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**Brazil**

**Food Processing Ingredients Sector**

**Report**

**2001**

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**Report Highlights:** The Brazilian food processing industry went through positive structural changes during the 1990's. Today, local manufactures produce an expanding array of higher value-added products. Concurrently, demand for high quality ingredient increased. U.S. companies interested in exporting ingredients or products should dedicate time and effort to know who the top processors are in order to penetrate the market and understand local needs.

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## I. Market Summary

In 2001, Brazil faces a electrical energy shortage, which led Government of Brazil (GOB) mandate a 20 percent reduction in overall consumption. The GOB forecasts the crisis to end in early 2002 as water levels in reservoirs recover somewhat. Moreover, economic uncertainties in Argentina directly affected the Brazilian economy and capital inflows of foreign direct investment (FDI), forcing the GOB to revise GDP growth projections downwards. GDP growth is expected to achieve 2 percent in 2001 and the inflation rate may not exceed 8 percent. Trade analysts forecast the exchange rate to oscillate around R\$2.80/US\$1 through the end of the year. Furthermore, the terrorist attacks on the U.S. are also expected to restrict external demand and FDI towards emerging markets in 2001 and 2002. Assuming an improvement in the world economy, Brazil will presumably register a positive GDP growth of approximately 3 percent in 2002.

Despite economic crisis, the Brazilian food industry demonstrated positive performance. In 2000, industry revenues amounted R\$100.6 billion (R\$1.83/US\$1), which represented 10 percent of the national GDP. The food processing industry increasingly gained ground in the local market in recent years. Following trade liberalization in the mid-1990's, the sector invested heavily in technology. Additionally, the concurrent increased foreign competition led to a sharp rise in productivity, product diversity and general quality, stimulating sector expansion. Dynamism, combined with a solid structure, enabled the food processing industry to overcome recent and current economic challenges. According to trade analysts, the food processing industry is forecasted to achieve 7.5 percent growth (nominal values) in 2001.

### Food Processing Sector Trade Balance (US\$ Billion)

	1998	1999	2000	2001*
Production	71.3	49.1	54.9	38.6
Exports (processed foods)	8.6	6.6	7.5	8.9
Imports (processed foods)	2.1	0.8	1.4	0.9
Domestic Consumption	64.8	43.3	48.8	30.6
Exchange Rate (R\$/US\$1)	R\$1.16	R\$1.81	R\$1.83	R\$2.80

Source: Brazilian Food Processors' Association (ABIA)

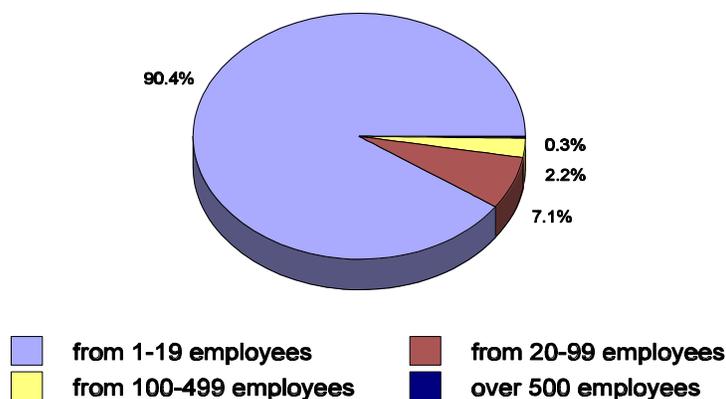
\* Current trend analysis

In 1999, according to the latest report of the Ministry of Labor and Employment (MTE), the Brazilian food industry comprised 40,000 legally established companies, employing approximately 770,000 individuals. The food sector focuses basically on the domestic market, which account for about 90 percent of revenues. The sector is composed mostly of small and medium sized companies. Approximately 90 percent of food processors are small companies (1 to 19 employees).

