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## Brazil

### Product Brief

## Brazilian Beer Market 2005

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**Report Highlights:**

In terms of beverages that contain alcohol, beer is Brazil's drink of choice. With a history of European immigration, it should come as no surprise that the brewing industry in Brazil's dates from the first-half of the 19<sup>th</sup> century. Brazil's industry is dominated by a small number of locally produced brands. Microbrews have gained a small market share over the past ten years. Though imports account for less than 1% of domestic consumption, U.S. suppliers could do some business in the bigger cities and with the growing tourism trade along Brazil's Atlantic coast.

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Includes Trade Matrix: No  
Unscheduled Report  
Sao Paulo [BR3]  
[BR]

## SECTION I. MARKET OVERVIEW

Brazil is the fourth-largest producer and consumer of beer worldwide. The potential for imported beer in Brazil, like that for the vast majority of value-added foods and beverages, is very much a niche market. As is true for most agricultural goods, Brazil is a net exporter, and this holds true for the brewing industry as well. Considering data for the past ten years, about one-half of all beer is sold in bars and restaurants, twenty percent in mom-and-pop shops and the balance through super and hypermarkets. For the first four years of this decade, on an annual basis, beer imports have ranged between 2.2 million and 4 million liters with the value of imports in the \$1.3-2.1 million range. Microbreweries though still new to the beer supply business probably account for close to five percent of production.

Advantages	Challenges
Target audience familiarity/interest in U.S. culture and products.	Landed price of U.S. beers significantly higher than locally produced brands.
Brazilians preference for beer as alcoholic beverage of choice.	Dominance of lower-priced domestically produced beers.
Brazil's economy grew by about 5% in 2004 and 3.5-4% growth is projected for 2005.	Skewed income/wealth distribution limits size of consumer pool.

## SECTION II. MARKET SECTOR OPPORTUNITIES AND THREATS

Retail Food Sector and HRI Sectors

### Entry Strategy

Prospective new-to-market suppliers need to identify a capable Brazilian importer/distributor who will market the product to retailers, bars and restaurants and who is familiar with importing procedures. The same importer will distribute the product for sale through HRI and retail channels. This connection can be made through the Agricultural Trade Office in conjunction with a visit to the market, participation in a trade show or other matchmaking events.

Beer is sold through supermarkets, hypermarkets, convenience and specialized stores, catalogues, and the HRI sector. The split between sales for take out and within establishment (bars, restaurants, cafeterias, etc.) is about 50/50. In other words, about one-half of beer consumed is sold through retailers, from hypermarkets to gas marts and mom-and-pop shops. Given the dominance of inexpensive, locally produced beers in the market, prospective U.S. suppliers would do well to concentrate on the higher end of the retail chain and the five-star hotel tourist trade, staking out territory outside the conventional domain of the leading national brands. Just as for U.S. food products being introduced, another tack has to be taken in order to carve out space for new-to-market beers.

### Market Size, Structure, Trends

Brazil is world's fourth largest brewer and consumer of beer. The value of beer sales in 2003 can be estimated at about \$10 billion. Based on various sources, it appears that Brazilians have about the tenth largest per capita consumption of beer. Local brands represent more than 95% of beer sales, and Skol with close to 30% of sales and Brahma with about 20%, are the market leaders. According to the Sao Paulo Supermarket Association (APAS), in all, the top five leading brands – Bavaria, Brahma, Kaiser, Schin and Skol - account for close to 80% of all beer sold. It is interesting to note that Skol also appears to be the third leading world brand when comparing beer sales across names, trailing only Budweiser and Bud Light.

With a growing and young population – the 2005 population is about 185 million with approximately 38% of Brazilians 19 or younger – there will be a steady stream of consumers entering the marketplace over time. In terms of beer types, pilsner is the type of beer clearly preferred by Brazilians. Beer sales are the highest during Brazil's summer months of December through February. For prospective U.S. suppliers, the question boils down to the size of the target audience. That is, who are the Brazilians that have the means to purchase U.S.-produced beer?

The Brazilian monthly minimum wage is R\$260 (approximately \$96 dollars in March 2005) and because Brazil continues to confront disparities in income distribution, the majority of the population does not figure in the target audience for imported products. Nevertheless, according to a recent study *"Wealthy in Brazil"*, released by Marcio Pochman, Professor of Economics at the University of Campinas (Unicamp), Sao Paulo, there are 1.2 million families in Brazil that make an average monthly income of R\$10,980. They represent 2.4 percent of the total number of families and are the wealthiest families in this social analysis. These families are mainly inhabitants of the Southeast region (73 percent) - the state of Sao Paulo alone accounts for 58 percent of this group - 10 percent are located in the South region, 7.7 percent in the Northeast, 6.4 percent in the Midwest and 2.4 percent in the North. Nationally, the average income of the top 1 percent of Brazilian families is R\$14.6 thousand/month while in Sao Paulo the average income for the same group is R\$36.6 thousand/month. As stated previously, Brazil remains a historically unequal society, where the poor are excluded and where, surprisingly, upper class stability has been perpetuated as three-fourths of national wealth is produced and controlled by 10 percent of the Brazilian population.

