



# International Trade Report

June 3, 2004

## “Meat” Brazil

Brazil’s export prowess in agricultural products is the result of a deliberate strategy that began in the early 1990’s. After discarding a policy of import-substituting industrialization, which for years crippled agriculture by diverting state resources into industrial development, Brazil has now fully embraced agriculture as a way to generate export revenue and encourage employment in rural areas. The meat sector in particular is regarded as an important channel for valued-added exports.

(1,000 MT) CWE	1990	1995	2000	2003
<b>Beef Production</b>	5,008	6,080	6,520	7,385
<b>Beef Exports</b>	249	228	492	1,175
<b>Pork Production</b>	1,050	1,450	2,010	2,560
<b>Pork Exports</b>	19	46	162	603
<b>Broiler Production</b>	2,356	4,050	5,980	7,645
<b>Broiler Exports</b>	300	428	870	1,904

Source: Foreign Agricultural Service, Official USDA Estimates

Investment in the meat sector has been most noticeable in the south and southeastern regions, where there is generally greater affluence and better access to maritime infrastructure. The States of Paraná, Santa Catarina, Rio Grande do Sul and São Paulo, which comprise less than 10 percent of Brazil’s total landmass, encompass 37 percent of the population and 51 percent of GDP; these States also account for 70 percent of poultry production, 49 percent of pork production, and 26 percent of beef production. While the majority of Brazilian meat exports still originate from these four States, the Cerrado region, a 1.5 million square kilometer expanse

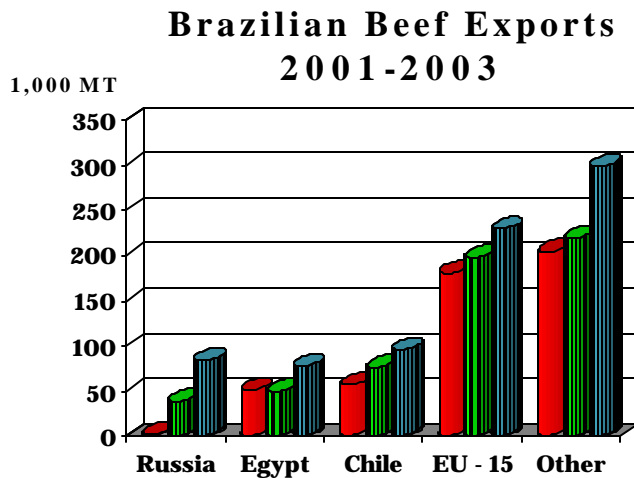


located around the central plateaus of Mato Grosso, Mato Grosso do Sul, Goiás and Minas Gerais, is the new frontier for large-scale agricultural development. Already well known for the production of corn and soybeans, Brazil’s Cerrado is also ideally suited for livestock and poultry production. With abundant feed supplies and inexpensive land still relatively unencumbered by environmental regulations, the Cerrado has vast potential for meat production. Almost half of Brazil’s beef herds, which are largely grass fed zebu breeds, are based in the Cerrado. Regional

poultry production has also nearly doubled in the 6 years between 1997 and 2002.

### Brazilian Beef Muscling for New Markets

In 2003, Brazil surpassed the United States in becoming the world's second largest beef exporter after Australia. Over the last decade, Brazil's beef industry has pursued genetic improvements and technological innovation to boost productivity. The average slaughter age, for example, has



Source: World Trade Atlas  
(volume by product weight)

fallen from 54 to 38 months. Although the industry is still relatively fragmented, beef production is increasingly export oriented. Today, there are an estimated 600,000 producers, but less than 5 percent of these producers have herds of over 1,000 head. Still, beef exports, as a percentage of total production, have increased from 5 percent in 1990 to about 16 percent in 2003. As beef production is predominantly grass-fed (only an estimated 5 percent of Brazil's production originates from confined feedlots), Brazil has also worked to capitalize on the perceived minimized risk of Bovine Spongiform

