



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 7/29/1998

GAIN Report #SP8031

## **Spain**

### **Market Promotion/ Competition**

### **Market Information Report - SPAIN**

**1998**

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**Report Highlights:**

**Annual Marketing Plan**

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Includes PSD changes: No  
Includes Trade Matrix: No  
Annual Report  
Madrid [SP1], SP

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## A. General Market Overview

Spain's economy continues to perform well, maintaining several consecutive quarters of solid growth. GDP grew about 3.4 percent in 1997, and a further increase of 3.7 percent is expected for 1998 and 1999. In addition, inflation, interest rates, and unemployment have been declining. In 1997, the inflation rate was 2 percent, and a further decline to 1.8 percent is expected for 1998. Also, the public deficit is close to the target required for Spain's participation in the EU's monetary union. Fueling the Spanish economy in the last two years were the fiscal and monetary adjustments made, enabling Spain to be among the first group of EU countries accepted in the monetary union, combined with increased consumer and investor confidence, and the steadily declining interest rates. More jobs were created, and the decrease in unemployment drove greater consumption. Nevertheless, at slightly below 20 percent, the official unemployment rate in Spain is still very high. Many analysts dispute this figure, however, as reportedly much part-time and non-contract employment goes unreported. According to economic indicators about 350,000 new jobs will be created in 1998 and in 1999. Per capita annual income for 1997 is estimated to have been about \$14,000.

According to Spain's customs statistics, Spain's agricultural imports in 1997 amounted to \$16.5 billion, representing a slight decrease in comparison with imports of \$17 billion in 1996. Total exports amounted to about \$17.5 billion, representing about 5 percent increase over 1996.

## B. General Consumption Overview

### - Consumption

Per capita food and beverage expenditures at home in 1997 were about 154,370 pesetas, 1.5 percent above the previous year. According to preliminary information from the Spanish Ministry of Agriculture, Fisheries and Food, during 1997 Spanish consumers spent around 8.3 trillion pesetas on food and beverage purchases, of which 6.1 trillion pesetas were for foods to be consumed at home. This represents an increase of about 5 percent over purchases in 1996. The highest percentage of purchases were for meat products (26.6%), followed by seafood products (11.9%), bread (8%), fresh fruits (6.9%), dairy products (6.4%), fresh vegetables (5.6%), milk (4.8%), bakery products (3.5), vegetable oils and edible fats (3.3%), canned fruits and vegetables (2.1%) and alcoholic and non-alcoholic beverages including beer (2%).

In-home consumption expenses in 1997, represented 74.5 percent of total Spanish food purchases, while 23 percent was spent in hotels/restaurants, and 2.5 percent in institutional facilities.

Spain's market for consumer ready food items and new foods and food ingredients is evolving, driven by higher per capita income, an increase in the active work force, and the steadily growing sophistication of the Spanish consumer's preferences. Consumption of meat, seafood, dairy products, fresh fruits and vegetables, olive oil, processed frozen products and non-alcoholic beverages increased in 1997, while that for bread, pasta, cereals, potatoes, sugar and vegetable oils went down. This consumption pattern of increased higher-value product use and less basic staples reverses the tendency during 1996, reflecting the economic recovery in 1997.

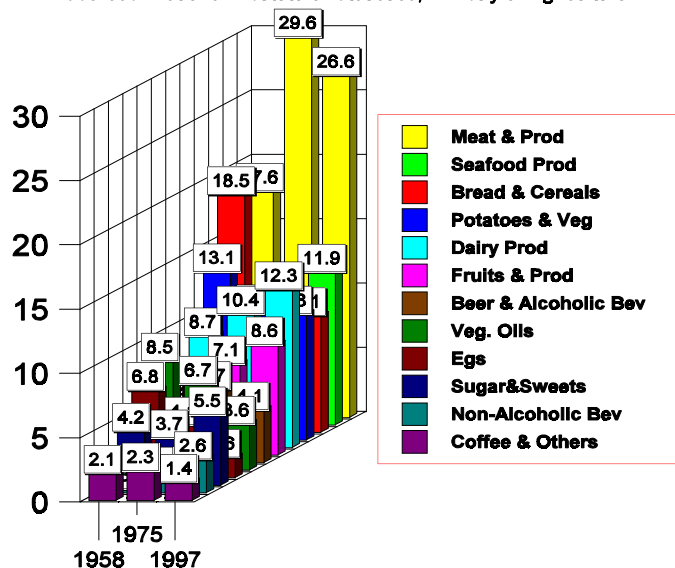
About 24 percent of the total family income is spent on food and beverage products. Total per capita consumption, by selected product categories for both 1996 and 1997, expressed in kilograms, liters or units, is as follows:

<b>Product</b>	<b>1996</b>	<b>1997</b>	<b>% Variation</b>
Eggs	204.7	218.7	6.8
Meat & Products	63.1	66.5	5.4
Seafood & Products	29.0	28.4	-2.1
Fluid Milk	120.9	116.8	-3.4
Dairy Products	26.9	27.7	3.0
Bread	58.0	57.3	-1.2
Sugar	8.7	7.6	-12.6
Rice	6.2	6.7	8.1
Pulses	6.2	6.4	3.2
Edible Oils	20.2	21.8	7.9
Fresh & Frozen Potatoes	56.4	52.1	-7.6
Fresh Vegetables	57.3	59.4	3.7
Fresh Fruits	84.2	85.6	1.7
Processed Fruits & Vegetables	16.6	16.4	-1.2
Ready-to-eat meals	4.6	6.6	43.5
Mineral Water	67.0	73.0	9.0
Non-Alcoholic Beverages	75.0	80.0	6.7
Fruit Juices	14.3	14.6	2.1
Wines, Beer & Alcoholic Bev.	99.8	99.4	-0.4

Source: Ministry of Agriculture, Fisheries and Food

## Evolution of food consumption at home

Sources: National Institute of Statistics, Ministry of Agriculture



In Spain, there are no quantitative trade restrictions on imports of consumer-ready food products. However, EU duties on processed foods based on component ingredients, particularly the amount of flour, sugar, butter, milk, egg, meat or poultry contained in processed foods, present a major barrier to increased consumer-ready food product imports. Spain applies the same rules and regulations that are applied by other EU members regarding importation of food products, such as labeling and health regulations.

