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Brazil

Exporter Guide

2003

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Report Highlights: This report provides U.S. exporters information on the Brazilian food industry including processing and retail as well as import procedures that apply to products shipped to this market.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report , BR

I. Executive Summary

Brazil, like other developing economies, is vulnerable to exchange rate oscillations, and large foreign capital inflows and outflows put intense pressure on the exchange rate. If investors lose confidence, the flows register a downward trend, depreciating the local currency, which leads investors to limit lending. Therefore, the cost of money increases. A reduction in the dependence on foreign capital seems desirable; however, for the foreseeable future, Brazil will continue to rely on foreign investment. For now, the Brazilian economic and political outlook is guardedly optimistic. Though Brazil's new President, Luiz Ignacio Lula da Silva, known as Lula, hails from the Labor Party, he has maintained much of the economic programs of his predecessor, Fernando Henrique Cardoso since taking power in January 2003. In addition, Lula has shown an admirable ability to press forward with reforms in the Brazilian Congress, which at least in the short run is more likely to ensure growth and expand tax revenues.

In 2002, according to the Brazilian Institute of Geography and Statistics (IBGE), GDP totaled R$1.32 trillion, 1.5 percent growth compared to 2001. The modest economic growth of 2002 and into 2003 has been due to some extent to uncertainties with the new government, impacting the exchange rate and the official interest rate - SELIC - which equalizes interest rates applied in the local market. The depreciation of the local currency over the past five years has clearly affected Brazil's imports. In January 2002 the dollar was trading at US$1=R$2.6, but by December 2002 the exchange rate had reached US$1=R$3.7, with SELIC climbing from 19 percent to 25 percent in the same year.

Economic Indicators

	1998	**1999**	**2000**	**2001**	**2002**	**2003***
GDP Growth (%)	0.1	0.9	4.0	1.5	1.5	1.0
Inflation (%) (IPCA/IBGE))	1.7	8.9	6.0	7.7	12.5	11.9
Average Exchange Rate (R$/US$)	1.16	1.81	1.83	2.35	2.96	3.00
Total Exports (US$ billion)	51.1	48.1	55.0	58.2	59.6	66.0
Total Imports (US$ billion)	57.5	49.2	55.7	55.5	55.3	50.0

Source:
< Brazilian Ministry of Development, Industry and Commerce (MDIC)/Secretariat of Foreign Trade (SECEX) trade databases (1998-2002)
< Brazilian Institute of Geography and Statistics (IBGE) (1998-2002)
< Brazilian Central Bank trade data
< Current trend analysis
< * Projections for 2003 is based on Economic Research Institute and Foundation (FIPE) forecasts

Because of the current economic environment, Brazil has decreased its purchases of consumer-ready products. The country is self-sufficient in agricultural and food production and as the Real has weakened, local products have become ever more attractive to most consumers in the category of staple-type processed products. Due to high prices, the consumer base for imported products has narrowed, more and more restricted to the high-end. In Brazil, the population for imported products roughly consists of 5-8 million shoppers countrywide. For this audience, importers have to respond with a wide variety of high-end goods in small quantities. This scenario complicates business for U.S. exporters and local import companies as U.S. firms, in general, are not oriented or not always interested in smaller volume transactions. When planning to enter the Brazilian market, U.S. exporters need to consider some advantages and challenges as shown in the following table:

Advantages	Challenges
The U.S. has a large supply of high-end products	Misperception of U.S. food products (U.S. products are frequently viewed as fast-food, junk food, etc)
Price is not always the purchase criteria for high-end consumers	Price x value (product positioning and tradition counts)
Brazilian importers willingness to test new products	Sales of many imported products in small volumes, cargo consolidation necessary , freight costs high
Import procedures are becoming more transparent as the process becomes more automated and electronically monitored.	U.S. exporters reluctance, especially for parallel goods, to provide documentation as requested by Brazilian importers. Providing clear and consistent information – exporters have sent documentation that does not match the information the importer presents to Brazilian authorities.

II. Exporter Business Tips

When exporting to Brazil, U.S. companies should be aware that the export/import process is heavily impacted by the Government of Brazil (GOB) through its decrees and procedures – fiscal, administrative, foreign exchange – which are implemented by different branches of the federal government to regulate the various aspects of trade between Brazil and other countries.

