



## MARKET SUPPLIER SNAPSHOT | BEEF

# Brazil

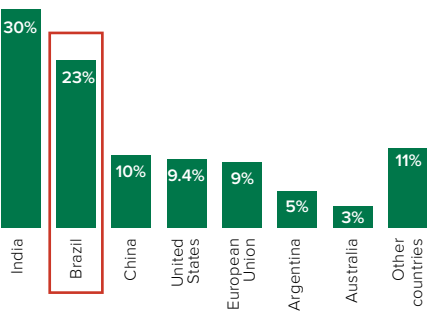
- This year has been a challenging one for the Brazilian beef industry. There has been very slow economic growth, restricted market access, the 'weak meat' scandal in late March and more recently, corruption involving JBS, the country's largest meat processing company.
- After two years of recession, the Brazilian economy has improved slightly and is expecting modest growth in 2018. Domestic

beef consumption is expected to recover as the economy improves and prices start easing. However, consumption is forecast to rise at a slower pace compared to production growth, with more beef likely to be exported.

- The Brazilian cattle herd appears to be coming out of its retention phase, with female slaughter registering an increase this year and production is expected to rise.

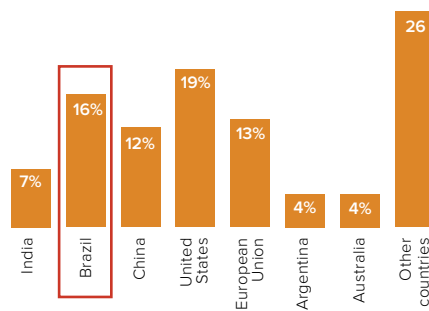


### Brazil has the second largest cattle herd in the world



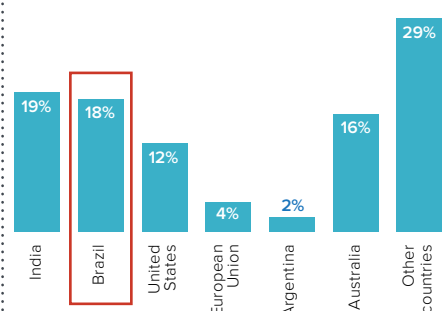
Source: USDA

### Brazil accounts for 16% of the world's beef production



Source: USDA

### Brazil is a major beef exporter



Source: USDA

## Key implications for Australia



- Increased production and only limited growth in Brazil's domestic consumption are likely to mean higher beef exports, creating stronger competition in some of Australia's export markets, like China, Saudi Arabia and the United Arab Emirates.
- With Russia and Venezuela reducing their share of Brazil's exports, Brazilian beef have found new markets in the Middle East and Asia in recent years and a greater focus is expected to be gained in these regions.
- Market access and sanitary status remain Brazil's major obstacles to increasing its presence in global markets, particularly in Australia's key export markets, where Brazil currently doesn't have access, such as Japan, Korea, the US and Indonesia.
- Along with market access, the global competitiveness of Brazilian beef in the near future will continue to be driven by the Brazilian Real's movements (which are not expected to have considerable strength in the near future).
- The Brazilian beef industry remains focused on improving its productivity, sanitary status and eating quality. However, the current political and economic uncertain situation could compromise further investments in the beef industry.
- it is still unknown how the industry will be affected by the corruption scandal involving JBS, the world's largest meat company. In Brazil specifically, JBS accounts on average for 40% of total slaughter each year.



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# Beef industry profile 2016 – Brazil and Australia

	Brazil	Australia
Cattle herd (head)	219 million <sup>e</sup>	26.8 million <sup>e*</sup>
Cattle slaughter (head)	29.6 million	7.6 million
Cattle on feedlot (head)	4.61 million	0.9 million
Average carcass weight (per head)	249/kg	288/kg
Beef production (tonnes cwt)	9.51 million	2.10 million
Domestic per capita consumption	37.4kg/year	25.4kg/year
Live animal exports (head)	0.3 million	1.12 million
Beef exports (tonnes swt)	1.07 million	1.02 million
Chilled	13%	27.5%
Frozen	87%	72.5%
Top five export markets	Hong Kong, Egypt, China, Russia, Iran	Japan, US, Korea, China, Indonesia
Average export price	US\$4.04/kg	US\$5.26/kg

