

Proinde Circular 27-03-2017: Brazilian meat exports and the consequences of “Weak Flesh” corruption probe

1. Introduction

The Brazilian meat export market

Despite a significant decrease in volume and income due to a two-year economic recession, the agribusiness firmly stands as an important aspect of Brazil’s economic development and remains fundamental to keep a positive trade balance. Last year, agribusiness exports represented nearly 46% of all Brazilian exports yielding a revenue of USD 84.9 billion with animal protein exports contributing with 17% of this result.

Brazil is the world’s leading exporter of beef and poultry. In 2016, poultry exports accounted for USD 6,7 billion whereas beef exports reached USD 5,3 billion in revenue. It is also the fourth largest exporter of pork meat having exported around USD 1,5 billion last year with room to market expansion.

Meat exports 2015/2016	Amount (US\$ million)			Quantity (millions of ton)			Average price (US\$/ton)		
	2015	2016	Δ%	2015	2016	Δ%	2015	2016	Δ%
Chicken meat	7,071	6,760	-4.4	4,225	4,307	1.9	1,673	1,570	-6.2
Beef	5,795	5,339	-7.9	1,361	1,349	-0.9	4,257	3,958	-7.0
Pork	1,264	1,470	16.3	542	720	32.8	2,331	2,041	-12.5
Turkey meat	288	330	14.3	133	140	5.1	2,168	2,359	8.8
Total:	14,724	14,211	-3.5	6,445	6,703	4.0	2,285	2,120	-7.2

Table 1: Brazilian meat and meat products exports in 2015 and 2016 (Source: AgroStat with data from SECEX/MDIC)

The major importers of Brazilian poultry in 2016 were Saudi Arabia, China, Japan and the UAE whereas the top buyers of the Brazilian beef were Hong Kong, which re-exports it to other Asian countries, followed by China, Egypt and Russia.

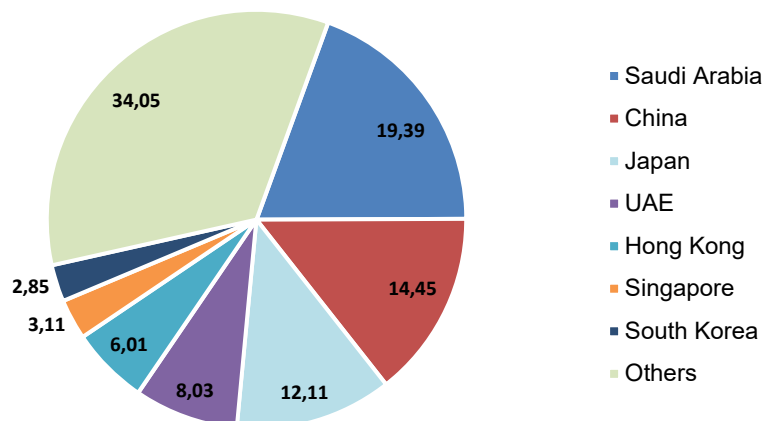


Figure 1: Main destination of Brazilian chicken in 2016 – % by revenue (Source: SECEX/MDIC)

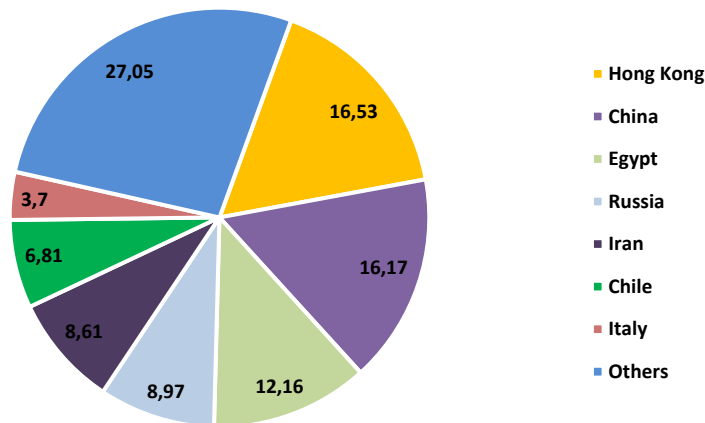


Figure 2: Main destination of Brazilian meat in 2016 – % by revenue (Source: SECEX/MDIC)

The aggregate of meat exports (poultry, beef and pork meat products) reached locations in 152 countries in 2016 accounting for 20% of the entire international meat market¹.

Following the opening of the Chinese market to the Brazilian meat in 2015, and after years of tough trade negotiations, the USA finally started importing certain meat products from Brazil and the prospects of an unprecedented boost in the meat exports in 2017 were rather inspiring until a poorly uncovered criminal investigation that came to light on 17 March 2017 and has dealt a hard blow to the Brazilian animal protein business' reputation and credibility.

