Agriculture and Agri-Food Canada / Agriculture et Agroalimentaire Canada

OPPORTUNITIES IN THE FOOD MARKETS OF BRAZIL

Canada

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EXECUTIVE SUMMARY

BRAZIL:

- ***is the largest economy in South America with a population of over 174 million people increasing at 1.38% per year - a positive influence on the demand for food;***
- ***is experiencing a 6.54% per year increase in the cost of a staple food basket - a negative influence on the amount of food demanded commercially;***
- ***is experiencing a 12.71% per year increase in GDP per person - a positive influence on the demand for food;***
- ***has 35 million people between the ages of 15 and 24 - a target market for Canadian exporters;***
- ***experienced a 0.48% per month increase (5.89% at a yearly rate) in the value of the Brazilian Real relative to the Canadian Dollar, between October 2003 and February 2004 - a positive influence on imports from Canada;***
- ***has wide differences in per capita income with a gini ratio of 59 (32 for Canada) and GNP per capita per year ranging from CAD 1,194 in Maranhão state to CAD 10,456 in Distrito Federal (Brazilia) - Canadian exporters need to identify affluent or niche markets;***
- ***sourced over 60% of agri-food and fish imports from the MERCOSUR - 6 countries in 2002 - there is significant competition requiring Canadian exporters to differentiate their products and monitor competitors activities;***
- ***imported CAD 5,672 million worth of agri-food and fish products from all countries in 2002, of which CAD 68 million (1.2%) was from Canada - currently Canada is a small player in Brazil and considerable market research is necessary to find the opportunities;***
- ***is between 18 and 41 days away from Canada by container ship - Canadian exports must have sufficient shelf-life and be able to endure the transport without loss of quality;***
- ***represents a level of risk for Canadian exporters - the facilities of Export Development Canada may be useful.***

Based on the analysis in this paper, Canadian food exporters may find new or continuing opportunities in the following Brazilian markets:

- ***Lentils, Dried Shelled, Including Seed;***
- ***Canary Seed.***

Many other products may also prove to be opportunities but with lower probabilities:

- ***Fish, Dried, Whether/not Salted but Not Smoked Nesoi;***
- ***Whey & Modified Whey Whether/not Concentrated Containing Added Sweeteners;***
- ***Hatching Eggs;***
- ***Maple Sugar and Maple Syrup;***
- ***Potatoes, Prepared Etc., No Vinegar Etc., Frozen;***
- ***Animal Feed Prep Except Dog or Cat Food, Retail Packaged;***
- ***Peas, Dried Shelled, Including Seed;***
- ***Kidney Beans & White Pea Beans, Dried Shelled, Including Seed;***
- ***Bread, Pastry, Cakes Etc., Nesoi;***
- ***Salmon, Pacific, Atlantic & Danube, with Bones, Frozen or Chilled and Salmon, Prepared or Preserved, Whole or Pieces;***
- ***Fresh Apples, Pears, Quinces, Peaches, Nectarines, Plums, Prune Plums and Sloes (in the southern spring and summer - Sept to Mar);***
- ***Sparkling Wine of Fresh Grapes;***
- ***Wine from Grape Nesoi & Must With Alcohol, In Containers Not Over 2 Litres. (Particularly Ice Wine Initially)***.

OPPORTUNITIES IN THE FOOD MARKETS OF BRAZIL

I. PURPOSE

The purpose of this paper is to provide Canadian food exporters with indications of opportunities or "contestable markets" in Brazil. The paper considers a number of indicators of "contestable markets" and estimates the probability of finding opportunities based on the number of positive indicators for each product market.

The paper provides indications only. Individual companies should follow up on opportunities of interest with: further market research, acquisition of information on Sanitary/Phyto-sanitary requirements, the development of a research price work-up and eventually a specific price work-up.

Figure 4. Brazil and Neighbouring Countries

The indicators of contestability used in this paper are based on historical statistics and therefore accept Brazilian tastes and preferences as fixed; including the images Brazilians have of Canada and Canadian products. The Branding Strategy for the Canadian Agriculture and Food Sector[1] is designed to improve knowledge of Canadian products and food systems, to differentiate Canada from its competitors and establish a reputation of high quality. This program can have a major positive influence on Brazilian acceptance of Canadian food products and increase the probabilities of finding opportunities in Brazilian markets.

[1] Part of the Agricultural Policy Framework. For more information see http://www.agr.gc.ca/cb/apf/index_e.php .

II. PROFILE OF BRAZIL

A. Geography

Brazil is located in eastern South America and is the largest country on the continent. Of the country's total area of 8,545,416 sq km, 6.3% is arable land with 1.42% under permanent crops and 26,560 sq km under irrigation.

The country's size provides a wide variety of environments, from the rainforest of the north to the caatinga drylands in the Northeast. North of the Amazon, the rainforest changes to savannah. The Pantanal wetlands in the west cover 150,000 sq km and extends into Bolivia and Paraguay. These wetlands provide habitat for thousands of species of birds, reptiles and mammals.

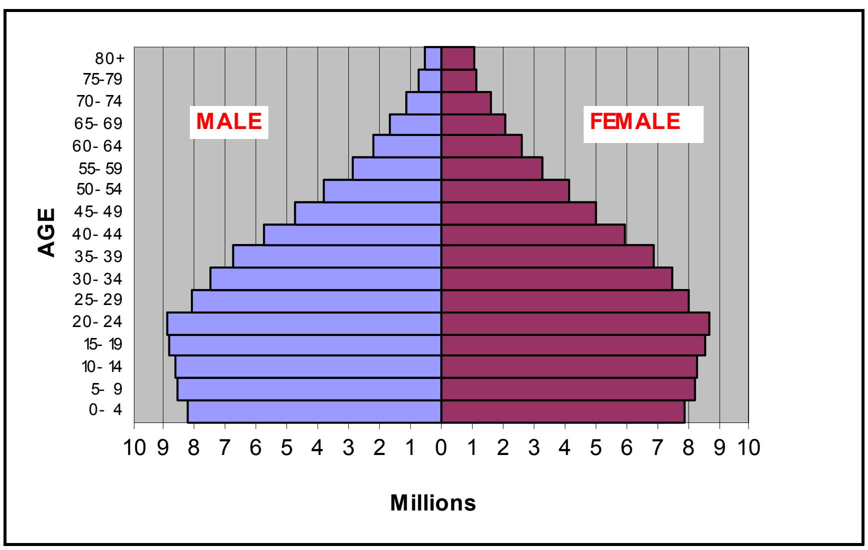
Between the Amazon and the caatinga regions there is a fertile transition zone of undulating hills covered in palm trees. Central Brazil is a plateau of open plains with twisted trees and acid soils. In the South, little is left of the once extensive pine forests and only about 8% remains of the Atlantic Forest which once covered the entire Atlantic seaboard. Brazil's 7,300 km of coastline include thousands of palm-fringed beaches. The country's most mountainous regions are the central states of Minas Gerais and the southern state of Santa Catarina. The highest peak is the 3,014 m Pico de Neblina on the Amazon border with Venezuela.

The climate in most of Brazil is tropical with temperatures rarely under 20° C. In Rio de Janiero, the summer temperature can reach the 40s C. In São Paulo, winter (July - August) temperatures can fall to under 10° C. Snow occasionally falls in the southern states of Santa Catarina and Rio Grande do Sul, where below-zero temperatures are recorded. In São Paulo and Rio de Janeiro, summer (December - March) rainstorms often cause extensive flooding.

B. Demography

The population of Brazil is estimated to be 174,633,000 (2002) people. An exponential trend line fitted to population data from 1992 to 2002 indicates an annual rate of increase of 1.38%.

The age/gender distribution of the population is presented in the population pyramid of Figure 2. The pyramid has a "bulge" in the age range 15 to 24 and represents a



Source: US Bureau of Census

Figure 5. Population Pyramid. Brazil 2002

possible target market for Canadian exports. In 2002, 19.9% of males and 19% of females were in this age range for a total target population of approximately 35 million people.

Data from the “Regional Accounts in Brazil -2001" indicate that the population density of the country was 20.17 people per square km and ranges from 1.49 per square km in Roraima State to 331.81 per square km in Rio de Janeiro State and 361.01 in the Federal District (Brasilia). The most populous state is São Paulo with almost 38 million people and a density of 151.30 per square km. (See Tables 1 and Appendix Table 5). A high population density may be less expensive to serve than a more dispersed one.

The people of Brazil have ethnic roots in many parts of the world. The 2000 census indicates that: 53.74% have European roots; 38.45% are classified as Mulattos (mixed race); 6.21% have African roots; 0.45% have Asian roots and; 0.43% are Aboriginal.

The rate of infant mortality has decreased considerably in recent years but still remains high compared to other countries. The 2000 census reports 29.68 infant deaths per 1,000 live births. However, the rate is not uniform throughout the country and varies from 15.96 in Rio Grande do Sul state to 62.54 in Alagoas state.

C. Culture

1. People and Society

Brazil’s population is a mixture of Aboriginal, European, Asian and African people and over the years, a society with considerable ethnic complexity has developed. The Aboriginal population has been in Brazil the longest and initially tried to avoid the Portuguese. As a result of many people moving into their traditional rainforest home, the Aboriginals are adopting the ways of the newcomers and losing their own traditions. The Aboriginals are now the smallest ethnic group in Brazil.

The Portuguese began arriving in the 1500s and other European groups came after 1850. The ancestors of African Brazilians arrived as slaves, beginning about the mid-1500s and ending in 1850 when the slave trade was abolished. Until recently, the population was predominantly rural and agricultural. The past 40 years have brought rapid urbanization due to population growth and the migration of people from rural areas seeking employment in the expanding industries of the cities.

In the past, the structure of Brazilian society was strong with a tradition of male social dominance. This has weakened with immigration, urbanization and the decline of the rural sector. Also, independence for women has grown under the influence of feminism and the expansion of urban employment opportunities for women. Despite these social changes, the extended family is still an important social unit and provides a kind of survival system which includes close family and distant relatives, godparents and godchildren and even family servants.

Table 1. Distribution of Land and Population by Region. Brazil 2001			
Region	**Proportion of Land Area (%)***	**Proportion of Population (%)***	**Population Density (People/Sq Km)**
North	45.28	7.67	3.42
North East	18.25	28.04	31.00
West Central	18.86	6.89	7.37
South East	10.85	42.64	79.27
South	6.75	14.76	44.08
Total Brazil	100.00	100.00	20.17

Source: Calculated from data supplied by the Instituto Brasileiro de Geografia e Estatistica (IBGE) "Regional Accounts in Brazil - 2001."
* Columns may not sum to 100 due to rounding.

There are major differences in living standards among social classes in Brazil. In the cities there are many social groups; the rich, the middle class, the working class and the poor. In the countryside distinctions tend to be more noticeable between the rich and poor, with few working class or middle-class individuals.

2. Art and Architecture

In the colonial period (1500-1822), cultural development consisted primarily of the transfer of Portuguese traditions to Brazil, particularly under the influence of the Roman Catholic Church. Architecture was the earliest art form to develop a uniquely Brazilian tradition through the blending of European and African influences. During the 18th century, wealth generated by sugar plantations and gold mines was used to build ornate churches and public buildings in the states of Bahia, Pernambuco and Minas Gerais.

After independence in 1822, intellectuals rejected their Portuguese inheritance and sought models elsewhere. Artistic movements from throughout Europe had a significant influence on Brazilian art during the 19th century. A major milestone for Brazilian culture was the Week of Modern Art in São Paulo in 1922, an international arts festival that introduced modernist ideas in Brazil. Brazilian modernism emerged in response to artistic movements in Europe and to the social, political and economic changes that Brazil was experiencing. After its introduction, modernism exercised a powerful influence on Brazilian literature, art, music and painting. From 1968 to the 1980s the military regime that ruled Brazil repressed artistic expression by censoring the press, popular music and theatre and by establishing state control over radio and television. After the military rule ended in the 1980s, the government lifted restrictions on artists and journalists.

3. Clothing

Clothing in urban Brazil is not very different from other western cultures and formality has disappeared over the past 30 years. Although high society is very fashion-conscious, only senior managers and civil servants wear suits and ties to work in the cities; office workers wear casual clothes. In the countryside, jeans, shirts and dresses of inexpensive cotton are typical. Aboriginals may wear few clothes and make use of beads and other decorations for personal adornment. They also use body paint and have distinctive hairstyles. However, except on ceremonial occasions, many Aboriginals who are in contact with the wider Brazilian society have exchanged traditional dress for more contemporary clothing.