The GOB is constantly modifying Brazil's foreign trade regulations to adjust the country's competitiveness in the global market. This means that Brazilian importers need to remain updated on standards and decrees in effect.

The main Brazilian Government offices involved in importation administration, including tariff collection are the:

Ministry of Finance (Ministério da Fazenda – MF)
Main MF Divisions:
- Secretariat of Federal Revenue / U.S. equivalent: I.R.S.(Secretaria da Receita Federal – SRF)
- Brazilian Terminology Committee (Comite Brasileiro de Nomenclatura – CBN)
- National Monetary Council (Conselho Monetário Nacional – CMN)
- Brazilian Central Bank (Banco Central do Brasil – BCB)

Ministry of Development, Industry and Foreign Trade (Ministério do Desenvolvimento, Indústria e Comércio Exterior – MDIC)
- Secretariat of Foreign Trade (Secretaria de Comércio Exterior – SECEX)

The main Brazilian Government offices involved in the clearance of imported agricultural products are the:

Ministry of Agriculture, Livestock and Food Supply (Ministério da Agricultura, Pecuaria e Abastecimento – MAPA)
In general, MAPA is the primary Ministry which oversees and enforces most of the regulations regarding production, import, export, sanitary and phytosanitary issues.

Ministry of Health (Ministério da Saúde – MS)
MS is the primary Ministry for the enforcement of the regulations regarding processed food products, regardless of origin. MS has a similar function in regulating foods as that of the Food and Drug Administration (FDA) in the United States.

Except for poultry meat, U.S. products of animal origin (beef, pork, seafood, and dairy) are allowed into the Brazilian market, if the product comes from a U.S. federally inspected plant which has the approval of the Brazilian Animal Products Origin Inspection Service (DIPOA). Unprocessed products of plant origin – fruits, seeds, grains – can be exported to Brazil after a pest risk analysis of the product is completed by the Brazilian Plant Health and Inspection Service (DDIV), and if accompanied by USDA/APHIS/PPQ phytosanitary certificate.

For additional information on GOB regulations regarding imports of agricultural and food products from the United States, such as labeling requirements, including for products containing biotech ingredients, please check the "Food and Agricultural Import Regulations and Standards" (FAIRS) report, number BR3608, dated July 07, 2003 at the USDA/FAS Home Page, "www.fas.usda.gov".

Since January 1997, the Secretariat of Foreign Trade (SECEX), the Secretariat of Federal Revenue (SRF) and the Brazilian Central Bank (BCB) have been responsible for import related activities such as licensing, customs clearance and exchange monitoring though the Integrated Foreign Trade System – SISCOMEX (Sistema Integrado de Comércio Exterior) – an administrative software program with graphic interface to complete the computer-based import document. Since this system has been implemented, import and export procedures have become more transparent, allowing the GOB to adopt quick measures to minimize trade deficits and frauds. The system also enables the government to better control tax payments.

Brazilian companies interested in importing must register with the Importers and Exporters Registry Office of SECEX. Registrations completed prior to 1997 have been entered into the SISCOMEX. New registrants are automatically added to the system upon the first import transaction. It is necessary to be registered at the SRF in order to obtain a user password to access the SISCOMEX.

Brazilian importers may contact foreign manufacturers, trading companies, concessionaires or any individual interested in exporting to Brazil to determine products of interest for importation, as well as cost, guarantees, type of payment, etc. Such contact may be done via fax, e-mail, by telephone or personally. The importer must then request from the foreign exporter the remittance of a document that formalizes the transaction costs agreed upon (pro forma invoices, letters, telegrams, fax, purchase orders or contracts). At any given time, SECEX may request from the importer relevant information or documentation on the transaction. In case of discrepancies, SRF may arbitrate the product value in order to establish the tax fee.

Another important element is the means used to ship the product, as well as whether payment of the freight is the importer's or exporter's responsibility. If the freight charges are payed by the exporter, the bill of lading will highlight that freight is "pre-paid". If the importer is paying for the freight charges, the bill of lading will include information that the freight is "collect".

The Import Licencing (LI) can be either automatic or non-automatic and is executed through the SISCOMEX. In order to grant a license, the SISCOMEX will require information regarding commercial, financial, tax and exchange details of the transactions in order to define the legal status.

- Automatic Licensing: products not subject to special control or special conditions will be automatically licensed upon completion of the Import Declaration of Customs Clearance in the SISCOMEX system.

