“Dynamics of the Global Poultry Market”

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President, AJC International, Inc.
3 Factors effecting the USA Broiler Industry

• USA is producing too much Commodity dark meat
• Brazil is taking export market share
• USA is losing access to markets
World Broiler Production
Leveling off

But dominated by 4 Players

Top 4 have 70% share

Source: FAO /USDA / FAS
USA & Brazil dominate Exports
Year 2003 Forecast World Share of Exports

Brazil
28%
1.68 mmt

Rest
4%
.24 mmt

Thailand
7%
.48 mmt

China
6%
.40 mmt

United States
42%
2.47 mmt

Europe
12%
.78 mmt

Source: FAO /USDA / FAS

USA/Brazil have 70% share
<table>
<thead>
<tr>
<th>Country</th>
<th>Plant Labor Cents / Lb</th>
<th>Feed Cents/ Lb</th>
<th>Total RTC cost/ Lb</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>.08</td>
<td>.13</td>
<td>.44</td>
</tr>
<tr>
<td>Brazil</td>
<td>.03</td>
<td>.11</td>
<td>.30</td>
</tr>
<tr>
<td>Europe</td>
<td>.10</td>
<td>.17</td>
<td>.54</td>
</tr>
<tr>
<td>Thailand</td>
<td>.04</td>
<td>.15</td>
<td>.43</td>
</tr>
</tbody>
</table>

Source: Dr. Paul Aho
# Actual Price Comparisons

week 02/17/03  US cents/ lb FOB origin port

<table>
<thead>
<tr>
<th>Product/Country</th>
<th>USA</th>
<th>Brazil</th>
<th>Europe</th>
<th>China</th>
<th>Thailand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bls Skless Breast Meat</td>
<td>1.40</td>
<td>.55/.90</td>
<td>1.50</td>
<td>.43</td>
<td>.80</td>
</tr>
<tr>
<td>Grade A Broilers</td>
<td>.55</td>
<td>.285</td>
<td>.54 (.34 w/rst)</td>
<td>.45</td>
<td>.54</td>
</tr>
<tr>
<td>Chicken Leg Quarters</td>
<td>.20</td>
<td>.25</td>
<td>.28</td>
<td>.29</td>
<td>.29</td>
</tr>
<tr>
<td>3 Jt Wings, 80 grams</td>
<td>.45</td>
<td>.27</td>
<td>.30</td>
<td>.63</td>
<td>.66</td>
</tr>
</tbody>
</table>

Source: AJC International
USA Broiler production: even at 2% growth – it’s too much dark meat

Source: USDA/FAS
USA Broiler Market Segments

Source: Dr. Paul Aho
## USA Chicken - Market Trends

Billions of Head

<table>
<thead>
<tr>
<th>Year</th>
<th>Fast Food</th>
<th>Deboned</th>
<th>The Rest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>0.6</td>
<td>0.4</td>
<td>3.2</td>
<td>4.2</td>
</tr>
<tr>
<td>1985</td>
<td>0.8</td>
<td>1.0</td>
<td>2.6</td>
<td>4.4</td>
</tr>
<tr>
<td>1990</td>
<td>1.3</td>
<td>1.7</td>
<td>3.1</td>
<td>6.1</td>
</tr>
<tr>
<td>1995</td>
<td>1.5</td>
<td>2.3</td>
<td>3.2</td>
<td>7.0</td>
</tr>
<tr>
<td>2000</td>
<td>1.7</td>
<td>3.3</td>
<td>3.4</td>
<td>8.4</td>
</tr>
<tr>
<td>2025</td>
<td>2.0</td>
<td>5.5</td>
<td>3.5</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: Dr. Paul Aho
This means industry has to move over 6 billion BIG chicken leg quarters domestically or in the export market in year 2003.
USA Chicken Leg Quarters
It’s a commodity

- Represents over 1 million metric tons of our exports
- Appeals to emerging market’s need for cheap protein
- Bulk packed and cheap
- Primary consumer appeal is price
- Product and market eventually evolves
- USA gets out priced for more sophisticated product, i.e. Japan Leg meat
Brazil is blowing the doors off production!

Source: USDA/FAS
Brazil's Exports are growing rapidly

Exports grew 21% in 2002

Source: USDA / FAS
Brazil’s Major Markets

CY 2002

Source: FAO / USDA / FAS

- Middle East: 31%
- Russia: 18%
- Japan: 11%
- China: 9%
- Europe: 17%
- Mercosur: 1%
- Rest: 14%
2003 Forecast World Broiler Import Demand

- Rest world 22% 1.000 mmt
- EU 15 13.4% .600 mmt
- Mexico 6% .290 mmt
- Japan 15.6% .700 mmt
- Russia 29% 1.285 mmt
- China 13.2% .600 mmt

Source: USDA / FAS
Russia

- Import quota May 1
- Plant certification deadline June 1
- Import dependency 68%
- Production growing at 15% + year
- USA considering Safeguard action

Source: USDA / FAS
China

- Production growing @ 1%
- Exports growing slowly
- Imports not growing
- Import dependency falling to 11%
- Importing more difficult after WTO
- Will be self sufficient over time except for paws

Source: USDA / FAS
Mexico

- Mexico growing production @ 5%
- Imports growing @ 13%
- Import dependency around 10%
- Safeguard action avoided
- Taking a hard line on AI, Listeria, etc.

Source: USDA / FAS
We talked about 3 key issues

- Too much dark meat
- Brazilian competition
- Market access
We Must Take These Issues Seriously

- The export market cannot absorb more Commodity leg quarters without help.
- The Russians will limit poultry imports.
- Brazil needs to grow poultry exports.
- Food safety issues have become non tariff barriers.
- The USA is fighting multiple market access issues at the same time.
What can we do about it?

- Cut Broiler production
- Develop more dark meat products for domestic market
- Open new markets like Cuba
- Take food safety issues seriously
- Take Safeguard action against Russia
- Support government backed financing and credit insurance for emerging markets.
- Fund aggressive industry fight for market access & political support.