Global Beef Market Outlook

Selective update – new GMC forecasts to be released on Dec 11\textsuperscript{th} 2015

for

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Global meat demand overview

Global beef outlook

Conclusions for the Colombian cattle sector
2015: overall global meat market characteristics

December 2014 GMC forecast for profit consolidation in a year of low feed costs … for most, but not all!

- **2013: year of production caution:** high feed cost (2012 US heatwave)

- **2014: year of contradiction:** disease & political disruptions … very profitable for many
  - especially US (and CA) with record prices and falling costs … also AU, BR
  - but not for EU, nor CN

- **2015: year of consolidation:** Economic growth should be better: but much more risk than prior years
  - Political instability … and weaker commodity markets
  - RU economic crisis: threat to import volumes and origins … and global prices.
  - Signals of CN slowdown.

- Modest 1.3% global meat production & consumption growth
  - Continued tight supply situation of BF and SH: but growing PK and PY supply
  - still at lower rate than historical average

- Continued low feed costs
World meat consumption, 2010-2015f

Modest 2014/15 growth: less than expected due to disease and disruptions

World Meat Consumption, 2010-2015(f)

- **Chicken** continues to grow most … followed by pork
- Gira’s mid-year view is that growth may be slightly higher than this Dec14 GMC forecast
International meat trade volumes
2014: overall trade growth (with IN buffalo), but disrupted PK & PY
2015 will be short of BF & SH supply, but better for PK & PY

Gira’s mid-year view is that growth may be slightly lower than this Dec14 GMC forecast
2015 mid-year update on global meat market

Meat market ‘wobbles’ in a very uncertain world … stretching into 2016

- **Slightly weaker economic growth** than expected; **continued strong USD**
  - Low oil prices: negative impact on the oil exporters’ economy and currency (RU), but more positive for consumer disposable income in many other parts of the world
  - Chinese slowdown
  - Greek financial crisis: risk of banking contagion in other vulnerable EU countries
  - **Brazilian economic downturn** and currency devaluation:

- **Weaker meat import demand** than forecast
  - Russian imports below forecast: mainly due to the RUB devaluation
  - Chinese imports tempered by low domestic pork prices:
  - Stronger USD than expected: leading to US import ‘pull’, export ‘squeeze’

- **Global meat production & consumption growth:** slightly higher than +1.3% forecast
  - US Pork and chicken growth: more like +5%, than the +3.3% forecast

- **Lower meat prices than expected:** except US cattle and beef, RU prices (in RUB)

- **Continued low feed costs:** … but with mounting concerns for El Nino impact (AU, Central America) and a 4th successive huge N.Hempsishepere crop unlikely in in 2016

- **Sector profitability lower:** but JBS M&A stream continues again

- **Diseases continue to disrupt:** ASF (Europe), HPAI in US, CN, W.Africa etc. … but at least PEDv of lower impact than expected
Main Assumption: Oil prices

Sharply lower oil prices through 1H15 ... Dipping further in 2H15

- Contrasting meat demand impact:
  - RU (VZ): negative; MENA: neutral overall
  - US and many other countries, positive

- Decrease in meat production costs
Currency: indexed on USD

Crashing oil prices and politics create an unstable world … illustrated by currency

- Immediate impact on the meat sector – especially trade competitiveness … and prices
- Longer term implications

Currency per USD, indexed

Source: Gira based on Pacific Exchange
2015/2016 Main Assumptions: Feed costs

*Feed grain costs continue to be weak ... 2015 3rd big crop in a row*

- **2013.14, 15 exceptional harvests** across the northern hemisphere: significant price fall
- **2015/16 prices continue low**: in spite of some weather concerns
- **Relief for livestock farmers**
El Niño – 2015-16 set to be a big event
First real evidence in October ‘15 Sea temperature


- 2015-16 event is being billed as one of the top 3 on record…

- Effects are strongest during northern hemisphere winter

- Results in enhanced precipitation across the southern U.S.

- El Niño lasts for no more than one year.

- But it is the impact on the global grain crop that we are really interested in…
El Niño – a mixed global impact

But welcome rains in California!

