

Voluntary Report – Voluntary - Public Distribution

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Report Name: Paw-sitive Outlook for the Pet Food Industry in Brazil

Country: Brazil

Post: Brasilia

Report Category: Agricultural Situation

Prepared By: Camila Aquino

Approved By: Joseph Degreenia

Report Highlights:

For every five people in Brazil, there are four pets. Despite challenging economic scenario, the pet food industry – which encompasses pet food, pet accessories, and pet medication – continues to expand, making Brazil the third-largest fastest growing pet industry market in the world. Heavy taxation impacts the industry, which is hoping to address this issue through tax reform. Forthcoming changes in product registration legislation are expected to improve the scenario for U.S. players. In 2023, Brazil imported US\$ 12.25 million in over 3 thousand tons of dog and cat food, with the United States being the fourth-largest supplier.

Brazilian Economic Scenario Perspective

The Institute of Geography and Statistics (IBGE) latest data reports that Brazil had 203 million people in 2022, when the last nation-wide census was published. The nation-wide research is done every 10 years and had been delayed due to the pandemic. The latest census showed that most of the Brazilian population – 60.1 percent of – made up to one minimum wage salary in 2022, 31.8 percent of the population received one to three minimum wage salaries, and only 8.1 percent lived with more than three minimum wage salaries per month. In 2022, the minimum wage salary was R\$ 1212,00 (USD 234.88) per month, in the yearly average exchange rate).

The Brazilian Central Bank (BCB) forecasts that GDP will grow 2.1 percent this year and in 2025 by two percent. The Central Bank Focus survey published on June 14th anticipates inflation at four percent for 2024 and 3.8 percent in 2025. The exchange rate from Brazilian Reais to U.S. dollars is forecasted at R\$5.13 for 2024, and R\$5.10 for 2025 to US\$ 1.00.

The latest data reported by IBGE indicates that Brazil had 8.6 million unemployed people in the first quarter of 2024, which represents a 7.9 percent unemployment rate. However, there are an additional 3.6 million people that have stopped looking for a job. The total underutilized rate for the first quarter of 2024 is 17.9 percent.

