

INTERNATIONAL FOCUS:

WHAT ARE THE PROSPECTS FOR IMPORTS FROM BRAZIL?

NI producers take an ongoing interest in the performance of the Brazilian beef trade and export activity principally because of the potential impact that trade has on the worldwide and local market. Brazil's beef exports increased seven fold between 1998 and 2007. Since then however, exports have fallen by a third while output has fallen by 11 per cent. The Brazilian beef exporters association ABIEC, is forecasting a 10 per cent increase in exports in 2012, with earnings forecast to surpass the US\$6bn mark for the first time. With these predictions in mind, it is perhaps useful to look at the history of Brazilian beef exports and consider these forecasts in this context. The current absence of large volumes of Brazilian beef from the EU market is generally considered to be positive for NI producers and with the recessionary climate impacting demand and CAP reform a threat to farm incomes in Europe, NI producers are interested in the prospects for Brazilian imports to the EU.

The volume and value of Brazilian beef exports

Brazilian beef exports have grown significantly and then eased off over the course of the last 15 years. This trade peaked in 2006 with 1.6million tonnes (packed weight) exported worldwide. This represented an increase of almost 750 per cent from 1998 when its exports amounted to less than 200,000 tonnes. In that time, the volume of beef processed in Brazil rose from 5.2 million

tonnes to a peak of 9.6m tonnes in 2006. Since 2006, production has fallen by 1.1m tonnes, (-11 per cent) and recent figures (Table 1 below) show that in 2011, exports fell back accordingly.

In value terms, export earnings have held up well given that in the last six years, the average price of beef exported from Brazil has risen by about 80 per cent, from about US \$2,600 per tonne to US \$4,800 tonne last year. Export earnings increased by approximately 28 per cent last year.

Export growth - 1998 - 2006

The interesting thing about the boom in Brazilian production / exports between 1998 and 2006, is that it came off the back of a relatively small increase in production capacity. During that period, the cattle herd only increased by six per cent, or 10m head, to 173m head. However, significant improvements in technical efficiency meant that the volume of beef processed in Brazil increased by 86 per cent. The result was a sharp increase in the proportion of the herd being sent for slaughter at a younger age each year. In 1999, 21 per cent of the total herd was slaughtered. By 2007 this figure had risen to 28 per cent.

While sharp increases in supply were a major factor in the increased export trade, domestic demand factors were also important. With a stagnant economy, high inflation and a weak

currency, the domestic market was not just as attractive during that period to Brazilian processors relative to exports. By virtue of the weak currency, the Brazilians were more competitive on world markets than competitor countries such as Australia, Argentina and the US.

Increased export potential from Brazil also coincided with the outbreak of BSE in Europe which greatly reduced EU beef exports to the Middle East and elsewhere. This essentially provided the Brazilians with a very important outlet for beef, effectively displacing EU beef in some of these key export markets. With output falling in the EU, Europe became a target market for fresh Brazilian beef, particularly given lucrative prices in the region.

Despite this buoyant export trade, Brazilian producers were struggling with margins and with cash-flow an issue, an increased proportion of cows were slaughtered, taking significant capacity out of the herd. This provided a significant boost to production during this period but had lasting consequences in long term output given the impact on calf-births.

Contraction in exports - 2006/7 onwards

Reduced calf births brought about by excessive culling of breeding stock had a significant impact on production and was one factor in the reduction

in Brazilian exports. The outbreak of Foot and Mouth Disease (FMD) in Brazil in 2005 was another major contributor. FMD provoked several countries to suspend imports from Brazil. The EU placed restrictions on Brazilian imports based on traceability and the result was that the number of Brazilian farms licensed to sell beef to Europe fell sharply.

Brazilian exports were also curtailed due to the growing strength of the domestic economy and rise of the Brazilian middle class. While beef prices increased sharply in the last five years, the income of the top fifth of its population has grown faster. As a result much of the top quality beef previously exported to the EU is now sold in Brazil for similar prices.

