The Monthly Magazine for Food and Agricultural Exporters

AgExporter

United States Department of Agriculture
Foreign Agricultural Service

August 2003

- Scoping Out Markets in South Korea
- Assessing Hungary's EU Accession

TRADE SHOW OPPORTUNITY

ALIMENTARIA 2004

BARCELONA, SPAIN

The Show: Alimentaria, a biennial event, is the largest food and beverage exposition on the Iberian Peninsula. In 2002, Alimentaria had more than 3,000 exhibitors occupying 82,000 net square meters of floor space, and attracted 141,000 professional visitors from 80 countries.

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Dates: March 8-12, 2004

Deadline: Dec. 31, 2003

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The Magazine for Business Firms Selling U.S. Farm Products Overseas

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Features

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Consolidation Characterizes Growth in South Korea's Retail Food Sector

By Sangyong Oh

Two recent events precipitated a revolutionary restructuring in South Korea's overall food retail picture. First, following liberalization of the sector to allow foreign ownership in 1996, foreign investors began introducing hypermarkets, supermarkets and convenience stores. Second, the economic crisis that started in 1997 forced existing supermarkets, faced with more competition and a stringent economy, to begin consolidation.

The coming of larger stores and the consolidation of existing supermarkets have proved to be a bonanza for sales of U.S. consumer-oriented foods to South Korea, which topped $1.25 billion in 2002, up 36 percent from 2001.

Sales Picture Sunny

Food sales accounted for 31 percent of Korea's overall retail sales of $128 billion in 2001. Large outlets captured a 13.3-percent share of overall retail sales in 2001 and a 26-percent share of food sales. They are edging in on the territory of wet markets (traditional street markets), mom-'n'-pop stores and department stores.

Direct retail food sales, at a 1.1-percent market share, are also making significant headway through Internet, TV, catalog and network sales, thanks to changing consumer lifestyles and information technology.

Consumers Crave Convenience

The average Korean household spends about 15.5 percent (or $2,750) of its

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annual income on groceries. Though traditional markets still account for two-thirds of retail food sales, the larger stores, led by hypermarkets, will likely continue gaining market share.

Consumers are contributing to the trend toward larger stores as they indulge a taste for international foods and demand greater value, safety, quality and convenience.

Increasing numbers of dual-income families and single-parent households have upped demand for in-store fast-food, deli, prepared and microwave-ready items.

These preferences are manifested in the increasing sales of U.S. consumer-oriented food products. As Korean consumers become more diversified in their tastes and buying power, U.S. producers can readily step in and supply low-price options as well as luxury premium products.

In 2001, imported products accounted for almost a quarter of processed food sales and 30 percent of unprocessed foods in hypermarkets. Large retailers view an assortment of imported foods as a way to differentiate their wares from those of their competitors.

Most retailers import through specialized importers. International chains, however, do import some products directly. Local mass retailers lack experience and the international networks to effectively source directly, but this will change.

Large international retailers are rapidly acquiring private brands, seeing them as conduits to higher profits and improved store image. Domestic chains are also interested, but have not progressed as far in securing their own brands.

In major metropolitan markets, distributors have a network of temperature-controlled trucks and warehouses. Importers tend to farm out distribution to third-party logistics providers who often supply small and medium-size retailers.

Retail Entry Strategies

Almost half the South Korean population resides within a 25-mile radius of Seoul. This nucleus forms a huge retail market, where congestion and high land prices adversely impact large-scale distribution and food sales. So traditional markets and mom-'n'-pop stores still play a big role there.

Growth in the number of large stores is more pronounced in the newer metropolitan communities encircling Seoul. But supermarkets and hypermarkets are making inroads into traditional markets at the outskirts of established residential areas in Seoul.

Contrary to the distribution problems common for large stores in Seoul, the smaller deliveries for convenience stores allow easier and faster access; consequently, this sector has grown significantly.

The single best strategy for export sales entails working with a reputable importer. Established importers provide an array of services and information:

- Market knowledge
- Guidance on business practices and trade-related laws, rules and regulations

- Sales contacts
- Market development expertise
- Distribution logistics

Exporting to U.S. chains can be simplified by working through their U.S. purchasing headquarters.

Another market entry strategy that can leverage exporters' sales is selling to integrated businesses that operate a variety of retail formats and consolidate purchasing for different retail sectors. Import distribution to department stores remains inefficient, and markups are high.

More Competition Coming

The United States now has a 35-percent share of processed food imports in South Korea. So far, the domestic food industry offers the major competition to U.S. exporters, with a variety of quality products and a sophisticated processing industry.

With trade barriers falling and consumer demand rising for new products, tastes and cuisines, other international suppliers will be vying for customers who currently buy from the United States.

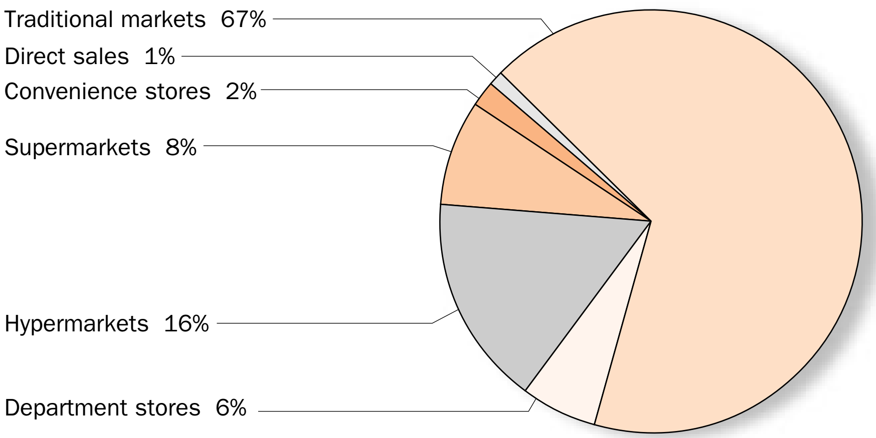
Europe, Australia and New Zealand provide meat and dairy items, and Norway, China, Thailand and Vietnam provide fish.

