

Required Report: Required - Public Distribution

Date: March 31,2020

Report Number: BR2020-0009

Report Name: Food Processing Ingredients

Country: Brazil

Post: Sao Paulo ATO

Report Category: Food Processing Ingredients

Prepared By: Alexandre Vendemiatti

Approved By: Nicolas Rubio

Report Highlights:

In 2019, Brazilian food industry sales amounted to R\$699 billion (US\$177 billion), an increase of seven percent compared to the previous year. The outstanding result is due to several economic and social factors, including the relatively low interest rates and inflation being at the lowest levels in years. These factors increased disposable income and stimulated consumption. U.S. exports of intermediate goods to Brazil decreased by 10 percent in the same period. A severe depreciation of the Brazilian real against the U.S. Dollar in 2019 was a challenge for U.S. companies. For 2020, Brazil continues to present opportunities for U.S. exporters of intermediate products. High performance ingredients that add value to products present good market potential as trends such as health and wellness expand in the country. However, the COVID-19 pandemic is expected to cause severe economic impacts in Brazil, leading to higher risk aversion from importers who are waiting to see the adverse effects in the market.

Executive Summary

Brazil is the largest economy in Latin America and one of the largest in the world. Brazil's Gross Domestic Product (GDP) closed out 2019 with an accumulated growth of 1.1 percent compared to the previous year. Although lower than expected, this is the third consecutive increase in the GDP, which amounted to R\$7.3 trillion (US\$1.8 trillion). Brazil is one of the major world players in the food processing industry and the sector is responsible for 10 percent of the country's GDP and employs 1.6 million workers.

Food Processing Industry

The food processing industry in 2019 was valued at R\$699 billion (US\$177 billion), an increase of roughly 7 percent compared to the previous year in nominal terms and 2.3 percent in real terms. The sector is comprised of over 36,100 companies in which the vast majority are small and medium sized industries. In 2019, Brazil imported US\$2.8 billion of intermediate products, a decrease of 2 percent compared to the previous year. U.S. exports to Brazil amounted to US\$281 million, a decrease of 10 percent compared to the previous year. The decline in U.S. exports was mainly due to the severe devaluation of the Brazilian Real against the U.S. Dollar, making imports more expensive. Despite a

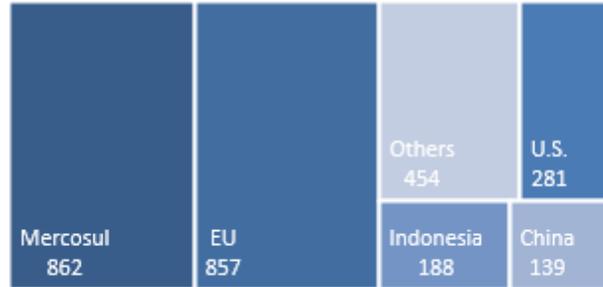
Section 1: Market Summary

Country Overview

Brazil's 2019 Gross Domestic Product (GDP) amounted to R\$7.3 trillion (US\$1.8 trillion), an accumulated growth of 1.1 percent compared to the previous year. In addition, the inflation rate is at an historic low level at 4.3 percent, benefiting all consumers. Although interest rates are still high in Brazil, the central bank has been cutting the basic interest rate (SELIC) since 2016, bringing it down from 14.25 percent to an all-time low of 3.75 in 2020. On the other hand, government spending remains anemic as the government makes efforts to reduce expenditure to reduce the fiscal deficit. Moreover, although the government was able to approve the pension reform, further essential structural reforms such as the tax and administrative reforms still need to be made to put the country back

decrease in exports, the United States remains the second largest exporter of intermediate products to Brazil, only behind Argentina, which benefit from duty-free treatment as a Mercosul member.

