OKLAHOMA GROUP VISIT
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BRAZILIAN BEEF CATTLE MARKET OVERVIEW

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Presentation Scheme

- Introduction & Figures
- Local Breeding Systems
- Beef Cattle Market
- Brazil X International Market
- Final Notes
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Introduction

- Largest commercial cattle stock worldwide (165M of heads)
- 89M acres of pastures (native and cultivated)
- 1.79M beef cattle producers
- Largest beef exporter worldwide
- Second largest beef producer worldwide
- High technology
Brazilian Livestock Balance

CATTLE STOCK (millions of heads) **

Apr. 80% Beef Cattle

* Forecast
Source: FNP Consultancy
Brazilian Livestock Balance

STOCK X SLAUGHTERING (millions of heads)

Apr. 80% Beef Cattle

Source: FNP Consultancy

* Forecast
Cattle Stock Breakdown 2005

Source: FNP Consultancy
Brazilian Climate

70% of the stock!
Brazilian Livestock Balance

PRODUCTION, EXP. & IMP. (1000 ton Carcass eq.)

Year


Beef Production  Export  Import

Source: FNP Consultancy
Brazilian Livestock Balance

EXPORT AND IMPORT (1000 ton Carcass eq.)

Source: FNP Consultancy; SECEX; DECEX
Brazilian Livestock Balance

EX>Passworded BALANCE (1000 ton Carcass eq.)

Year

Industrialized    "In natura"

Source: FNP Consultancy; SECEX; DECEX
## Brazilian Livestock Balance

### EXPORTS (per Destination) X IMPORTS (per Origin)

<table>
<thead>
<tr>
<th>Country</th>
<th>%</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exports - Industrialized</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - UK</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>2 - USA</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td><strong>Exports - In natura (No bones)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - Russia</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>2 - Egypt</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - Paraguay</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>2 - Argentina</td>
<td>19</td>
<td></td>
</tr>
</tbody>
</table>

Source: FNP Consultancy; SECEX; DECEX

+140 Countries 34-2005
Brazilian Livestock Balance

WORLD BEEF EXPORTS (MARKET SHARE)

Year

Brazil
Australia
USA

Source: USDA, FNP Consultancy

* Forecast
Rising Exports

- Local currency devaluation in 1999
- Main competitors presenting sanitary problems
  - Mad Cow Disease: UK, USA and Canada
- Foot and Mouth Disease under control
  - Unexpected outbreak in 2005…
- Increasing demand (Asia, Eastern Europe, etc.)
- Idle capacity to supply this demand
- “Brazilian green beef” – Marketing strategies
- $3 billion in 2005 (forecast)
Brazilian Livestock Balance

WORLD BEEF IMPORTS (MARKET SHARE)

* Forecast
Source: USDA, FNP Consultancy
<table>
<thead>
<tr>
<th>Country</th>
<th>Pound / hab./ year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>24.4</td>
</tr>
<tr>
<td>USA</td>
<td>19.4</td>
</tr>
<tr>
<td>Australia</td>
<td>16.1</td>
</tr>
<tr>
<td>Brazil</td>
<td><strong>15.9</strong></td>
</tr>
<tr>
<td>Canada</td>
<td>13.9</td>
</tr>
<tr>
<td>Mexico</td>
<td>10.2</td>
</tr>
<tr>
<td>EU</td>
<td>8.0</td>
</tr>
<tr>
<td>Russia</td>
<td>6.9</td>
</tr>
</tbody>
</table>

Source: USDA; FNP Consultancy
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Cattle Breeds Breakdown
Willing to combine the positive characteristics

Hybrid Vigor (Heterosis)
- Increase the resistance for diseases and ticks (South)
- Increase the meat softness and the early puberty of females (Center-North)

- Pastures (Nati./Cult.): 96.9%
- Pastures Suplementation: 1.5%
- Feedlots: 1.7%
Southeast / Center-West
Cattle Raising Systems

- **Cow-Calf Operation**
  - Native pastures (South)
  - Cultivated pastures (Center-North)

- **Stocker-Yearling and Finishing**
  - Cultivated pastures

- **Full Cycle (Calving ➔ Finishing)**
  - 15-20% cultivated winter pastures (South)
  - 100% cultivated pastures (Center-North)

