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Spain

Food Processing Ingredients Sector

Spain - Food Processing Industry

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Report Highlights:

The Spanish food processing industry, with 36,970 companies, is one of the 5 largest within Europe. It represents 20 percent of total Spanish industrial production.

Total food production in 1999, was 9.17 trillion pesetas. Most raw materials used by this industry are sourced in Spain or in other EU countries.

Food distribution is very strong, with about 50 percent of total food products distributed by only 10 large companies. This is a handicap when the retail food industry negotiates with this sector.

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I. Market Summary

Spain is a politically stable country and the economic situation is better than it has been for many years. GDP grew about 3.7 percent in 1999, and a further increase of 4 and 3.6 percent is expected for 2000 and 2001 respectively. In addition unemployment has been declining, about 14 percent during the first quarter of 2000, although still higher than in other EU countries. In 1999, the inflation rate was 2.9 percent, nevertheless a 2.0 percent is expected for 2000. Spain is among the first group of EU countries accepted in the monetary union. Per capita annual income during the second semester in 1999 was estimated at about \$15,236.

Rising income coupled with a decrease in the unemployed people, allows more expenditures on basic as well as on luxury goods. More quality and new niche market products have greater possibilities in the Spanish market.

Spain's population is about 39.8 million people. It has been estimated that by 2005, 20 percent of the population will be over 65 years old, and the normal family will be comprised of at most four people, with two members of the family working. Many homes will be comprised of only one person. Purchasing power will be higher, and the time required to buy and prepare foods will be reduced. The so called "Mediterranean diet" will continue to play an important role, being considered healthy due to the diversity of food products.

Traveling to other countries together with an always growing flow of tourists, increased the demand for new products and the interest in ethnic foods and restaurants.

Spanish consumers are very sensitive about food safety issues, any food problem is widely broadcast, and adequate measures are taken immediately.

Since Spain joined the EU this industry, has been making large investments to improve productivity and quality to compete in the European market. About 25 to 30 percent of the volume of business is managed by international companies.

Larger companies have been increasing the quality control, while the small companies have difficulties due to the high costs to implement the measures to produce more competitively, with higher quality products.

Within the four components of the marketing mix, price does not have as much weight as previously. Service to the customer and product improvement are more important, although this is not true in all products, especially for basic items. This is a consequence of the higher income.

Advantages and Challenges for U.S. Suppliers to the Spanish Market

Advantages	Challenges
There are some niche markets, example: Tex-Mex products, juices	High promotion costs to introduce new products
High quality of U.S. products	Certain products have to pay high customs duties to entry EU countries.
Increase of imports of U.S.seafood products.	U.S. food products have to comply with EU labeling and packaging
Increasing demand of products for U.S. type food in fast food restaurants	High shipping costs from the U.S.
Growing demand of organic products, low-fat, sugarless products.	Reluctancy to use products containing genetically modified ingredients

II. Road Map for Entry Strategy

A. Market Strategy

The Spanish food processing industry is one of the five largest within the European countries. It represents 20 percent of total Spanish industrial production, being the principal industrial group in the country followed by the motor vehicles industry with 17 percent of the total. About 17 percent of the labor force is employed by the food industry. Raw materials represent about 60 percent of cost of total production. These are sourced mainly in Spain and in other European markets. The origin depends on availability, related to factors like droughts, when crops are reduced or where are fewer areas where the Spanish fleet can fish. These factors drive to an increase of imports.

The Spanish market is a series of regional markets, Madrid and Barcelona being the main markets, and from where the majority of agents, distributors, importers and government-controlled entities operate. The key for a U.S. exporter would be to appoint an agent or distributor or to establish a subsidiary. A representative in Spain would be more aware of the different consumption attitudes and preferences in each of the 17 different Spanish autonomous regions.

B. Market Structure

Total food production in 1999 was valued at 9.17 trillion pesetas, this is a current value increase of 2.8 percent. Spanish consumers spent 8.8 trillion pesetas, representing an increase of 2.3 percent from 1998. The products that experienced a higher increase were non-alcoholic beverages, dairy products, juices and processed seafood products. Total grocery sales in 1999 through food distribution chains or groups were 6.57 trillion pesetas, this is an increase of 10.1 percent increase from the previous year. About 28 percent of total food expenses took place through the HRI sector.

In 1999, there were only 44,374 traditional outlets. While large supermarkets and hypermarkets have begun to slow expansion, the number of medium size supermarkets and discount outlets is increasing. The number of discount outlets is also growing.

In 1998, just 10 companies accounted for about half of total food sales, and 20 companies held about two-thirds of the sales. A good example of the trend toward fewer and larger companies was the merger between Promodes and Carrefour in 1999, which became Grupo Carrefour. This group has a market share of 22 percent of total grocery retail sales. In addition, several small supermarkets have been bought by larger groups, and Caprabo, a Spanish company, is expanding in an attempt to compete with the Carrefour group. In 1999 alone, the number of Caprabo outlets grew from 233 to 287. Furthermore, smaller grocery retail chains continue to be taken over by larger companies. Currently, there are only two large groups: Euromadi Iberica and IFA Española.

