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GETTING ACCESS INTO THE EU MARKET: A COORDINATION CHALLENGE FOR THE BRAZILIAN BEEF CHAIN

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RESUME

Brazil is the world beef export leader since 2004, when the Bovine Spongiform Encephalopathy (BSE) crisis in the United States and the severe draught in Australia dropped those countries beef exports and gave Brazilian beef chain a unique opportunity to enter in new markets. Brazil is facing now a major challenge in terms of aggregating value, since its export volume is already stabilizing. The European Union (EU) represents the most demanding market in terms of quality and one in which Brazil can get a better remuneration for its products, as long as the country beef chain can develop new relationship strategies to provide such a specific product. This study aims to present some trends in the European market as well as to discuss them as opportunities for the Brazilian beef chain, especially in terms of coordination forms, following New Institutional Economy principles. It shows that new forms of relationship within the network are emerging (like alliances and associations) and that new strategies should be focused on the consumer desires.

Key words – beef chain, Brazil, relationship strategies, coordination forms.

INTRODUCTION

Relying on a pasture grazing system, low relative land and labor costs, Brazil is one of the main beef exporting countries and has one of the lowest production costs in the world. The industry is starting to assume a more professional management, in contrast with the familiar management that was typical for long time (even though there are a lot of different realities in the country).

Leading and exporting to more than 140 countries in 2004 (ABIEC, 2004), its biggest challenge now is to get improve and access into the more demanding ones, like the EU, Japan, South Korea, the USA and Canada, and also add value to its products, since the Brazilian exports growth was based on its price competitiveness. Brazilian beef exports are progressively emphasizing the high value of the products.

The EU is an important high-priced niche for Brazilian beef. According to the Alice system/MDIC, prices for Brazilian beef in EU were 117% higher than in APEC (Asia-Pacific Economic Cooperation) countries destinations and 23,4% superior to Eastern European countries in 2004.

According to Switala and O'Sullivan (2003): "Although in some markets Brazilian beef is known as a low quality product, it has been successful in markets such as the Middle East and Germany, as devaluation of its currency increased its competitiveness and consumer preferences shift to grass-fed beef. Brazil has also increased exports to Portugal and Italy at the expense of Argentina, which has had to contend with a significant FMD outbreak. In Portugal, Brazilian companies have direct channels to supermarkets and have developed tailor-made private label products."

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The beef industry is always under evaluation, not only in prices, but also in quality aspects, certification, grading process, standardization, which demands a continuous investment on relationship, and a permanent discussion about the information process, market, sales, financial aspects, logistic aspects, quality programs, offered services and so on. And with the perspective of an increase of the Brazilian beef market-share in the main beef markets, those requirements will be even more demanding and necessary to achieve a sustainable growth.

