

By Marcia Zarley Taylor

The Pork Conquistador

Brazil aims to duplicate its poultry miracle in pork

Only 10 years ago, Brazil's poultry and pork sectors barely registered on global charts. Now the world's agricultural giant is earning new respect.

Brazil's modern conquistadors refer to their agricultural exploits this past decade as "one of the Eight Wonders of the World." It's not just bravado.

Although the numbers are still being tallied, Brazil likely displaced the United States as the world's largest poultry exporter in 2003, according to the marketing newsletter SAFRAS & Mercado. That's a phenomenal record for a country whose poultry industry was considered chicken feed only 20 years ago.

What's startling to North America's red meat complex, however, is that pork appears next on Brazil's conquest list. "If we can do it for poultry, we can do it for pork," Pedro Benue Bohrer, an executive of Seara Alimentos told food company representatives at the United Kingdom's World Pork Congress recently. His company now accounts for one-fourth of Brazil's global sales.

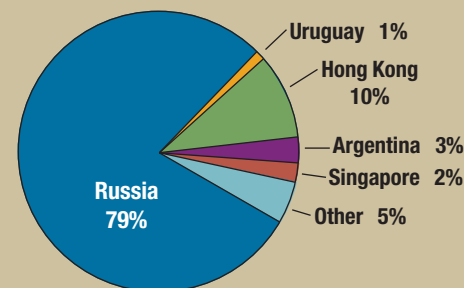
Quick study. Brazil began serious conversion to Western-style genetics and pork production only in the last decade. But since 1999, its pork exports have soared more than 450%, from 109,000 tons to an estimated 620,000 tons in 2003, says USDA. Amazingly, 80% of those exports are destined for Russia, a country that



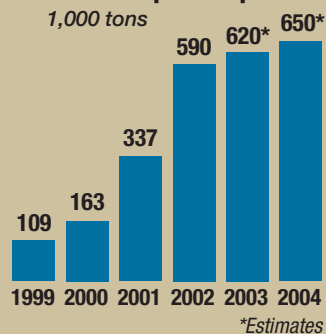
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DATA: SEARA ALIMENTOS; USDA

Brazilian pork destinations



Brazilian pork exports



now accounts for 19% of the world's meat imports. Premium markets in Singapore and Hong Kong, however, are also bidding for business.

At this clip, "Brazil could be at 700,000 tons—on par with U.S. exports—within five years," Bohrer says. "It just depends on the speed we can access other markets and get sanitary certificates for Japan, China and the European Union."

Raoul Baxter, Smithfield vice president for corporate development, says it's hard not to admire Brazil's gains. "They're selling carcasses to Russia rather than cuts, which keeps the overall price low," he notes. "But

their quality is as good as anywhere in the world. It really should command European Union (EU) prices."

True, Brazil has the advantage of lower grain and labor costs, but not the same access to high-income markets as North American producers. Reliance on one export destination also can be especially risky. For example, Brazilian sales to Russia soared almost 1,000% in 2001, replacing European product when the EU eliminated its export subsidies. Exchange rates and a Russian tariff on pork from Brazil that was 20% below that of Europe or North America also favored Brazilian sales. ►

Welcome to the neighborhood

American pork producers who overheard the conversation between Carroll's chief executive in Brazil and the mayor of a backwater Mato Grosso town couldn't believe their translator. "Please," pleaded the mayor of Diamantino, Carroll's Brazilian headquarters and home to what will soon become a farm producing 1.3 million pigs per year. "Could you build your packing plant here, too? We could use the jobs."

While North Americans confront a barrage of opposition to expansions, let alone new slaughter facilities, the opposite is true here. In rural Mato Grosso, for example, local officials are rolling out the red carpet to the pork industry. So proud that he had recruited Carroll's, a division of Smithfield and America's largest pork producer, the mayor erected a billboard on main street that bragged, "Diamantino, pork breeding capital." Bringing a potential of 1,200 jobs to a county of only 18,500 means a significant number of votes. A packing plant could add another 500 workers.

José Américo Flores Amaral, the CEO of Carroll's joint venture with a Brazilian company, is happy to oblige. He sees a laundry list of advantages that can make his fully integrated Mato Grosso operation internationally competitive, eventually beating North Americans on cost to market. At full capacity in 2006, the Diamantino site will produce 1.3 million pigs per year, slaughtered in a packing facility with a volume of 10,000/head/day. "Brazil has significantly lower production cost, maybe 25¢ per pound versus 35¢ to 38¢ in the United States," Amaral says. One major reason is lower fixed costs for buildings and cheaper variable costs for feed and labor. For example, local corn prices can run about \$1.10/bu., one of the world's lowest prices.



PHOTO BY THE AUTHOR

By 2006, Carroll's new Brazilian facility should produce 1.3 million animals per year, says CEO José Américo Flores Amaral. Brazilian firms are scheduled to match Smithfield's expansion in Mato Grosso.

Labor rates are also well below North America's, observes Martin Rice of the Canadian Pork Council. The official minimum wage here is only \$70 per month. "Workers in one slaughter plant can expect to earn about \$192/month, plus benefits like transportation to work and free products for personal consumption," Rice says.

Several major disadvantages help keep North Americans competitive, at least temporarily. One of the most important is that poor Brazilian highway conditions and distance to market saddle farming areas with high freight costs, typically double that of the United States. Less than 10% of Brazil's road network is paved, and even then, federal highways often resemble moonscapes with deep potholes.

Brazil built its reputation on soybeans. But shifting to higher-value products makes sense, given freight costs. Quips Amaral, "it's more cost-effective to export a kilo of pork than three kilos of soybean meal."

But alarmed by the flood of cheap imports, Russians have since imposed quotas and attempted to provide more incentives for domestic production. By 2007, the Russians expect to import only about 10% of their meat consumption, down from about 50% in 2003, Russian food executives say.

Diversification? That could throw a shock into Brazil's sales. Because the country still lacks certification of its status as foot and mouth disease-free, many of the world's best markets in Europe, Japan and North America remain off-limits. Brazilian officials consider clearance for beef, and later pork, a top priority. One approach is to certify individual states first rather than wait for certification on a countrywide basis. However, EU inspectors issued a negative report on Santa Catarina's animal health status and slaughter plants last year, calling the certification process premature. That could delay the health approvals for some time, insiders say.

Not to be overlooked is that Brazil still holds "a vast potential for increased herd productivity," says Martin Rice, executive director of the Canadian Pork Council. After the council visited Brazil's industry in 2002, Rice noted that the country averaged only about 10 pigs sold per sow per year, versus 19.5 in the Canadian herd. Increased investment in animal housing will have a significant impact on efficiency, he notes. During the 1990s, the percent of Brazilian hogs in confinement jumped from 40% to 61%, a trend that continues. Meanwhile, heavier carcass weights could boost overall production, perhaps as much as 22% over a two-year period, he says.

No wonder the North American pork industry is nervous, Brazilians note. "Canadians and Americans like to say they are the world's lowest-cost producers," says a Mato Grosso government official. "But that's only because they weren't including Brazil in the contest." ■

For more details on Brazilian pork, e-mail MTaylor@farmjournal.com or call (800) 292-FARM.