China is likely to expand its exports of processed products. If South Korea approves a free trade agreement with Chile, consumer-oriented foods will be flowing from that country as well.

Advantages and Challenges Facing U.S. Products in South Korea

Advantages	Challenges
47 million affluent consumers in densely populated area, with per capita income of $10,000	Low recognition of imported foods outside metropolitan areas
Reliance on imports for 70 percent of food and agricultural needs, falling import barriers and free trade talks that are likely to improve market access	High markups, coupled with import tariffs and taxes, that reduce U.S. products' competitiveness
Younger generation's affinity for Western foods	Few retailers that import directly
General acceptance of U.S. foods	Consumers' bias toward local products
International retail chains leading market growth, offering more opportunity for variety of imports	Sanitary and phytosanitary barriers that constrain imports of meats, poultry, and fresh fruits and vegetables
Comparatively lower import tariffs on consumer products	Added labeling requirements for products of biotechnology

Larger Stores Challenging Traditional Markets in South Korea



Food retail sales totaled $39.6 billion in 2001.

Best Picks

The largest and fastest growing categories of imports include: meats (beef, pork and poultry), fresh and canned fruits, fruit juices, jams, canned and frozen vegetables, tree nuts, snack foods, candies and confectionery, beer, wines and liquor, fishery products, dairy products, sauces, spices, oils and pet foods.

Other products with good potential include: processed sausages, hams and turkey, specialty cheeses, noodles, organic products and private brand items. ■

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For details, see FAS Report KS3006. To find it on the Web, start at **www.fas.usda.gov**, select **Attaché Reports** and follow the prompts.

South Koreans Buying Organic

By Young Sook Oh and Susan B. Phillips

In South Korea, locally grown organic fruits, vegetables and rice account for only 0.2 percent of the country's total agricultural production. However, judging from the amount of space retail outlets devote to organic produce, demand for these products seems to be growing.

At present, imports of organic products consist mainly of ingredients for infant formulas, other baby foods and some health foods. However, many Korean importers expect the market for processed organic foods to grow dramatically in the next few years.

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Market Particulars

Some 55 percent of Korean consumers who purchase organic products do so because they are concerned with their health. According to a customer survey, they seem to be interested in foods that have potentially healthful benefits and medicinal qualities. Korean demand for processed organic products is expanding, as is organic food research.

Currently, there is only one company in Korea that sells exclusively organic products, including imported processed items. This company operates six retail outlets in Seoul and does a robust Internet business. Another major retail company is planning to open an organic store later this year.

In addition, many high-end department stores feature an organic corner. Food buyers for these stores are extremely interested in expanding their organic sections.

Another important feature of this market is that a number of organic food stores located in the huge residential apartment complexes common in Seoul sell only organic products.

Currently, the types of organic products commonly available are fresh produce, rice, baby food, bread, baking flour and breakfast cereal. Products likely to catch on include organic juices, snack foods and meats.

Four major Korean companies are manufacturing organic baby food, and they are looking to import dairy, grain,

ABOUT 55% OF KOREANS WHO PURCHASE ORGANIC PRODUCTS DO SO BECAUSE OF HEALTH CONCERNS.

fruit and vegetable ingredients because domestic organic production is extremely small. Other manufacturing companies are seeking organic ingredients for their production lines.

For example, several local Korean companies are selling organic juices, such as carrot juice, that have become very popular. Because carrots are among the commodities that local producers cannot supply in sufficient quantities to satisfy local demand, these companies are looking to foreign suppliers.

Another organization, the National Agricultural Cooperative Federation, a quasi-government agency for local farmers, is interested in purchasing organic feed for local organic livestock production. Finding U.S. organic suppliers of products for these uses is not always easy.

To enter the Korean organic market, exporters must create product awareness through trade show participation and displays in high-end department stores that already have organic food sections.

The Regulations Challenge

One of the largest impediments for U.S. organic producers who want to export to Korea is its regulatory structure. Korean regulations can be ambiguous, and at times customs agents interpret them differently.

For example, the certification requirements for processed foods set up by KFDA (the Korean Food and Drug Administration) seem clear, but they are applied inconsistently.

For each delivery, KFDA requires imports of processed organic foods from the United States to have a copy of the organic certificate for the plant or farm issued by USDA's Agricultural Marketing Service, plus an original transaction certificate certifying that the shipment is organic. Moreover, at times some customs officials require an original USDA organic certificate rather than a copy.

KFDA requires that labels for processed organic foods clearly show the percentage of organic ingredients:

- If all ingredients are organic, then "100-percent organic agricultural product" labels may be used.
- If more than 95 percent (by weight) of the ingredients contained in the finished product are organic, then the term "organic" may be used as part of the product name. In this case, the organic ingredients must be stated in percentages in the labeling section for raw material names.
- If the ingredients in the finished product are more than 50 but less than 95 percent organic, then the term "organic" may be used on the labeling surface of the container but not in the main labeling panel. The organic ingredients must be stated in percentages in the labeling section for raw material names.
- If less than 50 percent of the ingredients are organic, then the term "organic" may be used only in the labeling section of the raw material names.

