



USDA Foreign Agricultural Service

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## Brazil

## Food Processing Ingredients Sector

## Annual

## 2004

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**Report Highlights:**

Brazil offers good opportunities for U.S. suppliers to the processed foods sector. The Brazilian food processing industry went through positive structural changes during the 1990s. Today, local manufacturers produce an expanding array of value-added products. Concurrently, demand for high quality ingredients has 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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Includes PSD Changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Sao Paulo [BR3]  
[BR]

## I. MARKET SUMMARY

Brazil, like other developing economies, is vulnerable to exchange rate oscillations, and large foreign capital inflows and outflows put intense pressure on the exchange rate. If investors lose confidence, the flows register a downward trend, depreciating the local currency, which leads investors to limit lending, therefore, the cost of money increases. For the foreseeable future, Brazil will continue to rely, in part, on foreign investment. For now, the Brazilian economic and political outlook is moderately optimistic. Brazil's new President, Luiz Inacio Lula da Silva (a.k.a. Lula) who assumed office in January 2003 has maintained the economic policies of his more centrist predecessor, Fernando Henrique Cardoso. In addition, President Lula has shown determination to press forward with reforms in the Brazilian Congress, including an effort to simplify and lessen an extremely burdensome tax regime.

The slowdown in economic growth in 2002 and actual decrease in 2003 was in part due to uncertainties with the new government, impacting the exchange rate and the official interest rate - SELIC - which equalizes interest rates applied in the local market. The depreciation of the local currency had a strong impact on Brazil's imports. The dollar in 2002 started trading at US\$1=R\$2.29 while by December 2002 the exchange rate reached US\$1=R\$3.70. The SELIC climbed from 19 percent to 25 percent in the same year. As the comfort level with the Lula Administration increased in the course of 2003, the Real strengthened, closing the year at about R\$2.90 equivalent to 1 US Dollar. The interest rate also became slightly more attractive over this period and had dipped to 17% by year's end.

### A. Economic Indicators

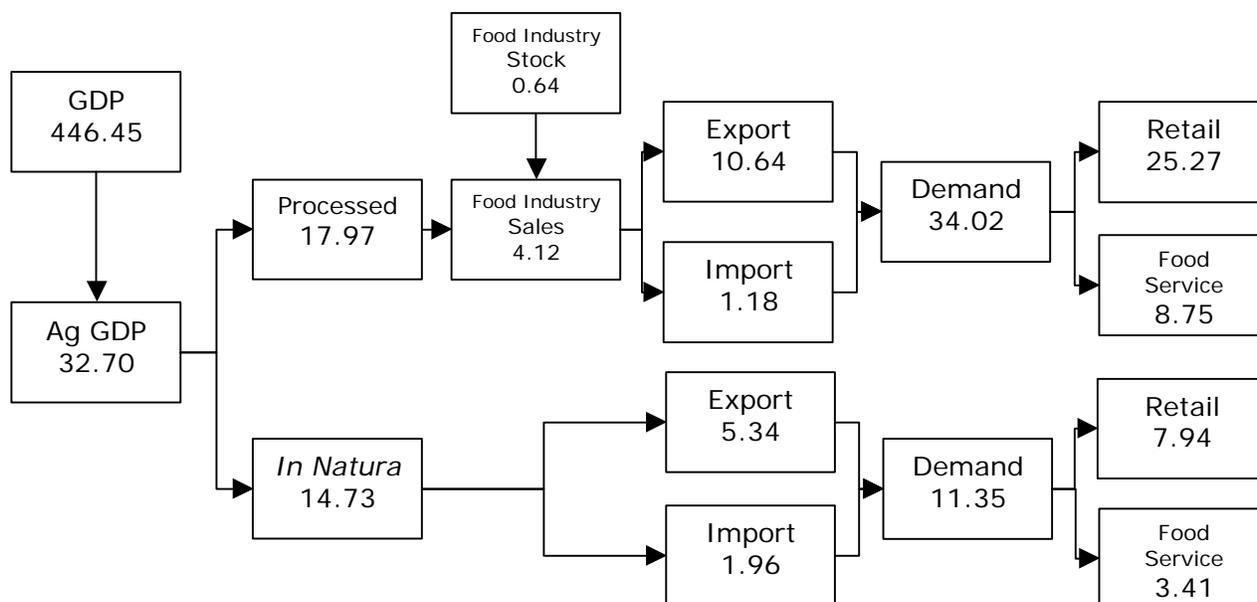
	1998	1999	2000	2001	2002	2003
Population (million)	165.7	167.9	170.1	172.1	174.7	177.3
GDP (US\$ billion)	787.6	530.9	595.5	504.2	457.1	537.3
GDP Growth (%)	0.1	0.9	4.0	1.5	1.5	-0.2
Inflation (%) (IPCA/IBGE)	1.7	8.9	6.0	7.7	12.5	9.3
Average Exchange Rate (R\$/US\$)	1.16	1.81	1.83	2.35	2.96	2.93
Total Exports (US\$ billion)	51.1	48.1	55.0	58.2	60.4	73.1
Total Imports (US\$ billion)	57.5	49.2	55.7	55.6	47.2	48.3