Brazil Imports of Intermediate Products by Country in 2019



Source: Brazilian Food Industry Association (ABIA)

Food Retail Industry

The Brazilian Market Association (ABRAS) reported supermarket revenues at R\$355.7 billion in 2018, an increase of 0.7 percent in nominal terms. The sector's 2019 statistics have not been published when this report was released, but it is expected a growth of 3.62 percent compared to the previous year. Brazil's retail sector includes 89,368 stores and it represents approximately 5 percent of the country's GDP.

Quick Facts CY 2019

Imports of Intermediate Products (US\$ billion): \$2.8

Imports of Intermediate Products from the U.S. (US\$ million): \$281

Brazil List of Top 10 Intermediate Products Imported in 2019

Malt, Not Roasted	Dairy Products
Olive Oil	Wheat
Animal Fats & Oil	Enzymes
Hops Pellets & Extracts of Hops	Edible Fats & Oils
Mixtures of Odoriferous Substances	Protein Concentrates

Source: SECEX

Food Industry by Channels (U.S. Billion \$) in 2019

Food Industry Output	177
Food Exports	34
Food Imports	5
Domestic Market	141
Retail	95
Food Service	46

Source: ABIA

on a more sustainable growth path. Prospects for the Brazilian economy in 2020 were relatively positive until the date of this report; however, the COVID-19 pandemic is expected to cause severe negative impacts to the Brazilian economy.

According to the Brazilian Food Processing Association (ABIA), the food and beverages sector consisted of 36,100 companies, with annual sales of \$177 billion (R\$699 billion) in 2019. The industry grew 7 percent in nominal terms and 2 percent in real terms compared to the previous year. The food sector represented 80 percent and beverages 20 percent of total sales. The food industry performance in 2019 is the best result since 2013. The higher than expected growth is attributed to several economic and social factors, such as the interest rate and inflation being at the lowest levels in years, increasing disposable income and thus stimulating consumption. With an expressive growth, foodservice purchases from the food processing industry increased 6.9 percent compared to the previous year. One of the major drivers is the upward trend of food delivery apps in Brazil (Uber Eats, Rappi, and iFood). According to Brazilian Association for Restaurants and Bars (Abrasel) the market of home delivery is expected to reach R\$18 billion in 2020 (US\$5 billion), with a two digits growth rate for the upcoming year.

Following an international trend, Brazilians consumers are increasingly moving towards a healthier lifestyle. Also, an increasing number of consumers are giving more importance to transparency from manufacturers about the ingredients used in their products, they are interested in how the product is manufactured, and they are considering products with cleaner labels with nutritional ingredients described in simple terminology. Although still a niche, the plant-based products market has been growing considerably year-over-year in the country and it will likely remain an important trend for the next years. There is also a growing demand for on-the-go healthy products and also products fortified in supplements, nutrients, and vitamins.

For 2020, the food industry is expected to keep growing as the Brazilian economy slowly recovers from the recession, though it is still uncertain how the COVID-19 will affect the food industry. In addition to that, the Brazilian Health Regulatory Agency (ANVISA) is revising the current nutritional labeling legislation. The objective of the review is to make nutritional data on labels more visible and readable. Therefore, although consumers continue to be price-sensitive and more careful with food purchases, premium products and ingredients with competitive prices, more differentiation, and perceived added value still have a competitive advantage.

<i>Advantages</i>	<i>Challenges</i>
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. small/medium sized companies.
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 inhibits U.S. suppliers to enter 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.