Source: USDA, MLA, IBGE, GTA, DAWR

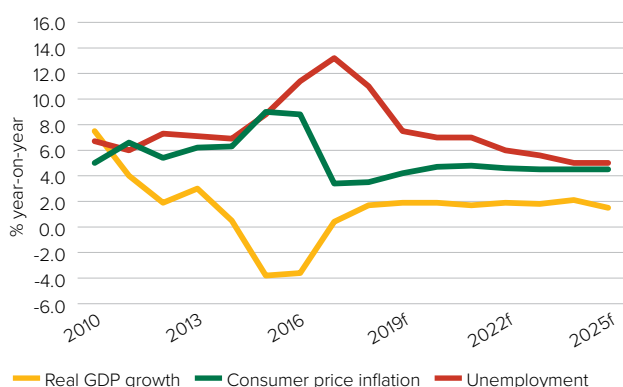
e = estimate \* = MLA estimate based on ABS data

## Economy



- After two consecutive years of recession, the outlook for the Brazilian economy in 2017 is one of cautious optimism. Forecasts point to improvements in the key macroeconomic barometers: growth in real gross domestic product (GDP), lower inflation, a small recovery in unemployment and lower consumer debt.

### Brazilian macroeconomic figures

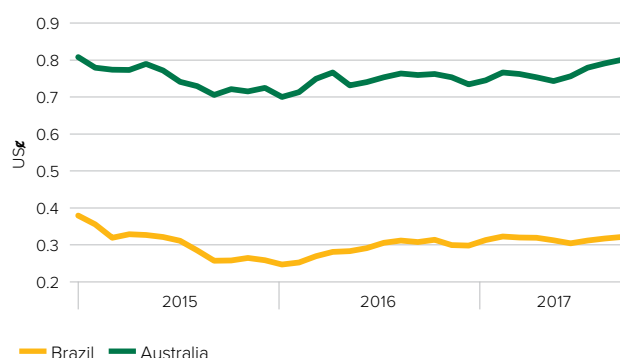


Source: IBGE, IMF, BMI

- The Brazilian economy's modest recovery over the coming quarters is likely to be largely driven by a cyclical rebound in consumption. Nevertheless, the days of easy growth (seen in the 2000s – with GDP growth averaging 4.4% between 2004 and 2010) appear to be over for Brazil in the medium-term.
- The Brazilian Real remained relatively firm in 2017, averaging 31US¢ for the January–August period. This is an increase of 10.5% year-on-year, as the economy started to show some signs of recovery.

- Despite the Real's revaluation this year, considerable strengthening in the short-term is unlikely given the uncertain political environment and the 2018 general elections.
- For the past three years, Brazil has been gripped by a corruption scandal involving politics and major private companies, leaving the country with political infighting and rising public distrust.
- In late March, the Brazilian meat industry was involved in a widely publicised meat scandal, known as 'weak meat'. Some of the country's largest meat processors were accused of bribing health inspectors to disregard illegal practices. These included repackaging beef past its sell-by date, making turkey ham out of soybeans rather than actual birds and overusing potentially harmful additives.
- Overseas markets responded swiftly to the scandal, with numerous trading partners issuing temporary import restrictions or increased product inspection – see more in the market access section.

