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Food Processing Ingredients Sector

2007

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Report Highlights:
Brazilian food processing companies are expanding production of value-added products, opening new opportunities for US exporters of select ingredients. US companies already are well positioned in the market, but increasing competition demands better understanding of the market.

Includes PSD Changes: No
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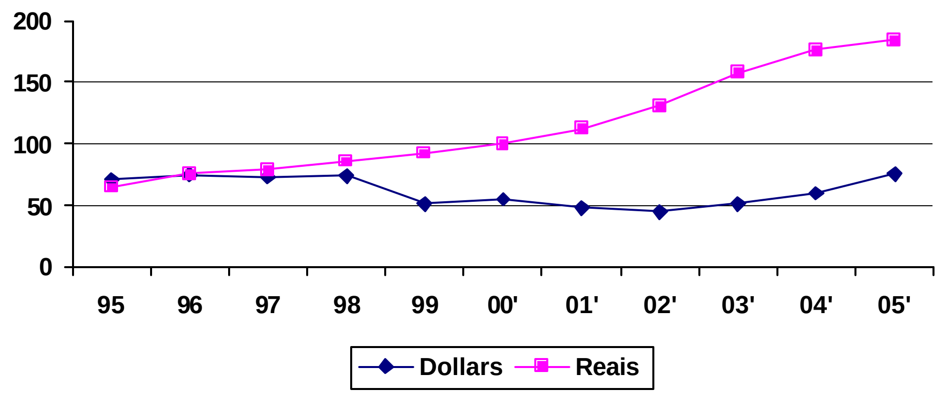
Sao Paulo [BR3]
[BR]

I. Market Summary

Macroeconomic instability in the late 1980's and early 1990's deterred the food industry from investing in new technologies, limiting advantages of scale and retarding increases in labor productivity. Price control policies at that time also provided the local industry protection from foreign competitors. However, after the introduction of the Real Plan – set of economic measures to promote macroeconomic stability – import tariffs declined and foreign competition became a reality. Consequently, the food processing industry faced stiff competition from foreign companies and was forced into structural changes. In this scenario, multinationals have expanded business in the country and many micro and small businesses were pushed out of the market or taken over by larger companies.

After 25 years of a relative stability, the food processing industry is now positioned as the second largest manufacturing sector in Brazil – behind only the petroleum complex. The industry accounts for approximately 9.7 percent of GDP and 16.3 percent of total Brazilian manufacturing output. Furthermore, the food industry is a key segment of the economy, serving as an anchor to alleviate unemployment, inflation and trade deficits. According to the Brazilian Food Processors' Association (ABIA), in 2005 the gross output of the food and beverage industry totaled 75.8 billion dollars - 86 percent corresponding to food processing and 14 percent to beverage processing.

FOOD INDUSTRY GROSS SALES (billions)



Source: Brazilian Food Processors' Association ABIA

According to the Ministry of Labor and Employment (MTE), the number of food processing establishments totaled approximately 42 thousand in 2004, and is divided by MTE into the following categories: micro-business (less than 19 employees); small-business (from 20 to 99 employees); medium-business (from 100 to 499 employees); and large-business (more than 500 employees). The vast majority of companies fit into micro and small operations categories; together they account for approximately 96 percent of the total number of firms. Medium and large companies account for 4 percent and 1 percent, respectively. On the other hand, when considering sales volume, medium and large companies capture 79 of the total market while micro and small business account for 21 percent. The industry workforce is composed by 1.2 million individuals, 73 percent of whom work in food processing only while 27 percent work in plants that process both food and beverage items.

The Southeast region is home to 40 percent of food industry establishments. This region is the leader in all size categories (micro, small, medium and large). The city of Sao Paulo alone is home to 18 percent of the total number of firms in the country. However, recent decentralization of economic growth- with companies investing in new areas of the country because of fiscal incentives and lower costs- has caused movement toward other regions.