NOTE: Average exchange rate: 1996: 126.60 pesetas/\$1 - 1997: 146.41 pesetas/\$1.

### - The Consumer

Spain's population is about 39.4 million people. In the next few years, little increase is expected. In the year 2005, it has been estimated that 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. Consequently, consumption habits are also expected to change. There is already a clear tendency to higher consumption of prepared foods, diet products, low cholesterol, low fat, and higher fiber content. Freshness of the products will be a must, even if processed. The so called "Mediterranean diet" will continue to play an important role, being considered healthy due to the diversity of food products.

More congested metropolitan areas, and an increasing number of women in the work force have altered the long traditional habit of daily trips to the market, while the traditional extended mid-afternoon lunch, the principal meal for most Spanish families, is becoming less common. Fitting meal time into an increasingly busy day is becoming a priority. As a result, the market for all types of prepared, processed, and frozen foods is growing. Increased exposure to other cultures and countries through travel and studying abroad, has also increased demand for new and different products. In addition, the media with its sophisticated advertising campaigns, is increasingly influential in determining food consumption trends. While it is common to see couples shopping in supermarkets, women still are the primary decision makers concerning basic food purchases. Another important factor is the one-person (13 percent) and two-person (22 percent) household, which tend to spend more on a per-capita basis for food purchases. Consumption patterns are also highly dependent on geographical area. For instance, the highest meat consumption occurs in Castilla Leon (Centre), while the Canary Islands has the lowest meat consumption.

Virtually all of Spain's household have refrigerators, and use of microwave ovens has increased rapidly in the last decade, being present in 60 percent of homes. The availability of microwaves has further enhanced the demand for processed and ready-to-eat products.

### **- Profile of Spain**

Population: 39.4 Million

- Male: 49% - Female: 51%

- Age: 0-24	31.6%
25-39	23.7%
40-49	12.7%
50-64	15.9%
65 +	15.9%

- Urban 69%

- Rural 31%

### **- The HRI Sector in Spain**

The Hotel Restaurant and Institutions sector in Spain absorbs about 25 percent of the total food consumed in Spain and was about 2.2 trillion pesetas in 1997. The Spanish HRI sector is very complex and diverse sector, with an estimated 59,000 restaurants, 12,500 hotels, 12,000 cafeterias and 213,000 bars, as well as thousands of institutions (schools, hospitals, prisons, the army), and about 160,000 vending machines. This sector is expected to continue growing as more people eating out or their homes and more tourists are visiting Spain.

There are several food manufactures and importers that have a line of products specially designed for this sector. Most of the HRI sector's buyers are small companies who for their daily shopping buy from the local market or supermarket. Institutions, food chains (usually fast food) and vending machines have more organized purchasing channels, thus being more competitive.

Several companies in the food distribution sector have outlets designed specifically to supply the HRI sector; MAKRO being the largest cash & carry group. Also, some distribution companies for this sector are located in specific areas where the tourist demand is higher, like MERCAT and DAVIGEL in the Balearic Islands, and GRUP SEHRS in Costa Brava (North Eastern coast). Food companies supplying the HRI sector are diverse and must be able to serve small customers with different needs. Beverage distributors are very specialized as most of the beverages consumption takes place in bars, cafeterias and restaurants.

### C. U.S. Market Position

Although this import market presents major opportunities for U.S. consumer-ready products, direct imports from the U.S. remain constrained due to several factors. The EU's duties on processed foods based on component ingredients, particularly the amount of flour, sugar, butter, milk, egg, meat or poultry contained in processed foods, present a major barrier to increased consumer-ready food product imports. Other EU countries which are major competitors in this market do not face the same barriers, and in addition have locational advantages over the United States.

Direct U.S. investment in the food processing sector in Spain and in Europe also reduces the incentive to import from the United States. In many instances, licensing, joint ventures or subsidiary arrangements of U.S. multinational food corporations act to impede direct imports from the United States. While Spanish-based U.S. companies may occasionally import specialized food ingredients directly from the U.S., many raw food products are obtained from local sources. Between 30 and 40 percent of the food industry in Spain is controlled by multinational companies, mainly from other EU countries.

The United States, with a total agricultural product market share of 10 percent, continues to have an important market presence in Spain for many high value products such as nuts (including peanuts), confectionery sunflowerseeds, dried fruit, snack foods, food ingredients and consumer-ready products.

The Office of Agricultural Affairs in Madrid works closely with U.S. exporters and market development cooperators in a joint effort to promote U.S. agricultural as well as seafood products. During March 1998 FAS/Madrid organized two U.S. Pavilions in ALIMENTARIA '98, an international food show held biennially in Barcelona. It is the third largest such event held in Europe, after ANUGA and SIAL.

During the last two weeks of September 1997, FAS/Madrid organized a Menu Promotion at a restaurant in Madrid. During the last ten years, several "so called" American restaurants have opened in Spain. Unfortunately, the image of American food that those restaurants offer to Spanish consumers is limited. Most of the dishes offered in those restaurants are reduced to only hamburgers, ribs, pizza and, more recently tex-mex foods. This type of food is directed at people between the age of twenty to mid thirties. Most Spaniards consider that type of food as "junk food", fast food. Most people think that these items are the only food consumed in the U.S. The American Menu Promotion was an important step in fostering changes in Spaniard's attitudes regarding American cuisine and American products. The purpose of the promotion was not only to change that image, but also to increase U.S. exports of food products to Spain by getting Spain's consumers to demand U.S. products at the restaurant.

FAS Madrid has made extensive use of the programs offered by the AgExport Services Division to promote U.S. intermediate and consumer-ready food products. In 1997 the Office of Agricultural Affairs submitted 23 trade leads. Beginning January 1995, the office of Agricultural Affairs began issuing a monthly newsletter - "Boletín de Noticias Agrarias" - which includes general market information of interest to the Spanish importer, upcoming food shows in the U.S. This monthly bulletin is distributed through the e-mail and fax systems. In July 1997, FAS/Madrid issued another publication, "The Iberian Peninsula Newsletter", a quarterly publication that is used to provide Cooperators with information on marketing opportunities and activities of the cooperators with programs in the Iberian peninsula that may provide ideas for others.