For fresh produce, a color-coded label system is employed:

- Produce cultivated with no agricultural chemicals and no chemical fertilizer for three years is labeled with a green label as "organic product."
- Produce cultivated with no agricultural chemicals and no chemical fertilizer for one year is considered transitional and is labeled with a light green label as "transitional organic agricultural product."
- Produce cultivated with no agricultural chemicals but with chemical fertilizer is labeled with a blue label as having been produced with "no agricultural chemicals."
- Produce cultivated with half the amount or less allowable by law of agricultural chemicals is labeled with an orange label as having "low agricultural chemicals."

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For details, see FAS Report KS2068. To find it on the Web, start at **www.fas.usda.gov**, select **Attaché Reports** and follow the prompts.

Popularity of Organic Foods on the Rise in the United Kingdom

By Philip Bicknell

In the United Kingdom, organic foods are hitting the mainstream. Supermarket chains now dominate retail organic food sales, and demand for these products is growing. In 2002, the U.K. organic market totaled some $1.6 billion, and imports accounted for approximately 65 percent of these sales.

Organic Products in Demand

Fresh organic produce is the most popular category with U.K. consumers, and the majority of U.S. organic shipments to the U.K. are fresh fruits and vegetables. Many high-value horticultural goods are not grown domestically or in sufficient quantities to meet the United Kingdom's year-round consumer demand. Fresh horticultural products remain good prospects for U.S. organic suppliers.

At the same time, there is a growing appetite for organic convenience foods. Processed foods and food ingredients are gaining in popularity. This presents U.S. organic suppliers with further opportunities.

Generally, organic consumers are older and more affluent than the norm. They have an increasing desire to eat foods they perceive as healthy. In addition to affluent and older consumers, parents with young children are purchasing organic products for the family. Organic baby food has seen phenomenal growth, now approaching 50 percent of all baby food sales.

While the U.K. organic market is still dependent on a small core of regular customers, their number is growing with increased disposable income and greater life expectancy. The potential for transforming occasional and trial buyers into regular purchasers remains huge.

Market Outlets

To enter the U.K. organic market, it is essential to work directly with an importer of organic foods. The import volume necessary to meet U.K. consumer demand means that many companies that handle organics have significant experi-

FRESH ORGANIC PRODUCE IS GROWING IN POPULARITY WITH U.K. CONSUMERS.

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ence in developing international trading relationships.

The U.K. importer may be a food manufacturer who will use the import in further processing or perhaps a large-scale domestic grower who is looking to guarantee year-round supply for supermarket customers. But usually the importer will be a wholesaler who will supply organic products directly to retail and food service companies.

The U.K. food retail market is dominated by a small number of multiple retailers. These supermarket chains now account for 82 percent of organic sales. With the growing dominance of these supermarkets, the market shares for independent food retailers, health food stores, market stalls and farms have eroded. However, because of the increasing popularity of organic products, the value of sales through these smaller outlets has actually increased.

Some retailers, such as Sainsbury's, Tesco and Waitrose, have stocked organic lines since the 1980s, but all of the leading supermarket chains have increased their organic offerings in recent years. Staples such as fruits, vegetables and meats are now much easier to find on store shelves.

It is now common for leading U.K. food retailers to stock more than 1,000 organic products. Tesco has started adding more information to its organic labels on the differences between organic and conventional products. In 2001, Marks and Spencer completely redid its organic offerings, increasing the number of products available and re-branding organic products under its "O" label.

Examples of expanded organic product lines now available in stores include breads, biscuits, cereals, soft drinks, baby food, and prepared and frozen foods. Between 1999 and 2002, all of these categories showed triple-digit growth rates. Because of the influence of multiple retailers and the entrance of established manufacturers into organics, new product development is expected to accelerate rapidly, with a focus on convenience and luxury items.

Organic products generally command a price premium, reflecting the higher costs of production. While price is often a determining factor in the consumer's decision to buy, in the organic food arena, quality is usually more important than price.

U.K. retailers are under pressure from domestic producers and certification bodies to buy more locally produced organic foods and reduce their import reliance. U.K. organic producers have increased their market share of dairy products, meats and eggs.

Retailers remain reliant on imports for organic cereal and horticultural products. The technical problems of growing a wide range of high-quality horticultural crops in the U.K. climate at competitive prices, coupled with year-round consumer demand, means that import reliance will continue, albeit at lower levels than at present.

Organic restaurants and cafés are still limited in number. Most are concentrated in London. They are often part of organic retail outlets. Despite the slow growth of organic restaurants, many traditional food outlets are adding organic choices to their menus. For example, fast-food giant McDonald's sells organic milk at its U.K. outlets.

Rules and Regulations

As a member of the EU (European Union), the United Kingdom does not recognize U.S. organic production rules. However, importers can apply for authorization to bring organic products into the United Kingdom through the Department for Environment, Food and Rural Affairs.

Packaging for organic foods must conform to EU regulations. Foods with more than 95-percent organic agricultural ingredients may be labeled "organic." Those having between 70 and 95 percent organic content may be called "partly organic." Any product with less than 70 percent organic content is not considered to be organic food.

Labels must show the stamp of the certifying body, country of origin, EU-accredited registration number, use-by date, name of product, measurements in metric, name, address of producer and list of ingredients.

More information on the rules and regulations for exporting organic food products to the United Kingdom may be found on the Web site of the U.K. Department of Environment, Food and Rural Affairs at: www.defra.gov.uk/

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For details, see FAS Report UK3006. To find it on the Web, start at **www.fas.usda.gov**, select **Attaché Reports** and follow the prompts.