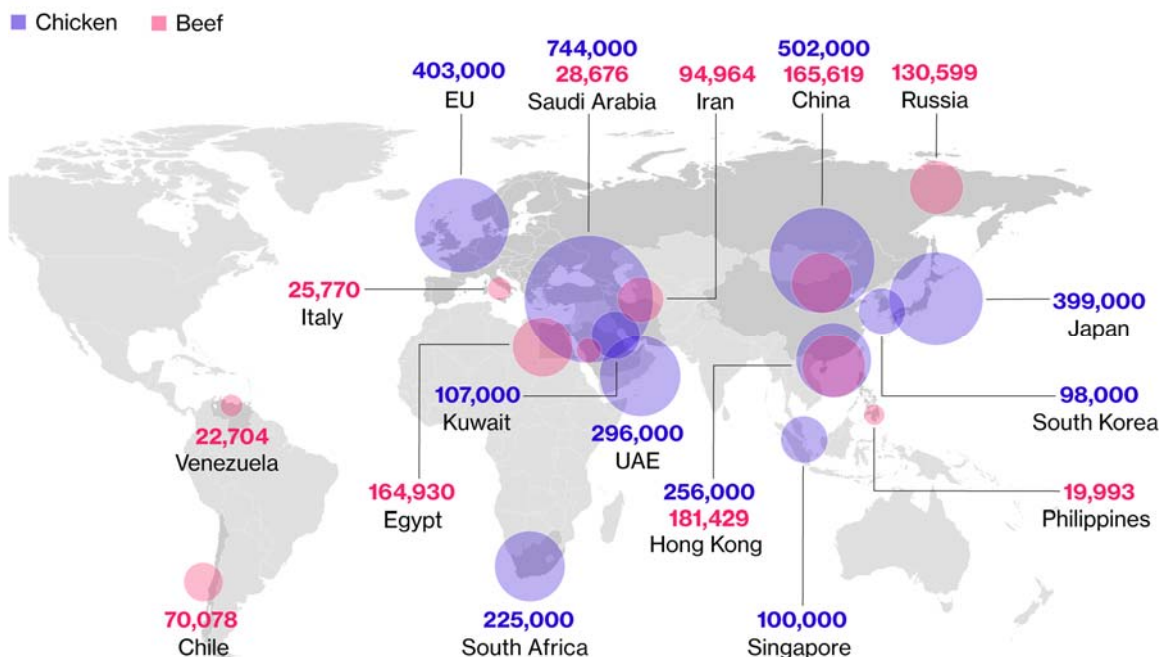


Figure 3: Top importers of Brazilian chicken (Feb/2016 to Jan/2017) and beef (2016) - in metric tons (Source: Bloomberg/ABPA/ABIEC)

Brazilian meat regulatory authorities

Brazil is a member of the World Trade Organization (WTO) and subscribe to the rules and principles laid down in the Sanitary and Phytosanitary Agreement (SPS) and *Codex Alimentarius* (CODEX) of the Food and Agriculture Organization (FAO) and other international food and hygiene standards and trade agreements.

¹ The Brazilian Meat Industry – Production and Inspection. Secretariat for Social Communication, Presidency of the Republic – March 2017

Amongst the various governmental bodies involved in the monitoring and control of plant and animal exports, the Ministry of Agriculture, Livestock and Supply (MAPA) is the primary regulator. Its various offices and secretariats regulate and control every aspect of production, inspection, marketing, import and export of animal protein products.

MAPA's main regulatory agencies and departments of interest to meatpacking business includes the Secretariat of Agricultural Protection (SDA), particularly the Department of Animal Origin Products Inspection Service (DIPOA) and the General Coordination for Sanitary Inspection on Agriculture and Livestock (VIGIAGRO), which duties are to enforce regulations related to animal and plant origin products and inspection and control for clearance of shipments under MAPA's jurisdiction at Brazilian ports, airports and borders.

The Ministry of Health, through its National Agency of Sanitary Surveillance (ANVISA) also retains jurisdiction when the shipment involves processed meat products or by-products.

Meat safety and quality controls

Operating under the supervision of DIPOA, the Federal Inspection Service, best known as S.I.F., is MAPA's agency responsible for ensuring the quality and health of animal origin products in the domestic and international markets.

There are 4,837 meatpacking facilities in Brazil that are compliant to the requirements set forth by MAPA and other intervening authorities and operate under strict surveillance and control of a S.I.F. staff of 2,300 auditors working exclusively on sanitary inspection of animal products within the facilities accredited by S.I.F. across the country. The facilities are also regularly audited and monitored by inspectors from the importers.

All S.I.F.-approved facilities adhere to food quality and safety programmes such as the National Plan for the Control of Residues and Contaminants (PNCRC), the Conformity Assessment Program for Animal Products (PAC-POA) and the Pathogens Reduction Program (PRP).

Apart from the approval of S.I.F, the meatpackers' produce also needs to be registered with the Secretariat of Foreign Trade (SECEX) of the Ministry of Industry, Foreign Trade and Services (MICES) to be issued with an export license.

An International Animal Health Certificate (CSI) is also required to attest the health of the animals and the suitability of the meatpacking plant at origin.

In 2016, out of 853,000 shipments of meat products exported by Brazil, only 184 ones were rendered non-compliant by the authorities at destination countries largely due to non-sanitary requirements, such as labelling issues or incomplete paperwork². The compliance deviation accounting for only 0.022% of all shipments. 133 of these non-compliant shipments were reported by Russian authorities.