## **D. Domestic and Third Country Competition**

The EU supplied about 52 percent of Spain's total agricultural imports in 1997, about the same as in 1996. In contrast, the EU's share of the Spanish market in 1985, the year before accession, was only 22 percent. The bulk of consumer-ready food items imported by Spain from other EU countries in 1997 included seafood products, dairy and meat products, cereal preparations and cookies, chocolates and preparations, canned fruit and vegetables, wine and beer. The main high value products purchased from the U.S. were variety meats, seafood products, fresh vegetables, fruit and vegetable juices, tree nuts (mainly walnuts), peanuts, confectionery sunflowerseed, pulses, pet food, snack foods and seafood products.

The Spanish food processing sector represents 20 percent of total industrial production in Spain. In 1997, total production of the food industry was 8.02 trillion pesetas, representing a 3.7 percent increase in comparison with 7.7 trillion pesetas in 1996. Total employment in the Spanish food sector constitutes about 17 percent of the active Spanish labor force. Approximately 360,000 people were employed in this sector in 1997.

Spain's overall budget for trade promotion of food products is estimated to have been about \$40 million for 1997. These funds were destined for the promotion of various agricultural and food products sectors, including: wines, fruits, vegetables, canned fish, brandy de Jerez, cheeses, olive oil, nougat, candies, cakes, serrano ham, beef, lamb, sausages and other meat products.

Spain's promotion programs are concentrated mainly in other EU-15 countries, with activities also in the U.S., Japan, former Eastern block countries and Australia.

## **E. Consumer-Ready Market Trends and Opportunities**

One of the most notable features of Spanish market is the importance of the tourist industry to the national economy. With a resident population of 39.6 million, Spain attracted over 34 million tourist in 1997, achieving a record as one of the world's leader in tourism, after the United States and France. Another increase in the number of tourists is expected during 1998.

The Mediterranean beach areas and the Balearic Islands are the most popular tourist resorts, and the Canary Islands is an especially attractive winter tourist region. Most tourists come from northern Europe, with a very high percentage coming from Germany, the United Kingdom and France, many of whom still prefer to adhere to their usual dining and drinking habits while enjoying their vacations in Spain.

These demographics have resulted in a significant increase in demand for high-value and consumer ready products from restaurants and institutions such as hotels during the summer months. On the other hand, the strong seasonal trend in tourism creates a sharp decline in retail grocery sales towards the end of the summer months, until demand again picks up during the Christmas season.



Spain's imports of the following products experienced the largest increase during calendar year 1997 (Metric Tons - tariff classification in parenthesis):

<b>Product</b>	<b>1996</b>	<b>1997</b>	<b>Percentage Variation</b>
<b>Seafood Products (03)</b>	920,502	1,008,167	9%
<b>Coffee (0901)</b>	203,979	215,953	6%
<b>Confectionery Sunflower Seed (1206)</b>	53,376	84,863	59%
<b>Meat &amp; Fish Preparations (16)</b>	87,156	90,088	3%
<b>Sugar (17)</b>	358,230	392,966	9%
<b>Cocoa (1801)</b>	42,309	53,821	10%
<b>Pasta (1902)</b>	14,692	18,242	24%
<b>Canned Sweet Corn (2005.80)</b>	13,296	15,636	17%
<b>Fruit Juices (2009)</b>	79,322	92,127	16%
<b>Orange Juice (2009.19)</b>	16,529	27,223	64%
<b>Sauces (2103)</b>	21,412	24,810	16%
<b>Ice Cream (includes frozen yogurt) (2105)</b>	21,673	22,626	4%
<b>Beer (2203)</b>	186,212	201,104	8%
<b>Bourbon (2208.3011)</b>	\$17,507	\$28,601	63%
<b>Pet Food (2309.10)</b>	112,975	124,828	10%

Source: Spanish Customs Data

U.S. exports to Spain of consumer oriented products that experienced the highest increase in 1997:

<b>Product</b>	<b>1996 \$,000 U.S.</b>	<b>1997 \$,000 U.S.</b>	<b>Percentage Variation</b>
<b>Fish &amp; Seafood Products</b>	34,917	45,763	31.0
<b>- Salmon, Whole or Eviscerated</b>	1,818	3,069	68.8
<b>Snack Foods (excl. Nuts)</b>	6,234	6,521	0.3
<b>Breakfast Cereals &amp; Pancake Mix</b>	144	310	115.6
<b>Red Meats, Fresh/Chilled/Frozen</b>	1,332	2,574	93.3
<b>Fresh Vegetables</b>	2,914	3,632	24.6
<b>Pet Foods (dog &amp; cat food)</b>	13,051	15,523	18.9

The following represents significant trends in the Spanish market for important product categories:

#### **- Tree Nuts and Fresh Fruits**

According to Ministry of Agriculture data, tree nut and peanut per capita consumption in 1997 is estimated at 1.7 kilos, the same as a year earlier. Spain is a very important market for U.S. nuts, particularly walnuts. California walnuts enjoy a market share of about 90 percent in Spain. Nuts are mostly consumed during the Christmas season. During the last few years the California Walnut Commission has been carrying-out a campaign to encourage consumption of walnuts throughout the year. As a result of this campaign, walnuts can now be seen in the Spanish market outside of the traditional Christmas season.

During 1997, estimated per capita consumption of fresh fruits in Spain was 58.6 kilos, an increase of 1.7 percent over year earlier levels. The most commonly consumed fruits are: oranges, apples, bananas, melons, tangerines, peaches and watermelons. Although Spain is a large producer of fruit, during 1997 fruit imports (Tariff Code 08) were 649,556 tons, slightly below imports of 690,459 tons in calendar year 1996. This decrease in imports was due primarily to a larger domestic fruit crop.