Source:

- Brazilian Ministry of Development, Industry and Commerce (MDIC)/Secretariat of Foreign Trade (SECEX) trade databases (1998-2002)
- Brazilian Institute of Geography and Statistics (IBGE) (1998-2002)
- Brazilian Central Bank trade data

Despite a trying economic period, the Brazilian food industry demonstrated positive performance. In 2003, industry revenues amounted to R\$157.8 billion (R\$2.93/US\$1), which represented 10 percent of the national GDP. The domestic food processing industry supplied an increasing share of Brazilian demand (accounted for an ever greater percentage of foods consumed domestically) in the 1990s. Following trade liberalization in the mid-1990's, the sector invested heavily in technology. Additionally, 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 forecast to achieve 2.5 to 3 percent growth (nominal values) in 2004.

### Food Distribution in 2002 (US\$ billion)



Source: ABIA, IBGE, SECEX

### B. Food Processing Sector Trade Balance (US\$ billion)

	1998	1999	2000	2001	2002	2003
Production	74.0	51.0	74.6	47.7	44.1	53.9
Exports (processed foods)	8.7	8.6	7.7	10.1	10.6	13.9
Imports (processed foods)	2.2	1.6	1.4	1.1	1.2	1.1
Domestic Consumption	67.5	44.0	68.3	38.7	34.7	41.1

Source:

- Brazilian Food Processors' Association (ABIA)

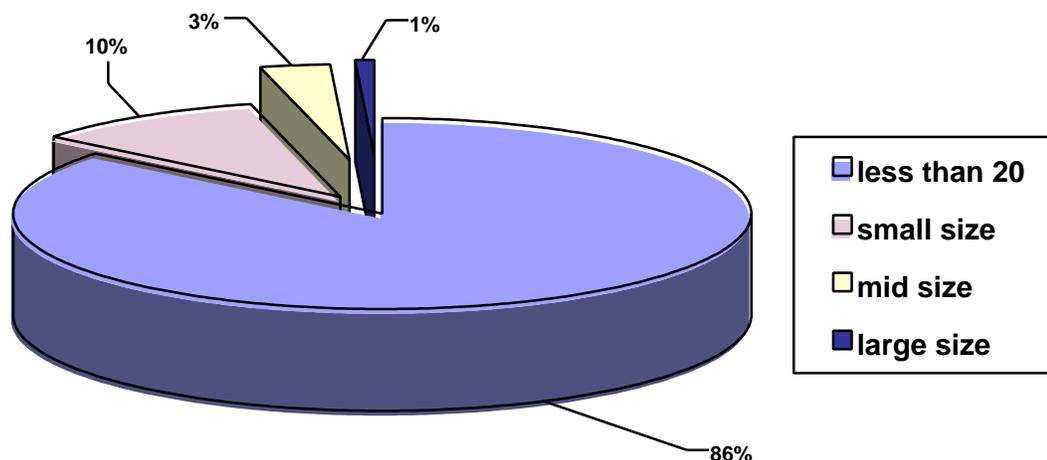
In 2003, according to the latest report of the Ministry of Labor and Employment (MTE), the Brazilian food industry was comprised of 39,700 legally established companies, employing approximately 970,000 workers. The food sector focuses basically on the domestic market, which accounts for almost 90 percent of revenues. The sector is composed mostly of small and medium sized companies. Approximately 86 percent of food processors are small companies (1 to 19 employees).

According to the Brazilian Food Industry Association (ABIA), 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.



**C. 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.	Exchange rate, tariff and freight cost negatively affect imports. U.S. freight cost is significantly more expensive than shipping from Europe.
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 market for organics is still limited but is getting 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 strive to maintain a constant presence in the market to communicate with potential buyers and build long-term relationships, thereby influencing industry development.
Import procedures are becoming more transparent since they are electronically monitored.	U.S. exporters' reluctance, especially for parallel goods, to provide documentation as requested by Brazilian importers.

