in 2005 may reach 3.31% and market analysts forecast the exchange rate to close 2005 at around R$2.30/US$.

The outlook for 2006 calls for more favorable conditions. Market analysts and government institutions project economic growth between 3.5 and 4.0%. Inflation is expected to decrease, finishing the year at 4.6%. Lower interest rates are forecast in 2006 between 15.8% and 16.0% and a higher exchange rate at R$2.50/US$ is likely to have a positive impact on the performance of the fisheries sectors, thus increasing exports and expanding production.

Although forecasts are optimistic, the Brazilian economy may experience some instability in 2006 due to the upcoming presidential elections in October. The current political crisis has strengthened the competition for the presidential campaign, as the opposition poses a major threat to Lula's reelection

Production

Brazil remains without a reliable inventory of its fisheries resources, which makes it difficult to estimate the exact production. Official data for annual production is released by SEAP and IBAMA in the end of the following calendar year. Most recent data is from 2004 (released December, 2005). Information provided on the PS&D tables are Post's best estimates, and data is derived from interviews with industry leaders and unofficial data furnished by our contacts in the sector.

Aquaculture

Brazilian aquaculture production has experienced constant growth over the past ten years. While landings from wild catch have presented a fair decrease during the past decade (approximately 7%), aquaculture production has experienced an enormous increase, reaching an impressive growth of over 1000%.

The potential for aquaculture in Brazil can be observed in its great natural resources (both continental and marine waters). Brazil accounts for almost 12% of world's fresh water reserves and over 5 million hectares of dammed water. Additionally, Brazil possesses 600,000 hectares of flat lands in estuaries and coast, and 8.5 thousand kilometers of coastline. According to official statistics from 2004 (most recent data), aquaculture represents 26.6% of total fishery production in Brazil, reaching 269,697 metric tons.

Continental Aquaculture

Continental (inland) aquaculture is still the largest producer of farm-raised fisheries. In 2004, Brazil produced approximately 181 thousand metric tons of fisheries (67% of total aquaculture), showing a 2% increase from 2003. Although the Center-West and North/Northeast regions experienced significant increase in 2004 (18.5% and 22.3%, respectively), production in Southern states has decreased, producing 61,252 tons that year, contributing with 33.9% of national production. Tilapia is the most representative species in continental aquaculture production. The increase in US consumption (which is Brazil's largest market for Tilapia fresh filet) has led to growth in domestic production, and consequently doubling of exports from 2003. Post's sources indicate that 69,000 tons of tilapia were produced in 2004 (38% of total continental aquaculture production)

Marine Aquaculture

In 2004, marine aquaculture was responsible for 8.8% of the total landings in Brazil (88,967 tons), down almost 12% from the previous year. Reduced Farm-raised shrimp production (responsible for approximately 85% of total production) accounted for nearly the entire decrease observed. The decline in production can be credited to three main issues: anti-dumping tariffs (currently 7.05%) imposed by the United States, infection by IMNV virus in the Northeast, and poor the exchange rate. For 2005, market analysts estimate production at 63,759 tons.

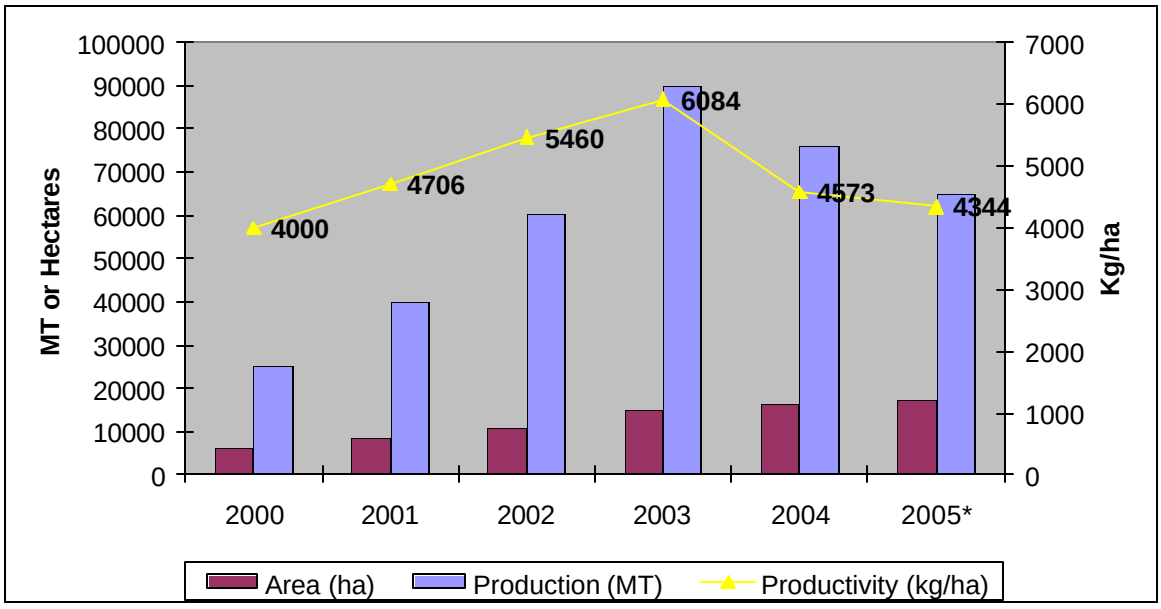
Participation of Farm-raised Shrimp in Brazil by Region (2004)

