

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Brazil

Food Processing Ingredients

2018

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Report Highlights:

Brazil continues to present opportunities for U.S. exporters of ingredients, with its food processing industry market estimated at \$198 billion. After negative growth over the past few years, economic activity in Brazil is recovering and growth is picking up. Post estimates a compound annual growth rate of between two to three percent in real terms until 2021 for the food processing industry. Looking ahead, while the industry is in the process of cost reduction and seeking consolidation as a strategy to survive Brazil's economic crisis, major players expect a recovery in investment and a corresponding increase in imports after the last quarter of 2018, following presidential elections. Food processing ingredients that allow for cost saving and high performance ingredients that add value to products present good market potential as trends such as health and wellness continue to expand and the increasing income of the middle-class continues to drive economic growth.

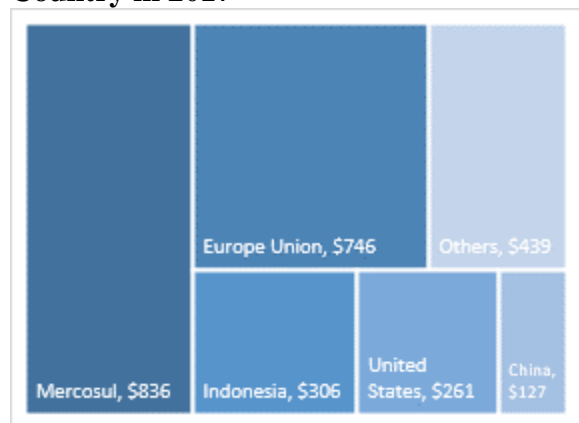
Executive Summary

Growth in Brazil is picking up and the country continues to present opportunities for U.S. exporters of ingredients with a food processing industry market estimated at US\$ 198 billion in 2017 (R\$643 billion). Industry players are in the process of cost reduction and consolidation through mergers and acquisitions both as a strategy to overcome Brazil's economic crisis and to compete in the international market. Although political uncertainty resulting in exchange rate fluctuation remains a temporary challenge for U.S. exporters, industry players expect a recovery in investment and imports after the last quarter of 2018, following presidential elections. Looking ahead, imported products with high performance ingredients will have good market potential as trends such as health and wellness continue to expand, along with the increasing income of the middle-class. Both will continue to be important growth drivers in the country. Post estimates a compound annual growth rate of two or three percent in real terms until 2021 for the food processing industry.

Imports of Intermediate Products

Brazil imported \$2.7 billion of intermediate food products in 2017. While Mercosul members benefit from a tax-free agreement, exporters from other countries face more challenges due to applied import tariffs and transportation costs. Mercosul and the European Union account for 31 and 27 percent, respectively, of Brazil's import market for intermediate products.

Brazil Imports of Intermediate Products by Country in 2017



Source: SECEX

Food Processing Industry

In 2017, the food processing industry (food and beverages) consisted of 49,000 companies, with annual sales of \$198 billion. The food sector represented 81 percent and beverages 19 percent of total sales. Brazil is one of the major world players in the sector, with the food processing industry being responsible for 10 percent of the country's GDP and employing 1.6 million work

ers. The most important product categories are: meat products, beverages, dairy products, tea, coffee, cereals, oils and fats, sugar, snacks, ice creams, condiments, yeast, wheat products, processed fruits and vegetable, dehydrated and frozen products, chocolate, candies, and fish.

Food Retail Industry

Food retail sales amounted to \$109 billion in 2017. Although trade was one of the sectors vigorously hit by the recession, food retailers were less affected and seem to be recovering faster than other segments of the economy.