- **Australia** – wheat yields in east are dramatically reduced due to drought conditions
- **US** – with the exception of a few events it normally brings better than average corn and soy crops
- **Brazil** – Increased rain in key soy regions, improved yields.
- **India** – Dry weather will impact on Soy exports…

- Whilst all impacts are uncertain, the biggest issue is not…

El Nino attracts the attention of the global speculators, leading to increased fluctuations in feed ingredient prices.
Animal disease outbreaks 2015

Variety of diseases with relatively low-impact on the meat market in 2015

Asia (especially CN) is always at risk
New H5N2 HPAI outbreak in the USA now controlled: main impact on turkeys & layer production: + selective export bans (incl breeder chicks)
PEDv: fast 2015 recovery in US: less dramatic problems in Asia
FMD outbreaks in Africa and Asia: little trade impact
ASF outbreaks continue in Russia, Ukraine, … EU. and Africa

Source: OIE
Strong recent producer price rises … but falling 2015 PK prices

Gira’s mid-year view is that prices will be slightly lower than this Dec14 GMC forecast
When converted to USD, global prices will be well down
Key export destinations

2015: CN & MENA still show the growth
RU volatile and the US short of beef
US update: after a *fantastic* 2014

**Strong currency and higher production of PK and PY has downward price impact**

- **USD stronger than expected**
  - Downward pressure on export prices and volumes
  - Attractive USD prices for imports

- **Higher pork and broiler supply than expected**
  - PEDv less impact than expected
  - In spite of H5N2 (mainly effecting turkeys & layer production, and export access)

- **Producer prices decline more than expected**
  - Less profitable for integrators than hoped after 2014
  - More caution in production planning
  - … but still profitable for JBS (and other major integrators), after an exceptional (and well timed 2014 year)

- **Domestic beef supply still tight**
  - Motivating USD prices for imports
  - Encouraging herd rebuilding in the US
  - But price limited by higher supply of competing meats

- … so **not such a good 2015 for the meat chain**

- … but **feed costs still relatively low** … motivating higher carcass weights
Russian meat imports

Political bans plus the weak currency have cut imports

- Revised 2015f *import decrease to 1.33 MT* ... which is 40% lower than Gira forecast in December 2014.
Global Beef Market Updates

USA
Australia
Russia
China
(Brazil)
EU
High cattle prices in a situation of tight cattle supply

- **Tight cattle supply and record cattle prices in most countries**
  - N & S America especially
  - but higher slaughterings in IN and AU

- **Record cow-calf profitability**: high weanling prices and good forage conditions.
  - Evidence of cow & heifer retention to expand breeding herds
  - Tough times for feedlots, somewhat mitigated by sharply lower feed costs

- **Processor margins generally good**: as global beef demand is strong enough for wholesale prices to rise
  - AU exceptionally profitable: drought boost to cattle supply and strong US import demand
  - EU was a different story: of weak demand, higher cattle supplies … + still excess capacity. Bad for everyone in the chain

- **Indian buffalo supply increased again**: to reinforce its world volume leadership
  - Finding its way to CN (eventually), MENA, Africa and SE Asia

- **Asian import demand was sustained, at high prices**
  - Shifting share of import trade in various markets

- **Russia still importing in spite of bans: but struggling to pay the price (in RUB)**
  - Meantime the Miratorg project continues as a large scale, beacon project
2014/15 Better weather in key markets: **1H15 outcome is benign ... so far:** but El Nino developing: threat to AU

- **US:** much improved weather conditions
  Excellent crop and forage conditions: even California improving 4Q15

- **Australia** – dry conditions in 1H15 forcing continued high cattle slaughtering rates. Strengthening El Nino

- **NZ conditions were dry again** in 1Q15 – forcing early finishing of lighter lambs

- **Europe:** mild and wet: after cold/dry 1Q15. Big harvest again

- **Brazil** – 4Q14 drought conditions spread into 1Q15
  - Harvest yields OK... despite drought & heat in south