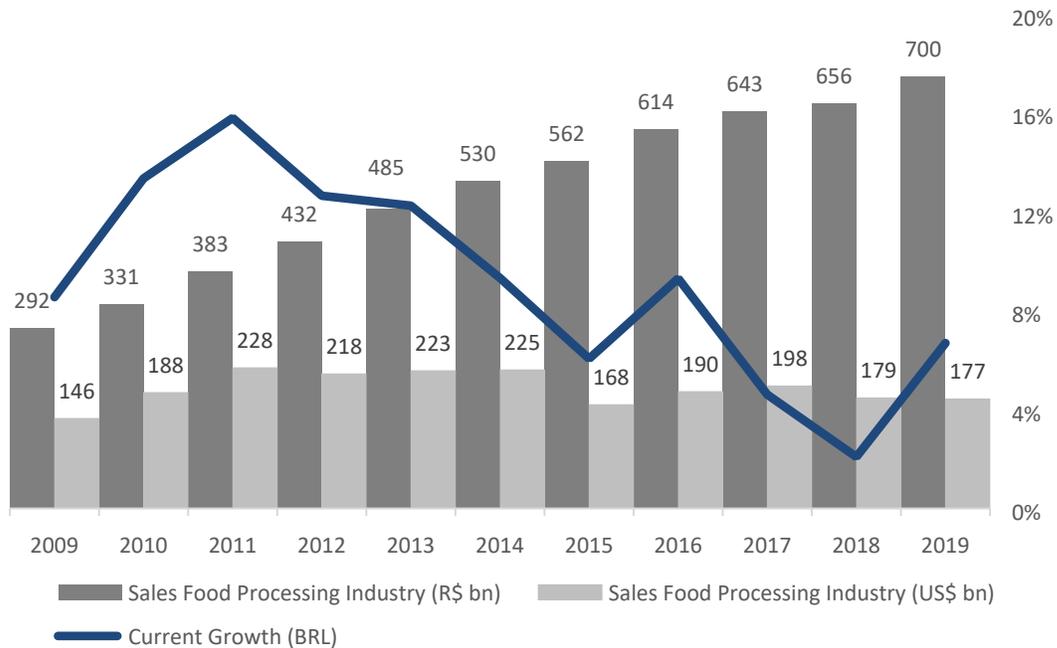
The United States food industry has products to meet the demands of all consumers from all segments.

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.

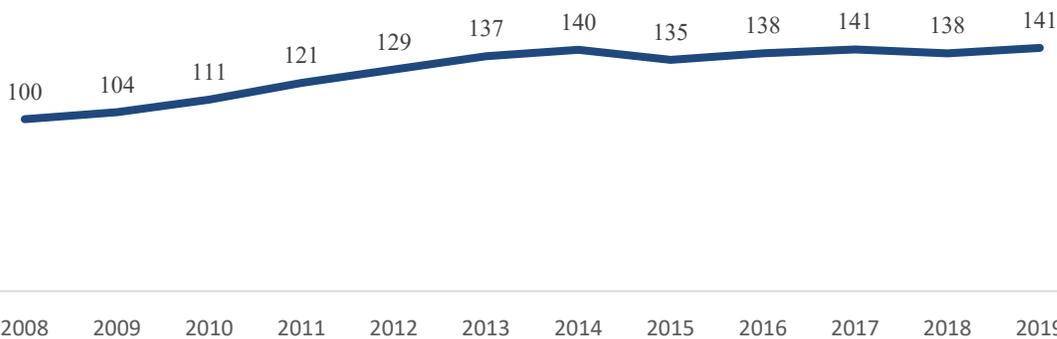
Importers are conservative and start with smaller orders. Exclusive contracts are part of the deal for most of Brazilian companies.

Food Processing Industry Sales



Source: Brazilian Food Processing Association (ABIA)

Time Series Baseline Index = 100



Source: Index adapted from the Brazilian Food Processing Association (ABIA) using IPCA-A index. Baseline Index = 100.

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 plant registration process with the Ministry of Agriculture, Livestock, and Food Supply (MAPA). Please see [FAIRS – Brazil Country Report](#) for import and certification requirements.