### Brazilian Real and Australian dollar – quoted against US\$



Source: FxTop

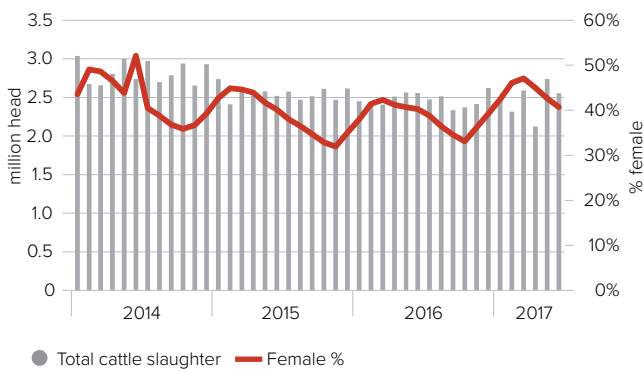


# Cattle herd, slaughter and beef production



- The Brazilian cattle herd has been moving through a rebuilding phase, with numbers rising since 2013 and reaching approximately 215 million head in 2015 (IBGE). Brazil maintains the second largest cattle herd in the world, only behind India. However, the period of retention is ending and production growth is expected to return.
- Brazilian cattle slaughter totalled 14.7 million head in the first half of 2017, with a considerable decline in April as a result of the 'weak meat' scandal. However, a recovery in slaughter was registered in May and June.
- Female slaughter increased in the first half of 2017, accounting for 42.6% of total slaughter compared with 40.7% in 2016, confirming the end of the retention phase.

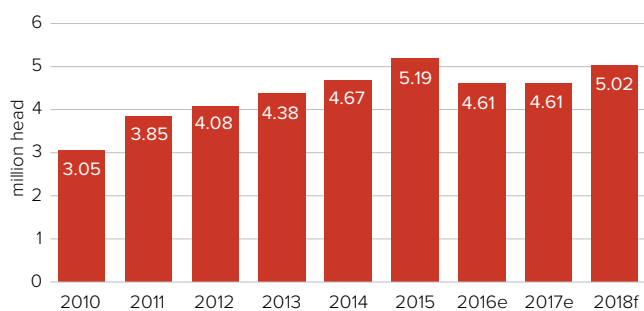
## Brazilian cattle slaughter



Source: IBGE

- Beef production totalled 3.6 million tonnes cwt for the same period, down 2% year-on-year, reflecting the higher proportion of female slaughtered (lighter carcass weights), as overall slaughter numbers remained relatively steady for the period (IBGE).
- Brazilian beef production is forecast to increase on average 2.6%/year through to 2021, to 10.8 million tonnes cwe. The growth is expected to be driven by improved animal genetics, better management of forages, greater availability of cattle for slaughter and strong international demand.
- The Brazilian production system is largely pasture-based, driven by the vast land area with good grassland conditions, which can be leveraged to raise cattle at lower costs compared with major competitors. The pasture system will remain central to the Brazilian production model; however, the number of cattle in feedlots in Brazil has increased, reaching 5.19 million head in 2015 and representing 13% of total cattle slaughter. Over the next decade, it is expected that the share of animals finished through feedlots will increase to 20% (GIRA).

## Number of cattle finished in feedlot



Source: Assocon/GIRA

- Productivity in the Brazilian cattle sector has been progressively increasing with average carcass weights up by an annual average of 1% over the last decade. Carcass weights averaged 249kg in 2016 and are forecast to continue due to improved genetics and increased feeding of cattle, reaching 278kg by 2027.

## Brazilian productivity per hectare increased 283% in three years

**2013** — 250ha used for 100 cows that produced 45 calves (averaging 170kg live weight)

**2016** — 140ha used for 100 cows that produced 65 calves (averaging 200kg live weight)

Source: Cepea/Esalq, CNA

- Although the Brazilian beef industry has developed its productivity at the farm and processing level considerably, the country still faces numerous challenges in its product distribution channels. Brazil's infrastructure development lags significantly behind other markets.
- While the lack of investment in the beef industry is a major problem, a key aspect within this is the poor quality of roads and the high volume of goods which are transported by these means. This is more costly than moving products by rail or waterways, diminishing Brazil's competitiveness.

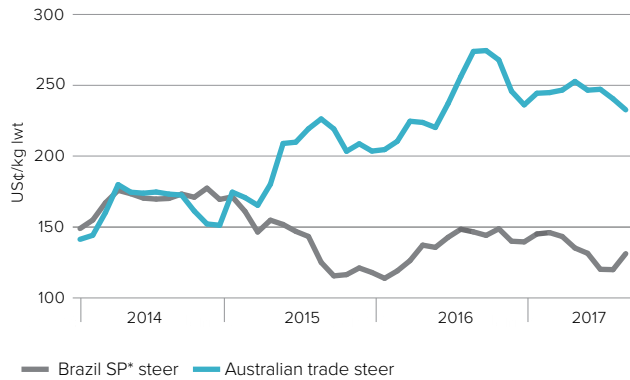


# Cattle and beef prices



- In Brazilian Real terms, cattle prices declined by 11% for the January–August period in 2017 year-on-year, with the São Paulo steer indicator averaging R4.56/kg live weight (approximately US\$1.44/kg live weight). The revaluation of the Brazilian Real kept prices in US dollars steady year-on-year.