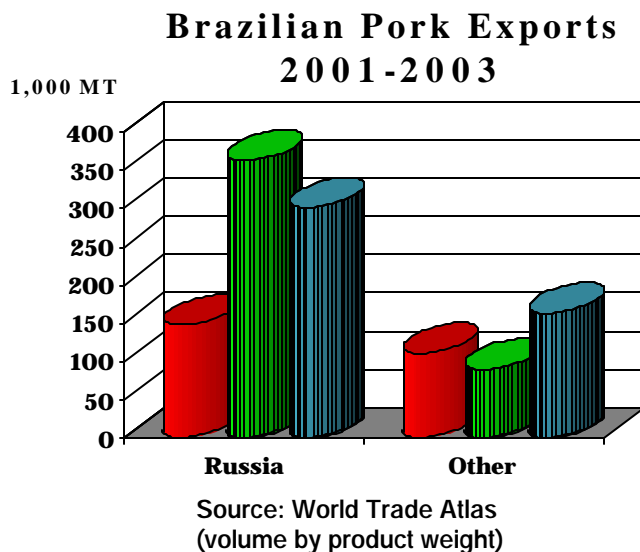
Encephalopathy (BSE). Notwithstanding periodic outbreaks of Foot-and-Mouth disease (FMD) in neighboring Paraguay, Brazil is also increasingly winning acceptance as being FMD-free with vaccination. In 2004, Brazil is expected to export 1.35 million tons of beef and will probably overtake Australia as the world's largest beef exporter. While the European Union, Chile and Egypt are likely to remain top markets for Brazilian beef, Brazilian exporters are also very keen to address lingering concerns with FMD in order to reach lucrative Asian markets, particularly in China and Japan. Following the very successful export model of the poultry industry, Brazilian beef exports are progressively emphasizing higher value products. Fresh / chilled meat cuts for example have risen from about 6 percent of total beef exports in 1998 to 20 percent in 2003.

### Growing Pains in Brazil's Pork Industry

Within the last decade, Brazilian pork production has grown by an average of almost 10 percent a year to more than 2.5 million tons in 2003. Until the early 1990's, Brazilian swine herds were primarily composed of mixed breeds of lard-producing low-quality animals. However, as demand for lard diminished, hog farmers gradually turned to higher quality meat breeds such as Duroc, Landrace and Large White. Traditional Brazilian hog farms in the South still tend to be small to mid-sized operations (typically with less than 250 sows). These farmers frequently engage in vertically integrated arrangements with large agribusinesses that will provide genetics, feed and technical services before purchasing the final product. With the constraints of prohibitively expensive credit, small independent farmers are often reluctant to face the risks of

large-scale expansion. Cheap land in the Cerrado region does offer the possibility of larger scale pork production, however, inland transportation infrastructure is grossly inadequate. Most highways outside of the large urban centers are still undivided two lane roads, and railways are better suited for the transportation of bulk commodities. Notwithstanding the limitations in Brazil's transportation network, pork exports have grown at an astonishing rate. In 1990, Brazil exported 19,000 tons or about 2 percent of total production. By 2003, 603,000 tons, almost one-fourth of all pork produced, was leaving Itajaí, Rio Grande and other southern Brazilian ports for Russia and other markets around the world. Since the year 2000, Brazil's fortunes in exporting

pork have been closely tied to the Russian market. After overcoming a series of trade disruptions due to veterinary concerns with Aujeszky's disease (pseudorabies), Brazil has had to face Russia's tariff rate quota (TRQ) system. Under the 2004 Russian TRQ, Brazil is competing for a share of the 179,500-ton quota (product weight) reserved for "other countries". Although Brazilian pork remains very competitive, this quota is 40 percent lower than the amount Brazil managed to ship in 2003. As a result of the Russian TRQ,



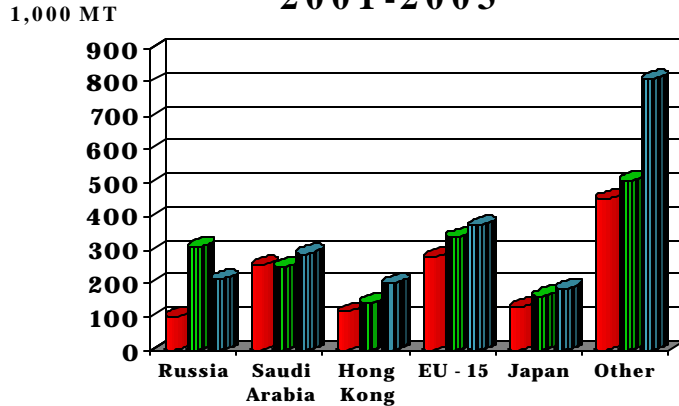
Brazilian pork exports for 2004 are forecast to decline by almost 30 percent, to 425,000 tons (CWE). The anticipated decline in exports is bound to place a considerable burden on Brazil's domestic pork consumption, which is notoriously underdeveloped. Annual pork consumption stands at a relatively low 12.4 kg. per person. While wealthier southern states like Santa Catarina and São Paulo consume more than twice the national average, pork is commonly sold in relatively expensive processed form and, consequently, is often unaffordable.