In 1997, U.S. fresh fruit and nut exports to Spain totaled 29,017 tons (tariff code 08); the majority of these exports were mainly almonds (13,267) and walnuts (12,114 tons). With the market now open to practically all fruits, there are opportunities for U.S. exporters to carve out a modest presence, particularly exports of pink grapefruit and apples, mainly Red Delicious and Granny Smith.

## **- Frozen Products - General**

During 1997, the market for frozen products grew by 2.7% to 740,600 metric tons, after two years of continuous declines. All the frozen foods sectors experienced an increase, except for the seafood products, with a 5 percent decrease. Frozen french fry sales grew by 20.8 percent and frozen vegetables by 6.4 percent, while precooked frozen products grew by 7.5 percent.

## **- Frozen Vegetables**

Frozen vegetables demand in Spain has increased significantly in recent years, mainly due to increased awareness of the convenience of this product. During 1997, frozen vegetable production was 261,741 metric tons, an 7.4 percent increase over 1996. In 1997, Spain imported 85,818 tons and exported 137,818 tons of frozen vegetables. Consumption was 209,741 metric tons, an increase of 20% relative to 1996. The frozen vegetables with the greatest demand in Spain are: green beans, peas, spinach, pepper, cauliflower and sweet corn.

Frozen French fries sales continue to grow. Frozen french fries consumption in 1997 increased by 20 percent to 113,000 tons. About 23,700 tons were consumed at home and the remaining through the HRI sector. This sector has a considerable potential to expand demand for french fries, with growth in both fast food outlets and institutional catering. Imports went up 22 percent to 109,216 tons, with about 45% coming from France. Exports were only 4,439 tons, mainly to Portugal.

Spain is net producer and exporter of fresh and frozen fruits and vegetables. Major Spanish exports include pepper, artichoke or tomato. Spain also imports significant quantities of round green beans, sweet corn, spinach, carrots, and green peas

## **- Frozen Seafood**

Frozen seafood consumption in Spain has been decreasing since 1994. In 1997, consumption dropped by 5 percent, due to the price increases driven by lower fish availability. Frozen seafood imports in 1997 were 680,000 tons, a 12.4% increase from a year earlier. Some of the imports product goes to the canning industry and to frozen pre-cooked preparations. Potential to generate increased frozen seafood consumption exist in the HRI sector as very few catering companies currently offer seafood products in their menus, while some seafood importers/distributors are preparing new fish-based dishes to be introduced in both the regular food distribution and catering channels.

## **- Frozen Precooked Foods**

Total consumption of frozen pre-cooked foods in 1997 was 248,353 tons, an 8 percent increase over 1996. Of this, 145,105 tons were consumed through the HRI channel, and 103,248 tons through the regular food distribution channel. Within this sector, it is necessary to differentiate between pre-cooked products like croquettes, battered squid rings or stuffed pastries, and products that are a complete dish by themselves, such as “ready-to-eat” meals.

Products in the first category are more popular and constitute about 83 percent of total pre-cooked foods, although demand for these products is increasing at a lower pace than for complete precooked meals. In 1997, sales of seafood-based products grew, while that for regular frozen seafood decreased. Among the ready-to-eat frozen products, prepared vegetable sales experienced an increase from 700 tons in 1996 to 960 in 1997. An increase also was registered for rice-based products, mainly Chinese style fried rice and rice salads. The increase in these two categories reflects the growing demand for both nutritious and convenient products.

This trend is expected to continue over the coming years with more women entering the work force, as well as with the increase in household purchases of microwave ovens. New companies are coming into this market and they are looking for a niche for more and more specialized types of food, such as Chinese or Mexican and other ethnic foods, as well as low calorie or vegetarian dishes. This increase in consumption in 1997 was aided by lower prices, the presence of these products in discount stores, and the increase of companies delivering home frozen products.

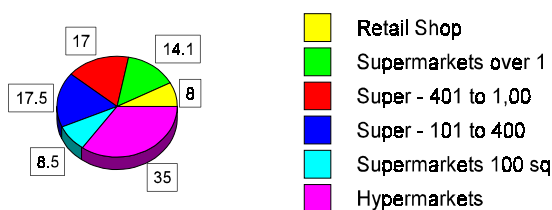
**Consumption of Frozen Pre-cooked Foods - 1997**  
(Metric Tons)

<b>Product</b>	<b>Food Distribution</b>	<b>HRI</b>	<b>Total 1997</b>	<b>97/96 %</b>
<i>- Pre-cooked Products</i>				
<b>Meats</b>	5,660	7,500	13,160	3.7
<b>Seafood, battered</b>	8,838	11,180	20,018	15.9
<b>Squid rings, battered</b>	3,750	10,800	14,550	-6.0
<b>Potato based prod.</b>	23,280	78,000	101,280	12.6
<b>Frozen doughs</b>	7,150	4,000	11,150	0.8
<b>Croquettes</b>	11,800	23,000	34,800	1.0
<b>Stuffed Pastries</b>	4,780	8,500	13,280	4.3
<b>- Sub-total</b>	65,258	142,980	208,238	7.5

Product	Food Distribution	HRI	Total 1997	97/96 %
<b>- Ready-to-eat dishes</b>				
<b>Pizzas</b>	15,690	660	16,350	8.8
<b>Seafood base dishes</b>	5,220	---	5,220	7.0
<b>Vegetable base dishes</b>	960	---	960	37.0
<b>Pasta dishes</b>	8,240	1,210	9,450	11.0
<b>Rice Preparations</b>	5,630	255	5,885	15.2
<b>Deserts</b>	1,810	---	1,810	1.0
<b>- Sub-total</b>	37,550	2,125	39,675	10.0
<b>TOTAL</b>	<b>102,808</b>	<b>145,105</b>	<b>247,913</b>	<b>8.0</b>

Source: Spanish Pre-cooked Foods Association

### Frozen Products Distribution



### - Seafood

In 1997, fish consumption in Spain averaged around 92 pounds/per capita, making Spain one of the world's leading seafood consumers. Fresh fish accounts for 46 percent of all seafood products consumed in Spain, followed by mollusks and crustaceans at 30 percent, frozen fish at 15 percent, and canned seafood products at 8 percent of total consumption.