- Non-Automatic Licensing: products or transactions subject to special importation approval or which are required to comply with special conditions must obtain licensing prior to shipment or before registering the Import Declaration. A list of products and/or transactions, as well as the schedule for licensing, according to general conditions of trade, may be found in the SISCOMEX Administrative Treatment chart.

- Mainly products of animal origin (beef, pork, seafood, and dairy), some plants already registered, and unprocessed products of plant origin (fruits, seeds, grains) fall into this category, which means that they can only be exported to Brazil after MAPA approval. This special authorization is requested and released by the system. Importers, however, may want to contact MAPA to speed up the process in case more documentation or analysis is needed. In general, the authorization is granted within a week.

Products and/or transactions under special conditions such as drawback protection, Tax Benefits for Exports (BEFIEX), National Council of Science and Technology Development (CNPq) and Manaus Trade-free Zone (ZFM), are subject to LI prior to Customs clearance.

Once the commercial transaction is concluded, the importer may authorize shipment of the merchandise to Brazil. Products and/or transactions subject to prior import approval must have approval prior to shipment. After shipping, the exporter must send, according to the established method of payment, the documentation that will allow the importer to gain release of goods from Brazilian Customs.

Documentation required:

- Shipping Information (B/L or AWB)
- Commercial Invoice
- Certificate of Origin (for International Agreement products)
- Phytosanitary Certificate (when required by Brazilian law)

Overseas payment may be done in advance, by collection or by letter of credit (cash or installments). The buying and selling of foreign currency between the importer and an authorized exchange establishment is formalized by a Foreign Exchange Contract, according to the standards and regulations established by the Brazilian Central Bank. For simplified exchange transactions, transactions made through DSI, (see item 8) up to the value of US$10,000, or the equivalent in other currency, the formalization of the exchange can be made with a signed docket. The exchange transactions may be made for immediate or delayed payment. The time between signing the contract and payment of the transactions must not exceed 360 days. When the payment is made before Customs clearance the bond between the Import Declaration and the Foreign Exchange Contract will be established according to the form of payment agreed upon by the importer, or according to the negotiating bank upon exchange settlement.

The clearance process starts when imported products arrive in Brazil. The importer or a contracted customs broker, using relevant documentation, LI (if necessary), shipping information, commercial invoice, and other documents required due to special characteristics of the product and/or transaction, will prepare the Import Declaration (DI) in the SISCOMEX and, upon payment of the Import Tax, Excise Tax (IPI also known as Tax on Manufacture) and SISCOMEX user fees, will register the DI. This starts the customs clearance process.

Clearance from Customs consists of a series of acts carried out by a Customs official who will authorize the release of the goods to the importer after the verification of the merchandise, verification of compliance with tax laws and of the importer's identity. The SRF will release an Import Warrant (CI) via SISCOMEX that will confirm Customs clearance. SISCOMEX will then automatically select the method of Customs clearance:

- Green: customs clearance authorization is automatically issued.
- Yellow: mandatory inspection of documentation is required and, if no evidence of irregularities is found, customs clearance authorization is issued.
- Red: mandatory inspection of documentation and of merchandise is required before customs clearance authorization is issued.
- Gray: mandatory inspection of documentation, merchandise, and the taxable basis of Import Tax is required before customs clearance authorization is issued. Customs clearance authorization can be arranged before the conclusion of the inspection of customs value, by using a guarantee issued by the importer.

Except for the green option, all documents, together with the receipt of the Import Declaration printed by SISCOMEX and proof of payment or waiver of the ICMS (Value-Added Tax also known as Interstate Movement Tax on Sales and Services), should be presented by the importer to the Federal Revenue Office where the goods are located for the conclusion of the customs clearance.

For goods assigned the gray option, a Declaration of Customs Value (DVA) must be made and transmitted via SISCOMEX to explain the commercial aspects of the transaction and to provide additional information to justify the value.

Any corrections to the information presented in the DI, changes in the calculation and additional tax or fines required by law, will be carried out in accordance with SISCOMEX procedures.