² Communication of the Brazilian delegation to the WTO Committee on Sanitary and Phytosanitary Measures dated 22 Mar 2017 titled: Animal Products – Recent Measures Implemented, Communication from Brazil. Out of the 184 non-conform shipments, 102 were microbiological notices, 33 physicochemical and 49 other non-conformities.

2. The police investigation

“Weak Flesh” unveiled

On 17 March 2017, a Brazilian Federal Police investigation codenamed *Carne Fraca* (“Weak Flesh” in Portuguese) launched in 2015 became public in the most alarmingly fashion and almost instantly put the entire Brazilian meatpacking industry, which employs 6,7 million people, in jeopardy with consumers wondering whether the quality and health of the meat products can be trusted.

Conducted by a team of 1,100 officers, the Weak Meat operation investigates a corruption scheme rooted in at least three States that targeted public servants are accused of issuing quality certificates overlooking mandatory sanitation and health requirements and practices in exchange of bribes paid out by meatpackers such as JBS and BRF, the biggest exporters of Brazilian beef and poultry, respectively, and a dozen of other smaller competitors.

The chief of police in charge of the Weak Meat told reporters there is evidence of at least 40 cases where acid and other potentially carcinogenic chemicals were used to mask the aspect of decayed meat. He also mentioned incidents where water, potato and even cardboard were added to the chicken to increase its weight and enhance profits. JBS and BRF have both issued notices to the market reassuring adherence to the highest quality standards and denying any corporate wrongdoing. In their release, BRF, addresses each of the points raised by the Chief of Federal Police in his statement to the press, as can be seen in [Annex 1](#).

Scope of investigation

In a joint press release, the Federal Police and MAPA affirmed that although the police investigation aims at irregularities within the S.I.F. system, the misconducts under investigation were perpetrated by a few public servants and do not signify a widespread malfunction of the food safety system³.

In all 194 search and seizure warrants were issued; 77 individuals coercively taken for police questioning and 38 arrested, including MAPA public servants and employees of JBS and BRF and other smaller meat producers. 33 officials were ousted from their posts at MAPA pending conclusion of the probe.

As at today, 25 individuals remain under police custody and the others were released. It is expected that as the Weak Flesh progresses and widens its scope, other companies and individuals could also be probed.

3. The consequences of the Weak Flesh operation

Government and industry response

Brazilian President Michel Temer convened a meeting on 19 March 2017 with the ministers of MAPA and MICES, the Superintendent of the Federal Police and other government officials. He confirmed his administration will thoroughly check and investigate the facts and downplayed the magnitude of the problem by underlining the fact that only a tiny fraction of the meatpacking facilities is being investigated. He pledged to strengthen the cooperation between MAPA and Federal Police and made all meatpacking plants available for inspections by the buying markets.

³ MAPA press release dated 21 Mar 2017

In a marketing play, Mr. Temer invited diplomats from buying countries to a *churrascaria* (steak house) in Brasilia where he reassured the foreigners of the excellence of quality of the Brazilian animal protein products.

The Minister of Agriculture, Mr. Blairo Maggi, the influent owner of Amaggi Group, world's largest soyabean producer, was rather critical of the exaggerated and unthoughtful manner the Federal Police divulged the operation and explained the purpose of the investigation, resorting to a few isolated incidents and decontextualized to challenge the standards of quality of the entire meatpacking industry and ensue a commercial upset with Brazilian trade partners and consumers.

The press releases issued by the Presidency of the Republic, MAPA and the Brazilian mission in the WTO are in **Annex 2**.

Both the Minister and the President are personally liaising with their counterparties at the importing markets to regain the hard-won confidence of the market and reverse restrictions put on Brazilian meat. The strategy is already coming to fruition as China, Brazil's largest trading partner that had restricted Brazilian meat imports on the outset of the scandal, has just reconsidered the position and lifted the ban at once. Chile, Egypt and South Korea followed suit.

Immediate financial losses

On Tuesday (21) alone, meat exports which average USD 63 million sank to USD 74 thousand a day – an incredible 99.99% drop. The Brazilian Association of Animal Protein (ABPA), which represents sectors of the poultry and pork meat industries, estimates a USD 40 million loss to the exporters during last week while the beef industry, represented by the Brazilian Beef Exporters Association (ABIEC), does not have a loss forecast yet but estimates that at least USD 96 million-worth meat products are packed in containers stuck in ports waiting to be shipped to destination or return to the place of origin⁴.

Although it is still too early to figure out the potential implications for the meatpacking industry in the long run, JBS and BRF have seen their shares accumulating a drop of 8.6% and 10.5%, respectively, over the troubled past week. Other major meatpackers that are not being probed, such as Minerva and Marfrig, are likely to be somehow impacted by the ongoing anti-corruption operation.

Bans on Brazilian meat imports

In the wake of the Weak Flesh operation, 24 importing markets banned partially or fully imports of Brazilian meat while other six either intensified the rigour of the sanitary inspections of meat shipments or requested specific technical information from the producers.