Competition for land from other commodities has been a key factor around the world impacting on beef production and Brazil is no different. About five million hectares previously used as pasture in the states of the south, south east and centre west, have been given over to crop production. This type of competition has driven up the price of land over the last 10 years with some beef production being displaced by these other enterprises. Some farmers are adopting new technology and embracing better management

techniques on smaller holdings, while others have moved stock to areas where land is still much cheaper, notably on the fringes of Amazonia. Those who have moved cattle to these areas are subject to much tighter control than in the past, as well as being much further from the main domestic markets for their beef, or from export hubs and these factors have driven up costs.

Brazilian exports in 2011

Last year Brazilian exports fell by 14 per cent to 922,967 tonnes according to GTIS data. Exports to Brazil's leading markets such as Russia (-20%), Iran (-32%) and Egypt (-14%) were down significantly. Shipments to Russia were subject to import restrictions imposed by Moscow in the second half of 2011 resulting in a halving of exports from Brazil to Russia year-on-year. However, there is some expectation that these issues will be resolved in 2012 and some suppliers that had previously been restricted are now reportedly authorised to resume exports. Further progress may be possible with Russia's imminent entry into the World Trade Organisation.

Iran is a major consumer of Brazilian beef, but

diplomatic relations between the two countries are apparently strained. Since October 2011 the trade has been curbed by difficulties in obtaining Iranian import licenses and in the last two months it is reported that this trade has all but collapsed.

Brazil shipped a total of 48,474 tonnes of chilled and frozen beef to the EU in 2011. This was up 10 per cent on 2010 levels. However, this was offset by a 25 per cent decline in shipments of processed beef and in overall terms beef volumes shipped to the EU from Brazil were down.

One concern is that with a reduction in exports to Iran and Russia this beef will have to find a home elsewhere and this may lead to increased interest among the Brazilians in the EU market. However, emerging markets have growing consumption bases and with improved access to some other markets anticipated, any further declines in trade with one region, may result in exports being diverted to other destinations in Asia, the Middle East and South America, as well as the EU and USA. In 2011, increased exports to Hong Kong, Venezuela and Chile compensated somewhat for declines in Brazilian trade with other key export destinations.

Export potential

While Brazilian exports to other world regions is of interest, NI producers are principally interested in exports of Brazilian beef to the EU and the prospects for changes in this trade which obviously has a potential to impact the market here. There are expectations of increased production in Brazil in 2011 with Gira forecasting that beef and veal production will rise by 0.9 per cent this year. Firm domestic demand is expected to be a driver here and with a recovering cow herd, improving efficiency and slightly heavier slaughter weights it is expected that there will be a slight increase in productivity.

The EU has begun to take some steps towards loosening import restrictions, notably accepting that Brazilian vets can now carry out tests which previous had to be done by EU officials. Currently just over 2,000 farms in Brazil are authorised to export beef to the EU (down from 26,000 before the restrictions). With the responsibility of managing the list of approved EU suppliers returning to Brazilian hands, they appear to be more confident of increasing shipments to the EU in 2012. For those that are concerned about the re-emergence of this trade, it is worth noting that the Brazilian trade is in a very different place now

compared to 2006. While production is expected to increase slightly in 2012, it is also expected to be 1m tonnes below 2006 levels and that means that the capacity to export remains limited. Furthermore, an increase in domestic consumption (+0.6%) this year is expected to mop up some of that increased production and this would further limit the capacity to export.

Indeed, while AIBEC expect a 10 per cent increase in export volumes this year, other forecasters are suggesting an increase of just one per cent in Brazilian exports is likely. This of course remains to be seen, but it is also worth adding that while the EU may be a useful market for the Brazilians, the balance of the global economy has changed radically in the last six years with emerging markets having captivated the interest of Brazilian exporters. The strong Brazilian (BRL) currency is clear evidence of that global economic rebalancing and this in itself generally does not lend itself to competitive exports. The continued strength of the domestic Brazilian beef trade, a strong real, export opportunities elsewhere and limited supply relative to 2006 should hopefully ensure that any growth in EU imports from Brazil does not undermine the local trade.

