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Brazil

Food Processing Ingredients Sector

Food Processing Sector Report

2000

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Report Highlights:

Brazilian economic stabilization through much of the late 1990's changed the domestic food processing sector. Today's competitive market demands more sophisticated, higher quality food products and more aggressive marketing, i.e. a greater variety of new products in an increasingly concentrated retail environment. The potential for U.S. ingredients and value-added products exists as the Brazilian industry continues to adjust to local and foreign demand.

Includes PSD changes: No
Includes Trade Matrix: No
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I. Market Summary

In response to the monetary devaluation in January 1999, the Brazilian food processing sector achieved unexpected results. According to the Brazilian Food Processors Association (ABIA), sector production increased 3.45 percent when compared to GDP growth of 0.82 percent. In dollar terms, the trade balance decreased 1.3 percent, meanwhile the production jumped 21.3 percent due to lower international prices for commodities, which directly affected the prices of processed food items. In 1999, the food industry revenue reached Reals (R\$) 92.3 billion, applying the average exchange rate of R\$ 1.81 per U.S. dollar, the sector figure is US\$50.9 billion. Considering the devaluation index, the Brazilian food industry increased its share from 9.1 percent to 9.8 percent of the country GDP, compared to 1998.

Food Processing Sector Trade Balance (US\$ Billions)

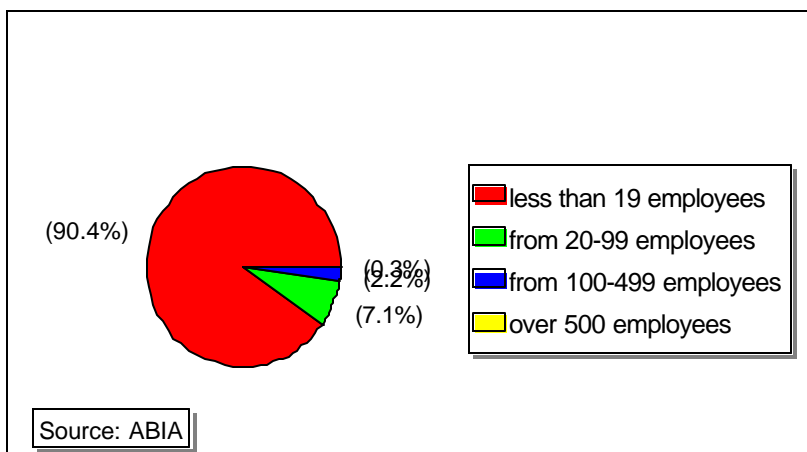
| | 1997 | 1998(1) | 1999(*) | 1999(**) |
|---------------------------|------|---------|---------|----------|
| Production | 73.1 | 71.3 | 50.9 | 76.7 |
| Exports (processed foods) | 9.2 | 8.6 | 8.5 | 10.3 |
| Imports (processed foods) | 2.3 | 2.1 | 1.6 | 1.3 |
| Domestic Consumption | 66.2 | 64.8 | 44.0 | 67.7 |

Source: ABIA; (*) exchange rate US\$1=R\$1.81; (**) exchange rate US\$1=R\$1.16

(1) ABIA/Brazilian Supermarket Assn (ABRAS)/ Brazilian Assn. of Industrial Products Wholesalers and Distributors (ABAD)

The Brazilian food industry is formed by over 45 thousand establishments, employing approximately 800,000 people. According to the Brazilian Institute of Geography and Statistics (IBGE), the food industry is the second largest sector of the economy after the petroleum industry. Nevertheless, the sector is mostly composed of small and medium sized companies, as illustrated having less than 4 employees.

Brazilian Food (1998)



petroleum industry. is mostly composed of companies, as illustrated having less than 4

Industry Profile

Basically, the food sector focuses on the domestic market, which takes 80 percent of the production. As in the rest of the economy, the food processing sector has been affected by the Government of Brazil (GOB) strategy of combating inflation through salary and demand contraction. The sector depends on the rhythm of economic growth, which means that expansion relies on structural changes in the economy. If those changes do not take place, the food industry cannot count on a positive growth rate. Nevertheless, the scenario becomes more optimistic when considering the dynamics of increased domestic urbanization and population growth.