Hungary Set To Join the EU

By Ferenc Nemes

This article is the second in a series that **AgExporter** *is running on the Central and East European countries preparing for full EU membership, and the implications of those accessions for U.S. agricultural exports. These articles are appearing in various issues through May 2004, when the accessions are scheduled to be completed.*

On May 1, 2004, Hungary will join the EU (European Union). Along with this membership will come adoption of a host of EU rules governing agricultural subsidies, common import tariffs and sanitary and phytosanitary regulations. EU membership will reduce tariffs on many U.S. agricultural exports to Hungary, but this gain may be offset by the implementation of a full range of EU phytosanitary barriers.

The EU's CAP

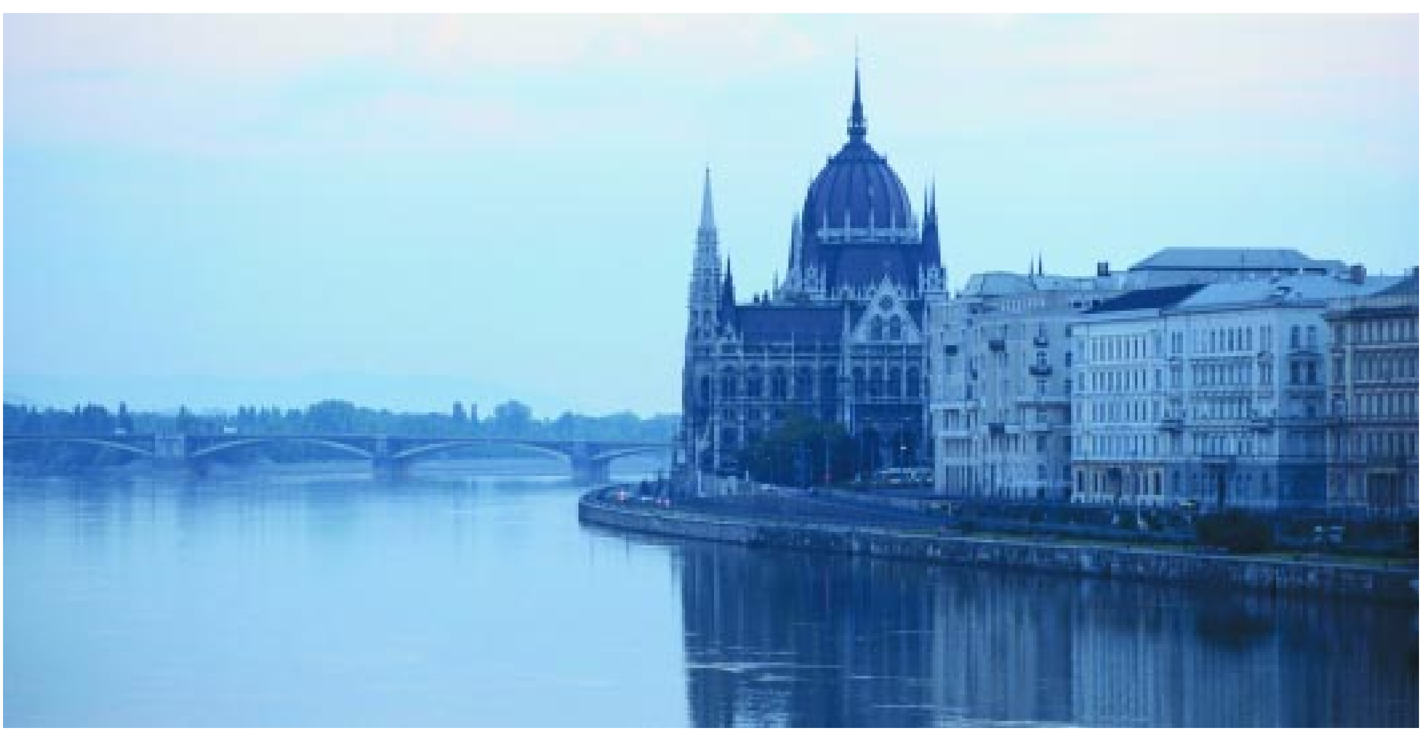
As part of the EU, Hungary will come under its CAP (Common Agricultural Policy) farm support program. Since nearly three-quarters of the direct payments under CAP go to field crops, Hungarian producers of grains, oilseeds, sugar and tobacco will benefit most. On the other hand, some horticultural products (fruits, vegetables and wines) will face a more competitive environment.

Higher subsidies under the CAP for beef and dairy should also increase Hungary's production of these commodities. However, Hungarian poultry, pork and sheep producers will face stronger competition and less budgetary help.

Feed grain prices will likely increase, raising costs for pork and poultry farmers. The pork sector has been in crisis since mid-2002 because of saturated international markets, a strong national currency making its products comparatively more expensive and decreased subsidies.

Likewise, poultry slaughtering and processing capacity exceeds demand. Many mid-sized and small processors will be forced to close down after 2004 if they are not able to meet EU health and safety standards. However, an expanded EU could offer profitable niche markets for Hungarian producers of turkey, duck, geese, guinea fowl and organic poultry.

Hungarian sales to other new EU members, especially Poland, Slovakia, Slovenia and the Czech Republic, will grow significantly. Already, 95 percent of Hungary's agricultural exports to the EU enjoy duty-free status.



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The U.S. Export Impact

Preferential tariffs and quotas have impaired the competitiveness of U.S. exports to Hungary. A current agreement between Hungary and the EU hurts U.S. exports of red meats, chicks, hatching eggs, bovine semen, sweet corn seed, rice, shelled almonds, pet foods, wines and spirits.