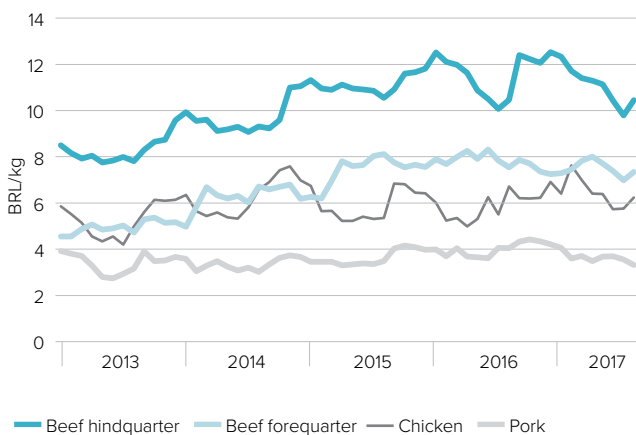
## Brazilian Brazil and Australian steer prices in US\$ terms



Source: IBGE \*San Paula state

- According to IPCA/IBGE (Consumer Price Index – Brazilian Inflation official indicator), all beef cut prices paid by consumers in the first half of 2017 were below the general inflation rate, with rump and striploin down 5% and 5.6% respectively. Poultry prices also registered a decline of 2% for the same period, while pork prices registered a slight increase of 1%.

## Brazilian wholesale meat prices – Brazilian Real terms



Source: FNP Economics, Cepea/Esalq

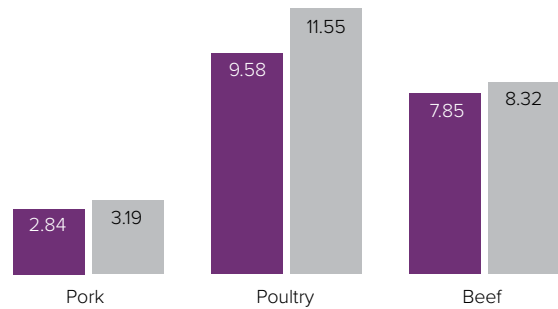


# Consumption and consumers



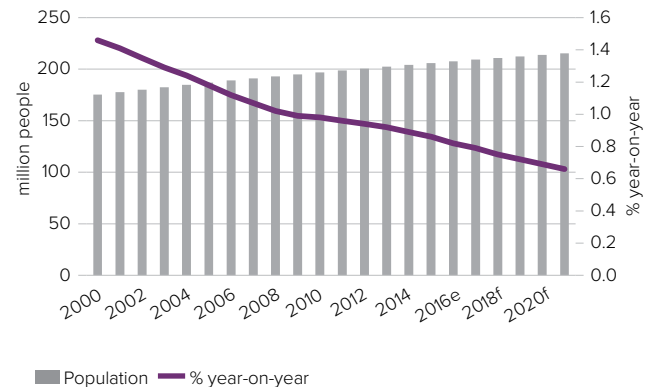
- Brazil is experiencing a slowdown in its population growth rate, with an ageing population and rapid demographic transition. The population is expected to have an average growth of 0.6% compound annual growth rate in the next decade. This has important implications for food and drink consumption. While Brazil's population is large, the slower growth is reducing the scope for potential new customers.

## Brazilian meat consumption



Source: USDA, BMI e = estimate, f = forecast

## Brazil – slower population % growth



Source: IBGE, IMF, BMI

- Meat consumption in Brazil is very culturally-engrained and despite its price increase, overall consumption has remained relatively steady since 2012, with the exception of beef.
- Beef consumption has declined in past years, largely driven by the rise in prices in comparison to poultry and pork and to some extent, concerns over meat eating quality. Despite the weaker economic and population growth forecast for the next decade when compared to pre-crisis level, meat consumption is expected to increase in Brazil, with poultry and pork the main drivers while beef consumption is likely to recover slightly. As price will remain an important aspect when purchasing meat, beef's considerable price premium is likely to limit the potential growth in consumption.