GEOGRAPHIC DISTRIBUTION OF FOOD PROCESSING COMPANIES

LOCATION	MICRO	SMALL	MEDIUM	LARGE	TOTAL	
					#	%
Southeast Region	14,254	1,992	617	165	17,028	40.4
**Sao Paulo*	*6,035*	*1,003*	*407*	*118*	*7,563*	*18.0*
South Region	9,437	1,131	315	97	10,980	26.0
Northeast Region	7,701	709	194	76	8,680	20.6
Midwest Region	3,120	421	134	40	3,715	8.9
North Region	1,425	248	69	9	1,751	4.1
TOTAL	35,937	4,501	1,329	387	42,154	100

Source: Ministry of Labor and Employment (MTE)
Note: Sao Paulo data is included in Southeast region figure

The food processing sector in Brazil is large, diversified and modern by international standards. Most multinational companies such as Kraft, Unilever, Nestle, Procter & Gamble, Bunge, Cargill, Coca-Cola and PepsiCo, just to name few, are well established. About $20 billion worth of Brazilian-manufactured processed foods were exported in 2005. The production of higher-value processed food and beverage products is expanding and the industry is paying more attention to nutritional and physical attributes of processed foods, as well as to packaging of products. These concerns result in increased importation, especially of ingredients.

ADVANTAGES AND CHALLENGES TO BE FACED BY US EXPORTERS

ADVANTAGES	CHALLENGES
The US already has a highly developed food industry, & therefore should able to supply the local food industry with ingredients and finished products to fulfil consumers' emerging needs.	Overcome tariff and freight costs.
To compete, local processors are forced to differentiate and invest in quality, which opens room for top quality imported ingredients.	Maintain constant presence in the market to communicate with potential buyers.
US supplies enjoy a reputable position for product quality and standards.	US exporters' reluctance to sell small volumes limits their presence in the market, thereby building long-term relationship and influencing industry development.
Clearance of goods is becoming less complex as import procedures become more transparent.	Brazilian authorities have unique and complex documentation requirements which often scare away US suppliers.

II. Road Map for Entry

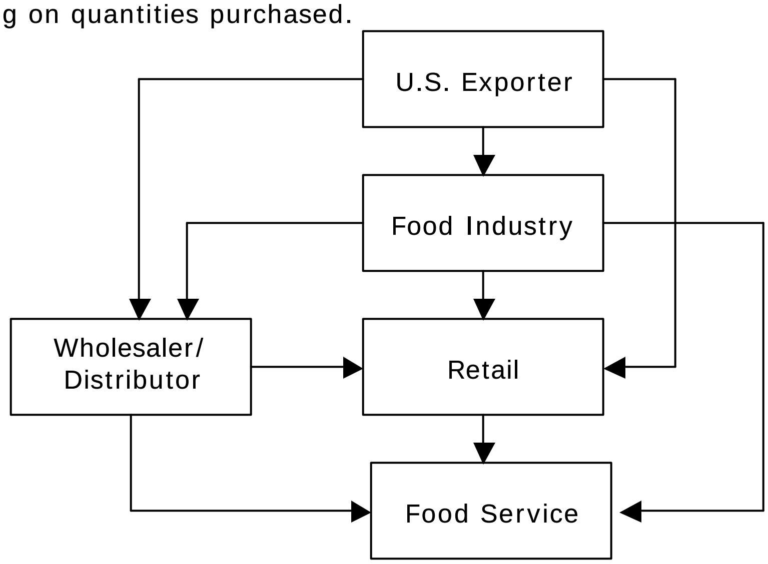
A. Entry Strategy

There are only a few brokers and agents in the ingredient sector that regularly deal with imported products. There could be significant benefits in approaching these companies as they have access to both large and small players in the food industry. Once a foreign company enters the market, regular availability of product is crucial to consolidating market position. However, exporters should be aware that most imported products are not price-competitive with locally produced products. This is due to the low cost of locally produced goods and high import tariffs and freight cost. Products imported from Mercosul members (Argentina, Paraguay and Uruguay) enjoy duty-free status and Chilean products face a reduced duty rate. Thus, US importers need to evaluate the extent to which their products can compete and maintain saleability.

