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## **Brazil**

## **Poultry**

## **Poultry Annual Report**

## **1998**

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### **Report Highlights:**

**The slowdown of Brazil's economy in 1998 is reflected in the meat industry which faces weak demand, notably from the international market. We forecast broiler meat production to increase only one half percent; domestic demand is projected up by 2 percent; and the volume of broiler meat exports is forecast down by 12 percent in 1998. The outlook for 1999 is for slight recovery in exports, and for slower growth in domestic consumption, as the economy is widely expected to enter a recession.**

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## Executive Summary

The Brazilian economy is expected to grow at only 1 percent in 1998, after a growth in GDP of 3.68 percent in 1997, and is likely to enter a recession in 1999. In October of 1997, when Asia's troubles first hit Brazil, the Brazilian government restored market confidence by doubling interest rates and announcing a fiscal squeeze. Throughout most of the first half of 1998, Brazil was able to defend its currency and increase its foreign reserves. However, the side-effect was a slow down in economic activity and increased unemployment. In addition, Brazil has three other major weaknesses which are large fiscal and current-account deficits, and high debt service cost.

Now that Brazil is hit again by the world financial turmoil, Russia's debt default and a slowing world economy, the attack on the Brazilian currency (which is estimated to be overvalued by 20 percent) is far more serious. In less than two months, Brazil lost close to a third of its foreign exchange reserves much of which are borrowed in international capital markets, and the Government is about to announce a far more drastic fiscal squeeze.

This macro-economic picture has affected the meat industry, and particularly the poultry sector. Poultry production is expected to increase between one half and two percent, domestic demand is up by over 2 percent,

while poultry exports (mostly broilers) are expected to drop by 12 percent, due to poor demand in international markets, mostly because of a drop in exports to Asian markets, and to Russia.

Table egg production is expected to increase by 8 percent in 1998. This concerns egg producers because this reflects excess production capacity which will likely result in declining net returns to producers.

## Commodity Outlook, Broilers

### Production

The Office of Agricultural Affairs (OAA) estimates that production of broiler meat will increase only by one half of one percent in 1998 due to lower availability of day-old chicks, lower exports, and weak domestic demand. Broiler raisers reduced chick placements to 1.3 billion chicks during the first semester of 1998. This was one percent lower than the same period of last year and is the second drop in chick placements in the past 17 years (The other drop in production occurred in 1984 when broiler producers adjusted production to demand). The situation in 1998 is similar to that of 1984, but two other factors accounted for this year's decline: the high mortality of day-old chicks due to high temperatures because of El Nino, and the outbreak of leukosis disease which affected breeding material, mostly imported from the United States.

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

Year	Parent Stock		Broiler Chicks (1,000)
	Layers (1,000)	Broilers (1,000)	
1991	56,590	17,009	1,819,824
1992	58,286	17,277	1,974,639
1993	52,596	18,915	2,122,921
1994	55,603	20,817	2,323,906
1995	58,250	22,068	2,537,191
1996	56,002	21,859	2,593,096
1997	52,073	23,118	2,863,797

In 1997, Broiler meat production in Brazil reached 4.4 million metric tons, of which 50 percent was concentrated in the South region, followed by the Southeast region (35 percent). The state of São Paulo (SP) in the Southeast region, was the single largest producer of broiler meat (22 percent), followed by the three southern states of Santa Catarina (= SC, 18 percent), Parana (= PR, 16 percent), and Rio Grande do Sul (= RS, 15 percent). (The above figures include non-federally inspected poultry slaughter, which is estimated to be around 28 percent. However, in terms of federally inspected broiler slaughter, Santa Catarina is the leading producer

with 17 percent, followed by Rio Grande do Sul and Sao Paulo with 15 percent, and Parana with 14 percent.) About 75 percent of the broiler industry in Brazil is vertically integrated. All poultry plants in the export business are vertically integrated and federally inspected.

