

## Country Market Profile: Brazil

Euromonitor reports that the economy in Brazil expanded in real terms in 2021, driven by increasing domestic consumption, public investment and external demand. However, the persisting pandemic-related risks, supply constraints and global inflationary pressures raise uncertainty and weigh on the country's economic outlook. Brazil is poised to see elevated short-term inflation, accelerated by a jump in global energy prices and shifts in domestic demand.

- Following real growth of 4.7% in 2021, Brazil's economy is expected to expand at an average annual real rate of 1.7% over the medium term.
- Inflation in Brazil is forecast to remain elevated standing at 8.2% in 2022 down slightly from 8.3% in 2021.
- As Brazil's merchandise exports increased by 34.2% in value terms thanks to rebounding global demand and weakening local currency.
- As foreign direct investment (FDI) inflows into Brazil recovered over 2021, FDI intensity reached 1.7% of gross domestic product (GDP).
- Public debt in Brazil fell to 90.3% of GDP in 2021 from 98.7% in 2020.

In 2022, population reached 217.2 million, (CIA World Factbook Est.) an increase of 425.5 million since 2000. By population Brazil is the 7<sup>th</sup> largest country in the world. The median age was 33.2 years in 2022, 7.9 years greater than in 2000. Fertility has been falling rapidly but it is still 1.8 births per female. The downward trend will decelerate in the future, reaching about 1.6 births per female by 2030. Sterilization, abortion and programs for family planning are driving the decline.

The number of those over 65 years more than doubled in 2000-2022, reaching 20 million by the end of that period. However, this group still accounts for just 9.2% of total population – a relatively small share compared with most countries. Demographers expect the ageing process to accelerate in the future, with the share of those over 65 years reaching 13.6% of total population by 2030.

Brazil is a member of the Common Market of the South (Mercosur), a trade bloc that includes Argentina, Paraguay and Uruguay - Venezuela's membership in the organization was suspended In August 2017. After the Asian and Russian financial crises, Mercosur adopted a protectionist stance to guard against exposure to volatile foreign markets and it currently is negotiating Free Trade Agreements with the European Union and Canada.

USDA's Agricultural Trade Office, FAS, in Sao Paulo reports that the Brazilian food industry is well developed, and major multinational companies' presence makes the sector very competitive. In terms of price, U.S. products do not compete with domestically produced goods or Mercosul origin products. When a product imported from the United States (and other non-Mercosul members) reaches the Brazilian market, it will most likely fit in the premium price category due to the exchange rate and the applied import tariff.

Brazil is the 13<sup>th</sup> largest U.S. export market for consumer oriented food products in Latin America. Total U.S. consumer food exports to Brazil dropped 2% to US\$212.7 million in 2021. That represented nearly 29% of the agricultural total. Brazil imported US\$206.6 million in processed foods from the U.S. in 2021, ranking 10<sup>th</sup> in the region and an increase of 8%. Top processed food exports to Brazil in 2021 included:

- Food Preparations & Ingredients
- Alcoholic Beverages
- Fats & Oils
- Syrups and Sweeteners
- Condiments, Sauces, Jams & Jellies
- Snack Foods
- Processed/Prepared Dairy Products
- Chocolate & Confectionery

Certainly Brazil is going through a difficult time, but the food sector is a key sector for the country and has been less affected than other sectors of the economy. Brazilians spent around 17% of their disposable income on food and this remains unchanged. Brazil continues to be an attractive consumer market. Half of the country's population is considered middle class and around 16 million are at the top of the social pyramid, the very rich consumers.

## Market Opportunities and Key Issues in the Brazilian Food Market

### Market Opportunities

- U.S. suppliers can respond to market demands, regardless of the segment.
- U.S. suppliers are willing to maximize sales opportunities and are inclined to work with different partners.
- Food processing industry demands gain in efficiency and innovation.
- Importers of high-value products are constantly searching for unique items.
- Retailers offer foreign goods to differentiate themselves from competitors, develop new niche markets, and gain high-end consumers' attention.
- Price is not always the determining factor for high-end consumers.