Quick Facts CY 2017

Imports of Intermediate Products (US\$ billion): \$ 2.7
Imports of Intermediate Products from the U.S. (US\$ million): \$ 260

List of Top 10 Growth Products in Brazil in 2017

1) Wheat Flour	6) Protein Concentrates
2) Edible fats & Oil mixtures	7) Yeasts
3) Soybean Oil & Fractions	8) Malt, Not Roasted
4) Enzymes And Prepared Enzymes	9) Palm Oil
5) Mixtures Odoriferous Substance Use	10) Vegetable seeds

Source: SECEX

Food Industry by Channels (U.S. Billion \$) in 2017

Food industry Output	198.0
Food Exports	38.3
Food Imports	5.3
Inventory	-8
Domestic Market	155.2
Retail	104.4
Food Service	50.8

Source: ABIA

Top 10 Host Country Retailers in 2017

1) Carrefour	6) SDB Comercio de Ali
2) Grupo Pao de Acucar	7) Supermercados BH
3) Walmart Brasil	8) Companhia Zaffari
4) Cencosud Brasil	9) Sonda Supermercados
5) Irmaos Muffato	10) DMA Distribuidora

Source: ABRAS

GDP/Population

Population (millions): 207.6
 GDP (billions USD): 2,037
 GDP per capita (USD): 9,749
 Source: IBGE

Section 1: Market Summary

Growth in Brazil is picking up and the country continues to present opportunities for U.S. exporters of ingredients, with a food processing industry market estimated at \$198 billion in 2017. Major market players are currently finding ways to overcome the economic crisis, focusing on restructuring internal costs as a way to produce a more affordable mix of products and gain market share within the most affected segment of the population who is suffering with high unemployment rates and a decrease in purchasing power. This include key players looking for lower-cost inputs to use as ingredients, but also a process of consolidation to become more competitive both nationally and within the international market through mergers and acquisitions. Although political uncertainty resulting in exchange rate fluctuation still presents a temporary challenge for U.S.

Description	Year	Sales Food Processing Industry (R\$ bn - current prices)	Time Series Baseline Index = 100
Nominal	2008	269	100
	2009	292	104
	2010	331	111
	2011	383	121
	2012	432	129
	2013	485	137
	2014	530	140
	2015	562	135
	2016	614	138
Estimate	2017	643	141
	2018	682	145
	2019	723	149
	2020	767	154
	2021	814	158
	2022	864	163

Source: ABIA

exporters, industry players expect a sharper recovery in investment and imports after the last quarter of 2018 following the presidential election, when less market volatility is expected in the medium-term.

Improvement in economic conditions in South America in 2018 is being driven by the end of recessions in Argentina, Brazil, and Ecuador. In Brazil, a mitigation of inflation and higher commodity prices has provided space for a slow recovery in disposable income. Favorable external conditions and austere fiscal measures imposed by federal government are leading to a rebound in private consumption and investment in Brazil with real GDP expected to grow between two and three percent in 2018.

Despite recovering from the economic crisis, players in the food processing industry are still risk averse and hesitant to expand their portfolios, and thus are not increasing imports. In the midst of the recession, most Brazilian food processing companies shifted focus to cost reduction, innovation, and value-for-money strategies. This new approach is designed to reach a larger portion of consumers who are struggling with lower disposable income and unemployment, which resulted in industry players looking for ingredients that could save overall costs. Because of this focus and other international trends, major market players are seeking consolidation through mergers and acquisitions.¹