## Building the Brazilian Poultry Empire

As the world's second largest poultry exporter, the Brazilian avian industry is highly competitive in genetics, technology and marketing. The industry is vertically integrated, with the top four companies dominating export trade, accounting for over half of all of Brazilian poultry exports. Incidentally, some of the same companies, Sadia, Seara and Perdigão, are also the three dominant pork exporters. However, unlike pork, Brazil's poultry export markets are highly diversified. More than 90 countries currently buy Brazilian poultry. Poultry exports, which amount to about one-quarter of total production, are a model of Brazil's export strategy. Brazilian President Luis Inacio Lula da Silva is often quick to note that Brazil is not content with just exporting raw material and minerals, but rather expects to expand trade in high-tech and high

value-added products. Around the world, Brazilian poultry is increasingly sold in the form of high value, branded, consumer ready products. On the world market, these products have

### Brazilian Poultry Exports 2001-2003



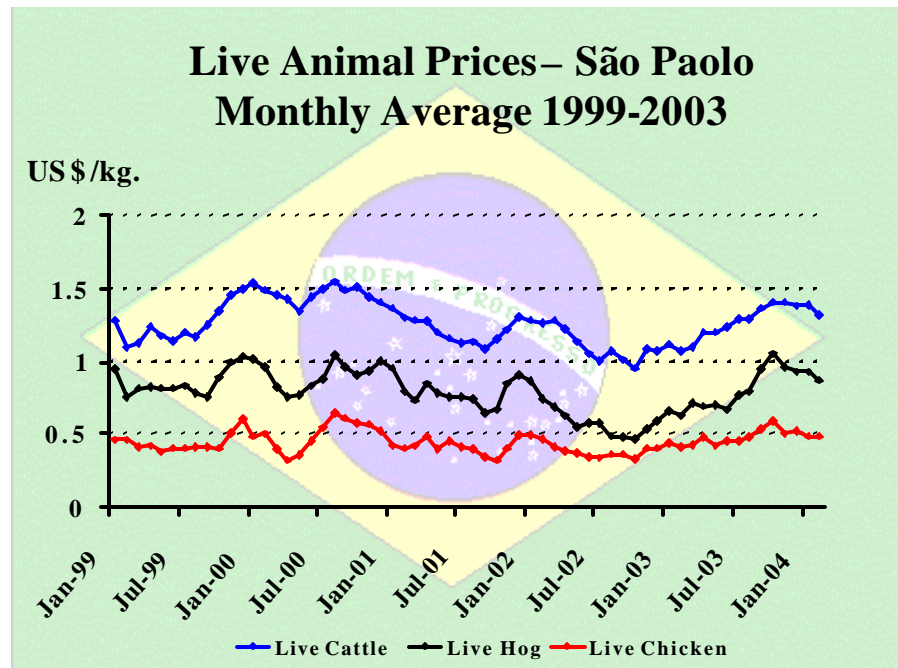
Source: World Trade Atlas  
(volume by product weight)

managed to remain very competitively priced, particularly as feed cost volatility in Brazil appears to have stabilized. With the recent outbreaks of Exotic Newcastle Disease and Avian Influenza (AI) in Asia, and to a lesser extent in the United States, Brazil has been in an advantageous position to capture market share in countries where imports of broiler meat from countries with AI have been temporarily suspended. This has already been an important factor for Brazil's export growth in 2004, as Asian markets like

China, Japan and South Korea, make up for receding demand in the Middle East. During the first three months of 2004, Brazilian broiler and turkey shipments to Japan rose 85 percent. For 2004, total Brazilian poultry exports are expected to increase by 10 percent from 2003, to 2.225 million tons.

## Brazil: Facts and Figures

- **Population**  
178 million
- **2003 GDP**  
US\$ 498 billion
- **2003 Per Capita Meat Consumption**  
Beef – 33.3 kg.  
Pork – 12.4 kg.  
Chicken – 35.6 kg



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