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Report Highlights:
After the economic crisis of 2002, imports of food and beverage products for 2004 are expected to continue to recover. Best prospects are for high-value food products of well known brands, and food ingredients.

Includes PSD Changes: No
Includes Trade Matrix: No
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Buenos Aires [AR1]
[UY]

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SECTION I. MARKET OVERVIEW

Business Climate

- The Broad Front ("Frente Amplio"), a coalition of center-left and leftist political groupings, triumphed in the Uruguayan presidential elections of October 2004. Broad Front President-elect Tabaré Vázquez will take office on March 1, 2005. Vázquez has strived to emphasize the moderate nature of his future government, and to that end has appointed highly respected Danilo Astori as his future Minister of Economy.
- After a decade of economic growth during the 1990s, followed by the economic crisis in 2002, the Uruguayan economy continues to recover and is expected to grow by approximately 6-7 percent in 2004. Annual per capita Gross Domestic Product (GDP) in 2003 was $3,300, compared to $ 6,795 in 1998 (at the time, the highest in Latin America), and is expected to increase to $3,970 in 2004. Consumers´ purchasing power will gradually improve allowing a higher demand of high-value food products.
- Total imports of food and beverage products (F&B) dropped drastically from $225 million in 2001 to $127 million in 2003, and are expected to total around $150 million in 2004. The U.S. share of imported consumer-ready food products averaged 7 percent in 1999-2001, dropped drastically after the crisis, and is gradually recuperating.
- As the economy continues to recover, U.S. F&B imports will increase due to: 1. high sanitary standards compared to European products, 2. higher competitiveness because of the depreciation of the Euro as compared to the dollar, and 3. influence of the U.S. culture, encouraged by cable TV, the Internet, and Uruguayans traveling and studying in the United States.
- Best prospects are for products of well-known brands, commodity-type products that are not produced domestically, and ingredients for the food processing industry, especially the meat and dairy sectors. Also, those ingredients that, during the crisis, had been replaced by local inexpensive brands and are again demanded for their higher quality are also good prospects.
- Most imported F&B are sold in two of the largest supermarket chains in Uruguay, which source products through a few importers/agents and, occasionally, import directly.
- As a consequence of the devaluation of 2002, F&B prices increased approximately 60-70 percent and, during the past few months have remained stable. The inflation rate for 2004 is estimated at 7-9 percent, and in 2005, around 13 percent.
- Prices of U.S. F&B products are 30-35 percent higher than their counterparts manufactured locally. Price is not expected to be an obstacle for imported foods among the most affluent segment of the population.
- The unemployment rate is gradually decreasing. However, it still remains high at approximately 13 percent.
- Uruguay has a relatively open trading system with moderate import tariffs, no quotas or restrictions, and reasonable transparent labeling and sanitary requirements. Most FDA-approved processed F&B can be imported into the country.
- During the past few years, several foreign companies, which had withdrawn the market, reopened their plants in Uruguay or are importing products from their processing facilities in neighboring countries, primarily Argentina and Brazil.
- Uruguay has an investment promotion law, which fosters the establishment of foreign companies in the country.

Income Distribution

- Uruguay´s population in 2004 is estimated at 3.4 million. The urban population accounts for 80 percent of the total, of which 43 percent lives in Montevideo. The birth rate is very low and, during the past few years, around 60,000 people migrated (almost 2 percent of the population).

- In the interior of the country, the population is concentrated in department capital cities and bordering areas with Argentina and Brazil.
- Family F&B expenditure varies according to the socioeconomic level.
- Traditionally, the middle class of the population accounted for 60 percent of the total. After the economic crisis, it broke up into two segments: one that merged into the middle-high social and economic stratum of the society, and another segment, into the medium-low stratum. Currently, it is estimated that approximately 800,000 people are poor.
- State employment accounts for 40 percent of the total labor force in Uruguay. In addition, state salaries were reduced drastically, especially in dollar terms, as a result of the crisis. Currently, the average salary is $500. This makes imported products available to a very small portion of the population. However, with the gradual recovery of the economy, it is expected that more and more consumers will be able to afford imported high-value foods.