According to ABIA, the food processing plants are located predominantly in the following states:

- # Large size companies (over 500 employees): São Paulo, Rio Grande do Sul, Santa Catarina, Pernambuco, Alagoas, Minas Gerais, Paraná and Ceará.
- # Mid size companies (from 100-499 employees): São Paulo, Rio Grande do Sul, Minas Gerais, Paraná, Rio de Janeiro, Pernambuco, Goiás, Santa Catarina, Mato Grosso do Sul, Mato Grosso, Ceará and Bahia.
- # Small size companies (from 20-99 employees): São Paulo, Minas Gerais, Rio Grande do Sul, Paraná, Rio de Janeiro, Santa Catarina, Goiás, Bahia, Pernambuco and Ceará.

### Brazilian Food Industry Profile (1998)

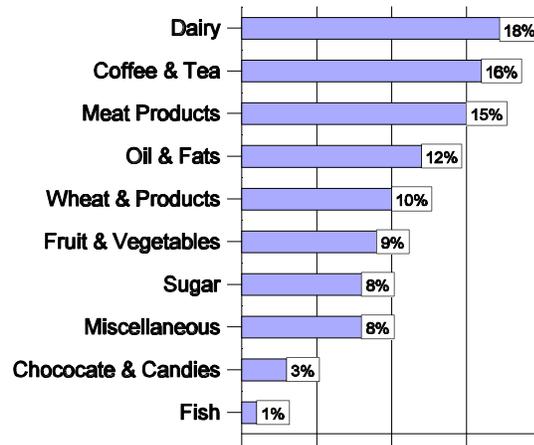


Source: ABIA

While a major producer of coffee, sugar cane, orange, soybean, manioc flour, maize, cacao, meat, pork, poultry and milk, Brazil is not self-sufficient in processed foods. To benefit from local resources, and gain certain comparative advantages in their market, Brazilian food processors work closely with local producers to aggregate the value of domestic production. Pressure on the bottom line leads to an emphasis on the top line, consequently pushing the industry to create new products. According to data from ABIA, published in 1999, there are over 820 types of products in the Brazilian market.

During the initial years of the Real Plan, which stabilized the Brazilian economy, the food industry benefitted from the decrease of import tariffs on technology and equipment to upgrade and modernize. Basically, this period was marked by major food processors becoming major importers taking advantage of their large well developed distribution networks and financial resources to import large volumes. As a follow-on, joint-ventures were established and many products formerly imported started to be produced in Brazil. Those changes have led to the general improvement of quality of consumer value-added products, a process which has been sustained by the increase in importation of ingredients and raw materials.

### Breakdown of Major Processed Food Segments in Brazil (% of Total)



Source: ABIA (1999)  
(Food Industry Revenues= US\$ 43.3 billion)

### Advantages and Challenges to be Faced by U.S. Exporters in Brazil

Advantages	Challenges
The U.S. already has a high value-added industry developed while Brazilian companies are developing to address emerging needs.	The monetary devaluation since 1999 negatively affected imports trend. U.S. products became significantly more expensive.
U.S. suppliers are seen by local food processors as a reliable source, in terms of volume, standards and quality.	U.S. exporters may enter the market through 3 different segments -- ingredients, consumer value-added products (own brands) and exclusive distribution contracts (exporter brand).
The organic processing industry in the U.S. offers a wide range of products.	The domestic organic issue is getting more and more attention, mainly focused on the fresh fruit/vegetables segment. The organic processed segment is still largely nonexistent.
The U.S. food industry market is a reference for the local industry.	U.S. suppliers should be a constant presence in the market to communicate with potential buyers and build long-term relationships, thereby influencing industry development.

