

Expanding chicken industry drives ahead Brazilian economy

AGRICULTURE is vital to the Brazilian economy, representing almost 30% of the national income in 2003 — worth more than US\$ 150 billion.

The industry has 16.65 million employees, more than 24% of the total labor force. It is also the most important sector in creating new jobs.

Agricultural exports are worth US\$ 30.6 billion per year — around 42% of the country's total exports — creating a positive balance of trade amounting to over US\$ 25.8 billion last year.

Production of corn (maize), barley, rye and oats is estimated at 48.8 million tonnes, approximately the same as the previous year. Soy bean production is estimated at 57.6 million tonnes, 10.8% more than the previous year. This makes Brazil the world's second largest producer, with 20% of global soybean production. In 2003 soybean exports were worth US\$ 4.76 billion.

Value of poultry sector

The poultry sector is worth around US\$ 15 billion/year, accounting for 2.8% of total national income, and employing 3.8 million in direct and indirect activities.

Broiler meat production increased 4.34% in 2003 with exports reaching 1,922,000 tonnes. It is expected the poultry industry will continue expanding, with investments totaling around one billion dollars in new projects for the next three years, generating 200,000 new jobs.

From the properties scattered throughout the country to the big complexes, poultry is driving forward the Brazilian economy. The country's exports are making



a major impact on the global market, making the country one of the top-ranking meat producers and exporters.

With modern farm facilities and a sophisticated infrastructure, the poultry sector is focused on quality improvement. It is counting on higher domestic grain production, especially corn and soy, to ensure continuous growth. Meanwhile, rising domestic chicken consumption and the prospect of higher world demand are causing the industry

to continually expand its plans and ambitions.

Further processing increasing day-by-day

Approximately 80% of broilers are produced on farms contracted to integrated companies. Typically farms have two open houses with capacity for 15,000 birds in each one and with environment control increasingly used. Integrated broiler companies generally produce their own day-



This profile of the Brazilian chicken industry, and its position in the global market, has been compiled by Fausto Ferraz, South American sales manager.

He entered the poultry business in 1992 with a degree in agronomy, initially in a technical role working for Godave. He joined Cobb in 1995 and worked in technical service in Brazil. For the past two years he has held a sales position with Cobb Vantress Brasil.

old chicks and feed, and have their own processing facilities and marketing activities.

Separate sex growing is common, with the bodyweight depending on the specific market.

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US market enters period of strong prices

BUOYANT demand during the first quarter enabled the US broiler industry to shrug off any severe impact from lost exports following its own outbreak of avian influenza.

Demand for the principal export commodity, dark meat (leg portions), has been exceptionally high in the retail market, helped out by reasonable orders from a number of key export markets where bans were

not in place, including Russia.

As a result, prices for leg quarters in the US North East in June rose by more than 50% compared with a year earlier.

Now that Japan has revoked its ban on US imports (apart from those from Texas and five Eastern States) since early June, this strong price trend is expected to persist for some time, possibly through most of 2005 - especially if the Asian outbreak persists.

Prices for other commodities such as whole birds and breast meat are also at long-term highs. The USDA's NE price report puts boneless and skinless breast at over \$2.50 per lb, the highest level for 16 years.

Overall, per capita consumption of chicken in the US was around 6% higher in the first quarter. Helping to boost

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For the domestic market the live bodyweight average of 2.2 kg (4.9lb) is reached in 40 days with a feed conversion of 1.9. Whole carcass sales represent 50% of the business, with portioning and further processing increasing day-by-day. Processing plants use the HACPP system as part of their quality control programme.

Most of the breeding stock is imported from the USA and Europe, with no parent stock importation allowed. Last year 31 million female broiler parents were placed, with the Cobb 500 the clear market leader. There are primary breeding programs in Brazil as joint ventures with international breeders, and also some Brazilian primary programs (for instance, Embrapa lines).