Outlook for U.S. Exports of Food and Beverage Products

ADVANTAGES	*CHALLENGES*
Most Uruguayan consumers are aware of the wide variety and high quality of U.S. F&B.	Recession and the economic crisis fostered import substitution with domestically produced F&B, whose quality improved significantly as a result of technological investments during the 1990´s.
Influence of U.S. culture is significant and felt through cable TV, the Internet, and Uruguayans traveling or studying in the United States.	Weaker purchasing power and a high unemployment rate limit sales of imported F&B.
Supermarkets are willing to have imported F&B on the shelves as a tool to differentiate from other retailers.	In general, Mercosur intra-regional trade pays zero import tariff, which prompts strong competition primarily from Argentina and Brazil. Import tariffs for other countries vary between 20-23 percent for most F&B.
During the past few years, the self-serve format and the display of food products have improved remarkably.	The relatively small size of the market and small import volumes discourage U.S. suppliers.
Large supermarket chains are logistically ready to import foods directly.	There has been a lack of interest/ responsiveness of U.S. F&B suppliers vis-à-vis the Uruguayan market.
Cold storage facilities are good and can easily meet manufacturers´ requirements.	
After the competitiveness gained with the devaluation of the Uruguayan peso against the dollar, the expansion of the food processing industry, primarily to supply export markets, creates very good opportunities for U.S. food ingredient	

imports.	
There has been greater exposure of local retailers to U.S. exporters and products through FAS-sponsored marketing activities.	

SECTION II. EXPORTER BUSINESS TIPS

Local Business Customs: Keys to Success in Uruguay

- Appoint a representative, agent or importer, who should ideally operate in other countries of the region, as the Uruguayan market is relatively small.
- Spanish language in printed materials preferred, although most importers speak English.
- Display samples.
- Long-term outlook.
- Personalized approach.
- Consistent attention in service and delivery.
- Do not take “No” for an answer – frequent visits and follow-up.
- Get a contract in writing.
- Flexibility in volumes.
- Protect and register your trademarks.

The Consumer

The steep economic crisis caused deep changes in consumer behavior. Both consumers and suppliers had to adjust to the new scenario. In addition to the high unemployment rate, prices increased more than salaries; thus, consumers´ purchasing power decreased significantly. As the economy continues to recover, it is expected that the number of consumers buying imported high-value F&B will gradually increase. However, the market for these types of products will remain very limited and addressed to the high-end consumer. During the recession, most consumers reduced their food expenditures buying more basic foods, less expensive products, and second or third brands, and reducing purchases by impulse. Currently, they are going back to first brands.

Upper and Mid-Upper End Consumers

- Uruguayan more affluent consumers are practical, demanding, sophisticated and conservative (loyal to well-known brands). They are increasingly concerned about healthy eating habits, and demand low fat and calorie foods.
- Middle and high-end consumers usually buy F&B in supermarkets.
- The concept of consumer-ready foods is not well developed in Uruguay. Consumers prefer home-made meals rather than pre-mixes or frozen microwaveable foods.
- Children do not influence significantly in family shopping decisions, and promotional campaigns targeting children are not very effective.
- Home food delivery service was quite popular during the 1990s but decreased during the crisis. It is still offered by supermarkets.
- Fast-food restaurants are popular.
- Around 33 percent of the total population has microwave ovens and 95 percent has freezer.

Lower and Lower-Middle End Consumers

- Lower and lower-middle end consumers are highly rational. They are not loyal to brand names or food stores. Their shopping decisions are price-driven.
- They usually do their regular shopping at grocery stores in their neighborhoods, and less frequently in supermarkets.
- They buy smaller sizes of products and less expensive brands, such as private label goods.
- They do not usually buy high-value foods, e.g. frozen foods.
- They go shopping more frequently as they do not have significant cash available.

Food Standards and Regulations

The Uruguayan Food Code (*Código Alimentario Uruguayo – CAU*) regulates food production and marketing. However, the CAU resolutions are being gradually adapted to Mercosur standards, which are based on the regulations of: 1. the European Union, 2. Codex, and 3. FDA.