- **Feedlots**
  - Usually with own silage and/or hay production
Seasons / Ages

- Spring Mating ➔ Oct/Dec to Jan/Mar
- Autumn Mating ➔ Mar/May to Jun/Aug
- Weaning ➔ Mar or Sep
- Slaughtering ➔ 1 - 3 years steers; culled cows or bulls and surplus heifers
Carrying Capacity / Stocking Rate

- **Native Pastures:**
  - 0.2 to 0.4 animal equivalent / acre

- **Cultivated Pastures:**
  - **Southeast / Center-West / North:**
    - *Brachiarias and Panicuns*: 0.4 to 0.6 an. eq. / acre
  - **South:**
    - Consortium of Rye-grass, White Clover and Birdfoot Trifolium: 0.4 to 0.6 an. eq. / acre
    - *Black Oat*: 0.4 to 0.6 an. eq. / acre
Carrying Capacity / Stocking Rate

Weight (kg)

Season

“Roller Coaster Trend”
Cold Winter - South
Dry Season - Center/North

aut/win  spr/sum  aut/win  spr/sum  aut/win  spr/sum  aut/win  spr/sum  aut/win  spr/sum
Carrying Capacity / Stocking Rate

- **Hay**
- **Silage** (sorghum, corn)
- **Winter Pastures** (rye grass; white clover; birdfoot trifoil; black oat)
- **Pastures Supplementation**

- Eliminate “Roller Coaster Effect”
- Strategic handling; delivery all year long; contract performance, etc.
Trading

- Slaughtering
  - Intermediate traders
  - Some small, tax dodging and inefficient beef abattoirs
  - More than 20 medium-sized slaughterhouses have been sold or rented in 2003
  - Still a few big beef abattoirs, seeking for respectability and scale:
    - Exports requirements; food safety, etc.
    - Increasing professionalism and investments

- Breeding stock
  - Sold through live auction markets
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Beef Cattle Market

PAST

- Satisfactory profit margin
- Extremely high inflation
- Slaughtering 4-5 years steers
- Lacking technology
  - Not much investments on pastures
  - Low stocking and extraction rates
  - No cross breeding
- Low productivity
Beef Cattle Market

1994 – 2000

- 1994 – Brazilian Economic Plan (REAL – R$)
- Steady growth of production costs
- Decreasing prices
  - Slaughterhouse X Ranchers
  - Poultry and pork competition
- Profit margins under pressure!
- Low exports
Beef Cattle Market

SINCE 2000...

- Losing area to agriculture (soybean)
- Increasing females slaughtering
  - Decreasing stock (since 2003)
  - Price falling pressure / Profit margins lowering
  - Meat production increasing
- Soaring exports *(in natura)* and new markets achieved
Prices ($ / Carcass pound)

Source: IEA; FNP Consultancy
TRENDS

- Jeopardized grains profitability in 2005
- Rising prices / profitability
  - Calf shortage
  - Stock reduction (Brazil, Argentina and Uruguay)
- Slight and steady growth of:
  - Beef cattle stock
  - Beef cattle exports
  - Production costs
- Beginning of a new positive cycle
Beef Cattle Market

OPPORTUNITIES

- Systematize and organize the leather market
  - 10% of the global leather market
  - 85% damaged
  - Mind-set changing

- Achieve best (high price) markets like USA, Japan, Australia by premium cut exports
Beef Cattle Market

THREATS

- Weak infra-structure
  - Poor internal transportation system:
    - No railways
    - Idle navigation capacity
    - Bad condition roads – Just 10% paved (OECD report); Center-West upwards
  - Port issues
  - Limited storage capacity
  - A few professional slaughterhouses (possible cartel formation)
Beef Cattle Market

THREATS

- Sanitary issues
- Feeble contracts
- Too large and influential Government
- Bureaucracy
- Friendliness to the environment (Amazon Forest)
## Production Costs 2004 ($ / produced pound)