Other U.S. products adversely affected by Hungary's preferential trade agreements include tree nuts (with Turkey and Israel), raisins (with Turkey), citrus fruits and juice concentrates (with the EU, Turkey and Israel).

On Jan. 30, 2002, the United States and Hungary agreed to a package of trade concessions in which Hungary would reduce or suspend tariffs on some key U.S. agricultural exports. This agreement will end when Hungary joins the EU. However, the number of U.S. products that could have higher tariffs upon Hungary's EU accession is limited. These products are beef, poultry, barley, rice, margarine and apple juice concentrate.

For several years, Hungary has adopted a wide range of EU phytosanitary rules that amount to trade barriers, particularly in animal products. Their trade impact is being felt: U.S. animal product exports to Hungary have declined an average of 14 percent per year over the last 10 years. In contrast, Hungary's trade with the EU in these products has grown at an average of 8 percent per year.

Beginning in January 2002, Hungary began requiring several certificates, covering most meat imports. These measures require USDA's Food Safety and Inspection Service inspectors to certify that shipments meet EU regulations. This has had a chilling affect on trade and calls for U.S. exporters to meet EU rules that are not applied to all Hungarian meat processors.

Opening Opportunities

Despite these ongoing trade issues, there are market opportunities in Hungary for U.S. exporters. Basic tariffs on live chickens will be reduced. U.S. poultry genetics are well established in Hungary and, barring additional EU phytosanitary barriers, sales should stay strong.

HUNGARY'S ACCESSION WILL INCREASE OPPORTUNITIES FOR SOME U.S. PRODUCTS.

Tariffs for frozen fish will decrease slightly. At present, this is not a large market, but consumption is starting from a low base and is expected to grow.

One of the biggest tariff cuts will be on grapefruit and dried fruits, including dried plums and raisins. For example, grapefruit juice duties will shrink from 31.4 to 12 percent. Duties on U.S. wines will go from 60 percent to between 9 and 11 percent. Tariffs on spirits will also decrease dramatically.

In some instances, EU accession will remove non-tariff trade barriers. For example, until the middle of 2002, all food products, excluding fresh items, had to be registered and approved by the Hungarian food-testing institute. This process was slow and costly. In July 2002, in anticipation of EU membership, Hungary ended this system. The result has been less paperwork and faster response times for Hungarian importers.

Hungarian tastes will likely change over time, and consumers will be more interested in Western-style foods. This trend, which is already beginning with almonds, wines and snack foods, could extend to other U.S. products as well.

Hungarian demand for U.S. cheeses and off-season fruits and vegetables is likely to increase due to price reductions. U.S. products with innovative packaging focusing on convenience will reach Hungary more quickly than in the past.

Today, a significant share of Hungary's imports of U.S. agricultural goods is transshipped through distributors in other European countries, so much of this trade does not show up in official statistics. U.S. microwave popcorn enters via a Czech distributor, California wines, through Austrian traders, and U.S. beef, from Poland.

This dispersed handling is likely to grow with Hungary's EU membership and could further reduce the logistical and structural barriers to U.S. products. For example, with EU membership, a Polish distributor's California fruit and nut mix may easily reach the shelves in Hungarian, Slovakian, Czech or Lithuanian shops. ■

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For details, see FAS Report HU3002. To find it on the Web, start at **www.fas.usda.gov**, select **Attaché Reports** and follow the prompts.

Japanese Pets Fancy U.S. Chow

Doting dog and cat owners in Japan buy $2 billion worth of pet foods each year, with dog food accounting for 58 percent of total sales and cat food the remaining 42 percent. With a 90-percent share of all pet food sales, dog and cat chows dominate the market.

As commercial pet foods overtake table scraps in their diets, more of Japan's pets—an estimated 9.8 million dogs and 7.5 million cats—are eating healthier and better each year. The same demographic trends that are increasing the number of smaller families and single-person households have also elevated the status of the family pet.

In calendar 2001, imports accounted for close to a third of all sales—$606 million worth. But this figure does not accurately reflect the volume of imports consumed by pets. Because they tend to be less expensive than domestic brands, imports fill 60 percent of pet food bowls.

According to in-country statistics, the United States is the leading foreign supplier of cat and dog food to Japan, with a 45-percent share of the import market in 2001. These exports weighed in at almost 200,000 metric tons and were valued at $273 million.

The United States competes primarily with Australia (which has a 24-percent share) and Thailand (19 percent) for this export market.

Target Appeal to Consumer

The Japanese pet food market is growing about 2.9 percent a year and is highly competitive.

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Cat food sales totaled $851 million in 2001, with 57 percent being wet (canned) and 42 percent dry products. For less finicky canine appetites, 47 percent of dog food sold is dry, 24 percent wet, 17 percent semi-moist and 12 percent in other forms. Dog food sales added up to $1.16 billion.

For new suppliers, the following approaches are recommended for navigating a successful market entry:

- Visit Japan and see the market firsthand.
- Network with suppliers, potential partners and customers.
- Differentiate your product from others, emphasizing value-added benefits.
- Look for established distributors who can introduce your products successfully.
- Tailor packaging and products for Japanese consumers.
- Maintain service and personal contacts after introduction.

Markups Add to Price

Though manufacturing costs for imports are usually low and there are no tariffs, import fees and charges run 5-8 percent of value, while a consumption tax adds another 5 percent to product prices.