Food Processing Sector Share per Segment (%)

| SECTORS | 1970 | 1974 | 1977 | 1980 | 1985 | 1990 | 1997 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Roasting and grinding coffee, tea and cereals | 25.8 | 25.1 | 22.9 | 19.5 | 17.9 | 18.9 | 16.8 |
| Slaughter/meat products | 20.5 | 20.8 | 18.8 | 22.6 | 17.7 | 12.6 | 13.9 |
| Sugar | 13.5 | 10.5 | 13.3 | 12.0 | 9.6 | 9.5 | 7.4 |
| Dairy | 11.4 | 11.9 | 13.1 | 11.7 | 10.3 | 14.7 | 19.2 |
| Bakery, Pastry and Ice-cream | 6.4 | 5.6 | 5.1 | 4.1 | 2.8 | 3.1 | 5.3 |
| Cake/Bread Mixtures and Cookies | 3.6 | 3.6 | 3.2 | 3.5 | 3.3 | 3.3 | 3.5 |
| Confectionery | 2.3 | 2.5 | 2.5 | 2.3 | 2.0 | 3.6 | 3.2 |
| Canned Fruit/Vegetables and Condiments | 3.4 | 4.5 | 5.7 | 7.1 | 9.0 | 10.5 | 8.4 |
| Canned Fish | 1.3 | 1.5 | 1.3 | 1.4 | 1.3 | 1.0 | 0.9 |
| Other Products | 11.8 | 14.0 | 14.1 | 15.8 | 26.1 | 26.4 | 24.6 |

Source: IBGE/ABIA

The key market drivers for the processed food industry in 1999, according to ABIA were the following sectors: confectionery, animal protein, dairy, mixtures, oils and fat, beverages, cereals, coffee and sugar, cookies, breads and cakes, canned vegetables and juices and ice-creams.

Advantages and Challenges Facing U.S. Products in Brazil

| Advantages | Challenges |
|---|--|
| The U.S. already has a high value added industry developed while Brazilian companies are developing to respond to this changing market. | The devaluation in January 1999 changed the imports trend. U.S. products became significantly more expensive. |
| U.S. suppliers are a reliable source, in what concern volume, standards and quality to food processors industry. | Brazilian companies buy imported items in the local market from a local importer. Local importers tend to be price oriented and want an exclusive arrangement. |
| The organic issue is getting more and more attention consumer and retail level. However, it has not been dealt beyond the fresh fruit/vegetables segment. | Promotional efforts will be needed to overcome price constraint and increase product awareness at consumer level. |
| The U.S. market is a trend reference to the Brazilian market. | A constant presence by U.S. companies is needed to build a long term relationship. |
| Present concern product content of biotechnology. | U.S. suppliers need to understand local labeling laws and consumer concerns. |

II. Road Map for Market Entry

A. Entry Strategy

To evaluate whether there is an opportunity for a product in the Brazilian market, U.S. exporters should initially contact ATO Brazil to get insights on best prospects and a market overview. As a primary strategy U.S. exporters should consider participating in major trade shows, which can offer a great opportunity to meet potential Brazilian buyers. The distribution of samples to importers, food processors and retailers is also recommended. The Brazilian food sector constantly looks to the American market for new trends and new products. U.S. companies can benefit from bringing up-to-date information on their products to distribute as a product profile. Success depends on having continuous relationship with importers, the food industry and retailers.

U.S. companies entering the Brazilian market need a strong distribution network with local storage, allowing small lot purchases, and a good technical and sales support staff. There are only a few brokers and agents that carry inventories. There could be significant benefits in approaching companies already present in the food ingredient, wholesale and/or retail sectors. Most of those companies are experienced with imported products and have access to the large and small key players in the food industry. Once a company enters the market, regular availability of product is crucial to consolidate market position.