III. Market Sector Structure and Trends

Brazil is the largest producer of coffee, sugar, orange juice, and has more cattle than any other country. It is the second-largest output of soybeans, corn and poultry and is a major supplier of rice, cocoa, cashews, fruits, pork, tobacco and cotton. It runs an agricultural trade surplus that exceeded $20 billion in 2002. Since the implementation of the Real Plan in the 1990s, the Brazilian economy has gone through a stabilization period which led to a restructuring of the local food industry, increasing domestic competition and productivity. Throughout the food chain supply, the effects of economic stabilization have had their impact. In addition, the arrival of multinationals and the growth of domestic companies has also contributed to an intensification of competition, and the food industry is among the most vital sectors of the Brazilian economy.

Given the self-sufficiency and advancement of the local agricultural industry, it comes as no surprise that Brazil imports of food products account for less than 5 percent of sales of the retail sector. Of total imports of consumer-oriented products, Mercosul countries - the economic and political bloc consisting of Argentina, Brazil, Paraguay and Uruguay - respond for approximately 60 percent, as they benefit from tax free agreements. Direct competition for the U.S. comes from European Union. Today, the EU share of these imports is 21 percent, while U.S. share is estimated at about 7.5 percent.

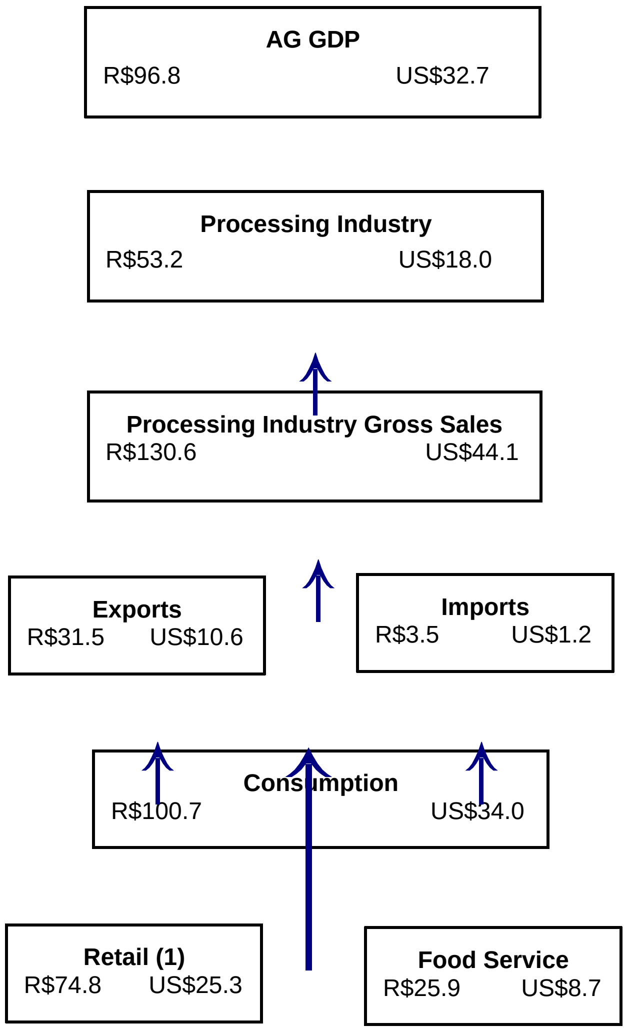
Brazil's Imports of Consumer-Oriented Products (US$ Millions)

	2000	Share (%)	2001	Share (%)	2002	Share (%)
Mercosul	1,003.9	63.5	635.5	55.6	649.7	58.5
European Union	303.7	19.2	263.9	23.1	232.7	21.0
U.S.	104.3	6.6	92.1	8.0	82.6	7.4
Others	168.4	10.7	151.7	13.3	145.3	13.1
Total	1,580.3		1,143.2		1,110.3	

Source: Brazilian Secretariat of Foreign Trade (SECEX) - using 6 digit codes from the Harmonized Tariff Schedule (HTS)

Overall sales of the Brazilian food processing industry totaled R$130.6 billion in 2002. This represented a 16.6 percent increase, in nominal terms, compared to 2001. Brazil's consumption of these sales is estimated at about 80 percent, distributed through retailers and food service companies. According to the Brazilian Food Processors' Association (ABIA), retail is of course the principal sales vehicle, accounting for 75-80 percent of food distribution. Nevertheless, food service has also shown a positive growth trend. Since 1998, the segment has grown by 26.6 percent.