Key importers who initially imposed a full ban were China, Chile and Egypt that over the weekend reassessed the situation and lifted the restriction at once. South Korea also reopened the market.

Significant markets such as Japan, the European Union, Saudi Arabia, the UAE and Canada have put a partial ban on imports from selected S.I.F.-approved facilities while Hong Kong, Mexico, Argelia and Jamaica have completely banned all Brazilian meat imports and pulled product already imported off the shelves.

⁴ Portos e Navios website sourced from O Estadão, published 26/03/2017 22h42

The USA, Malaysia and Argentina have heightened the sanitary surveillance over Brazilian imports and Russia, Israel and Barbados requested additional information from the meatpackers and Brazilian authorities.

As at today, five countries re-opened the market, nine have imposed partial bans and eleven maintain a complete ban, as shown in the table below.

a) Re-opened markets

Country	Status
CHILE	Re-opened 25/3. 21 SIF units under investigation temporarily banned
CHINA	Re-opened 25/3. 1 SIF unit banned; registry of 7 Brazilian vets cancelled
EGYPT	Re-opened 25/3. 21 SIF units under investigation temporarily banned
SOUTH KOREA	Re-opened 25/3. Increase in the drawing of samples

b) Markets with import restriction only from selected S.I.F. units

Country	Status
CANADA	2 SIF units banned
EUROPEAN UNION	Heightening of sanitary controls (100% of all Brazilian agricultural products imports) and request for detailed information regarding 21 SIF units under investigation. 3 SIF units of poultry/swine and 1 SIF unit of beef banned
JAPAN	21 SIF units banned
PERU	2 SIF units banned. 180-day hold for new orders
SAUDI ARABIA	Request for information. 4 SIF units banned
SOUTH AFRICA	Request for information. 6 SIF units banned
SWITZERLAND	4 SIF units (same as the UE) banned
UAE	6 SIF units banned
VIETNAM	21 SIF units banned

c) Markets with complete import restriction

Country	Status
ARGELIA	Temporary ban of meat products
BAHAMAS	Temporary ban of meat products
GRANADA	Recall of processed meat from domestic market
HONG KONG	Temporary ban of meat products and recall of products imported from the 21 SIF units under investigation
JAMAICA	Temporary ban of processed meat and recall from domestic market
MEXICO	Preventive ban of meat products (Brazil only exports chicken)
PANAMA	Temporary ban of processed meat
QATAR	Halting of customs clearance of meat products until test validation by sampling
S. CHRISTOPHER-NEVIS	Temporary ban of processed meat and recall from domestic market
S. VINCENT AND THE GRENADINES	Temporary ban of meat products and recall from domestic market
TRINIDAD AND TOBAGO	Temporary ban of processed meat and recall from domestic market

d) Markets with heightened sanitary measures

Country	Status
ARGENTINA	Reinforcement of sanitary control of meat products
MALAYSIA	Increase sanitary control of meat products to Level 5
USA	Increase to 100% of sampling of meat products for inspection

e) Markets with request for information

Country	Status
BARBADOS	Request for information about SIF units of processed meat
ISRAEL	Request of information about SIF units of meat products
RUSSIA	Request for information about specific SIF units of meat products

Table 2: Brazilian meat restriction list based on information released by MAPA (last updated 25/03/2017 17h50)

Meatpackers currently under investigation

Weak Flesh operation investigated 44 meatpacking facilities resulting in 21 units – in the States of Paraná (18), Goiás (2) and Santa Catarina (1) – having their operations immediately halted and their export licenses preventively suspended. Three of these facilities, located in Mineiros-GO (BRF), Jaraguá do Sul-SC and Curitiba-PR (Peccin) were interdicted. The measure will remain in place until the meatpackers concerned satisfy the authorities of the produce quality and safety.

To put it into perspective, the facilities under investigation, which are listed in the table below, account for only 0.43% of all S.I.F.-approved plants in the country.