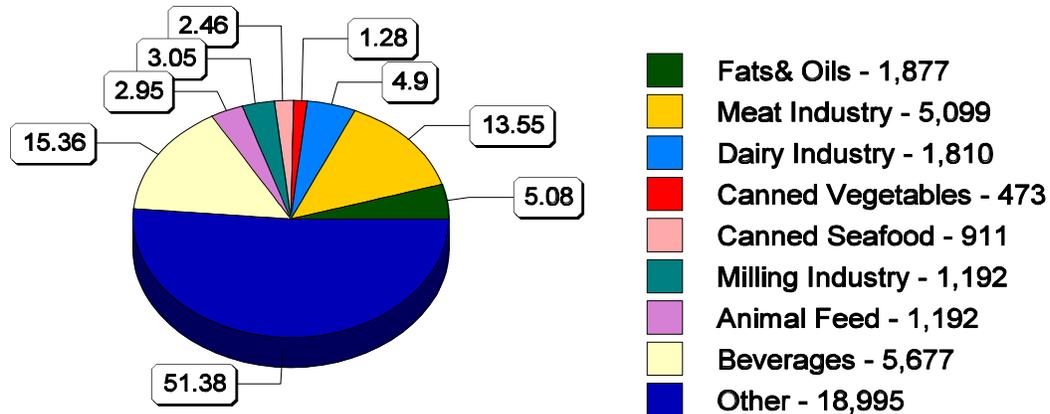
Food producers are concerned about the increasing power that these groups are gaining, complaining that their market position allows them to extract lower prices from farmers. Meanwhile, the food sector companies report fierce competition, lower prices, and narrower profit margins.

C. Company Profiles

Official data indicate that in 1999 there were 36,970 food processing plants in Spain. Total number has been declining in recent years. Many small companies have merged into larger ones, nevertheless, this sector is still highly fragmented. About 65 percent are small companies with 1 to 5 workers, while only 5 percent have more than 50 employees.

Fresh products, seafood, fruits and vegetables are distributed through the 22 wholesale markets distributed around Spain. As mentioned above in 1999, 72 percent of total food was consumed at home, while 28 percent through the HRI sector. About 45 percent of total fresh products, like fruits, vegetables, meat and seafood products are sold through the traditional stores, although the share of these products in the distribution chains is increasing. Purchases of grocery products are managed directly by each distribution group. Processed products are mainly sold through supermarkets, small self-service outlets and hypermarkets. The largest share of beverages is sold at the HRI sector.

Food Processing Industries



Co mpany & Prod. Types	Sales in 1998 Mil. Euros	End-Use Channels	Procurement Channels
NESTLE España, S.A, Processed Foods in general	1,072	Retail & HRI	Importers, Direct
Campofrio Alimentación, S.A. Meat Products	675	Retail & HRI	Importers, Direct
Danone, S.A. Dairy Products	668	Retail & HRI	Importers, Direct
Azucarera Ebro Agrícolas Processed Foods in general	619	Retail & HRI	Importers, Direct
Leche Pascual, S.A. Dairy, Brkfst cereal, juices	601	Retail & HRI	Importers, Direct
Cargill España, S.A. Fats & Oils	594	Retail & HRI	Importers, Direct
Pedro Domecq, S.A. Alcoholic Beverages	577	Retail & HRI	Importers, Direct
Koipe, S.A. Fats & Oils	550	Retail & HRI	Importers, Direct

D. Sector Trends

Prior to Spain's accession into the EU many foreign food companies began to buy or participate in Spanish food processing companies. This tendency has continued until present. According to trade reports, in the beverages sector alone, in 1998, foreign companies generated about 53 percent of total sales. In Spain the companies totally or partially owned by a foreign group accounted for 25 to 30 percent of total sales. Most of the foreign companies are among the main 50 companies of each sector.

Spanish exports of processed food products in 1999 grew by 4.7 percent, while imports grew by 2.9 percent. There is an always increasing consumer demand for a wider variety of new products, low-fat, low cholesterol, and healthier foods. In general imports and exports of processed products are almost at the same level. While, exports are slightly larger than imports, in the past the opposite was true. The trend was reversed due to the increasing development of the Spanish food processing industry. In 1999 imports growth rate was lower in comparison to the previous years due to an unfavorable Euro/\$ exchange rate.

The number of ethnic food restaurants is increasing this represents a demand of tex-mex products, for instance.

III. Competition

Spain is a large producer of agricultural products. During the recent years harvesting and handling of raw materials has improved. While production of processed food is based on the availability of raw products, (and dependent on whether there is a drought or a large production of a certain product), most of the raw materials used by the food industry are of Spanish or EU origin.

IV. Best Products Prospects

A. Products present in the market which have good sales potential are as follows:

- Seafood in general, and lobster, monkfish, whiting, squid, salmon, in particular
- Treenuts: almonds and walnuts
- Pet foods
- Tex-Mex products
- Bourbon

B. Products not present in significant quantities but which have good sales potential are as follows:

- Fresh fruit: pink grapefruit, apples
- Surimi
- Ingredients to prepare fruit & vegetables juices
- Preparations to prepare extruded snacks

C. Products are not present because they face significant barriers:

All poultry and red meat products.

V. Post Contact and Further Information

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For further information check the "Agricultural Affairs" home page on the U.S. Embassy Madrid web site:
www.embusa.es

The Federation of Food and Beverage Producers has links to contact the different associations: www.fiab.es

NOTE: Average exchange rate: 1997: 146.41 pesetas/\$1; 1998: 149.40/\$1; 1999: 156.33/\$1.
Current exchange rate: 186 pesetas/\$