4. Food

Important staples in the Brazilian diet include beans, rice, wheat and manioc (cassava). These are consumed throughout the country, although manioc is especially important in the diet of the poor in the Northeast. Meat, particularly beef, is also widely consumed, although only occasionally by the poor. Despite the extensive coastline and river system, levels of fish consumption are low, except along the northeast coast and in the Amazon region. Traditional dishes include: *feijoada completa,* a combination of pork, black beans and rice; and *churrasco*, barbecued beef that is common in the South. In the Northeast there is an important African legacy in spicy dishes such as *vatapá*, a fish stew made with onion, tomato, coconut and spices. Coffee is the most popular beverage, often drunk as *cafezinho*, a small cup of strong and very sweet black coffee. A potent alcoholic beverage, known as *cachaça*, is distilled from sugarcane and light beer is widely consumed. More affluent Brazilians may drink wine produced in Rio Grande do Sul. International brands of soft drinks are also popular.

5. Religion

Nearly all major religions and religious organizations are present in the country. Many citizens worship in more than one church or participate in the rituals of more than one religion. The 2000 census indicated that approximately 74 percent of Brazilians identify themselves as Roman Catholic, although only a small percentage of that number regularly attend Mass. Approximately 15 percent of the population identifies itself as Protestant; an estimated 85 percent of which are Pentecostal/Evangelical. Evangelical churches have grown rapidly and have challenged the religious stronghold of the Catholic Church. Lutherans and Baptists make up a large part of the Protestant churches, particularly in the southern part of the country where the majority of German and northern European immigrants concentrated during the 19th and early 20th centuries. Approximately 427,000 respondents to the census stated that they were members of what the census described as "oriental religions," including Buddhism, Thevarada Buddhism, Zen Buddhism, Tibetan Buddhism, Soka Ga kai, other schools of Buddhism, Messianism, Seicho No-le, Perfect Liberty, Hare Krishna, Oshoo Disciples, Tenrykyo, Mahicari, the Baha'i Faith, Shintoism and Taoism. Approximately 2.1 million respondents to the census checked "other," which includes Islam, Hinduism, spiritualism, esoteric traditions and indigenous traditions. Approximately 7 percent of the population indicated that they did not practice any religion. Approximately 12 million participants did not respond.

There are approximately 500,000 Muslims. Sunni and Shi'a Islam are practiced predominantly by immigrants from Arab countries such as Syria, Lebanon and Egypt who have arrived in the country during the past 25 years. Approximately 100,000 citizens identify themselves as Jewish. These Muslim and Jewish communities represent a 600,000 person market for halal and kosher food products.

D. Trade

1. Data Sources and Valuations

In this and following sections, trade data is presented and analyzed. Unless otherwise indicated, all trade data has been obtained from the World Trade Atlas, a product of:

Global Trade Information Services, Inc. -GTI-
2218 Devine Street
Columbia, SC 29205
USA
Tel: (803) 765-1860
Fax: (803) 799-5589
E-Mail: trade@gtis.com .

The data reported for Brazil is supplied to GTI by Brazil's Secretariat of Foreign Trade and is evaluated FOB for both imports and exports. At the time of the analysis, data for 2002 is the latest available.

Data reported from Canadian sources originates with Statistics Canada and is evaluated FOB for both imports and exports.

Data for the USA reported through GTI originates with the USA Foreign Trade Division, Bureau of Census and is evaluated FAS for exports and CV for imports.

Data for the EU-15 reported through GTI originates with Eurostat and is evaluated FOB for exports and CIF for imports.

Data for Argentina reported through GTI originates from INDEC and is evaluated FOB for Exports and CIF for Imports.

Data for Spain reported through GTI originates with Eurostat and is evaluated FOB for exports and CIF for imports.

2. International Considerations

Brazil is a member of MERCOSUR (Mercado Común del Sur), a 1991 agreement among Argentina, Brazil, Paraguay and Uruguay to integrate their markets. Chile and Bolivia are associate members. The four full members are known as the MERCOSUR-4. The full members plus the associates are known as the MERCOSUR-6. In 1997, 56.4% by value, of Brazil's Agri-food imports originated in the MERCOSUR-6. This proportion increased every year reaching 63.3% by 2001. Current statistics indicate that in 2002 the proportion decreased to 60.4%.

Several political changes have been proposed for MERCOSUR and if they are implemented: there would be a regional parliament, similar to that of the EU; it would expand to include other Latin American countries; and it would negotiate as a single body in the USA-led initiative to form a Free Trade Area of the Americas (FTAA).

At the WTO negotiations held in 2003 in Cancún, Mexico, Brazil played an important role with other "developing" countries in preparing and presenting a paper proposing substantial reductions of the subsidies paid to farmers in "developed" countries. Brazil is pursuing trade agreements with the Andean Community countries (Bolivia, Colombia, Ecuador, Peru and Venezuela).

In January, 2004, the MERCOSUR-4 signed a number of agreements including a market access agreement that establishes tariff preferences with India. Details were to be negotiated over the following 4 months. A high priority of President Lula da Silva of Brazil is to consolidate and expand the "Group of Three" (G3) currently comprising Brazil, India and South Africa. India and South Africa are currently negotiating trade agreements with MERCOSUR-4 and president Lula da Silva is scheduled to visit China in May 2004.

3. Imports

In 2002, Brazil imported a total of CAD 74,162 million worth of a wide variety of merchandise from many countries. The top five import categories were:

Nuclear Reactors, Boilers, Machinery etc; Parts. (HS: 84)[2];
Electric Machinery etc; Sound Equipment, TV Equipment Parts. (HS: 85);
Mineral Fuel, Oil Etc.; Bitumen Subst; Mineral Wax. (HS: 27);
Organic Chemicals. (HS: 29);
Vehicles, Except Railway or Tramway and Parts Etc. (HS: 87).

Brazil imported a total of CAD 5,672 million worth of agri-food and fish products from many countries. The top five categories were:

[2] Numbers associated with product groups are the International Harmonized System of codes use to classify traded products (HS codes).

Cereals. (HS:10) . . . . CAD1,675 million;
Dairy Prods; Birds Eggs; Honey; Edible Animal Products Neosi. (HS: 04) . CAD 402 million;
Oil Seeds Etc.; Misc Grain, Seed, Fruit, Plant Etc. (HS: 12) . . . . CAD 351 million;
Fish, Crustaceans and Aquatic Invertebrates. (HS: 03) . . . . CAD 319 million;
Milling Products; Malt; Starch; Inulin; Wheat Gluten. (HS: 11) . . . . CAD 309 million.

The five most important sources of agri-food imports were:

Argentina . . . . (CAD 2,255 million);
Paraguay . . . . (CAD 557 million);
U.S.A. . . . . (CAD 459 million);
Uruguay . . . . (CAD 421 million);
Chile . . . . (CAD 178 million).

Brazil imported about CAD 68 million worth of agri-food products from Canada. The top five categories were:

Cereals. (HS: 10) . . . . CAD 30 million;
Edible Vegetables & Certain Roots & Tubers. (HS: 07) . . . . CAD 12 million;
Animal or Vegetable Fats, Oils Etc. & Waxes. (HS: 15) . . . . CAD 7 million;
Milling Products, Malt, Starch, Inulin, Wheat Gluten. (HS: 11) . . . . CAD 7 million;
Miscellaneous Edible Preparations. (HS: 21) . . . . CAD 3 Million.

4. Exports

In 2002, Brazil exported a total of CAD 94,754 million worth of a wide variety of merchandise to many countries. The top five categories were:

Vehicles, Except Railway or Tramway and Parts Etc. (HS: 87);
Nuclear Reactors, Boilers, Machinery etc; Parts. (HS: 84);
Iron and Steel. (HS: 72);
Ores, Slag and Ash. (HS: 26);
Electric Machinery etc; Sound Equipment; TV Equipment Parts. (HS: 85).

Brazil exported a total of CAD 27,359 million worth of agri-food products to many countries. The top five categories were:

Oil Seeds Etc.; Misc Grain, Seed, Fruit, Plant Etc. (HS: 12) . . . . CAD 4,808 million;
Meat and Edible Meat Offal. (HS: 02) . . . . CAD 4,323 million;
Food Industry Residues & Waste; Prep Animal Feed. (HS: 23) . . . . CAD 3,609 million;
Sugars and Sugar Confectionary. (HS: 17) . . . . CAD 3,469 million;
Coffee, Tea, Mate & Spices. (HS: 09) . . . . CAD 2,092 million.

The five most important markets for Brazil's agri-food exports were:

The Netherlands .... (CAD 3,381 million);
U.S.A. .... (CAD 2,053 million);
Russia .... (CAD 1,887 million);
Germany .... (CAD 1,774 million);
China .... (CAD 1,647 million).

Brazil exported CAD 264 million worth of agri-food products to Canada. The top five categories were:

Sugars and Sugar Confectionary. (HS: 17) .... CAD143 million;
Coffee, Tea, Mate & Spices. (HS: 09) .... CAD 43 million;
Cocoa and Cocoa Preparations. (HS: 18) .... CAD 23 million;
Edible Fruit & Nuts; Citrus Fruit or Melon Peel. (HS: 08) .... CAD 23 million;
Tobacco and Manufactured Tobacco Substitutes. (HS: 24) .... CAD 7.3 million.

E. Transportation

1. International

Container service from Canada to Brazil is available from Vancouver, Toronto, Montreal and Halifax. Freight forwarders can arrange shipments from other cities.

The transportation time between Canada and Brazil ranges from a possible 18 days between Toronto and Santos, São Paulo, to 41 days between Vancouver and Salvador, Bahia (see Table 2). Shipping schedules change often and exporters should contact a freight forwarder for the latest information.

Table 2. Representative Container Services from Canada to Brazil, Jan 2004

Brazilian Point of Import	Canadian Point of Export		
	Vancouver via Houston to - (Days & Freq)	Toronto/Montreal via New York to - (Days & Freq)	Halifax (Days & Freq)
Santos, São Paulo	24 - 31 (Weekly)	18 - 33 (2 per week)	
Itajai, Santa Catarina	22 - 35 (Weekly)		
Paranagua, Paraná		19 - 23 (Weekly)	
Sao Fr Sul, Santa Catarina		21 - 25 (Weekly)	
Salvador, Bahia	38 - 41 (Varies)	29 - 30 (Weekly)	
Rio de Janeiro, Rio de Janeiro	26 - 38 (Weekly)	22 - 32 (Weekly)	
Rio Grande, Rio Grande do Sul		27 - 38 (Weekly)	

Brazilian Point of Import	Canadian Point of Export		
	Vancouver via Houston to - (Days & Freq)	**Toronto/Montreal via New York to - (Days & Freq)**	**Halifax (Days & Freq)**
Manaus, Amazonas	33 - 34 (Varies)	23 - 28 (Weekly)	24 - 27 (Weekly)
Belem, Pará	36 - 39 (Varies)	29 - 33 (Weekly)	26 - 33 (Weekly)
Vitoria, Espirito Santo	36 - 39 (Varies)		
Sources: http://www.ponl.com . Shipping schedules change often.			

The costs of shipping a container varies according to the product shipped, the type of container (reefer or standard), the supply and demand for containers at the point of export, the distance traveled and the size of the container (20-foot or 40-foot). Santos and Rio de Janeiro impose a capatazia charge (handling charge) on every container passing through the port (see Table 3).

2. Domestic

A Canadian exporter can do a research price work-up to determine if a product can compete in a Brazilian market (See Appendix Table 12). An important part of analysis is the shipping of a container from the destination port to the buyer's warehouse. This cost must be included in the price work-up to calculate the estimated retail value of the product.

Table 3. Representative Costs of Shipping Containers from Canada to Brazil, June, 2003

Brazilian Point of Import		Canadian Point of Export				Capatazia Charge* (USD/Container)
		Vancouver (USD)	**Toronto (USD)**	**Montreal (USD)**	**Halifax (USD)**	
Santos, São Paulo or Rio de Janeiro	20 foot container	2,350	1,350	1,300	3,250	Santos 183.36 Rio 98.18
	40 foot container	3,300	1,850	1,800	3,725	Santos 229.18 Rio 98.18
Manaus, Amazonas	20 foot container	N/A	2,250	2,200	N/A	N/A
	40 foot container	N/A	2,900	2,850	N/A	N/A

* Capatazia charge is a local terminal handling charge.
Note: Shipping costs and capatazia charges may change at any time.
Source: Keuhne and Nagel, Vancouver.

F. Economic

1. Historical Development

Before 1930, the Brazilian economy was dominated by a number of agricultural and mineral products for export. The world economic depression of the 1930s encouraged the government to diversify the economy, particularly through industrialization. The government led much of this development, through economic plans and participation in key sectors of public services, such as electricity, telephones and postal services. In 1990 the government was directly involved in some of the country's largest firms, particularly in the mining, steel, oil and chemical industries. At the same time, it also encouraged foreign investment in areas such as automobile manufacturing, engineering and the production of electrical goods. As a result, the importance of agriculture and mining in GDP and trade has fallen significantly.

