

## World Broiler Meat Trade Overview

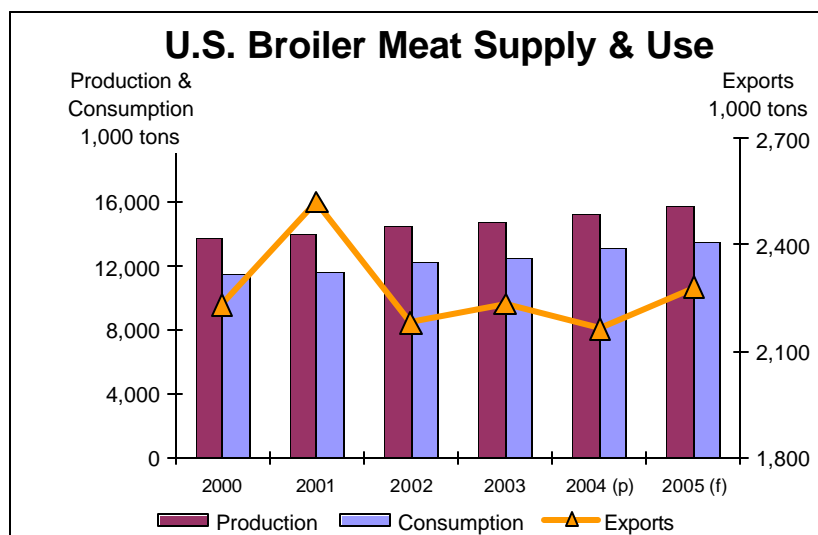
### World Broiler Exports Expected to Increase 6 Percent in 2005; China's Imports Are Forecast to Rebound to 450,000 tons

Total 2005 broiler meat exports by major exporting countries are forecast at a record level of 6.5 million tons, an upward revision of 6 percent from the November 2004 forecast. The top exporting countries, Brazil and the United States are expected to dominate export markets but countries currently experiencing problems with avian influenza (AI) are expected to not export at pre-AI levels. Brazil maintains its lead with record-level broiler meat exports of 2.6 million tons in 2005, a 6-percent increase above the 2004 level which was 28 percent above the 2003 level. For 2005, broiler meat imports by major countries are forecast at 4.2 million tons, up 8 percent from the 2004. China, the European Union, Japan, Mexico, Russia, and Saudi Arabia are expected to account for about 75 percent of world broiler meat imports. In 2004, broiler meat exports to Africa and the Middle East accounted for 10 percent and 41 percent of the United States and Brazil's exports respectively.

Large increases in broiler meat exports for the world's largest suppliers, Brazil (6 percent) and the United States (5 percent) are forecast in 2005. In 2004, tariff barriers and sanitary issues shifted the broiler global market supply and demand. AI-related trade restrictions imposed by some major importing-countries on U.S. broiler meat did not significantly reduce U.S. broiler meat exports in 2004. For part of 2004, Brazilian exports benefited from higher prices due to tight world supplies and AI restrictions on other supplier countries.

### Key Exporters

- **United States:** In 2005, broiler meat exports are forecast to increase 5 percent due to favorable exchange rates, coupled with a 3-percent increase in broiler meat production. All U.S. nationwide AI-related import bans were lifted in major markets, however, regionalized (state-based) bans remain in some markets. Import growth in price-sensitive emerging markets such as the Commonwealth of Independent States (CIS)



Source: *Production, Supply & Distribution Database, FAS*

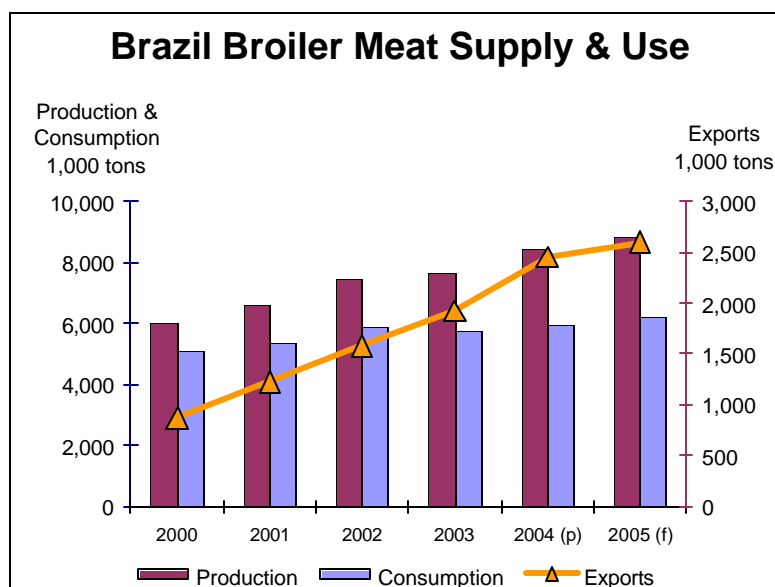
and the Caribbean are likely to continue in 2005. In 2004, U.S. broiler meat exports decreased by 3 percent to 2.2 million tons amidst strong competition from Brazil and the European