Sources: IMS, Agra Europe, Gira

Table 1. Brazilian Beef Exports to Leading Destinations (tonnes)

Country	2009	2010	2011	Change 10/11
World	1,089,446	1,075,658	922,967	-14.2%
Russia	327,398	285,007	228,897	-19.7%
Iran	88,995	191,181	130,649	-31.7%
Egypt	74,134	117,829	101,086	-14.2%
Hong Kong	101,258	66,844	73,956	+10.6%
Venezuela	39,925	40,125	70,901	+76.7%
Chile	5,989	21,394	35,480	+65.8%
UK	48,009	44,356	35,306	-20.4%
Saudi Arabia	31,124	31,051	29,031	-6.5%

Source: GTIS - Fresh, Frozen, Chilled, Processed Exports

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AT THE

NI BEEF EXPO 2012

Tuesday 6 March 2012
Dungannon Farmers' Mart
Granville, Dungannon

DATE FOR YOUR DIARY

Thursday 29 March 2012
Greenmount College
LMC Red Meat Prospects Conference
Free Entry - Booking Essential
Further Details:
conference@lmcni.com
028 9263 3000



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WEEKLY BEEF & LAMB MARKETS



CATTLE TRADE

CATTLE QUOTES		
(P/KG DW)	This Week 27/02/12	Next Week 05/03/12
U-3	320 - 324p	322 - 326p
R-3	314 - 318p	316 - 320p
O+3	308 - 312p	310 - 314p
Cows	265 - 275p	265 - 276p

* Plus 8p/kg in-spec bonus where applicable.

LAST WEEK'S NI CATTLE PRICES - P/KG				
W/E 25/02/12	Steers	Heifers	Young Bulls	Cows
U-3=	330.5	336.3	324.5	
U=3=	329.1	333.5	326.0	
U=4=	326.2	332.0		290.5
R=3=	329.8	331.5	319.7	283.7
R=4=	324.6	323.3	307.1	297.7
O=3=	310.8	311.2	302.8	271.1
O+3=	327.0	322.0	311.3	281.4
O+4=	316.0	316.4		275.7
P+2=	295.1	230.0	292.2	252.3
P+3=	296.2	282.4	301.2	255.2
Average	321.6	322.8	309.4	247.6

Note: The table above shows prices for selected grades from the 15-point scale. The table below merges grades down to the 5-point scale for comparison with GB regions and ROI.

LAST WEEK'S CATTLE PRICES (UK / ROI)						
W/E	Scotland	Northern England	Midlands & Wales	Southern England	Northern Ireland	Rep of Ireland
25/02/12						
Steers						
U3	353.9	349.3	349.5	348.7	330.1	333.2
R3	348.5	340.1	338.6	335.2	329.5	323.4
R4	350.8	345.0	339.4	332.6	325.3	323.6
O3	334.5	321.9	321.7	311.7	315.6	309.2
Average	349.0	336.8	335.3	316.6	321.6	-
Heifers						
U3	354.0	351.0	350.2	345.8	335.0	343.7
R3	347.3	338.8	337.9	336.0	331.3	333.2
R4	348.3	340.6	339.0	335.1	326.2	333.2
O3	334.1	321.8	323.5	314.2	317.2	318.7
Average	347.4	336.2	336.1	323.6	322.8	-
Young Bulls						
U3	342.1	336.8	344.1	346.9	325.4	330.6
R3	337.1	326.1	331.1	314.7	319.3	322.2
O3	320.7	308.8	313.5	315.6	303.4	309.1
Average	327.8	318.9	317.0	311.1	309.4	-
Prime Cattle Price Reported						
O3	279.9	277.9	274.6	255.0	273.3	282.8
O4	281.0	276.0	276.0	263.9	273.3	284.8
P2	222.0	233.6	220.7	221.1	237.3	256.5
P3	239.6	255.5	253.4	237.7	252.7	278.1

Notes:

(i) Prices are p/kg Sterling-ROI prices converted at 1 euro=84.23p Stg.