### Key Issues

- Brazilian importers tend to buy small quantities to test the market. U.S. companies are usually not willing to operate with small volumes.
- The United States faces stiff competition in the premium food and beverage category.
- Imported products fall in the luxury goods category. Consumers easily associate Europe with sophistication and tradition, which gives some advantage to European companies.
- High-end consumers are more demanding regarding other aspects of products, such as innovation, packaging, status, new trends, etc.

- Importers tend to buy small quantities to test the market. U.S. companies are usually not predisposed to sell small volumes.
- Consumers perceive U.S. food products to be overly processed and relatively unhealthy.
- Retailers and distributors are cautious when importing new-to market products and often start with smaller orders. Exclusive contracts are a common clause to Brazilian companies.

FAS Sao Paulo suggests that when approaching the Brazilian market, exporters should be aware that most imported foods and beverages are not priced competitively compared to locally produced products. The Brazilian food industry is well developed and major multinational companies have a consolidated presence in the market, making the sector highly competitive. A common mistake U.S. Company's make is assuming that products that fit well in other Latin American countries will fit well in the Brazil market. In general terms, a product imported from the United States or Europe reaches 3-5 times the Ex-Works (EXW) price at retail. U.S. exporters should bear in mind that when an imported product reaches supermarket shelves it will fit in the premium price category. For this reason, premium attributes must be recognized by consumers.

#### Retail Sector:

According to Euromonitor, retail sales in the packaged food market in Brazil are estimated to reach US\$89.1 billion in 2022. That makes it the largest in Latin America and the 10<sup>th</sup> largest in the world. That also represents a growth rate of 33.6% or US\$22.4 billion since 2018. The forecast for growth in this market is also quite promising. By the year 2026, the retail sales in the packaged food market in Brazil is expected to reach US\$122.6 billion, a growth rate of 37.6%, or US\$33.5 billion from 2022. High growth rates in the forecast included:

- Ready Meals
- Processed Fruit & Vegetables
- Processed Meat, Seafood & Alternatives to Meat
- Sauces Dressings & Condiments
- Breakfast Cereals
- Edible Oils
- Sweet Spreads
- Baked Goods

FAS Sao Paulo reports that in 2020, the retail industry accounted for US\$145 billion. This figure includes the cash-and-carry format, which continued to show an upward trajectory. Brazil's retail sector includes 91,351 stores and is responsible for 80% of the country's food and beverage distribution. Although not considered a concentrated industry, the top ten chains respond for 36% percent of total supermarket gross sales.

Euromonitor reports that the most relevant events to take place in grocery retailers in 2021 were marked by leading players Carrefour Comércio e Indústria and Cia Brasileira

de Distribuição SA. The former acquired Walmart's former banners in Brazil. Former Walmart banners in Brazil operated under the umbrella of Grupo BIG from 2018, when Walmart Inc closed all operations in the country. In April 2021, Carrefour announced its acquisition of Grupo BIG, enabling the retailer to increase its penetration of regions other than the southeast, as Grupo BIG operated a handful of regional chains in the north and northeast of the country. In addition, the acquisition enabled Carrefour to penetrate discounters for the first time, through the Todo Dia banner.

Towards the end of the year, Cia Brasileira announced the sale of 71 Extra outlets to be incorporated under the warehouse club banner, Assaí, signaling the former's strategy to terminate all operations in hypermarkets. Assaí is an "atacarejo" player that was once under the umbrella of Cia Brasileira de Distribuição, having filed for IPO as a separate company in March 2021. In the November, Assaí acquired part of the entire hypermarket network of its former parent company to convert them to atacarejos under the Assaí banner. As a result, the store network of hypermarkets was significantly reduced, as was overall value sales, with Cia Brasileira's remaining Extra stores set to be discontinued over the following years.

This reinforces the scenario where hypermarkets lose ground to channels that are either easier to expand in terms of outlet network, such as atacarejos, or that have been more successful in meeting consumer demand for convenience, such as smaller grocery retail formats. It also highlights that leading players are resorting to opposing strategies. While Carrefour expands its operations to other regions and formats through the acquisition of other chains, Cia Brasileira de Distribuição are reducing its structure in the country to concentrate on smaller retail formats and digital strategies focused on food and drink e-commerce.