The qualitative and quantitative extent of Brazil's primary resources have allowed its economy to gain broad international significance, despite its relative lack of development. It is now one of the world's leading agricultural nations and is known as the world's most prominent coffee producer. Brazil is also important for resources which have not yet been fully exploited: vast mineral and hydroelectric potential; hardwood forests and; millions of acres of soil, most of which could be fertile given adequate water and fertilizer. As its manufacturing sector developed, Brazil took a significant place among the world's industrial producers. It now ranks high as a producer of iron ore. The city of São Paulo has become one of the world's major industrial and commercial centres.

Having a large and well-developed agricultural, mining, manufacturing and service sectors, Brazil's economy is the largest in South America and is expanding its presence in world markets. In the late 1980's and early 1990's, high inflation hindered economic activity and investment. "The Real Plan", instituted in the spring of 1994, sought to break inflationary expectations by placing a floor under the USD value of the BRL. Inflation was brought down to single digit annual figures, but not fast enough to avoid substantial BRL exchange rate appreciation during the transition phase of the "Real Plan". This appreciation meant that Brazilian goods were now more expensive relative to goods from other countries, which contributed to large current account deficits. However, no shortage of foreign currency ensued because of the financial community's renewed interest in Brazilian markets as inflation rates stabilized and the debt crisis of the 1980's faded from memory. The maintenance of large current account deficits via capital account surpluses became problematic as investors became more risk averse to emerging market exposure as a consequence of the Asian financial crisis in 1997 and the Russian bond default in August 1998. After crafting a fiscal adjustment program and pledging progress on structural reform, Brazil received a USD 41.5 billion IMF-led international support program in November 1998. In January 1999, the Brazilian Central Bank announced that the BRL would no longer be pegged to the USD. The resulting devaluation helped moderate the downturn in economic growth during 1999 that investors had expressed concerns about over the summer of 1998. Brazil's debt to GDP ratio for 1999 beat the IMF target and helped reassure investors that Brazil will maintain tight fiscal and monetary policies even with a floating currency. The economy continued to recover in 2000, with inflation remaining in the single digits and expected GDP growth of 4.5% for 2001. Foreign direct investment set a record of more than $30 billion in 2000.

2. Recent Conditions

The Brazilian economy is moving to the next stage of structural development as the services sector increases in importance. In 1981, 45.5% of the country's GDP was generated by the service sector. Preliminary estimates indicate that by 2001 it generated 56.8% of GDP.

The 2002 GDP of Brazil, measured in constant 2002 prices is estimated at BRL 1,321 billion (see Appendix Table 7). A trend line fitted to the values of the GDP from 1970 to 2002 increases at an annual rate of 3.40%. During this period the smallest year to year change was -4.35% (1980/81) and the largest was 13.97% (1972/73).

Brazilian society displays wide differences in per capita incomes: among states; between urban and rural; among individuals; and among social classes. On an individual basis this inequity is measured by the gini ratio of 59 (1997) compared to Canada's ratio of 32 (1994). On a geographic basis, in 2001, the average GNP per person in Brazil was CAD 4,624. Eight states have higher levels and may be considered to be the main-stream markets for most Canadian agri-food products (see Appendix Table 8): Distrito Federal - Brasilia (CAD 10,456); São Paulo (CAD 7,076); Rio de Janeiro (CAD 6,755); Rio Grande do Sul (CAD 6,070); Santa Catarina (CAD 5,679); Paraná (CAD 4,994); Amazonas (CAD 4,767) and; Espirito Santo (CAD 4,753). Other states may offer special situations, such as the tourist industry and prepared dehydrated meals for travel where facilities are minimal.

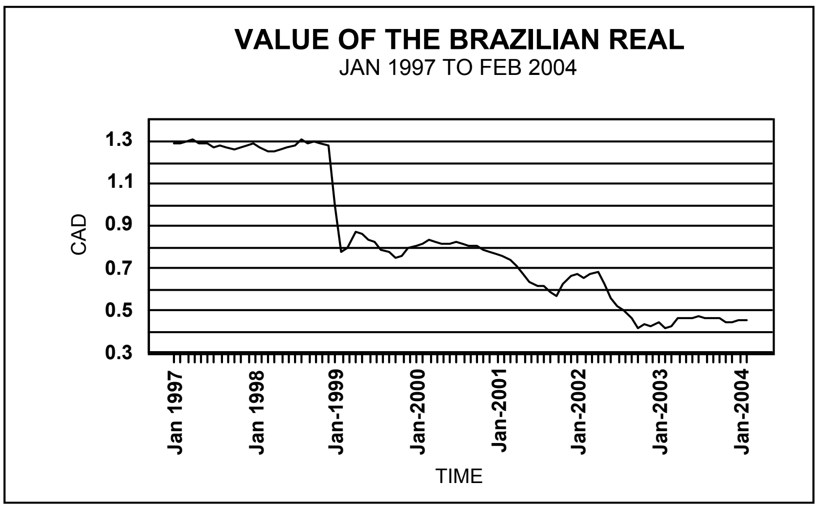
The varied ease of access to wealth, may be largely explained by the varied level of access to education, medical care and services such as a clean water supply, sewerage and electricity. Despite the rich resources, rapid economic development and the overall size of Brazil's economy, the nation has major problems with poverty, hunger, disease and inadequate services. In the cities, overcrowding compounds these problems. Rapid urbanization has brought people to the cities at a rate that has outpaced the growth of the job market and the urban services that they need to survive comfortably. Many of the larger cities have extensive slums. Homelessness, particularly among children and young teens whose families cannot support them, constitutes another major problem. Despite these urban problems, poverty and lack of access to clean water, electricity, health care and schooling may be more acute in the rural areas. For example, 88 percent of urban dwellers have access to safe drinking water as opposed to just 25 percent in the countryside. Such distinctions are also evident between regions. The average head of a household in the Northeast is likely to earn only half as much as a counterpart in the Southeast. He is twice as likely to be illiterate and his life expectancy is ten years shorter. A key challenge for the government remains the inequality of opportunity among citizens. Among other social issues, overt racism is rare, although there is some evidence of a social segregation in which the poor are more likely to be black or of mixed race. Organized crime has links to gambling and drugs and the favelas often serve as bases for drug dealers. Street crime remains a problem in cities such as Rio de Janeiro and Salvador.

3. Determinants of Demand and Imports

The rate of increase of demand for agri-food products is influenced by the rates of change of: population, product prices and income per person.

As noted above, between 1992 and 2002 the population of Brazil was increasing at a rate of 1.38% per year (see Appendix Table 6). In 2002, about 19% of the population was between the ages of 15 to 24. This represents about 35 million people who will be forming families and spending to set up households in the coming years. Some will be spending on fashions and high quality food products.

Between 1994 and 2002, the cost of a Staple Food Basket increased at a rate of 6.54% per year (see Appendix Table 9.) while the GDP per person in BRL at current prices increased at a rate of 12.71% per year.



Source: Pacific Exchange Rate Service.
Figure 6. Exchange Rate Between the Brazilian Real and the Canadian Dollar (CAD per BRL)

The amount of individual products Brazil imports from Canada is influenced by many factors including: relative costs of production in Canada compared to competitors; transportation costs; consumer preferences; and the changes in the exchange rate between the BRL and the CAD compared to the changes in the exchange rates between the BRL and our competitors.

The changing values of the BRL in terms of the Argentinian Peso (ARS), the USD and the Chilean Peso (CLP) between October 2003 and February 2004, indicates the gain or loss of advantage compared to Canada. While Canadian exports have been gaining a foreign exchange advantage through the CAD per BRL exchange rate increasing at 5.89% per year; Argentina has also been gaining a foreign exchange advantage with the ARS per BRL increasing at 4.88% per year; the USA has been losing a foreign exchange advantage with USD per BRL decreasing at -3.23% per year and; Chile is losing a foreign exchange advantage with CLP per BRL decreasing at -30.49% per year. In regard to foreign exchange rates, Canada is in a good competitive position compared to Argentina, the USA and Chile.

III. RISK FACTORS

Many types of risk are encountered in international trade. In addition to standard risks such as weather and accident, the risks faced by a Canadian exporter to Brazil are determined by: 1) the terms of the transaction (see INCOTERMS in the glossary); 2) the current economic/political/military situation in Brazil and; 3) the financial condition and reliability of the Brazilian importer. The terms of the transaction determine the responsibilities of the buyer and the seller and any situation that puts at risk, the fulfillment of those responsibilities needs to be examined closely to determine if the; 1) risk is great enough to be a potential problem; 2) risk is insurable; 3) cost of the insurance leaves the transaction financially viable; 4) Canadian exporter is prepared to self-insure.

A. Internal Political/Economic Events

In Brazil, political and economic risks are closely intertwined. In October 2002 Luiz Inacio 'Lula' da Silva (he is known as 'Lula') of the Worker's Party (PT) was elected President with 61% of the ballots, a 22% lead over his closest competitor. Although the PT does not have a majority in congress, the President's popularity and strong showing in the election will help him pass legislation.

In early 2003, Lula began implementing responsible economic reforms in contrast to his former radical views. This has caused a rift within the PT between radicals and conservatives. If this rift becomes serious the President will find it more difficult to have legislation passed in congress. Some of the conditions holding back Brazilian development lie in various laws and regulations. For example, the current bankruptcy laws treat failed entrepreneurs harshly making credit unattractive, even for projects that are economically and financially viable. Lula is expected to address this issue. When he does; initially there may be a number of bankruptcies as companies overreact to the increased attractiveness of credit but in the long run, the increased wise use of credit will be a great benefit to the economy.

Some of the reforms implemented by Lula have not been popular among several sectors of the population. For example, the tax system is being reformed and public service pensions have been severely reduced in order to reduce the budget deficit. President da Silva is balancing the need for economic reform with the political sensitivities of a population with a history of great inequity.

An important consideration for Canadian exporters is the risk that the president will encounter major resistance to his reforms leading to a resumption of inflation and deterioration of the value of the BRL. If this leads to a policy of fixing the value of the BRL, Brazilian importers are likely to have difficulty obtaining foreign exchange. Other consequences of a resistance to reforms might be strikes at the ports and in other parts of the national transportation system.

The floating of the BRL in 1999 and its subsequent market devaluation had the expected mixed effects that come with currency devaluations. While the prices of imported goods and services increased (increasing the frustration of consumers), exports have become more competitive and increased significantly. Between 1998 and 1999 total exports actually fell about 6% to CAD 71.3 billion. After the float in 1999, exports increased every year and in 2002 were valued at CAD 94.8 billion, a 33% increase over 3 years.

B. External Political/Economic Events

Except for goods in transit, events outside Brazil affect trade risk indirectly as they affect Brazil's long run ability to import. The country is involved in MERCOSUR, the WTO negotiations, the FTAA negotiations and a dispute with the USA involving subsidies to US cotton producers. It is taking a strong stand in international negotiations.

The main issue is the large subsidies paid to the agricultural sectors in the developed countries - particularly the USA and the EU. In September 2003 at a WTO Ministerial meeting in Cancún, 22 countries lead by Brazil, India and China (the G22) prepared a proposal which called upon developed countries to reduce or eliminate domestic support for agriculture. Some developed countries, particularly the EU wanted to negotiate the "Singapore issues."[3] The EU and the USA refused to move on the question of domestic support for agriculture. The developing countries would not discuss the Singapore issues. As a result the talks ended without agreement.

Several FTAA meetings held since September, 2003 have had similar results with the USA taking the position that the agricultural issues should be negotiated at the WTO. There has been agreement on a two tiered system allowing a common set of less ambitious concessions that all FTAA countries would agree to and some more ambitious concessions specific to individual countries. It is unlikely that a full FTAA agreement can be accomplished until the agricultural subsidy issues are resolved at the WTO.

In this trade dispute, the negotiating strength of the USA is the size of its market but the subsidies paid to agriculture are major barriers to agricultural exports to the USA. The G20 countries want the benefits of the large US market for both agricultural and non-agricultural products. Since September 2003, the USA has attempted to isolate Brazil by completing bilateral trade agreements with several Latin American countries. Brazil is attempting to bring the G20 countries together under a free trade agreement, thus reducing their need for the large US market. An access agreement has already been signed by MERCOSUR and India. It is possible that a similar agreement between MERCOSUR and South Africa is scheduled be signed later in 2004.

It is not clear what the result will be if there is no agreement with the USA but there may be significant long term consequences; direct foreign investment in Brazil is likely to be less than it would otherwise be; the value of the BRL may be lower and; foreign exchange may not be readily available to Brazilian importers.