Poultry feeds are based on two locally grown ingredients, corn and soy. A total of 20.2 million tonnes of feed were produced in 2003.

Country	2001	2002	2003	02/03 variation %	world share %
USA	14,033	14,467	14,610	0.99	26.61
China	9,278	9,558	9,844	2.99	17.93
Brazil	6,735	7,517	7,843	4.34	14.29
European Union	6,822	5,950	5,700	-4.20	10.38
Mexico	2,067	2,157	2,297	6.49	4.18
Others	12,760	13,176	14,607	10.86	26.61
Total	51,695	52,825	54,901	3.93	100

Unit: Tonnes. Source: USDA/UBA

Brazil's position in global poultry industry

The Brazilian government administers a National Poultry Improvement Plan that observes several Quality Control Plans including disease control such as

Table 1 - BRAZILIAN POULTRY INDUSTRY (1,000 TONNES)

Year	Production (% growth over previous year)	Domestic Consumption	Export
90	2,267	1,968	299
91	2,522 (11.3)	2,200	322
92	2,727 (8.1)	2,351	376
93	3,143 (15.3)	2,710	433
94	3,411 (8.5)	2,930	481
95	4,051 (18.8)	3,617	434
96	4,052 (0.02)	3,483	569
97	4,461 (10.1)	3,812	649
98	4,874 (9.3)	4,242	611
99	5,526 (13.4)	4,756	770
00	5,977 (8.16)	5,070	907
01	6,735 (12.7)	5,486	1,249
02	7,517 (11.6)	5,917	1,600
03	7,843 (4.3)	5,921	1,922

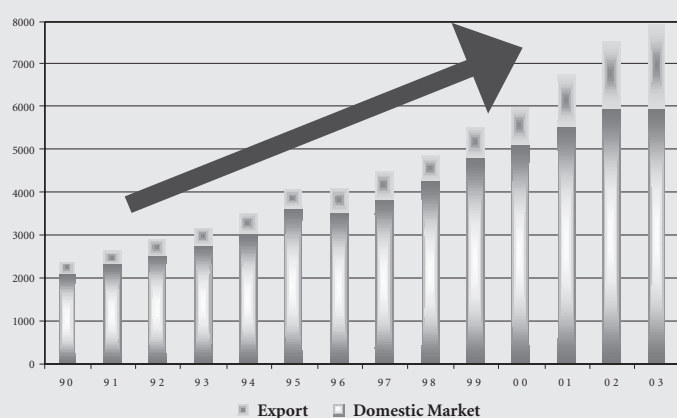
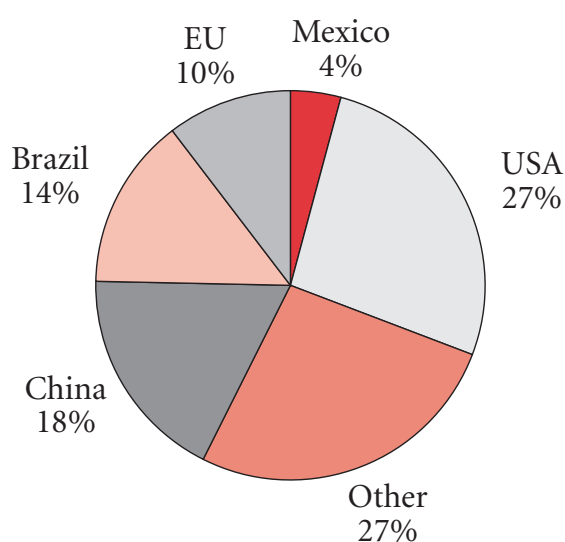


Figure 1



salmonella and mycoplasma infections.

The Brazilian poultry production and processing facilities are highly industrialized, with high hygiene standards consistent with the international regulations on quality assurance and animal health.

Poultry meat production has grown at average yearly rates above 9% during the past 14 years, with 144% growth in production, 142% in consumption and 158% in export (Table 1).