Regions	Farms		Area		Production		Productivity (Kg/ha/year)
	Quantity	%	ha	%	MT	%	
North	5.0	**0.5**	38.0	**0.2**	242.0	**0.3**	6,368.0
Northeast	883.0	**88.6**	15,039.0	**90.6**	70.7	**93.1**	4,701.0
Southeast	12.0	**1.2**	103.0	**0.6**	370.0	**0.5**	3,592.0
Southeast	97.0	**9.7**	1,418.0	**8.5**	4,598.0	**6.1**	3,243.0
TOTAL	997.0	**100.0**	16,598.0	**100.0**	75,904.0	**100.0**	4,573.0

Source: ABCC – Brazilian Shrimp Producers Association

In an effort to reduce losses, the industry has promoted an increase in internal consumption. The domestic market faces the obstacle of high costs to sell the product internally. While the majority of the production is transported directly to nearby ports in the northeast region, the production destined for domestic consumption becomes very expensive due to high transportation costs.

Evolution of Farm-raised Shrimp Production in Brazil (2000-2005)



Source: ABCC – Brazilian Shrimp Producers Association

Forecasts indicate that productivity rates in 2005 will be lower than that observed in 2004 (4,573kg/ha). Two variables reflect the poor productivity rates shown in these past two years: while production area and the number of farms have shown moderate increase in 2004, the low survival rates caused by the IMNV virus and the reduction of density in the tanks to prevent stress (as a measure to reduce the possibility of infection) has hindered the expansion of the production.

There are four major variables affecting the cost of production of farm-raised shrimp in Brazil. Feed is the main item in the cost structure of cultivated shrimp, reaching 52% of the total cost. The second most important input observed by Brazilian producers are post-larvae costs, representing 12% of total costs. Labor (10.31%) and electricity are ranked third and fourth. It is important to note that the Brazilian minimum wage will increase in April/2006 to R$350 (about US$150).

Cost of Production Comparison of Main Inputs

	Electricity (US$/kwh)	Feed (US$/MT)	Post-Larvae (US$/thousand)	Salaries (US$month)*
Brazil	0,03	680	3,82	130
Ecuador	0,10	450	1,50	150
Venezuela	0,04	610	7,00	450
Panama	0,12	404	4,50	200
Mexico	0,05	650	6,50	290
Thailand	0,02	789	3,68	150
China	0,05	650	1,50	80
Indonesia	0,05	900	3,20	90
Malaysia	0,06	740	5,25	150
India	0,10	900	5,20	100
Australia	0,08	850	10,00	1500