In addition, the concept utilizes its own logistics solution to deliver orders to customers, as well as a wide assortment of Cia Brasileira de Distribuição's private label products. Aliado Minimercado leverages the convenience store format to seize the opportunity to diversify its operations, meeting the demands of consumers from various income bands in various shopping occasions, but also targeting B2B clients by providing them with product options that are exclusive to Cia Brasileira de Distribuição, such as private label lines Taeq and Qualitá with which consumers are widely familiar.

FAS Sao Paulo advises U.S. suppliers and other stakeholders that when launching new-to-market products, Brazilian buyers are hesitant to purchase full containers of single products while, on the other hand, U.S. suppliers are often unwilling to deal with small volumes. Oftentimes exporters are cautious to do business with a single supermarket chain as their perception of reaching consumers through a single source does not seem attractive. They advise that this perception does not always correspond to the reality. It is a matter of strategy, as retailers may achieve significant market penetration.

Best Product Prospects:

FAS Sao Paulo reports that Brazilian importers are generally looking for well-known brands and high-end products. They usually prefer products with one year shelf-life or more. In addition to the product itself, packaging, status and level of innovation are important attributes. Products that combine these characteristics are more likely to successfully enter the market.

The food categories that are most frequently exported to Brazil from the United States are: dairy products, processed vegetables, wine and related products, fresh fruit and vegetables, soup and other food preparations, beef and beef products chocolate and cocoa products, sausage casings and processed fruit.

#### Food Service Sector:

FAS Sao Paulo reports that the Brazilian food service sector was one of the most affected by the restrictions imposed by the COVID-19 pandemic. During most of 2020, only home delivery and takeaway operations were allowed, and for many operators, it represents a relatively small portion of their revenue. Consequently, it suffered sales value declines during the year, affecting the segment's vast majority, especially small operators.

According to the Food Service Brazil Institute (IFB), in 2020 the chains represented 22% of the market, while small-medium independent operators filled 78%. Another important characteristic of this sector in Brazil is its informality. Its size is estimated through the food industry's sales to this channel. In 2020, the food service accounted for 24.4 percent of food processors' revenue of US\$27 billion, while in 2019 it was 33% and its revenue was US\$46.9 billion, In 2020, the Brazilian Food Processors Association (ABIA) estimated the food service market at US\$70.8 billion, against US\$117.2 billion in 2019. High inflation, high taxes, difficulties in accessing credit, and the sector's high level of indebtedness are still the main challenges.

With the market increasingly competitive, the supply of differentiated foods and beverages can make a difference in many situations for food service operators. Meat, alcoholic beverages, special chocolates are few examples of products imported by the Food Service sector. Due to logistical costs, exchange rates, and import taxes, these products are mostly placed in the Premium category.

Within all food service channels, buyers are willing to import products directly from foreign suppliers. However, the size of the establishments is a limiting factor, and generally, restaurants, bars, bakeries, cafeterias, and hotels/motels tend to buy imported products through distributors and wholesalers. Usually, only fast food and catering chains can import directly from a foreign supplier because of their size and purchase power. In general, Brazilian companies are conservative when buying imported products initially, especially in times of economic hardship. Many importers buy small quantities first to test the market.

FAS Sao Paulo reports that the Brazilian food service sector is characterized by small-to-medium size, family-owned establishments. Large size and multinational companies account for less than 5% of the total number of operators. In 2019, the food service industry accounted for US\$117 billion by the Brazilian Food Processors' Association (ABIA). Compared to the previous year, results were quite similar to the food processing and retail sector, 7% increase in nominal terms, and 3.1% increase in real terms. In 2020, COVID-19 outbreak left this sector in a very critical situation. According to a research conducted by the Bars and Restaurants Association (Abrasel), a quarter of businesses have closed their doors since March. For the business that is still opened, 71% state revenues in 2020 are expected to reach 60%-70% of the 2019 level.