Brazil's 14% share of world production makes the country the world's third largest producer, slightly ahead of China which had ascended to second place in 1997.

Brazilian production of chicken meat reached 7.8 million tonnes in 2003. Day-old chick production was 3.9 billion head. Consumption of the main feed ingredients accounted for 16 million tonnes of corn and 5.8 million tonnes of soybeans.

The domestic market absorbed 75% of the production. With an impressive consumption of 33.3kg per capita, Brazil is one of the world's major consumer markets. Per capita consumption grew 84% in the decade, from 18.1kg in 1993 to 33.3kg in 2003.

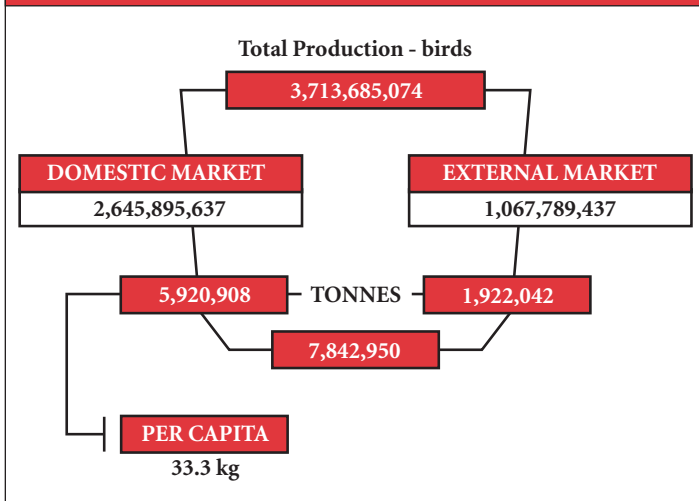
Of the total production, 25% were exported, making Brazil the world's second largest exporter.

The following data reflect the strength of the Brazilian poultry industry:

- **Turnover: US\$ 15 billion**
- **Labor, direct and indirect: 3.8 million**
- **Share of farm gross national product: 6%**
- **Foreign trade: 3rd largest agricultural export product**

Consumer preference for chicken meat is growing year by year due to improved quality and health standards. Consumers have shown their preference for light, healthy foods with high protein content and prices competitive with beef.

BRAZILIAN POULTRY INDUSTRY 2003



Another consumer trend is reflected in the demand for partially or totally prepared foods, and the need for practical, time-saving solutions.

In 2003, world chicken production grew at 3.9%, continuing the increases shown in the past years. A 4.3% growth in Brazilian production in 2003 is outstanding, especially when coupled with 11.6% in 2002.

On such performance, Brazil's 14% share of world production makes it the third largest producer. The largest producer is

the United States, with 14.6 million tonnes in 2003, a 1% growth over 2002. The US produces 27% of the world's chicken meat.

If USDA estimates are confirmed, China will be in second place with a production of 9.8 million tonnes. Thus, the three top countries supply 59% of the world total, placing special importance on their production capacity. After Brazil comes European Union with 5.7, followed by Mexico with 2.3 million tonnes.

Table 3 - CHICKEN WORLD IMPORTS (1,000 tonnes)

Country	2001	2002	2003	03/02 %
Russian	1,281	1,208	1,180	-2.3
Japan	710	744	700	-5.9
European Union	418	397	420	5.8
China	473	435	415	-4.6
Saudi Arabia	399	380	390	2.6
Others	1,110	1,225	1,174	-4.2
Total	4,391	4,389	4,279	-2.5