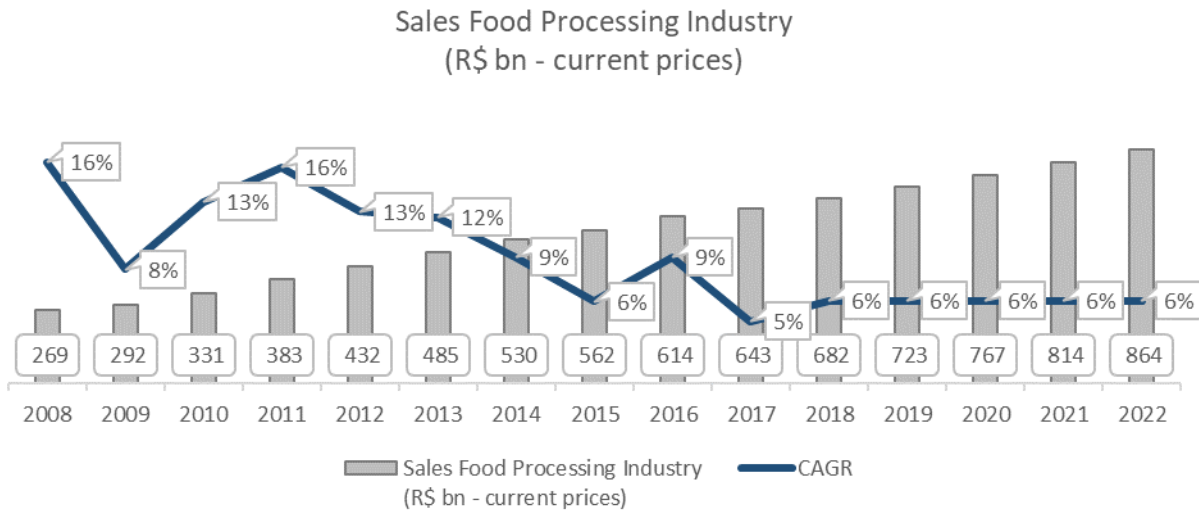
Looking ahead, imported products with high performance ingredients present good market potential over the next few years as trends such as health and wellness (H&W) and the increasing income middle-class continue to be important growth drivers in the country. Brazil's market is still less sophisticated in comparison with other countries in terms of food and beverage SKUs available to the final consumer, thus reflecting an untapped market for more value-added ingredients, as long as the economy and disposable income grows. H&W is a trend pushed mainly by multinational companies, small organic producers, and increasingly in Brazil, government regulations. While H&W remains a niche market industry insiders are quite optimistic for growth in this category in the mid-term. Post estimates a Compound Annual Growth Rate of two to three percent in real terms until 2021 for the Food Processing Industry.

It is important to note that Brazil is overcoming the most severe economic crises in its history. In 2015, the country entered a severe political crisis that culminated with the impeachment of President Dilma Rousseff in 2016, charged with filling holes in government accounts by taking loans from state banks without congressional approval. The economic and political situation was aggravated by political and corruption scandals that affected swaths of the political class, which were intensified by large macroeconomic imbalances and a loss of consumer confidence.

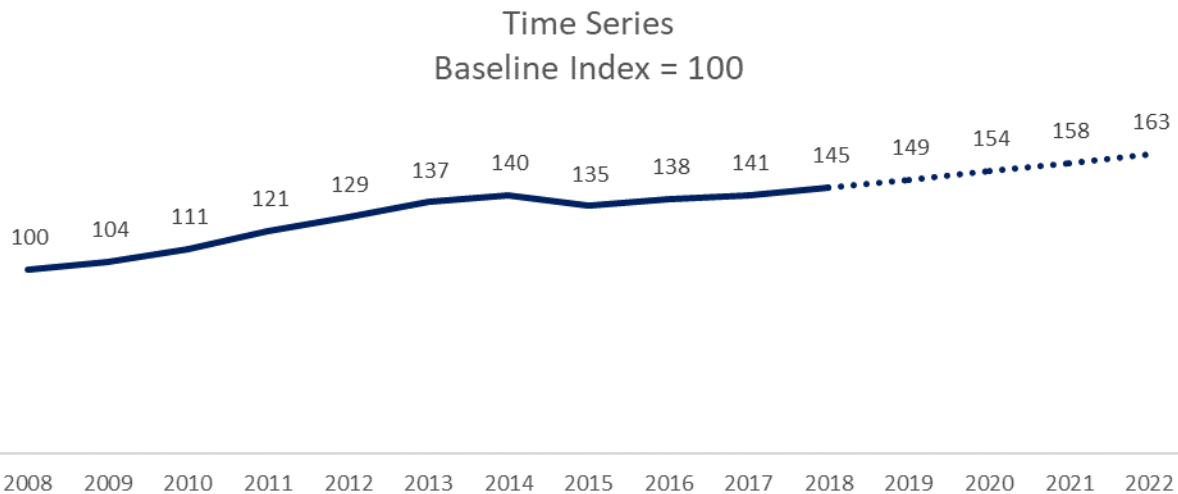
¹ Examples of this trend include M. Dias Branco purchasing Piraque, Lactalis acquisition of Itambé Alimentos from J&F, Lala purchasing Vigor Alimentos, Marfrig selling its Keystone unity and purchasing the control of the National Beef Packing Company, ADM merging with Bunge, Dupont merging with Dow, and Bayer purchase of Monsanto.