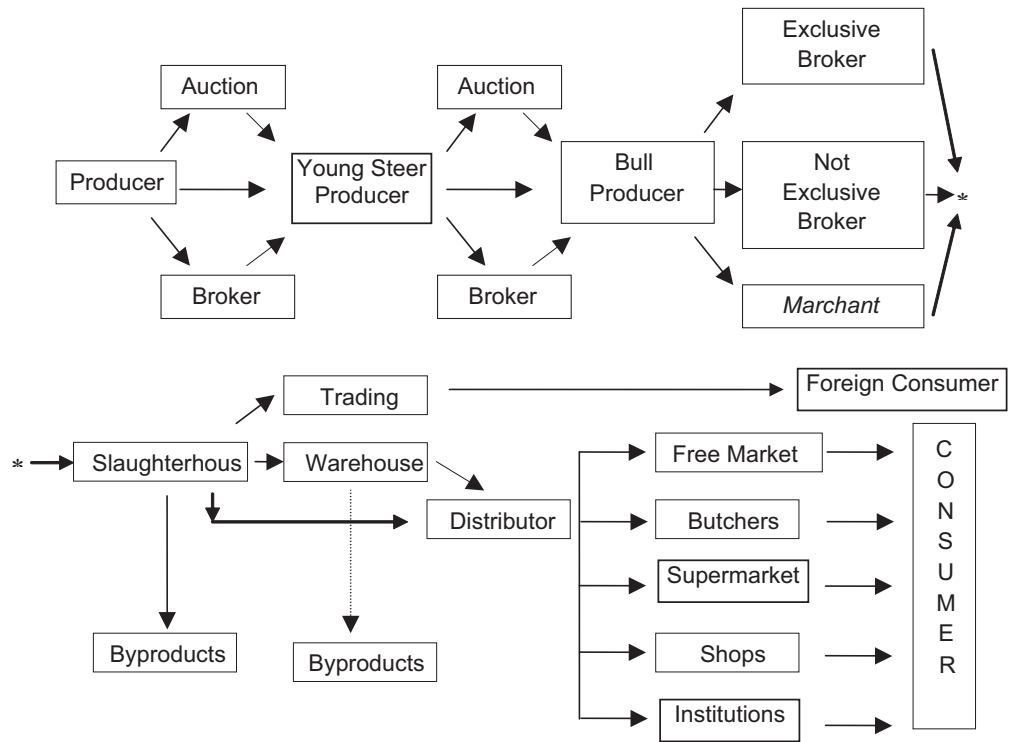
One of the features of Brazilian beef chain is the weak coordination in most of its segments (Figure 1 shows the complexity of the Brazilian beef system). It is not usual to find contracts between cattle farmers and slaughterhouses or even between these ones and the retail segment. This makes it more difficult to the chain as a whole adjust to the new international requirements for beef products, like traceability, certification systems and so on.

Nowadays, government and industries work together to meet the requirements for sanitary measures and to develop marketing programs, with brands such as “Brazilian Beef”. But it is clear that some new forms of dealing with the relationships among segments will have to be established to consolidate this process.

With BSE in Europe, Canada, USA, Japan and other countries, the EU started to demand a beef chain traceability system from its importing countries as well as transgenic products control and a general demand for safety and healthy food.

Over time, the trend of decreasing the small area farms production under set-aside schemes may gradually reduces beef production within the existing EU countries. The amount of import dependency in the future will depend upon the degree of increased demand within the Mediter-

Figure 1 – A proposal for the Complete Beef Agro-Industrial System.



Source: Pessina, 2003.



European countries offsetting the decreased demand elsewhere within the existing EU countries.

According to Switala and O'Sullivan (2003), "food safety is a major consumer concern and will continue to be. In the medium term, concerns about health and fitness, and animal welfare, are likely to reduce beef consumption in a number of EU countries (with the exception of Mediterranean countries)". However, new niche market opportunities are evolving for Brazilian's high-quality beef and value-added beef products within the New Member States (NMS) like Poland and the Czech Republic, and also old EU member states.

This means that new kind of relationships within the Brazilian beef chain agents and the European beef agents must be built up in a more integrated way. Till now, Miranda (2001) has shown that most times Brazilian *in natura* beef has been sold in European countries with no brand, what means that no price advantages can be achieved by differentiation even though this beef has a good quality. Particularly, the author recognized a price competition between Argentinean and Brazilian beef for the European market.

More than having quality, it is essential to convince the foreign consumer about this quality and to have institutions to do that. This is one of the most important roles that have to be assured by government. The private system has to get improvements, to work with certification whenever it is necessary and has to count with the public sector to guarantee the institutions to help them and to support, regulate and to inspect the system in order to provide a trustful process in food safety.

Though, this brief diagnosis shows that the coordination of the beef sector in Brazil and marketing channels efficiency are extremely important to assure competitive advantages for agribusiness companies and keep the country in the leader position on the international beef market.

OBJECTIVES

This study proposes to discuss some changes faced by the Brazilian beef chain coordination as well as new trends in the European beef chain, discussing them as opportunities and challenges for the Brazilian beef sector, according to the New Institutional Economy Theory.