US exporters are always free to approach the US Agricultural Trade Office (ATO) as an initial source of information and market guidance. The ATO maintains direct contact with the major players in order to facilitate market entry and is also able to provide assistance on Brazilian legislation and standards for imported goods. The great majority of food products are regulated by the Ministry of Health (MS) and the Ministry of Agriculture, Livestock, and Food Supply (MAPA). Please refer to the "*Food and Agricultural Import Regulations and Standards*" report, number BR6011, released in July 2006, to obtain additional information.

B. Market Structure

The Brazilian food industry serves all different channels: retailers, hotels, restaurants, catering, retailers, wholesalers and other food processors. While the industry establishes exclusive or semi-exclusive contracts with limitations on geographic areas and/or restrictions on product lines with wholesalers, retailers have the option of purchasing directly from the processing plant or from wholesalers. The same conditions may apply to food service companies, depending on quantities purchased.



C. Company Profiles

In 2005, the revenues of the top 20 food processing industries listed by Exame Magazine, totaled approximately R$113.8 billion and accounted for 59 percent of the industry gross output of R$184.6 billion (see data below). Although this publication provides guidance on industry concentration it does not reflect market totality since multinationals such as General Mills, Danone, Parmalat, Procter & Gamble and some major Brazilian companies are not included here. The compilation of this rank is based on voluntary responses.

TOP REVENUES IN THE BRAZILIAN FOOD INDUSTRY (2005)

	COMPANY	GROSS SALES (R$ million)	Share (%)	PRODUCTS	CAPITAL ORIGIN
1	AMBEV	28,878.4	15.6	Beverages	Belgium
2	Cargill	11,517.5	6.2	Soybean based products, oil	US
3	Bunge	10,846.8	5.9	Soybean based products, oil	Bermudas
4	Coca-Cola*	8,700.0	4.7	Beverages	US
5	Sadia	8,326.0	4.5	Meat products	Brazil
6	Nestle	6,672.0 (est.)	3.6	Cookies, instant coffee, cappuccino, dairy based beverages, teas, breakfast cereals, confectionary, topping, condensed milk, powder milk, sauce, soup, condiment, yogurt, ice-cream, desserts	Switzerland
7	Perdigao	5,873.3	3.2	Meat products	Brazil
8	ADM	4,877.9	2.6	Soybean by-products	US
9	Copersucar	4,500.0	2.4	Sugar	Brazil
10	Bertin	3,800.0	2.1	Meat products	Brazil
11	Friboi	3,381.8	1.8	Meat products	Brazil
12	Kraft	3,084.9	1.7	Chocolate, cookies, juices (concentrated and powder), jello, dairy products, desserts	US
13	Unilever	2,285.3 (est.)	1.2	Mayonnaise, sauces, ketchup, mustard, dressings, olive oil, soups, dairy products, condiments, tea, soybean based beverages, vegetables, Peanut butter, olives, desserts, cake mixes, ready-to-eat products, ice-cream	UK/Netherlands
14	Pepsico	2,277.2	1.2	Beverages	US
15	Avipal	2,268.6	1.2	Meat products	Brazil
16	Seara	2,197.0	1.2	Meat products	Bermudas
17	Aurora	1,700.0	0.9	Meat products	Brazil
18	Frangosul	1,679.8	0.9	Meat products	France
19	Marfrig	1,482.6	0.8	Meat products	Brazil
20	Margen	1,480.0	0.8	Meat products	Brazil
	TOTAL	113,829.1	62.7		

Source: Exame Maiores e Melhores 2006
Note: Average exchange rate in 2005 is US$1=R$2.43
*Coca-Cola included by ATO

Major suppliers of ingredients for the local food industry are:

ACIDS (CITRIC AND OTHERS)
- ADM, Clariant, Doce Aroma, M. Cassab, Makeni, Quiesper, Reizan Kern, Sweet Mix, Tate & Lyle, Granotec, Macanochemie, Prozyn, Trexco, Vogler

ACIDIFIERS AND/OR ACIDITY ADJUSTERS
- ADM, BASF, Brastokio, Cadisa, Cargill, Clariant, Doce Aroma, FMC BioPolymer, Granotec, Interchemical-Intersales, Intercontinental, Interjob, ISP, M. Cassab, Mercocitrico, Plury, Purac Sintese, Reiza Kern, Romanus, Selectchemie, Sunset, Sweet Mix, Usiquimica