***Minimum wage**

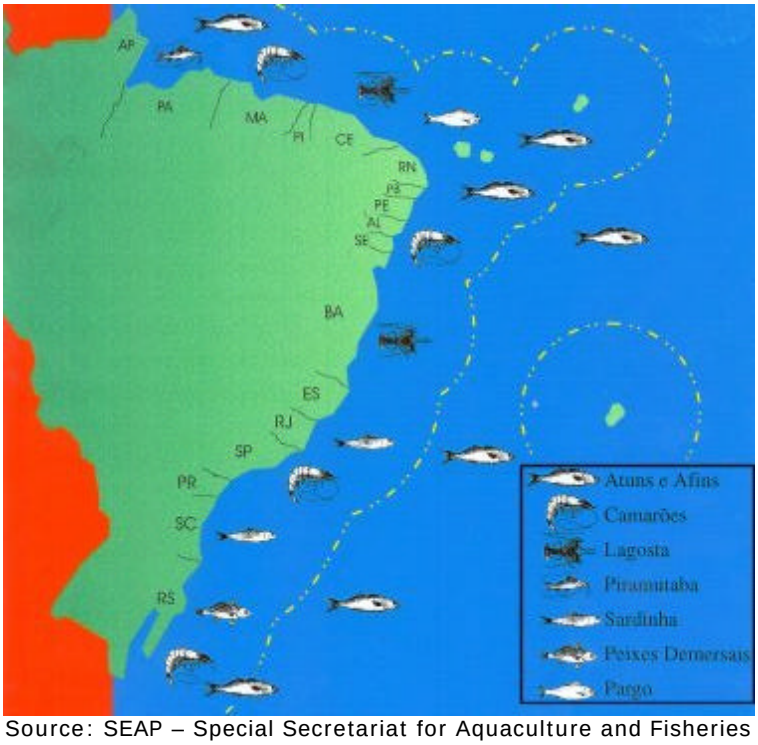
Source: IBGE (Brazilian Statistic and Geographic Insitute) and ABCC

The farm-raised shrimp industry is composed of approximately 1000 producers, predominantly small and medium scale operations and nearly 50 processing centers. Currently, Brazil has the capacity to process 925 tons of shrimp per day, with storage capacity of 15,925 tons.

Sea Catch

Approximately 50% of the total landings in Brazil are from sea catch. In 2004, production reached 500,116 metric tons. While the majority are fish (87.2%), 8.3% are lobsters (8,689 MT) and shrimp (32,505 MT). The most recent official data (2004) indicates a 3% increase in production from the previous year, maintaining slight growth over the past 5 years.

Fishery Resource Map of Brazilian Exclusive Economic Zone (EEZ)



Source: SEAP – Special Secretariat for Aquaculture and Fisheries

Statistical data for sea catch is not reliable. Nearly one third of total landings are performed through small-scale (jangada) ships. In the north/northeast regions, where shrimp and lobster landings are predominant, these rates can reach 80%. Industry contacts estimate total small-scale ships at 27,000. South/southeast states rely mainly on industrial/large scale fleets, which account for nearly 80% of total catch, with a fleet size of 3,000 medium/large scale ships.

Lobster fishing in Brazil has an elevated importance in the fisheries sector. For many years, lobster was the main fishery export product in Brazil (in terms of value), recently loosing its position to shrimp. Production in 2004 reached an estimated 8,689 metric tons. Estimates indicate that current lobster production has not increased over the past 2 years. Production in 2005 may reach 8,400 metric tons.

Despite having its capture prohibited for approximately 1/3 of the year (from January through April) during the reproductive season, exports generated revenues of approximately US$ 78 million in 2005. Nearly 95% of the Brazilian production is destined to foreign markets. For 2006, post forecasts that production will maintain at around 8.5 thousand metric tons. As the exchange rate begins to favor exports, the industry may tend to look towards lobster production.

Official production estimates do not include illegal catches. Although government inspection has been enforced throughout the country, IBAMA (Brazilian Environmental Protection Agency) has fewer than 30 inspectors to protect lobster-fishing areas. The minimum size for lobster catch was defined at 13 cm by IBAMA.

Tuna fish landings reached 35.8 thousand tons in 2004 (most current data). Last year's estimates show almost no growth in total catch. 70% of total catch is concentrated in the Southern states of Santa Catarina and Rio Grande do Sul. Other states such as Rio de Janeiro, Pernambuco and Rio Grande de Norte are also traditional tuna producers.

Landings from sea caught shrimp reached 32,505 metric tons in 2004. Production is not expected to increase do to limited number of ships and limited resources during reproduction season (October through February).

Policy

Two major public policies affect the fisheries sector in Brazil:

- PROFROTA - National Fishing Fleet Modernization and Expansion Program:

On March 23, 2004, President Lula approved the PROFROTA program (Law number 10,849), which created the PROFROTA program. The main goals include: Construction of 100 oceanic fishing ships; Acquisition of 30 oceanic fishing ships (max. 5 years old); Conversion of coastal ships acting upon endangered resource areas, to oceanic fishing.