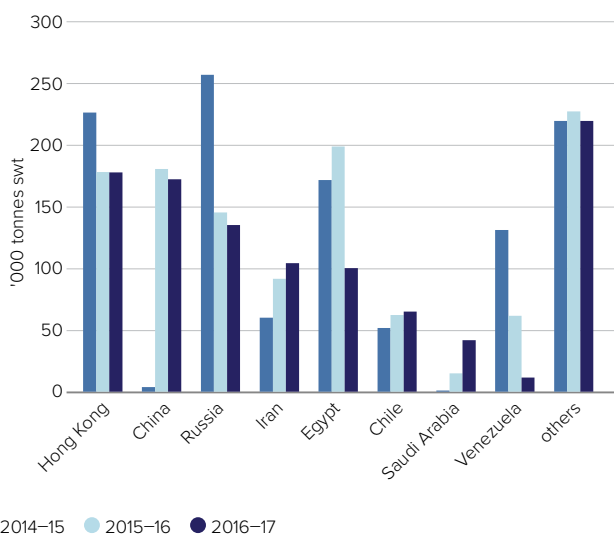
# Exports



## BEEF

- Brazil is a major beef exporter alongside India, Australia and the US.
- As production rates are expected to increase faster than domestic consumption, beef exports are forecast to rise and total 1.7 million tonnes swt by 2021, with higher demand expected from Asia and the Middle East.
- Brazil's beef exports currently represent 20% of its total production and it is expected to increase in the coming years.
- The primary export markets for Brazilian beef are Hong Kong, China and Russia, with frozen bone-out beef accounting for almost 100% of shipments to these markets.
- Overall, Brazilian beef exports declined by 11% in 2016–17 year-on-year to 1.02 million tonnes swt, and were valued at US\$4.2 billion free on board (FOB). Despite the decline, shipments to Iran, Chile, Saudi Arabia, United Arab Emirates, Philippines and Singapore increased for the period.
- Russia, Venezuela and Egypt previously represented a large proportion of Brazilian beef exports but have decreased considerably in recent years, from representing 40% of total exports in 2014–15 to 24% in 2016–17. The high reliance on oil prices by Russia and Venezuela impacted significantly on imports, which have progressively declined.

### Brazilian beef exports

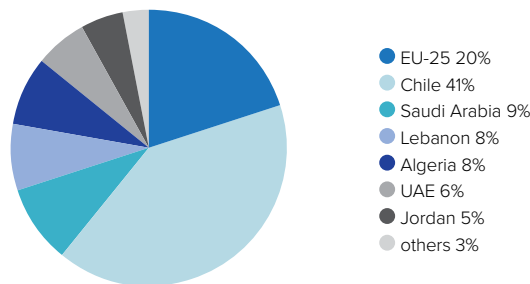


Source: GTA

- Russia's economy is forecast to continue to recover in the coming years, but will remain sluggish relative to the pre-crisis level. This may slightly improve demand for Brazilian beef; however, volumes are expected to be below what they have been in the past decade.
- With Russia and Venezuela reducing their market share of Brazilian beef exports and improved market access in Asia and the Middle East, Brazilian beef established new export destinations in the past two years. Besides the increase in exports to Hong Kong, China and Egypt, Brazil has regained market share in Saudi Arabia and Iran and increased shipments to 'untraditional' markets such as the Philippines and Singapore.

- China has become the second largest destination for Brazilian beef, with 100% of volumes comprised of frozen products, satisfying demand in commodity trading beef.
- Since regaining market access in Saudi Arabia (late 2015), Brazilian beef exports have consistently grown. Unlike China, exports to Saudi Arabia are comprised of chilled (23%) and frozen (77%) products.
- Although fresh beef shipments represent a small share of total exports (13%), it has increased over the last two years, with Chile, the EU and the Middle East now the main destinations.