ALGINATO
- FMC BioPolymer, ISP, Vogler

AMIDES
- Avebe, Cargill, Cassava, Clariant, Corn Products, Doce Aroma, Granotec do Brasil, Mercocitrico, National Starch & Chemical, Plury, Ricsel, Vogler

ANTIFOAMING
- Dow Corning, Plury

BASES FOR DRINKS
- Agromalte, BASF, Dohler, ISP, Malteria do Vale, PKK, Sensient Flavors, Takasago, Teor Nobre, Wild

BICARBONATE
- Doce Aroma, Interchemical-Instersales, Plury, Reiza Kern

CAFFEINE
- Interchemical-Instersales, Interjob, M. Cassab, Reiza Kern, Sara Lee, Selectchemie, Sunset, Sweet Mix

CHEMICAL ADDITIVES
- AGA, Adicon, Beraca Sabara, Clariant, Danisco, Doce Aroma, Dow Corning, Ecolab, Eirich, Eurochem, Fraccaroli Essencias, Johnson Diversey, Kerry, M. Cassab, Majufran, Prozyn, Quinel, Tate & Lyle, Van Der Molen, Vogler, Wallerstein

COCOA
- ADM, Barry Callebaut, Doce Aroma, Romanus, Uni America

CONDIMENTS/SEASONINGS/SPYCES
- Adicon, Ajinomoto, Alphataste, Cirio, Fuchs, Guriri, Kerry, Kraki

EMULSIFIERS
- Adicon, ADM, Avebe, Citromax, Clariant, Danisco, Fleishmann, Kerry, Kraki, Plury, Quest, Selectchemie, Sunset, Trexco

ESTABILIZERS
- Adicon, Cargill, Clariant, Danisco, ISP, Kelco, Milway, Plury, Oxiteno, Ricsel, Sunset, Tovani Bemzaquen, Trexco, Wallerstein

FLAVORS/FLAVORING
- Adicon, Adinor, Alcoquimica, Alphataste, Alphaville, Arco-Iris, Bpar, Cargill, Chr. Hansen, Citomax, Danisco, Degussa Flavors, Doce Aroma, Dohler, Duas Rodas, Firmenich, Flavor

Tec, Fraccaroli Essencias, Germacon, Givaudan, IFF, ISP, Majufran, Mix, Natural Flavors, Otten Flavors, Plury, Quest International, Robertet, Saborama, Sabores e Aromas CN, Sensient Flavors, Sun Foods, Sunset, Takasago, Tasty, Teor Nobre, Trexco, Wild

FLAVORS ENHANCERS
- Ajinomoto, IFF, Kraki, Nutrasweet, Ottens Flavors, Solae, Sunset

HUMECTANT INHIBITORS
- Chr. Hansen, Plury, Ricsel

PRESERVERS
- Adicon, Avebe, Chr. Hansen, Clariant, Danisco, Doce Aroma, Gemacon, Interjob, Kerry, Kraki, M. Cassab, Plury, Reiza Kern, Ricsel, Sunset

PROTEIN (ANIMAL/VEGETABLE)
- Fonterra (animal), ADM, Cargill, Kraki, Superbom, Tebracc

OILS/VEGETABLE FATS
- ADM, Agropalma, Bunge, Cargill, Corn Products, Sadia, Sunset, Unilever, Vigor

OXIDATING PREVENTING PRODUCTS
- Adicon, Danisco, Plury, Prozyn, Sunset, Wallerstein

SWEETNERS
- Ajinomoto, Brastokio, Cargill, Clariant, Danisco, Doce Aroma, Dohler, M. Cassab, Nutrasweet, Plury, Reiza Kern, Ricsel, Sunset, Tate & Lyle, Tovani Bemzaquen, Vogler

TECHNOLOGY AIDES/ENZIMES
- Ajinomoto, Avebe, Cadisa, Chr. Hansen, Clariant, Corn Products, Danisco, Ecolab, FMC BioPolymer, Fortitech, Granotec, Kerry, Kraki, Labonathus, M. Cassab, Milway, Natural Flavors, Nutrasweet, Oxiteno, Plury, Prozyn, Reiza Kern, Ricsel, Sweet Mix, Vogler