Theoretical perspectives

According to Zuurbier (2000), the main components of the supply chain are the inter-organization relations, commercial process, deficiency and value adding, functions integration and activities as marketing, logistic, information systems integration, planning and control or product development.

According to Duivenboden (in Camps et al, 2004), certain links of the policy chain should be separated from the vertical and hierarchical organizational structures that incorporate all or nearly all government agencies that are needed to fulfill specific public tasks. He said that the importance of chain management has increased with the popularity of separating policy implementation responsibilities and, with that, the ongoing privatization of government agencies has altered the nature of collaboration in the public domain. According to the author, more than ever, the emphasis is laid on directing, preconditioning and supervising roles instead of on regulating, implementing and enforcing laws and regulation in detail.

According to Besanko et al (2004), the firms usually rely on contracts with detailed description of the desired products and procedures negotiated in order to assure coordination. They believe that if a supplier fails to meet the targets specified, a penalty must be imposed and, in the other hand, if they surpass expectations, a bonus should be guaranteed. They also affirm: "Firms may assure coordination in the vertical chain by relying on merchant coordinators, independent

firms that specialize in linking suppliers, manufacturers, and retailers”.

Institutional factors are very important for meats, especially when talking about the new food safety requirements. Tracking systems, accreditation and certification are necessary to explore the advantages Brazil already enjoys. But according to Farina & Nunes (2004), the big obstacle to the implementation and diffusion of those practices is more related on cultural than technological aspects, but it also depends on the State's action and reputation, once sanitary standards equivalence agreements have to be accomplished by the Government, although it has the support of private companies.

North (1992) assumes that institutions constitute the “rules of the game” in a society. According to Saab (1999), they represent the limits imposed by the human being to rule human interactions, and consequently, they structure incentives of political, social and economic nature. “An institutional environment that offers low transaction costs makes it viable the existence of efficient markets for products and factors necessary to economic growth” (Saab, 1999).

As an example of an alliance, Saab (1999) mentions the alliance coordinated by Fundeppec, involving the large retail groups Pão-de-Açúcar and Cândia, the Bertin Slaughterhouse Industry and about 150 cattle producers. In such a case, the alliance intended to guarantee all the initial quality of the product, and specially the goods traceability system within the whole chain, which demands high level of coordination and interdependency. Market alliances promote interaction among the parts involved in commercialization, with gains and also commitments for the entire participant, in order to guarantee the expected conditions of the product to the final consumer.

DISCUSSION

The development of private and governmental agencies in coordinating the chain, considering sanitary problems, monitoring and promoting Brazilian beef as a whole in the market, is very important to attend the demand in terms of quality, traceability, standardization, certification, and promote the region insertion in global beef trade.

The governmental regulations about quality and food safety, as obligatory standards definitions, should speed up the process of high quality products. According to Zylbersztajn and Machado Filho (2000), “search for quality, from the producers, slaughter and distribution agents, has been managing Brazilian beef chain agents efforts”. But they highlight: “The success of such a system depends on how will occur benefits and costs distribution between the different agents of the chain. The results of efficient coordination mechanisms involving logistic and production technology (genetic, age, non hormone adoption, and others) still should be harvest”.

The Brazilian industry has already consolidated some organizational forms, as ABIEC – Brazilian Beef Export Industries Association, Brazilian Slaughterhouse Association (ABRAF-RIGO), the Brazilian Zebu Raising Association (ABCZ), the Brazilian Angus Raising Association (ABA) and the Brazilian Agricultural Association (ABRAPEC). Nowadays, cattle producers are becoming more professional, adopting technologies that allow them to produce all year long, reducing seasonal price fluctuations. Moreover, it has been using more price warranty mechanisms (like BM&F hedge system). But the relationship between the producer and the processors remains the same: The producers, in a large number, are still taking prices from buyers who are getting stronger and more concentrated.

Sarto et al (2004) showed that additional costs of implementing traceability system were all imposed on the producer's expenses, with no additional gains. According to Pineda (2003), the low coordination in the beef chain has as a main consequence the poor traceability system of the products.



