

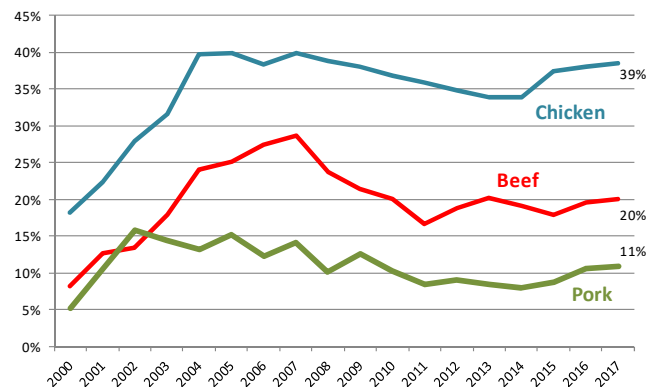
The scandal that has affected the Brazilian meat packing and processing industry in recent weeks continued to play out yesterday, with a number of key importing countries announcing that they would suspend, curtail or enhance inspections of meat from that country.

According to a report in the Wall Street Journal on March 17, "Brazilian authorities are investigating some of the world's biggest meatpacking companies for allegedly bribing food-sanitation inspectors to approve sales to domestic and foreign buyers of meats that might otherwise have failed to pass muster." The reason this is such a major issue is because it **brings into question the integrity of the food safety inspection a key global producer.** The most recent revelations are part of a widening corruption scandal in Brazil, a scandal that has involved some of the most powerful people and companies in Brazil. Remember that the Brazilian president was kicked out of office and the previous president has been charged with corruption. In recent years Brazil has emerged as the preeminent global supplier of red meat and poultry products, surpassing the United States. According to USDA data, exports of Brazilian chicken accounted for almost 40% of the exports from the major supplying countries. China and Hong Kong accounted for 18% of Brazilian chicken exports in 2016 according to USDA numbers. The top market by far was Saudi Arabia, followed by UAE, accounting for about a quarter of all Brazilian chicken exports. Similar to the US, Brazil also ships chicken to a number of smaller markets. As we noted yesterday, **Chinese officials at this point have suspended imports of Brazilian red meat and poultry and likely are waiting for more information to become available before they take further steps.**

South Korea also suspended imports from Brazil but more recent reports now indicate that the suspension has been lifted. The challenge for smaller markets is that Brazil represents a critical supply source. According to reports, about 80% of South Korean chicken imports come from Brazil. For countries in the Middle East, Brazilian beef and chicken also represent a critical supply, which may be difficult to replace in the very near term. Some Brazilian product may be significantly less expensive than US product or importers in those countries have not developed the relationships that would allow them to easily replace the product. In the case of beef, Brazil is the top global supplier, having surpassed both the US and Australia to grab the top spot. Brazil beef exports in 2016 were 1.850 million MT on a carcass weight basis (they are less on a product weight basis as the chart shows). Brazil beef exports in 2016 were estimated to be up 9% from the previous year in the latest USDA Post report. This is not an official statistic but matches up with the export data from Brazil. The chart to the right shows the key markets that currently are buying Brazilian beef. China and Hong Kong have emerged as the key destination, which is why the decision by China to suspend imports is critical. Brazil also is a key supplier of beef to the Middle East, with Egypt and Iran purchasing over 22% of all Brazilian exports in 2016. The EU has announced it was suspending imports from four facilities, according to Reuters. If the scandal widens, we could see EU authorities act more forcefully but for now officials want to be careful about disrupting trade. Brazil ships relatively little meat to the US. It is our understanding that at this point FSIS has moved to inspect 100% of all Brazilian product at the port of entry. Also Brazilian beef trimmings will be subjected to increased testing for E.coli O157:H7.

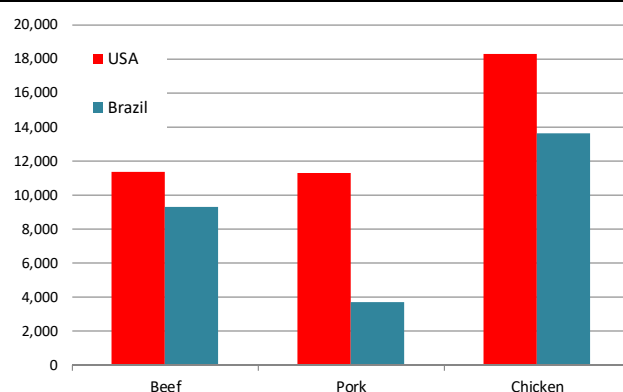
Brazil Exports as % of Exports from Key Global Suppliers

Source: USDA. Brazil Volume Relative to Exports from Other Major Global Suppliers



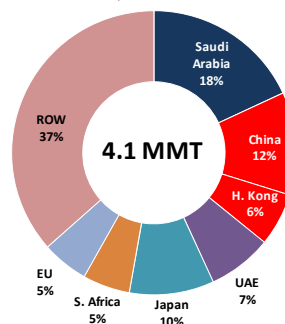
USA and Brazil Relative Production. 1000 MT. Carcass Wt. Basis.

Data Source: USDA. 2016 Projected Volume. Subject to Revision



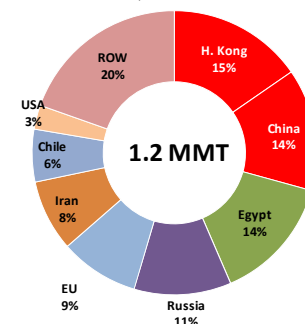
Brazil Chicken Exports in 2016

Source: USDA/GAIN Report. Based on Product Wt. Data



Brazil Beef Exports in 2016

Source: USDA/GAIN Report. Based on Product Wt. Data



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