Union as well as AI-related trade restrictions for part of the year. Russia, the largest destination for U.S. exports accounted for 30 percent of total U.S. broiler meat exports in 2004 and grew by 8 percent compared to 2003. Problems in the administration of import permits early in 2005 will likely constrain exports to Russia and may keep the United States from filling the 2005 quota allocation set at 771,900 tons. Strong demand for mechanically deboned (MDM) broiler meat resulted in an 18 percent growth in exports to Mexico, which represents 13 percent of total U.S. broiler meat exports to the world. In 2004, Canadian import demand for U.S. broiler cuts and processed broiler meat grew by 16 and 12 percent respectively due to AI-related disruptions in Canada's domestic production. In 2005, U.S. broiler production is forecast to reach a record high 15.8 million tons.

Affordable, high-quality broiler products as well as convenient and case-ready products have contributed to continual increases in U.S. domestic broiler meat consumption. In 2005, per capita U.S. broiler meat consumption (ready to cook) is forecast at 45.5 kg. As beef prices remain high, broiler meat is a price competitive substitute for consumers. With record U.S. corn and soybean crops, the prices for corn and soybean meal have fallen from their 2004 highs. Strong demand combined with lower feed costs gives U.S. producers an incentive to increase production, but growth has been moderate. Chicken leg-quarter prices remained relatively high in the first quarter of 2005, 7 percent lower compared to 2004, but 53 percent higher than in 2003.

There is a growing trend for ready-to-eat broiler meat products marketed to health-conscious consumers. Additionally, high beef prices have prompted the fast food industry to add more selections containing broiler meat to their menus. Broiler meat is highly versatile as it can be processed (nuggets), fried, or charbroiled and eaten in a sandwich, on a salad or simply as strips.

- **Brazil:** In 2005, Brazilian broiler meat exports are forecast to increase by 6 percent to 2.6 million tons, a record high, fueled primarily by production expansion. As well a becoming the world's largest beef exporter in 2004, Brazil also became the world's largest broiler exporter. Production increases are due to export expansion and stronger domestic demand. The higher demand is made possible by lower inflation, drop in unemployment, and higher real-income per capita. Additionally, federal



Source: *Production, Supply & Distribution Database, FAS*

funding for social welfare programs have included broiler meat, which is the lowest-priced source of animal protein in Brazil. Higher interest rates and the appreciation of the Brazilian Real (approximately 12 percent in 2004) will limit future investment and hence production increases.

As the world's largest broiler meat exporter in 2004, Brazil exported to 134 countries, an increase of 12 markets from 2003. Brazil's export strategy focuses on growth in high-value products such as specialized trimmings and other further processed products that capitalize on its low labor costs. For the last 3 years, Brazil's largest export market has been Saudi Arabia, which accounted for 14 percent of Brazil's total broiler meat exports to the world. In 2004, Japan grew most rapidly as an export market for Brazil, increasing 76 percent due to AI-related supply disruptions. On September 20, 2004, Russia implemented a ban on all Brazilian meat imports based on foot and mouth disease (FMD) outbreaks in the Amazon. However, the ban was partially regionalized without causing major trade disruptions.

- **China:** In 2005, China is projected to increase broiler meat exports by nearly 4 percent mainly due to Asian demand for its processed broiler meat. Japan remains China's largest export market, accounting for 57 percent of China's total broiler meat exports to the world. In 2004, Japan reduced the amount of Chinese broiler meat plants eligible to export from 35 to 11 due to strong pressure brought about by Japanese consumer groups. Since the AI outbreaks in 2003 and 2004, China implemented stringent broiler production measures to gain consumer confidence domestically and abroad. In 2004, the Chinese broiler industry adopted new food safety standards, disease control measures, environmental protection requirements for meat processing, animal waste handling norms and drug usage rules. China will rely on processed broiler exports as its post-AI strategy for market penetration. However, the weak demand for cooked broiler meat will limit China's export growth. China is awaiting U.S. equivalency inspection that would include it on the list of countries eligible to export cooked poultry products to the United States.
- **European Union:** Stiff competition and unfavorable exchange rates will weigh down EU broiler meat exports in 2005. In 2005, exports are forecast to increase by less than 1 percent driven by a modest increase in production principally in Belgium/Luxemburg, Poland and Spain. The European Union mostly exports low value cuts, as well as MDM. Polish MDM exports to mainly Russia experienced a 13-percent increase despite delays in the implementation of the European Union's Russian import quota allocation, which helped support overall EU broiler meat exports. Strong competition from Brazil reduced exports to Saudi Arabia and the United Arab Emirates, which traditionally are two of the European Union's main export markets. French broiler meat production will continue to decline due to higher costs and competitive pricing from exporting countries. The New Member States (NMS) producers will benefit from higher prices due to strong sales opportunities to EU-15 member states. Additionally in 2005, the decoupling of subsidy payments for cereals will likely increase the profitability of Hungarian and Polish broiler meat producers due to the availability of low-cost feed grains.
- **Thailand:** In 2005, Thai broiler meat exports are forecast to increase by nearly 26 percent largely because of growth in production of cooked products, but remain substantially below