The outlook for broiler production in 1999 calls for another small increase in production, reflecting the uncertainty of poultry exports, the expected slow economic growth rate 2 percent or less, and continued weak consumer demand. Poultry analysts generally agree double digit poultry production growth in Brazil is over. Production in the coming years will continue to grow as a result of previous investments in the sector which are contributing to productivity gains, but the pace of such improvements and growth will slow. Profit margins on whole chickens are close to zero, impacting mainly small and medium size processors. Large poultry processors are responding to the challenge by launching new, high-value products, and seeking new markets abroad. The top two Brazilian poultry firms, Sadia and Perdigão have developed sophisticated processed food products arrays, which include not only poultry meat, but prepared poultry dishes with rice, vegetables, olive oils, etc, as well as pork and fish-based prepared dishes.

**CONCENTRATION:** In 1997, the 10 largest poultry processors accounted for 47.6 percent of total poultry slaughter, slightly down from 49.8 percent in 1996. Non-inspected broiler production decreased from 28.7 percent in 1997 to 28.2 percent. This is a result of stronger enforcement by state governors of the value-added tax. The following table provides the market share of each of the ten largest broiler processors in Brazil. (Note: With few exceptions, many of the firms listed below are also leaders in pork production in Brazil.)

Company	1997 Percent	1996 Percent
Sadia	12.28	13.45
Perdigão	7.56	7.10
Ceval	6.07	6.38
Frangosul	4.89	4.51
Avipal	4.53	4.53
Penabranca	3.10	3.80
Dagranja	3.04	3.19
Chapecó	2.59	3.89
Aurora	2.13	1.31
Minuano	1.42	1.64

Increased concentration in the poultry industry will continue to reduce the number of small- and medium-size processors, who face higher interest rates and compressed profit margins. A most recent development is the entry into the Brazilian poultry sector of foreign firms, the most important of which is the French poultry company Doux. In July Doux announced its purchase of Frangosul, the fourth largest poultry and pork processor in Brazil, with a poultry export market share of nearly 12 percent. Traditionally poultry production

and processing has been a Brazilian family business, so the advent of multinationals is a significant development. Three years ago Perdigao, also a family business, and second largest poultry processor was purchase by a group of Brazilian pension funds. There are also reports that the fifth largest Brazilian poultry processor AVIPAL is about to be sold to the Argentine group MACRI.

**PRODUCTION COST:** The cost structures for poultry and pork producers in Brazil are similar throughout the industry. Feed costs account for over 50 percent of raw material costs. In Sao Paulo state, average cost of production for the first semester of 1998 was estimated at US \$0.63 per kilogram. Costs in the South (RS, PR, SC) are somewhat lower, because production is highly integrated. Poultry companies in Brazil do not release production cost information. This is partly a vestige of the hyper-inflation period, when inflation hid real costs of production of goods and services in Brazil. But since economic stabilization beginning in 1994, when inflation began to slow to rates similar to the developed economies, production costs have become somewhat more transparent. Indicative costs in the following table were provided by the Sao Paulo Poultry Association. This does not reflect costs of production of highly integrated broiler producers in the South region, which are estimated some 20 to 30 percent below Sao Paulo levels.

Indicative Sao Paulo (state) poultry production costs

Year/Month	Cost (US\$/KG)	Wholesale Prices	
		Live weight	RTC
Jan/97	0.67	0.55	1.06
Feb	0.65	0.57	1.05
Mar	0.64	0.59	1.04
Apr	0.63	0.53	0.99
May	0.61	0.52	0.92
Jun	0.61	0.65	0.99
Jul	0.62	0.73	1.05
Aug	0.62	0.73	1.04
Sep	0.62	0.70	1.03
Oct	0.63	0.62	0.92
Nov	0.66	0.61	0.96
Dec	0.65	0.64	0.97

Annual Averages

1994	0.65	0.72	1.06
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1995	0.66	0.62	1.05
1996	0.69	0.69	1.08
1997	0.64	0.62	1.01

## Consumption

Domestic broiler meat consumption is expected to increase by 2.7 percent in 1998, reflecting a sharp drop in exports, competitive broiler prices relative to beef prices, strong demand from the institutional market, and most important, increased consumption of prepared chicken products, particularly in entree-dinners.