Company full name (SIF #)/ City-State	Product handled/Illicit conduct under investigation
1. BALSA COMÉRCIO DE ALIMENTOS EIRELI (#2540)/ Balsa Nova-PR	Meat products/ Irregularities under investigation
2. BREYER & CIA LTDA (#3522)/ União da Vitória-PR	Honey and agricultural products/ Corruption
3. BRF S.A. (#1010)/ Mineiros-GO	Poultry (including turkey); chicken products/ Corruption, embarrassment of international and national surveillance; attempt to avoid export suspension. Plant interdicted
4. CENTRAL DE CARNES PARANAENSE LTDA (#3796)/ Colombo-PR	Beef/ Corruption and injection of meat products
5. E.H. CONSTANTINO & CONSTANTINO LTDA (#4381)/ Londrina-PR	Meat products/ Corruption
6. FÁBRICA DE FARINHA DE CARNES CASTRO LTDA (#4460)/ Castro-PR	Meat and bone meal/ Non-control of input receipt
7. FRANGO D M INDUSTRIA E COMERCIO DE ALIMENTOS LTDA (#270)/ Arapongas-PR	Chicken meat and poultry/ Corruption
8. FRIGOMAX FRIGORÍFICO E COMÉRCIO DE CARNES LTDA (# 1771)/ Arapongas-PR	Meat products/ Environmental pollution and corruption
9. FRIGORÍFICO ARGUS LTDA (#1710)/ São José dos Pinhais-PR	Meat and meat products/ Use of MAPA servant's password by company's employee
10. FRIGORÍFICO LARISSA LTDA (#3704)/ Iporã-PR	Pork meat and meat products/ Marketing of expired products; labelling change; carriage of products under inadequate temperature
11. FRIGORÍFICO OREGON S/A (#55)/ Apucarana-PR	Horse meat/ Corruption in respect of proceeding 21034,004724/2015-08. Make difficult surveillance acts
12. FRIGORÍFICO RAINHA DA PAZ LTDA (#2914)/ Ibiporã-PR	Pork meat and meat products/ Corruption
13. FRIGORÍFICO SOUZA RAMOS LTDA (#4040)/ Colombo-PR	Meat products/ Substitution of turkey raw material for chicken meat; bribery in surveillance procedures
14. INDÚSTRIA DE LATICÍNIOS S.S.P.M.A LTDA (#3459)/ Sapopemba-PR	Milk and dairy products/ Embarrassment of surveillance
15. INDUSTRIA E COMÉRCIO DE CARNES FRIGOSANTOS LTDA (#2021)/ Campo Magro-PR	Meat products/ Irregularities under investigation
16. JJZ ALIMENTOS S.A. (#2156)/ Goianira-GO	Beef and meat products/ Embarrassment of surveillance act; corruption
17. MADERO INDÚSTRIA E COMÉRCIO S.A. (#2618)/ Ponta Grossa-PR	Meat products/ Irregularities under investigation
18. PECCIN AGRO INDUSTRIAL LTDA – EPP (#825)/ Jaraguá do Sul-SC	Pork meat and meat products/ Use of rotten meat in sausage and smoked sausage; use of additive beyond allowance or forbidden additives; making up of samples. Plant interdicted
19. PECCIN AGRO INDUSTRIAL LTDA (#2155)/ Curitiba-PR	Meat products/ Use of rotten meat in sausage and smoked sausage; use of additive beyond allowance or forbidden additives; making up of samples. Plant interdicted
20. SEARA ALIMENTOS LTDA (#530)/ Lapa-PR	Chicken meat and poultry/ Irregularities in the Sanitation Certification procedure
21. TRANSMEAT LOGÍSTICA, TRANSPORTES E SERVIÇOS LTDA (#4644)/ Balsa Nova-PR	Meat products/ Corruption and injection of meat products

Table 3: List of meatpacking facilities under police investigation (Source: MAPA)

Of the 21 facilities being probed, only six have exported in the last 60 days, namely:

Company full name (SIF #)/ City-State	Destination of exports in the last 60 days
1. BREYER & CIA LTDA (#3522)/ União da Vitória-PR	European Union and the USA
2. BRF S.A. (#1010)/ Mineiros-GO	South Africa, European Union, Benin, Cuba, Gabon, Ghana, Hong Kong, Mexico, Russia, Switzerland, Antigua and Barbuda and Bahamas
3. FRANGO D M INDUSTRIA E COMERCIO DE ALIMENTOS LTDA (#270)/ Arapongas-PR	Hong Kong
4. FRIGORÍFICO LARISSA LTDA (#3704)/ Iporã-PR	Argentina and Hong Kong
5. JJZ ALIMENTOS S.A. (#2156)/ Goianira-GO	Egypt, Hong Kong, The Philippines, Holland, Iran, Russia and Switzerland
6. SEARA ALIMENTOS LTDA (#530)/ Lapa-PR	European Union, Saudi Arabia, Aruba, Canary Island, Qatar, Chile, UAE, Iraq, Japan, Kuwait, Macedonia, Switzerland and Venezuela

Table 4: List of meatpacking facilities under police investigation which exported meat products in the last 60 days (Source: MAPA)

Effects on shipping

The Brazilian meat exported last year was shipped mostly in reefer containers with the main exporting ports being in the Southeast and South Region of Brazil. 566,945 TEUs were exported from Brazil in 2016, the top-ranking ports for beef and chicken products combined being Santos, Paranaguá and Navegantes⁵.

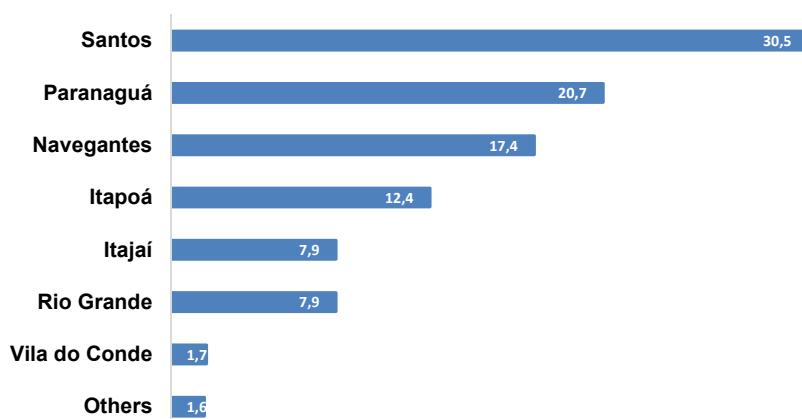


Table 5: Main Brazilian meat exporting ports in 2016 – % by volume (Source: ANTAQ)

The large meatpackers have instructed shipping lines to hold off or return to origin non-loaded containers with meat products destined to markets with import restrictions. For containers already loaded on board the vessels, the shippers are instructing carriers to change destination or return the cargo to the port of origin.

