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Brazil

Food Processing Ingredients Sector

The ice-cream industry in Brazil

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Report Highlights:

The Brazilian ice-cream industry generates around R\$2.5 billion per year in sales and is composed of approximately 10,000 companies, ranging from small informal companies to large multinationals such as Nestle and Unilever. As the industry grows, opportunities for US exporters may be found in the ingredients market and premium price category.

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I. Market Overview

Brazilian ice-cream production started in 1834 when 2 merchants from Rio de Janeiro brought to the country approximately 200 tons of ice to start a business. More than a century later, U.S. Harkson do Brasil, the first large-scale ice-cream processing plant, was established in Brazil. Since 1997 Unilever has owned the company, known today as Kibon. The business emerged as a subsidiary of the Chinese Hazelwood Ice Cream Corporation (originally owned by an American firm). The technology and expertise were brought from China by Ulisses Harkson, who in 1941 founded the company with modest capital in a warehouse in Rio de Janeiro. After 30 years, Kibon's monopoly was broken when Gelato, a Unilever company, was introduced in the market.

According to the Brazilian Association of Ice-Cream Processors (ABIS), the sector today is composed of approximately 10,000 companies, ranging from small to large, and encompassing multinationals such as Nestle and Unilever. The local industry generates around R\$2.5 billion per year in turnover (average exchange rate for 2005 is US\$1=R\$2.43); however, ice-cream production has been steady since 1998. The Foreign Trade Secretariat (SECEX) registered imports of ice-cream to Brazil valued at US\$ 2.6 million in 2005. Despite the limited volume, imports of ice-cream increased 100 percent compared to the previous year.

At first glance, when studying the Brazilian ice-cream market one might think that the combination of the Brazilian currency depreciation of the late 90's and the limited purchasing power of the population would depress consumption. According to the Brazilian Food Processors' Association (ABIA), however, while wage and price are relevant factors, the weather is the most significant factor affecting consumption. The Association developed an econometric model and the findings indicate that whenever the rainfall increases, ice-cream sales go up. In other words, temperature plays a critical role on ice-cream expenditures; wages and prices come second. Imported ice-cream, though, is considered a luxury, mainly accessible to wealthier Brazilian consumers, approximately 5 percent of the population. Despite the limited trade between Brazil and other countries, potential for increased imports exists in the premium product category and in the ingredients segment. The major ingredient suppliers are international companies. Whey powder, whey protein concentrated, flavors and stabilizers have great potential within this industry.

Given this outlook, there are challenges and advantages to be investigated prior to entering the market, as noted below:

Advantages	Challenges
The overall temperature is going up. Each year the summer season starts earlier, which leaves a better market window to promote ice-cream.	Benefit from the high temperature forecast and promote consumption off-season.
Foreign suppliers focusing top processors may benefit from their market power.	The rigid decision making process of multinationals demand higher investments.
Local processors and smaller factories producing artisan products are differentiating towards the high-end segment.	US ingredients are better positioned due to technology applied, however, high quality ingredients increase production costs.
Restricted number of local companies supplying ingredients.	Small/medium ice-cream processors do not import directly.

II. Market Sector Opportunities and Threats

1. Entry Strategy

When approaching the Brazilian market, exporters should be aware that most imported foods and beverages considered consumer-oriented are not price-competitive with locally produced products. This is due to the low cost of locally produced goods and high import tariffs; 18 percent for most ice cream. Products imported from Mercosul members (Argentina, Paraguay and Uruguay) enjoy duty-free status and Chilean products face a reduced duty rate. The retail price of imported goods may reach 5 times the FOB price at origin; thus, US importers need to evaluate the extent to which their products can compete and maintain saleability.

US exporters should always consider the local 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. As 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.

2. Market Size, Structure, Trends

The Brazilian ice-cream industry generates R\$2.5 billion in annual sales. This industry gathers large multinational companies, small/medium local companies, artisan factories and soft ice-cream vendors. Despite a nominal growth in sales value of approximately 47 percent registered during 1998-2005, overall production volume of ice-cream has been steady.

Externalities restricting industry expansion products of an administrative and tax climate, which places heavy burdens on formal businesses. Sector performance is strongly affected by the presence of a large, low-cost informal market, which limits growth in output, productivity and employment. According to the Brazilian Food Processors' Association the informal market in the ice-cream industry accounts for 60 percent of overall production.