B. Market Structure

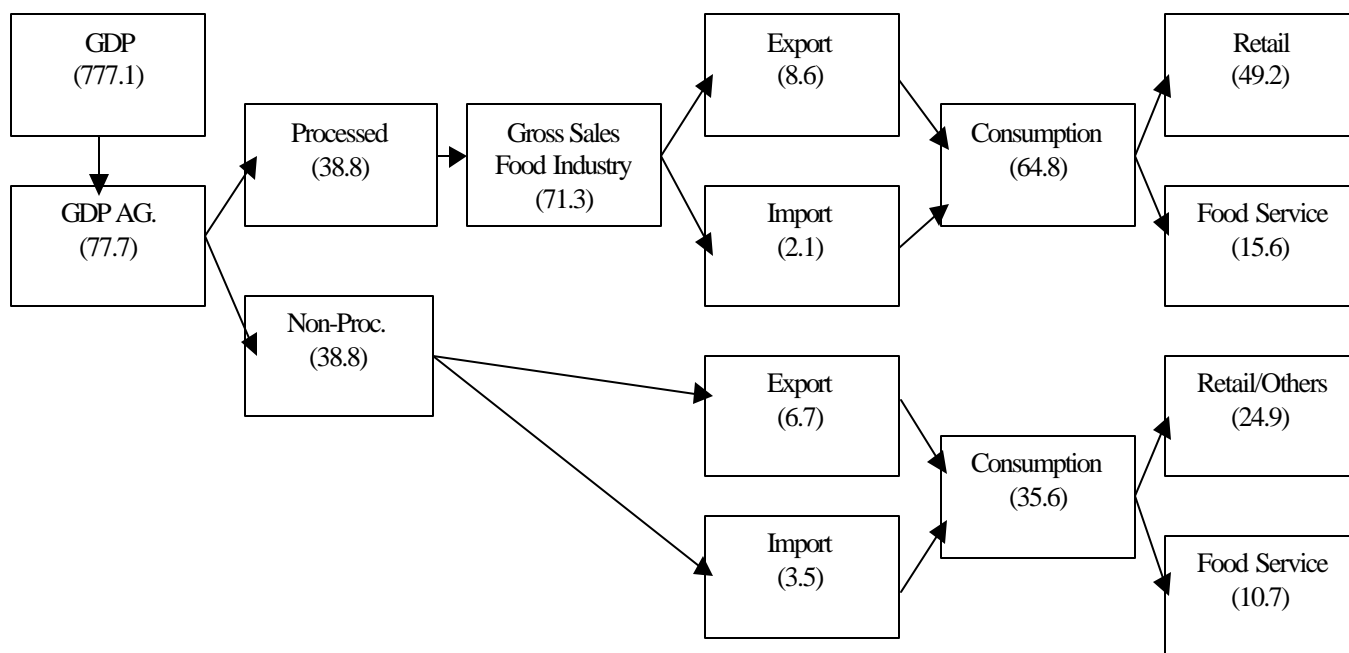
Brazilian food processing companies supply product items to retail and food service companies. According to ABIA, the distribution composition is 76 percent and 24 percent, respectively.

Very few Brazilian processors import products directly. Those who do import represent less than one percent of the

total sector. Many times companies are willing to test product and open a market and then seek a joint venture to gain use of the brand or develop a like product. They can take advantage of their large distribution network and financial resources to import significant volumes. High value products, such as frozen and convenience items, are actively imported with appropriate packaging/labeling to meet buyers' specifications.

Logistics and storage are the crucial issue regarding direct trade. Buying imported products from local companies means that the importer will be responsible for importing, stocking and distribution. At the retail level, imported items represent approximately 10 percent of total purchases, with directly imported items making up only one percent. Nevertheless, when retailers import directly they can raise their margins to 15 to 20 percent, instead of operating at 10 to 15 percent margins.

**Food Distribution
(US\$ Billions)**



Source: ABIA/ABRAS/ABAD (1998)

C. Company Profile

In Brazil, the top 10 food processing companies' revenues represent approximately 10 percent of the total market. American companies interested in entering the Brazilian market might consider contacting the following companies: Nestle, Ceval, Cargill, Sadia, Perdigao, Parmalat, Santista, Arisco and Quaker, which are the largest food processors in the local market. The following table gives a profile of the top Brazilian companies per segment:

| Company (Product types) | Sales (R\$Mil) | End-Use Channels | Production Location | Procurement Channels |
|----------------------------|-------------------|---------------------|------------------------|-------------------------|
|----------------------------|-------------------|---------------------|------------------------|-------------------------|