Uruguayan official entities regulating F&B imports are as follows:

- Meat products and by-products are regulated by Montevideo´s Town Hall (*Intendencia Municipal de Montevideo – IMM)* and the *Ministry of Livestock, Agriculture and Fisheries (Ministerio de Ganadería, Agricultura y Pesca - MGAP).*
- Fish and seafood products are regulated by the National Service of Aquatic Resources (*Dirección Nacional de Recursos Acuáticos - DINARA)*.
- Wines are regulated by the National Wine Institute *(Instituto Nacional de Vitivinicultura - INAVI).*
- The *IMM* regulates soft drinks.
- The National Administration of Fuels, Alcohol, and Portland (*Administración Nacional de Combustibles, Alcohol y Portland - ANCAP)* and the *IMM* regulate all alcoholic beverages except for wine. ANCAP carries out analytical composition tests to determine if the product complies with official regulations according to its nature (scotch, gin, vodka, etc).
- The *IMM* and the Ministry of Public Health *(MSP*) regulate consumption of processed F&B, including those that were modified (e.g. containing additives, isotonic beverages, foods that have been fortified by adding vitamins, minerals, etc.)
- *Uruguay´s Technological Laboratory (Laboratorio Tecnológico del Uruguay - LATU):* Once the imported product arrives in the country, this lab takes samples for testing and requests the "Product Register". In addition, the Customs National Administration (*Dirección Nacional de Aduanas - DNA)* often carries out product analysis.

General Import and Inspection Procedures

- All imported F&B must be accompanied by a free sale certificate - issued by an official sanitary authority and sealed by the Uruguayan Consulate in the country of origin, and legalized by the Uruguayan Foreign Relations Ministry - a product sample, and the country-of-origin label. Once in the country, a description of the product containing the list of ingredients and origin of each ingredient, shelf life information, and details on the manufacturing and packaging process, will be submitted at the corresponding official authority. The official authority will then issue an import permit.

- The product name on the label must be in Spanish. If not, it must be translated and the size of the letter for the translated version must be the same as the one in the original terminology. In general, original labels are maintained and an additional label is affixed to the package containing the importer´s contact data, list of ingredients, and country of origin.
- Packaging: If the packaging of the product is made of plastic, it must have the manufacturing company´s registration number/code, issued by an official sanitary authority, and a seal by the Uruguayan Consulate in the country of origin, and legalization by the Uruguayan Ministry of Foreign Relations.
- For alcoholic beverages, the Domestic Specific Tax (IMESI, in Spanish) must be paid for each liter of beverage imported.
- Uruguayan Customs require payment of a guarantee deposit for beverages in transit, which is eventually reimbursed.

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

As the Uruguayan economy continues growing, it is expected that market opportunities improve for the three food market sectors, retail, food processing and, to a lesser degree, hotel, restaurant and institutional (HRI).

Retail Food Sales

- In 2003, total sales of the two largest supermarket chains in Uruguay were $400 million, of which, F&B accounted for 80 percent (in 1998 sales reached $800 million). Supermarkets account for approximately 35 percent of the total F&B sales; traditional grocery stores, 40 percent; and the balance is concentrated by smaller supermarkets and specialty stores.
- Supermarkets concentrate a high percentage of all imported F&B sold, and they are trying to rebuild their lines of imported products to satisfy a growing demand from more affluent consumers. Thus, F&B imports are expected to increase as the country comes out of recession.
- Supermarket chains are mainly concentrated in Montevideo, Punta del Este, and other coastal areas. There has not been yet a significant expansion to the interior of the country.
- In Uruguay, the main supermarket chains are: Grupo Disco del Uruguay (Disco, Geant and Devoto), Tienda Inglesa, Ta-Ta, Multiahorro, El Dorado, and Norte-Sur. Both Disco and Tienda Inglesa have the largest presence of imported F&B as they target consumers with higher purchasing power.
- As a consequence of the crisis, there was less market concentration in favor of smaller supermarkets and grocery stores, which provide proximity (for more frequent shopping as consumers were unable to afford weekly or monthly purchases) and lower prices.
- Traditional grocery stores underwent a significant change in order to maintain their presence in the market: they incorporated new products, especially those of less expensive brands, to attract price-oriented consumers.
- Smaller supermarkets and grocery stores joined into buying groups in order to have a stronger negotiating power. After the crisis, they managed to keep low prices for most of their products and adapted their offer to the demand in their neighborhoods.
- Currently, supermarkets are gradually regaining market share and the consumer is returning to first brands. Traditional grocery stores, which do not specialize in certain niche items, tend to disappear.

- During the past few years, first brands lost share due to their high prices, which forced food suppliers to manufacture new more inexpensive products and/or smaller packages to compete with second and third brands.
- In the short-medium term, it is expected that b-brands will decrease, private labels of supermarkets will increase, first brands will become stronger, and imported F&B will regain market share for a smaller portion of the population than prior to the crisis.