Unit: Tonnes. Source: USDA/ABEF

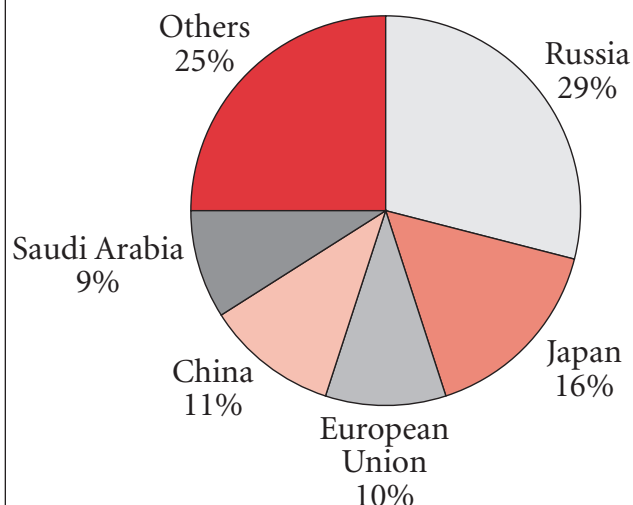


Table 4 - CHICKEN WORLD EXPORTS (1,000 tonnes)

Country	2001	2002	2003	02/03 %
USA	2,520	2,180	2,230	2.29
Brazil	1,249	1,600	1,922	20.12
European Union	718	841	700	-16.77
Thailand	425	465	500	7.52
China	489	438	420	-4.10
Others	206	337	89	-73.59
Total	5,607	5,780	5,861	1.40

Unit: Tonnes. Source: USDA/ABEF

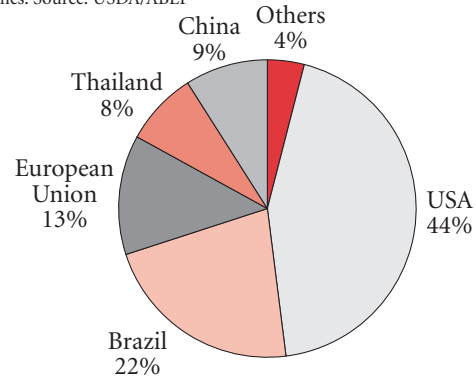


Table 5 - BRAZIL MEAT GROUP EXPORTS

Meats	1,000 tonnes	%	Meats	US\$ 1,000	%
Chicken	1,922	58	Chicken	1,710	43
Beef	801	24	Beef	1,510	39
Pork	491	15	Pork	546	14
Turkey	110	3	Turkey	152	4
Total	3,324	100	Total	3,918	100

Source: SECEX/ABEF/UBA

Chicken continues to lead in meat exports, ahead of beef and pork meats — a position reached in the mid-1990's. Today Brazil is second among the world chicken meat exporters. The increase in exports opened up 10,000 new jobs in 2003, an outstanding achievement.

Average export price for 2003 was registered as US\$ 918 per ton, a 7% increase on 2002.

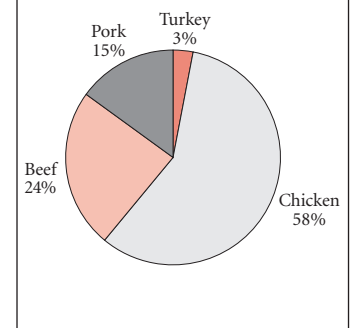
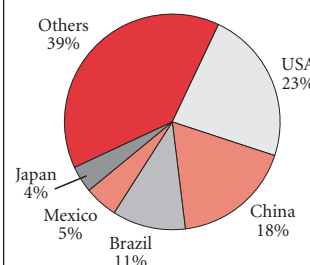


Table 6 - CHICKEN WORLD CONSUMPTION (1,000 tonnes)

Country	2001	2002	2003	02/03 %
USA	11,558	12,269	12,415	1.1
China	9,262	9,555	9,839	3.0
Brazil	5,486	5,917	5,921	0.1
México	2,308	2,422	2,576	6.4
Japan	1,797	1,830	1,835	0.3
Others	19,991	19,284	18,769	-2.7
Total	50,402	51,277	51,351	0.1

Unit: Tonnes. Source: USDA/ABEF



Brazil's chicken consumption of 33kg per capita is at its highest due to continued economic stability, improved product quality and significant productivity gains which were passed on to the consumer as price reductions.