## II. Road Map for Market Entry

### A. Entry Strategy

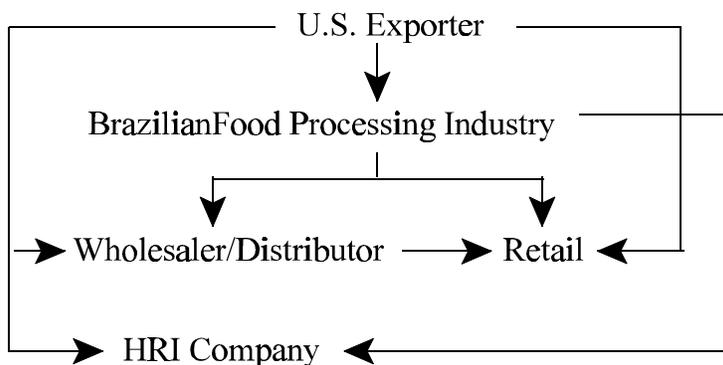
To evaluate whether there is an opportunity for a product in the Brazilian market, U.S. exporters should initially contact ATO Brazil to get insights on best prospects and a market overview. As a primary strategy, U.S. exporters should consider participating in major trade shows, which can offer a great opportunity to meet potential Brazilian buyers. The distribution of samples 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, such as a product profile. Success depends on having continuous contact with importers, the food industry and even retailers to build business relationships.

U.S. companies entering the Brazilian market need the support of a strong distribution network with local storage, allowing for 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

The Brazilian food processing industry distribution system serves all different channels: HRI, retail, wholesale and other food processing companies. Negotiations with wholesalers and distributors may include semi-exclusive contracts with limitations on geographic areas covered and/or restrictions on product lines available to a company's competitors. Retail segment purchases are made directly from food processing companies. As for the HRI sector, the number of food companies creating specific departments to attend the food service sector is increasing. The HRI still being supplied, however, by domestic wholesalers and distributors.

#### Food Ingredient Distribution System



### C. Company Profile

In 2001, the Brazilian Supermarket Association (ABRAS) published a study conducted by A.C. Nielsen during April 2000-April 2001. The results identify the top food and beverage brands at retail level (market share evaluated in value) as follows. Review of the results may give U.S. exporters directions on potential contacts.

PRODUCT CATEGORY	TOP 3 BRANDS		
	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
BEER	Skol	Brahma	Kaiser
BOLOGNA	Bolognella	Marba	Confianca
BOTTLED TEA	Lipton	Mate Leao	Parmalat
BOUILLON CUBES	Knorr	Maggi	Arisco
BREAD	Wickbold	Panco	Seven Boys
CAKE	Bauducco	Ana Maria	Panco
CANNED SARDINE	Coqueiro	Gomes da Costa	Rubi
CANNED TUNA	Coqueiro	Gomes da Costa	CPC
CAPPUCCINO	3 Coracoes	Puccino	Nescafe Cappuccino
CEREALS	Kellogg's	Nestle	Nescau
CHEESE (specialties)	Vigor	Teixeira	Campo Lindo
CHEESE (natural)	Danubio	Frescatino	Keijobom
CHEESE (requeijão)	Pocos de Calda	Itambe	Nestle
CHOCOLATE (powder)	Nescau	Toddy	Nesquik
CHOCOLATE	Especialidades	Garoto	Grandes Sucessos
CHOCOLATE (bar)	Prestigio	Chokito	Nescau
CHOCOLATE (tablets)	Garoto	Classic	Laka
COCONUT MILK	Sococo	Ducoco	Serigy
COFFEE	Pilao	Melitta	Do Ponto
CONDENSED MILK	Moca	Gloria	Mococa
CONDIMENT	Sazon	Arisco	Maggi
CONFECTIONERY	Halls	Tic-Tac	Garoto
COOKIE	Passa Tempo	Trakinas	Bauducco

