

MEAT INDUSTRY UNDER SIEGE

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RECESSION AND DROUGHT TOP ISSUES

- **Recession is deeper than forecast**
- **Severely impacts demand in U.S. and Asia**
- **Drought – cuts numbers in key beef countries**
- **Shrinking cattle herds – challenge for packers**
- **Trade barriers and bans disrupt global trade**
- **U.S. agriculture and meat industry under siege**
 - **from animal rights/welfare groups**
 - **from media and advocacy journalism**
 - **from proposed climate change legislation**

RECESSION REDUCES GDP

GDP Forecasts	June 2008 (1)	2009 (2)	2010 (2)
USA	- 2.0	- 2.6	+ 2.5
Canada	+ 2.1	- 2.2	+ 2.1
Mexico	+ 4.0	- 7.1	+ 2.8
Brazil	+ 4.0	- 1.0	+ 3.3
Japan	+ 1.4	- 5.5	+ 1.4
South Korea	+ 3.8	- 1.6	+ 2.1
China	+ 8.8	+ 8.1	+ 8.5
Australia	+ 2.3	+ 0.5	+ 2.0

(1) Oxford Economics – forecast for 2009

(2) Economist Intelligence Unit, Sept 17, 2009

Brazil has positive growth already

Real appreciates 29% v. US dollar this year

BEEF DEMAND PLUMMETS

- **GDP declines shrink world trade 6% in 2009**
- **U.S. beef exports down 13% so far in 2009 v. 2008**
- **Americans lose \$14 trillion in equity. Millions lose their jobs. Become savers not spenders**
- **People eat out less, trade down in meat buying**
- **Middle meats at historic lows to end meats**
- **U.S. total demand in current quarter down 15%.
Down 10% for year on 2008 – back to 1998 level**
- **Weak demand in Japan and South Korea hurts
Australian and U.S. exports**

RECOVERY IN 2010?

- **Recovery in beef demand in U.S. will be much slower than recovery in the overall economy**
- **Biggest issue is JOBS – unemployed + under-employed = 16.8% of workforce**
- **Record 35.1M (1 in 9 people) people on food stamps in June. Up 6.9M from June 2008**
- **Affects McDonald's U.S. sales – up only 1.7% in August. Takes bite out of breakfast sales**
- **Consumer spending = 67% of U.S. GDP**
- **Confidence in the economy and an increase in spending is key to beef**

DROUGHT REDUCES CATTLE NUMBERS

	2007	2008	2009
• INDIA	282.000	281.700	281.400 -0.1%
• BRAZIL	173.830	175.437	179.551 +2.3
• CHINA	104.651	105.948	106.123 +0.2
• EU-27	88.463	89.043	89.402 +0.4
• ARGENTINA	55.664	55.662	54.760 -1.6
• AUSTRALIA	28.400	28.040	28.580 +1.9
• GLOBAL	992.519	988.596	980.776 -0.8

Source: USDA

LITTLE GROWTH IN SOUTH AMERICA

- **Brazil, Argentina, Uruguay: 237M head in 2009. Up only 0.2% from 2008**
- **Argentina: Hurt by government controls and drought. 1M plus die in drought. 3M fewer calves will be born in 2009 (11M v. 14M). Herd may fall 5%**
- **More cattle fed due to drought, subsidies and grain production on former pasture. 2M head on feed, turnover of 6.5M in 2009. Short-fed though**
- **Uruguay also affected by drought: 11.5M head in 2009, down 2%, down more in 2010**
- **Brazil offers only real increase. Has 170M cattle today, says AgraFNP. Some say 173M. May increase by 13M by 2017, says Agra FNP**

JBS SPENDS BOLDLY

- **Oct 2008: JBS buys Smithfield Beef Group for \$565M**
- **Feb 2009: Ends \$970M deal to acquire National Beef**
- **July 2009: Files for a \$2 billion IPO for JBS USA.**
Says it will move into consumer-ready meats and direct distribution, and spend \$500M on CapEx
- **Sept 16 2009: Acquires 64% of chicken processor Pilgrim's Pride for \$800M in cash. Opportunist JBS sees value in fourth protein, more foodservice customers**
- **Sept 16 2009: Acquires 60% of Bertin in all-stock deal**
- **JBS will become largest meat/poultry company in world**
- **Expect more acquisitions – lamb may be next**

MARFRIG PLAYS CHICKEN

- **Marfrig grows even more rapidly. Makes 35 acquisitions in 2006, 2007 and 2008**
- **July 2008: Marfrig buys OSI's Brazil/EU operations**
- **August 2009: Marfrig ends talks with Bertin to form Brazil's largest beef processing operation in Brazil**
- **Sept 14 2009: Marfrig agrees to buy Cargill's Brazilian poultry & pork business for \$900M (\$706M in cash and \$194M in debt). Cargill paid \$130M for Seara in 2004**
- **Seara will make Marfrig Brazil's second largest poultry processor. Is second largest to JBS in beef**

GLOBAL TOP FOUR

JBS:	Cattle	90,400 per day
	Hogs	48,500 per day
	Lambs, etc.	16,500 per day
	<u>Chickens</u>	<u>40M per week</u>
Cargill	Cattle	39,300 per day
	Hogs	36,000 per day
	<u>Chickens</u>	<u>Unknown</u>
Tyson	Cattle	29,200 per day
	Hogs	74,300 per day
	<u>Chickens</u>	<u>42.5M per week</u>
Marfrig	Cattle	21,100 per day
	Hogs	4,200 per day
	Lambs	8,400 per day

SHRINKING NORTH AMERICAN HERD

	<u>2008</u>	<u>2009</u>	<u>2010</u>
U.S.	96.035	94.491	93.5
CANADA	13.895	13.180	12.5
MEXICO	26.725	27.132	27.0?