Entry Strategy

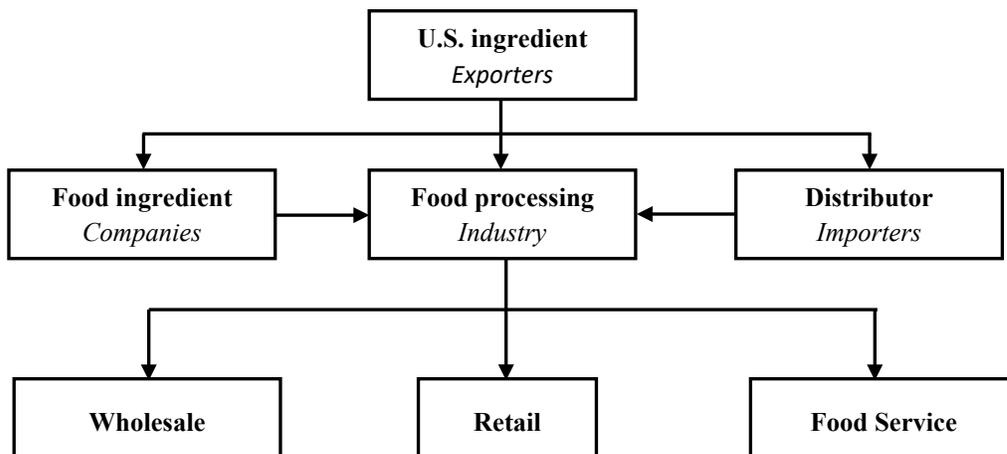
As a first step, U.S. exporters must determine if their product has access to the Brazilian market. The U.S. Agricultural Trade Office (ATO) in Sao Paulo is the primary contact for U.S. companies to clarify this issue. Once the exporter has clearance to export to Brazil, the company may take action. 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, can make introductions and facilitate market entry. U.S. companies can test the 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. Please see [FAS Brazil Exporter Guide](#).

Import Procedures

Oversight of imported food and beverage products is primarily under the responsibility of MAPA and the Brazilian Health Regulatory Agency (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. Please, see [FAIRS – Brazil Country Report – Section IX Import Procedures](#).

Distribution Channels

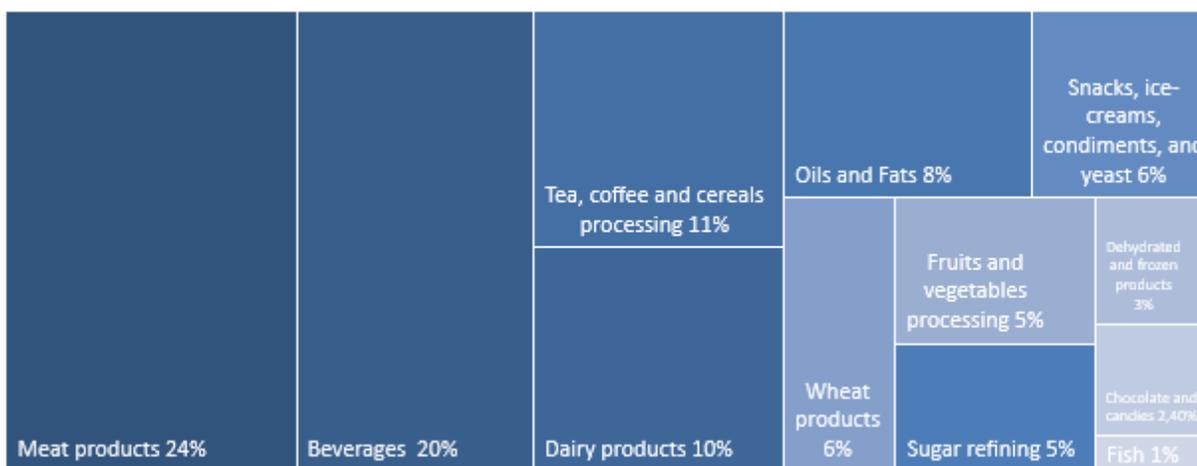
Distribution Channels for Foreign Foods and Ingredients



Market Structure

According to the Brazilian Food Processing Industry, total sales of the food processing industry amounted to R\$699 billion (US\$177) in 2019, an increase of seven percent in nominal terms compared to the previous year. The sector is composed by 36,100 companies, where approximately 94 percent are considered micro and medium sized firms. The retail sector sales amounted to US\$95 billion and the food service purchases from the local food processing industry accounted for US\$46 billion, an increase in local currency of 5.9 and 6.9 percent, respectively. The food and beverage sector is responsible for 9.6 percent of the Brazilian GDP and employs approximately 1.6 million workers. The food and beverage sector represents 80 and 20 percent in sales value, respectively. The product category with the highest growth rate in 2019 was meat, with an increase of 11 percent compared to the previous year.