The main species consumed are as follows:

<b>Fresh Fish</b>	<b>Frozen Fish</b>	<b>Shellfish</b>
Anchovies	Squid	Mussel
Hake	Hake	Luttleneck
Whiting	Shrimp	Shrimp
Sardine	Prawn	Crab
Salmon	Whiting	Clam
Megrim	Octopus	Portunus puber
Trout	Sole	Perivinkle
Codfish	Illex illecebrosus	Oyster
Sole	Codfish	Snails
Bream	Bream	Edible crab

In order to satisfy its great demand for seafood, Spain needs to import large quantities of seafood products due to a reduction in its Total Allowable Catches (TAC).

There are good market opportunities in Spain for U.S. seafood products. U.S. seafood exports to Spain were about \$45.7 million dollars in 1997, representing a 31 percent increase from 1996 imports of about \$35 million. Spain's importers are actively looking for new sources of supply in order to compensate for lower expected catches outside of EU waters.

#### **- Canned Fruit and Vegetables**

Consumption of canned fruits and vegetables has increased significantly during the past few years. With more women in the work force, demand for these processed products has increased tremendously. Per capita canned fruit and vegetable consumption in 1997 was 16.4 kilos, a 2.5 percent increase over consumption in 1996. Canned tomatoes the most popular canned vegetable. Canned sweet corn is becoming very popular in Spain in 1997, 9.04 million kilos were sold in Spain, representing an increase of about 19 percent in comparison with sales of 7.61 million kilos in 1996.

#### **- Breakfast Cereals**

Over the last two decades, breakfast cereals have become one of the most dynamic sectors in the Spanish grocery market with sales increasing rapidly. Estimates indicate that in 1997, breakfast cereals consumption reached 29,000 metric tons, representing a 5 percent increase from 1996. Per capita consumption in 1997 was about 840 grams. Demand for breakfast cereals has further potential to expand.

In Spain, the breakfast cereals business is dominated by a few companies: Kellogg's (65.2 % of total sales) is by far the leader in this sector, followed by Nestle-General Mills (11.3 %), Pascual (4.9 %), the remaining is distributed between the Private labels and others. About 45 percent of the breakfast cereals marketed in Spain are imported. These companies offer a large number of selections and are always offering new products to satisfy a consumer seeking new products. The most commonly used breakfast cereals are as follows: wheat (15.5 %), followed by corn (12.9 %), rice with chocolate (9.6 %), corn with sugar (6.5 %), rice (1.7 %), oats (0.7 %) and other cereals (53 %).

About 60 percent of total cereal sales volume is contained in packages of 250 grams and 500 grams. Packages larger than half a kilo account for 25.4 percent of sales, and have recently experienced higher demand due to more family members consuming this product. Packages of less than 250 grams account for about 14.6 percent of the total sales.

Hypermarkets continue to account for the largest share of retail breakfast cereal sales in Spain (39.6 %). Nevertheless, large supermarkets, with 16.2 percent of total sales volume, are gaining more market share in comparison with the previous year. This is also the case for small supermarkets with a share of 36 in 1996. Traditional and self service stores have been losing market share for this product. This appears to be in line with the Spanish consumers' shopping attitudes.

#### **- Snack Foods**

The market potential for snack foods is growing due to increased Spanish in trying new products. The snack food market is divided into four categories: nuts, confectionery sunseeds and peanuts; potato chips; extruded snacks and; small salty cookies and pretzels. Corn-based and extruded snacks are becoming highly competitive with traditional snack foods due to the large variety of types and flavors. In recent years, demand for Mexican-type snack foods has also grown. Good potential exists for U.S. snack food products in Spain. The introduction into the market of new products with new flavors and shapes, as well as with less salt and less fat, contributed to increase snack consumption in 1997.

In 1997, consumption of snack products was 46,009 metric tons (nuts not included), an increase of 10.9 percent in comparison with 41,472 tons in 1996. Per capita consumption was 2.2 kilos. Potato chips accounted for 73.2 percent of this total, 26.8 percent were other snacks, of which corn based snacks accounted for 11.8 percent. Children and young people are the main snack consumers. Nevertheless, the industry is trying new ways to target the elderly segment.

Snack products are mostly sold through the food distribution sector, accounting for 87.8 percent of total consumption; hypermarkets account for 25.5 percent of sales, followed by medium size supermarkets (101 to 400 sq meters) with 18 percent, medium size supermarkets (401 to 1,000 sq. meters) with 13.9 percent, large supermarkets (over 1,000 sq. meters) with 9.4 percent, traditional outlets 13 percent and small supermarkets (up to 100 sq meters) with 8 percent.

In 1997, U.S. exports of snack products to Spain were \$6.25 million.

**- Coffee, Herbal Teas**

In 1997, coffee bean consumption in Spain was 111,500 metric tons, about 10 percent higher than in 1996. Instant coffee consumption in 1997 was 9,375 metric tons, slightly down from 1996.

**Coffee Consumption/Distribution in Spain**

	1995	1996	1997
<b>Food Distribution</b>			
- Rosted Coffee	61,500	62,107	61,500
- Instant Coffee	7,450	7,400	7,375
<b>HRI</b>			
- Rosted Coffee	40,000	39,400	50,000
- Instant Coffee	2,000	2,000	2,000
<b>TOTAL</b>			
- Rosted Coffee	101,500	101,507	111,500
- Instant Coffee	9,450	9,400	9,375

Source: Spanish Coffee Roasters' Association

Coffee is sold almost equally through the food distribution channel and HRI. In 1997, there was a decrease in sales in the food distribution channel from 62 percent in 1996 to 57 percent, while sales in the HRI sector went from 38 percent in 1996 to 43 percent of total consumption in 1997.

Spain does not produce coffee. This product is imported and roasted in Spain. Total coffee imports in 1997 were 217,376 metric tons. The favorite varieties are: Robustas, accounting for 55% of total imports, followed by Arabicas 42%. The main supplying countries are Uganda (22.6%), Brazil (15.4%), Vietnam (13.3%), Colombia (8.6%) and Indonesia (6.2%).