According to Fundação Getulio Vargas (FGV), the recession extended from the second quarter of 2014 to the end of 2016, with Brazil's GDP falling 8.6 percent after 11 quarters of recession, rising unemployment, low foreign direct investments, and a decrease in confidence indices both for the private sector and for consumers. In 2017, the country observed one percent GDP growth under President Michel Temer's administration – returning to the same level of gross domestic product observed in the first quarter of 2011. The main growth driver was agribusiness – which presented 13 percent growth in 2017, due to record crops.

*Value and Growth Rates of the Food Processing Industry
Historical and Forecasting, Constant prices in U.S. dollars and Percentage Growth*



Source: period 2011-2017 adapted current prices from the Brazilian Food Processing Association (ABIA). Estimates 2018-2021: U.S. Agricultural Trade Office (ATO) Sao Paulo based on trade interviews.



Source: period 2011-2017 adapted for 2008 constant prices from the Brazilian Food Processing Association (ABIA) using IPCA-A. Baseline Index = 100. Estimates 2018-2021: U.S. Agricultural Trade Office (ATO) Sao Paulo based on trade interviews. Exchange rate BRL/USD: 3.24

Advantages	Challenges
Multinational companies have demand for innovative and high performance ingredients not present in the market.	Brazilian import procedures are a burden, especially for new-to-market U.S. companies of small/medium size.
The United States is known as a supplier of high quality and consistent food products.	Current depreciation of the Real to the dollar and market volatility prohibits U.S. suppliers from entering the market.
The Brazilian food industry views the United States in terms of Research & Development as highly qualified.	Sourcing products and ingredients from the United States is not always an easy task as U.S. companies are oriented toward markets that offer more short-term profits.
The industry shift from price oriented to cost vs. benefit in the future means U.S. products are more competitive in the Brazilian market.	The United States largely competes with Mercosul and Europe in the food processing ingredients sector.
U.S. exporters are inclined to work with high volumes and different partners.	Importers are conservative and start with smaller orders. Exclusive contracts are part of the deal for most of Brazilian companies.

Source: ATO Sao Paulo based on trade interviews

Section II. Road Map for Market Entry

The import process may be divided into three major phases: pre-shipment, shipment, and customs clearance. According to the product category, the number of procedures within each phase may vary. To comply with the Brazilian regulation, U.S. companies may contact the local USDA/FAS/Office of Agricultural Affairs (OAA) who is responsible for initiating the registration process with MAPA. Please see [FAIRS – Brazil Country Report](#) for import and certification requirements.

Entry Strategy

As a first step, U.S. exporters must determine their product has access to the Brazilian market. The U.S. Agricultural Trade Office (ATO) in Sao Paulo is the primary contact for U.S. companies to clarify this issue. Once the exporter has clearance to export to Brazil, the company may take action. U.S. exporters should always consider the ATO as an initial source of information and market guidance. The ATO maintains direct contact with the major players, and can make introductions and facilitate market entry. U.S. companies can test market through ATO marketing activities and profit from its market intelligence. Another way to test market is through the various activities developed by State Regional Trade Groups (SRTGs) and trade associations.