| | | | | |
|---|----------------------|-------------------|----------------|-------------------|
| RED MEATS/POULTRY MEAT PRODUCTS | 9,628,000 (1998) | | | |
| Ceval | 2,866,509 (A) (1998) | Retail/HRI | Santa Catarina | Importers, |
| Sadia | 1,561,710 (A) (1998) | Retail/HRI | SC(11) | Domestic |
| Perdigao | 1,236,163 (A) (1998) | Retail/HRI | São Paulo | Supplier (DS) |
| SEAFOOD PRODUCTS | 696,000 (1998) | | | |
| Coqueiro/Quaker | N/A | Retail/HRI | São Paulo | DS |
| Gomes da Costa | N/A | Retail/HRI | São Paulo | |
| Beira Alta/Unilever | N/A | Retail/HRI | São Paulo | |
| DAIRY PRODUCTS | 13,688,000 (1998) | | | |
| Danone | N/A | Retail/HRI | São Paulo | Importers, DS, |
| Nestle | N/A | Retail/HRI | São Paulo | DS of |
| Parmalat | N/A | Retail/HRI | São Paulo | Imported Items |
| PREPARED FRUIT, VEGETABLES and OILSEED PRODUCTS | | | | |
| Concentrated Fruit Juice | 122,000,000 (1995) | | | |
| Maguary/Philip Morris | N/A | Retail/HRI | Parana | DS |
| Da Fruta | N/A | Retail/HRI | Paraiba | |
| Jal/Citrovita | N/A | Retail/HRI | São Paulo | |
| Ice-cream/frozen products | 483,000 (A) (1998) | | | |
| Kibon/Gessy-Lever | 313,395 (A) (1998) | Retail/HRI | São Paulo | Importers, DS, |
| Sorvane/Gessy-Lever | 79,362 (A) (1998) | Retail/HRI | Pernambuco | DS of |
| Nutritional | 25,999 (A) (1998) | Retail/HRI | Parana | Imported Items |
| Canned Fruit/Vegetables | 6,148,000 (1998) | | | |
| Jurema/Cica | N/A | Retail/HRI | São Paulo | DS |
| Etti/Parmalat | N/A | Retail/HRI | São Paulo | |
| Arisco | N/A | | São Paulo | |
| Oilseed products | 2,399,897 (A) (1998) | | | |
| Braswey | 428,729 (A) (1998) | Retail/HRI/Manuf. | São Paulo | Importers, DS |
| Ceval Centro Oeste | 288,109 (A) (1998) | Retail/HRI/Manuf. | Mato Grosso | |
| Bianchini | 178,604 (A) (1998) | Retail/HRI/Manuf. | RS | |

| | | | | |
|------------------------|----------------------|-------------------|----------------|----------------|
| CONFECTIONARY PRODUCTS | 2,184,783 (A) (1998) | | | |
| Nestle | N/A | Retail/HR | São Paulo | Importers, DS, |
| Kraft Lacta Suchard | 568,248 (A) (1998) | Retail/HRI | São Paulo | DS of |
| Chocolates Garoto | 309,018 (A) (1998) | Retail/HRI | Espirito Santo | Imported |
| M Dias Branco | 212,226 (A) (1998) | Retail/HRI | Ceara | Items |
| BAKED PRODUCTS | 1,612,801 (A) (1998) | | | |
| J Macedo Alimentos | 350,092 (A) (1998) | Retail/HRI/Manuf. | São Paulo | DS |
| Cruzeiro do Sul | 154,130 (A) (1998) | Retail/HRI/Manuf. | RS | |
| Plus Vita | 143,840 (A) (1998) | Retail/HRI/Manuf. | São Paulo | |
| SNACK FOODS | N/A | | | |
| Elma Chips | N/A | Retail/HRI | São Paulo | Importers, DS |
| Pringle's | N/A | Retail/HRI | São Paulo | |
| BEVERAGES | | | | |
| Beer | N/A | | | |
| Brahma | 7,000,000 (D) (1998) | Retail/HRI | SP(24) | Importers, DS |
| Antarctica | 3,290,000 (D) (1998) | Retail/HRI | SP(37) | |
| Kaiser | 1,300,000 (D) (1998) | Retail/HRI | SP (8) | |
| Sodas | 2,864,000 (C) (1999) | | | |
| Coca-Cola | N/A | Retail/HRI | São Paulo | DS |
| Antarctica | N/A | Retail/HRI | São Paulo | |
| Brahma/Pepsi | N/A | Retail/HRI | São Paulo | |
| Mineral Water | 181,900 (C) (1999) | | | |
| Minalba | N/A | Retail/HRI | São Paulo | DS |
| Indaia | N/A | Retail/HRI | São Paulo | |
| Crystal | N/A | Retail/HRI | São Paulo | |
| Spirits | 87,100 (C) (1999) | | | |
| Gatorade/Quaker | N/A | Retail/HRI | São Paulo | DS |
| Taffman-E/Yakult | N/A | Retail/HRI | São Paulo | |
| Marathon/Brahma | N/A | Retail/HRI | São Paulo | |
| Brandies | N/A | | | |