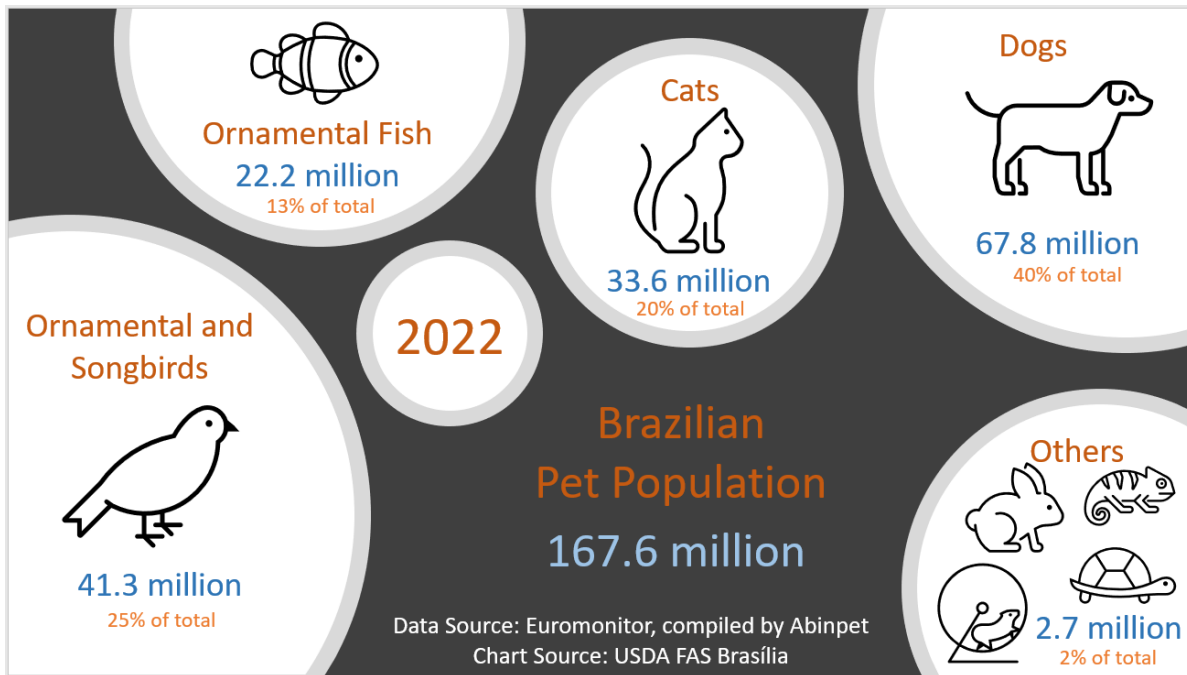
Pet Population in Brazil

When observing the macroeconomics scenario in Brazil, one would imagine that the pet industry would face challenges in growing, as this type of spending could be considered disposable consumption, for high-end consumers.

However, the latest data published in 2022 by the Brazilian Association of the Pet Products Industry, known as Abinpet, shows that Brazil had a 3.6 percent growth in pet population, reaching 167.6 million pets. Considering the population size, this would make four pets for every five people in Brazil. Dogs are the preferred pet in Brazil, accounting for 40 percent of the pet population.

Figure 1

Brazilian Pet Population, 2022



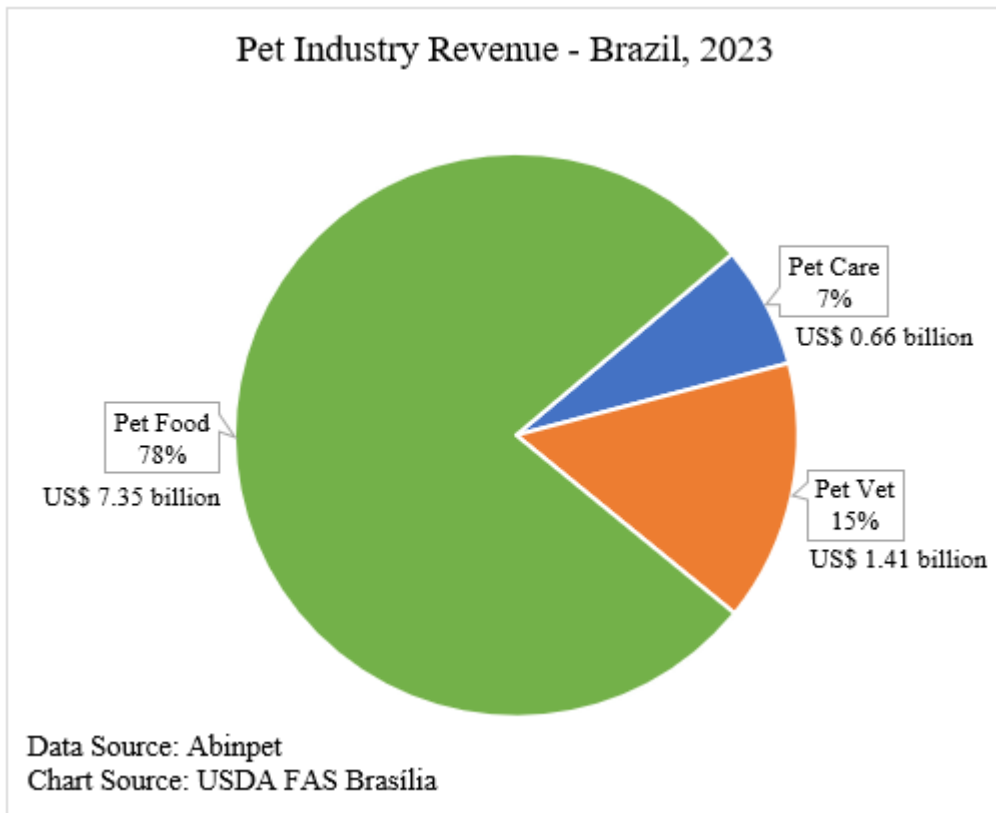
Pet Products Industry in Brazil

Globally, the pet food industry revenue grew 5.4 percent in 2022. Brazil had the third-largest growth in pet food industry in the world in that year, after the United States and China, accounting for five percent of the global revenue.

The Brazilian pet industry revenue – which considers pet food, pet accessories, and pet medications – grew 12 percent in 2023, when compared to 2022. The pet industry in Brazil generated R\$ 47.01 billion (US\$ 9.42 billion) in 2023, as demonstrated on the following figure. Pet food represented 78 percent of all revenue and accounted for 4.08 tons, which was a four percent increase from the previous year.