**Trade Data**

	<b>Imports</b>			<b>Exports</b>		
	1995	1996	1997	1995	1996	1997
Green Coffee	168,394	187,467	208,339	10,272	14,474	16,460
Roasted Coffee	5,030	6,437	7,192	2,204	4,556	10,837
Instant Coffee	1,767	2,309	1,845	3,914	7,366	6,334
<b>- TOTAL</b>	<b>175,191</b>	<b>196,213</b>	<b>217,376</b>	<b>16,390</b>	<b>26,396</b>	<b>33,631</b>



The coffee sector in Spain is controlled by three companies: Nestle, Kraft Jacobs Suchard Iberica, and Douwe Egberts.

While during the past five years herbal tea preparations and mixes have become more popular, Spain's market for herbal preparations is only growing about 1 percent/year. Nevertheless, there appears to be a greater tendency to consume more herbal preparations, in line with increasing health concerns. Tea is the most popular herbal preparation in Spain, accounting for 23 percent, followed by camomile, linden blossom tea and mint. Spain's herbal market is dominated by SARA LEE CORPORATION, through its European partner Douwe Egberts, which at the end of 1997 bought the most important herbal preparations company in Spain, Hornimans. Hypermarkets and small supermarkets account for the largest share of herbal tea sales, accounting for 37,9 % and 34.9%, respectively.

### **- Alcoholic Beverages**

Wine consumption in Spain in 1997 is estimated at around 34.8 liters per capita, up from 33 liters in 1996. This is another signal of the economic recovery. Appellation of origin wines grew by 5 percent. These wines account for only 22 percent of consumption. Over 80 percent of the wine is sold bottled.

The market for low quality table wines is very limited as Spain is a major wine producer. However, there is growing potential for top-quality specialty wines from an emerging segment of young, well-educated professionals who are willing and able to pay top prices for the types of specialty wines that U.S. wineries can provide. Spanish wine imports in 1997 went down significantly to 148,450 hectoliters due to a good crop. Spain imported in 1997, 750 hectoliters from the U.S. Total imports in 1996 were 1,151,200 hectoliters, of which 1,260 were of U.S. origin.

Consumption of high-alcohol content beverages in 1997 was over 250 million liters. Whiskey is the most popular form of spirit, with a consumption of 88 million liters, of which 74.8 percent is imported. Whiskey consumption grew about 4.6 percent in 1997. Whiskey holds 27 percent of the market share, followed by brandy (22 %), gin (16 %), fruit liquors and creams ( 14.6 %), aniseed (8.6%), rum (6.8 %), and vodka (4 %).

Bourbon holds about 4 percent share of the whiskey market. U.S. bourbon exports to Spain experienced rapid growth in recent years, reaching \$28.6 million in 1996. This product is more popular among the under-30 crowd, who prefer bourbon or American whiskey rather than Scottish whiskey favored among their parent's generation.

Although tariff barriers on alcohol have fallen since Spain joined the EU, taxes on alcoholic beverages have increased substantially. Nevertheless, there are significant market opportunities in Spain for American-type bourbon whiskeys.

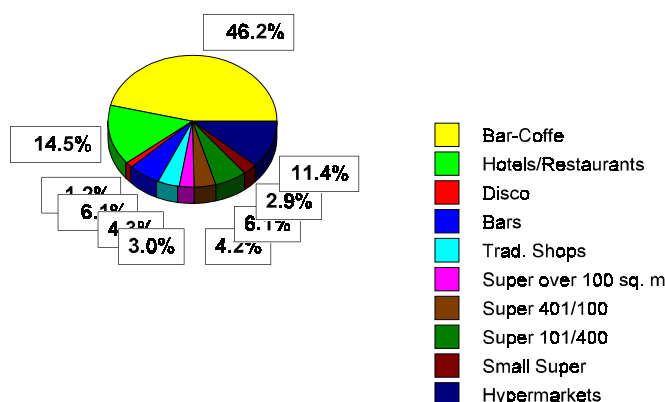
## - Beer

Beer consumption in Spain in 1997 was 67 liters per capita, compared with 66 liters per capita in 1996. The Spanish consumer generally demands higher quality beers such as "premium" or "special" type beers, representing 46% of the total beer consumption. The demand for light beer is also increasing. Beer production in 1997 increased 0.7 percent to almost 25 million hectoliters. In 1997, Spain imported 2,011,040 hectoliters of beer, representing an 8.5 percent increase from the previous year. More than 70 percent of the imported beer in Spain is commercialized through the private labels of the main distribution chains. According to the Beer Producers' Association, 65 percent of the beer was bottled in recycling containers. Barrels represent a total of 33 percent of the product and re-usable bottles 32 percent. About 23 percent of the production was bottled in non-recyclable bottles and only 12 percent in cans.

Non-alcoholic beer is becoming very popular in Spain, and it is available in most bars, restaurants and grocery stores, displacing traditional beers in some cases. It represents about 6.4 percent of total beer consumption. Spain has the highest consumption of this type of beer among the EU countries.

In Spain there are 21 beer factories, belonging to 10 different companies. Grupo Cruzcampo, holding 24.5 percent of the market share, is the largest beer company in Spain, followed by Mahou (17.9%), El Aguila (16.4%), Grupo DAMM (15.3%), and San Miguel (15.2%).

**Beer Distribution - 1997**



## **-Non-Alcoholic Beverages**

Non-alcoholic beverages considered here include fruit and vegetable juices, soft-drinks and mineral water. Total consumption of non-alcoholic beverages experienced a 6.9 percent increase in 1997 to about 80 liters per capita. Water consumption also increased by 9 percent to 73 liters per capita in 1997.

Cola-based beverages are the most popular in Spain with a market share of 53 percent and a growth in 1997 of about 8 percent and a production of 1,785.5 million liters. Orange-based drinks follow colas with a 15.7 percent of the market and a production of 526.3 million liters, and an increase of 6.6 percent in 1997. Lemonade production was 414.6 million liters, representing 12.4 percent of the market share and a 3.3 percent increase.

Although relatively new in the market, iced-tea and iced-coffee beverages are very popular and have been growing since their introduction into this market in 1996 and 1995, respectively. Every year more brands enter this market. This is also true for Isotonic beverages, with a 33 percent increase in 1997.