TOPPINGS, SYRUPS AND FILLINGS
- Bel Chocolates, Caramba, Carba, Cargill, Clariant, Corn Products, Dulcini, Emulzint, Fleischmann, Itamaraty, Kerry, Kraki, Marvi, Nestle, Plury, Smucker Brasil, Sakura

THICKENERS
- Adicon, ADM, Avebe, Clariant, Danisco, Degussa, Doce Aroma, Gem Alimentos, ISP, Kelco, Kerry, Kraki, Milway, Plury, Ricsel, Sunset, Tovani Bemzaquen

WHEAT FLOUR/GERM
- Buaiz, Cardoso Nabuco, Cargill, Cercal, Clariant, Fabrica Fortaleza, J. Macedo, Macrofarma, Uni America, Fortitech, Moinhos Vera Cruz

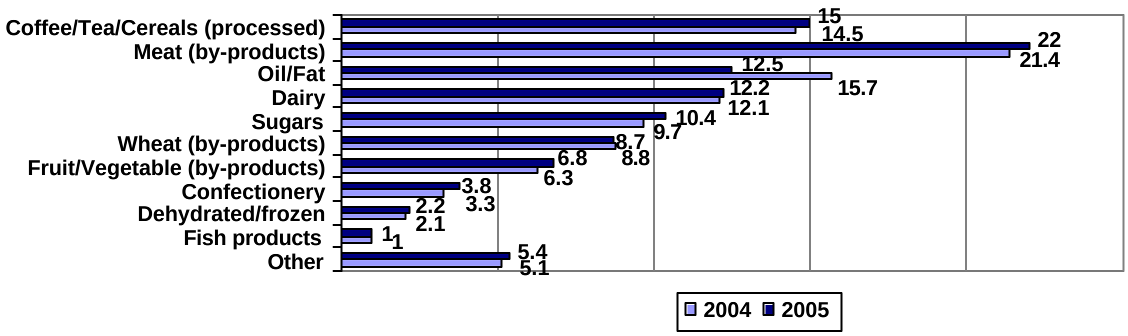
WHEY
- Century, Conaprole, Fonterra, Kraft, Kraki, Reiza Kern, Selectchemie, Sweet Mix

YEAST
- Burn Philip, Cercal, Chr. Hansen, Danisco, Dr. Oetker, Fleischmann, Kraft, J. Macedo

D. Sector Trends

According to industry analysts, economic factors and limited population growth restrict the opportunity for the food industry to expand. The various segments composing the Brazilian food industry may be divided into 10 major groups. As demonstrated below, production by each category has been relatively stable in the last 2 years. During the upcoming second term of President Luis Inacio "Lula" da Silva the economy is forecast to expand 3 to 5 percent a year, while employment and average income are expected to remain steady. Given this scenario, analysts estimate the food industry will increase revenues by 3 to 4 percent annually during the coming 4 years.

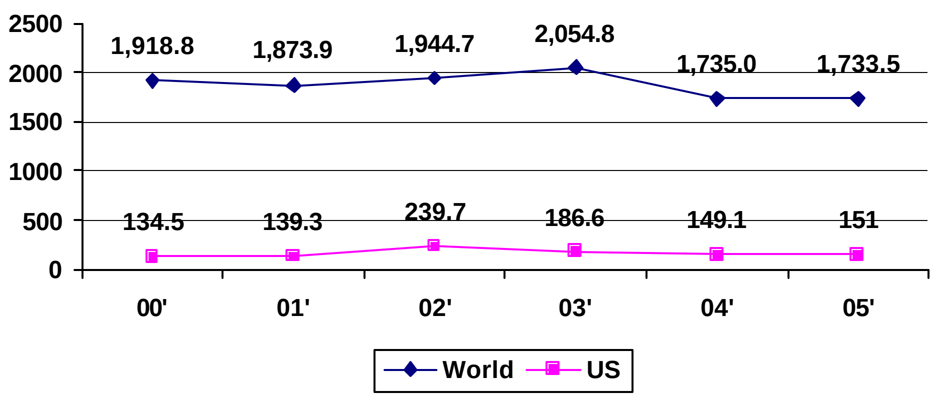
SHARE OF FOOD & BEVERAGE ITEMS WITHIN THE BRAZILIAN FOOD INDUSTRY (%)