Figure 2

Brazilian Pet Industry Revenue, 2023



According to the Brazilian Support Service to Micro and Small Companies, known as Sebrae, there are 285 thousand companies on the pet market in Brazil, and the sector has been growing. Contrary to other sectors during the pandemic, the pet sector maintained constant growth as a lot of Brazilians adopted or purchased pets during the isolation period. There was a 30 percent increase in pet adoption/purchase during the pandemic.

Out of the entire pet industry, pet food has been the subsector that has grown the most, accounting for 78 percent of the total industry. Sebrae reports that natural nutrition has been an area that has caught the attention of pet owners, who want to offer better food and quality of life to their pets. These natural nutrition pet food lines generally include chicken breast and gizzards, eggs, collagen, vegetable, grain, amongst other natural food. In the past, natural nutrition subsector was only sought after when pets had health problems that demanded specific nutritional care. However, this scenario seems to be changing, and pet owners are adopting healthier pet food prior to the development of specific diseases.

Challenges for the Pet Industry

Tax Burden

When compared to other countries, the pet products industry in Brazil is heavily impacted by taxes. Brazilian companies pay up to 51 percent in taxes, whereas in Europe the tax is about 19 percent, and in the United States, seven percent. In a recent trip to Brazil, representatives from the Pet Food Institute (PFI) commented on this issue as a challenge for U.S. exporters as well.

In Brazil, pet food falls under the category of a luxury good resulting in a heavier tax. There are different bill proposals in Congress and at some state-level legislative branches proposing decreases in pet food taxation. In an official statement, a Minas Gerais state congressman stated that “Feed is essential to the life of the animals, it is their food”, and therefore not a luxury item. The congressman also noted that for low-income families affording pet food can become a financial burden.

The overall inflation considering all sectors of the economy in Brazil in April 2024, cumulative in 12 months, according to the Institute of Geography and Statistics (IBGE) was close to four percent. Pet food inflation in Brazil in April 2024 had an overall increase of two percent in the same period. However, in some cities in the Northeast the increase was even larger, as demonstrated by the below graph. The cumulative pet food inflation in Salvador, Bahia state, was the largest in country, reaching nine percent.

Figure 3

Pet Food Inflation – Cumulative in 12 months, reference month April 2024



Data Source: Institute of Geography and Statistics (IBGE)

Chart Source: USDA FAS Brasília

Brazilian Tax Reform and Implications to the Agricultural Sector

On July 7th, 2023 the Brazilian Chamber of Deputies approved a major tax reform in an attempt to simplify the Brazilian federal and state tax codes. The idea is that the federal, state, and local taxes – which often overlap – will be replaced by a simplified value added tax (VAT). The bill was promulgated on December 21, 2023, and the government had 90 days to propose draft bills to fully implement the reform. The agricultural sector was concerned about the measure, as it currently benefits from certain tax exemptions that slated to be removed with the establishment of the VAT. The food sector is also participating in the negotiations for the implementation of the reform. Abinpet has requested that pet food be considered for tax breaks in the tax reform. The objective is for animal and human food to be granted the same taxation treatment (reduction of 60 percent of taxes) or full exemption, as both are a basic need, rather it be for humans or animals. If this comes into fruition, it could have a potential positive impact on exports, as prices would be decreased.

Product Registration

The current legislation by the Brazilian Ministry of Agriculture and Livestock (MAPA) establishes that both animal feed and food for human consumption needs to be registered with MAPA. Whereas animal-origin products for human consumption are required to be registered in the appropriate MAPA online system directly by the producer establishment, that is not the case for pet food.

The legislation requires that for pet food imports into Brazil, the Brazilian company which will import foreign pet food (henceforth the importer) to be registered with MAPA and be the one that registers the products online for the foreign producer. This importer will be responsible for the process of registering the establishment and the products to be imported with MAPA. This procedure is carried out via SIPEAGRO (MAPA's electronic system). In order to obtain the registration of an importing establishment, the Brazilian company needs to include information about the company, such as a full address, legal entity registration number (CNPJ), details of the legal responsible for the establishment and the technical staff in charge (veterinarian or animal scientist), category of products that it intends to import (pet food, additives, supplements, etc.) and attach documents such as: operating license, environmental license, documents of the legal responsible for the establishment, documents of the technical responsible, business contract, registration card of legal entity (CNPJ), etc. MAPA will analyze the documentation and issue the digital establishment certificate if it deems the product to be safe for animal consumption in Brazil. The Portuguese version of the manual with the complete procedure for registering an establishment can be found in [SIPEAGRO User's Manual](#) and [FAQ](#). This registration is valid for up to 5 years. The importer is fully responsible for the product in the country, answering for any legal infraction that may occur.

