Agriculture and Agri-Food Canada | Agriculture et Agroalimentaire Canada

Agri-Food
Past, Present & Future Report

Brazil

August 2005

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Canada

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Overview

Brazil has the thirteenth largest economy in the world, and represents approximately half of South America in terms of population, territory and economic activity. Brazil is a country abundant in agricultural, industrial and mineral resources, and is also home to the Amazon basin, which covers half of the country. Most of the country is made up of dense tropical forest and jungle, as a result there are no settlements of any size in the interior of the country, except for the capital of Brasilia.

Brazil is located in the eastern portion of South America, and is considered the leading economic power in the continent. Brazil shares common borders with every country in South America except Chile and Ecuador, such a location has aided in their ability to easily export goods within South America. Brazil has long been one of the world's leading agricultural producers of commodities such as sugarcane, oranges and coffee, but more recently Brazil has become a key competitor of Canada's as they are now capable of producing many of our staple agricultural commodities.

Canada - Brazil Relations

Canada and Brazil have a long standing relationship dating from the 19th century. Brazil is one of 11 key partner countries designated by Foreign Affairs Canada and International Trade Canada.

Brazil is Canada's largest trading partner in South America. Major Canadian exports to Brazil include newsprint, fertilizers, machinery and mineral fuels. Canada has enhanced its market presence in Brazil, investing in mobile cellular systems, telecommunications, informatics, environmental equipment and aircraft development. Although trade relations have been hampered in the past by issues such as inspection requirements and export subsidies for certain goods, the relationship continuously gains strength as it diversifies. Canada is Brazil's 17th largest import supplier; bilateral trade equaled US$3 billion in 2004.

Canada and Brazil operate under a Double Taxation Agreement and a Trade and Investment Cooperation Agreement through the Mercosur agreement. Canadian direct foreign investment is expected to continue to grow as the Brazilian government shifts foreign investment focus towards manufacturing and technological developments.

Canada-Brazil Bilateral Trade (2004)	
Brazil Total Trade	**US$158.8 billion**
Exports	US$96 billion
Imports	US$62.8 billion
Trade balance	(US$33.2 billion)
Canada- Brazil Trade	**US$3 billion**
Exports	US$731 million
Imports	US$2.3 billion
Trade balance	(US$1.6 billion)
Canada- Brazil Ag Trade	**US$502 million**
Exports	$39 million
Imports	$463 million
Trade balance	($424 million)

- Canada's largest export commodity to Brazil in 2004 was fertilizers, valued at US$248 million.
- Other top exports to Brazil include paper, mineral fuels, and machinery.
- In 2004, Canada imported US$2.3 billion in goods from Brazil.
- Iron, steel, and machinery made up the majority of Canadian imports from Brazil.

Agricultural Trade

Canadian exports to Brazil dropped over 50% between 2003 and 2004 from $83 million to $39 million in 2004. This drop in exports is attributed to the increasingly competitive nature of Brazil's home agricultural sector. What was once viewed as an excellent opportunity for Canadian products has turned into one of Canada's fiercest competitors on the international stage.

A decrease in wheat exports account for the largest drop in the value of Canada's exports to Brazil. In 2003 Brazil imported $61 million worth of Canadian wheat, and only $16 million in 2004. In conjunction with this they doubled the amount of wheat imported from Thailand and Vietnam.

Canada's agri-food imports from Brazil have remained stable over the past few years. In 2004 Canada imported $463 million worth of agri-food goods from Brazil of which $147 million was allocated to sugar alone; sugar accounted for over 30% of all imported agri-food goods from Brazil.

Canada's Top 5 Agricultural Exports to Brazil (2004)	
Canary seed	$15.4 million
Lentils, dried	$7 million
Food Preparations	$3.4 million
Peas, dried	$3 million
Malt, not roasted	$2.4 million

- Total Canada/Brazil agricultural trade was valued at over $500 million in 2004 and represented approximately 17% of all trade between the two countries.
- Top Canadian exports to Brazil in 2004 were canary seed valued at $15.4 million accounting for nearly 40% of agri-food exports, and lentils at $7 million or 18% of total exports.
- Top Canadian imports from Brazil in 2004 were sugar valued at $147 million and representing approximately 30% of all agri-food imports, and orange juice valued at $72 million and representing 13% of all agri-food imports.
- Brazil imports large amounts of canary seed as it is used as a major component in seed mixtures for pets and wild birds
- 2004 Bulk exports to Brazil totaled $17.5 million, in the same year intermediate exports totaled $16.4 million and consumer oriented exports totaled $5.2 million.
- Brazil is the largest wheat importer in the world, which presents a great opportunity for Canadian wheat exporters.
- Other exporting opportunities include: soybeans, edible oils, and pasta