Table 7 - PRODUCTION IN LEADING STATES - Brazil (birds)

STATES	2002	2003	02/03 %
SANTA CATARINA	687,605,317	648,752,226	-5.7
PARANÁ	751,769,383	813,373,908	8.2
RIO GRANDE DO SUL	581,876,367	602,214,275	3.5
SÃO PAULO	476,239,157	467,215,143	-1.9
MINAS GERAIS	229,136,272	233,044,561	1.7
OTHERS			
TOTAL BRAZIL	3,617,959,413	3,713,685,074	2.6

Table 8 - RANKING OF BRAZILIAN 20 TOP PRODUCERS - 2003

Enterprise	birds	Total Brazil %
01- SADIA	479,900,928	12.9
02- PERDIGÃO	427,439,592	11.5
03- SEARA	246,151,173	6.6
04- FRANGOSUL	237,804,287	6.4
05- AVIPAL	213,950,448	5.8
06- DAGRANJA	95,784,494	2.6
07- AURORA	87,567,045	2.4
08- PENA BRANCA	72,163,169	1.9
09- COPACOL	56,438,391	1.5
10- CHAPECÓ	49,209,195	1.3
11- PIF PAF	48,561,267	1.3
12- SERTANEJO	48,426,390	1.3
13- BIG FRANGO	41,881,434	1.1
14- COOPERVALE	36,243,703	0.98
15- COOP AGROIND DO LAR	36,209,904	0.98
16- PENASUL	36,157,413	0.97
17- COTREL	33,365,439	0.9
18- DIPLOMATA	33,154,426	0.89
19- COOPAVEL	32,346,218	0.87
20- SÓ FRANGO	31,506,211	0.85
TOTAL	2,344,261,127	63.1
TOTAL OTHERS	1,369,423,947	36.9
TOTAL BRAZIL	3,713,685,074	100

Source: UBA - ABEF. 2003

Table 9 - RANKING OF BRAZILIAN EXPORTERS

ENTERPRISE	tonnes	%
01- SADIA	461,969	24.03
02- PERDIGÃO	419,461	21.82
03- SEARA	310,547	16.16
04- FRANGOSUL	277,256	14.42
05- AVIPAL	141,002	7.34
06- AURORA	42,694	2.22
07- COOP. LAR	38,946	2.03
08- MOINHOS CRUZEIRO DO SUL	27,186	1.41
09- CHAPECO	24,463	1.27
10- PENASUL	23,048	1.20
11- C.VALE COOP. AGROINDUSTRIAL	22,904	1.19
12- DAGRANJA	22,018	1.15
13- COOP. CONSOLATA	21,969	1.14
14- AGROAVICOLA VENETO	20,746	1.08
15- AVIC. GRANJA CEU AZUL	12,342	0.64
16- LANGUIRU	11,606	0.60
17- COOP. CASCAVEL	11,333	0.59
18- MACEDO KOERICH	9,628	0.50
19- PALMALI	7,329	0.38
20- DIPLOMATA	6,278	0.33
OTHERS	9,317	0.48
TOTAL BRAZIL	1,922,042	100.00

Source: UBA - ABEF. 2003

As shown in Table 7, the five largest producing states have a 75% share of domestic production.

The states of Paraná, Santa Catarina and Rio Grande do Sul, states of South of Brazil, produce more than 55% of the total and are also the main exporters. A 5 to 6% increase in production is to be expected for this year. In 2003 exports reached a record level and are expected to be 10% higher this year.

Table 10 - BRAZILIAN EXPORTS

	2002	2003	02/03 %
Tonnes	1,599,923	1,922,042	20.1
US\$ 1,000	1,508,642	1,972,118	30.7

In 2003, chicken meat exports gained renewed strength driven by the devaluation of the REAL and an improvement in important markets in Europe, Asia and Africa. Market access policies, put into effect in 2003, also played an important role in diversification since 22 new markets were added to the total.