FAS Sao Paulo suggests that in this sector U.S. exporters should look for opportunities to occupy niche markets. The growth in the Hotel Restaurant Institutional (HRI) sector has led import companies to create specific divisions to assist the sector. Restaurants, snack shops, bakeries and pastry shops tend to buy imported products from local companies. Direct imports rarely occur in this sector as imports seldom reach the appropriate volume to justify such an operation. Nevertheless, executives from this sector frequently travel to the U.S. and Europe to investigate new trends. They are opinion leaders and can influence buying decision.

#### Best Product Prospects:

- Food service unit packages, one-year shelf life or more is desired, especially those produced by companies that own well-known brands.
- Functional packages and innovation are considered important attributes.
- Products that optimize kitchen processes such as dehydrated, lyophilized, pre-cooked and prepared mixes are in high demand.
- Natural, organic, and healthier products are top niches among more affluent consumers (although the organic segment is an attractive niche, costs to comply with the Brazilian legal framework may make sales of small quantities unfeasible).
- Products and ingredients for consumers with food allergies and intolerances are growing segments.

#### Food-Processing Sector:

FAS Sao Paulo reports that according to the Brazilian Food Processors' Association (ABIA), the country's food processing sector registered revenues of US\$171 billion in 2021, an increase of 16.9% compared to 2020. Although the country has suffered from the COVID-19 pandemic, the advances in vaccination and a rebound in the service sector have contributed to the industry's performance.

When it comes to food ingredients, the country is highly dependent on international suppliers to meet its demand. Ingredients with high added value continue to present good opportunities for U.S. companies. Brazilian food manufacturers and ingredients importers constantly look for new suppliers and innovative products. FAS Sao Paulo will have institutional booths at the Nutri Ingredients Summit (NIS) and Food Ingredients

South America (FiSA) show in Sao Paulo and plans to host a Virtual Trade Event in November for food ingredients. For more information, contact us at [FASsaopaulo@usda.gov](mailto:FASsaopaulo@usda.gov)

Brazil follows international food trends and keeps looking to launch innovative products with high added value. The plant-based products have been increasingly available in the country, with a higher number of products being launched every year. Food industries are also looking to launch products with immunity-boosting benefits. In addition, there is a growing demand for ingredients that allow manufacturers to have products with a “clean” label (with claims like natural, organic, and gluten-free) and clear label (with information about the sourcing of ingredients, the manufacturing process, and more transparency about the ingredients). Along these lines, the United States is highly competitive with some specific food products that can be used to produce innovative products to meet this demand.

The United States also has opportunities for more technological ingredients to be used in the feed & food industries. For instance: dairy ingredients (whey protein, milk albumin, casein for infant formulas), alternative proteins (pea, soy, rice, and others), fibers (soluble and insoluble), emulsifier & stabilizers, flavors & flavors enhancers, vegetable fats, among others. Those products require more research and technological efforts to be produced in a way to meet the industry demands. Since the United States has a diverse and robust food ingredients industry, the country can supply food processing companies in Brazil with these innovative products.

Brazil is a small producer of food ingredients, which makes the country highly dependent on imports of food ingredients. China and some European countries are the major exporters of intermediate products to Brazil intended to be used in the food & feed industries. The United States is also an important exporter of ingredients and additives to Brazil. However, in many situations, China can offer the same quality product with a cheaper cost compared to the U.S. prices.

#### Best Product Prospects:

FAS Sao Paulo reports that U.S. products in the market with good potential include animal feed preparations (non-pet), food preparations, enzymes & prepared enzymes, other edible mixtures preparations of fats, oils, odoriferous substances & essential oils, milk albumin, including concentrates of two or more whey proteins, hop cones, in the form of pellets, peptones & derivatives, mucilages & thickeners & vegetable saps and extracts of hops and products consisting of natural milk constituents.

Products not present in significant quantities with good sales potential wheat flour, malt, fresh nuts (almonds, pistachios, walnuts, coconuts), fruits (cranberry, blueberry, cherries, pears) dairy ingredients, beans, flour, pea protein and fibers as plant-based ingredients, vegetable oils and ingredients for healthy products.