



THE FOOD INDUSTRY

THE FOOD INDUSTRY IN BRAZIL IS PART OF THE AGRIBUSINESS PRODUCTION CHAIN AND ACCOUNTS FOR A LARGE PART OF THE COUNTRY'S GDP. THE ARTICLE PROVIDES A SKETCH OF THE INDUSTRY, ITS PERFORMANCE AND OUTLOOK. A DESCRIPTION OF THE EXPORT PROCESSES AND DISTRIBUTION CHANNELS IS INCLUDED.

PERFORMANCE AND OUTLOOK

Rising exports and the growth of consumer purchasing power were factors that contributed to the food industry's good performance in 2004. The 27.6% increase in the dollar value of processed food exports—which amounted to \$17 billion—was a veritable *tour de force*. It showed the power of an industry that accounted for 17.7% of Brazil's total exports and around 28.4% of the industry's total real sales.

This indicator stood at 21.2% in 2001, and attests to the efforts put forth by the food industry to leverage new markets for Brazilian food products.

Brazil's processed foods meet international standards of quality and presentation. In part, this is because transnational corporations in the industry have set up shop in Brazil to supply a dynamic domestic market. Here are some examples:

On the domestic side, rapid growth in all sectors of the economy, leveraged by exports, has increased personal incomes for the jobholding population, increased formal employment and generally raised wages. The nation also experienced expanding credit and installment plan sales, all of which contributed to the increase in food consumption.

The primary indicators for the food industry in 2004 are listed in the following pages. They show that annual billing revenues amounted to \$60.1 billion—87% of which was spent on food, and the remainder on beverages.

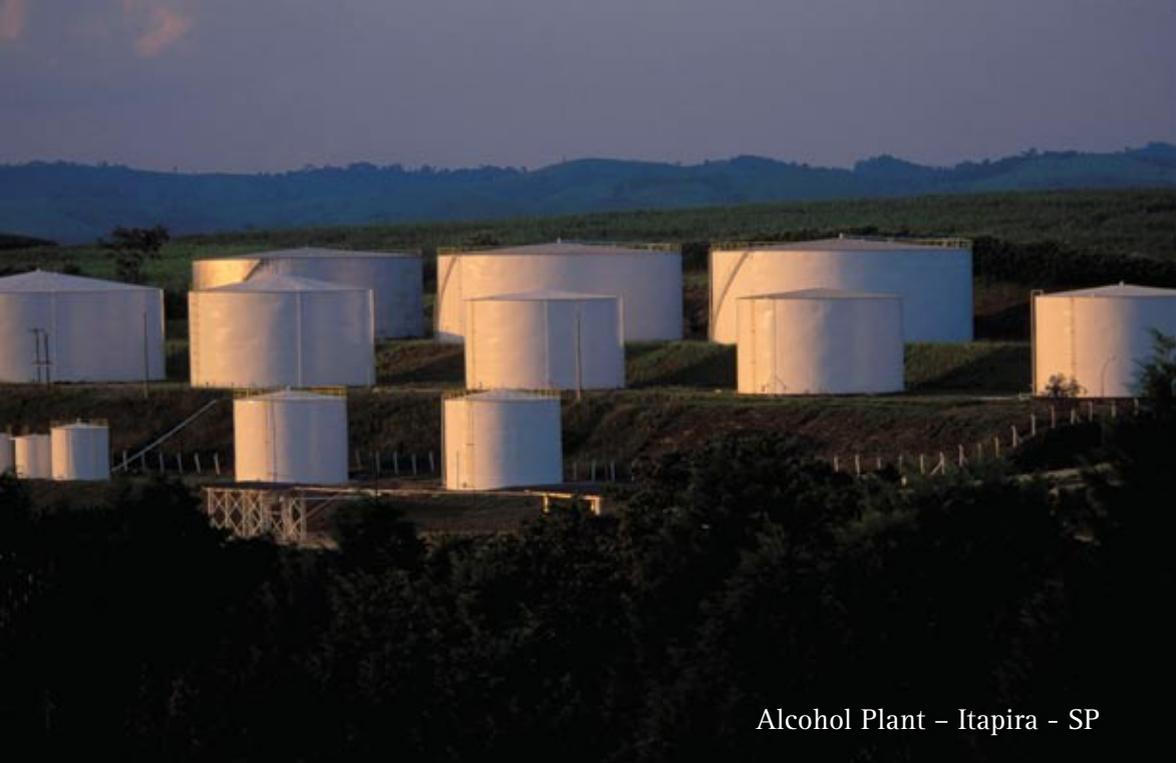
The food industry increased by 4.91% in volume of production and by 4.27% in real sales (adjusted for industry inflation).

The fact that real sales increased at a smaller rate than did production arises from several causes. Among these are the appreciation of the Brazilian currency, high interest rates and the retail market's strong bargaining position in negotiations with the industry.

FEATURES OF THE INDUSTRY

The food industry is part of the agribusiness chain of production which in 2004, according to the National Confederation of Agriculture, grossed R\$534 billion (30.2% of GDP). The food industry itself accounted for 17.6% of agribusiness GDP in terms of added value, which means R\$64.2 billion.

