



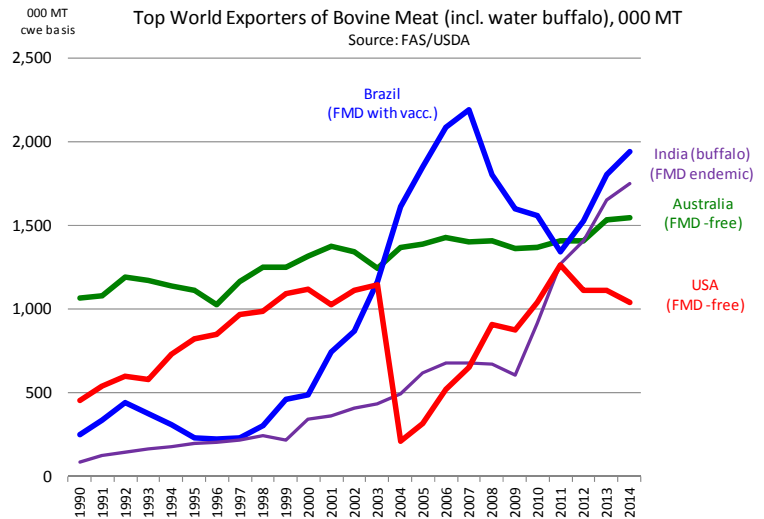
All of US at Paragon Economics and Steiner Consulting Group wish you a Happy, Healthy and Prosperous 2014!

CME New Year 2014 Holiday Hours

Tuesday, Dec 31: Regular close
Wednesday, Jan 1: New Year's Observed—Globex Closed
Thursday, Jan 2: Regular close

The day before Christmas Eve (December 23), USDA published in the Federal Register **a proposed ruling that would open the door to the importation of beef from a number of Brazilian states into the US**. The announcement follows a risk assessment conducted by APHIS (Animal and Plant Health Inspection Service), which concluded that “fresh (chilled or frozen) beef can be safely imported from those Brazilian States provided certain conditions are met.” For those that want to read the entire notice published in the Federal Register, [please click here](#). Note that all those that wish to submit comments to USDA regarding this issue may do so until February 21, 2014.

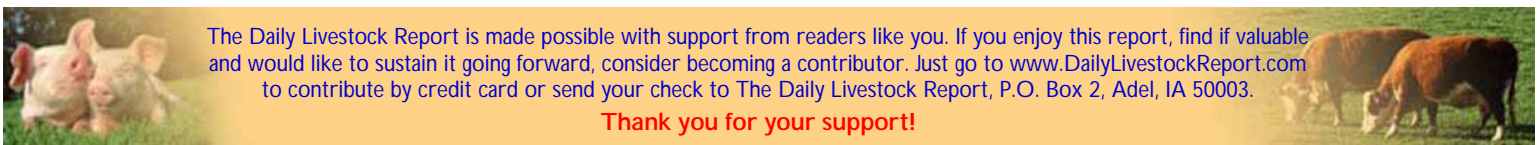
The main question we have received regarding this ruling is: So when will Brazil start shipping beef to the US and what kind of tonnage are we looking at? The reality is that no one really knows the answer to the first part of the question, not even USDA. Remember that USDA published a similar notice in the Federal Register on January 5, 2007 regarding beef imports from the Patagonia South region of Argentina. It was the first time that USDA had considered approving beef imports from a region of a country that had FMD. Six years later, we have yet to see any beef enter the US from that region. While USDA has tried hard to make sure that terms of trade are guided by science, some issues are inherently political and need to be resolved politically. There is a wide range of groups that are opposed to the opening of the US market to Brazilian beef, a country that does have FMD but controls it through vaccination. Those groups need to be convinced that the science guiding the USDA analysis is sound. It is not an easy thing to accomplish. FMD has no impact on human health but it is a scourge for the cattle industry. Furthermore, the moment a country loses its FMD-free status, it dramatically impacts its export outlook. Part of the reason US and Australia have been able to compete successfully in some markets (Japan for instance), is because they enjoy FMD-free status. A recent report



from Australia indicated that their industry could lose as much as \$50 billion over 10 years if FMD entered their herd. Producers in FMD-free countries are scared to death of FMD and this in the end informs the politics of the issue.

As for the supply of beef that Brazil could bring to the US, it would be relatively small. Keep in mind that Brazil does not have a specific TRQ (tariff rate quota) allocation, which means its product would enter the US using the “other country” quota allocation, about 64,805 MT. They would compete with Central American countries for this quota and we think Nicaragua and Honduras would be able to compete relatively successfully with Brazil on price. It is unlikely, in our view, that Brazil would bring significant quantities out of quota given the 26.4% tariff. Brazil beef is no longer cheap. Brazilian producers now have access to a number of countries that are willing to pay more than the US. Russia has become increasingly dependent on Brazilian beef now that they decided to even cut off Australia as a supplier. Hong Kong and the Middle East rely heavily on Brazilian beef.

We will keep an eye on this issue as it develops but at this point we think that whichever way it is resolved, the immediate impact of Brazilian beef in the US beef supply picture could be very limited.



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