However, some U.S. exporters have raised concerns about this practice, as they need to provide the importer business-confidential information about their products. These importers sometimes may work for competitor companies. The industry has expressed concern about the confidentiality with which the importers could treat this information, as certain companies spend significant amounts of money in research and development, trials, and years in developing cutting-edge products. Safeguard of intellectual property is a key concern for U.S. exporters in expanding exports to Brazil. Additionally, if a US exporter wants to change importers it can be an issue because the importer holds the product registration. U.S. pet food exporters would prefer to have full control over product registration and who has access to the information.

The legislation is applied equally to all pet food imports, regardless of origin. Post has heard from contacts that Brazilian pet food producers have raised this issue as a concern to MAPA. The Ministry is said to be working on an update to the legislation that is expected to make product registration for pet food more similar to that of animal-origin products registration, in which the exporter is responsible for all product registration, maintaining updated information in the online system, and responding to any questions and/or infractions noted by MAPA. A Presidential decree in this regard is expected to be forthcoming and will require further detailing via ordinances and/or normatives on its implementation by MAPA.

Therapeutic Pet Food Legislation

Historically, all animal food products have been subject to registration, including animal feed, pet food, animal supplements, etc. In 2009, pet food was the first product to be dismissed from registration. This was done via risk analysis. This dismissal gave more flexibility to the producing companies, as it made it possible to make substitutions in pet food recipes in an event of a shortage of an input. In the past, if a producing establishment needed to substitute an input – say change corn for sorghum – the company would have to go through a new registration request, which took a long time. MAPA then identified that certain categories could be dismissed, since pet food has many different ingredients. The Ministry understood that the exemption would not bring risks. In 2010, animal feed, supplements for ruminants, pre-mix, etc, were considered for exemption as well.

MAPA still needs to approve the formula and monitor if the establishment is preparing the product as approved. MAPA monitors this via a product identity analysis, and checks if label information is in accordance to the content of the package. When MAPA looked at the history of all these risk analyses, it noted that there was no harm to the end-consumer - the animal, - neither there was harm to the pet owners. Late 2018, beginning of 2019, there was an organization change in MAPA, and the area responsible for animal food was transferred to MAPA/DIPOA (Department of Inspection of Animal Origin Products). At that point they also made an evaluation on the exemption of zootechnical additives, such as pro and prebiotics.

In regard to therapeutic pet food, so called coadjuvant food with therapeutical characteristics by the Brazilian legislation, MAPA understood that it could also be exempted. However, the Ministry did not want to proceed as with the other exceptions, which was a complete removal of registration, as this is a more specific class of products. In conjunction with the sector MAPA reviewed some foreign legislation, such as that of the EU, and they found that a way to do move forward would be to establish minimum requirements for therapeutic pet food. These are minimum requirements, and the manufacturer can go above the minimum. By establishing these minimum requirements, then MAPA could exempt registration.

MAPA has decided to exempt therapeutic pet food from registration. Nevertheless, to protect special characteristics of products, companies can choose to register them as an innovation product. This would prevent other establishments to register the same characteristic as the original company. An issue that has been brought up is that as registrations eventually expire, some companies feel that their investment on R&D would be wasted. The concern is that other companies could simply copy their products after the registration expires, without having to go through the same costly process of developing a novel product, nor the lengthy and bureaucratic process of registering it with MAPA as a novel product. The industry has requested that at least the registration that would grant special treatment to these products would be valid for 10 years, versus the current five years. A new piece of legislation on this issue is expected to be forthcoming.

Some U.S. pet food exporters have expressed concern about the exemption for therapeutic pet food, as it could potentially lower quality of the products given to the animals, and bring issues to the whole industry should an already immuno-compromised pet have an issue deriving from the lower-quality therapeutic pet food.