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[3] In 1996, ministers met in Singapore and discussed the possibility of incorporating rules on foreign investment, competition policy, government purchases and "trade facilitation (customs clearance etc.) into the WTO.

C. Handling Risks of International Trade

Some risks are normally covered by commercial cargo insurance in accordance with minimum cover of the Institute Cargo Clauses (Institute of London Underwriters) or some similar clause. This insurance normally covers the standard risks involved in transporting goods, such as accidents and weather.

If a Canadian exporter expects to incur costs or receive payment in BRLs he/she may want to consider hedging against currency risks by participating in the futures market. This strategy is not appropriate in all situations and the exporter should obtain advice from a bank or other trusted expert.

Additional risks might be covered by Accounts Receivable Insurance and other products similar to those offered by Export Development Canada (EDC). The availability, terms and costs of this insurance will depend on conditions in the importing country, the reputation of the importer and EDC policy. Generally the Accounts Receivable Insurance will cover up to 90% of losses resulting from a wide range of commercial and political risks including: insolvency or default of the buyer; payment delay caused by blockage of funds or transfer difficulties; refusal of goods by the buyer (provided you meet the contract terms); war or hostilities in the buyer's country, or between two or more other countries and; cancellation or non-renewal of export or import permits. Optional coverage includes: protection against contract cancellation by the buyer; insurance for Letters of Credit transactions on a country-by-country basis; coverage for sales made by foreign affiliates; invoicing in foreign currency and; insurance for receivables generated by providing services. (See www.edc.ca).

IV. PRODUCT ANALYSIS

A. Selected Products Imported from Canada

Following are descriptions of selected food products imported by Brazil from many countries including Canada. The statistics refer to the six years 1997 to 2002.

030420 Fish Fillets, Frozen

The average value of imports over six years was CAD 122.4 million per year. Canada supplied small amounts from 1998 to 2000. In 2002, Brazil imported CAD 80.3 million worth from: Argentina (CAD 63.8 million); Chile (CAD 14.1 million) and; Uruguay (2.3 million).

030559 Fish, Dried, Whether / not Salted but Not Smoked Nesoi[4]

(Mostly Cod)

The average value of imports over six years was CAD 94.5 million per year - CAD

[4] Nesoi: Not elsewhere specified or indicated.

328,000 per year from Canada. In 2002, Brazil imported CAD 86.1 million worth, mostly from: Norway (CAD 79.5 million); Portugal (CAD 3.4 million); Iceland (CAD 1.8 million); France (CAD 1.3 million) and; Canada (CAD 117,000).

040410 Whey & Modified Whey Whether/not Concentrated Containing Add Sweeteners
The average value of imports over six years was CAD 25.6 million per year - CAD 2.6 million per year from Canada. In 2002, Brazil imported CAD 32.4 million worth, mostly from: France (CAD 7.6 million); Argentina (CAD 7.0 million); the USA (CAD 6.8 million); the Netherlands (CAD 3.9 million); Poland (CAD 3.6 million) and; Canada (CAD 1.3 million).

040610 Cheese (Unripened/uncured) Fresh Including Whey Cheese Curd
The average value of imports over six years was CAD 12.8 million per year - CAD 474,000 per year from Canada. In 2002, Brazil imported CAD 7.4 million worth, mostly Mozzarella from Argentina. Imports originated in Argentina (CAD 5.8 million) and Uruguay (CAD 1.5 million). Canada supplied CAD 978,000 worth in 1997 and CAD 1.9 million in 1998.

040690 Cheese, Nesoi, Including Cheddar and Colby
The average value of imports over six years was CAD 48.3 million per year - CAD 245,000 per year from Canada. In 2002, Brazil imported CAD 22.1 million worth, mostly from Uruguay (CAD 8.0 million) and Argentina (CAD 8.0 million). These products have also been regularly imported every year from: France; Netherlands; Italy; Switzerland; Denmark; New Zealand; Germany; Portugal and; the USA. They were imported from Canada in 1997 (CAD 1.1 million), 1998 (CAD 251,000) and 2000 (CAD 164,000).

040700 Birds' Eggs, in Shell, Fresh, Preserved or Cooked
The average value of imports over six years was CAD 6.7 million per year - CAD 1.2 million per year from Canada. In 2002, Brazil imported CAD 13.8 million mostly from: the USA (CAD 9.0 million); the UK (CAD 1.8 million); Argentina (CAD 1.5 million); Canada (CAD 1.4 million) and; Spain (CAD 113,134). Note: Brazilian trade data does not provide a category for "hatching eggs."

04070010 (Canada) Eggs, Bird, Hatching
Canadian export statistics indicate that the average value of exports to Brazil over six years was CAD 893,954 per year. In 2002, Canada reports exports to Brazil valued at CAD 677,973.

0407000020 (USA) Birds' Eggs in the Shell For Hatching
USA export statistics indicate that the average value of exports to Brazil over six years was CAD 2.9 million per year. In 2002, the USA reports exports to Brazil valued at CAD 5.4 million.

04070019 (EU-15) Poultry Eggs for Hatching (Excl. Turkey or Goose)

EU-15 export statistics indicate that the average value of exports to Brazil over six years was CAD 1.1 million per year. In 2002, the EU-15 reports exports to Brazil valued at about CAD 3.0 million.

071310 Peas, Dried Shelled, Including Seed

The average value of imports over six years was CAD 11.7 million per year - CAD 4.5 million per year from Canada. In 2002, Brazil imported CAD 9.8 million worth, mostly from Canada (CAD 5.5 million) and Argentina (CAD 3.9 million).

071333 Kidney Beans & White Pea Beans, Dried Shelled, Including Seed

The average value of imports over six years was CAD 86.4 million per year - CAD 771,000 per year from Canada. In 2002, Brazil imported CAD 35.5 million worth, mostly from Argentina (CAD 29.7 million) and Bolivia (CAD 5.5 million). These products have also been regularly imported every year from the USA and were imported from Canada in every year from 1997 to 2001.

071340 Lentils, Dried Shelled, Including Seed

The average value of imports over six years was CAD 5.4 million per year - CAD 4.8 million per year from Canada. In 2002, Brazil imported CAD 4.9 million worth, mostly from Canada (CAD 4.7 million). Other countries supplying small amounts are Spain, USA, France and Lebanon.

100830 Canary Seed

The average value of imports over six years was CAD 21.7 million per year - CAD 9.8 million per year from Canada. In 2002, Brazil imported CAD 27.5 million worth, mostly from Canada (CAD 16.9 million) and Argentina (CAD 10.3 million).

110710 Malt, Not Roasted

The average value of imports over six years was CAD 262.6 million per year - CAD 32.0 million per year from Canada. In 2002, Brazil imported CAD 259.1 million worth from: Argentina (CAD 96.6 million); Uruguay (CAD 62.8 million); France (CAD 52.5 million); Belgium (CAD 18.3 million); Germany (CAD 10.1 million) and; Canada (CAD 6.4 million).

170220 Maple Sugar and Maple Syrup

The average value of imports over six years was CAD 34,000 per year - CAD 22,000 per year from Canada. In 2002, Brazil imported a total of CAD 21,000 (3,942 Kg) worth from Canada (CAD 19,000) and Germany (CAD 2,000).

190590 Bread, Pastry, Cakes, Etc Nesoi & Pudding

(Primarily "Rusks, Toasted Bread and Similar Toasted Products")

The average value of imports over six years was CAD 20.5 million per year - CAD 78,000 per year from Canada. In 2002, Brazil imported CAD 16.8 million worth, mostly from: Venezuela (CAD 8.6 million); Uruguay (CAD 3.2 million); Germany (CAD 1.7 million) and Colombia (CAD 1.3 million). These products have also been regularly imported every year from many other countries. In 2002, CAD 5,000 worth were imported from Canada.

200410 Potatoes, Prepared Etc., No Vinegar Etc., Frozen

The average value of imports over six years was CAD 78.3 million per year - CAD 1.4 million per year from Canada. In 2002, Brazil imported CAD 79.1 million worth, mostly from: Argentina (CAD 58.1 million); Netherlands (CAD 8.9 million); Belgium (CAD 7.7 million); Germany (CAD 1.8 million) and; France (CAD 1.7 million). This product has also been regularly imported every year from Canada. In 2002, imports from Canada were valued at CAD 168,000.

210690 Miscellaneous Edible Preparations, Nesoi. Other

The average value of imports over six years was CAD 111.1 million per year - CAD 3.3 million per year from Canada. In 2002, Brazil imported CAD 90.2 million worth, mostly from: the USA (CAD 39.7 million); Argentina (CAD 7.2 million); Germany (CAD 6.4 million); Uruguay (CAD 6.2 million) and; Spain (CAD 5.0 million). These products have been imported every year from Canada and in 2002 were valued at CAD 2.5 million.

230990 Animal Feed Preparations Except Dog or Cat Food, Retail Packaged

The average value of imports over six years was CAD 45.1 million per year - CAD 1.2 million per year from Canada. In 2002, Brazil imported CAD 74.7 million worth from: USA (CAD 22.8 million); Netherlands (CAD 15.2 million); China (CAD 5.8 million); Germany (CAD 4.8 million); Japan (CAD 4.0 million); France (CAD 3.6 million); Denmark (CAD 2.8 million); Argentina (CAD 2.8 million); Belgium (CAD 2.3 million); Spain (CAD 1.7 million); UK (CAD 1.5 million); Austria (CAD 1.3 million); Italy (CAD 1.2 million); Mexico (CAD 1.0 million); Norway (CAD 894,000); Ireland (CAD 690,000) and; Canada (CAD 679,000).

B. Selected Products Not Currently Imported from Canada

Following are descriptions of selected food products imported by Brazil from many countries excluding Canada. The statistics refer to the six years 1997 to 2002.

021011 Ham, Shoulders & Cuts, Bone In, Salted Dried, Smoked

The average value of imports over six years was CAD 541,000 per year. In 2002, CAD 235,000 worth of these products was imported, mostly from Spain (CAD 224,000). Italy and Portugal also supplied small amounts regularly. Argentina and France occasionally supplied these products.

030212 Salmon, Pacific, Atlantic & Danube, with Bones, Fresh or Chilled

The average value of imports over six years was CAD 24.8 million per year. In 2002, imports were valued at CAD 25.9 million, virtually all from Chile.

080810 Apples, Fresh

The average value of imports over six years was CAD 51.0 million per year. In 2002, CAD 28.2 million worth was imported from: Argentina (CAD 21.5 million); Chile (CAD 6.1 million) and; France (CAD 483,000). Small amounts were imported from Portugal, Italy, Spain and Uruguay.

080820 Pears and Quinces, Fresh

The average value of imports over six years was CAD 86.0 million per year. In 2002, Brazil imported CAD 54.7 million worth, mostly from: Argentina (CAD 45.4 million, mostly pears); Chile (CAD 4.1 million); Portugal (CAD 3.6 million) and; USA (CAD 1.1 million). Pears have also been regularly imported every year from Spain, Uruguay and France.

080930 Peaches, Including Nectarines, Fresh

The average value of imports over six years was CAD 13.3 million per year. Peaches originated in Argentina, Spain and Chile. Nectarines originated in Chile, Spain, Argentina and Italy. In 2002, Brazil imported CAD 8.4 million worth, mostly from: Chile (CAD 3.7 million); Spain (CAD 2.4 million) and; Argentina (CAD 2.1 million).

080940 Plums, Prune Plums and Sloes, Fresh

The average value of imports over six years was CAD 23.8 million per year. In 2002, Brazil imported CAD 15.4 million worth from: Argentina (CAD 7.4 million); Chile (CAD 4.4 million); Spain (CAD 3.5 million) and; Italy (CAD 186,000).

160411 Salmon, Prepared or Preserved, Whole or Pieces

The average value of imports over six years was CAD 105,000 per year. In 2002, Brazil imported CAD 8,000 worth from Germany.

220410 Sparkling Wine of Fresh Grapes

The average value of imports over six years was CAD 16.5 million per year. In 2002, Brazil imported CAD 15.1 million worth from: France (CAD 9.3 million); Italy (CAD 4.7 million); Spain (CAD 832,000) and; Portugal (CAD 82,000). The USA supplied CAD 6,072 worth of Brazilian imports.

220421 Wine, From Grape Nesoi & Must With Alcohol In Containers Not Over 2 Litres

The average value of imports over six years was CAD 85.1 million per year. In 2002, Brazil imported CAD 78.5 million worth from: Chile (CAD 18.2 million); Italy (CAD 17.8 million); Portugal (CAD 13.4 million); Argentina (CAD 10.8 million); France (CAD 9.5 million); Uruguay (CAD 3.3 million); Spain (CAD 2.4 million) and; Germany (CAD 1.3 million). The USA supplied CAD 565,149 worth of Brazil's imports.