There are no statistics that break down the composition of broiler consumption, although Brazilian consumers still have an overwhelming preference for large whole broilers. However, the structure of broiler demand is changing in Brazil according to some market analysts. Since economic stabilization beginning in 1994, there has also been a shift in consumption toward more highly processed broiler products. Traditional diet staples rice and dried beans are losing ground, giving way to animal proteins products, such as poultry and dairy. Large Brazilian poultry processors are responding to these consumer habit 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, are also offering great potential for Brazilian firms. Tailoring products to these sectors' needs is key in processors' new strategies.

## Trade

OAA revised our broiler export forecast downward. We now show a 12 percent drop in 1998 export volume, reflecting revised Jan. - June 1998 export data. Most of the export decline can be attributed to a major drop in exports to Russia, and a decline in exports to Asia, mostly to Japan, as a result of the financial crisis affecting that region. Brazilian exporters also claim that the currency devaluation in Thailand had a negative impact on their sales to Asia. Exporters also complain about U.S. EEP and European Union poultry export subsidies to their markets in the Middle-East. More recently, Brazilian poultry exporters are facing problems with the new Argentine regulations for residue control and hygiene in foods (CREHA), which has caused detention of several shipments of poultry and pork exports from Brazil. Brazilian officials consider this new plan illegal under the WTO because of the lack of prior notice to Brazil and third countries prior to implementation.

Brazil's poultry exports originate largely (over 90 percent) in the South region. Poultry exports also benefit from the exemption of ICMS (Imposto sobre a Circulacao de Mercadorias e Servicos, similar to a value-added tax) on processed product exports.

Export industry working capital financing is also used by the poultry export industry. Available under the PROEX Program, (administered by the Bank of Brazil) these funds known as A.C.C., bear interest rates below common Brazil market rates (but above global rates). Similarly, as an export industry, poultry producer-processors can get long-term investment loans from BNDES, the Banco Nacional de Desenvolvimento Economico e Social, at favorable (relative to ordinary Brazilian investment funding) rates.

For a detailed overview of the 1997 Brazilian poultry exports, please see BR8605, dated 2/5/98.

## Stocks

Brazilian processors work on a very short slaughter schedule, and thus hold stocks only to meet export contracts. There are no government-owned chicken stocks.

## Policy

The poultry sector outlined its policy goals late in 1997 through a document called the “Brasilia Letter”, in which poultry leaders requested from the Brazilian government the following policy points:

- a) strengthening of the 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) programs aimed at reducing the cost of transporting and storing grains;
- d) establishment of new special credit programs for the poultry and pork sectors;
- e) support to and from government in multilateral fora to fight subsidies and protectionist measures by competitors and importing countries abroad.

The most recent event affecting policy development was Brazil’s defeat in the WTO panel on the Brazilian case against the European Union’s poultry policies. Poultry leaders considered the results of the WTO panel a major defeat for the sector. Brazil lost on two requests:

- (a) The increase in the import quota;
- (b) The administration of the quota;

Brazil won its requests related to the reference price for import duty purposes.

## Marketing

Brazil’s continued expansion of poultry production limits market opportunities in Brazil for U.S. exporters. In addition, lack of a meat inspection agreement prohibits imports of fresh and frozen poultry products from the United States.

Brazil is also a major competitor for the United States in broiler exports.

## Commodity Outlook, Turkey

### Production

Turkey production is basically an oligopoly in Brazil. Nearly all turkey meat marketed in Brazil is produced by SADIA, which holds a 96 percent market share of Brazil’s turkey production. According to SADIA sources, the company’s goal is to increase turkey production by 10 percent a year.