- **India:** good 2Q15 monsoon
2015 Global Beef Headlines

Tight supply, in a reasonable demand environment should maintain price levels … but RU risk

- **Tight supply: global production -0.7%**
  - **US** – domestic supply tightness will continue: -5% slaughterings, but much higher carcass weights
    - USD strength pulled surprising import volume from traditional partners: some further access
  - **AU** - production and export higher than expected due to continued poor pastoral conditions
    - 4Q15 and 2016f for lower BF production & export. Much tougher times for the processors
  - **BR** Gira thought +3%, illustrative of other serious S.Americans …. but we were too optimistic for BR
    - Intensification: medium term - catalysed by global demand outlook and cheap feed
  - **Indian** - buffalo production & export growth will continue (to CN eventually, MENA …)
    - Expanding dairy herd (buffalo & cows)
    - Increased offtake rate: made possible by higher prices. Assumes BJP does not impede

- **Modest cattle herd rebuilding in many countries**
  - Specialist beef herds (record US cow:calf profitability) and also dairy farm ambitions

- **Demand reasonably robust**: especially in N. America and Asia. EU still ‘dull’ … but **slightly disappointing** compared with Gira forecasts
  - Russian imports down, BR demand down etc etc

- **Prices started at record levels … but volatile, with huge currency impact:**
  - OK for farmers: more challenging for processors

- **Trade marginally down**: 2015e Import demand is weaker than Gira forecast, but supply tight
  - **Russian** economic crisis has indeed slashed their import demand
The US decline shows a striking 2014/15 decline in response to low cattle supply. AU drought impact
Global Beef & Veal Exports

India reinforces its position as the world’s largest exporter … of buffalo to MENA … and to CN (eventually)
Producer Prices in current USD/t cwe

The US price rise is exceptional … and the RU decrease a reflection of plummeting currency

Figure SYN-BF 9a  Cattle Producer Prices, 2003-2015 (current USD/t cwe)
Trends in Beef Producer prices

In local currencies, the producer price trend is still upward


Source: GIRA GMC 2014

Weighted (consumption) averages
Trends in Beef Expenditure

*Rising expenditure trend reflects price rises much more than volume*


Based on 2003 producer prices

Expenditure index, constant prices

Source: GIRA GMC 2014

*expenditure = producer prices x total consumption. Weighted (consumption) averages

Selective National Beef Market Updates

USA
Australia
Russia
China
(Brazil)
EU
Recent sharp supply declines for beef (and tight 2014 PY and PK supply) led to record US meat pricing.
Beef and cattle markets: *Continue to hit new lows in Production at near record highs in Pricing*

- **US cattle slaughter is down by 7%** as of mid-year
- Beef production is down by nearly 5%
- **Record high in carcass weights**: all cattle are averaging 369 kilograms compared to 363 an increase of 1.6% and new record high.
  - Motivated by cheaper feed and high beef prices
- Cattle feeders have seen significant losses during most of 2015 ...due to the high cost of feeder cattle
- Cow-calf farmers and **ranchers are enjoying exceptional profitability**
- Beef processors are mostly profitable although returns are volatile in a high price-high cost market
- Strong ranching profits coupled with good pasture conditions for the second year in a row is encouraging **expansion of the cow herd**
Gira’s US BF December forecasts vs July: 
*Not major changes except much greater imports*

- Production will end up down by at least 4% as expected. Greater declines in slaughterings are offset by larger carcass weights.
- Cattle prices are performing as expected – but slightly smaller price increase than initially forecast. Lower overall production will result in modestly higher prices in the 2-5% range.
- **Big surprise is imports** Imported tonnage far exceeds expectation due to ongoing shipment increases from drought impacted Australia … and the effect of the strong USD. The price spread between imported and domestic manufacturing beef has widened. New market access concessions to the Irish, Brazilians and Argentina are unlikely to result in short term supply switch as e-coli risk remains a major caution factor.
AU beef production

Gira expected 2015f fall in production (and export) following 2 year drought fuelled ‘boost’

Australian Beef balance 2003-15f (000 t cwe)
2015 AU drought persists in cattle country

