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Annual Poultry Report

2006

Approved by:

Elizabeth Mello, Acting Agricultural Counselor
U.S. Embassy

Prepared by:

Joao F. Silva, Agricultural Specialist

Report Highlights:

After several years of strong growth in both production and exports, the Brazilian broiler industry is currently facing a decline in both production and exports because of the impact of Avian Influenza on world broiler consumption, valuation of the Brazilian currency, and local animal health problems. However, post forecast broiler production and exports to recover in 2007 by four and two percent, respectively. Stronger domestic demand is expected to be the main factor of broiler expansion next year.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Broiler production is projected to increase by 4 percent in 2007, reflecting moderate increase in exports and strong domestic demand, because of higher consumer purchasing power and competitive prices for broilers compared to other meats. Producers margins are expected to decline in 2007 compared to the current year due to continued valuation of the Brazilian currency and projected higher feed costs. Brazilian broiler exporters are concerned with proposed tariff changes in the European Union, which will likely restrict imports of processed broiler products. This measure is also expected to affect turkey exports.

Commodity Outlook, Broiler

Production

Post forecasts an increase in broiler production in 2007 of 4 percent, supported by the following factors:

- a) A moderate increase in exports compared to previous year;
- b) Strong domestic demand; and,
- c) Aggressive market promotion efforts conducted and financed by the Brazilian government agency for market development in new markets;

However, the following constraints can affect the projected performance of the Brazilian broiler industry in 2007: a) continued appreciation of the Brazilian currency combined with high domestic interest rates; b) projected higher production costs due to smaller soybean and corn crops; and c) possible new market access constraints in the European Union that may reduce exports of processed broilers to that market.

Post revised broiler production in 2006 to 9.3 million metric tons, down one percent from the record production level of 9.4 million metric tons last year. This year's decline in production is mostly attributed to a major drop in the export market due to reduced consumption of chicken in major world markets, as a result of the negative impact of Avian Influenza. However, the decline in this year's production is somewhat offset by a strong domestic demand due to lower retail prices of frozen chicken deviated from the export market.

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 58 percent of the estimated broiler meat production in 2006 will consist of broiler parts and 42 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. It 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 prefer whole broilers.

Industry Concentration

Ten Brazilian poultry processors account for 52 percent of total broiler slaughter and 79 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	Share of Broiler Slaughter (%)	Share of Broiler Exports (%)
Sadia	14	26
Perdigao	11	17
Seara	06	12
Doux Frangosul	05	10
Avipal	05	08
DaGranja	03	02
Aurora	02	01
Diplomata	02	01
Penabranca	02	01
Copacol	02	01
Total	52	79

Note: 2005 data. Percentages have been rounded.

Source: ABEF

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	60,235	27,536	3,254,100
2001	62,544	28,597	3,473,600
2002	67,297	30,499	3,819,570
2003	77,943	31,035	3,907,100
2004	84,528	33,293	4,277,700
2005	87,788	36,664	4,695,800
2006 (estimate)	98,937	38,130	4,790,700

Note: Monthly average quantities for layers.

Source: APINCO/UBA

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 2006, the estimated average cost of broiler production reached R\$1.20 per kilogram, live weight, down 12.4 percent from an estimated cost of R\$1.37 per kilogram, live weight, from the same period in 2005. The average exchange rate for Jan-Jun 2006 was R\$ 2.19 per US\$ 1.00, compared to R\$ 2.53 per US\$ 1.00 during the same period in 2005.

Post projects feed prices to increase during the 2006-07 crop year (Oct 1/Sep 30), based on projected smaller harvests of corn and soybeans. The new crop plan announced by the federal government will likely maintain the volume of subsidized funds available to corn producers to finance their cost of production.

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	0.51	0.51	0.55	7.33	0.21
2006 (Jan-Jun)	0.47	0.47	0.65	6.96	0.20

RTC= Ready to Cook

Source: Trade

Animal Health Update

Since the outbreaks of Avian Influenza in Asia, the Brazilian government has encouraged 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 "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.

The Brazilian government also published on April 10, 2006, Directive Number 17, which establishes the National Plan for Prevention of Avian Influenza and the Control and Prevention of Newcastle Disease. According to our trade source, the main problem with the implementation of Directive 17 is the lack of funds. The Brazilian government promised to allocate US\$ 130 million for this plan. As of August 30, funds have not been released.

Brazil also established in 2002 an inter-ministerial 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.

Two cases of Newcastle disease were officially diagnosed in Brazil in 2006 and officially notified to the World Organization for Animal Health (OIE). The first case was officially confirmed on July 4 in the municipality of Vale Real, state of Rio Grande do Sul. However, the owners of the poultry farm reported the event to the official veterinary authority on May 4. As of August 24, 2006 no evidence of the presence of the disease has been detected, although restrictive measures remain in the surveillance zones. This case prompted several international restrictions from nearly 40 countries since Rio Grande do Sul is a major exporter of poultry products.

The second case of Newcastle disease was identified in a small village near the capital city of Manaus, (in the State of Amazonas), but it presented no risks to the major commercial production and export areas of the south of Brazil.