The Minister of Agriculture reported 5,000 containers with Brazilian meat are currently seaborne. The very few containers shipped by companies implicated in the criminal probe have already been identified by MAPA that is assisting the meatpackers concerned in the return of these units to Brazil and where possible even before they reach their destination⁶.

Sources within the meatpacking industry believe that it will take a couple of weeks until the supply chain is restored to the volumes it was before the poorly-planned police operation unfolded.

⁵ 2017 Waterways Statistics by the National Agency of Waterways Transport (ANTAQ)

⁶ MAPA press release (last updated 23/03/2017 13h28)

6. Conclusion

Despite the prompt response by governmental authorities and the meatpacking industry to conduct a transparent investigation and reassure the excellency of the Brazilian export animal protein, the sector has inevitably been hit and it will take some time until the confidence of the importing markets is reconquered. A decline in the exports is likely to occur with competing exporters trying to clinch a deal to fill the supply gap left by the ban in some countries.

At the exporting ports, delays are expected to happen due to uncertainties surrounding the acceptance of laden containers at destination. The Union of Shipping Agencies in the State of Sao Paulo (SINDAMAR), where the Port of Santos is located, has expressed concerns that depending on the amount of cargo grounded in the port terminals, there may be a shortage of power outlets in some location. Delays could also limit the offer of reefer containers for carriage of other types of perishable cargoes exported by Brazil, such as fruit cargoes that are shipped in the Northeastern ports.

Delays or even abandonment of Brazilian meat exports may also be experienced at discharging ports due to heightening of sanitary surveillance for cargo clearance by importing authorities.

The carriers must cooperate fully with their customers to handle requests for cargo return and change of destination with the utmost priority to prevent containers from being stuck at ports where restrictions are in place – MAPA [website](#) (in Portuguese) provides a list of the countries imposing restrictions. It also provides a list with the status of the meatpacking plants under police investigation.

Considering the current uncertainties, the carriers must keep a good track over containers with Brazilian meat imports for early detection of uncollected (or non-eligible) cargo, so as to allow prompt action aiming at cargo disposal, container return and collection of demurrage and other charges due to the carriers.

We are closely monitoring the progress of this issue and will advise you of significant developments.

Editor: Ricardo Martins

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Annex 1: JBS' and BRF's Notice to market

JBS Notice to Market (<http://jbss.foinvest.com.br/enu/3999/Notice%20to%20the%20Market%20-%20PF%20Operation.pdf>)

QUOTE

NOTICE TO THE MARKET JBS S.A. (IBOV: JBSS3, OTCQX: JBSAY, "Company"; "JBS") informs its shareholders and the market in general that, in connection with the operation conducted today by the Brazilian Federal Police, no judicial measures have been taken against the Company's executives. In addition, the company's headquarters were not a target of the operation.

The operation conducted today involves companies located in several regions of Brazil, and also involves three of JBS' facilities, two in Paraná and one in Goiás. In the facility located in Lapa, in the state of Paraná, a judicial measure was issued against one of its veterinarians, a JBS employee, who performs auxiliary inspections services for the Ministry of Agriculture. JBS and its subsidiaries rigidly follow all regulatory guidelines in connection with the production and sale of food products in Brazil and globally, and supports all efforts aimed at punishing any violation.

JBS in Brazil and throughout the globe adopts rigorous quality standards with systems, processes and controls that guarantee food safety and product integrity. The Company further states that its food production practices have been certified by highly recognized global entities, which further confirms its high standards of food production and product integrity.

The Company strongly repudiates any practices related to product adulteration or tampering, whether in the production or sale of products, and it is available to address any concerns with the authorities.

São Paulo, March 17, 2017

Jeremiah O'Callaghan
Investor Relations Officer

UNQUOTE

BRF Notice to Market (<https://www.brf-global.com/brasil/portasabertas/en/comunicado-oficial-a-imprensa.html>)

QUOTE

In light of the news regarding Operation Weak Flesh by the Brazilian Federal Police, BRF would like to clear up the following important facts:

1. CLOSURE OF THE MINEIROS (GOIÁS) FACTORY.

The BRF factory in Mineiros was built in 2006 and produces chicken and turkey meat comprising less than 5% of BRF's total production. Its products are destined to the internal market and for export. The plant is qualified for exporting to some of the world's most demanding markets such as Canada, the European Union, Russia and Japan. This means that it complies with the norms set out by these countries.