Some rain, but at the wrong time of year

- AU drought persisted from 2013-14 into 1H15 in most of the important AU cattle regions especially in the east
  - Some rain, but in wrong areas or at wrong time of year for grass growth
  - Concerns over impact of strengthening El Nino
  - Delaying any herd rebuilding and impacting grass finishers

- De-stockling continues as farms remain short of both fodder and water

- Conditions are marginally better than this time in 2014, with an expectation of a slow-down in slaughterings in 2H15

- Serious concern over the state of the beef cow herd, after 3 years of drought induced culling
  - Breeding herd is in poor condition: impacting conception rates
  - Cow numbers are low: drought and debt issues may postpone rebuilding

- Expectation that - Australian beef production will decline steeply in 2016 and remain depressed for 3-4 years afterwards, as farms retain cows and heifers for breeding
  - Gira’s 2015f production fall has not happened … so far, as drought conditions have persisted… further compounding the situation
Australian beef supply continues at high level

*Drought & high export prices continue to drive supply*

**Production:**

- **BF production in 1H15 more than 2014 highs**
  - Culling of cows is largely responsible, with a higher proportion than normal in the mix
  - Feeder cattle supply to feedlots is becoming tighter

- Expectation that with a favourable 4Q15 spring and reduced cattle numbers, **production will fall from September**
  - But strong global demand will increase slaughter cattle prices, and may promote more slaughtering that the industry can support as farmers look to pay back some of the current debt

**Exports:**

- **Australian beef exports to the US have increased due to attractive US import prices**

- Average Australian export price peaked in Nov 2014
  - Now lower than the peak, but higher than long term average

- **Exports to China have fallen** as the Chinese can not compete with the US price for manufacturing beef.
  - Also slowed by disruption around the lack of a permit for Australia to import “chilled” beef, but this has been resolved

- Long term expectation that as production drops, then the exports will fall, due to lack of supply

- Australian export price will remain high … and will drive cattle prices higher (along with reduced supply)
Retail prices for meat (Jan 2004 – June 2015)

Prices in decline, PK to begin recovery by year-end

- Beef and mutton prices decreased slightly since February 2014 – reflecting weaker demand
- Pork price is reaching the bottom of the 3 year cycle, but expected to increase through 3Q15
- Chicken price has slightly fallen since March 2015 – from a record level in spite of HPAI etc
Why is the price so high?

*E.g. Beef demand drivers*

- **Urbanisation** – City dwellers eat six times as much beef as rural dwellers; China is now 52% urban, moving to 70% by 2030

- **Rising incomes** – As incomes rise, people first eat more meat, then eat more valuable meat; beef accounts for 20% of the average Beijingers’ meat intake vs 8% nationwide

- **Dining Out** – Spending on dining out is rising by 12% a year; one-third of beef is consumed away from home

- **Fast food** – McDonald’s, now Burger King is joining the market

- **Asian style chain restaurants** – Hot pot, teppanyaki, shabu-shabu, Korean

- **Safety and green image** – Poultry and pork had disease and contamination scares; beef benefits from the image of happy cattle grazing on the northern grasslands.
Chinese Beef Balance: recent surge in imports

*Fuelled by grey channel supplies from India*

**Chinese Beef balance 2003-15f (000 t cwe)**

- **Imports**: >1.4 mio t cwe including grey channels … but not offals
Chinese BF imports: major driver for the global bovine chain: sustainable … but slowing rate of growth

- All types of BF imports are growing … spectacularly, but supply limited
- GoC grants more access for direct beef imports (26% of total beef imports)
1H15 CN & HK Beef Imports – HS 0201 + 0202

China & Hong Kong BF import trade has performed relatively well (still dwarfed by IN buffalo via Vietnam)

- 1H15 CN direct + HK: BF import volume and price has performed well …
  - CN Direct volume offsetting decline through HK.
  - More origins given direct access
  - (Imports of Indian buffalo (mainly) via Vietnam not included in these nbrs)

- CN imports of other species have done less well
  - SH imports: Sharp decrease in volume and price (worrying precedent)
  - PY imports: ban on US (AI)
  - PK: EU competitive vs. US … but price erosion
  - Dairy: waiting