In 2003, 1,922,042 tonnes of chicken meats were exported registering a 20.1% growth, see table above.

Foreign exchange income reached US\$ 1.972 billion, a 30.7% increase.

Table 11 - CHICKEN CUTS - EXPORTS

	2002	2003	02/03 %
Tonnes	925,543	1,123,997	21.44
US\$ 1,000	881,342	1,092,465	23.95

Table 12 - PROCESSED CHICKEN PRODUCTS - EXPORTS

	2002	2003	02/03 %
Tonnes	24,964	37,731	51.14
US\$ 1,000	57,765	89,209	54.43

Table 13 - BROILER MEAT TRENDS (in 1000 tonnes)

BROILER MEAT	2001	2002	2003	2004 (est)
Production: World	51,695	52,825	52,833	54,654
Brazil	6,735	7,517	7,843	8,235
Exports: World	5,599	5,780	5,861	6,192
Brazil	1,249	1,600	1,922	2,115
World: Imports	4,377	4,284	4,279	4,094
Consumption	50,402	51,277	51,351	52,658
Brazil: Consumption	5,486	5,917	5,921	6,120
Per capita kg/person/year	31.82	33.81	33.33	33.80

(P) Preliminary
Source: FAS-USDA/ABEF/UBA



Table 9 shows the figures for ABEF members, accounting for 96% of Brazil's total chicken exports. The four leading exporters account for 76.4% of total exports, with the remaining 23.6% share distributed among 20 exporting ABEF members.

It should be noted, however, that exports have been an even higher proportion in past years, having reached almost 90%.

Today there are newcomers to the exporter companies, making for an ever larger base for the country's chicken exports.



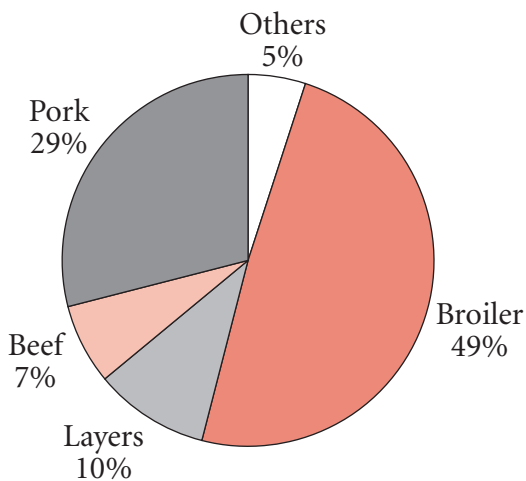
Feed production

The total Brazilian production of compound feed reached 41 million tonnes in 2003, supported by a harvest of 123 million tonnes of grain, including 60 million of soybean and 47 million of corn. A total harvest of 130 million tonnes of grain is estimated this year.



Table 14 - BRAZILIAN FEED PRODUCTION (1000 tonnes)

Year	Broiler	Layers	Beef	Pork	Others	Total
2000	16,866	3,312	2,469	10,085	1,726	34,458
2001	18,046	3,709	2,982	12,050	2,025	38,812
2002	19,195	3,950	3,620	12,590	2,239	41,594
2003	20,110	3,880	3,716	12,788	2,130	42,624



EU renews ban on Thai chicken

THE EU ban on poultry imports from Thailand has been renewed this summer as the outbreak of avian flu continues to rumble on. The ban will now stay in place until the end of this year.

Having declared itself free of disease in mid-May, Thailand experienced a fresh outbreak affecting nine provinces (out of 76) at the end of June. There has also been a recurrence of the disease, confirmed as the pathogenic H5N1 strain, in Vietnam, which had given itself the all-clear. China has also identified fresh cases.

Once again wild birds are being blamed for spreading the problem, but the UN's Food and Agriculture Organization (FAO) has stepped in to argue that the wild bird population is not the underlying problem and that the local industries should concentrate on putting their own house in order, a task that it believes is likely to take some time.