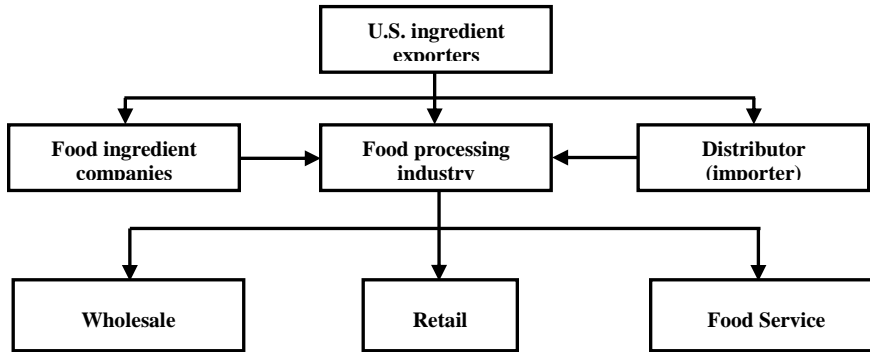
Import Procedures

Oversight of imported food and beverage products is primarily under the responsibility of MAPA and ANVISA. These two government bodies ensure the safety of the food supply, and enforce regulations related to food and beverage products throughout the supply chain.

To fulfill local requirements the importer must work together with the exporter, particularly in the initial phase, when the documents for shipment are prepared. On the clearance phase, upon product arrival, most import companies contract a customs agent who will be responsible for clearance formalities. The most updated set of rules each administrative agency releases must be observed prior to shipment as it directly affects the access for foreign goods into Brazil. For more information please, see [FAIRS – Brazil Country Report – Section IX Import Procedures](#)

Distribution Channels

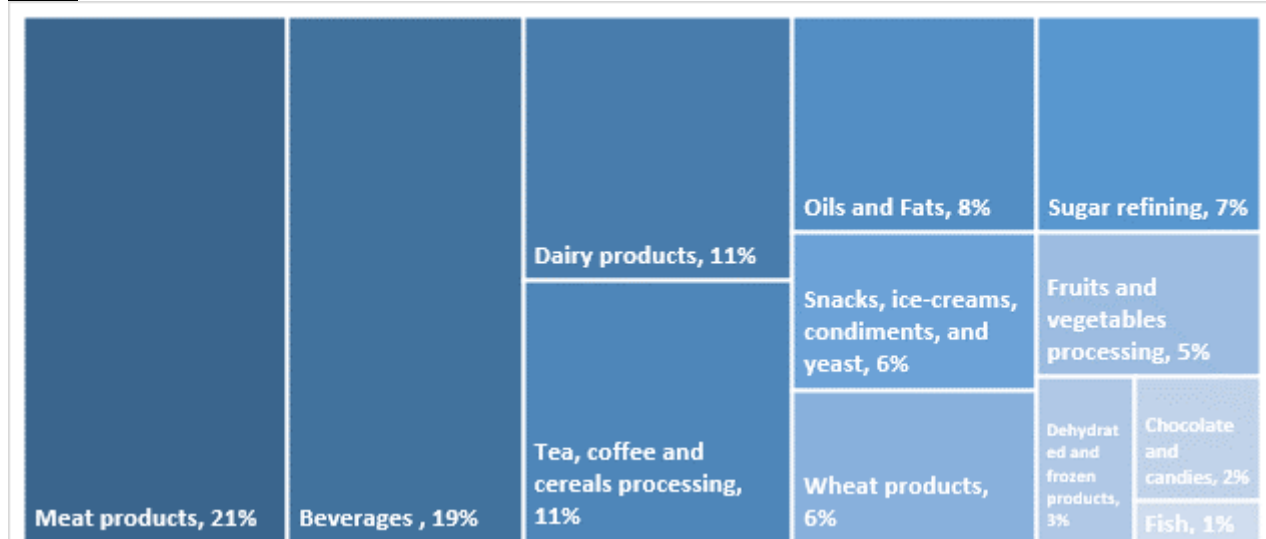
DISTRIBUTION CHANNELS FOR FOREIGN FOODS AND INGREDIENTS



Market Structure

In 2017, the food processing industry (food and beverages) consisted of 49,000 companies, with annual sales of \$198 billion. The food sector represented 81 percent and beverages 19 percent of this sales value, with the food processing industry being responsible for 10 percent of the country’s GDP and employing 1.6 million workers. The most important categories of products are: meat products, beverages, dairy products, tea, coffee, cereals, oils and fats, sugar refining, snacks, ice creams, condiments, yeast, wheat products, processed fruits and vegetables, dehydrated and frozen products, chocolate, candies, and fish.