China BF Import Volumes, 2004 – 1H 2015 (Direct)

Hong Kong BF Import Volumes, 2004 – 1H 2015
Russia – Beef balance

*Production almost flat, imports strongly impacted by the ban and by weak demand*

- **Production down** by 0.6% per year in 2014 and 2015
  - Mostly dairy oriented
  - Some investment in beef cattle but not enough to reverse the trend

- **Imports decline steeply in 2014 and 2015**
  - -5% in 2014 but possibly -18% in 2015
  - Imports limited mainly by weak RUB impact on South American suppliers – and even SPS restrictions
  - Russian flexibility on alternate origins (e.g. IN) has not resulted in trade

- **Consumption is down** to 17.3 kg in 2014 then 16.2 kg in 2015
  - Beef was already too expensive and with the crisis it is even more expensive for consumers
  - Supply is shorter
Russian beef imports

Crashed due to bans … but more so due to currency devaluation

- Will recover largely … when they can afford to import due to lack of RU domestic cattle culture
  - Miratorg vertical integration in specialist beef is important beacon project … but it takes time
Miratorg is completing a major integrated specialist beef investment in Bryansk region. Imported Aberdeen Angus heifers from Australia and from the USA: feedlot, and processing plant. Others watch with interest.
Brazilian beef balance
Industry intensification, but still a long way to go

- 2014 has been a year of record prices
  - This has encouraged greater cattle retention

- Production stabilised, with a decline in slaughterings, notably in 2H14
  - Increased carcass weights tempering volume decline

- Rejuvenation of the whole cattle sector
  - Intensification will continue
  - Greater feedlot throughput
  - More supplements on pasture

- Major corporates continue on the world stage

- High prices have damaged consumption volumes
  - Higher retail prices → consumers shifting to cheaper alternatives

- 2015f looking too optimistic
  - Tighter supply and more demand challenge than expected
  - Exchange rate promotes export competitiveness, despite high producer price
Mid-year update: BF sector in difficult times

*Record BRL prices … but lower demand*

- **Slaughterings in 1Q15 down 7.7% y.o.y**
  - Share of cows & heifers in total slaughterings also down suggesting that a period of herd rebuilding is beginning

- **Record prices reached in April – R$10/kg**
  - With supply tightness remaining, prices likely to remain high, with falling domestic demand enforcing this

- Despite the highly competitive export price, **2015 frozen BF export volumes are down >20% y.o.y**
  - Lower demand from Russia, albeit recovering (recent ban on 10 plants to have limited impact)
  - Large drops in HK, Iran & Venezuela
  - However, greater optimism in H2 with resumption in trade to China as well as S.Africa, Iraq & eventually Saudi
  - US access agreed - volumes may develop end-15 or in 2016

- **Domestic consumption damaged**
  - Lower purchasing power of consumers
  - Movement to lower quality cuts as well as to PK & PY
  - Likely to be a difficult year for BF processors
Indian BF balance: Huge surge in Exports

All apparently buffalo … but some beef could be in the mix!

Indian Beef balance 2003-15f (000 t cwe)
Indian Exports – The lowest priced “beef” product

2015 price squeezed by low priced Brazilian beef

- Only Buffalo is legally exported, although some suggestion of beef in the mix… it is sold as Buffalo
- Recent investment in export slaughter plants has allowed huge surge in export volumes…
- Demand growth from China is the primary driver (via Vietnam, TH)
  - But other markets are growing as well… but overshadowed by China!