The FAO pins the blame firmly on poor hygiene management at all stages of the production chain including farms, processing and distribution. Small back yard flocks are thought to be a

significant problem and these may not be compatible long-term with a commercial export industry for the region.

Eleven countries have been affected by the outbreak so far but of these, only Thailand exports to the EU. The EU ban was imposed in January, and before it was renewed it had been due to expire in August.

Cooked chicken is not affected by the ban at all, and exporters are focusing on expanding this part of their business to restore the industry's fortunes, not just with the EU but with other markets such as Japan.

By the start of July, the equivalent of over US \$46 million had been claimed in compensation by more than 400,000 chicken producers.

Total cost to the Thai industry is put at over US \$900 million to date. Exports, which account for 70% of Thai chicken output, are expected to fall by more than half this year, to under US \$0.5 billion from nearly \$1 billion last year.

To try to lessen the impact of future disease outbreaks on the Thai economy, the Ministry has unveiled plans to divide the country up into five health control regions, each with its own biosecurity status.

Subsequently, an outbreak in any one region would not affect the entire country, and would leave the remaining regions free to continue trading.



EU sets its sights on two more countries

HAVING barely had the time to digest an extra 10 new member states, the European Union is getting ready to expand again.

Both Bulgaria and Romania have been given target dates for accession to the EU of 1 January 2007, just over 2 years away. This would take the number of member states in the EU up to 27.

It was agreed at the Heads of State Summit in June that the Commission should begin the necessary moves towards signing the Accession Treaties for the two countries in the first half of 2005.

Poultry production in both countries is unlikely to have a large impact on the EU as a whole. Output for each stood at

around 110,000 tonnes in 2003.

Until quite recently, however, Romania was a much more significant poultry meat producer with production of almost 300,000 tonnes in 2001, according to figures compiled by ZMP in Germany, and the figure has dropped away sharply over the last two years (see table).

At the same time the level of imports has rocketed, from 35,000 to 94,000 tonnes since 2000, making Romania one of the EU's significant importers of poultry meat.

The recent EU summit also agreed to authorise the Commission to start the negotiation process with Croatia

on becoming the 28th member state.

Still waiting in the wings is Turkey, but heads of state have yet to give the green light for the negotiations on accession to begin. Turkey still has to satisfy the EU on a number of important criteria before the process can start.

With the accession of the 10 new member states in May of this

year, the EU population has risen by 74 million or about a fifth, to 454 million. Over half of these, nearly 39m, live in Poland.

After its latest expansion the EU now has a human population greater than the United States and Japan combined, but as a single consumer market it will have great disparities in prosperity between West and East for a long time to come.



BULGARIAN & ROMANIAN POULTRY INDUSTRIES

(1000 tonnes)

	2000	2001	2002	2003
Bulgaria				
Poultry output	104	110	120	110
Imports	22	15	na	na
Exports	5	3	na	na
Romania				
Poultry output	259	284	128	112
Imports	35	67	80	94
Exports	6	1	1	1

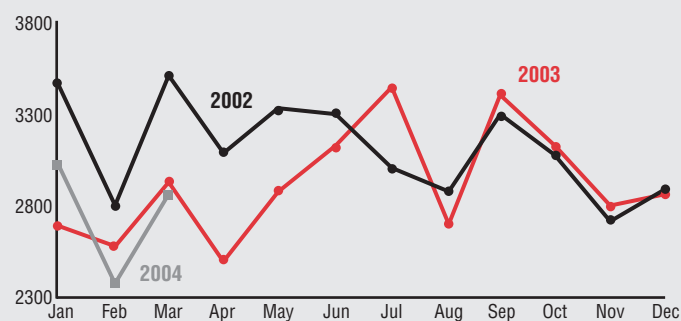
MARKET TRENDS

Feed ingredient prices

National currency/tonne	Current (Sept)	3 months ago (June)	6 months ago (Mar)	9 months ago (Dec)	Year ago (Mar)
US wheat (\$) soft red winter	145	140	162	163	140
US maize (\$) No 3 yellow corn	93	118	130	115	101
US soya (\$) No 2 yellowbeans	220	345	372	297	260
EU feed wheat (€) Rotterdam	110	142	157	172	140
EU feed wheat (€) Hamburg	105	130	149	160	134
EU feed wheat (£) UK - national average	59	78	95	108	84
EU maize (€) Bologna	121	178	188	180	169
S American soya (\$) Argentina/Brazil	223	na	na	292	268