Share of major segments in the Brazilian Food Processing Industry by gross sales (%) in 2017



Source:

Brazilian Food Processing Industry (ABIA)

Company Profiles

TOP BRAZILIAN FOOD PROCESSING COMPANIES

Company Name	Sales in US\$	Products	Capital Origin	Updated in
JBS	53,243,700,000	Meat products	Brazil	2016
Ambev	14,250,600,000	Beer and soft drinks	Brazil	2016
Bunge Alimentos	11,044,000,000	Soybean based products	USA	2016
BRF	10,541,200,000	Meat products	Brazil	2016
Cargill	10,097,100,000	Soybean based products, oil, olive oil, sauces, olives	USA	2016
Marfrig	6,041,500,000	Meat products	Brazil	2016
Ldc Brasil	5,032,500,000	Rice, coffee, soy, corn,	France	2016
Unilever	4,831,800,000	Mayonnaise, sauces, ketchup, mustard, dressings, olive oil,	British-Dutch	2016
Nestlé	4,547,200,000	Cookies, instant coffee, cappuccino, dairy products, tea, confectionary, toppings, condensed milk, milk powder, sauces, soups, condiments, yogurt, ice-cream, beverages, desserts, chocolates, cocoa powder, infant foods, pet food	Switzerland	2016
Minerva	3,015,000,000	Meat products	Brazil	2016
Aurora Alimentos	2,432,600,000	Meat products	Brazil	2016
M. Dias Branco	1,665,000,000	Bakery products	Brazil	2016
Camil	1,545,900,000	Rice, beans, canned food, seafood products	Brazil	2016
Vigor Alimentos	1,540,000,000	Dairy products	Brazil	2016
Pepsico	1,420,300,000	Beverages, snacks, breakfast cereals, cookies	USA	2016