### Consumption

Frozen turkey consumption remains highly seasonal in Brazil. About 85 percent of whole turkey sales occur

during the pre-Christmas period. Consumer habits in Brazil favor turkey consumption during Christmas. However, processed turkey products, such as sliced loaf, nuggets, etc., are consumed throughout the year. SADIA's business strategy is to increase consumption of processed turkey products, and to expand the consumption of whole turkey to other major seasonal events.

## **Trade**

Turkey exports, almost entirely turkey parts, account for an average 15 percent of production and show only marginal annual increase. Germany and Italy account for most of Brazil's turkey exports, followed by the United Kingdom, South Africa, Peru, Netherlands and Hong Kong.

## **Commodity Outlook, Eggs**

### **Production**

Brazilian production of eggs is estimated to increase by 8 percent in 1998. However, excess production capacity is affecting returns to producers. Small producers are being forced to reduce their laying flocks because of the increase in the cost of production. OAA expects egg production to slow in late 1998 and 1999 because of negative returns to producers estimated for the second half of 1998.

### **Consumption**

Demand for table eggs remains weak because of the overall economic situation, expected to worsen 1999. However, demand for processed egg products will continue to perform better because of the growth in consumption of processed food products in general. Processed egg products currently account for about 4 percent of total egg production.

## Tables

### PSD Table, Poultry Meat, Total

PSD Table						
Country:	Brazil					
Commodity:	Poultry, Meat, Total					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	4556	4562	4650	4592	0	4688
Whole, Imports	0	0	0	0	0	0
Parts, Imports	0	0	0	0	0	0
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	4556	4562	4650	4592	0	4688
Whole, Exports	380	375	392	344	0	347
Parts, Exports	284	290	246	244	0	254
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	664	665	638	588	0	601
Human Consumption	3892	3897	4012	4004	0	4087
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	3892	3897	4012	4004	0	4087
TOTAL Use	4556	4562	4650	4592	0	4688
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	4556	4562	4650	4592	0	4688
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0

**Poultry Meat, Total, Export Trade Matrix**

Export Trade Matrix			
Country:		Units:	Metric Tons
Commodity:			
Time period:	Jan-Dec		
Exports for	1997		1998
U.S.	0	U.S.	0
Others		Others	
Argentina	45534		60104
Bahrain	9348		7290
European Union	67215		58480
Hong Kong	72437		68715
Japan	93698		65600
Qatar	12900		16250
Russia	33337		10100
Saudia Arabia	185241		172274
Singapore	20684		15400
UAE	28629		26100
Total for Others	569023		500313
Others not listed	96027		88000
Grand Total	665050		588313

**PSD Table, Poultry Meat, Chicken - 16 wks**

PSD Table						
Country:	Brazil					
Commodity:	Plty, Meat, Chicken -16 wks					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	4455	4461	4540	4485	0	4575
Whole, Imports	0	0	0	0	0	0
Parts, Imports	0	0	0	0	0	0
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	4455	4461	4540	4485	0	4575
Whole, Exports	379	374	390	342	0	345
Parts, Exports	270	276	230	228	0	235
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	649	650	620	570	0	580
Human Consumption	3806	3811	3920	3915	0	3995
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	3806	3811	3920	3915	0	3995
TOTAL Use	4455	4461	4540	4485	0	4575
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	4455	4461	4540	4485	0	4575
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0

**Poultry Meat, Chicken - 16 wks, Export Trade Matrix**

Export Trade Matrix			
Country:		Units:	Metric Tons
Commodity:			
Time period:	Jan-Dec		
Exports for	1997		1998
U.S.	0	U.S.	0
Others		Others	
Argentina	45534		60104
Bahrain	9348		7290
European Union	67215		58480
Hong Kong	72437		68715
Japan	93698		65600
Qatar	12900		16250
Russia	33337		10100
Saudia Arabia	185241		172274
Singapore	20684		15400
UAE	28629		26100
Total for Others	569023		500313
Others not listed	81027		70000
Grand Total	650050		570313