Hotel, Restaurant, and Institutional (HRI) Sector

- The hotel boom in the nineties created new opportunities for F&B imports, as the regular customer of upscale hotels is very sophisticated and usually demands imported well-known brand foods, which he/she consumes in his/her country of origin. International hotel chains with presence in Uruguay are as follows: Sheraton, Radisson, Holiday Inn, Ibis, NH, Days Inn, Conrad, etc.
- Regarding restaurants, they also grew in number in the past decade, especially in Montevideo and Punta del Este, offering local and international cuisine. Fast food is very popular in Uruguay, especially at food courts in shopping centers. The leading player in this sector is McDonalds. Ethnic food restaurants are not well developed in the country.
- In general, HRI operators prefer fresh products to those which are precooked, preserved, frozen or canned. In the past few years, they have been gradually incorporating consumer-ready food products because of their high quality and easier preparation but, after the crisis, they went back to preparing most of their meals in-house, except for a few upscale hotels and restaurants.
- HRI players usually source imported products from a few importers present in the market. Only exceptionally, they may import a very specific item their customers demand.

Food Processing Sector

- During the nineties, several foreign food companies purchased smaller Uruguayan food manufacturers; i.e., the market concentration observed internationally, also happened in Uruguay.
- Some foreign firms, which before the crisis had closed operations, opened up again because of increasing competitiveness in export markets. However, most multinational food companies with branches in neighboring countries, such as Argentina and Brazil, supply the Uruguayan market.
- As a consequence of the economic crisis of 2002, Uruguayan products gained competitiveness, especially compared with Brazilian, European, and U.S. products. To meet the needs of the expanding local food processing industry, whose exports grew significantly, imports of food ingredients increased and are expected to continue growing.
- As a result of the devaluation, a few imported food ingredients were substituted by locally manufactured inputs. However, the size of the Uruguayan market does not justify the establishment of food ingredient manufacturers. This becomes an advantage for food ingredient imports.

Market Entry

The best method to import a product will depend upon the product itself, the importer, and retailers. However, virtually successful trade depends upon the commitment of the exporter to devote the time and resources necessary for building a market for their product/s. In general, imported F&B come into Argentina through any of the following ways:

- Direct imports by supermarkets. Uruguayan supermarkets have a food import division, which is in charge of buying all imported F&B. Food import managers participate in buying missions abroad and visit international trade shows, where they identify products and establish personal relationships with suppliers.
- Some multinational companies established in the market import processed products from their subsidiaries in neighboring countries, usually on behalf of supermarkets.
- Local F&B importers, which serve both the retail and institutional market. There are a few of these who have been in the market for several years and represent well-established brands. They specialize in commodities, such as canned fruit and tuna fish, and gourmet foods. Other importers specialize in fresh fruits and vegetables.
- There are a few importers of food ingredients in the market. Large manufacturing companies usually import ingredients directly.

Trends in Promotional/Marketing Strategies and Tactics

- As a result of the economic crisis, promotional activities traditionally carried out by foreign embassies and suppliers decreased significantly. However, with devaluation and relatively low promotional costs in dollar terms, more activities are being scheduled, such as buying missions, and menu promotions.

Trends in Tourism and Internet Sales

- In 2003, 1.5 million foreign visitors arrived in Uruguay, of whom 57 percent were Argentine, 18 percent Uruguayan, living in other countries, 10 percent Brazilian, 5 percent European, and 2 percent, Chilean.
- Of the total visitors, 62 percent were tourists. A relatively high number of visitors traveled for business purposes.
- Uruguay´s Ministry of Tourism is actively promoting the country abroad, especially in the Mercosur region, as a tourist destination.
- During the mid-nineties, there was a significant investment in highly rated hotels in Montevideo and Punta del Este, which allowed these cities to become hosts of large international events. Investment was fostered by government tax policies with relatively low interest rates.
- During November-March, Montevideo becomes a logistical supplying port for tourist cruisers from different parts of the world. Montevideo offers very good security conditions for tourists to go around the city, which contributes to the Uruguayan tourism industry.

- Internet sales account for approximately 4 percent of total supermarket sales. Disco, Tienda Inglesa, and Multiahorro are among the supermarkets which offer shopping services through the Internet.
- In Montevideo, 20 percent of Uruguayan households have Internet service and, in the interior of the country, only 6 percent.