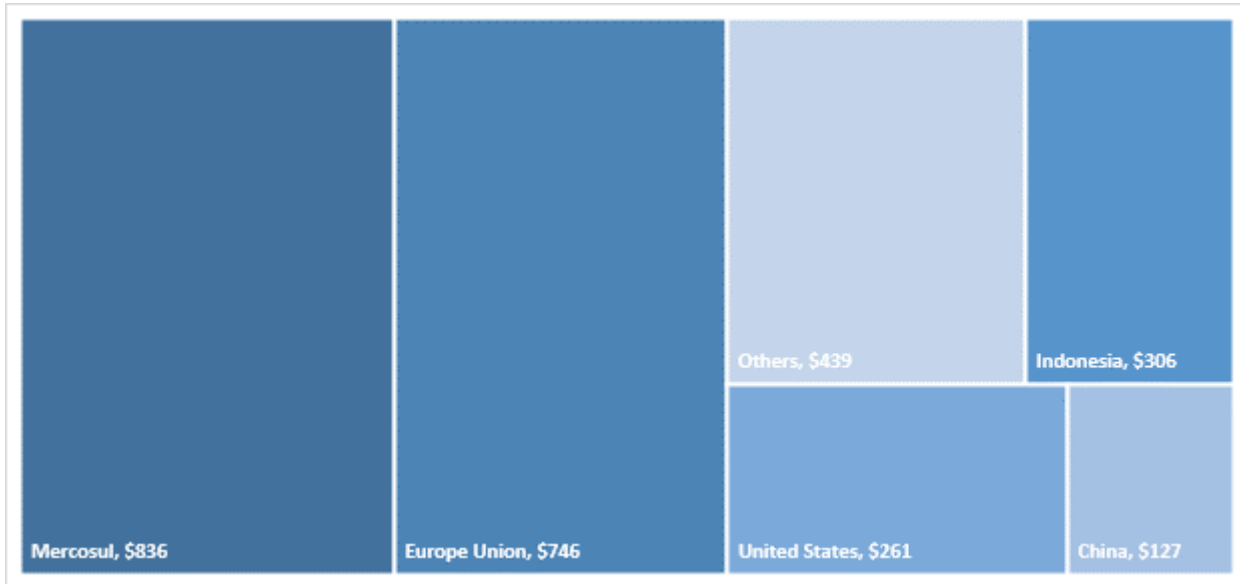
Consumer Trends

As the market changes and consumers adopt new concepts, the industry tends to increase the use of products that highlight these new trends. A study contracted by the State of São Paulo Industry Federation (FIESP) shows Brazilian consumers are up-to-date with global trends: convenience, reliance and quality, pleasure, well-being, and sustainability are all relevant attributes when Brazilian consumers purchase food products. The study also shows that the most important information consumers search for on a product label are related to calories, total fat, cholesterol, sugar, protein, preservatives and acidulates, carbohydrates, gluten, and sodium.

Section III. Competition

Brazil presents genuine opportunities for U.S. exporters of food and agricultural products and ingredients. Brazil imported \$2.7 billion of intermediate food products in 2017. Compared to the previous year, the total sales to Brazil increased seven percent. Five major players – Argentina, Indonesia, Uruguay, the United States, and Portugal represented 56.3 percent of overall exports to Brazil. While Argentina and Uruguay, as Mercosul members, benefit from a tax-free agreement, exporters from other countries face more challenges due to applied import tariffs and transportation costs. Sales from the United States reached \$260.7 million in 2017 with an increase of seven percent compared to 2016. Considering trade with economic blocs, Mercosul and the European Union represent 31 percent and 27 percent, respectively, of Brazil’s total Agricultural Intermediate products imports.

2017 Brazil Imports of Intermediate Agricultural Products by Country (US\$Million)



Source: SECEX. Note: Mercosul (3): Argentina, Uruguay and Paraguay; EU (15): Germany, Austria, Belgium, Spain, Denmark, Finland, France, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, United Kingdom and Sweden.

Section IV. Best Products Prospects

A. PRODUCTS PRESENT IN THE MARKET WHICH HAVE GOOD SALES POTENTIAL

- Wheat Flour
- Edible fats & Oil mixtures
- Soybean Oil & Fractions
- Enzymes And Prepared Enzymes
- Mixtures Odoriferous Substance Use
- Protein Concentrates
- Yeasts

B. PRODUCTS NOT PRESENT IN SIGNIFICANT QUANTITIES BUT WHICH HAVE GOOD SALES POTENTIAL

- High performance ingredients present good sales potential.
- Craft beer and hop cones: hop cones and ingredients for craft beer present good sales potential as this segment grows exponentially in the country.

- Dairy ingredients: dairy product solids and whey protein may present good sales potential as a substitute to other major ingredients such as sodium, wheat flour, sugar and other carbohydrates and can be used in a wide variety of food applications.
- Vegetable oils: ingredients such as coconut oil, palm oil and other vegetable oils that serve as milk fat replacers present good sales potential.
- Healthy and organic: organic ingredients must comply with the local organic regulation, observing production standards. Despite this barrier, health and wellness is a major trend and products in this category have good sales potential.

C. PRODUCTS NOT PRESENT BECAUSE THEY FACE SIGNIFICANT BARRIERS

- Products with a phytoterapeutic compound cannot be considered as food or a food ingredient, therefore regulation does not allow in food products ingredients with medicinal properties.
- Considerable restrictions exist for products containing ingredients derived from biotech commodities.
- The process of approving new ingredients in Brazil is bureaucratic and time consuming. New ingredients are required by the Brazilian government to go through an approval process, which may delay the adoption period of new additives or ingredients by the local industry.

V. POST CONTACT AND FURTHER INFORMATION

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

U.S. Agricultural Trade Office (ATO)

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