### Brazilian chilled beef exports – 13% of total exports in 2016–17

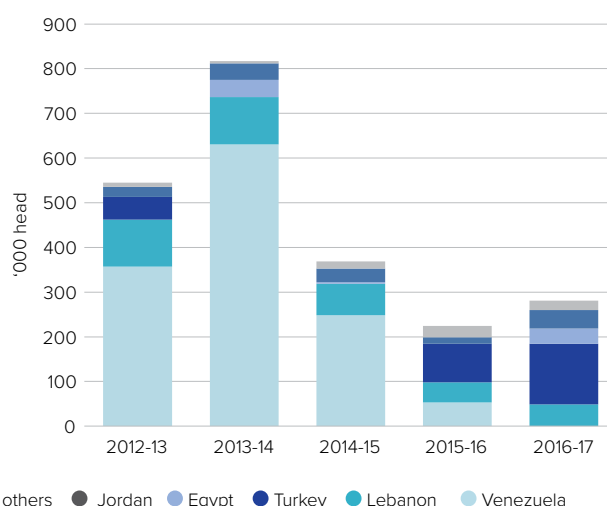


Source: GTA

## LIVE CATTLE

- Brazilian live cattle exports declined substantially in the past few years, mostly due to its high reliance on the Venezuelan market, which accounted on average for 80% of total live cattle exports.
- Shipments fell from 817,297 head in 2013–14 to 281,116 head in 2016–17 (MDIC/Secex).
- Like beef exports, live cattle shipments have also increased shipments to other markets such as Turkey, Lebanon and Egypt in the past fiscal year, but are still far from the volumes shipped to Venezuela.
- Venezuela's economy is forecast to remain in deep recession in 2017, with Brazilian beef and live cattle exports forecast to decline further.

### Brazilian live cattle exports



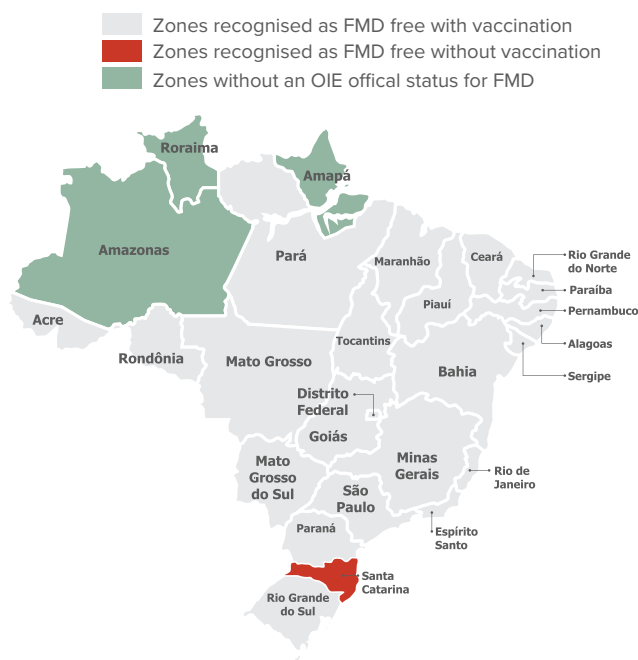
Source: Aliceweb

## Sanitary status



- 99% of the Brazilian cattle herd is located in areas classified as 'foot and mouth disease free with vaccination', representing 77% of Brazil's land area.
- Despite the efforts from the Brazilian government, Amazonas, Roraima, Amapá and a small part of Pará state still don't have an OIE official status for foot and mouth disease.
- The Brazilian government has invested in a restructuring program to eradicate foot and mouth disease and has intensified sanitary surveillance and actions in the northern regions. The government aims to have the entire country 'foot and mouth free with vaccination' by 2020.
- Brazil has a negligible bovine spongiform encephalopathy (BSE) risk status designated by the OIE.
- The Brazilian System of Identification of Bovine and Buffaloes (SISBOV) is only used by a small number of farms, mostly certified to export to the EU and it is not mandatory.