Complete statistical summary available: http://ats.agr.gc.ca/stats/brazil_e.pdf

Economy

Brazil is the leading economic power in South America, and has one of the largest economies in the world, currently ranking 13th. While facing problems such as high inflation and large foreign debt, the government has managed to stabilize the country's finances by privatizing many industries and opening up its markets to foreign investors. The government recognizes the need to expand the private sector to sustain economic growth, and is committed to continuing this trend. Brazil's economic performance is closely tied to the US as they are Brazil's largest export market accounting for 20% of Brazil's total exports in 2004. The Brazilian government is working closely with the International Monetary Fund (IMF) to ensure Brazil's long term economic stability and success.

Brazil welcomes foreign investment and has lifted several of their investment restrictions in the past few years. The government encourages foreign investment in the Brazilian stock market, and has gone as far as to make foreign investors equal to domestic investors in the Brazilian market.

Gross Domestic Product (2004)	
GDP	US$1.5 trillion
GDP growth	5.1%
GDP/ per capita	US$8100

Current:
- The government is relying heavily on its tight monetary control over the economy to lower inflation, which resulted in the GDP growing by 5% in 2004.
- Inflation fell significantly from 14.7% in 2003 to 6.6% in 2004.
- Brazil's unemployment has remained stable the past 3 years at approximately 8.5%
- In 2003 and 2004 Brazil recorded it's first current account trade surplus since 1992, mainly due to significant growth in the agriculture sector.
- Brazilian exporters have benefited from the competitiveness of the exchange rate for the past 5 years.

Forecast:
- The Brazilian GDP is expected to grow by 3.5% by the end of 2005.
- A continued decrease in inflation is expected for 2005.
- Brazil's economic future depends upon continued foreign capital investment.

Consumer Market

Brazil is highly urbanized with approximately 75% of the total population living in cities. The urban population is very attracted to western styled goods, services, and foods. Brazil suffers from economic disparity, which is between the heavily populated urban regions of the south and the rural agricultural regions of the north. Although the government is taking strides to close the income gap, it still exists.

- Brazil has a large consumer base, and although 78% of the population lives above the poverty line only 15% of the population can afford luxury goods (which includes imported goods) and processed foods. Household income is slowly increasing, which is slowly increasing the consumer base for luxury goods.

- There is an increasing demand for health foods, processed foods, and organic foods in Brazil. With high demand and low market presence for many of these products, consumers are willing to pay premium prices. This presents an excellent opportunity for Canadian agri-food producers in these categories, as domestic suppliers are unable to meet demand.
- The upper classes tend to be the consumers of luxury or imported goods. Geographic distribution shows that 58% of consumers of luxury goods are located in Sao Paulo state.
- Processed foods are most prevalent in the Southern regions of Brazil which includes the states the Rio de Janerio and Sao Paulo.

- Staples such as corn, dry beans, manioc, rice, bread and green vegetables are key elements in a Brazilian diet.
- The Brazilian government subsidizes wheat purchases and as a result bread and pasta have become important parts of the diet for low-income families, especially in urban areas.
- Chicken, steak and fish are the meats of choice for those who can afford it.
- Brazilians are moving toward a trend in convenience, as a result prepared meals, fast food, and snack foods are becoming more popular

- The market for Home meal replacements (HMR) which is partially prepared food, are expected to experience tremendous growth in the near future. Most opportunities for these partially prepared food products exist in the high end super markets and delicatessens.
- HMRs are gaining popularity especially amongst dual earning families who can afford to save time and spend more.
- Brazilian consumers tend to be price sensitive. Private label products are generally 20-40% cheaper then manufacture brands, and therefore increasing their appeal.
- Supermarkets and hypermarkets account for over 90% of retail food sector sales.