In Brazil, purchases of imported products occur "directly" (retailer/food industry negotiating with the exporter) or "indirectly" (local importers play the role of distributors, supplying retailers, food service companies, restaurants, etc). A few of the top retailers and specialty food stores perform both functions. They import directly but also use local import companies for certain supplies while food service and restaurants depend more on import companies. The local food processing industry tends to negociate directly with foreign suppliers as their purchases are more specific, and there are few importers of ingredients in the local market.



Source: Brazilian Food Processors' Association (ABIA), Secretariat of Foreign Trade (SECEX), Brazilian Supermarket Association (ABRAS)
Note: (1) ABIA considers Retail supermarkets and any store format that sells grocery items.

IV. Best High-Value Product Prospects

According to U.S. Department of Agriculture analysis, the major consumer-oriented food and beverage categories exported to Brazil are: snack foods (excluding nuts), red meats (fresh / chilled / frozen / prepared / preserved), poultry meat, dairy products, eggs and products, fresh fruit, fresh vegetable, processed fruit & vegetables, fruit and vegetable juices, tree nuts, wine and beer, pet foods (dog and cat food), nursery products and cut flowers. Despite this classification, U.S. sales to the Brazilian market are considered quite fragmented: processed fruit and vegetable represent 15 percent of total sales; snack foods 14 percent; dairy products 10 percent; fruit and vegetable juices 8 percent; pet foods 7 percent; eggs and products 6 percent; red meats 3 percent; poultry meat (processed), fresh fruit, tree nuts, wine and beer, 2 percent each; nursery products and cut flowers 1 percent and others 28 percent (product categories under "others" account for less than 1 percent each).

Generally speaking, products likely to be more marketable in Brazil are those that in their original market also target high-end consumers (specialty products) or are well known brands. In addition, health foods, natural and organic products have a limited presence in Brazilian supermarkets as the Brazilian food industry has not directed consistent efforts to the development of this segment because the disposable income of the majority of consumers does not justify mass production. Small and medium-sized companies are responsible for 70 percent of local organic supply. According to the Institute of Biodynamics (IBD), sales of organic items have expanded rapidly in the last few years, rising on average 40 percent/year. In the local market, prices of health foods and natural and organic items compared to conventional products range from 40 to 300 percent higher. As the U.S. industry for this segment of goods is much more developed, and prices for these products tend to be closer to those of conventional equivalents, exporters can find opportunities in the Brazilian market as the price for imported products are still competitive.

V. Key Contacts and Further Information

If you have any question or comments regarding this report or need assistance exporting processed food products to Brazil, please do not hesitate to contact:

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Other information sources include:

Brazilian Supermarket Association (ABRAS)
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APPENDIX I. STATISTICS

TABLE A. Key Trade & Demographic Information

Agricultural Imports From All Countries ($Mil) / U.S. Market Share (%) [1]	3,832 / 9.0 %
Consumer Food Imports From All Countries ($Mil) / U.S. Market Share (%) [1]	1,075 / 7.0 %
Edible Fishery Imports From All Countries ($Mil) / U.S. Market Share (%) [1]	229 / 1.0 %
Total Population (Millions) / Annual Growth Rate (%) [2]	169,873 [3] / 1.6 %
Urban Population (Millions) / Annual Growth Rate (%) [2]	137,925 [4] / 2.7 %
Number of Major Metropolitan Areas [2]	11 [5]
Size of the Middle Class (Millions) / Growth Rate (%) [8]	32,276 / NA
Per Capita Gross Domestic Product (U.S. Dollars) [2]	2,628
Unemployment Rate (%) [2]	9.2 % [6]
Per Capita Food Expenditures (U.S. Dollars) [7]	291
Percent of Female Population Employed [2]	43.4 % [6]
Exchange Rate (US$1=R$ local currency)	2.96

[1] Source: United Nations Statistical Office - 2002
[2] Source: Brazilian Geography and Statistics Institutes (IBGE) - 2002
[3] Preliminary figures of the IBGE Census 2000, total population is estimated in 177,565 Millions for 2003
[4] Preliminary figures of the IBGE Census 2000
[5] Metropolitan areas used for the 2002 National Household Sample Survey (PNAD, IBGE)
[6] 2002 National Household Sample Survey (PNAD, IBGE)
[7] Value calculated by the Brazilian Food Industry Association (ABIA) based on the annual average expenditures according to the 1996 Consumer Expenditure Survey - (POF, IBGE)
[8] Middle class represents 19% of the total population with income between US$ 10,700 and US$ 16,200 per year - 2001

