

On Monday, the USDA [officially announced](#) the reopening of trade with Brazil, in the form of fresh and frozen beef. While the news release is titled, “USDA Announces Reopening of Brazilian Market to U.S. Beef Exports”, **the big news is the opening of U.S. markets to chilled and frozen Brazilian beef.** Brazil currently exports cooked and canned beef to the U.S., but this will be the first time since 2003 they will be allowed to export fresh product to us, pragmatically. Previously, fresh Brazilian beef had been banned because the country was classified as affected with foot-and-mouth disease (FMD). According to a risk analysis conducted by USDA’s Animal and Plant Health Inspection Agency (APHIS), the ok was given to initiate trade of fresh beef with Brazil based on the conclusion that risk to U.S. livestock was “low”. The APHIS report can be found [here](#).

Aside from the animal health aspects, with an increasing domestic cattle herd and therefore increasing supply of beef the other obvious concern is to what level will we import Brazilian beef and how will that impact our market? First, it is key to realize that as far as we can determine, the Food Safety and Inspection Service has not approved any specific Brazilian plants, yet, to export fresh beef to the U.S. This will have to be done before any fresh beef shipments to the U.S. take place.

Additionally, due to [Tariff Rate Quotas](#), Brazil will have relatively limited access to the U.S. market, at least for a few years. Tariff Rate Quotas (TRQ’s) are assigned to countries exporting product to the U.S., who do not have a free trade agreement with us. The basic definition of a TRQ is a certain country, or group of countries, can export fresh beef to the U.S. up to a certain volume limit, after that limit a hefty quota (tax) is applied to the beef making it relatively more expensive than other options. Since Brazil does not have a country specific quota to export to the U.S., they will be classified in the TRQ group labeled “Other”. The maximum volume of this TRQ group is 64,805 metric tons (mt). Approved countries without a country specific quota can ship under the “others” TRQ until the 64,805 mt is reached. The quota is first-come, first-serve for these countries. All imports within quota (country specific and other) pay 4.4 cents per kilogram beef exported to the U.S., except for Free Trade Agreement partners which are duty free. All fresh beef exports to the U.S., over quota limits, pay 26.4% ad valorem tax. The quota system does not apply to cooked/canned beef.

So what does this mean for Brazil? In 2015, 68% of the “other” TRQ was utilized by Nicaragua, Honduras, Costa Rica, and Ireland. For a very simple analysis this would have only left 20,738 mt of quota volume to Brazil. While this is an oversimplification due to the first-come first-serve nature of the quota, it demonstrates that Brazil will have competition in the quota space. Although the maximum limit of Brazilian beef exported to the U.S. could be 64,508 mt, based on

U.S. Tariff Rate Quotas and Imports of Beef in 2015						
Country	U.S. Imports <sup>1</sup>		Tariff-rate Quota	Quota Fill-Rate	Rate of Duty	
	Tons	Million US			Tons	In-Quota
Canada	199,190	\$1,102	Unlimited	N/A	0%	N/A
Mexico	136,104	\$1,002	Unlimited	N/A	0%	N/A
TRQ countries						
Argentina	0	\$0	20,000	0%	4.4 cents/kg	26.4%
Australia <sup>2</sup>	412,203	\$2,469	418,214	99%	0%	21.1%
Japan	183	\$15	200	92%	4.4 cents/kg	26.4%
New Zealand	209,768	\$1,163	213,402	98%	4.4 cents/kg	26.4%
Uruguay	19,760	\$238	20,000	99%	4.4 cents/kg	26.4%
Other <sup>3</sup>	44,362	\$240	64,805	68%	4.4 cents/kg	26.4%
<b>Total TRQs</b>	<b>686,276</b>	<b>\$6,227</b>	<b>736,621</b>	<b>93%</b>		

<sup>1</sup> Imports include fresh/chilled and frozen beef only. Prepared and processed products are not subject to TRQs. Volumes are published by Customs and Border Protection, value is published by U.S. Census Bureau.

<sup>2</sup> Australia's total TRQ includes a WTO quota of 378,214 plus an FTA quota of 40,000 tons. Excludes 4,000 tons at reduced tariff.

<sup>3</sup> Open to other countries that do not have a country-specific quota.

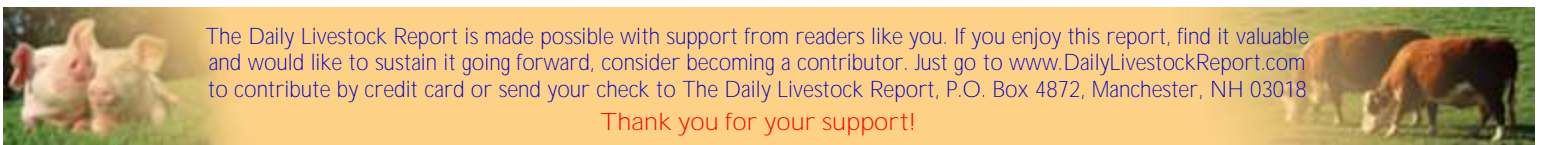
**Sources:** U.S. Customs and Border Protection; FAS Global Agricultural Trade System; U.S. International Trade Commission Harmonized Tariff Schedule 2015.

**Source: USDA-Foreign Ag Service**

market competition it is very unrealistic to think Brazil would overtake the full quota. Longer term (in 2020) these TRQ’s are scheduled to change, and could give Brazil a higher volume ceiling.

To put this in perspective, in 2015 the U.S. imported 570,740 mt of beef from Australia, 299,955 mt tons from New Zealand, and 285,036 mt from Canada (to name our top 3 sources) for an annual total of 1.5 million mt. This is to make the point that, in the near future, imports of fresh Brazilian beef should not have huge effects on the industry – not considering potential domestic livestock health risks. We would expect the majority of imported fresh beef from Brazil to be in the category of 90% lean beef, very similar to the product we currently import from Australia. The value of the real could make Brazilian beef rather competitive than Australian product, for U.S. importers. However, Brazil is a major exporter to both China and Russia and it is highly unlikely they would divert product away from those markets.

On the flip side, the Brazilian market will also be open to U.S. beef products. While their economy is currently in a downturn, in the long run there is potential for U.S. grain fed beef in the high end markets of Brazil as Brazilian beef is mainly grass-fed. In 2015 though, we exported a total of 134 mt to Brazil, making it our 60th largest customer, on a volume basis, out of the 123 countries we shipped beef to last year.



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