Consumption

Post forecasts domestic broiler consumption to increase by 5 percent in 2007. 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 public statistics available 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, according to some market analysts, the structure of broiler demand is changing. 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 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, 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 the center of processors' new strategies.

Trade

Post projects broiler exports to recover by four percent in 2007. Our forecast is basically supported by higher world demand for broilers due to the reduction of the concern over Avian Influenza, an estimated increase in exports to Russia and other markets in Eastern Europe, and aggressive market promotion efforts by Brazilian poultry exporters in new markets. However, the new quota constraint imposed by the European Union may temper the expansion of broiler exports in 2007, mostly for processed broiler.

Review of 2006 exports. Post revised broiler exports downward in 2006 to reflect the new realities of the world market as seen by our trade sources. Currently, Brazilian poultry exporters estimate a major drop in broiler exports of 14 percent, mostly due to the oversupply of broiler meat in world markets because of lower demand for poultry meat, in view of the Avian Influenza scare, in several traditional Brazilian export markets.

Policy

There have been no changes in poultry production policy since our previous annual report. For recent farm credit policy changes please see BR 6611.

Marketing

The Brazilian Poultry Exporters Association (ABEF) is a private, non-profit organization formed by the largest poultry processors and exporters of Brazil. 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

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 2006/07 budget for market promotion is estimated at US\$ 2.3 million, of which APEX funds 45 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 major Brazilian packers.

Post forecasts Brazilian turkey production to increase by 10 percent in 2007, basically supported by strong 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 4 percent, lower unemployment rate, and higher disposable income will likely contribute to maintain domestic demand firm for turkey at a significant rate of 17 percent. However, most of this demand comes from the food service industry.

Frozen Ready to Cook (RTC) turkey consumption remains highly seasonal in Brazil, but it is changing rapidly. Trade sources estimate that 70 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. Other frozen turkey entrees, like lasagna, pizza, hamburgers is found in most supermarkets.

Trade

Turkey exports are projected to increase in 2007, after a drop in exports for this year. During Jan-Jun 2006, 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)							
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2005		01/2006		01/2007	MM/YYYY
Inventory (Reference)	37	37	40	39	0	39	(MIL HEAD)
Slaughter (Reference)	4696	4696	5070	4790	0	4980	(MIL HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	9360	9350	10035	9280	0	9670	(1000 MT)
Whole, Imports	0	0	0	0	0	0	(1000 MT)
Parts, Imports	1	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	1	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	9361	9350	10035	9280	0	9670	(1000 MT)
Whole, Exports	1092	1044	1075	808	0	880	(1000 MT)
Parts, Exports	1647	1802	1825	1642	0	1620	(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	2739	2846	2900	2450	0	2500	(1000 MT)
Human Consumption	6622	6504	7135	6830	0	7170	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	6622	6504	7135	6830	0	7170	(1000 MT)
TOTAL Use	9361	9350	10035	9280	0	9670	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	9361	9350	10035	9280	0	9670	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)

Note: Not Official USDA Data

Poultry, Meat, Broiler, Exports, Jan-Jun 2005-06

Export Trade Matrix Country Brazil Commodity Poultry, Meat, Broiler			
Time Period	Jan-Jun	Units:	Metric Tons
Exports for:	2005		2006
U.S.	0	U.S.	0
Others		Others	
Angola	14,596		17,267
China	63,707		21,032
European Union	178,076		157,701
Hong Kong	67,487		132,624
Japan	190,756		183,952
Kuwait	66,119		35,902
Russia	134,276		101,836
Saudi Arabia	177,798		142,645
Singapore	34,443		34,368
South Africa	76,560		105,485
UAE	61,320		55,362
Venezuela	43,144		78,982
Total for Others	1108282		1,067,156
Others not Listed	243,328		173,843
Grand Total	1351610		1240999

PSD table, Poultry, Meat, Turkey

PSD Table							
Country							
Brazil							
Commodity							
Poultry, Meat, Turkey							
(1000 MT)(MIL HEAD)							
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2005		01/2006		01/2007	MM/YYYY
Inventory (Reference)	32	32	33	33	0	0	(MIL HEAD)
Slaughter (Reference)	0	0	0	0	0	0	(MIL HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	275	275	310	290	0	320	(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	275	275	310	290	0	320	(1000 MT)
Whole, Exports	10	10	0	0	0	0	(1000 MT)
Parts, Exports	151	151	187	153	0	160	(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	161	161	187	153	0	160	(1000 MT)
Human Consumption	114	114	123	137	0	160	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	114	114	123	137	0	160	(1000 MT)
TOTAL Use	275	275	310	290	0	320	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	275	275	310	290	0	320	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)

Poultry, Meat, Turkey, Exports, Jan-Jun 2005-06

	Country Brazil Commodity Poultry, Meat, Turkey		
Time Period	Jan-Jun	Units:	Metric Tons
Exports for:	2005		2006
U.S.	0	U.S.	0
Others		Others	
Angola	1,052		1,050
Bulgaria	3,918		3,225
European Union	43,183		40,323
Gabon	1,303		2,483
Russia	6,238		6,790
South Africa	5,681		7,645
Total for Others	61,375		61,516
Others not Listed	11,966		10,288
Grand Total	72,141		71,230