EU female parent chick placings

11 states, thousands



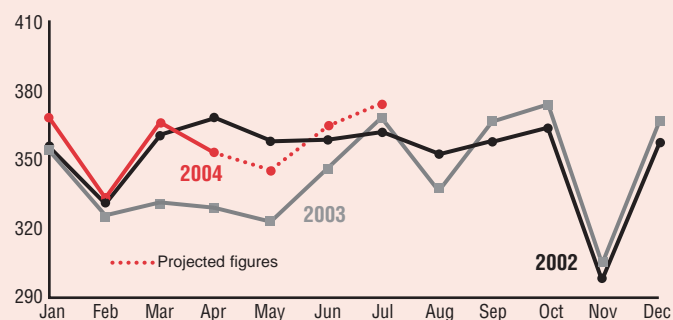
EU broiler prices

€/kg liveweight (except UK & Denmark)

	Current (Sept)	3 months ago (June)	6 months ago (Mar)	9 months ago (Dec)	Year ago (Sept)
Belgium	0.99	0.75	0.67	0.53	0.72
France	0.83	0.82	0.86	0.84	0.82
Germany	0.73	0.74	0.74	0.73	0.74
Italy	0.91	1.08	0.71	0.95	1.27
Netherlands	0.69	0.68	0.67	0.70	0.68
Spain	1.49	1.39	na	0.55	1.44
Denmark (DKr)	4.21	4.21	4.21	4.11	4.11
UK (£)	0.51	0.51	0.50	0.50	0.50

EU chick placings, 11 states

commercial broilers, millions



EU average wholesale prices

per/kg, whole oven-ready chicken

	UK (€)	Germany (€)	Italy (€)	France (€)
Sep '04	1.34	1.66	1.97	2.03
Oct	1.28	1.64	1.88	2.03
Nov	1.24	1.62	1.74	1.86
Dec	1.18	1.61	1.61	1.55
Jan '04	1.25	1.60	1.49	1.55
Feb	1.33	1.59	1.23	1.49
Mar	1.38	1.59	1.29	1.65
Apr	1.30	1.59	1.30	1.73
May	1.33	1.59	1.52	1.87
Jun	1.38	1.59	1.55	1.87
Jul	1.39	1.57	1.47	1.76
Aug	1.40	1.57	1.44	1.71

Continued from page 1

US market enters period of strong prices

consumption has been a rise in beef prices - particularly ground beef - due to a slow-down in cattle slaughtering.

Food manufacturers and foodservice suppliers have stepped up demand for chicken meat and the fast food sector especially is using a lot more chicken.

Total US output of chicken was nearly 4% higher during the January-March period, and a slightly slower growth rate of 2-3% is forecast to continue into 2005.

All this marks something of a turnaround from last year, when US output showed a year-on-year decline for the first time in 28 years. In 2003 the industry suffered from higher feed prices; while at the same time domestic demand was less sharp, and competition on export markets - before the appearance of avian flu - was intense. The US relies on exports to find markets for nearly 15% of its total production.



Exchange rates

	Current (Sept)	3 months ago (June)	6 months ago (March)	9 months ago (Dec)	Year ago (Sept)
\$ / €	1.23	1.21	1.23	1.25	1.06
€ / £	1.46	1.48	1.46	1.47	1.46
\$ / £	1.79	1.79	1.79	1.85	1.55



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