Layers of distribution and retail markups for imported pet foods add at least another 100 percent to the original cost. Importers usually transfer pet food shipments to sales agents who in turn pass products along to wholesalers and distributors to the end-consumer outlet.

Home centers tend to carry large size of many brands at discount prices Supermarkets carry many brands but usually in smaller sizes. Convenience stores with limited shelf space, carry few brand in the smallest sizes. Veterinary clinics anc kennels are other good outlets for pe food sales.

Watch These Trends

The competitive intensity of the market emphasizes the importance of produc appeal for pet owners. Large package size are becoming popular as consumers lool for the best bargains.

Pet food companies have discovered that value-added products appeal to niche markets. Examples include products aimed at various stages of a pet's life, or offering scientifically balanced nutrition or specific vitamin and functional ingredients.

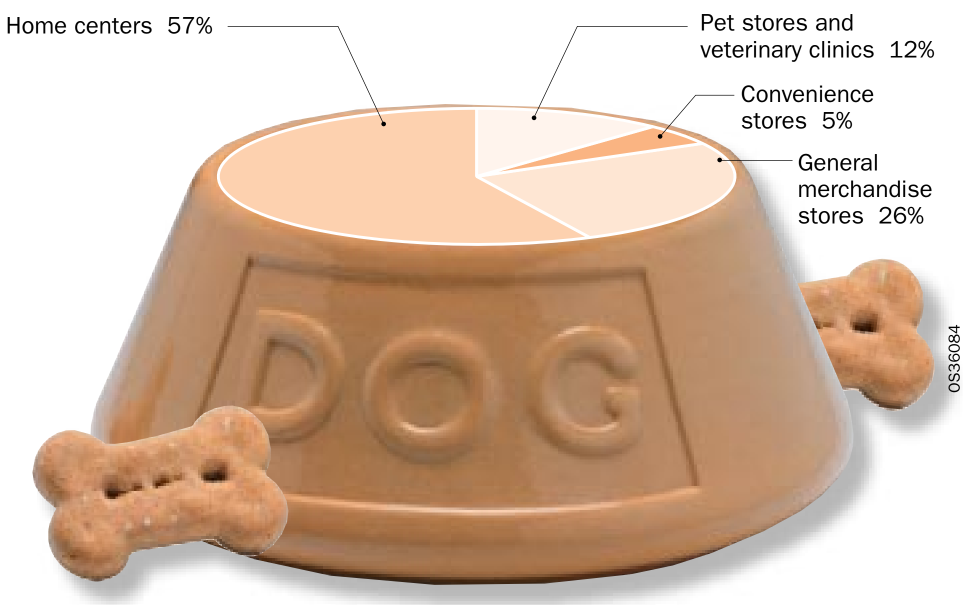
When deciding which product to buy, surveys show that owners cater to pet preferences first, and then consider price, safety and quality.

Regulations and Labeling

Pet foods are not subject to Japan's Food Sanitation Law. Products that meet the standards of the Association of American Feed Control are usually acceptable. But products with antibiotics or antibacterial agents are subject to Japan's Pharmaceutical Affairs Law.

Japan's pet food labeling code has three parts: mandatory information for pet foods, standards for representing pet foods as total nutritional foods and labeling restrictions to ensure accurate product descriptions.

Home Centers Lead in Pet Food Sales in Japan



Pet food sales exceeded $2 billion in 2001.

Japan's Pet Food Fair Trade Association has established voluntary standards for production technology and quality. The association defines three pet food types:

- **Nutritional.** Food that is sufficient to maintain the health of the animal by feeding only the given food plus water. The package must also specify the age of the animal for which the product is intended.
- **Snack.** Food intended as a treat or reward.
- **Special Purpose.** Supplements that can be called nutritional, high- or low-calorie, side dish or similar description.

Some labeling content is mandatory:

- Clear statement that the product is intended for animals
- Purpose of the food, e.g., total nutrition or snack
- Net weight
- Method of feeding
- Year and month of manufacture, or use by date
- Component analysis
- Raw materials
- Country of origin
- Name and address of manufacturer ■

This article was based on a report prepared by a contractor for the FAS Agricultural Trade Office in Osaka, Japan. Tel.: (011-81-6) 6315-5904; Fax: (011-81-6) 6315-5906; E-mail: atoosaka@ppp.bekkoame.ne.jp

For details, see FAS Report JA3702. To find it on the Web, start at **www.fas.usda.gov**, select **Attaché Reports** and follow the prompts.

Brazilians Looking for High-Quality Wines

By Andrea Figueiredo-Stevenson

Although the Brazilian economy has faced several setbacks over the last several years, the country has a growing population of higher income consumers who are willing to pay for good-quality wines. Brazil imports most of its wines from Chile, Italy, Argentina, Portugal and France.

However, there is a growing interest in wines produced in the United States. With a little creative marketing and more active participation on brand-building activities such as local wine shows, U.S. wines can gain stronger consumer recognition and acceptance.

Homemade

The Brazilian wine industry is based in the country's southern region, in the state of Rio Grande do Sul, which accounts for 95 percent of domestic production. The northeast produces the other 5 percent.

The country invested heavily in its wine industry during the 1970s. Although Brazil's grapes remain inferior to those of Chile and Argentina, Brazilian wines have shown significant improvement, and in 2002 producers started to export quality wines to the United States.

Eighty percent of Brazil's high-quality wines are produced from American hybrid and other hybrid grape varieties. Brazil's sparkling wine production has been surging by almost 25 percent annually in recent years, spurred by increased domestic consumption as well as a growing international reputation.