The factory has three international certifications, considered to be some of the world's most important – the BRC (Global Standard for Food Safety), IFS (International Food Standard) and ALO Free (Agricultural Labeling Ordinance). Its last factory inspection was made by the Ministry of Agriculture, Livestock, and Supply and took place between February 20-24, when it was deemed fit to continue its operations according to all the criteria.

Although the judge responsible for the operation considered its closure unnecessary, the factory was temporarily and preventatively closed by the Ministry of Agriculture. This measure should remain in place until BRF provides information proving produce quality and safety, which should happen soon, as the company is confident of its standards and processes, which are among some of the world's most stringent.

2. SALMONELLA IN PRODUCE.

Regarding this matter, a few very important facts must be clarified for the issue to be fully understood. There are around 2,600 types of Salmonella bacteria commonly found in vegetable or animal-based foods. They are all easily eliminated through appropriate cooking.

Regarding the case in Italy reported on by the media, it is important to clarify that BRF was not involved in any irregular activities.

The true context is this: in 2011, the European Union established a new regulation (CE 1086/2011) for controlling Salmonella in locally-produced or imported poultry. According to this regulation, unprocessed produce cannot contain two types of Salmonella: SE and ST (Salmonella Enteritidis and Salmonella Typhimurium). The type of Salmonella found in some of the batches of these four containers is Salmonella Saint Paul, which is tolerated in unprocessed meats by European legislation.

Therefore, the entry ban in Italy would not be justified. Given this fact, BRF discussed two initiatives:

1. Forwarding the merchandise to another port – Rotterdam, Holland.

This Dutch port follows European regulations by the book. The produce would obviously pass all the required tests, with the same technical standards.

2. Bringing forward the discussion about the problem with the Ministry of Agriculture in Brasília.

The agreement between Brazil and the European Union on the importation of food products stipulates that non-compliance must generate a “rapid alert” to all the countries in the community, the producer and the health authorities in the country of origin. Therefore, BRF’s intention was to inform the Ministry of Agriculture even before issuing a “rapid alert”, and to begin its defense with technical and scientific arguments.

Given the above, BRF reiterates that all the measures taken by the company and its technicians are fully in accordance with the highest governance and compliance levels, and that they do not go against any Brazilian legal or ethical precepts, or against the legal and ethical precepts of the countries to which it exports its products.

3. USE OF CARDBOARD.

There is no cardboard in BRF products. The recording made by the Federal Police was misinterpreted. The employee in question was referring to packaging, not content. When he says “in the MSM”, he is referring to the area where the MSM is stored. This is made even clearer when he says that he is going to try to “put it IN card”, that is, wrapping the product IN card, as this product is normally wrapped in plastic. In the following sentence, he makes it clear that if he does not obtain approval, he will have to reject the product, that is, discard it.

4. ACCUSATIONS OF CORRUPTION.

BRF does not condone illicit practices and categorically denies any insinuation of the contrary. When it was informed of the Federal Police’s investigation, the company immediately took the necessary measures to verify the facts. This verification will be carried out independently and if anything against the current law is discovered, BRF will take the requisite measures with the rigor they demand. BRF does not tolerate any failure to comply with its Transparency Manual, Brazilian legislation or with the legislation of the countries to which it exports its products.

5. ARREST OF RONEY NOGUEIRA DOS SANTOS AND ANDRE BALDISSERA.

The executives are arrested and will provide them with all the necessary explanations. They are being assisted by company lawyers and their families are also getting all the support needed.

6. “ROTTEN MEAT” NEWS.

BRF has never sold rotten meat, and neither has it been accused of doing so. Products found by Operation Weak Flesh to be past their best before date were from other companies. This can be ascertained by consulting the material divulged by the Federal Police. BRF regrets that some of the press has erroneously included its name in reports on this matter, thus confusing consumers and society.

CONCLUSION

Given the above, BRF would like to publicly express its support for sector inspections and society’s right to information based on facts, without generalizations that can damage the reputation of honest companies and cause unnecessary alarm in the population.

São Paulo, March 18, 2017, 5.50pm

About BRF

BRF is one of the world’s largest food companies and has a portfolio of over 30 brands such as Sadia, Perdigão, Qualy, Paty, Dánica, Bocatti and Vieníssima. Its products are sold in over 150 countries in all five continents. Over 105,000 people work for the company, which has 54 factories in seven countries (Argentina, Brazil, United Arab Emirates, Holland, Malaysia, United Kingdom and Thailand).

QUOTE

Annex 2: Press releases from the Brazilian government

Press release from the President of Brazil – 19 March 2017

QUOTE

Press release from the Presidency of the Republic of Brazil - 03/19
march 19 2017

I convened a ministerial meeting this Sunday to discuss issues concerning national and international consumer safety with regard to the quality of meat produced in the country.

It was decided:

- 1 - to accelerate the audit process in the establishments cited in the Federal Police investigation, 21 units in total. Three of these have already been suspended and all 21 will be immediately placed under special inspection regime to be conducted by specific task force of the Ministry of Agriculture, Livestock and Supply (Mapa). It is important to underline that of 11 thousand employees, only 33 are being investigated and of the 4,837 units subject to federal inspection, only 21 allegedly involved in possible irregularities. Of the 21 only six exported in the last 60 days. Then, the Mapa will inform which countries have received the products, what they were and their origin by companies. It is emphasized: the purpose of the investigation is not the agricultural defense system, whose rigor is recognized, but a few deviations of conduct;
2. to reiterate to the foreign missions that all exporting plants remain open to inspections of importing countries and to monitoring of activities of the national control system, one of the most respected in the world;
- 3 - to strengthen the cooperation between the Mapa and the Federal Police to investigate any deviations in the agricultural defense system.