The program finances up to 90% of projects related to PROFROTA, offering a grace period of 3 years and payment period of up to 18 years.

- PRONAF-Pesca program, created in 2002, grants credit lines at interest rates ranging from 4% to 7.25% per year. The grace period may reach 5 years and payment in 8 years. Credit limits and payment period differ according to size of producer, amount financed and type of project to be financed.

Consumption

There is no official data for the consumption of fisheries in Brazil. According to industry contacts, Brazil's per capita consumption is around 8.2 kg/person. Internal demand is restrained by high prices paid by local consumers. Fishery products are still expensive, and low and medium income population prefer other protein sources, such as meat and poultry. Lack of habit for consumption of fisheries in Brazil, along with the poor quality (high quality products are exported), are major constraints for an increase in consumption of shrimp (about 200 grams/person). There is no reliable data on lobster consumption in Brazil.

Internal demand is expected to increase, as industrial sector compensates for losses in foreign markets, directing part of production for domestic consumption. Market analysts forecast a 5% increase in 2005. Average salaries are expected to increase and economic growth may lead to moderate change in food habits, thus causing slight increase in consumption.

Trade

Foreign markets continue to be more attractive to local fisheries producers. The higher prices paid by the foreign customers, the uncertainty of payment by local buyers, along with tax incentives for exporters, make exports much more lucrative for local producers.

Post forecasts exports of fishery products for 2006 (chapter 03 of HTS) at US$ 410 million , a 5% increase. In 2005 exports reached US$ 390 million, which is a slight downfall from the US$ 416 million obtained in the previous year. Imports have continued to increase reaching US$ 287 million in 2005. Reduction of exports of Brazilian fishery products is due to (1) devaluation of the dollar compared to the real, causing the loss of competitiveness of Brazilian fishery products; (2) anti-dumping tariffs from the United States (average 7.05%) for Brazilian shrimp, (3) reduction of world prices for traditional Brazilian export products such as Shrimp and Lobster.

Imports

Imports expanded nearly 20% in 2005 reaching US$ 288 million. Norway continues to be Brazil's main supplier of fishery products, accounting for nearly 42% of total exports. Codfish is the main product imported by Brazil, representing almost half of the total Brazilian fisheries imports. Portugal is also a major codfish supplier, boosting exports to Brazil, up 75% in 2005, have totaled 21 million that year.

Ranked second in fisheries exports to Brazil, Argentina is the main supplier of Hake frozen filets, up 25% in 2005. Imports from Argentina reached 24% of total Brazilian exports, adding to about 62 million in 2005.

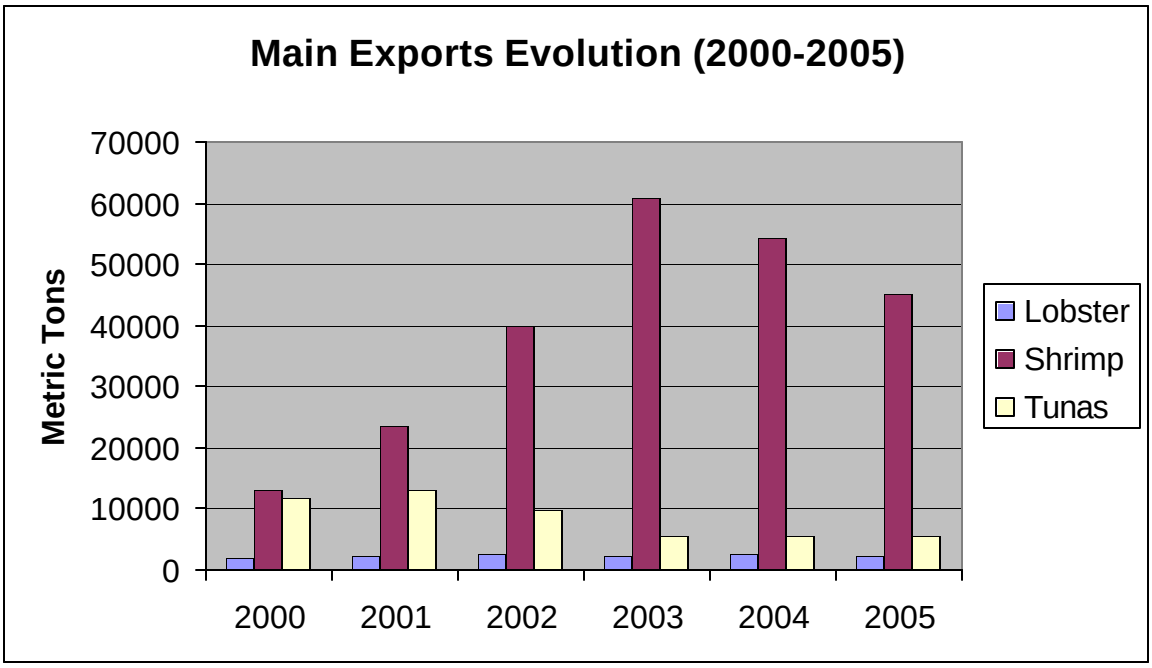
Imports from Chile, Brazil's third largest supplier of fisheries grew only 8 percent in 2005. Fresh salmon consumption in Brazil was influenced by the infection of the parasite *phyllobothrium latum.* Sales in the first semester of 2005 showed drastic reductions (approximately 60%).