V. GRID ANALYSIS

A. All Agri-food and Fish Products

Between 1997 and 2002, Brazilian imports of all agri-food and fish products from all sources decreased at a rate of -10.50%[5] per year. Imports from Canada decreased at a rate of -27.11% per year. Similarly, imports from the MERCOSUR-6 countries declined at a rate of -9.24%. Canada is losing market share while the MERCOSUR-6 countries are gaining market share in a contracting Brazilian market for imported agri-food and fish products.

B. Agri-food and Fish Imports to Brazil from Canada vs from the Whole World

030420 Fish Fillets, Frozen

Between 1997 and 2002, the value of imports from all sources fell by -16.80% per year while imports from Canada fell by -81.58% per year. In this market, Canada has been losing market share in a contracting market; quickly withdrawing as the market contracts.

030559 Fish, Dried, Whether/not Salted but Not Smoked Nesoi

Between 1997 and 2002, the value of imports from all sources increased by 1.09% per year while imports from Canada increased by 50.99% per year. In this market, Canada has been gaining market share in a slowly expanding market. Although Canada's market share is increasing, it is still very small (0.14%).

[5] All changes in imports refer to percent changes of an exponential trend line fitted to the data.

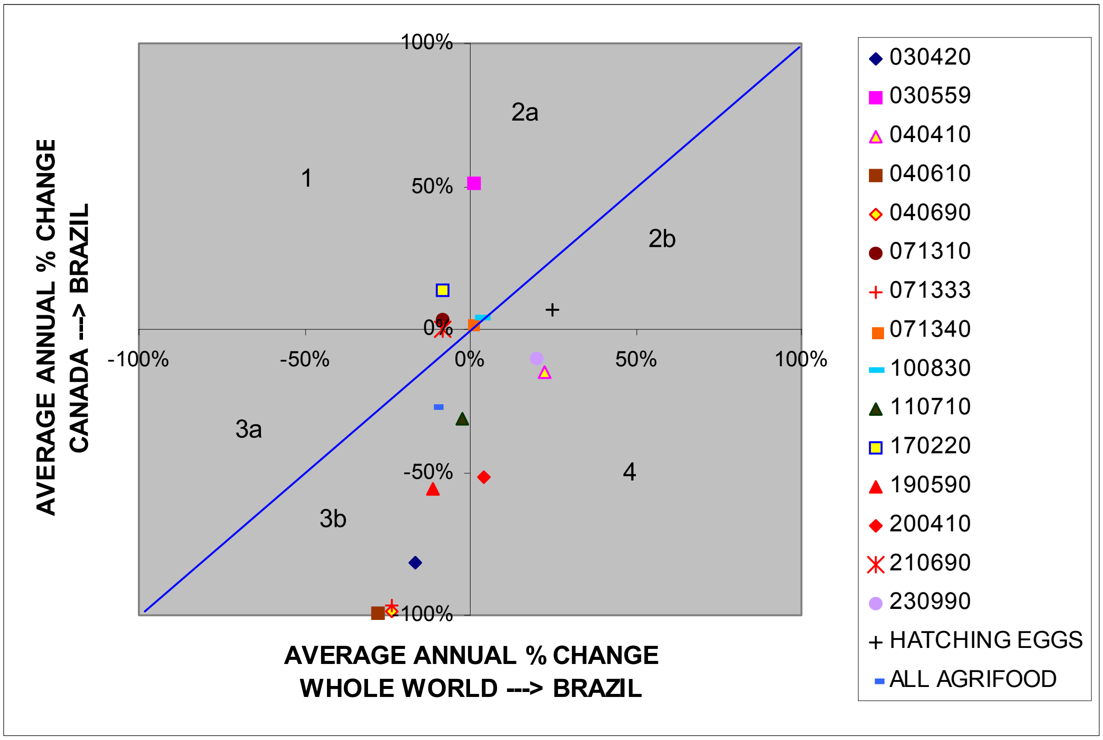

Figure 7. Percentage Change in Brazilian Imports - From Canada vs From the World, 1997 - 2002.

Legend to Figure 4.

HS CODE	DESCRIPTION
030420	Fish Fillets, Frozen.
030559	Fish, Dried, Whether Salted but Not Smoked Nesoi.
040410	Whey & Modified Whey Whether/not Concentrated Containing Added Sweeteners.
040610	Cheese (Unripened/uncured) Fresh Including Whey Cheese Curd.
040690	Cheese, Nesoi, Including Cheddar and Colby.
071310	Peas, Dried Shelled, Including Seed.
071333	Kidney Beans & White Pea Beans, Dried Shelled, Including Seed.
071340	Lentils, Dried Shelled, Including Seed.
100830	Canary Seed.
110710	Malt, Not Roasted.
170220	Maple Sugar and Maple Syrup.
190590	Bread, Pastry, Cakes, Etc. Nesoi & Pudding.
200410	Potatoes, Prepared Etc., No Vinegar Etc., Frozen.
210690	Miscellaneous Edible Preparations, Nesoi. Other.
230990	Animal Feed Prep Except Dog or Cat Food, Retail Packaged.
Hatching Eggs	Exports of Hatching Eggs from Canada, USA, EU-15 and Spain, to Brazil.
All Agri-food & Fish	All Agri-food and Fish products.

040410 Whey & Modified Whey Whether/not Concentrated Containing Added Sweeteners

Between 1997 and 2002, the value of imports from all sources increased by 22.44% per year while imports from Canada decreased at a rate of -14.83% per year. In this market, Canada is losing market share in a rapidly expanding market. During all years considered, Canada supplied over CAD 1 million worth of these products and in 2002 had about 4.02% of the market.

040610 Cheese (Unripened/uncured) Fresh Including Whey Cheese Curd

Between 1997 and 2002, the value of imports from all sources decreased by -27.59% per year while imports from Canada decreased at a rate of -99.51% per year. In this market, Canada is losing market share in a rapidly contracting market. Canada supplied products in two of the six years considered.

040690 Cheese, Nesoi, Including Cheddar and Colby

Between 1997 and 2002, the value of imports from all sources decreased by -23.88% per year while imports from Canada decreased at a rate of -98.94% per year. In this market, Canada is losing market share in a rapidly contracting market. Canada supplied products in three of the six years considered.

040700XXX Hatching Eggs

Between 1997 and 2002, the value of exports from Canada the USA and the EU-15 to Brazil increased by 24.65% per year while Canada's exports to Brazil increased at a rate of 6.84% per year. In this market Canada is losing market share in an apparently expanding market.

071310 Peas, Dried Shelled, Including Seed

Between 1997 and 2002, the value of imports from all sources decreased by -8.01% per year while imports from Canada increased at a rate of 3.46% per year. In this market, Canada is gaining market share in a contracting market. Canada supplied significant amounts of these products in all six years considered and in 2002 had about 55.91% of the market for imported products. There is strong competition from Argentina.

071333 Kidney Beans & White Pea Beans, Dried Shelled, Including Seed

Between 1997 and 2002, the value of imports from all sources decreased by -23.66% per year while imports from Canada decreased at a rate of -96.92% per year. In this market, Canada is losing market share in a rapidly contracting market. Canada supplied products in all years considered except 2002.

071340 Lentils, Dried Shelled, Including Seed

Between 1997 and 2002, the value of imports from all sources increased by 0.69% per year while imports from Canada increased at a rate of 1.77% per year. In this market, Canada is gaining market share in a slowly expanding market. Canada has had a large share of this market in all six year; in 2002 it was 94.45%. Our closest competitors in this market are Spain and the USA.

100830 Canary Seed

Between 1997 and 2002, the value of imports from all sources increased by 3.67% per year while imports from Canada increased at a rate of 4.36% per year. In this market Canada is gaining market share in an expanding market. Canada supplied product in all six years considered and in 2002 Canada had about 61.52% of the market. Canada's closest competitor is Argentina with 37.67% of the market.

110710 Malt, Not Roasted

Between 1997 and 2002, the value of imports from all sources decreased at a rate of -2.53% per year while imports from Canada decreased at a rate of -31.27% per year. In this market, Canada is losing market share in a slowly contracting market. Canada supplied products in all six years considered. In 2002, Canada had 2.49% of the market. Competitors in this market are Argentina, Uruguay, France, Belgium and Germany.

170220 Maple Sugar and Maple Syrup

Between 1997 and 2002, the value of imports from all sources decreased by -8.57% per year while imports from Canada increased at a rate of 13.31% per year. In this market Canada is gaining market share in a contracting market. Canada supplied products in all of the six years considered. In 2002 Canada had 90.48% of the market and the only competitor was Germany. The USA dropped out of the market in 2000.

190590 Bread, Pastry, Cakes, Etc. Nesoi & Pudding

Between 1997 and 2002, the value of imports from all sources decreased by -11.54% per year while imports from Canada decreased at a rate of -55.79% per year. In this market, Canada is losing market share in a contracting market. Canada supplied products in all six years considered and in 2002 had 0.03% of the market.

200410 Potatoes, Prepared Etc., No Vinegar Etc., Frozen

Between 1997 and 2002, the value of imports from all sources increased by 4.39% per year while imports from Canada decreased at a rate of -51.58% per year. Canada is losing market share (falling from 8.63% in 1997 to 0.21% in 2002) in an expanding market. Canada supplied products in all of the six years considered. Major competitors are Argentina, the Netherlands and Belgium and Germany.

210690 Miscellaneous Edible Preparations, NEOSI. Other

Between 1997 and 2002, the value of imports from all sources decreased by -8.35% per year while imports from Canada decreased by -0.24%. In this market Canada is gaining market share in a contracting market.

230990 Animal Feed Prep Except Dog or Cat Food, Retail Packaged

Between 1997 and 2002, the value of imports from all sources increased at a rate of 20.38% per year while imports from Canada decreased at a rate of -9.86% per year. Canada is losing market share (falling from 3.64% in 1997 to 0.91% in 2002) in an expanding market. Canada supplied products in all of the six years considered. Major competitors are the USA and the Netherlands.

VI. PRICE WORK-UPS

A market is contestable only if the accumulated profits and costs of putting the product on the retail self are expected to compete favourably with similar products. In order to further identify likely contestable markets, Canadian exporters can gather specific data and information to complete a research-price-work-up as in Appendix Table 12. A research-price-work-up of this kind could be developed before opening negotiations with a potential buyer and only to obtain an indication of the contestability of the market. It will be necessary to do a specific price work-up for the actual terms negotiated - usually FOB or CIF.

A. The Research Price Work-up

A research-price-work-up is developed by starting with the exporters production cost and adding costs and profit to calculate the: “ex works” (EXW)[6] value; “free alongside” (FAS) value; “free on board” (FOB) value;“cost and freight” (CFR) value; “cost, insurance and freight” (CIF) value; “delivered duty paid” (DDP) value and; the minimum retail value of the product. The minimum retail value can then be compared to the actual retail price in the foreign market. This, along with other information, such as quality and consumer characteristics, can be of significant importance in determining if a market is contestable.

B. Duties, Taxes, Charges, Contributions and Fees

The three main tariffs that account for the bulk of the importing costs are the import duty itself (II), the industrialized product tax (IPI) and the merchandise and service circulation tax (ICMS). Brazil also has other miscellaneous tariffs that could increase the cost of imports.

1. Import Duty

The import duty is a federally mandated product specific tax. After the creation of the MERCOSUR customs union, the four member countries (Argentina, Brazil, Paraguay and Uruguay) adopted a single import tariff structure, known as the “common external tax,” or CET. In general, Brazilian import duty rates range from 10 to 20 percent.

2. Industrialized Product Tax

The Industrialized Product Tax (IPI) is a federal tax that is assessed at the point of customs clearance on imported manufactured products. The IPI tax is not considered a cost for the importer, since the value is credited to the importer. When the product is sold to the end user, the importer debits the IPI cost. Generally, the IPI tax rate ranges from 0 to 15 percent. For imports,

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[6] For details of the obligations under the various Incoterms see “Incoterms 2000" by the International Chamber of Commerce. ICC Publishing, Inc., 156 Fifth Avenue, Suite 417, New York, NY 10010, USA. Email: iccpub@interport.net , www.iccbooks.com .

the tax is charged on the product's cost, insurance and freight (CIF) value plus import duty.

3. Merchandise and Service Circulation Tax

The Merchandise and Service Circulation Tax (ICMS) is a state government value-added tax assessed ad valorem on the CIF value, plus import duty, plus IPI on imports and domestic products. Although importers have to pay the ICMS to clear customs, it is not a cost item for the importer because the paid value represents a credit to the importer. When the product is sold to the end-user, the importer debits the ICMS, which is included in the final price of the product and is paid by the end-user.