The areas with a higher consumption of non-alcoholic beverages are Madrid (20.6 % of total consumption), followed by Andalusia (23.6 %), Catalonia (15.5 %), Levant area (13.8 %), Galicia (9.3 %) and North (6.7 %).

### **Soft-drinks distribution channels** (Percentage)

<b>Type of outlet</b>	<b>1996</b>	<b>1997</b>
<b>- HRI Sector</b>	<b>29.7</b>	<b>30.2</b>
<b>- Food Distribution Sector</b>	<b>70.3</b>	<b>69.8</b>
Traditional outlets	8.7	8.3
Supermarket up to 100 sq. M	6.6	6.2
Supermarket - over 100 sq. M	9.0	9.8
Supermarket 101 - 400 sq. M	15.7	15.5
Supermarket - 401 - 1,000 sq. M	9.0	9.8
Hypermarkets	25.2	24.0

In 1997, bottled mineral water production was 2,800 million liters, a 9.5 percent increase from 1996. Per capita bottled water consumption went up to 73 liters in 1997, from 67 liters in 1996. Mineral non-carbonated water accounts for about 94 percent of bottled water sold in Spain, with carbonated water comprising the balance. In terms of the types of water, 86 percent is mineral water, and the balance is spring water. About 75 percent of the non-carbonated water is distributed through the supermarkets, hypermarkets or grocery stores, with the rest going through HRI channels. While 79.6 percent of the carbonated water is distributed through HRI channels.

## **- Pet Foods**

U.S. exports of pet food to Spain have experienced significant growth over the past few years. In 1997, U.S. exports of pet food to Spain (including cat, dog and bird food) were valued at \$15.5 million, up 18.95 percent from exports in 1996, of \$13 million. In 1997, Total imports are estimated at 124,828 metric tons of pet food, a 12% increase relative to 1996. The largest pet food exporter to Spain was France, accounting for about 70 percent. U.S. imports represented 9.4%. The number of pet owners in Spain has grown significantly, and generally rising incomes over the long term will continue to stimulate demand for high-quality pet foods.

Pet-food consumption in 1997 was estimated at 211,500 tons, representing a 5 percent increase from 1996. Demand for this product in Spain has grown at an average rate of over 9 percent during the last few years. It is expected to continue growing in the future but at a slower rate. Dog food comprises the largest segment of the pet food market (75 percent), followed by cat food (20 percent) and bird/fish food (5 percent).

About 50% of the pet food is commercialized through food distribution channels, and it is expected to increase its share in the near future.

## **F. Distribution Systems for Consumer-Ready Food Products**

The food retailing and distribution system in Spain is dominated by an always increasing number of hypermarkets, supermarkets, and self-service stores, which now account for approximately 85 percent of all food products retailed in Spain. Expansion of hypermarkets has slowed to a fraction of the pace of growth during the previous decade, while supermarkets numbers continue to grow. Meanwhile, the traditional small outlets are rapidly disappearing from the food distribution system. The majority of hypermarkets have been opened by French operators in conjunction with Spanish partners or through subsidiaries. Share of total food sales in 1997, (1996 in parenthesis) by retailing category is as follows: Hypermarkets, 32 percent (32.5%); Supermarkets, 40.6 percent (41%); Self Services, 19 percent (18.5%); Discounts, 8.4 percent (8%). Traditional Grocery Stores, 6 percent; Other, 9 percent.

At the end of 1997 there were a total of 9,891 retail food outlets in Spain, with a sales surface of 6.99 million square meters. These figures include hypermarkets, supermarkets, and discount outlets. There were also 779 Cash & Carries, with a total surface of 1,270,533 square meters.

	<b>Hypermarkets</b>	<b>Supermarkets</b>	<b>Discount</b>
<b>Number of outlets</b>	318	7,730	1,843
<b>Area (,000 sq. m.)</b>	2,235	4,178	585
<b>Sales percentage</b>	32%	40.6%	8.4%

The ability to present and market foods in an attractive manner is essential in Spain and is an important advantage for U.S. companies. Appealing packaging and display of foods is a must in this market, and can help to sell a variety of U.S. products like canned fruits and vegetables, liquor and beer, chocolates, candies, various sauces, snacks, seasonings and condiments. Attractive displays, when combined with the novelty of many U.S. products, will make a good first impression and can help to expand sales.

The elderly population is one demographic sector that has been somewhat ignored by food companies. Products manufactured for this market are still virtually non-existent in Spain, despite the large market potential due to the growing number of elderly people. Any U.S. company producing food products targeted towards older people would have excellent possibilities in Spain.

Advertising in trade publications and also in the many popular women's magazines is an effective way to introduce and promote new food ideas. Newspaper readership in Spain is not as extensive as in other northern European countries. Therefore, advertising supplements or inserts by grocery chains are not common (hypermarkets and large supermarkets, however, periodically issue a publication with special offers, which is distributed in neighboring areas). In contrast, Spaniards watch a lot of television, and TV advertising, although more costly, is an effective and fast way to reach potential consumers.

When introducing a new U.S. food product in Spain, it is very helpful to provide accompanying information on product ingredients, recipe ideas and cooking tips. This information must be printed in Spanish. In addition, the following label information is mandatory and must also be in Spanish: the product name, net weight or volume, expiration date, list of ingredients, directions for storage and use, country of origin, importer, and lot number. For additional details on labeling requirements in Spain contact FAS/Office of Food Safety and Technical Services in Washington DC (Tel: (202) 720 1301 - Fax: (202) 690 0677).

Needless to say, competitive pricing is a very important factor for U.S. exporters when negotiating the entry of a new product. In addition to competitive prices, product quality and merchandising support is a must.

The easiest way to introduce a product to the Spanish market is to make contact and secure the services of a reliable Spanish importing/distributing company. A good importing agent will naturally lead to more contacts, and their market experience can be vital, particularly for new-to-market exporters or small to medium-sized companies that may lack the resources for national advertising campaigns or other marketing services. Import agents can also be an important broker between foreign exporters and potential Spanish purchasers. Many exporters have achieved success in penetrating the Spanish market by using these agents.