Demand for High Quality

Despite this increased domestic production, Brazil is more and more dependent on wine imports to meet consumption demand. Per capita wine consumption in Brazil is about 2.3 liters (1 liter = 1.0567 quarts) per year, ranking it 17th in the world.

Due to a large campaign on the health benefits of consuming red wines, these varieties have garnered about 60 percent of the Brazilian market. Because of a strong European influence, consumption of table wines is very popular in southern Brazil. There is also a significant growth in the consumption of high-quality wines, most of them imported from Europe and from other South American countries. These wines are popular with restaurants and hotels, a rapidly growing sector in Brazil.

Among Brazilians who can afford to purchase luxury items, imported wines are very popular. European and South American imports still have an advantage in the market due to lower tariffs, but U.S. wines can make inroads with a little consumer education.

Making a Splash

U.S. wine exporters interested in entering the Brazilian market should establish a relationship with a Brazilian importer. The importer must be familiar with importing procedures and marketing channels for high-quality wines. The Brazilian importer must also have good access to the retail and HRI (hotel, restaurant and institutional) sectors.

Quality, availability, brand name familiarity and price are crucial factors that Brazilian consumers consider when

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U.S. WINES WILL BE POPULAR WITH CONSUMERS WHO ARE MORE INTERESTED IN QUALITY THAN PRICE.

choosing wines. How should U.S. suppliers tackle these issues?

- **Quality.** Brazilian consumers are well acquainted with quality and are able to judge wines accordingly. Due to higher prices, U.S. wines will be popular with consumers who are more interested in quality and less concerned about price. When trying to access this end of the market, exporters should present their best wines and focus their marketing activities towards the higher income population.
- **Availability.** The majority of Brazilian consumers of high-quality wines are faithful to their local commercial establishments. It is important that U.S. wines be well placed in these outlets, which include supermarket chains, specialized wine stores and upscale restaurants.
- **Brand.** U.S. wines are relatively new to the Brazilian consumer. U.S. exporters should use educational activities such as in-store promotions, cooking shows, local trade shows and joint promotions with restaurants and hotels to get their brands known.

Virtual Wine Tasting

Virtual wine tasting has been catching on with Brazilian consumers. How does it work?

The producer provides samples to a wine expert, who will taste the wine and make comments over the Internet or by videoconference. This is an interactive endeavor between the wine taster and invited participants, who are able to ask questions about the sampled wines.

While not as effective as a traditional wine tasting, it can be a cost-effective promotional technique for wines already in the market.

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If the winery can send a representative to promotional activities, they are much more effective. Vino Brasil, a major wine trade show held each year in September, is an excellent place to introduce your wines into this market.

- **Price.** U.S. wines face stiff price competition, especially from Chilean and Argentine wines, which benefit from shorter shipping distances and, as noted, lower tariffs. When considering price competitiveness, U.S. exporters should work on building an image of U.S. wines as high-quality products. Brazilians often are willing to pay higher prices for products they know and like.

Once having made the decision to export wines to Brazil, U.S. exporters and their importers must work together on aggressive marketing and educational campaigns to build consumer awareness and brand reputation.

Import Regulations

Wineries whose products are imported into Brazil must be registered with the Agricultural Protection Office of the Brazilian Ministry of Agriculture. Documents required for registration include certification of the legal existence of the winery, a description of the facility and its equipment, official certificate of analysis from a laboratory in the country of origin and certification of origin.

Brazilian customs officials are extremely strict in enforcing all paperwork requirements. If there are errors in the documentation, customs officials will confiscate the merchandise. That is one reason why using a reputable importer who is familiar with Brazilian wine regulations is a necessity.

Upon entrance into Brazil, imported wines are subject to chemical analysis. Shipments are put in storage while the tests are being conducted.

The wine label must include the name of the product, ingredients, country of origin, storage instructions, net contents in metric, date of production and shelf life. It is a common practice for importers to add a small adhesive label in Portuguese, Brazil's official language, with the name of the importer and the company's tax registration number.

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For details, see FAS Report BR2613. To find it on the Web, start at **www.fas.usda.gov**, select **Attaché Reports** and follow the prompts.

TRADE MISSION OPPORTUNITY

TRADE MISSION

SAO PAULO, BRAZIL

What:

FAS is sponsoring a trade mission to Sao Paulo before SIAL Mercosul 2003. Eligible expenses are reimbursable through the Market Access Program branded program, administered by FAS commodity organizations and state-regional trade groups. The mission will help U.S. exporters of high-value food products find sales opportunities. Activities include site tours, industry speakers, a product display and one-on-one meetings with importers. The Sao Paulo Supermarket Association will discuss the retail sector. The Brazilian Food Processors Organization will provide insight into trends, and a leading food import/food safety consulting firm will give guidance on "clearance do's and don'ts." Participants can exhibit products and meet buyers from other countries at SIAL Mercosul.

When:

Sept. 10-12, 2003

The Market:

Brazil is the world's tenth largest economy and South America's most populous nation, with 180 million consumers. Sao Paulo, which has 10 percent of the population and the most affluent consumers, is Brazil's financial and food processing center.

European food imports are popular in Brazil. But because the euro has risen against the U.S. dollar, U.S. high-value products are becoming a better value—so now is a good time to enter or expand your marketing here. In 2002, Brazil's imports of consumer-oriented agricultural products from all sources were valued at about $1.1 billion, with dairy products, processed fruits and vegetables and snacks leading the way.