Source: ABIA

Total imports of intermediate products used as ingredients have registered a decline of 9.6 percent, in dollar terms, in the last 5 years. Imports from the US increased 12.3 percent during that time. According to analysts, import trends for ingredients are not as sensitive to exchange rate oscillations as other food items. In fact, in 2002 the average cost of foreign currency was approximately 90 percent higher than 2000 level and yet imports were still increasing. As the number of consumers demanding more convenient/higher quality products increases, the local industry will require more sophisticated ingredients, which means that the local industry will look for suppliers that make available higher technologies such as the US, EU and Japan.

IMPORTS OF INTERMEDIATE AGRICULTURAL PRODUCTS (U$ millions)



Source: World Trade Atlas (WTA)

Another aspect that benefits exporters of ingredients is the increasing importation of global brands. Several brands currently established in the local market were initially imported on a small scale. As volumes became higher, joint-ventures were established and local production initiated. Food industry executives state that in such cases, the local production will certainly maintain some of the original ingredients in the product formulation.
The best selling food categories among consumer-oriented products are: snack foods, breakfast cereals, pancake mixes, processed fruit and vegetables, fruit and vegetable juices, pet food and dairy products.

III. Competition

Industry analysts classify imported ingredients into 2 categories: ingredients and high-value ingredients. Within the 'ingredients' category differentiation plays a minor role in the purchase process, which means that the local demand is more price sensitive and companies selling to the food industry may be substituted without serious burdens. For this reason, domestic and Mercosul companies are the largest sellers to local food processors. Mercosul companies benefit from a tax free trade agreement among the member countries, therefore are able to compete with local suppliers. Exports of ingredients from non-Mercosul countries do occur, but the market is clearly more challenging for US suppliers due to weight of import tariffs and freight costs on the final price.

On the other hand, sales of 'high-value' ingredients are less price sensitive. Brazilian companies tend to import items that demand more technology and innovation from the US and/or Europe. US companies compete directly with EU companies and considering that both suppliers present similar standards, EU countries generally benefit from lower freight costs. Since local processors are often highly dependent on foreign firms for these high-value ingredients and the cost of finding alternate suppliers would be high, processors tend to build long term relationship with exporters.

IV. Best Product Prospects

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

Exports of regular ingredients are more price sensitive than high-value added items.
The current most imported items follows:

Ingredients
- Fruits (powder/dehydrated)
- Vegetables (powder/dehydrated/frozen)
- Dairy (whey, lactose)
- Herbs and spices

High-value added ingredients
- Preservatives
- Natural and artificial flavors
- Sweeteners and low-calorie sweeteners
- Emulsifiers
- Stabilizers
- Thickeners
- Food colors
- Concentrates
- Flavors
- Oils and fats

- Beverage bases

B. Products not present in significant quantity but which have good sales potential

Freight costs and product pre-clearance are considered the major barriers towards exports of US food products. Within the high-value added ingredients segment, US companies are disadvantaged versus EU exporters since freight expenses from Europe are significantly lower. According to industry analysts, products showing potential to expand sales in Brazil are:

- Antioxidant
- Ingredients for functional foods
- Dietary supplements: prebiotics and probiotics
- Carbohydrates
- Natural ingredients
- Fibers
- Dietary fats and fat replacers
- Fragrances

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

The Brazilian food legislation is harmonized with the CODEX Alimentarius (www.codexalimentarius.net), which provides a series of guidelines and standards recommended by the United Nations to protect health. US ingredients exporters may check for compliance with the national requirements before exporting to Brazil as there are differences between standards established by the US regulatory agency (FDA) and CODEX. GMO concerns also set barriers towards soy origin products.

V. Post Contact and Further Information

Please do not hesitate to contact the offices below for questions or comments regarding this report or require assistance to export processed food products into Brazil.

U.S. Agricultural Trade Office (ATO)
U.S. Consulate General
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