## II. ROAD MAP FOR MARKET ENTRY

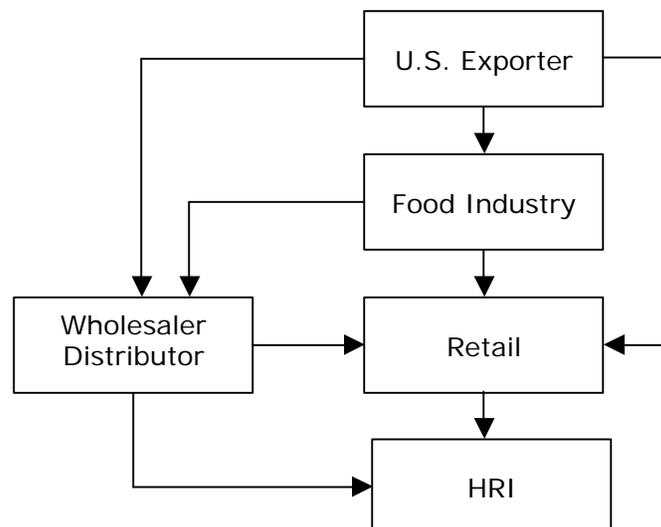
### A. Entry Strategy

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 providing up-to-date information on their products to distribute. 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: hotel, restaurant and institutional (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 or from wholesalers. Domestic wholesalers, distributors and retailers supply the HRI sector, but the number of food processor creating specific departments to market to the food service sector is increasing.



### C. Company Profile

In 2001, the Brazilian Supermarket Association (ABRAS) published a study conducted by A.C. Nielsen during the April 2000-April 2001 period. 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	Apresiasi
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	Toscano	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

Exame magazine, one of Brazil's most respected business magazines, in their 2003 annual list of top 500 largest Brazilian companies in sales, ranked the following food and beverage companies:

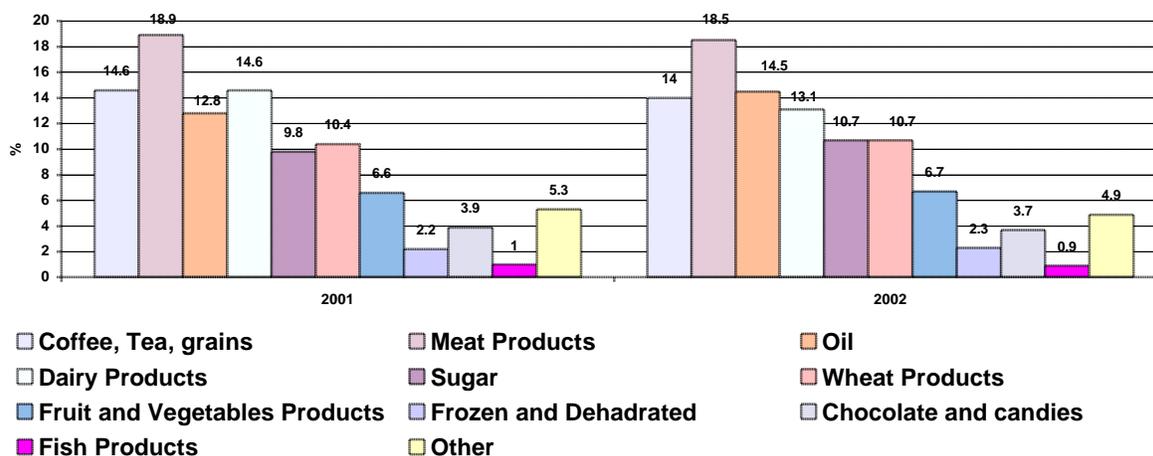
2002	2001	Company	Sector	2002 Sales (US\$ million)	Growth
5	11	AMBEV	Beverage	5,329.8	N/A
11	14	Carrefour	Retail	4,044.9	6.9
13	12	Pão de Açúcar	Retail	3,837.5	-1.2
16	23	Bunge Alimentos	Food Industry	3,158.1	N/A
21	25	Nestlé	Food Industry	2,762.7	9.2
22	32	Cargill	Food Industry	2,709.1	35.0
26	19	Unilever	Food Industry	2,456.9	-19.5
28	24	Souza Cruz	Tobacco	2,375.9	-6.6
37	41	Sadia	Food Industry	1,760.4	9.0
44	43	Copersucar	Sugar	1,550.5	-1.6
51	54	Perdigão	Food Industry	1,336.2	6.3
54	45	Sonae	Retail	1,156.5	-21.8
58	58	Makro	Wholesale	1,127.2	3.1

Source: Exame magazine, 2003

#### D. Sector Trends

According to food industry executives, in 2004, the industry will slow the launch of new products and investment in new plants, even though they are expecting expanded demand for higher-value products.