Best Prospects:

Dairy products (cheese, casein and whey), snack foods, processed organic products, health foods, kosher products, infant products, rice, flour, salmon, breakfast cereals, pancake mix and waffles, sunflower seed oil and canola, soups and condiments, wines, beer and spirits, jams and jellies, ready-to-eat desserts and pet foods

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TRADE SHOW OPPORTUNITY

SIAL MERCOSUL 2003

RIO DE JANEIRO, BRAZIL

What: SIAL Mercosul 2003 will partner with ExpoABRAS (the International Products, Equipment, Services and Technology for Supermarkets Exhibition) and the Annual National Supermarkets Association Convention (with Brazil's top chain retailers) to create the leading exhibition in the food industry in Latin America. This partnership between SIAL Mercosul and ExpoABRAS offers exhibitors two trade events for the price of one, and the opportunity to meet buyers from the food retail and processing industries from all over Latin America.

When: Sept. 15-18, 2003

Where: Rio Centro Exhibition Centre
Rio De Janeiro, Brazil

The Market: The Brazilian market is open to new tastes and trends. Brazil's young population, with its exposure to U.S. media, music and other cultural influences, plus its desire to do things the "American way," opens the door to the marketing of U.S. products. And because the United States is the most popular tourist destination for Brazilians traveling abroad, making the pitch for U.S. products is even simpler. Yet today, there are still many U.S. products missing from the aisles of the typical Brazilian retail market.

Though Brazil has a growing food processing industry, it imports a range of foods and beverages; Argentina, Chile and the United States are its top three suppliers. The U.S. market share has remained stable over the past five years, at just under 10 percent. With the anticipated strengthening of the Brazilian real in relation to the U.S. dollar, in 2003 high-value products from the United States are becoming more affordable to importers, retailers and consumers here.

Best Product Prospects: Seafood, dairy products such as cheese, snack foods, red meats, fresh fruits and vegetables, processed fruits and vegetables, fruit and vegetable juices, breakfast cereals and pancake mix, tree nuts, wines and beer, pet foods, organic and natural foods

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TRADE SHOW OPPORTUNITY

6TH AMERICAS FOOD AND BEVERAGE TRADE SHOW AND CONFERENCE

MIAMI, FLORIDA

The Show: The **only** Food and Beverage Exhibition for all of the Americas–the 6th Americas Food and Beverage Trade Show and Conference—promises to be even bigger and better than in 2002, with more than 600 exhibitors from across the hemisphere.

Market: Over $1.4 trillion is spent annually on food and beverage purchases in the Americas, and export sales are expected to double by 2007. Miami serves as a sales and distribution center for food and beverage products transiting these markets–32 percent of U.S. food product exports to the Caribbean and Latin America flow out of Florida ports.

Dates: Dec. 3-4, 2003

Best Products: Bakery items, beer, wines and liquor, breakfast cereals, chocolate and candies, coffee and tea, confectionery products, dairy products, convenience foods, diet foods, ethnic foods, dried fruits and vegetables, frozen foods, gourmet foods, grocery products, ingredients, juices and other beverages, kosher foods, pet foods, poultry, sauces, spices and condiments, seafood and snack foods

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Trade Notes...

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Secretary Veneman Presents Madigan Awards

Donald W. Nugent, founder, president and chief executive officer of Graceland Fruit, Incorporated, and William Kim, president of EP International Company, have received Edward R. Madigan U.S. Agricultural Export Excellence Awards. The award recognizes entrepreneurial efforts to create new markets for, or to increase exports of, U.S. agricultural products. The award commemorates Edward R. Madigan, former Congressman from Illinois and Secretary of Agriculture from March 1991 to January 1993.

Graceland Fruit Incorporated from Frankfort, Mich., was cited for its entrepreneurial efforts to develop innovative, infused dried fruit products and market them successfully in targeted East Asian and European markets. As a result of these efforts, Graceland Fruit's export sales increased 118 percent over the last four years.

EP International Company from Irvine, Calif., was selected for its successful efforts to expand sales to Asian markets for U.S. dried legumes, seasonings and processed ingredients. As a result, its exports have increased about 550 percent over the last four years.

The Madigan award is presented for development of new products or services for agricultural export markets; development of new agricultural export markets; and creative marketing of products or services in agricultural export markets.

U.S. Seafood Exporters Cast Nets at European Seafood Exposition

USA Pavilion exhibitors cast their nets at the 11th edition of the exposition in Brussels, Belgium, in May. Products that generated the most buyer interest from the Alaska Seafood Marketing Institute included salmon, wild salmon, salmon roe, salmon surimi, chum salmon, salmon caviar, chum ikura and crab. Products that generated the most buyer interest from the Southern United States Trade Association included lobster, catfish filets, clam strips, shrimp, whiting and sardines. The show provided a venue for U.S. exhibitors to meet with customers and make new contacts. The next show is scheduled for May 2004.

U.S. and Bahrain Announce Plans for FTA

The United States and Bahrain announced their intention to negotiate an FTA (free trade agreement). The successful conclusion of a comprehensive FTA with Bahrain would generate export opportunities for U.S. goods and increase access for U.S. services providers, creating jobs for U.S. farmers and workers, while supporting Bahrain's economic and political reforms and building stronger economic ties with the Middle East. U.S. agricultural commodities that would benefit from an FTA include meats, fruits and vegetables, cereals and dairy products. U.S. goods exports to Bahrain in 2002 totaled $419 million, including aircraft, machinery, pharmaceutical products and toys. Bahrain's goods exports to the United States in 2002 totaled $395 million, including apparel and clothing accessories, aluminum, fertilizers, plastics and electrical machinery.

Also in This Issue:

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Japanese pets hanker for U.S. chow
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And Next Time, Turn to AgExporter for:

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