Major distribution chains serving supermarkets and self-services are, among others, EUROMADI (2,726 outlets), IFA ESPANOLA (2,170), EROSKI/MERCAT/UNIDE (946), Cadena CMD (317), and independent groups: MERCADONA (318), EL CORTE INGLES (32).

The most important Hypermarkets (318) in Spain are PRYCA (56), CONTINENTE (61), ALCAMPO (44), GRUPO EROSKI (30), HIPERCOR/EL CORTE INGLES (16). These chains are demanding and have clear-cut profit objectives. Successful product introduction in these retail centers may depend not only on a product's profit potential, but also on additional sales incentives such as listing allowances, fixed discounts on invoices and the strength of promotions.

The main Discount chains (1,843 outlets) are: EUROMADI, IFA and independent groups, where the most important are: DIA (1,470), LIDL (131), SIMAGO (56), and TENGELMANN (44).

Hypermarkets, stores with a space area of over 2,500 square meters, convenient parking and with a great variety of consumer goods in addition to groceries, are a great force in the food market industry. In 1997 there were 318 outlets and accounted for 32 percent of retail sales in the food distribution sector.

Supermarkets and self service stores are the most dynamic sector in food retailing, with 7,730 outlets accounting for about 59.6 percent of retail sales. Supermarkets are subdivided in 5 categories, depending on the floor space, as follows: over 1,000 square meters, between 401 and 1,000 sq. meters, 101 to 400 sq. meters and up to 100 sq. meters. Many of these stores continue to be located in congested urban areas and, although there are several important chains, a significant proportion of supermarkets and self-service stores remain independently owned and family operated.

The majority of the Spanish food service sector is made up of an extraordinarily large number of neighborhood bars, where a variety of beverages and snacks are consumed. Bars are followed in popularity by restaurants, hotel-connected restaurants, and catering services. The food service industry remains largely independently owned and operated. The bar and restaurant sector is particularly important within Spain's popular tourist areas but is growing in other regions as well because of lifestyle changes within Spain.

Seafood, as well as other fresh food products like fruits, vegetables and some meat are commercialized in Spain through the MERCA, SA distribution network. MERCASA is a government company that belongs to the Spanish Ministry of Agriculture and to the municipality of each city where the MERCA is located. There are 22 MERCAs in Spain, located in the major cities. In cities with no MERCA, food products are distributed through their central markets.

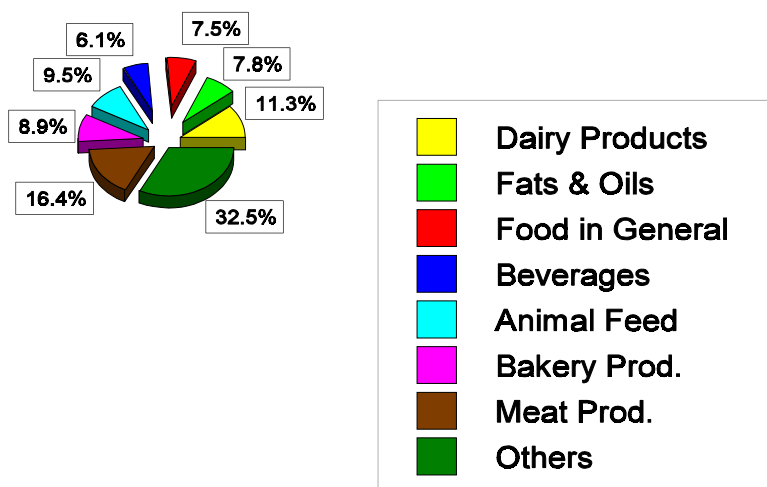
When fish lands at the harbors, it is sold to the authorized wholesalers at auction. The fish is then distributed to the MERCAs and central markets. Retail sellers from the small fishmonger to the large supermarkets and hypermarkets buy fish in the MERCAs and central markets. The traditional fishmonger competes with the large stores in big cities. Fishmongers, unless specialized in frozen fish, only carry fresh fish. Frozen fish is mainly marketed through frozen food shops, in bulk, or supermarkets and hypermarkets where it is sold, packed and branded.

### G. Domestic Food Processing Sector

Since Spain joined the European Union in 1986, the Spanish food processing sector has made rapid progress, mainly due to the increased competition from other EU countries. In terms of capacity, the food processing industry is fifth among EU countries. Food production represents 20 percent of total industrial production. This industry continues to modernize infrastructure to compete in the highly demanding market.

The fruits and vegetables produced in Spain are among the world's finest, and Spanish food companies have virtually unrestricted access to the highest quality raw foodstuff materials. Likewise, the Spanish meat packing and processing industry is increasingly utilizing more technically advanced equipment. There is a market in Spain for U.S. food processing expertise, technology and equipment. Special ingredients, spices and the like, may have to be imported from the U.S., but fresh, good quality raw agricultural ingredients in most cases can be found locally.

**Spanish Food Industry - Sectors**



**H. Summary Statistics (1997)**

- AGRICULTURAL IMPORTS (all sources):	\$16.5 billion
- AGRICULTURAL IMPORTS AS A PERCENTAGE OF TOTAL IMPORTS:	13.3%
- U.S. MARKET SHARE OF AGRICULTURAL IMPORTS (percent):	10.1
- CONSUMER-READY FOOD PRODUCT IMPORTS FROM THE U.S.(Value):	\$126.1 million
- AGRICULTURAL TRADE BALANCE WITH THE U.S.:	(-) \$1,089 million
- MAJOR METROPOLITAN AREAS (over 100,000):	38
- TOTAL POPULATION:	39.4 million
- POPULATION GROWTH RATE:	0.2 percent/year
- URBAN POPULATION	69%
- PERCENT OF FEMALE POPULATION EMPLOYED:	36
- PER CAPITA GROSS DOMESTIC PRODUCT:	\$14,000
- PER CAPITA EXPENDITURES (food & beverages at home)	\$1,060

NOTE: Average exchange rate for 1997: 146.41 pesetas/\$.