(ii) Shading indicates a lower price than the previous week.

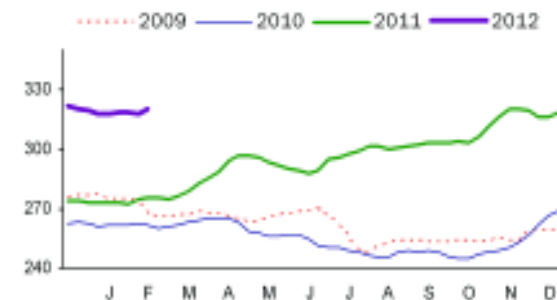
Deadweight Cattle Trade

DURING the past week there was a continued improvement in the cattle trade with some factories reporting that 326p/kg was being paid for loads of good U-3 grade heifers. Most of the plants were quoting 324p/kg for U-3 grade steers and heifers, although one or two buyers were continuing to quote 322p/kg for steers. Next week we expect similar quotes to this week with more plants quoting 326p/kg for heifers for Monday.

Last week the trade in NI showed an improvement on the previous week. U3 steer prices were up by more than 2p/kg and U3 young bull prices were up by nearly 5p/kg. U3 heifer prices also increased slightly (0.4p/kg). On average, prime cattle prices increased by nearly 2p/kg last week. The stronger trade reflects the ongoing tight supplies in NI. Last week, the total kill was just over 8,500 head and the prime cattle kill was 6,800 head. This was 17 per cent fewer than in the same week last year when the total kill was just over 10,200 head. As usual, the kill was boosted by cattle imported from ROI and GB for direct slaughter. Last week about 600 head were imported by the factories, the bulk of these from ROI. Fewer than 200 head were exported for slaughter to plants in GB and ROI last week. This marks a reduction on previous week levels.

Last week average steer and heifer prices increased by about 0.5p/kg in Scotland while in Northern England, although the average steer price fell by 0.7p/kg, there was a 3.3p/kg increase in the average heifer price. The average young bull price in Scotland increased by 8p/kg last week, but corresponding prices fell by 4p/kg in the Midlands and Southern England. In ROI steer and heifer prices were reasonably steady in euro terms (although they increased in sterling terms by virtue of the stronger euro last week).

NI Average Weekly Clean Cattle Price (p/kg CW)



NI Clean Cattle Slaughterings ('000 head per week)



More detailed information on prices and explanations of these tables and charts are available from the LMC Technical Department: Call 028 9263 3000.

LATEST NI BEEF MARTS

Finished Cattle (£/100kg LW)		Store Cattle (£/100kg LW)		Dropped Calves (£/head)				
	from	to		from	to			
Steers			Store bullocks up to 400kg		Continental bull calves			
1st quality	194	209	1st quality	187	220			
2nd quality	170	193	2nd quality	152	186			
Friesians	149	168			1st quality	300	385	
			Store bullocks 400kg-500kg		2nd quality	220	295	
Heifers			1st quality	188	215	Continental heifer calves		
1st quality	187	206	2nd quality	160	187	1st quality	200	340
2nd quality	163	186				2nd quality	140	195
Beef Cows			Store bullocks over 500kg			Friesian bull calves		
1st quality	145	185	1st quality	198	215	1st quality	145	230
2nd quality	118	144	2nd quality	175	197	2nd quality	80	142
Dairy Cows			Store heifers up to 450kg			Holstein Bull Calves		
1st quality	119	153	1st quality	200	274		52	140
2nd quality	100	118	2nd quality	162	198			
			Store heifers over 450kg					
			1st quality	180	211			
			2nd quality	160	179			