Biotechnology Labeling

In Brazil, since 2004, products that have any product that have more than one percent of genetic engineering need to be labeled as “transgenic” and marked with a “T” symbol in black in a yellow triangle. This applies to biotech products for either human or animal consumption. The label needs to include the donor gene, which can make it hard for companies on the pet food industry in the United States to abide by, as traceability of the corn and soybeans used in the production of the pet food can be quite a challenge. For more information on biotechnology and its legislation in Brazil, please refer to the [Agricultural Biotechnology Annual Report](#). The Brazilian pet food industry and the animal feed industry are in favor of removing the need for donor gene information, but the consumer associations are resistant.

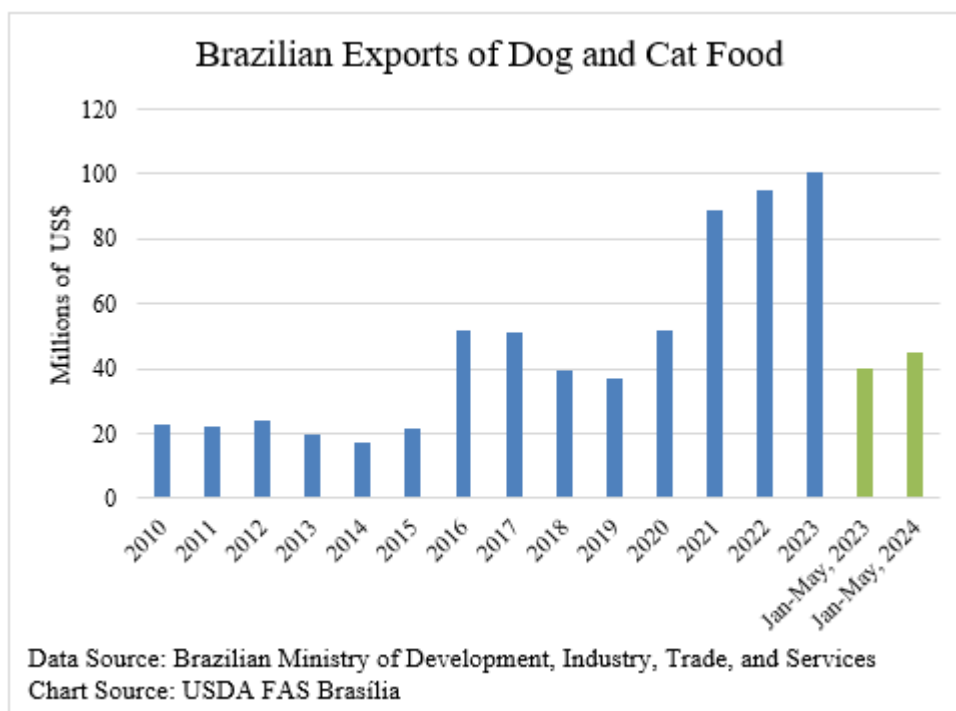
Trade

1. Exports

In 2023, Brazil has exported US\$ 100 million or 74.5 thousand tons of dog and cat food. Brazil exported pet food to 62 countries around the world. The largest markets for Brazilian pet food were Uruguay, Colombia, Bolivia, Chile, and Paraguay, in order. Together, the top five suppliers accounted for close to 77 percent of the total exports. In the period of January to May, 2024, Brazil has exported 33.7 thousand tons of pet food to 46 countries. When compared to the same period in 2023, exports in 2024 are over 13 percent higher, in quantity, than 2023. Colombia took over as the largest destination of Brazilian pet food, and is followed by Uruguay, Chile, Bolivia, and the United Arab Emirates as the top five destinations of Brazilian pet food in the period of January to May 2024.