CRAKER	Aymore	Fortaleza	Tostines
CREAM CHEESE	Polenghi	Danubio	
DAIRY CREAM	Nestle	Gloria	Parmalat
DESSERTS (refrigerated)	Chandelle	Danette	Nestle
ENERGETIC DRINKS	Red Bull	Flash Power	Flying Horse
FLAVORED MILK	Toddynho	Nescau	Parmalat
FOOD SUPPLEMENTS	Mucilon	Farinha Lactea	Maizena
FRUIT DRINK MIXES	Tang	Frisco	Clight
GUM	Trident	Bubballo	Adams
HAM	Sadia	Perdigão	Seara
HAMBURGER MEAT (frozen)	Sadia	Perdigão	Seara
ICE-CREAM	Kibon	Yopa	Tazza D'oro
INSTANT COFFEE	Nescafe Tradição	Nescafe Matinal	Instantaneo
INSTANT NOODLES	Nissin	Monica	Maggi
ISOTONIC DRINKS	Gatorade	Marathon	Taffman-E
JELLO/PUDDING/FLAN	Royal	Oetker	Sol
JUICE	Del Valle	Santal	Tampico
JUICE (concentrated)	Maguary	Dafruta	Jal
KETCHUP	Pic	Arisco	Etti
LINGUICA	Perdigão	Sadia	Seara
MAYONNAISE	Hellmann's	Gourmet	Maionegg's
MARGARINE	Qualy	Doriana	Delicia
MARMALADE	Cica	Predilecta	Etti
MILK (aseptic)	Parmalat	Elege	Lider
MINERAL WATER	Minalba	Crystal	Indaia
MIX/DOUGHS	Sol	Oetker	Wilma
OLIVE OIL	Gallo	Carbonel Esp.	Andorinha
PASTA (dry)	Basilar	Adria	Petybon

PASTA (frozen)	Sadia	Frescarini	Apreciatta
PETIT SUISSE	Danoninho	Chambinho	Batavinho
POWDERED MILK (spec.)	Alsoy/Nan Soy	Nan H.A.	Mom
POWDERED MILK	Ninho	Itambe	Molico
PRESERVED VEGETABLES	Quero	Etti	Jurema
RICE	Tio João	Camil	Prato Fino
SAUSAGE	Sadia	Perdigão	Seara
SNACK FOOD	Ruffle's	Chee-tos	Yoki
SODAS	Coca-Cola	Antarctica	Fanta
SOUPS	Maggi	Knorr	Arisco
SUGAR	Uniao	Da Barra	Nova America
SWEETENER (liquid)	Zero Cal	Finn	Assugrin
SWEETENER (powder)	Finn	Zero Cal	Gold
TEA	Matte Leao	Leao	Oetker
TOMATO PASTE	Elefante	Quero	Arisco
TOMATO SAUCE	Cica	Pomarola	Marinara
TOMATO (pieces)	Pomarola	Salsaretti	Tarantella
TOMATO PUREE	Quero	Pomodoro	Tomato
VINEGAR	Castelo	Toscana	Minhoto
WAFER	Bauducco	Danone	São Luiz
WHEAT FLOUR	Dona Benta	Sol	Nita
WINES	Almaden	Marcus James	Chateau Duvalier
YOGURT	Danone	Nestle	Paulista

Source: ABRAS/A.C. Nielsen

## D. Sector Trends

In 2001, food industry executives were expecting expanded demand for higher value-added products. The industry was prepared to launch new products and invest in new plants. Due to monetary devaluation, however, the foreign market became a priority for the food industry. Nevertheless, in recent years, ready-to-eat (or heat-n-eat) and frozen products were spot lighted. With the increase of consumer purchase power during the Real Plan (1994 to present), 15-20 million new consumers were incorporated in the market. In addition, the increase in purchasing power oriented high-end consumers towards products of higher value-added characteristics, especially frozen and dairy, as reported by ABIA. Assumed a better economic environment in 2002, the industry will still look for ways to add value for consumers, in terms of more convenience, time saving, shelf life, taste and health.

According to A.C. Nielsen, from April 2000 to April 2001, the following segments registered sales increase at the retail level when compared to the same period of the preceding year.