SECTION IV. BEST HIGH-VALUE PRODUCT PROSPECTS

Traditionally, Uruguay was, and will continue to be, a net importer of several F&B and food ingredients, which it does not produce domestically. Under the current economic situation, which combines a strong dollar compared to the Uruguayan peso, and a weak purchasing power, best prospects are for high-value F&B products and “commodity-type” products which are not manufactured locally, and food ingredients.

I) Imported F&B which are not produced locally or their production is not enough to supply the domestic market include:

- pepper and other condiments
- kiwifruit
- grapefruit

- chewing gum
- candy
- bonbons
- snacks
- sauces
- food preparations
- chocolate
- dehydrated potatoes
- wine and other alcoholic beverages
- energy drinks
- beverage preparations
- pet food.

II) Food ingredients:

- pork, frozen
- soup preparations
- raw nuts
- cocoa paste/butter
- additives
- ingredients for the dairy and meat industries

Some well-known brands of F&B, which traditionally have a stable demand in Uruguay, are imported and packaged domestically (e.g., Scotch, which accounts for the highest level of consumption in the region).

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

Government Regulatory Agencies

MONTEVIDEO´S TOWN HALL (INTENDENCIA MUNICIPAL DE MONTEVIDEO - I.M.M)
Palacio Municipal
Avda. 18 de Julio 1360
Mesa Central
Tel-fax: (598-2)1950
E-mail: webimm@prensa.imm.gub.uy
Web: www.montevideo.gub.uy

MONTEVIDEO´S TOWN HALL (INTENDENCIA MUNICIPAL DE MONTEVIDEO - I.M.M.) – BROMATOLOGIA (FOOD HEALTH SERVICE)
Unidad Laboratorio de Bromatologia
Isla de Flores 1323
Tel.: (598-2) 900 2056/900 5848
Servicio de Regulación Alimentaria
Palacio Municipal
Tel:(598-2) 1950 2029

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MINISTRY OF LIVESTOCK, AGRICULTURE, AND FISHERIES (MINISTERIO DE GANADERIA, AGRICULTURA Y PESCA - M.G.A.P)
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NATIONAL MEAT INSTITUTE (INSTITUTO NACIONAL DE CARNES - I.NA.C)
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NATIONAL WINE INSTITUTE (INSTITUTO NACIONAL DE VITIVINICULTURA - I.NA.VI.)
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MINISTRY OF PUBLIC HEALTH (MINISTERIO DE SALUD PUBLICA - M.S.P)
Avda. 18 de Julio 1892
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E-mail: msp@msp.gub.uy
Web: www.msp.gub.uy

CUSTOMS NATIONAL ADMINISTRATION (DIRECCIÓN NACIONAL DE ADUANAS - DNA)
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Fax: (598-2) 915 1505
E-mail: info@adunas.gub.uy
Web: www.aduanas.gub.uy

GENERAL TAX ADMINISTRATION (DIRECCIÓN GENERAL DE IMPOSITIVA - DGI)
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APPENDIX 1. STATISTICS

A. Key trade & Demographic information

Agricultural Imports from All Countries ($Mil) / U.S. Market Share (%) (1) 2003	450/5
Consumer Food Imports From All Countries ($Mil) / U.S. Market Share (%) (1) 2003	130/7
Edible Fishery Imports From All Countries ($Mil) / U.S. Market Share (%) 2003	11/0.8
Total Population (Millions)/Annual Growth Rate (%) (2) 2003	3.4/0.6
Urban Population (Mil.)/Annual Growth Rate (%)(2) 2003	3.1 /NA
Number of Major Metropolitan Areas 2003	1
Size of the Middle Class (Millions)/Growth Rate (%) (3) 2002	2.2/NA
Per Capita Gross Domestic Product (U.S. Dollars) 2003	3,300
Unemployment Rate (%) Jan-Mar 2004	13
Per Capita Food Expenditures (U.S. Dollars) 2003	NA
Percent of Female Population Employed Jan-Mar 2004	40
Exchange Rate (US$1 = 1 Uruguayan Peso) May 2004	US$1 = 29.7 Ur. Peso

(1) Includes imports of products of animal and vegetable origin.
(2) Source: National Statistics Institute
(3) Percentage of middle-class population in Montevideo and suburbs.