4. Miscellaneous Tariffs

Other miscellaneous tariffs and fees for imports into Brazil include:

- Warehouse Tax: 0.65% of the CIF value. for a 15-day period
- Typical Terminal Handling Charges at Santos' port: US$100 per container
- Merchant Marine Tax: 25% of ocean freight charges (not applicable to air freight)
- Mandatory contribution to custom broker's union: 2.2% of the CIF value with a minimum contribution of US$71 and a ceiling set at US$160
- Sistema de Comércio Exterior (SISCOMEX), the computerized import registration system, usage fee: US$30
- Typical Cargo Transportation Fee: US $35

VII. IDENTIFICATION OF CONTESTABLE MARKETS

During the period January 1999 to October, 2003 a trend line fitted to the value of the BRL fell at a rate of -1.13% per month (-12.75% per year). During this time, the decreasing value of the BRL was a negative factor making contestable markets difficult to find in Brazil. In contrast, from October 2003 to February 2004, the BRL stabilized and increased at the modest rate of 0.48% per month (5.89% per year). If this strengthening continues, Canadian exporters may identify increasing numbers of contestable markets in Brazil.

Searching for market opportunities is not an exact science but some indication of the probability that Canadian companies will find an opportunity in a particular market can be gained by the number of positive indicators in Table 4. A positive research price work-up would be a strong indicator of a contestable market but requires additional data and information.

A. Product Groups With Three Positive Indicators

Based on the analysis in this paper, Canadian exporters have the highest probability of finding opportunities in the following markets of Brazil.

071340 Lentils, Dried Shelled, Including Seed

The consumption of these products and the value of imported products are increasing slowly. The value of imports from Canada is increasing and Canada is gaining market share in an expanding market for imported products.

Recommendation: Closely monitor Brazilian producers and other competitors and act quickly to meet competition.

100830 Canary Seed

The FOB price of this product is increasing and the total value of the imported product is also increasing. The value of imports from Canada is increasing and Canada is gaining market share in an expanding market for imported products.

Recommendation: Closely monitor Brazilian producers and other competitors and act quickly to meet competition.

Table 4. Summary of Indicators of Contestable Markets, Brazil

Product	Price Change* (%/year)	Change in Consumption Per Person** (%/Year)	Change in Value of Imports (%/ year)	Position in Grid Analysis ***	No. of Positive Indicators
PRODUCTS IMPORTED FROM CANADA					
030420 Fish Fillets, Frozen	-1.35	-0.52	-16.8	3b	0
030559 Fish, Dried, Whether Salted but Not Smoked Nesoi	-1.86	-0.52	1.09	2a	2
040410 Whey & Modified Whey Whether/not Concentrated	1.1	N/A	22.44	4	2
040610 Cheese (Unripened / Uncured) Fresh Including Whey Cheese Curd	-5.11	N/A	-27.59	3b	0
040690 Cheese, Nesoi, Including Cheddar and Colby	-3.51	N/A	-23.88	3b	0
0407xxxx Hatching Eggs	2.11	N/A	24.70	2b	2
071310 Peas, Dried Shelled, Including Seed	-4.25	0.14	-8.01	1	1
071333 Kidney Beans & White Pea Beans, Dried Shel, Incl Seed	-13.29	0.14	-23.66	3b	1
071340 Lentils, Dried Shelled, Including Seed	-26.82	0.14	0.69	2a	3

Product	Price Change* (%/year)	Change in Consumption Per Person** (%/Year)	Change in Value of Imports (%/ year)	Position in Grid Analysis ***	No. of Positive Indicators
100830 Canary Seed	6.87	N/A	3.67	2a	3
110710 Malt, Not Roasted	-4.08	N/A	-2.53	3b	0
170220 Maple Sugar and Maple Syrup	20.31	439.54	-8.57	1	2
190590 Bread, Pastry, Cakes Etc Nesoi & Pudding	-10.3	0.66	-11.54	3b	1
200410 Potatoes, Prepared Etc., No Vinegar Etc., Frozen	-5.08	1.64	4.39	4	2
210690 Miscellaneous Edible Preparations, Nesoi. Other	-4.57	N/A	-8.35	3a	0
230990 Animal Feed Prep Except Dog or Cat Food, Retail Pk	-4.37	N/A	20.38	4	1
PRODUCTS NOT IMPORTED FROM CANADA					
030212 Salmon, Pac, Atl & Danube, with Bones, Frozen or Chilled	-8.62	-0.52	3.25	N/A	1
080810 Apples, Fresh	-19.66	2.52	-18.32	N/A	1
080820 Pears and Quinces, Fresh	-5.11	1.13	-13.56	N/A	1
080930 Peaches, Including Nectarines, Fresh	-6.34	1.13	-19.49	N/A	1
080940 Plums, Prune Plums and Sloes, Fresh	-7.54	1.13	-15.76	N/A	1
160411 Salmon, Prepared or Preserved, Whole or Pieces	22.73	-0.52	-55.53	N/A	1
220410 Sparkling Wine of Fresh Grapes	6.6	-1.15	-0.05	N/A	1
220421 Wine, Fr Grape Nesoi & Must W Alc Nov 2 Liters	56.52	-1.15	4.85	N/A	2

Product	Price Change* (%/year)	Change in Consumption Per Person** (%/Year)	Change in Value of Imports (%/ year)	Position in Grid Analysis ***	No. of Positive Indicators

Notes:
* Calculated from the FOB values of Brazilian imports supplied by the World Trade Atlas and sourced from the Brazilian Secretariat of Foreign Trade.

** Calculated from FAO food balance sheets (see Appendix Table 10) which do not use the HS codes. The approximate relationships are:
Wheat: 190590;
Potatoes: 200410;
Sweeteners, Other: 170220;
Pulses: 071310, 071333, 071340;
Apples: 080810;
Fruit, Other: 080820, 080930, 080940;
Wine: 220410,220421;
Fish: 030212, 030420, 030559, 160411.

*** The meanings of the positions on the "Grid Analysis" are as follows:
1: Imports from Canada increasing; Canada gaining market share in a contracting market.
2a: Imports from Canada increasing; Canada gaining market share in an expanding market - a positive indicator.
2b: Imports from Canada increasing; Canada losing market share in an expanding market.
3a: Imports from Canada decreasing; Canada gaining market share in a contracting market.
3b: Imports from Canada decreasing; Canada losing market share in a contracting market.
4: Imports from Canada decreasing; Canada losing market share in an expanding market.

B. Product Groups With Two Positive Indicators

Canadian exporters have a lower probability of finding opportunities in the following markets of Brazil.

030559 Fish, Dried, Whether/not Salted but Not Smoked Nesoi

The value of imported products is increasing. The value of imports from Canada is increasing and Canada is gaining market share in an expanding market.
Recommendation: Market research to more clearly identify niche markets and research price work-ups.

040410 Whey & Modified Whey Whether/not Concentrated Containing Added Sweeteners

The FOB prices of these products are increasing slowly and the total value of imported products is increasing rapidly. The value of imports from Canada is decreasing and Canada is losing market share in an expanding market for imported products.

Although whey is derived from milk, it is a by-product and not purchased with permits from CDC; therefore, is not limited by Canada's WTO dairy export subsidy commitment levels. See Appendix II.
Recommendation: Market research to identify reasons why Canada is losing market share under these conditions. If a research price work-up indicates that it is a contestable market, take action to increase exports to Brazil.

0407XXXX Hatching Eggs

The estimated price is increasing slowly and the value of imported hatching eggs is estimated to be increasing quickly. While imports from Canada are increasing, Canada is losing market share in a rapidly expanding market.

Recommendation: Market research to identify reasons why Canada is losing market share under these conditions and monitor the strategies of competitors. If a research price work-up indicates that it is a contestable market, take action to increase exports to Brazil.

170220 Maple Sugar and Maple Syrup

The FOB prices of products in this group have been rising rapidly and the consumption of sweeteners in general have been increasing very rapidly. The value of imports from Canada is increasing and Canada is gaining market share in a contracting market for the imported products.

Recommendation: Market research to identify the reasons for the contracting market. If a research-price-work-up indicates that it is a contestable market, take action to increase exports to Brazil. This is an up-market product and niche markets need to be identified.

200410 Potatoes, Prepared Etc., No Vinegar Etc., Frozen

The consumption and value of these imported products are increasing. The value of imports from Canada is decreasing and Canada is losing market share in an expanding market for imported products.

Recommendation: Market research to identify reasons why Canada is losing market share under these conditions. If a research-price-work-up indicates that it is a contestable market, take action to increase exports to Brazil.

220421 Wine, From Grape Nesoi & Must With Alcohol, In Containers Not Over 2 Liters

The FOB price of this imported product group has been increasing rapidly and the total value of imports has been increasing. Brazil does not currently import these products from Canada.

Recommendation: Initial market entry might emphasize Ice Wine. Market research to determine what actions must be taken to make the Canadian products competitive in Brazil's "up-markets." If a research-price-work-up indicates that it is a contestable market, take additional actions to begin exporting to Brazil.

C. Product Groups With One Positive Indicator

Canadian exporters have an even lower probability of finding opportunities in the following markets of Brazil.

071310 Peas, Dried Shelled, Including Seed

Consumption of these products may be increasing. The value of imports from Canada is increasing and Canada is gaining market share in a contracting market for imported products.

Recommendation: Market research to determine why the market is contracting and how Canada can maintain or continue to increase market share. Monitor the production and processing technologies of competitors and move quickly to meet increasing competition.

071333 Kidney Beans & White Pea Beans, Dried Shelled, Including Seed

Consumption of these products may be increasing. The value of imports from Canada is decreasing and Canada is losing market share in a contracting market for imported products.

Recommendation: Market research to determine why the market is contracting and what is necessary to increase Canada's market share. If a research-price-work-up indicates that it is a contestable market, take action to increase exports to Brazil.

190590 Bread, Pastry, Cakes Etc Nesoi & Pudding

Consumption of these products may be increasing. The value of imports from Canada is decreasing and Canada is losing market share in a contracting market for imported products.

Recommendation: Market research to determine the kinds of products that will sell in the Brazilian market and maintain quality during transport. Monitor the production and manufacturing technologies of competing countries and take action to meet the competition.

030212 Salmon, Pacific, Atlantic & Danube, with Bones, Frozen or Chilled

The value of imports of these products is increasing. Brazil does not currently import these products from Canada.

Recommendation: Market research to determine how Canada can compete effectively in this market. Research should include the ability of Canadian pacific sockeye salmon to compete in the "up-markets" of Brazil. If a research-price-work-up indicates that it is a contestable market, take additional actions to begin exporting to Brazil.

080810 Apples, Fresh
080820 Pears and Quinces, Fresh
080930 Peaches, Including Nectarines, Fresh
080940 Plums, Prune Plums and Sloes, Fresh

Consumption per person of these four product groups may be increasing. Brazil does not currently import these products from Canada.

Recommendation: Market research to investigate the possibility of providing fresh fruit to Brazil in the southern spring and summer (September to March). If a research-price-work-up indicates that it is a contestable market, take additional actions to begin exporting to Brazil.

160411 Salmon, Prepared or Preserved, Whole or Pieces

The FOB price of this product group has been increasing rapidly. Brazil does not currently import these products from Canada although it has supplied small amounts in the past.

Recommendation: Market research to determine what needs to be done to make Canadian products, particularly pacific sockeye salmon, competitive in Brazil's "up-markets." If a research-price-work-up indicates that it is a contestable market, take additional actions to increase exports to Brazil.

220410 Sparkling Wine of Fresh Grapes

The FOB price of this imported product has been increasing. Brazil does not currently import this product from Canada.

Recommendation: Market entry for this product should be done in conjunction with 220421 and initially emphasize Ice Wine. Market research to determine what needs to be done to make Canadian wine competitive in Brazil's "up-markets." If a research-price-work-up indicates that it is a contestable market, take action to begin exporting to Brazil.

230990 Animal Feed Prep Except Dog or Cat Food, Retail Packaged

The value of these imported products have increased rapidly. The value of imports from Canada is decreasing and Canada is losing market share in an expanding market for imported products.

Recommendation: Market research to identify the reasons for Canada's loss of market share under these conditions.

D. Product Groups With Zero Positive Indicators

Canadian exporters have the lowest probability of finding opportunities in the following markets of Brazil.

030420 Fish Fillets, Frozen

Canada has been quickly withdrawing as the market contracts, thus losing market share.

Recommendations: If a research-price-work-up indicates that it is a contestable market, take action to increase exports to Brazil. Aggressive marketing may slow Canada's rate of withdrawal or leave it as the major supplier in a smaller but stable market.