BJP are not pleased with the image of India as No1 Beef Exporter!
EU Beef Balance: Production stabilises

Future structural changes implied from dairy quota reform etc
EU Beef imports slow down in 2015

HQBII quota not filled in 2014-15, but nearly

- 2014 EU beef imports increased by just +1% over 2013:
  - Brazil remains the biggest origin, with volumes growing +3% to 128,209 t cwe, but Uruguay declined -6% and Argentina -10%
  - Australian imports grew +21% to 30,838 t cwe as it made significantly better use of the HQBII quota
  - High US beef prices due to its supply shortage and strong USD, limit exports from US and pull beef from other origins
  - High prices in China continue to distract Uruguayan suppliers from the EU

- 2015 (first 4 months) reveal a -5% decrease in EU beef imports
  - Declines from Australia (favouring the US market) and a sharp decline from Brazil -11%
  - Small recovery from the US +3%

- HQBII is expected to be filled in the 2015/16 quota year, and there is political sensitivity that the US feels it is not getting its share of the quota as it is outcompeted by Australia. This is due to tight US beef supply and high prices

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### EU Beef Quotas and their use 2009-15

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<td>593/2013</td>
<td>HQ Beef</td>
<td>09.40002</td>
<td>11,500 1336 11.6%</td>
<td>11,500 519 4.5%</td>
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<td>20,000 9,622 49.1%</td>
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<td>45,975 32,324 70.3%</td>
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<td>431/2008</td>
<td>Frozen Beef</td>
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<td>412/2008</td>
<td>Frozen Beef for processing</td>
<td>09.4057</td>
<td>50,000 44,348 88.7%</td>
<td>50,000 43,327 86.7%</td>
<td>50,000 12,233 24.5%</td>
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<td>748/2008</td>
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<td>800 800 100.0%</td>
<td>800 573 71.6%</td>
<td>800 297 37.1%</td>
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<td><strong>Total</strong></td>
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<td>137,503 107,972 78.5%</td>
<td>137,503 116,907 85.0%</td>
<td>137,503 88,339 64.2%</td>
<td>174,978 96,414 55.1%</td>
<td>177,203 101,082 57.0%</td>
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**Imported Volume (000 t pw)**

- Available
- Used

**Source:** Gira based EU stats
Ireland has leveraged its “Negligible Risk” BSE status in recent years to open a number of export markets for Irish beef and offal:

- **Japan** – good prospects, but tough competition from US and Australia on meat, means this has favoured offal, and volumes have so far been small
- **China** – good progress … but no direct access yet
- **US** – opened late in 2014, but tiny trade, due commercial e-coli risk.

In June 2015 Ireland reported its first BSE case for 2 years. The animal and 67 associated have been destroyed, no other cases were found. But it is likely that Ireland’s BSE status will be downgraded to “controlled risk.”

- This is unlikely to effect existing export trade, as it is an isolated case
- It may make progressing new trade agreements more difficult

Most IE exports are to EU markets. UK accounting for 50% of volume

Total EU beef exports for 2014 increased +29% over 2013, despite the Russian closures (minor volume impact for beef meat) and was due largely to an increase in exports to:

- “Others” (largely Africa and other Asia) which grew +42% to 679,107 t pw
- Hong Kong, growing from 4,341 t cwe to 20,659 t cwe… with a focus on re-export to China via the grey channels

In the first 4 months of 2015 exports have increased +10% with Africa, other Asia and Hong Kong again the key growth areas.

- Live exports have started up again to Turkey as the import tariff for breeding animals has been lowered again… it is possible that not all animals exported to Turkey are for breeding!
Relevance of world situation to Colombian BF

Preliminary observations

- **Global import demand for BF is good in medium-to-long term**
  - Short-term wobble for 2015/16
  - Certain Increasing Asian dependency

- **The world becomes more interested in CO!**
  - Positive political developments
  - Cattle culture … and potential for BF supply
  - Some interesting companies invest in the BF sector

- **CO BF sector dominated by the local market**
  - Consumption impacted by alternate meat offer & currency impact

- **Export access is erratic**
  - VE historically open / shut according to VE politics
  - 2015 VE market is completely closed

- **Fragmented & traditional** farm sector

- **COP devaluation: competitive country**

- **Positive political developments**
  - likely to attract foreign investments

- **Sustained export market access requires structure and organisation**
  - Market access! (and disease control)
  - Cost competitive farms & processors
  - Export ‘mindset’ through the chain
  - Government support – through credible State organisations
    - Vets: SPS controls
    - Health inspectors
    - Export documentation process etc
Thank you for your attention and support to Gira