In terms of added value, the food industry accounts for 50.7% of all industrial agricultural processing, and 41.7% of farm and ranch production. Brazil's food industry, represented by the ABIA, is extremely productive.



Alcohol Plant – Itapira - SP

PRIMARY INDICATORS

Gross revenues in 2004 added up to R\$176.1 billion. Of that total, R\$152.5 billion came from food products and R\$23.6 billion from beverages. This represents 10% of Brazil's GDP and a 17% share of the transformation industry. The sector provides jobs to 1,066 workers, about 18.2% of all jobs in the transformation industry, according to the Ministry of Labor and Employment (MTE).

The sector comprises 40,700 going concerns, according to the same source: 85.6% are microenterprises, 10.5% small businesses, 3.0% medium-sized businesses and 0.8% large companies, defined as those having more than 500 employees. Medium-sized companies employ 100 to 500 employees, small from 20 to 99 and microenterprises up to 19 employees.



Bread industry - drying process - SP

The breakdown by value produced, according to National Development Bank (BNDES) figures for annual billing revenue is as follows: Large 43%, Medium 36%, Small 14%, and Micro, 7%.

A survey published in *Exame* magazine on the 500 largest companies in Brazil showed that 40 are food industry companies and seven, beverage producers. Among these larger companies, foreign capital's share of the food industry stands at 59% based on total sales, by sector, while foreign capital's share in the beverage industry stands at 19%.

The primary segments in the food industry are:

Segments	Revenues		Var%
	2003 Billions of R\$	2004 Billions of R\$	
Meat products	27.7	32.6	17.6
Coffee, tea and grain processing	20.4	22.0	7.8
Oil and fats	20.7	23.9	15.7
Dairy products	17.5	18.4	5.3
Wheat products	12.7	13.4	6.1
Sugars	12.6	14.7	16.9
Fruit and vegetable products	8.8	9.6	9.1
Chocolate, cocoa and candy	4.5	5.1	14.1
Dried and quick-frozen goods	2.9	3.2	9.9
Canned fish	1.4	1.5	5.9
Misc.	7.6	7.7	1.3
Total	137.0	152.5	11.3

Source: ABIA

The industry is very competitive in that Brazil is the world's leading producer and exporter of sugar and alcohol, and leading exporter of meat, orange juice and instant coffee. Brazil is the second-largest producer of soybean oil, candies and confectioneries, third-largest producer of pork, fifth largest producer of chocolate, sixth largest producer of milk and the world's 15th largest producer of wine.

With respect to raw material inputs, in addition to its utilization of agricultural products, the food industry is a large-scale industrial consumer of food and beverage wrappers and containers such as: hard plastic and flexible material, metal products such as aluminum, tinfoil and steel, and pulp and paper products such as kraft and duplex paper, corrugated cardboard and glassware.

In addition, the food industry relies on Brazilian and imported machinery for its production lines, refrigeration and product packaging.

In terms of number of plants, the food industry is somewhat concentrated in the Southeast region (46.4%), where the State of São Paulo alone accounts for 22.7% of the nation's factories and plants. The south occupies second place with 24.2%, followed by the northeast region, with 17.7%, the midwest another 8%, with the remaining 3.7% distributed among the northern states.

Based on added value, the State of São Paulo alone is responsible for 35.3% of Brazil's food production. The southeastern region encompasses 48.8% of total production, the south, 25.8% and the northeastern regions, 10.9%



Itajaí Port - SC

BRAZILIAN PROCESSED FOOD EXPORTS

Brazil's food industry exported R\$50 billion worth of products in 2004, which was 28% of gross revenues with a substantial increase over the same indicator in the year 2000—when exported product amounted to 14% of annual billing revenues.

When measured in export dollars, processed foods yielded \$17 billion—17.7% of Brazil's total exports and 61.5% of all agribusiness exports.

Brazil's processed food exports go to practically all of the world's leading export markets, including:

• European Union	31.4%	• Japan	4.1%
• Eastern Europe	3.0%	• China	3.4%
• Russian Federation	8.6%	• Mercosul	2.0%
• Middle East	12.6%	• India	1.7%
• Nafta	6.0%		

The Brazilian food industry has export agreements in place with importers, distributors and retail chains in all of these markets.

FOOD INDUSTRY DISTRIBUTION CHANNELS

The downstream end of the food industry is comprised by the domestic and import market distribution industry, including milling and processing firms which purchase grain and other commodities, wholesalers and distributors, importers, international distributors, retail chains, national and international food service segments, such as fast food chains, restaurants, hotels, etc.

Industry sales, leaving out inventory changes, in 2004 amounted to R\$176.1 billion which, purged of exports and augmented by imports, yielded a consumption figure of R\$129.5 billion. The breakdown of this amount through the distribution network resulted in R\$95.5 billion accounted for by food retailers, with another R\$34 billion tallied up by the food service industry: restaurants, bakeries and taverns, fast food outlets, industrial kitchens, hotels, catering services, convenience stores and delivery services.

EDMUNDO KLOTZ

President of Brazilian Association of Food Industry (ABIA)

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