### Brazil – foot and mouth disease zones



Source: MAPA

## Market access



- Brazil currently has no access to Japan, the US (for fresh beef), Korea and Indonesia.
- In June 2017, the US announced the suspension of all fresh and frozen beef imports from Brazil as shipments failed food safety tests. The decision will remain in place until satisfactory corrective actions are taken.
- Brazil currently has 16 plants approved to supply beef to China and export exclusively frozen beef. The Brazilian government continues to work closely with Chinese authorities to increase the number of plants approved.
- The EU-Mercosur\* Free Trade Agreement is currently being negotiated, however market access for agricultural products and food safety concerns still remain outstanding issues. European exporters are also concerned about increasing access for sensitive products, such as beef and poultry, as Mercosur is already a major exporter of agricultural commodities to the EU. Lowering or removing tariffs will most likely negatively affect EU producers and will increase competition to Australia and the US.
- Overseas markets responded swiftly to the Brazilian meat scandal in late March, with numerous trading partners issuing temporary import restrictions or increased product inspection. China, Chile, Hong Kong, Egypt and Saudi Arabia were amongst some of Brazil's largest export destinations to impose a suspension on imports. Although beef shipments were compromised in April, they have progressively increased in the past four months, with most of the countries mentioned above now open for business.
- The Indonesian government recently decided to reassess the possibility of importing Brazilian cattle and beef. In case Brazil regains access to the Indonesian market, beef shipments are expected to be mostly compromised of frozen bone-out products.
- The Brazilian government created a program in 2016 (*Programa de Acesso a Mercados do Agronegócio Brasileiro*) to improve market access for all agricultural products and targets Asia (especially China) as a key market. The program also focuses on adding value to products, highlighting Brazil's quality and sustainable production systems.



# Brazil's and Australia's common markets in Asia and the Middle East, 2016–17



Asia	Brazil				Australia			
	volume (tonnes swt)	Annual growth	unit price (US\$/kg)	product breakdown	volume (tonnes swt)	Annual growth	unit price (US\$/kg)	product breakdown
China	172,306	-4.5%	4.28	100% frozen	97,492	-24%	5.41	94% frozen 6% chilled
Vietnam	6,067	-	3.81	99% frozen	5,223	25%	5.00	86% frozen 14% chilled
Malaysia	3,863	-	3.88	100% frozen	10,161	-8%	4.86	78% frozen 22% chilled
Philippines	17,787	12%	2.83	100% frozen	29,317	-	3.51	97% frozen 3% chilled
Singapore	16,225	7%	4.14	99% frozen	5,964	-30%	8.19	60% chilled 40% frozen
Thailand	753	34%	1.72	100% frozen	5,387	-	9.11	72% frozen 28% chilled
Middle East	volume (tonnes swt)	Annual growth	unit price (US\$/kg)	product breakdown	volume (tonnes swt)	Annual growth	unit price (US\$/kg)	product breakdown
Saudi Arabia	41,897	182%	4.01	73% frozen 27% chilled	9,457	-53%	5.54	74% frozen 26% chilled
UAE	18,343	18%	4.29	60% frozen 40% chilled	8,153	-18%	7.81	59% chilled 41% frozen
Jordan	9,887	-10%	4.07	65% chilled 35% frozen	2,043	-36%	3.59	96% frozen 4% chilled

Source: DAWR, GTA

## Long-term outlook



- Brazilian beef production is forecast to increase by an average of 2.6%/year through to 2021, to 10.8 million tonnes cwe.
- Consumption is expected to rise 1.2%/year through to 2021, to 8.3 tonnes cwe (BMI).
- As production is expected to increase faster than domestic consumption, beef exports are also forecast to increase in the coming years, with higher demand expected from Asia and the Middle East.
- Improving market access will continue to be a key area for the Brazilian beef industry, as will sanitary status and eating quality.
- The long-term outlook can potentially be affected by the recent corruption scandal involving JBS, as it is still unknown how it will reflect on the Brazilian beef industry.

## Long-term outlook of Brazil's beef production and consumption ('000 tonnes cwe)

	2017f	2018f	2019f	2020f	2021f
Production	9,804	10,049	10,301	10,558	10,822
Consumption	7,902	8,005	8,109	8,214	8,321
Exports	1,902	2,044	2,192	2,344	2,501

Source: BMI, MLA