Exports

Brazil exported little over 84,000 tons of fisheries in 2005, down 15% from last year. From a total revenue of US$ 390.3 million, nearly 70% was generated by shrimp (US$ 191.4 million) and lobster (US$ 77.7 million) exports.

Given that nearly 70% of the domestic cultivated production is directed towards exports, 2004 and 2005 were tough years for Brazilian shrimp producers. Since 2003, total shrimp exports to the United States have reduced nearly 70%, due to anti-dumping tariffs on Brazilian shrimp. In 2005, shrimp exports decreased 17% in total volume, ending the year with 45,000 tons sold. Recuperation of market share will depend on the revision of these tariffs, expected in April/May this year, and the devaluation of the Real, expected to reach R$2.50/US$ (currently R$2.20/US$). 95% of total shrimp exports are farm-raised shrimp, while sea caught shrimp represents the remaining 5%.

Lobster exports have also been affected by the stagnant production over the last couple of years. In 2003, exports reached 2.4 thousand tons, while current (2005) exports totaled 2.3 thousand tons. Trade analysts estimate that Brazil exports approximately 95% of total lobster production.



Source: Secex – Foreign Trade Secretariat

In 2005, tuna exports were maintained at around 5.6 thousand tons, a small decrease from last year, but still very close to 2003 numbers. Limited production due to fishing quotas and no increase in the number of fishing ships, have not permitted growth in exports.

Trade with the United States

Brazil exported to the United States approximately 19,060 metric tons of fisheries in 2005, reaching a value of US$ 134.4 million. Over the last couple of years, shipments to the U.S. fell 52%. Lobster, was the main product sold to the American market representing 52% of U.S. imports from Brazil. Although shrimp is still ranked second in the export list, sales plummeted in 2005. U.S. anti-dumping tariffs against Brazilian shrimp caused a decrease of 70% in exports. The devaluation of the dollar, along with the shrimp tariffs, caused Brazilian seafood to become uncompetitive in the U.S. market. Forecasts predict a slight growth in exports for 2006 due to expected economic growth, devaluation of the real, and a decrease in the interest rate.

Marketing

The Export Promotion Agency – APEX Brasil, created by the federal government in 1997, is responsible for coordinating and financing up to 50 percent of the cost of promoting Brazilian products overseas and attracting more small and medium sized companies into the export business. APEX, has two programs related to the fishery sector, which are similar to the FAS Market Access Program: APEX/ABCC – The Brazilian Shrimp Producers Association, and APEX/SEAP/PR – Special Secretariat for Aquaculture and Fisheries.

Both programs concentrate on promoting Brazilian seafood overseas, capacitating domestic producers for exporting their goods, and guaranteeing the participation of Brazilian industries in international trade fairs and developing the Brazilian fishery branding abroad.