040610 Fresh (Unripened /Uncured) Cheese Including Whey Cheese and Curd
040690 Cheese, Nesoi, Including Cheddar and Colby

Canada has been quickly withdrawing as these markets contract, thus losing market shares.

Recommendations: At this time, no recommendations are made for these products. They are dairy products and exports are limited by Canada's WTO dairy export subsidy commitment levels. See Appendix II. Monitor the strategies of potential competitors.

110710 Malt, Not Roasted

Canada has been withdrawing from this slowly contracting market, thus losing market share.

Recommendations: If a research-price-work-up indicates that it is a contestable market, take action to increase exports to Brazil. A market study to determine why we are losing market share so quickly may provide insight into how to slow Canada's loss of market share and eventually maintain a market share in a smaller but more stable market.

210690 Miscellaneous Edible Preparations, Nesoi. Other.

Canada has been slowly withdrawing from this contracting market and gaining market share.

Recommendations: Market study to identify reasons for the contraction of the market. If a research-price-work-up indicates that it is a contestable market, take action to increase exports to Brazil.

VIII. CONCLUSIONS

Brazil is a potentially large market for food and in the future will have the capacity to produce large quantities of processed food.

Currently, world trade in food (and other goods) is distorted by numerous barriers and subsidies. As these distortions diminish under the provisions of trade agreements, Brazil can be expected to specialize in the production of some food products in which it has a comparative advantage, for both domestic use and export. It can also be expected to import other types of food products. The removal of these distorting factors will make it easier for Canadian food exporters to find contestable markets in Brazil.

A major argument for looking for opportunities in the food markets of Brazil at this time, is to gain foot-holds in markets that can be expected to expand in the future. By finding niche markets for products that Brazil does not currently produce or is not likely to produce under freer trade, Canadian companies can: make contacts; gain recognition for their labels and quality standards and; monitor the markets as they develop.

This paper provides indications of the food product markets of Brazil where Canadian food exporters might find opportunities. An effort has been made to rank the product markets by probability of success basis on several indicators of "contestability."

It is significant that four out of Canada's top five competitors in Brazil's food markets (Argentina, Paraguay, Uruguay and Chile) are members of the MERCOSUR-6. Canadian companies should monitor the products, technologies and capacities in these competitors to ensure that they are in a position to compete when trade barriers to Canadian products are eventually removed under a WTO agriculture agreement and MERCOSUR countries no longer have an advantage. The fifth competitor is the USA which provided about CAD 459 million worth of Brazil's food imports and experiences the same trade barriers as does Canada. An examination of this trade may provide additional opportunities and strategies.

APPENDIX I

Table 5. Area, Population and Density, by State and Region. Brazil 2001			
State/region	**Area**	**Population**	**Density**
	(Sq Km)	**(Number)**	**(People / Sq Km)**
Rondônia	238,513	1,407,608	5.90
Acre	153,150	573,267	3.74
Amazonas	1,577,820	2,892,420	1.83
Roraima	225,116	336,423	1.49
Pará	1,253,164	6,332,174	5.05
Tocantins	278,421	1,183,809	4.25
Amapá	143,454	498,158	3.47
NORTH REGION	3,869,638	13,223,859	3.42
Maranhão	333,366	5,732,679	17.20
Piauí	253,378	2,872,680	11.34
Ceará	146,348	7,550,461	51.59
Rio Grande do Norte	53,307	2,817,452	52.85
Paraíba	56,585	3,471,152	61.34
Pernambuco	98,938	8,007,347	80.93
Bahia	567,295	13,205,615	23.28
Alagoas	27,933	2,857,358	102.29
Sergipe	22,050	1,817,419	82.42
NORTH EAST REGION	1,559,200	48,332,163	31.00
Mato Grosso	906,807	2,558,073	2.82
Mato Grosso do Sul	358,159	2,111,512	5.90
Goiás	341,289	5,114,055	14.98
Distrito Federal (Brasilia)	5,822	2,101,818	361.01

State/region	Area	Population	Density
	(Sq Km)	(Number)	(People / Sq Km)
WEST CENTRAL REGION	1,612,077	11,885,458	7.37
Rio de Janeiro	43,910	14,569,580	331.81
São Paulo	248,809	37,645,298	151.30
Minas Gerais	588,384	18,133,380	30.82
Espirito Santo	46,184	3,153,147	68.27
SOUTH EAST REGION	927,287	73,501,405	79.27
Santa Catarina	95,443	5,448,051	57.08
Rio Grande do Sul	282,062	10,305,921	36.54
Paraná	199,709	9,688,969	48.52
SOUTH REGION	577,214	25,442,941	44.08
BRAZIL	8,545,416	172,385,826	20.17

Source: Instituto Brasileiro de Geografia e Estatistica (IBGE), “Regional accounts in Brazil -2001.”

Table 6. Population of Brazil	
Year	**Population (‘000)**
1992	152,227
1993	154,513
1994	156,775
1995	159,016
1996	161,247
1997	163,471
1998	165,688
1999	167,910
2000	170,143
2001	172,386
2002	174,633

Source: Banco Central do Brasil and IBGE.
From Central Bank website

Table 7a. Gross Domestic Product at 2002 Prices, Brazil		
Year	**GDP (BRL)**	**Change (%)**
1970	369,467,881,323.62	
1971	411,365,539,065.71	11.34
1972	460,482,584,430.16	11.94
1973	524,812,001,475.05	13.97
1974	567,584,179,595.27	8.15
1975	596,928,281,680.35	5.17
1976	658,173,123,380.75	10.26
1977	690,621,058,363.42	4.93
1978	724,944,924,964.08	4.97
1979	773,951,201,891.66	6.76
1980	845,386,897,826.25	9.23
1981	809,457,954,668.64	-4.25
1982	816,176,455,692.39	0.83
1983	792,262,485,540.60	-2.93
1984	835,044,659,759.79	5.40
1985	900,587,315,104.34	7.85
1986	968,041,305,005.66	7.49
1987	1,002,213,163,072.35	3.53
1988	1,001,611,835,174.51	-0.06
1989	1,033,262,769,166.03	3.16
1990	988,315,838,707.30	-4.35
1991	998,495,491,845.99	1.03
1992	993,067,871,531.98	-0.54
1993	1,041,974,142,385.57	4.92
1994	1,102,959,538,169.86	5.85
Source: IBGE. From website of Banco Central do Brasil.		

Table 7b. Gross Domestic Product at 2002 Prices, Brazil		
Year	**GDP (BRL)**	**Change (%)**
1995	1,149,546,272,924.78	4.22
1996	1,180,107,991,532.05	2.66
1997	1,218,713,913,480.12	3.27
1998	1,220,321,594,392.59	0.13
1999	1,229,906,901,784.62	0.79
2000	1,283,539,055,438.55	4.36
2001	1,301,704,587,273.44	1.42
2002	1,321,490,497,000.00	1.52
Source: IBGE. From website of Banco Central do Brasil.		

Table 8. GNP per Person by State and Region, Brazil 2001		
State / Region	**GNP per Person**	
	(BRL)	**(CAD)**
Rondônia	4,321	2,873
Acre	3,351	2,228
Amazonas	7,169	4,767
Roraima	3,623	2,409
Pará	3,435	2,284
Tocantins	2,590	1,722
Amapá	4,523	3,007
NORTH REGION	4,312	2,867
Maranhão	1,796	1,194
Piauí	1,941	1,291
Ceará	2,858	1,900
Rio Grande do Norte	3,490	2,321
Paraíba	2,959	1,967
Pernambuco	3,962	2,634
Bahia	3,957	2,631
Alagoas	2,649	1,761
Sergipe	4,514	3,001
NORTH EAST REGION	3,255	2,164
Mato Grosso	5,650	3,757
Mato Grosso do Sul	6,505	4,325
Goiás	4,898	3,257
Distrito Federal (Brasilia)	15,725	10,456
WEST CENTRAL REGION	7,260	4,827

State / Region	GNP per Person	
	(BRL)	(CAD)
Rio de Janeiro	10,160	6,755
São Paulo	10,642	7,076
Minas Gerais	6,261	4,163
Espirito Santo	7,148	4,753
SOUTH EAST REGION	9,316	6,194
Santa Catarina	8,541	5,679
Rio Grande do Sul	9,129	6,070
Paraná	7,511	4,994
SOUTH REGION	8,387	5,577
BRAZIL	6,954	4,624

Source: BRL data from Instituto Brasileiro de Geografia e Estatistica (IBGE), "Regional accounts in Brazil -2001." Exchange rate CAD per BRL from http://pacific.commerce.ubc.ca/xr/ .

Table 9. Price of a Staple Food Basket and GDP Per Person at Current Prices, Brazil

Year	Average Price of Staple Food Basket* (BRL / Month)	Annual GDP per Person at Current Prices** (BRL / Person)
1993	80.10	91.24
1994	99.10	2,227.43
1995	102.14	4,063.69
1996	109.20	4,830.40
1997	112.71	5,326.59
1998	121.64	5,517.53
1999	126.94	5,799.81
2000	135.49	6,472.53
2001	147.88	6,961.47
2002	169.21	7,567.24

Source: *Departamento Intersindical de Estatística e Estudos Sócio-Econômicos (DIEESE).
**IBGE.
From website of the Banco Central do Brasil.

Table 10. Annual Rates of Change of Production and Consumption of Selected Products, Brazil. 1991 - 2001			
Product	**Production**	**Consumption**	
	(% / Year)	**Total (% / Year)**	**Per Person (% / Year)**
WHEAT	-0.49	2.05	0.66
POTATOES	1.9	3.04	1.64
SWEETENERS	10.53	12.85	439.54*
PULSES	-0.71	1.55	0.14
APPLES	5.05	3.93	2.52
FRUIT, OTHER	2.27	2.55	1.13
WINE	-0.69	-0.02	-1.15
FISH	-1.45	0.79	-0.52

Source: Calculated from FAO food balance sheets 1991 to 2001.
* Amounts reported are very small (0 to 300 gm)

Table 11a. Road Distances Between Selected Ports and Markets, Brazil					
Ports	**Markets (Km)**				
	São Paulo	**Rio de Janeiro (City)**	**Porto Alegre**	**Curitiba**	**Brasilia**
Santos	72	501	1,181	480	1,087
Itajai	617	1,056	560	212	1,585
Paranagua	442	881	803	90	1,420
Salvador	1,962	1,649	3,090	2,385	1,446
Rio de Janeiro	429	-	1,553	852	1,148
Manaus	3,971	4,374	4,563	4,036	3,490
Belem	2,933	3,250	3,852	3,193	2,120

Source: DNER/AP/Div. Planejamento - Serv. Coord. e Gerência de Sistemas Rodoviários.

Table 11b. Road Distances Between Selected Ports and Markets, Brazil					
Ports	**Markets (Km)**				
	Fortaleza	**Rio Branco**	**Campo Grande**	**Belo Horizonte**	**Maceio**
Santos	3,199	3,676	1,086	658	2,525
Itajai	3,750	3,888	1,210	1,213	3,080
Paranagua	3,575	3,771	1,093	1,031	2,905
Salvador	1,389	4,457	2,568	1,372	632
Rio de Janeiro	2,805	4,007	1,444	434	2,131
Manaus	5,763	1,445	3,051	3,951	5,491
Belem	1,610	4,931	2,942	2,824	2,173

Source: DNER/AP/Div. Planejamento - Serv. Coord. e Gerência de Sistemas Rodoviários.