<table>
<thead>
<tr>
<th>Breeding System</th>
<th>Technology</th>
<th>500 An. Eq.</th>
<th>5,000 An. Eq.</th>
<th>Sale Price ($/kg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cow-Calf Operation</td>
<td>Low input</td>
<td>0.43</td>
<td>0.30</td>
<td>0.63</td>
</tr>
<tr>
<td></td>
<td>High input</td>
<td>0.69</td>
<td>0.45</td>
<td>0.63</td>
</tr>
<tr>
<td>Stocker-Yearling and Finishing</td>
<td>Low input</td>
<td>0.38</td>
<td>0.25</td>
<td>0.63</td>
</tr>
<tr>
<td></td>
<td>High input</td>
<td>0.55</td>
<td>0.28</td>
<td>0.63</td>
</tr>
<tr>
<td>Full Cycle</td>
<td>Low input</td>
<td>0.39</td>
<td>0.25</td>
<td>0.63</td>
</tr>
<tr>
<td></td>
<td>High input</td>
<td>0.62</td>
<td>0.35</td>
<td>0.63</td>
</tr>
<tr>
<td>Feedlot</td>
<td>High input</td>
<td>0.65</td>
<td></td>
<td>0.63</td>
</tr>
</tbody>
</table>

Region: Mato Grosso do Sul        
Source: FNP Consultancy
## Estimated Production Costs per Country

<table>
<thead>
<tr>
<th>Country</th>
<th>$ / produced pound</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>0.43</td>
</tr>
<tr>
<td>New Zealand</td>
<td>0.56</td>
</tr>
<tr>
<td>Argentina</td>
<td>0.59</td>
</tr>
<tr>
<td>Australia</td>
<td>0.82</td>
</tr>
<tr>
<td>USA</td>
<td>0.86</td>
</tr>
<tr>
<td>Ireland</td>
<td>1.36</td>
</tr>
</tbody>
</table>

Source: Brazilian Agriculture Ministry
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Brazil X International Market

- Largest cattle stock without “Foot and Mouth Disease” worldwide (90% of the stock). The goal is to be 100% free shortly.
- No BSE Disease ➔ level 1 (highly unlikable)
- Traceability
  - National Program since 2002
  - Approximately a third of the herd meets this requirement
  - Mandatory for exporters
Brazil X International Market

- Lowest production cost worldwide
- Brazil has some especial groups on the government to continue increasing the exports
  - BSE (Mad Cow) Disease prevention
  - Marketing - “Brazilian Beef”
  - Animal Sanitary Program
- Subsidies and barriers
  - Canada
  - Russia, EU, Egypt
Competitive Advantages

- Climate – 12 months on pastures
- More than 95% of breeding is on pastures
- Hormone & anabolic steroid free
- New frontiers – North
- Low production costs
  - Labor cost:
    - foreman – $315/month 2006
    - farm laborer – $200/month 2006
  - Low cost lands
  - Large areas / production scale
Competitive Advantages

LAND VALUATION ($ per Acres)

Region: Mato Grosso do Sul
Pasture Areas
Source: FNP Consultancy
Competitive Advantages

- Split the production
  - Cow-Calf Operation – poor soils / regions
  - Raising Heifers/Steers and Finishing – best soils / regions
- Genetic Improvement Programs
- Increase productivity by crossing breeds
- Vital sector for the Brazilian economy – government attention!
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Final Notes

- Significant potential for growing
- Since 1994 → Profit margins under pressure

Trade in agriculture and related industries accounts for 40% of Brazil exports and in 2004 for 100% of the $34 billion trade surplus, a vital prop for an indebted economy still vulnerable to crises of confidence.

“We have good rural producers; what we lack are rural entrepreneurs.” – ABCZ, world’s largest group of ranchers

Professionalism
Final Notes

ACHIEVED:
Final Notes

**FOCUS:**

INCREASE PROFITABILITY

SANITARY ISSUES!!!

PARTNERSHIP & PROFESSIONALISM

INCREASE PROFITABILITY
Questions?
Thank you!

Contact:
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E-mail: zecamp@gmail.com
<table>
<thead>
<tr>
<th>Conversion</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 hectare</td>
<td>= 2,471 acres</td>
</tr>
<tr>
<td>1 acre</td>
<td>= 0,405 hectares</td>
</tr>
<tr>
<td>1 kilo</td>
<td>= 0,037 bushels = 2,205 pounds</td>
</tr>
<tr>
<td>1 bushel</td>
<td>= 27,216 kg = 60,000 pounds</td>
</tr>
<tr>
<td>1 @</td>
<td>= 15 kg = 0,551 bushels = 33,069 pounds</td>
</tr>
<tr>
<td>1 meter</td>
<td>= 3,281 feet</td>
</tr>
<tr>
<td>1 foot</td>
<td>= 0,305 meters</td>
</tr>
</tbody>
</table>