CATEGORY	GROWTH (%)	GROSS SALES (R\$)	VOLUME
Beer	13	2.6 billion	1.4 billion liters
Chocolate	7.9	388.6 million	37,900 tons
Chocolate (powder)	6	383.9 million	88,700 tons
Condensed Milk	10	408.2 million	123,100 tons
Condiments	4	213 million	38 tons
Confectionery	11.9	100 million	171,000 packs
Mayonnaise	4.6	370 million	76,000 tons
Milk (aseptic)	3.2	1.8 billion	1,800 billion liters
Mineral Water	15.5	204 million	531 million liters
Olive Oil	9.6	279 million	20,978 tons
Snack Food	1.4	519.4 million	46,000 tons
Sodas	8.7	3.2 billion	4.3 billion liters
Tomato Paste	3.3	271 million	81,000 tons
Yogurt	3	838.6 million	276,000 tons

Source: ABRAS/A.C. Nielsen

### III. Competition

After the initial 1999 devaluation, the quantity of imported items purchased decreased significantly. In addition, imported products have been replaced by locally produced items, due to product lines expanding through local initiative and joint ventures. According to post contacts, the Brazilian food and beverage industry will tend to continue importing ingredients, but these ingredients will be increasingly "tailor made." Brazilian enterprises do not manufacture all necessary ingredients and, thus, the food industry is dependent on ingredients from foreign sources.

Exporters of ingredients include MERCOSUL countries, Chile, the U.S., and Europe. While the market clearly presents good chances to expand, it is difficult to penetrate. U.S. exporters need to exercise perseverance and have good representation within Brazil. U.S. suppliers are, in price terms, at a disadvantage position to members of the MERCOSUL trade pact due to duty free tariffs. Competition from European countries represent another challenge for U.S. companies due to established contacts and the local perception that European suppliers better understand Brazilian buyers.

Despite economic turbulence, U.S. exports of agricultural products registered a slight increase in 2000 over 1999:

#	Intermediate	8%
#	Consumer-Oriented Products	6%
#	Fish & Seafood	7%

### IV. Best Product Prospect

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

Based on 2000 statistics provided by the U.S. Bureau of The Census Trade Data, U.S. items that demonstrated the best sales growth compared to 1999 were the following: fish paste (260 percent); fish eggs (175 percent); fresh vegetables (145 percent); dairy products (65 percent); fresh fruit (29 percent); fruit and vegetable juices (28 percent); wine and beer (22 percent); feeds and fodders - excluded pet food (19 percent); sugars, sweeteners and beverage bases (19 percent); red meats, fresh/chilled/frozen (19 percent); processed fruit and vegetables (9 percent); and, pet foods (2 percent).

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

The local food industry has not fully explored segments such as: foods for food service channels, ready-to-eat (or heat-n-eat), convenience foods, all-natural, organic processed/fresh, specialty foods and semi-baked. Since the monetary devaluation in 1999, the quantity of imported items has diminished and the targetable consumer base has become more restricted to high-end buyers. Products with good sales potential are those that fit demand of a consumer with higher expectations.

### C. Products Not Present in the Market Because They Face Significant Barriers

Except for poultry meat, products of animal origin (beef, pork, seafood, and dairy) are allowed into the Brazilian market if products originate from U.S. federally inspected plants, and after approval of the Brazilian Animal Products Origin Inspection Service (DIPOA). Unprocessed products of plant origin (fruits, seeds, grains) can be exported to Brazil after a pest risk analysis of the product is completed by the Brazilian Plant Health and Inspection Service (DDIV), and if accompanied by USDA/APHIS/PPQ phytosanitary certificate.

For additional information on regulations regarding imports of agricultural and food products from the United States, please check our latest "Food and Agricultural Import Regulations and Standards" (FAIRS), report number BR1615, dated July 31, 2001 at the USDA/FAS home page, [www.fas.usda.gov](http://www.fas.usda.gov).

### V. Post Contact Information

Should you have any question or comments regarding this report or need assistance exporting processed food products to Brazil, please do not hesitate to contact :

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