ICE-CREAM PRODUCTION & CONSUMPTION

	1998	1999	2000	2001	2002	2003	2004	2005
Production (Million Liters)	517	467	480	491	526.7	502.2	507.5	518
Gross Sales (US\$ Million)	1,468	840	963	771	659	703	784	1,026
Exports (Million Liters)	0.8	0.6	2.1	3.1	0.8	0.4	0.7	0.3
Exports (US\$ Million)	2.3	1.1	2.9	4.3	1.1	0.9	0.9	0.6
Imports (Million Liters)	2.4	2.2	1.4	0.9	1.0	0.2	0.4	1.4
Imports (US\$ Million)	6.3	5.8	3.0	2.1	2.7	0.7	1.3	2.6
Per Capita Consumption (Liters)	3.17	2.81	2.83	2.84	3.02	2.84	2.83	2.84
Per Capita Consumption (US\$)	9.00	5.07	5.68	4.47	3.78	3.97	4.37	5.65
Average Exchange Rate*	1.159	1.815	1.830	2.350	2.921	3.091	2.937	2.435
Population (Million)	163.6	166.6	169.6	172.0	174.5	177.0	179.6	182.2

Source: Brazilian Food Processors' Association (ABIA)

Note: * These figures include only the approximately 40 percent of the market controlled by formally registered producers. Average exchange rate provided by the Brazilian Central Bank (Bacen)

Foreign trade is limited within the ice-cream market; exports and imports together represent less than 1 percent of total sales. Ice-cream imports supply mainly the premium segment;

foreign goods are likely to remain a niche market. As with most agricultural food products, Brazil is self-sufficient. Nonetheless many international companies test market products with imports and then establish domestic plants to obtain better margins on successful brands.

IMPORTS OF ICE-CREAM AND OTHER EDIBLE ICE (Millions of US\$)

Country	2003	Share (%)	2004	Share (%)	2005	Share (%)	2006 (jan-jul)
WORLD	0.733	100.0	1.340	100.0	2.560	100.0	1.808
France	0.450	61.4 (1)	0.611	45.6 (1)	1.129	44.1 (1)	1.235
Chile	0.023	3.2 (4)	0.127	9.5 (4)	0.605	23.6 (2)	0.521
US	0.003	0.3 (8)	0.450	33.6 (2)	0.362	14.1 (3)	0.000
Argentina	0.082	11.2 (3)	0.000	0.0	0.355	13.9 (4)	0.021
Germany	0.137	18.7 (2)	0.137	10.2 (3)	0.099	3.9 (5)	0.027
South Korea	0.004	0.5 (7)	0.005	0.3 (6)	0.010	0.4 (6)	0.005
Italy	0.021	2.9 (5)	0.010	0.8 (5)	0.000	0.0	0.000
Uruguay	0.013	1.8 (6)	0.000	0.0	0.000	0.0	0.000

Source: Foreign Trade Secretariat (SECEX)

According to the Brazilian Food Processor's Association (ABIA) consumption of ice-cream in Brazil reached 2.84 liters per capita in 2005, less than 1/6 of US consumption and below Chile and Argentina, where per capita consumption reaches, on average, 6.5 liters and 5 liters, respectively. [Please note that these figures are for the formal sector only]. In Brazil, ice-cream consumption is concentrated among the months of September and February, when 70 percent of the production is sold. According to the industry, during these months the demand for fruit flavor grows, while in the rest of the year preferences shift toward denser flavors. In 2005, sector reports points the following flavors as the top sellers: chocolate, strawberry, vanilla, neapolitan, grape, coconut, lemon, pineapple, cream and chocolate chip.

According to the Brazilian Ice-Cream Processors' Association (ABIS), ice-cream is considered a snack, a reward and not a "food" product. For the President of the association, Eduardo Weisberg, consumption patterns may be changed if consumers' perception also changes. ABIS projects go in this direction, however, to sell the nutritious benefits and reposition the product on consumers' mind, the production process needs to be reviewed and quality standards set higher. To follow these premises the ISO 22000/2006 seal was implemented.

Ice-cream is sold through different channels: supermarkets/hypermarkets, independent food stores, convenience stores and others (kiosks, bars, ice-cream carts, etc). The Southeast and the South regions are responsible for approximately 80 percent of the total market. This region also represents the more affluent portion of the country, approximately 75 percent of the country's GDP is generated in these 2 regions which comprise the states of Sao Paulo, Rio de Janeiro, Minas Gerais, Rio Grande do Sul, Parana, Santa Catarina and Espirito Santo. The South and Southeast regions also account for 77 percent of supermarket sales.