Due to a favorable exchange rate, export sales have become a priority for the food industry. Nevertheless, in recent years, ready-to-eat (or heat-n-eat), frozen products and functional foods have been in the spotlight, as reported by ABIA. Assuming a better economic environment in 2004, 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 ABIA, the categories' participation on the food production in 2002 vs. 2001 is:

### III. COMPETITION

Since the initial 1999 devaluation, the quantity and value of imported food products have decreased significantly. At the same time, locally produced items, due to the expansion of food industry capacity, have replaced imported products. According to post contacts, the Brazilian food and beverage industry will continue importing ingredients, but these ingredients will be increasingly "tailor made". Brazilian processors do not manufacture all necessary ingredients and are dependent on ingredients from foreign sources, especially for food additives such as coloring, flavoring, vitamins, etc.

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 in Brazil. Price-wise, U.S. suppliers are at a disadvantage to members of the MERCOSUL countries due to duty free tariffs the latter enjoy. European countries represent another challenge for U.S. companies due to established contacts and lower freight costs. Also, there's a local perception that European suppliers better understand Brazilian buyers.

Despite economic turbulence, U.S. exports of agricultural products to Brazil, taken as a whole, registered an increase in value of 16.67% in 2003 over 2002:

- Bulk Products	57.34%
- Intermediate Products	-7.34%
- Consumer-Oriented Products	-27.34%
- Forest Products	14.26%
- Fish & Seafood	35.74%

### IV. Best Product Prospect

#### A. Products present in the market which have good sales potential

Based on 2003 trade data provided by the U.S. Bureau of The Census, U.S. items that demonstrated the best sales growth compared to 2002 were the following:

<b>Bulk Products</b> - Rice 1,132.70% - Cotton 185.75% - Pulses 40.32%  <b>Intermediate Products</b> - Soybean Meal 2,305.90% - Soybean Oil 116.13% - Feeds & Fodders 35.32%	<b>Consumer-Oriented Products</b> - Red Meats 138.62% - Eggs & Products 25.89% - Fresh Fruit 112.53% - Fresh Vegetables 207.83% - Tree Nuts 115.83% - Wine & Beer 11.73%
<b>Fish &amp; Seafood Products</b> - Roe & Urchin 75.80%	<b>Forest Products</b> - Logs and Chips 77.47% - Hardwood Lumber 81.21%

## **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 food, specialty foods and semi-baked. Products with good sales potential are those that fit the demand of a consumer with higher expectations because the target consumer base has become more restricted to high-end buyers.

## **C. Products not present in the market because they face significant barriers**

Except for poultry meat products and beef products (temporarily excluded because of the one case of BSE in the U.S.), products of animal origin (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 BR3608, dated July 22, 2003 at the USDA/FAS home page, [www.fas.usda.gov](http://www.fas.usda.gov).

## **V. Key Contacts 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:

### **U.S. Agricultural Trade Office**

U.S. Consulate General  
Rua Henri Dunant, 700  
04709-110 São Paulo, SP, Brazil  
Phone: (55-11) 5186-7400  
Fax: (55-11) 5186-7499  
E-mail: [atosaopaulo@usda.gov](mailto:atosaopaulo@usda.gov)  
Home Page: [www.usdabrazil.org.br](http://www.usdabrazil.org.br)

### **Office of Agricultural Affairs**

U.S. Embassy  
Av. das Nações, lote 03  
70403-900 Brasília, DF, Brazil  
Phone: (55-61) 312-7101  
Fax: (55-61) 312-7659  
E-mail: [agbrasil@usda.gov](mailto:agbrasil@usda.gov)  
Home Page: [www.usdabrazil.org.br](http://www.usdabrazil.org.br)

Other information sources include:

### **Brazilian Supermarket Association (ABRAS)**

Av. Diogenes Ribeiro de Lima, 2872  
05083-901 São Paulo, SP, Brazil  
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### **Brazilian Food Processors' Association (ABIA)**

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