PS&D Tables

Brazil							
Lobster							
	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
Beginning Stocks	0	0	0	0	0	0	(MT)
Total Production	0	8689	0	8400	0	8500	(MT)
Intra-EC Imports	0	0	0	0	0	0	(MT)
Other Imports	0	0	0	0	0	0	(MT)
TOTAL Imports	0	0	0	0	0	0	(MT)
TOTAL SUPPLY	0	8689	0	8400	0	8500	(MT)
Intra-EC Exports	0	0	0	0	0	0	(MT)
Other Exports	0	2556	0	2374	0	2400	(MT)
TOTAL Exports	0	2556	0	2374	0	2400	(MT)
Domestic Consumption	0	135	0	146	0	150	(MT)
Other Use/Loss	0	5998	0	5880	0	5950	(MT)
TOTAL Utilization	0	6133	0	6026	0	6100	(MT)
Ending Stocks	0	0	0	0	0	0	(MT)
TOTAL DISTRIBUTION	0	8689	0	8400	0	8500	(MT)

Export Trade Matrix

Country Brazil

Commodity Lobster

Time Period	Jan-Dec	Units:	MT
Exports for:	2004		**2005**
U.S.	2486	U.S.	2294
Others		Others	
France	52	Japan	34
Belgium	8	France	16
Japan	8	Netherlands	14
		Italy	14
Total for Others	68		78
Others not Listed	2		2
Grand Total	2556		2374

Brazil							
Shrimp							
	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
Beginning Stocks	0	0	0	0	0	0	(MT)
Total Production	0	108409	0	96264	0	100000	(MT)
Intra-EC Imports	0	0	0	0	0	0	(MT)
Other Imports	0	17	0	0	0	0	(MT)
TOTAL Imports	0	17	0	0	0	0	(MT)
TOTAL SUPPLY	0	108426	0	96264	0	100000	(MT)
Intra-EC Exports	0	0	0	0	0	0	(MT)
Other Exports	0	54379	0	45033	0	50000	(MT)
TOTAL Exports	0	54379	0	45033	0	50000	(MT)
Domestic Consumption	0	54047	0	51231	0	50000	(MT)
Other Use/Loss	0	0	0	0	0	0	(MT)
TOTAL Utilization	0	54047	0	51231	0	50000	(MT)
Ending Stocks	0	0	0	0	0	0	(MT)
TOTAL DISTRIBUTION	0	108426	0	96264	0	100000	(MT)

Export Trade Matrix

Country Brazil

Commodity Shrimp

Time Period	Jan-Dec	Units:	MT
Exports for:	2004		**2005**
U.S.	9011	U.S.	2783
Others		Others	
France	19597	Spain	18186
Spain	17801	France	17634
Netherlands	4363	Netherlands	3204
Japan	1365	Japan	1017
Portugal	901	Portugal	723
Belgium	470	Belgium	558
Italy	295	Italy	296
Argentina	67	Argentina	161
Total for Others	44859		41779
Others not Listed	509		471
Grand Total	54379		45033

Brazil							
Tuna							
	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
Beginning Stocks	0	0	0	0	0	0	(MT)
Total Production	0	36220	0	36000	0	36000	(MT)
Intra-EC Imports	0	0	0	0	0	0	(MT)
Other Imports	0	1842	0	0	0	0	(MT)
TOTAL Imports	0	1842	0	0	0	0	(MT)
TOTAL SUPPLY	0	38062	0	36000	0	36000	(MT)
Intra-EC Exports	0	0	0	0	0	0	(MT)
Other Exports	0	14675	0	8066	0	10000	(MT)
TOTAL Exports	0	14675	0	8066	0	10000	(MT)
Domestic Consumption	0	23387	0	27934	0	26000	(MT)
Other Use/Loss	0	0	0	0	0	0	(MT)
TOTAL Utilization	0	23387	0	27934	0	26000	(MT)
Ending Stocks	0	0	0	0	0	0	(MT)
TOTAL DISTRIBUTION	0	38062	0	36000	0	36000	(MT)

Export Trade Matrix

Country Brazil

Commodity Tuna

Time Period	Jan-Dec	Units:	MT
Exports for:	2004		**2005**
U.S.	1928	U.S.	1637
Others		Others	
Spain	6341	Spain	2467
Argentina	3142	Argentina	1373
Tunisia	1119	Tunisia	1480
Panama	124	Panama	408
France	374	France	184
Total for Others	11100		5912
Others not Listed	1647		517
Grand Total	14675		8066