- **U.S./Canada numbers down 3.9M in 2 years**
- **Mexican numbers are lower – driest in 68 years**
- **Canadian imports down 30% this year, partly due to MCOOL which Canada/Mexico challenge at the WTO**

U.S. OVER-CAPACITY

- **U.S. cattle decline 2008-2009 of 2.5M = throughput of two 5000 head per day plants**
- **Tyson removed 7300 head per day over 2 years but industry still has over-capacity**
- **Packers though manage margins, give up market share battle. Run only five days per week**
- **U.S. herd reduction will continue. Down another 1M head in 2010 from 2009**
- **Expansion won't show up until 2013 at earliest**

WEIGHTS BALANCE CATTLE DECLINE

- **U.S. has smallest herd in 50 years – 40M fewer cattle than in 1975**
- **But produced record 12.33 billion kg (27.2 billion lbs) of beef in 2002, will produce 11.74 billion kg (25.875 billion lbs) this year**
- **Reason is productivity gains and heavier carcasses. Will be record heavy very soon**
- **Record: Overall 361 kg (796 lbs), steers 392 kg (865 lbs), heifers 363 kg (803 lbs)**

LESS PER CAPITA BEEF

	<u>2009</u>	<u>2010</u>
Production (billion lbs)	25.875	25.140
Exports	1.719	1.845
Imports	2.834	2.975
Disappearance (lbs per head)	61.8	59.7

- **Lowest disappearance in at least 50 years**
- **Americans will eat more chicken and pork**

TRADE ISSUES PERSIST

- **Tariffs remain in many markets**
- **Japan is unlikely to relax age restriction on U.S. imports. It limits 2009 shipments to 20% of 2003**
- **Korean consumers have lingering fears over BSE**
- **U.S. gains 3-year, 20,000 MT tariff-free EU quota. Might ship 12,000 MT in first quota year**
- **Strong Australian dollar hurts its exports. Hits 87.29 v. US dollar Sept 16, its highest level since Aug 22, 2008**
- **Russia continues to play the ban game to protect its growing domestic production**

U.S. INDUSTRY UNDER SIEGE

- **Advocacy groups, media and politicians all threaten to undermine agriculture**
- **Agriculture for years had Washington's ear**
- **Obama's is first truly urban Administration**
- **Big buzzword is sustainability - eating local**
- **Being driven not by liberals but suburban America**
- **Suburbanites act as food and grower police**
- **Danger is that they have ear of politicians**
- **Yet most Americans are middle-class or lower who clip food coupons and buy 99 cent burgers**

(Source: Chandler Keys, JBS USA)

PRESSURE ON PRACTICES

- **Cul-de-sac consumers push animal welfare**
- **Support HSUS, Farm Sanctuary, Dust Police**
- **Groups have annual budgets of \$300-500 million**
- **Goal - end animal agriculture, non-meat agenda**
- **All use “factory farming” term in attacks**
- **HSUS and Farm Sanctuary focus on law-making**
 - **state ballot initiatives and federal legislation**
- **They win restrictions on hog farming in Florida, Arizona. Next is Ohio, poultry in California. Latter threatens state’s \$337 million egg industry**
- **HSUS owns shares in 19 food companies – starts campaign of shareholder resolutions**

MEDIA BUYS IN

- **Print and broadcast media buy into sustainability argument and attack modern agricultural practices**
- **Activist documentary *Food, Inc.* plays in movie theaters. Perpetuates factory farming image**
- **TIME's August 31 issue has cover story "*The Real Cost Of Cheap Food*"**
- **Cover shows ground beef with a label: "*This hamburger may be hazardous to your health.*"**
- **Industry makes people available for author, to no avail. Author admits he's not interested in balance**
- **Dangerous new wave of advocacy journalism masquerading as news reporting**

CLIMATE CHANGE

- **Global warming pushes governments to act**
- **2006 UN report “*Livestock’s Long Shadow*” asserts that livestock are responsible for 18% of world’s greenhouse gases, cause more than transportation, cause 40% of all methane, 65% of all nitrous oxide**
- **But U.S. Environmental Protection Agency says livestock create less than 3% of U.S. global warming-related emissions. Agriculture as a whole emits only 5.8% of the nation’s emissions**
- **Brazilian beef companies sign “no rainforest beef” pacts**

LAWS ALARM INDUSTRY

- U.S. House in July passes *The American Clean Energy and Security Act of 2009*
- Includes cap-and-trade provisions
- Food industry – Cargill, Tyson, General Mills - worries about cost to them
- Concerned that bill doesn't provide sufficient incentives for food and agricultural companies to generate carbon credits to offset emissions
- Meat industry worries that legislation will restrict livestock operations' ability to create credits
- Australia's *Carbon Pollution Reduction Scheme* raises similar concerns for red meat industry

SIEGE WILL CONTINUE

- **Scrutiny as to how food is produced will intensify in the U.S. and elsewhere. What irony as more people struggle to feed themselves**
- **Climate change laws will put more pressure on livestock and meat industry worldwide**
- **Global beef demand will improve only slowly**
- **Job creation remains key issue in U.S. market**
- **Trade disputes will continue to disrupt the orderly flow of meat and poultry globally**
- **Drought will continue to reduce cattle numbers**
- **Beef will lose share to pork and chicken**