2001-2003 levels. Despite the devastating effect AI outbreaks have had on the Thai broiler meat industry in 2004, Thai producers exported cooked product at competitive rates. Thai cooked broiler meat encountered fierce competition from China and Brazil in the Japanese market. In 2004, Japan represented 47 percent of Thailand's broiler meat export market. Markets for Thai cooked product include the European Union, Hong Kong, Japan, Singapore, and South Korea. Thai broiler meat production is export-driven as over the last 10 years 30 percent of Thai broiler meat production was annually exported. Having to limit broiler meat exports to only cooked product has placed a large strain on an already struggling industry. The Thai broiler industry is heavily in debt after making improvements in capacity and in machinery that enable them to shift production from fresh to cooked broiler meat products. Secondly, most small and medium-scale producers had never produced cooked products before the AI outbreaks, and they don't have the capacity to do so post-AI. Most importantly, demand for cooked product has not grown at the rate many analysts had speculated in early 2004. Processed products can be two to three times higher in value than fresh cuts. Consumer preferences play a significant role in cooked poultry production. For example, in 2004, Thailand successfully exported seasoned poultry meat to Hong Kong, Japan, and South Korea.

### **Key Importers**

- **Russia:** Russia, the world's leading broiler meat import market, is expected to continue expanding its broiler production. In 2001-2004, Russia saw double digit gains in production and a 12 percent increase is forecast in 2005. This strong growth is the result of steady investment to facilities and processing plants. Strong consumer demand for animal protein is expected to drive competing meat prices up making broiler meat the most affordable. In 2005, Russian broiler meat imports are forecast to grow 3 percent from the 2004 level to 960,000 tons. On September 20, 2004, Russia implemented a ban on all Brazilian meat imports based on FMD outbreaks in the Amazon. However, the ban was partially regionalized and posed no major trade disruptions. The Russian poultry import quota allocation for 2005 is 1.05 million tons; the U.S. quota share is 771,900 tons. Delays in the administration of the import-quota licenses and failure to finalize the approved plant list for Russia could limit the amount of boiler meat imports during 2005. For the second consecutive year, the Russian poultry quota, which does not apply to CIS countries, is not expected to be filled.
- **European Union:** EU broiler meat imports will remain the same in 2005 at 380,000 tons, as domestic production expansion is expected to satisfy the growth in domestic demand. In 2005, Poland and other NMS anticipate buying lower-quality broiler cuts from the EU-15 for further processing in NMS plants. The European Union broiler industry has lobbied strongly against increasing the import quota or offering greater market access to Mercosur countries, which have driven EU broiler prices down in the last 3 years. Consumers in the EU-15 countries have gradually shifted to breast meat and fillets as healthy alternatives to beef and pork. In 2004, stronger demand for and higher prices for breast meat led to more competitive prices for whole broiler imports. This trend is expected to continue throughout 2005. The NMS will account for most of the increases in the coming years, as broiler meat will become the least expensive animal protein after intra-EU trade and competitive advantages in production stabilize.

Thailand and Brazil brought a World Trade Organization (WTO) case against the European Union on salted poultry in 2003. Thailand and Brazil stated that the European Union has been misclassifying salted poultry as frozen (non-salted) poultry since July 2002. This action raised the duty rate and resulted in lost export revenue for Thailand and Brazil. The European Union claims that Thailand and Brazil are sprinkling salt on the poultry to avoid EU tariffs. A preliminary ruling by the WTO favored Brazil and Thailand. The final WTO decision has not yet been released but is not anticipated to be greatly different from the preliminary ruling.