Competitors

Due to its close proximity and common boundaries, Brazil trades heavily with it neighboring South American countries. Brazil is a member of "Mercosur", the Southern Cone Common Market which also includes Argentina, Paraguay, Uruguay, and Chile. Mercosur has negotiated preferential trade relations with Bolivia, the Andean countries, and the European Union The Mercosur agreement also entitles member countries to lower import duties on most food products.

- Brazil's principal import sources are the US (18%), Argentina (8%), Germany (8%) and China (6%).
- Apart from the very strong domestic sector Canada's main competition for the Brazilian market would be neighbouring Latin American countries, the US, and the EU.
- There have been numerous changes in Brazil's trade policies and programs that are resulting in a more open and competitive national economy.
- Canadian products are not familiar to the Brazilian market, and there is fierce competition from established local and foreign products. Canadian firms are advised to invest time and energy necessary to establish familiarity with the Brazilian consumer.
- Processed foods, health foods and organic foods are increasing in demand in Brazil, this is one area where the Brazilian agriculture sector is weaker and should present an opportunity for Canadian agri-food producers.

Access Issues

Despite liberalization and emphasis on foreign investments, Brazilian trade barriers remain high and continue to favour locally produced products. Enlisting the services of an experienced agent will help Canadian firms better understand the regulatory, marketing, promotional and business intricacies of the Brazilian industry.

Canadian firms looking to supply food ingredients to Brazilian food processors will find that few companies import products directly. It is suggested that Canadian exporters explore opportunities for partnerships with local importers and suppliers, which would also aid in bypassing the complicated trade barriers of Brazil. Many Canadian manufacturers, such as McCain foods, and Heritage Salmon are buying companies and building plants in the region, to make access to Brazil's large consumer base easier.

Canada-Brazil trade regulations could change drastically if the proposed Free Trade Area of the Americas (FTAA) is finalized. The FTAA would unite the economies of the 34 countries of the Americas, including Canada, into a single free trade area. Such an agreement would be the most far reaching trade agreement in history, and would significantly reduce trade barriers between Canada and Brazil when agreed upon. It is expected that the agreement will be finalized by the end of 2005.

- The average Brazilian tariff on goods is 17%.
- Trade shows and industry events are a good outlet for Canadian exporters to make their presence known in the Brazilian market.
- Regulation and marketing of food products is under federal jurisdiction, and overseen by the Ministry of Health and the Ministry of Agriculture. Food products require advance registration with the appropriate ministry. These registrations are usually issued within two weeks.
- When establishing contacts in Brazil, exporters are advised to arrange for an introduction by a respected third party, rather than attempting to make contact on their own. Canadian Trade Commissioners can assist in arranging this type of introduction.
- For more information regarding Brazil's trade barriers please visit: http://www.infoexport.gc.ca

Agriculture Sector & Policies

Brazil's agriculture sector is one of the country's key economic sectors and is growing at 5% annually. This section alone accounts for a quarter of the total Brazilian GDP. Brazil is diversified and largely self sufficient in food production. The transformation in this sector has been very rapid. As late as 2000, Brazil was viewed as a great opportunity for export products. Brazil is now a highly competitive producer who competes with Canada for trade in the world's key agricultural markets.

Brazil is a leading international producer of orange juice, sugar cane and coffee, and ranks second in the production of soya and beef and poultry. Brazil's food processing industry is mature and thriving. Brazil is a net exporter of agri-food products which account for 30% of the country's total exports.

Economic disparity in Brazil is evident amongst farming regions as a result many farmers, do not have access to fertilizer, seed selection, or crop rotation techniques. Large scale modernization and production mechanization, while limited to the southern area of Brazil, are the driving force in this important sector.

- Due to their favorable climate Brazil has a comparative advantage in many agricultural products, and hence a thriving agricultural sector.

- Major export markets for Brazil's agriculture sector are the US, Argentina, Japan and the Netherlands.
- Coffee production has been hampered by a declining world price, but Brazilian farmers are diversifying their crops to compensate.
- Brazil is the last of the large scale agricultural producing nations that still bans bioengineered crops.
- Brazil is the world's third largest producer of beer and local producers continue to invest to keep up with growing domestic demand as well as exports.
- Brazil adopts the international standards for pesticides, herbicides, and fungicides used in fumigation of agricultural products. These standards are applicable to domestic products as well as any products imported for human or animal consumption.

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