Table 12. Example of a Price Work-up. Calculation of the Expected Retail Price From the EXW Value			
Price Work-up - EXW plus.			
Calculating the minimum retail price.			
PRODUCT	Edible Widgets		
ORIGIN	Toronto, Canada		
DESTINATION	São Paulo, Brazil		
CONTAINER	20 Foot		
BOXES PER CASE	50		
CASES PER CONTAINER	480		
BOXES PER CONTAINER	24,000		
KGS PER BOX	0.50		
KGS PER CONTAINER	12,000		
BASE CURRENCY	CAD		
FOREIGN CURRENCY	BRL		
EXCHANGE RATE (BASE/FOREIGN)	0.44845		
PRODUCTION COST (CAD/CASE)	835.50		
PRODUCTION AND PREPARATION			
PRODUCTION COST OF CONTAINER (CAD)			**401,040.00**
MANUFACTURERS PROFIT (CAD)		434,460.00	
AGENT'S COMMISSION (CAD)		44,985.78	
EXPORT PACKING (CAD)		0.00	
MARKING CASES (CAD)		0.00	
BUNDLING / STRAPPING (CAD)		0.00	
SPECIAL LABELING, CONTAINERS ETC. (CAD)		0.00	
BANK CHARGES (L/C) EXECUTION (CAD)		50.00	
SUBTOTAL (CAD)		479,495.78	

INCREMENTAL FINANCE CHARGE (CAD)		19,179.83	
TOTAL PRODUCTION AND PREPARATION (CAD)			498,675.61
CONTAINER VALUE: EXW (SELLERS WAREHOUSE) - EX WORKS (CAD)			**899,715.61**
MOVE TO SHIPSIDE			
LOCAL TRUCKING (CAD)		170.00	
FREIGHT TO SEAPORT: BY RAIL (CAD)		0.00	
UNLOADING CHARGES (CAD)		0.00	
TERMINAL CHARGES, DEMURRAGE, STORAGE ETC (CAD)		0.00	
WHARFAGE (CAD)		0.00	
MISCELLANEOUS CHARGES (HANDLING) (CAD)		75.00	
SUBTOTAL (CAD)		245.00	
INCREMENTAL FINANCE CHARGE (CAD)		9.80	
TOTAL COST OF MOVE TO SHIPSIDE (CAD)			254.80
CONTAINER VALUE: FAS (TORONTO PORT) - FREE ALONGSIDE (CAD)			**899,970.41**
LOADING CHARGES			
LOADING VESSEL (CAD)		100.00	
CONSULAR DOCUMENTS (CAD)		50.00	
OTHER DOCUMENT CHARGES (CAD)		10.00	
INSURANCE FOR LOADING (CAD)		0.00	
SUBTOTAL (CAD)		160.00	
INCREMENTAL FINANCE CHARGE (CAD)		6.40	

TOTAL LOADING COSTS			166.40
CONTAINER VALUE FOB (TORONTO PORT) - FREE ON BOARD			**900,136.81**
FREIGHT COSTS			
Freight Costs (USD)	1,350.00		
FREIGHT COSTS (CAD)		1,729.89	
SUBTOTAL		1,729.89	
INCREMENTAL FINANCE CHARGE (CAD)		69.20	
TOTAL INT'L TRANSPORT AND ANCILLARY CHARGES (CAD)			1,799.09
CONTAINER VALUE: CFR (SANTOS) - COST AND FREIGHT (CAD)			**901,769.50**
INSURANCE			
MARINE			
Value of Shipment (CAD)	901,769.50		
Add 10% of Value (CAD)	90,176.95		
Value Insured (CAD)	991,946.45		
MARINE INSURANCE PREMIUM (CAD)		3,273.42	
OTHER INSURANCE			
ACCOUNTS RECEIVABLE INSURANCE PREMIUM (CAD)		0.00	
OTHER INSURANCE PREMIUMS (CAD)		0.00	
SUBTOTAL (CAD)		3,273.42	
INCREMENTAL FINANCE CHARGES (CAD)		130.94	
TOTAL INSURANCE CHARGES (CAD)			3,404.36
CONTAINER VALUE (CIF) - COST, INSURANCE AND FREIGHT (CAD)			**905,173.86**

CONTAINER VALUE (CIF) - COST, INSURANCE AND FREIGHT (BRL)			**2,018,449.90**
DELIVERY COSTS TO BUYER			
UNLOADING COST (BRL)		200.00	
CAPATAZIA HANDLING COST (USD)	183.36		
CAPATAZIA HANDLING COST (BRL)		393.85	
TARIFFS AND DUTIES (BRL)		40,369.00	
FREIGHT FROM PORT TO BUYER (BRL)		100.00	
SUBTOTAL (BRL)		41,062.85	
INCREMENTAL FINANCE COSTS (BRL)		1,642.51	
TOTAL DELIVERY COST (BRL)			42,705.36
CONTAINER VALUE (DDP) - DELIVERED DUTY PAID (BRL)			**2,061,155.26**
RETAIL COSTS			
RETAIL MARKUP (BRL)			1,374,103.51
RETAIL VALUE OF CONTAINER (BRL)			**3,435,258.77**
MINIMUM RETAIL VALUE PER BOX (BRL)			**143.14**
MINIMUM RETAIL VALUE PER CASE (BRL)			**7,156.79**

APPENDIX II

June 24, 2002

Canada - New Zealand/US - Measures Affecting the Importation of Milk and the Exportation of Dairy Products

(http://www.dfait-maeci.gc.ca/tna-nac/rulings-en.asp)

WTO Dairy Challenges

The WTO Rulings

The WTO Compliance Panel concluded that Canada, through commercial export milk, has acted inconsistently with its WTO obligations under articles 3.3 and 8 of the Agreement on Agriculture by providing export subsidies within the meaning of Article 9.1(c) of the Agreement on Agriculture in excess of its export subsidies quantity commitment levels. More specifically, the Panel did not accept Canada's argument that producers were selling commercial export milk at prices above their cost of production. The Panel also found that there was government involvement that resulted in the provision of export subsidies.

On December 3, 2001, the WTO Appellate Body reversed the finding of the July 5, 2001 WTO Compliance Panel report that concluded that Canada had acted inconsistently with its WTO obligations. The Appellate Body found that whether there were payments under Article 9.1(c) would require an objective standard or benchmark and that the appropriate standard to use would be the total cost of production. As the Panel did not make factual findings on cost of production, the Appellate Body was unable to find whether Canada had violated its WTO obligations. As a result, the United States and New Zealand requested a further Compliance Panel to pursue this dispute.

In the WTO Compliance Panel report of July 5, 2001, the Panel concluded that Canada had acted inconsistently with its obligations under the Agreement on Agriculture by providing export subsidies within the meaning of Article 9.1(c) for commercial export milk products. In particular, the Panel found that dairy processors in Canada are provided with milk for export at a lower price than the regulated domestic price and that this milk for export would not be available to Canadian processors but for certain federal and provincial regulatory actions.

On the basis of challenges from New Zealand and the United States, the WTO ruled in 1999 that certain Canadian dairy exports benefitted from export subsidies under the rules of the WTO Agreement on Agriculture. Thus, they were subject to Canada's WTO export subsidy reduction commitments. Since exports exceeded those commitments, Canada was found to be in breach of its obligations. The milk sales affected by the WTO ruling accounted for about 4 percent of total Canadian production. The WTO ruling did not prevent the export of dairy products as Canada is allowed to use export subsidies for dairy products within specified limits (see table attached).

Canada's Measures to Implement the 1999 WTO Ruling
As a result of the 1999 WTO ruling, Canada changed the way milk destined for exported dairy products is marketed. Based on the ruling and following consultation with the provinces and industry, governments at both the federal and provincial levels have removed themselves from export activities and this milk for export is now bought and sold in accordance with market demands. Commercial export milk markets in nine provinces were operational on August 1, 2000. Despite these changes, the United States and New Zealand remained of the view that Canada is not in compliance with its WTO obligations and initiated a WTO Compliance Panel.

Arbitration process (retaliation/compensation)
The WTO Dispute Settlement Body has established an Arbitration Panel in response to requests by the United States and New Zealand for authority to retaliate. The arbitration process remains suspended and will only commence should there be a final finding, including an appeal, against Canada.

Consultations
Since the beginning of this WTO challenge, the federal government has closely consulted with the provincial governments and dairy industry stakeholders in the preparation and presentation of Canada's defence. Provincial officials have attended all WTO hearings as observers, as part of the Canadian delegations. Dairy industry representatives were also in Geneva to provide expert advice to the delegation. In addition to several conference calls, special federal/provincial/industry consultation sessions were held in Ottawa in preparation for all of the Geneva hearings. In preparation for the Appellate Body hearing, close consultations were undertaken to ensure provincial and industry input into Canada's defence.

Canada's WTO dairy export subsidy commitment levels

Commodity	Quantity Commitments (tonnes)	Budgetary Outlay Commitments (000' CAD)
Butter	3, 500	11,025
Cheese	9, 076	16,228
Skim Milk Powder	44, 953	31,149
Other Milk Products	30,282	22,505
Incorporated Products		20,276

Based on dairy year (August 1-July 31)
Source: Uruguay Round Schedule of Commitments, Schedule V - Canada, Final Schedule of Agriculture Commitments

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GLOSSARY

BRL	Symbol for the Brazilian currency - the Brazilian Real. See International Standard ISO 4217.
CAD	Symbol for the Canadian currency - the Canadian Dollar. See International Standard ISO 4217.
Capatazia	A local terminal handling charge levied when a container passes through some Brazilian ports. The charge is levied at Santos, Rio de Janiero and possibly some other ports.
Capital Account	A measure of the sales and purchases of assets, such as direct investment (e.g. the purchase of a factory) or portfolio investment (e.g. the purchase of stocks and bonds), between a country and the rest of the world. If the country has a current account deficit, it must be financed by either selling domestic assets to foreigners or borrowing from foreigners, typically in the form of government bonds. If the country runs a current account deficit, it requires a capital inflow, which increases our overall foreign indebtedness. (From: http://www.fin.gc.ca/gloss/gloss-c_e.html#cpp)
CIF	Cost, Insurance and Freight Import Value. This value represents the landed value of the merchandise at the first port of arrival in the importing country. It is computed by adding "Import Charges" to the "Customs Value" and therefore excludes import duties.
Current Account	A measure of the flow of goods, services and investment income between a country and the rest of the world, including merchandise imports and exports, international service transactions and interest and dividend payments or receipts. If a country receives more money from investments in and the sale of goods and services to the rest of the world than it pays out, it has a current account surplus. A country can also have a surplus in merchandise trade, but a larger deficit in service and investment transactions, resulting in an overall current account deficit. The deficit on investment transactions reflects the need to pay interest and dividends on foreign debt. (From: http://www.fin.gc.ca/gloss/gloss-c_e.html#cpp)
CV	Custom Import Value. This value is generally defined as the price actually paid or payable for merchandise when sold for exportation, excluding import duties, freight, insurance and other charges incurred in bringing the merchandise to the importing country.
DIEESE	Departamento Intersindical de Estatística e Estudos Sócio-Econômicos.

EDC	Export Development Canada. http://www.edc.ca
EU-15	European Union-15. Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom.
FAS	Free Alongside Ship Export Value. The value of exports at the seaport, airport, or border, port of export, based on the transaction price, including inland freight, insurance and other charges incurred in placing the merchandise alongside the carrier at the port of exportation. The value, as defined, excludes the cost of loading the merchandise aboard the exporting carrier and also excludes freight, insurance and any charges or transportation costs beyond the port of exportation.
FOB	Free On Board. A standard reference to the price of merchandise on the border or at a national port. In F.O.B. contracts, the seller is obliged to have the goods packaged and ready for shipment at the place agreed upon and purchaser agrees to cover all ground transport costs and to assure all risks in the exporting country, together with subsequent transport costs and expenses incurred in loading the goods onto the chosen means of transport.
FTAA	Free Trade Area of the Americas. Negotiations are on-going to try to form a free trade area among: Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, United States, Uruguay, Venezuela.
GDP	Gross Domestic Product: An estimate of the total money value of all the final goods and services produced in a given one-year period using the factors of production located within a particular country's borders. (From: http://www.auburn.edu/~johnspm/gloss/index.html?)
GNP	GDP plus the income accruing to domestic residents from productive activities abroad, minus the income earned in domestic markets accruing to foreigners abroad.

Gini Ratio	This ratio measures the degree of inequality in the distribution of family income in a country. The index is calculated from the Lorenz curve, in which cumulative family income is plotted against the number of families arranged from the poorest to the richest. The index is the ratio of (a) the area between a country's Lorenz curve and the 45 degree helping line to (b) the entire triangular area under the 45 degree line. The more nearly equal a country's income distribution, the closer its Lorenz curve to the 45 degree line and the lower its Gini index, e.g., a Scandinavian country with an index of 25. The more unequal a country's income distribution, the farther its Lorenz curve from the 45 degree line and the higher its Gini index, e.g., a Sub-Saharan country with an index of 50. If income were distributed with perfect equality, the Lorenz curve would coincide with the 45 degree line and the index would be zero; if income were distributed with perfect inequality, the Lorenz curve would coincide with the horizontal axis and the right vertical axis and the index would be 100. (From http://www.odci.gov/cia/publications/factbook/docs/notesanddefs.html#2172)
HS Codes	The International Harmonized System is a classification system used to classify products traded internationally. It consists of up to 10 digits. The first 6 digits are common to all countries, while the last 4 digits can be used by countries to further specify products (often for tariff purposes).
IBGE	Instituto Brasiliero de Geografia e Estatistica (Brazilian Institute of Geography and Statistics)
ICC	International Chamber of Commerce. See also INCOTERMS.
INCOTERMS	Trade terms, defined and interpreted by the International Chamber of Commerce (ICC)
MERCOSUR	A trade agreement among Argentina, Brazil, Paraguay and Uruguay. Chile and Bolivia are associate members.
Reefer	A shipping container with refrigerator facilities.
USD	Symbol for the currency of the USA - the United States Dollar. See International Standard ISO 4217.

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