Share of major segments in the Brazilian Food Processing Industry by gross sales (%) in 2019



Source: Brazilian Food Processing Industry (ABIA)

Company Profiles

Company Name	Net Sales in 2018 (US\$ Millions)	Products	Capital Origin
JBS	45,994.93	Meat products	Brazil
Ambev	12,716.70	Beer and soft drinks	Brazil
Cargill	11,534.43	Soybean based products, oil, olive oil, sauces, olives	USA

Bunge Alimentos	10,622.27	Soybean based products	USA
BRF	7,642.53	Meat products	Brazil
Marfrig	7,522.78	Meat products	Brazil
Ldc Brasil	5,598.48	Rice, coffee, soy, corn,	France
Amaggi	4,385.31	Oilseeds products	BR
Minerva	4,104.81	Meat products	Brazil
Nestlé	3,479.24	Food and Beverage products, such as breakfast cereals, coffee and tea, confectionery, dairy products, ice cream, frozen food, pet foods, and snacks	Switzerland
Coca-Cola	2,807.84	Beverage products	Brazil
Aurora Alimentos	2,079.74	Meat products	Brazil
M. Dias Branco	1,525.31	Bakery products	Brazil
Pepsico	1,235.44	Beverages, snacks, breakfast cereals, cookies	USA
Camil	1,202.02	Rice, beans, canned food, seafood products	Brazil

Source: Valor Economico

Sector Trends

Over the past decade, the Brazilian food and beverage sector has been undergoing major transformation. The majority of the food trends seen in the country are also observed in more developed countries that have a more sophisticated consumer market.

Healthier Lifestyle: An increasing number of people affected by bad eating habits are driving the demand for healthy packaged food. Products that highlight gluten-free, lactose-free, added fibers, and minerals are also growing in popularity. Companies are investing in innovation and technology to develop products with higher nutritional value and functional properties to meet consumers' demand. Moreover, one of the most important international trends in recent years is how consumer attitudes have changed towards products viewed as high in sugar, sodium, and fats. Therefore, companies have been defining goals to reduce the level of the aforementioned ingredients in their products.

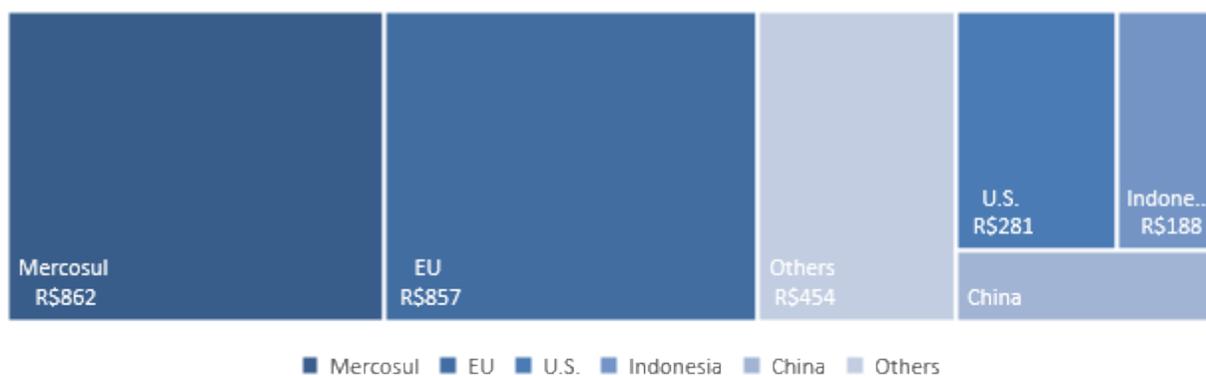
Ethic and Sustainability: Food loss and waste have become an issue of great public concern. According to the Food and Agriculture Organization (FAO), one-third of food produced for human consumption is wasted globally. Companies are working towards the reduction of food waste and sustainable ingredients since consumers are increasingly valuing products and companies with sustainable practices and environmental responsibilities.