Table B. Consumer Food & Edible Fishery Products Imports

Brazil Imports (In Millions of Dollars)	**Imports from the World** 2000	2001	2002	**Imports from the U.S.** 2000	2001	2002	**U.S Market Share** 2000	2001	2002
CONSUMER-ORIENTED AGRICULTURAL TOTAL	1,434	1,098	1,075	103	89	71	7	8	7
Snack Foods (Excl. Nuts)	73	60	41	8	8	3	11	13	8
Breakfast Cereals & Pancake Mix	3	4	1	1	1	1	6	5	41
Red Meats, Fresh/Chilled/Frozen	127	68	80	1	1	1	1	0	0
Red Meats, Prepared/Preserved	4	4	2	2	1	1	41	40	44
Poultry Meat	1	1	1	-	-	-	0	0	0
Dairy Products (Excl. Cheese)	365	180	248	5	6	6	1	4	2
Cheese	40	24	22	1	1	1	1	1	1
Eggs & Products	7	7	13	2	3	7	35	38	51
Fresh Fruit	130	128	97	7	3	1	5	2	1
Fresh Vegetables	79	78	67	1	2	1	1	2	0
Processed Fruit & Vegetables	240	207	183	7	5	4	3	2	2
Fruit & Vegetable Juices	6	8	6	1	1	1	18	12	13
Tree Nuts	41	31	22	4	3	1	9	9	5
Wine & Beer	84	79	65	1	1	1	1	2	1
Nursery Products & Cut Flowers	8	8	10	1	1	1	1	1	0
Pet Foods (Dog & Cat Food)	8	6	6	6	6	5	84	90	86
Other Consumer-Oriented Products	218	204	211	56	50	42	26	25	20
FISH & SEAFOOD PRODUCTS	321	279	229	6	5	2	2	2	1
Salmon	23	22	21	1	1	1	1	0	0
Surimi	2	3	4	-	-	-	0	0	0
Crustaceans	2	1	1	1	-	-	4	0	0
Groundfish & Flatfish	88	71	61	1	1	1	1	1	0
Molluscs	2	3	1	1	1	1	2	1	3
Other Fishery Products	204	180	141	5	5	2	3	3	1
AGRICULTURAL PRODUCTS TOTAL	**4,345**	**3,538**	**3,554**	**283**	**216**	**321**	**7**	**6**	**9**
AGRICULTURAL, FISH & FORESTRY TOTAL	**4,744**	**3,878**	**3,832**	**296**	**226**	**328**	**6**	**6**	**9**

Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office

TABLE C. Suppliers of Consumer Food & Edible Fishery Products

Brazil - Top 15 Suppliers

CONSUMER-ORIENTED AGRICULTURAL IMPORTS

(1000$)	2000	2001	2002
Argentina	595,565	426,766	429,657
Uruguay	133,576	65,598	111,390
Chile	99,149	91,945	81,286
United States	102,824	88,586	71,112
Italy	61,068	47,972	38,882
France	44,568	39,061	37,716
New Zealand	26,900	23,714	27,258
Netherlands	28,361	28,905	26,446
Paraguay	31,543	20,118	25,860
China (Peoples Republic of)	12,548	12,789	25,112
Spain	43,546	28,212	23,205
Germany	21,363	23,902	18,885
Portugal	24,115	23,234	17,338
Belgium	14,814	13,569	12,845
Turkey	17,892	16,531	11,536
World	1,434,061	1,097,759	1,074,952

FISH & SEAFOOD PRODUCTS IMPORTS

(1000$)	2000	2001	2002
Norway	116,138	104,176	85,132
Argentina	68,799	58,431	49,621
Chile	42,380	34,249	32,965
Venezuela	13,007	14,649	19,111
Uruguay	18,605	15,196	11,451
Portugal	6,222	8,282	8,719
Russian Federation	14,765	13,368	3,812
Thailand	796	2,383	3,509
Peru	6,147	4,724	2,956
United States	6,489	5,447	2,094
Iceland	1,733	1,679	1,618
France	4,897	3,401	1,484
Ecuador	7,084	5,366	1,248
Korea, Republic of	2,068	1,798	1,128
Spain	1,798	1,512	1,119
World	320,904	279,146	229,258

Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office