Figueira and Miranda (2004), studying a specific slaughterhouse case verified that the traceability implementation did not make changes in the relationship between slaughterhouses and producers. The slaughterhouses have sponsored this process, however no contractual relation was adopted between producers and the slaughterhouses. The same authors also state that the positive results of the traceability system described by Pineda (2003) for the beef chain, related to quality increase, vertical alliances creation and better management practices in the production sector is still far from what occurs in the case study.

Pitelli (2004) states that although this superior level in requirements changed the institutional environment in the EU, and consequently promoted changes in the Brazilian one, they have no significant impact on the governance structure of the beef chain transactions. Market still has the most important influence on negotiations among producers, slaughterhouses and internal consumers. He also observed a vertical integration process going upstream, towards risk reduction vis-à-vis the European demand.

Figueira & Miranda (2004), discussing about the problems of the beef chain, mentioned that Jank (1998) highlighted that the biggest obstacle to the national cattle productivity was related to the poor relationship between producers and slaughter industry, and also from the last one with the retail sector. The future of the beef chain in Brazil is directly connected to the development of most efficient contracts among its agents (producers, slaughterhouses and retailers), starting from the consolidation of new payments criteria – carcass classification and grading, planning of slaughter volume, etc. This new criteria will allow the beef chain to work successful within the new strategies of product differentiation.

According to Pitelli (2004), the beef agricultural chain features are low coordination, mainly because of conflicting interests in its several segments.

The increasing requirements of European consumers related to food safety lead to changes in the institutional and organization environment in Brazil. Many changes were conducted, for example, the adoption of Hazard Analysis and Critical Control Points (HACCP), traceability, quality programs, good practices in fabrication and others that took the beef sector to modernization through technological investments. Though, for Pitelli (2004) this increased the specificity of the assets employed in the activity, implying to a higher dependency among agents.

Recently, some initiatives are emerging from the producers to concentrate sales and to produce according to the slaughterhouse needs. It is a strategy that can lead to better prices to the producers and better carcass to the processing industry, transformed in higher quality and standardized products. Bigger investments on chain coordination are necessary according to the consumers demand for quality product, like traceability and HACCP methods.

CONCLUSION

In order to fulfill the new demand requirements, the Brazilian industry requires integrated chain production and information systems. The aggregating value process in the beef chain is an effort that needs the cooperation and organization of the whole chain. This means that a more vertical integrated system is required to aggregate value in the process. In more demanding markets, mainly international markets, vertical alliances seems to be an interesting solution, but very demanding in coordination structures.

With growing importance of pre-packed and ready to eat products, there is an increase in the market power of the supermarkets and catering (the retail sector is concentrating), where these products are primarily sold. Branding is one strategy to reach added value and a guaranteed market-share in a saturated European beef market. That can be made by alliances and partnerships with the retail.

Access to retail and food service nets can help break the protectionism of the European market, for the retailers are interested on safer products with competitive prices to satisfy the European consumer. An interesting strategy that can be pursued by processors is to be the preferential supplier of their retailers. This enables them to do business directly with sales markets and to have access to higher margins. By the other hand, it does make the company more vulnerable to changes in its relationships. An own brand, for example, being insensitive to these kind of changes can be a solution.

A chain organization may be the best way to assure quick answers to changes in the consumer's demands. Brazilian beef industry should focus on long-term gains and commitment. Buy and sell risk process reduction and transaction costs reduction, longer-term contracts and better communication are also extremely necessary to achieve and keep a sustainable competitiveness. Brazilian industries must comply very strictly with what was negotiated with their clients, offering them services on time, involving the training and external contact staff capacity, operational support and industry capacity to innovate. This can be achieved by alliances, production pools, cooperatives and other organization forms.

The world market is segmented, with regional preferences, which implies the adaptation of cuts and beef weights, besides some specific demands regarding the slaughtering process and carcass manipulation. In-depth knowledge of markets is the key variable for competitiveness. The good performance of the industry is strictly depending on the capacity of firms to understand and articulate answers to the changing demands of consumers.

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