- **Japan:** In 2005, broiler meat imports are forecast to reach 595,000 tons, only a 2-percent increase from 2004 as bans on imports of fresh poultry from China and Thailand continue. However, shifts from broiler meat to pork consumption are expected to limit consumer demand for broiler meat. A strong Yen is expected to favor imports from the United States and Brazil in 2005. In 2004, AI-related bans on Thailand, China and the United States caused imports to drop by 16 percent, and resulted in Brazil capturing 51 percent of the Japanese import market. There is no indication that Japan will lift AI-related restrictions on Chinese and Thai fresh broiler meat, but after negotiating new animal health protocols, Japan did agree to lift its bans on cooked poultry meat. Japanese consumers are slow to turn to cooked poultry products as consumers favor fresh broiler meat over processed or heat-treated poultry products. In 2005, Japan's broiler meat consumption is expected to drop by 2 percent, as consumers shift from broiler meat to pork. In 2004, Japanese broiler consumption dropped 7 percent, while pork consumption rose by 8 percent.
- **China:** In 2005, Chinese broiler meat imports are projected to increase to 450,000 tons, a 150-percent increase from the previous year due to the lifting of the AI-related ban on U.S. poultry meat. The United States is the only country that can sell poultry meat products for direct consumption in China's retail sector. China's growing food processing plants will increasingly rely on imported broiler meat in 2005. Large food processing companies are willing to invest in bone-in broiler meat cuts (primarily whole legs, leg quarters, drumsticks, and whole wings), which are suitable for de-boning and further processing. China's processed broiler meat sector is expanding with highly mechanized machinery due to investments. Processors have had much success importing broiler MDM for further processing. Chinese meat processors alternate beef, pork, chicken, and turkey as animal protein input for products like sausages, meatballs, patties, stovetop meals or microwave dinners based on relative price, availability and consumer demand. Processed product sales are growing as the number of two-income households have a higher disposable income and demonstrate the demand for ready-made meals. Increased manufacturing and the real-estate development boom of recent years has increased incomes and the demand for food consumption and retail sales. Consumers in mid to large sized cities in China now have higher spending potential. Additionally, low interest rates present better options for short-term investment and encourages consumer spending. Although the Government of China has implemented new policies to curb excessive growth, retail meat sales are expected to grow moderately in tandem with income.
- **Saudi Arabia:** In 2005, Saudi Arabia is forecast to import 443,000 tons of broiler meat, a 2-percent increase from 2004. Saudi Arabia primarily imports whole frozen broilers. Saudi Arabia relies on imports to satisfy 50 percent of its broiler meat consumption. Brazil is Saudi

Arabia's largest broiler meat supplier. In 2004, Brazil exported 333,000 tons of broiler meat to Saudi Arabia, a 15-percent increase from the previous year. France, the second largest broiler meat supplier experienced a 26-percent decline due in part to declines in French broiler production and the continued appreciation of the Euro compared to the Saudi Riyal, which is tied to the U.S. Dollar. Demand strengthens in Saudi Arabia during the Hajj season as the hotel and retail industry (HRI) stock up in broiler meat supplies in anticipation of over 2.5 million Muslim pilgrims who travel to Mecca every year. Foreign pilgrims, who account for 50 percent of total pilgrims, will spend an average of 2 weeks in Mecca, Jeddah and Madina before and after the Hajj rituals.

- **Mexico:** Mexico is forecast to increase imports by 10 percent in 2005, spurred by strong demand from the food processing industry for U.S. broiler MDM for further processing. Broiler MDM and broiler cuts are used by the sausage and lunchmeat industries. Chicken-leg-quarters (CLQ) and other cuts are popular in Mexico. Overall, Mexicans have a preference for dark poultry meat and favor whole broilers to cuts. Mexico's 6-percent projected growth in broiler consumption for 2005 is a result of higher demand for animal protein brought about by population growth, competitive prices, rising incomes and growth in consumer health concerns.

On February 25, 2005, the Government of Mexico (GOM) published in the *Diario Oficial* (Federal Register) a reference price of \$0.30 per lb on over-quota chicken-leg-quarter (CLQ) imports. The reference price was imposed to reduce alleged under-invoicing of over-quota CLQ shipments subject to an over-quota tariff. The reference price will be used by Mexican Customs to calculate the minimum *ad valorem* import duty for over quota U.S. CLQ. U.S. market prices for U.S. CLQ are currently high, which should limit the impact this measure will have on U.S. CLQ exports to Mexico. Border prices for U.S. CLQ (which include product, transportation, and fees) are well above \$0.30 per lb. In 2005, the CLQ duty-free quota is 102,000 tons, with an over-quota rate of 59.3 percent.