| | | | | |
|---------------------------------|--------------------|-------------------|----------------|---------------|
| Stock | N/A | Retail/HRI | São Paulo | DS |
| Cointreau | N/A | Retail/HRI | São Paulo | |
| Bols | N/A | Retail/HRI | São Paulo | |
| Wine | N/A | | | |
| Almaden | N/A | Retail/HRI | RS | DS |
| Marcus James | N/A | Retail/HRI | RS | |
| Chateau Duvalier | N/A | Retail/HRI | RS | |
| DRY GOODS and CONDIMENTS | | | | |
| Dry mixes | 9,400,000 (1998) | | | |
| Sol | N/A | Retail/HRI/Manuf. | São Paulo | DS |
| Sadia | N/A | Retail/HRI/Manuf. | Santa Catarina | |
| Yoki | N/A | Retail/HRI/Manuf. | São Paulo | |
| Pasta | N/A | | | |
| Basilar | N/A | Retail/HRI | São Paulo | DS |
| Adria | N/A | Retail/HRI | São Paulo | |
| Petybon | N/A | Retail/HRI | São Paulo | |
| Pet Food | 950,000 (B) (1999) | | | |
| Ralston Purina | N/A | Retail | São Paulo | Importers, DS |
| Nestle | N/A | Retail | São Paulo | |
| Royal Canin | N/A | Retail | São Paulo | |
| Condiments | 394,233 (A) (1998) | | | |
| Yoki | 103,093 (A) (1998) | Retail/HRI/Manuf. | São Paulo | DS |
| Coniexpress | 103,003 (A) (1998) | Retail/HRI/Manuf. | Goiás | |
| Oderich | 55,830 (A) (1998) | Retail/HRI/Manuf. | RS | |
| SPECIALIZED FOOD INGREDIENTS | | | | |
| Sauces | 957,000,000 (1998) | | | |
| Arisco | N/A | Retail/HRI/Manuf. | Goiás | DS |
| Parmalat | N/A | Retail/HRI/Manuf. | RS | |
| Quaker | N/A | Retail/HRI/Manuf. | São Paulo | |
| Sweeteners | 106,900 (C) (1999) | | | |

| | | | | |
|-------------------|--------------------|-------------------|----------------|---------------|
| Zero Cal | N/A | Retail/HRI/Manuf. | São Paulo | DS |
| Finn | N/A | Retail/HRI/Manuf. | São Paulo | |
| Doce Menor | N/A | Retail/HRI/Manuf. | São Paulo | |
| PREPARED MEALS | | | | |
| Frozen Vegetables | 143,000,000 (1998) | | | |
| Perdigao | N/A | Retail/HRI | São Paulo | Importers, DS |
| Bonduelle | N/A | Retail/HRI | São Paulo | |
| Ready-to-eat | 118,000,000 (1998) | | | |
| Sadia | N/A | Retail/HRI | Santa Catarina | Importers, DS |
| Perdigao | N/A | Retail/HRI | São Paulo | |
| Nestle | N/A | Retail/HRI | São Paulo | |

(A) Gazeta Mercantil/values in R\$ refers to net income

(B) National Association of Pet Food Processors (ANFAL-Pet)

(C) A.C. Nielsen/values in R\$ refers to retail revenues

(Rio Grande do Sul=RS, São Paulo=SP, Santa Catarina=SC, Espirito Santo, ES))

Source: ABIA

D. Sector Trends

According to ABIA, the food processing sector increased 28.2 percent in production and 39.1 percent in sales in the last 6 years. In addition, Brazil never before had registered the amount of direct foreign investment (DFI) in the economy as registered during the Real Plan, the stabilization policies implemented in July 1994. In 1970, the volume of DFI was US\$ 3 billion. Then, increased from US\$ 4 billion in 1995 to US\$ 30 billion in 1999.

Investments of the food processing sector in advertising/new products/equipment

| | US\$ million | Investments in new products |
|------|--------------|-----------------------------|
| 1995 | 2,576 | 20% |
| 1996 | N/A | N/A |
| 1997 | 2,898 | 22% |
| 1998 | 2,767 | 22% |
| 1999 | 1,526 | 50% |

Source: ABIA

According to Price Waterhouse, during the first period of the Real Plan:

- The purchase of share quotas or the totality of shares increased 60 percent.
- Foreign capital acquisition reached 38 percent of the total trade.