Taken from a sample of beef marts in the week ended 24/02/12

Deadweight Sheep Trade

OVER the past week all factories were quoting 430p/kg for R3 hoggets with some reports that buyers have paid slightly more in some cases to secure supply. Similar quotes are expected on Monday. The latest weekly slaughter figures (W/E 25/02/12) show that local supplies were stronger relative to earlier in February and the same time last year. Last week the kill edged up to more than 5,400 head; this was 11 per cent more than the previous week and 46 per cent more than the same week last year. Over 7,000 sheep were exported to ROI for direct slaughter last week. This was down from 8,400 in the same week last year and all this means that local processors killed a greater share of NI sheep.

SHEEP QUOTES

(P/KG DW)	This Week 27/02/12	Next Week 05/03/12
Hoggets	425 - 430p*	430p*

All plants paying up to 22kgs for FQAS hoggets.

REPORTED HOGGET PRICES - P/KG

(P/KG)	W/E 11/02/12	W/E 18/02/12	W/E 25/02/12
NI Liveweight	387.8p	391.8p	389.9p
NI Deadweight	421.9p	418.1p	415.1p
GB Deadweight	440.7p	442.2p	441.3p

LATEST SHEEP MARTS

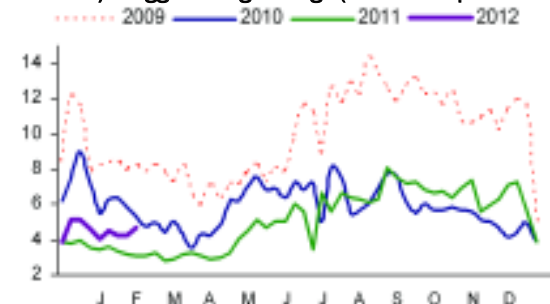
From: 24/02/2012 To: 02/03/2012		Hoggets (P/KG LW)			
		No.	From	To	Average
Saturday	Omagh	528	383	409	N/A
Monday	Kilrea	640	378	400	386
	Masserene	853	380	415	N/A
Tuesday	Rathfriland	414	376	417	389
	Saintfield	450	382	417	391
	Armooy	222	386	404	392
Wednesday	Ballymena	705	375	412	386
	Enniskillen	645	385	422	394
	Markethill	900	380	415	389
	Newtownstewart	250	383	400	390

This week's marts

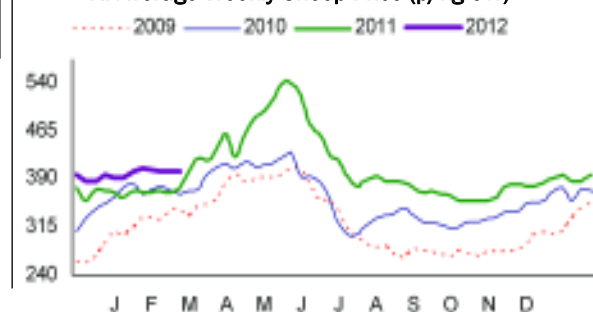
THIS week, average hogget prices in the marts generally ranged from 385-395p/kg and in some cases, reported prices were up on previous week levels. The average price reported by Ballymena on Wednesday was 386p/kg, up from the 379p/kg reported last week. Similarly in Markethill the average price of 389p/kg was 4p/kg more than last week. Cull ewes sold to a top of £112 and £110/head in Markethill and Newtownstewart respectively on Wednesday with top prices generally over £100 at most marts through the week.

SHEEP TRADE

NI Lamb / Hogget Slaughterings ('000 head per week)



NI Average Weekly Sheep Price (p/kg CW)



Contact us:

FQAS Helpline: 028 9263 3024

Website: www.lmcni.com

Answerphone: 028 9263 3011

Telephone: 028 9263 3000

Comments: bulletin@lmcni.com

Fax: 028 9263 3001

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