DISTRIBUTION (% breakdown in retail value)

	2001	2002	2003	2004	2005
Supermarkets/hypermarkets	30.1	29.2	29.3	29.8	29.2
Independent food stores	44.8	44.9	44.8	44.6	44.4
Convenience stores	5.1	5.5	5.1	4.5	4.8
Others	20.0	20.4	20.8	21.1	21.6
Total	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor

The industry supplies ice-cream products in different packages to address different consumption patterns. This classification may be divided into 6 sub-categories:

- Impulse ice-cream: single portion, water or dairy based, sold in stick, cone, pot, freeze pops and ice lollies (soft served ice-creams are excluded)
- Multi-pack ice-cream: 2 or more individual portions packaged together, water or dairy based
- Take-home/bulk ice-cream: water or dairy based, mostly sold in containers
- Ice-cream desserts: industrially prepared desserts, ice-cream based
- Frozen yoghurt: frozen yoghurt based, usually fruit flavored
- Artesanal ice-cream: on-site produced ice-cream in small scale, water or dairy based

3. Company Profiles

The top ice-cream players in Brazil are the European multinationals, Unilever Group (the world largest ice-cream producer) and Nestle. Both target the mass-market, while Unilever also owns the premium brand *Carte D'Or*. Together these 2 companies control 67 percent of total [formal] sales. The third ranking producer is General Mills, a US multinational company that entered the market supplying exclusively premium brands. According to General Mills, initial Haagen-Dazs prices were 100 percent more expensive than other premium brands. After reducing this margin to 50 percent, the company forecasts 40 percent sales increase during the 2006/2007 summer (December-March). Haagen-Dazs products are sold through its own stores, top supermarkets and specialty food stores. The premium category includes Carte D'Or, Haagen Dazs, La Basque and Miss Daisy.

LEADING BRAZILIAN ICE-CREAM PROCESSORS (% breakdown in retail value)

	2001	2002	2003	2004	2005
Unilever Group (Kibon)	50.2	49.4	48.8	48.6	44.6
Nestle SA	22.8	23.0	23.7	24.1	22.2
General Mills Inc (Haagen-Dazs)	4.1	4.0	3.4	2.8	2.6
La Basque Alimentos Ltda	1.1	1.0	1.0	1.0	0.8
Sadia SA (Miss Daisy)	0.0	0.0	0.0	0.2	0.2
SUB-TOTAL	78.2	77.4	76.9	76.7	70.4
Private Label	1.5	1.4	1.4	1.7	1.4
Artesanal	0.6	0.6	0.6	0.7	0.7
Others	19.7	20.6	21.1	20.9	27.5
TOTAL	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor

III. Costs and Prices

Price policies are established by the 2 multinational companies, Unilever and Nestle. For small and medium size companies, to obtain better turnover it is crucial to migrate to the premium segment. ATO performed a brief price study in few stores in Sao Paulo city to present as a reference.

- Impulse ice-cream: R\$1 to R\$6 (in stick/cone)
- Multi-pack ice-cream: R\$7.50 to R\$22 (6-10 units)
- Take-home/bulk ice-cream: R\$9 to R\$24 (500ml/900ml) and R\$9 to R\$15 (1l/2l)
- Ice-cream desserts: R\$9 to R\$20 (500ml)

According to the Harmonized System of Trade (HST), ice-cream products from non-Mercosul countries have 2 import tariff breakouts:

- Duty for containers holding 2kg or less = 18%
- Duty for other ice-cream specifications = 16%

Other major local taxes impacting on costs are:

- IPI: an excise tax or tax on manufactured goods applied to locally produced and imported products (5%)
- PIS/Cofins: social contribution tax on gross corporate revenue (1.65%+7.6%)
- ICMS: merchandise circulation tax. Each state sets its own ICMS tax rate (on average 17%). In Sao Paulo State it is set in 18% (food products, ice-cream included, benefited from a new measure which decreases the tax to 12%)

III. Market Access

The Ministry of Health's (MS) regulatory activities carried out by an agency called the National Agency of Sanitary Surveillance (ANVISA). ANVISA is a semi-autonomous agency within the Ministry of Health. Ice-cream products fall under the agency's responsibility. Furthermore, ANVISA also supervises the production and registration of food additives and coordinates the System of Administrative, Technical and Sanitary Management at Ports, Airports, and Borders (SISPAF). For dairy based ingredients, the Ministry of Agriculture, Livestock, and Food Supply (MAPA) is responsible for enforcing regulations governing domestic and imported products.

The major regulations that provide ANVISA and its departments with regulatory authority for domestic and imported products of ice-cream products are: Resolution (RDC) n°12 of January 2, 2001 and Resolution (RDC) n°266 of September 22, 2005. The objectives of these 2 Resolutions are to provide guidance to food importers and to improve ANVISA's efficiency in coordinating public health actions on local and imported food products. For a detailed report on Brazil's import process please refer to the "*Exporter Guide*" report, number BR6016, released in September 2006.

V. Key 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.

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