**Poultry Meat, Chicken - 16 wks, Prices Table**

Prices Table					
Country:					
Commodity:					
Year:	1997				
Prices in (currency)	US\$	per (uom)	Kilogram		
Year	1996	1997	% Change		
Jan	0.55	0.55	0.0%		
Feb	0.66	0.56	-15.2%		
Mar	0.58	0.58	0.0%		
Apr	0.65	0.51	-21.5%		
May	0.69	0.51	-26.1%		
Jun	0.73	0.64	-12.3%		
Jul	0.71	0.72	1.4%		
Aug	0.62	0.73	17.7%		
Sep	0.72	0.71	-1.4%		
Oct	0.77	0.63	-18.2%		
Nov	0.81	0.61	-24.7%		
Dec	0.69	0.64	-7.2%		

**PSD Table, Poultry Meat, Turkey**

PSD Table						
Country:	Brazil					
Commodity:	Poultry, Meat, Turkey					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	101	101	110	107	0	113
Whole, Imports	0	0	0	0	0	0
Parts, Imports	0	0	0	0	0	0
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	101	101	110	107	0	113
Whole, Exports	1	1	2	2	0	2
Parts, Exports	14	14	16	16	0	19
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	15	15	18	18	0	21
Human Consumption	86	86	92	89	0	92
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	86	86	92	89	0	92
TOTAL Use	101	101	110	107	0	113
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	101	101	110	107	0	113
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0

**Poultry Meat, Turkey, Export Table Matrix**

Export Trade Matrix			
Country:		Units:	
Commodity:			
Time period:			
Exports for	1997		1998
U.S.		U.S.	
Others		Others	
Total for Others	0		0
Others not listed			
Grand Total	0		0

**PSD Table, Poultry, Eggs**

PSD Table						
Country:	Brazil					
Commodity:	Poultry, Eggs					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Layers	57	52	52	55	0	57
Beginning Stocks	0	0	0	0	0	0
Production	12596	12596	12600	13600	0	13872
Hatch Eggs, Imports	0	0	0	0	0	0
Shell Eggs, Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
Intra EC Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	12596	12596	12600	13600	0	13872
Hatch Eggs, Exports	2	2	4	4	0	5
Shell Eggs, Exports	18	18	21	21	0	25
Other Exports	0	0	0	0	0	0
Intra EC Exports	0	0	0	0	0	0
TOTAL Exports	20	20	25	25	0	30
Hatch Eggs, Consumption	0	0	0	0	0	0
Shell Eggs, Human	12576	12576	12575	13575	0	13842
Shell Eggs, OT. Use/Loss	0	0	0	0	0	0
Other Dom. Consumption	0	0	0	0	0	0
Total Dom. Consumption	12576	12576	12575	13575	0	13842
TOTAL Use	12596	12596	12600	13600	0	13872
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	12596	12596	12600	13600	0	13872
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0

**Poultry, Eggs, Prices Table**

Prices Table					
Country:					
Commodity:					
Year:	1997				
Prices in (currency)	US\$	per (uom)	dozen		
Year	1996	1997	% Change		
Jan	0.99	1.1	11.1%		
Feb	1.04	1.17	12.5%		
Mar	1.17	1.33	13.7%		
Apr	1.26	1.32	4.8%		
May	1.28	1.24	-3.1%		
Jun	1.36	1.28	-5.9%		
Jul	1.38	1.31	-5.1%		
Aug	1.37	1.29	-5.8%		
Sep	1.33	1.23	-7.5%		
Oct	1.23	1.16	-5.7%		
Nov	1.15	1.11	-3.5%		
Dec	1.11	1.08	-2.7%		