Figure 4

Brazilian Exports of Dog and Cat Food, 2010 to May 2024

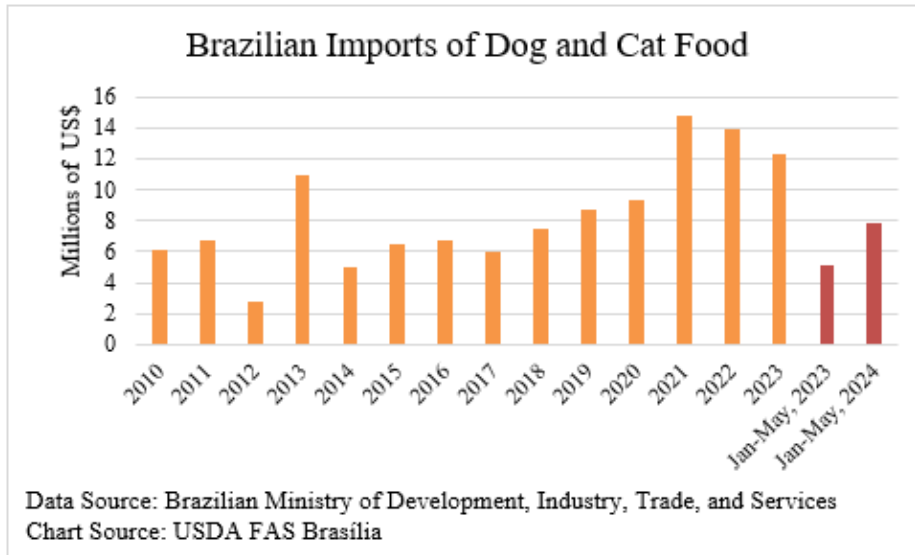


2. Imports

In 2023, Brazil has imported US\$ 12.25 million in over 3 thousand tons of dog and cat food. Brazil imported pet food from 12 countries. The largest supplier was Austria, followed by Thailand, Hungary, United States, and Serbia, in order. Together, the top five suppliers accounted for close to 91 percent of the total imports. The United States ranked the fourth position, with close to US\$2.2 million and 735

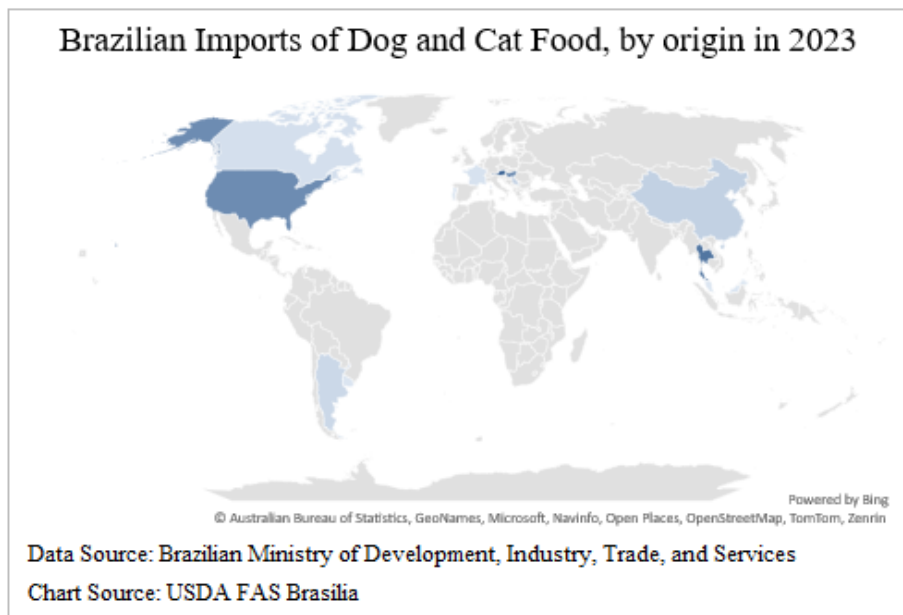
tons exported to Brazil. In the period of January to May 2024, Brazil has imported US\$ 7.8 million in pet food, from 8 countries. The United States remained as the fourth largest supplier of pet food to Brazil in the period.

Figure 5
Brazilian Imports of Dog and Cat Food, 2010 to May 2024



The following figure has a map of pet food imports by origin in 2023; the darker the blue, the more products were imported into Brazil from that destination.

Figure 6
Brazilian Imports of Dog and Cat Food, by origin in 2023



Perspectives for the future

Post's expectation for the future of U.S. pet food exports to Brazil are optimistic. With the product registration legislation changes that are expected to be forthcoming, trade promotion activities by the Pet Food Institute via partnerships with Brazilian retail stores, and the possibility of improvement in pet food taxation, Post forecasts U.S. exports to Brazil to increase in the following years.

Attachments:

No Attachments.