

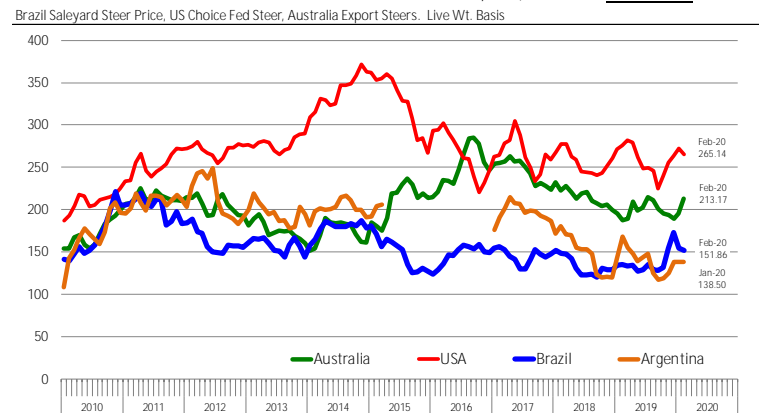
Last Friday, USDA-FSIS announced that it would lift the ban on imports of Brazilian fresh beef. Brazilian fresh beef was allowed to enter the US market in the fall of 2016 after almost a decade of absence due to Foot and Mouth (FMD) disease concerns. But resumption of trade proved to be short lived. USDA suspended Brazilian beef imports in June 2017 “because of recurring concerns about the safety of the products intended for the American market.” For their part, Brazilian suppliers indicated that this was not a food safety issue but it was rather due to product defects, more specifically due to abscesses created by the administration of the FMD vaccine and which were not properly removed. It did not help the credibility of the Brazilian side that the meat inspection system was involved in a major scandal, whereby inspectors were caught taking bribes and allowing tainted or spoiled meat to enter commerce. After two and a half years, it appears USDA now has enough confidence in the Brazilian system to once again open the door to Brazilian beef imports.

What are the **supply implications from this decision**? While USDA has made the decision to open the door to imports from Brazil, product has yet to enter the US market. For that to happen Brazilian authorities need to submit a list of plants that are eligible to ship product to the US. We suspect that will come fairly quickly. USDA has also set up a special process for imports of grinding beef in the US, with specific lotting protocols. Brazil has likely established those protocols from back in 2017 when product started to flow into the US. So that should not be an impediment. But we suspect that Brazilian suppliers will be rather cautious, at least initially, in shipping product to the US. The last thing they need is for the same defects that caused trade to be disrupted in 2017 to happen again. They will likely dot every i and cross every t. With that said, **there is little question that Brazil could potentially ship significant quantities to the US market.** But for that to happen, specific conditions will need to prevail - namely a slowdown in China demand, Brazil’s key market. Last year Brazil established itself as one of the top suppliers to the Chinese market. According to USDA, Brazilian beef exports in 2019 were 2.356 million MT on a carcass wt. basis. This is the equivalent of 5.2 billion pounds. Exports to China and Hong Kong accounted for 46% of Brazilian beef exports in 2019. In 2020 USDA is forecasting Brazilian beef production to be the equivalent of 23.3 billion pounds (carcass wt.) and exports are forecast to be 5.7 billion pounds. Compare this with forecasts for US 2020 beef production at 27.5 billion and exports of 3.3 billion. US beef imports in 2020 are forecast at 2.88 billion pounds, down from 3.05 billion in 2019. US imports from Australia are currently forecast to decline due to lower slaughter there. However, that may or may not happen depending on what happens with China beef imports. It is important to remember that last year China also emerged as the top market for Australian beef. New Zealand also shipped as much as 60% of its exports to China last year. Will they be able to do that again given the spread of Coronavirus and big hit to China’s foodservice demand.

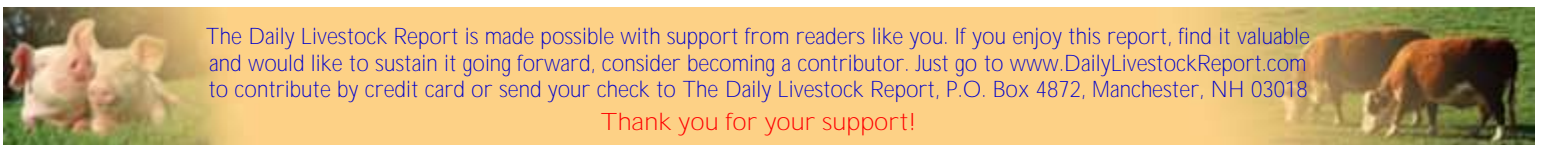
Brazilian Beef Supply: Domestic Consumption and Exports. In Billion lb. cwe
Source: USDA-FAS. Analysis by Steiner Consulting



CATTLE PRICES IN TOP BEEF EXPORTING COUNTRIES, US\$/100KG. Live Basis.



US beef imports are governed by a quota system, whereby a only a specific amount of product from some countries can enter at a low tariff rate. Some countries face no tariff (Mexico and Canada) and this year Central American countries also have gained free access as part of CAFTA. At this time Brazil has access to a quota allocation of near 65,000 MT that it shares with a few other countries. This is the equivalent of 195 million lb. on a carcass wt. basis. But Brazil can ship unlimited amounts if they pay the out of quota duty of 26.5%. They would likely not be willing to pay the higher tax if China demand holds up. But if it does not, where else will they go with their meat. Russia used to be a major customer but it’s purchasing power is usually a function of oil prices. Another factor to consider is **the value of the US dollar.** As the US dollar gains in value, it tends to offset the tariff. In the last 12 months the US dollar has gained 17% vs. the Brazilian real. Bottom line: **imports from Brazil may be limited in the very near term but could explode if global beef demand deteriorates.**



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