- 78 percent of joint ventures involved multinationals (62 percent of joint ventures were between national and multinational and 16 percent between multinationals).
- 250 was the number of corporate finance transactions per year.
- 39 percent of foreign acquisitions were made by U.S. companies.

Type of transactions (1995)

| | |
|------------------------------|-----|
| Total acquisition or control | 41% |
| Joint Venture | 32% |
| Non control participation | 19% |
| Fusion | 5% |
| Incorporation | 3% |

Source: Price Waterhouse

Local food processors enjoyed a high level of protection for many years. However, since the early 1990's the sector has benefitted from transnational management and technology improvements brought about by the presence of foreign competition and foreign participation in local companies. The situation has changed as deregulation of food prices and imports followed and competition stiffened. Today, with an increasingly concentrated environment, the food industry is going through structural changes as many new players have entered the market. The offer of a greater variety of new products has become the key for success. The industry emphasis has been moving towards frozen, ready and semi-ready products. As the market for food service increases, the food industry is developing new products to services the hotel, restaurants and institutional food sector.

III. Competition

U.S. food exporters are at a disadvantage to members of the MERCOSUL trade pact due to duty free tariffs. As the market block expands further, competition will get tougher. Competition from European countries represents yet another challenge for U.S. exporters. Because of the foregoing, U.S. companies might focus on value-added products as Brazilians in major urban centers are changing their consumption habits. As time for food preparation decreases, the buying consumption pattern shift towards easy-to-prepare convenience foods. The local industry has had to adapt to this new reality.

Many Brazilian consumers are unwilling to spend more to save time on preparing their meals but they are not willing to sacrifice quality. This combination of time versus quality leads to a higher demand for premium convenience products among middle and upper income consumers.

Due to the January 1999 devaluation, the size of unessential item purchases, including some imported foods, has decreased. In addition, some imported products have been replaced by locally produced items, due to product lines expansion and joint ventures. Nevertheless, the Brazilian market has not been fully exploited. There is room to increase overall U.S. market share.

The forecasts for the Brazilian economy is optimistic. Analysts project positive GDP growth for the coming years, due

to the structural changes underway and present performance of the economy. Regardless of the food sector accomplishments, however, U.S. exporters need to track regulations for imported items as the market has shown to be very sensitive in the last five years. In addition, biotechnology and labeling have become issues.

IV. Best Product Prospect

A. Products Present in the Market Which Have Good Sales Potential

From 1994 to 1999, ABIA conducted research to evaluate what products had the best growth performance. The results were the following: yogurt (90.8 percent), sodas (88.4 percent), beer (65.2 percent), cheese (53.9 percent), cookies (49.9 percent), pork products (33.3 percent), poultry products (43.2 percent), meat products (29.1 percent) and fish products (4.6 percent). The Association also estimates growth of 6-8 percent for the canned vegetables and juice segments and 5-7 percent to dehydrated foods.

B. Products Not Present in Significant Quantity but Which Have Good Sales Potential

The food processing industry covers nearly every niche market. Although, according to A.C. Nielsen Brazil, there are areas in the sector that still have eminent room to growth. When comparing Brazilian per capita consumption with other MERCOSUL members, this fact becomes evident. Per capita consumption of cookies, tomato sauces, cereals, yogurt, instant noodles and snack foods are much lower than in Argentina and Chile. Other segments still not explored by the local industry are health foods, processed organic foods and many semi-baked products.

C. Products Not Present Because They Face Significant Barriers

U.S. companies should consider consulting with the U.S. Agricultural Trade Office before approaching the Brazilian market as in specific cases the growth trend do not necessarily means that there are opportunities for U.S. exports. However, when analyzing those trends American companies should consider supplying ingredients and developing private label products for local companies.

V. Post Contact and Further Information

If you have any question or comments regarding this report or need assistance exporting processed food products to Brazil, please do not hesitate to contact the U.S. Agricultural Trade Office in São Paulo at the following address:

U.S. Agricultural Trade Office

AMCONGEN, São Paulo

Unit 3502

APO AA 34030-3502

or

Alameda Santos, 2224, conj. 11

01418-200 São Paulo, SP, Brazil

Phone: 55-11-282-3528

(after Sept 2, 2000, tel: 3082-3528)

Fax: 55-11-883-7535 (after Sept 2, 2000, fax: 3083-7535)
E-mail: ATOSaoPaulo@fas.usda.gov or atosp@unisys.com.br

Other information sources include:

Brazilian Food Processors Association (ABIA)

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