The federal government reiterates its confidence in the quality of the national product, which has conquered the consumer and obtained approval from the most demanding markets from the point of view of agricultural inspection and defense. The Mapa has strict inspection service of animal products. This standard of excellence opened the doors of more than 150 countries, with permanent audit, monitoring and risk assessment. In addition to that, when arriving at their destinations, the products are also subject to local inspection.

In 2016 alone, 853 thousand consignments of animal products from Brazil were shipped abroad and only 184 were considered by the importers to be out of compliance, often because of non-sanitary issues such as labeling and certification.

Brasília, March 19, 2017.

Michel Temer, President of the Republic of Brazil

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Brazilian delegation report to WTO's Committee on Sanitary and Phytosanitary Measures – 22 March 2017

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G/SPS/GEN/1545 22 March 2017 (17-1582) Committee on Sanitary and Phytosanitary Measures Original: English

ANIMAL PRODUCTS – RECENT MEASURES IMPLEMENTED COMMUNICATION FROM BRAZIL

The following communication, dated 22 March 2017, is being circulated at the request of the delegation of Brazil.

1. On Friday, 17 March 2017 the Brazilian Federal Police unveiled an investigation on irregular practices involving certification of meat and meat products by staff members of the Ministry of Agriculture in 21 meat processing facilities that handle beef, poultry and pork products.

2. These initial findings have been taken very seriously by the authorities, and facts are being thoroughly checked and investigated by the Ministry of Agriculture. The police operation itself is proof of the transparency and credibility of the existing controls. The investigation was initiated and entirely carried out by Brazilian authorities. President Michel Temer himself convened a meeting over the weekend of 18-19 March 2017 to assess the safety of domestic and international consumers with regard to the quality of the meat produced in the country.

3. Brazilian sanitary controls are solid and trustworthy. The Ministry of Agriculture is widely recognized for its rigorous and robust inspection service of products of animal origin, thus guaranteeing food safety and quality.

4. Brazil ranks among the biggest animal protein exporters in the world, and the standards of excellence of our products rate among the best of the world. High quality Brazilian meat and meat products are exported to more than 150 countries. For this reason, the Brazilian regulatory system is among the most frequently and strictly audited and monitored worldwide. It meets the requirements of several highly demanding markets and includes additional periodic inspections, monitoring and internal and external auditing based on risk assessment.

5. Some of the main programmes for controlling food quality and safety are well known to our importers: the National Plan for the Control of Residues and Contaminants (PNCRC), the Conformity Assessment Program for Animal Products (PAC-POA) and the Pathogens Reduction Program (PRP).

6. Since the unveiling of the investigations, several measures have been taken. The main concern and commitment is to ensure the safety and quality of the products. At the same time, although the allegations of misconduct by auditors are serious, they have to be put in perspective:

- Of MAPA's 11,000 workforce, 2,300 are auditors working on animal products sanitary inspection – but only 33 individuals are being investigated for improper conduct; all these public servants have been suspended pending the conclusion of ongoing administrative proceedings, in addition to the already launched criminal probe;
- Of the 4,837 animal product processing units subject to federal sanitary inspections, only 21 are allegedly involved in irregularities. Three of those have had their operations halted and all the 21 are being re-audited by headquarters officials as we speak, to verify any material evidence of nonconformities in the products. Moreover, the export authorizations to all these 21 units have been preventively suspended.
- In 2016 alone, 853,000 shipments of products of animal origin from Brazil were exported. Of those, only 184 shipments were considered non-compliant by the importing authorities - often because of non-sanitary requirements, such as labelling or incomplete paperwork;
- Finally, the investigations are not aimed at the agriculture and livestock inspection systems in place, whose rigor is widely recognized, but rather at a few instances of individual misconduct.

7. Brazil reaffirms the adequate maintenance of the official sanitary programmes and specific controls on products of animal origin domestically produced. The Ministry of Agriculture surveillance protocols and procedures are efficient and result in high-quality and safe food for consumption. We reiterate our commitment to continuously improve the guarantees of our sanitary control systems.

8. All relevant Brazilian governmental agencies are working together to clarify the matters under investigation and address any concerns that may be raised by our trading partners. Brazilian authorities have been in contact with authorities from importing markets since the unveiling of the investigation. It goes without saying that the Brazilian Mission in Geneva is available to take any queries or demands that may be presented to us in this regard.

9. Brazil hopes that Members take into account all the information that has been shared with partners and with this Committee, which will be updated as necessary. In this spirit of transparency and cooperation, we expect that Members do not resort to measures which would constitute arbitrary restrictions on international trade or run counter the disciplines of the SPS Agreement and other WTO rules.

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