Plant-Based Products: The plant-based trend continues to grow, encouraging people to eat more fruits, vegetables, legumes, nuts and seeds. According to a research conducted by the Brazilian Institute of Public Opinion and Statistics (IBOPE) the country has 14 percent of the population (approximately 30 million people) who consider themselves vegetarian. From this total, 7 million are vegans. Although plant-based products are still considered a niche, the market has been growing steadily in the country. Along these lines, in response to consumer demands for plant-based options, Brazilian food processing companies have been developing plant-based alternatives to staples like meat, eggs, and dairy.

Section III. Competition

Brazil imported \$2.8 billion of intermediate food products in 2019, a slight decrease of 2 percent compared to the previous. The major suppliers of intermediate products to Brazil are – Argentina, the United States, Portugal, Indonesia, and Uruguay. Argentina and Uruguay, as Mercosul members, benefit from duty-free treatment. Exporters from other countries face more challenges due to applied import tariffs and transportation costs. The United States exported to Brazil \$281 million of intermediate products in 2019, a decrease of 10 percent compared to 2018. Although sales from the United States to Brazil dropped considerably, the country is the second largest exporter of intermediate products to Brazil, accounting for 10 percent market share. Considering trade with economic blocs, the Mercosul and European Union represent 31 percent each of Brazil’s total agricultural intermediate products imports.

Brazil Imports of Intermediate Agricultural Products by Country in 2019 (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, and Sweden

Section IV. Best Products Prospects

Products Present in the Market which Have Good Sales Potential (US\$ Thousands)

HS Code	Product	Brazil Total Imports	Imports from U.S.	U.S. Market Share (%)
210690	Food Preparations	272.517	45.590	17

230990	Animal Feed Preparations Other Than Dog Or Cat	251.423	39.581	16
350790	Enzymes And Prepared Enzymes	149.716	34.161	23
151790	Other edible mixtures preparations of fats, oils, etc.	93.805	10.058	11
330210	Odoriferous Substances	63.815	23.777	37
330129	Essential Oils	41.168	6.779	16
121020	Hop Cones, In The Form Of Pellets	39.363	11.491	29
350400	Peptones And Derivatives	31.632	15.509	49
130239	Mucilages And Thickeners	30.328	6.419	21
130213	Vegetable Saps And Extracts Of Hops	24.619	20.424	83

Products not Present in Significant Quantities but which have Good Sales Potential

- Wheat flour
- Malt, not roasted
- Nuts (Almonds, Pistachios, Walnuts, Coconuts)
- Fruits (Cranberry, Blueberry, Cherries, Pears)
- Dairy ingredients
- Vegetable Oils
- Ingredients for Healthy and Organic products

Products not Present because they Face Significant Barriers

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.

- Products with a phytotherapeutic 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.
- U.S. poultry and pork do have market access

Section 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)

U.S. Consulate General

Rua Thomas Deloney,381

04710-041 Sao Paulo, SP

Tel: (55 11) 3250-5400

Fax: (55 11) 3250-5499

E-mail: atosaopaulo@usda.gov

Office of Agricultural Affairs (OAA)

U.S. Embassy

Av. das Nacoes, quadra 801, lote 3

70403-900 Brasilia, DF

Tel: (55 61) 3312-7000

Fax: (55 61) 3312-7659

E-mail: agbrasil@fas.usda.gov

Attachments:

No Attachments