#### DISTRIBUTION OF TOP 10 PERCENT WEALTHIEST FAMILIES

Top 5 States	Number of Families	% of total
Sao Paulo	674,455	58.0
Rio de Janeiro	97,827	8.7
Minas Gerais	67,069	5.8
Rio Grande do Sul	49,284	4.2
Parana	43,005	3.7
<u>Top 5 Cities</u>		
Sao Paulo	443,462	38.0
Rio de Janeiro	76,317	6.5
Brasilia	34,994	3.0
Belo Horizonte	27,526	2.8
Sao Bernardo do Campo	23,394	2.0

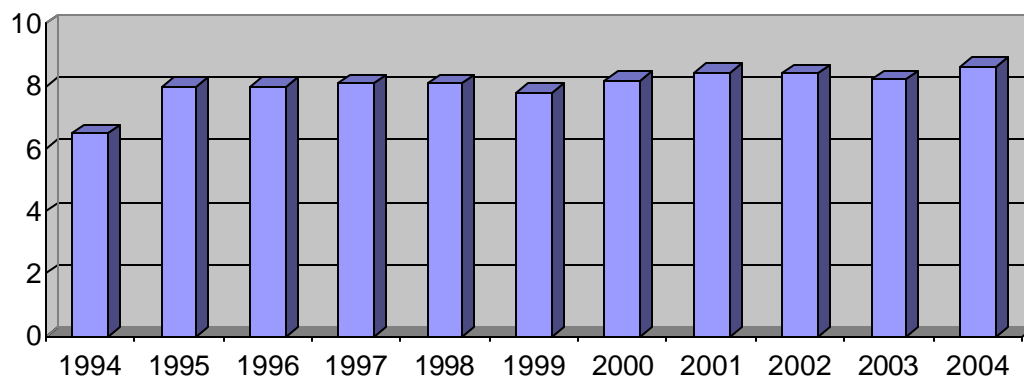
Source: Censo 2000/IBGE

For the more affluent families, approximately 10.2 percent of income is spent on food consumption. Research also shows that for Brazilians as a whole, one out of every four meals is consumed outside the home while among wealthier families this percentage reaches 36.2. In other words, for this class, roughly 63.8 percent of food expenditures are made in the retail market.

While the Brazilian Real strengthened in 2003 then depreciated through mid-2004, it is the US Dollar that has weakened through the last half of 2004 and in early 2005 is approaching levels not seen since mid-2002. This means that U.S. products are at a relative price advantage vis-à-vis those denominated in Euros, for example. That is, there's a window of opportunity. Moreover, though the first few years of this decade witnessed slow growth and a veritable economic standstill in 2003, the economy rebounded impressively in 2004 when there was an economic expansion of five percent. Expectations for 2005 are for growth to run 4-6%. Growth in beer sales roughly tracks overall economic growth.

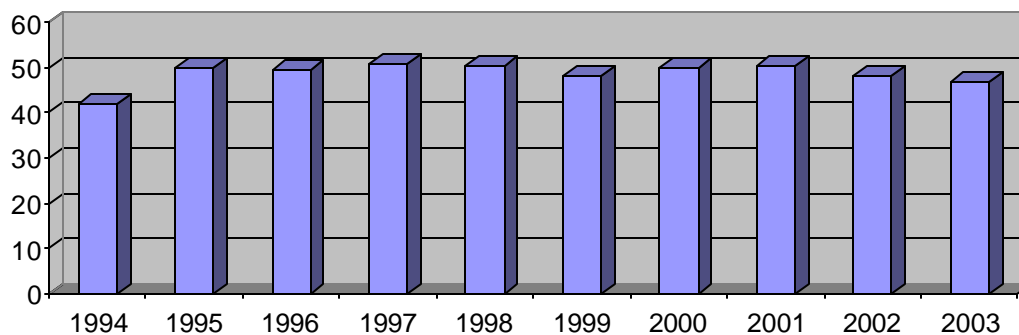
Money is not a major impediment for high-end consumers, but they also have a more enhanced perception of value x cost. They are more inclined to buy products that are new, trendy, of higher quality and branded. From the importer side, affluent consumers are considered very demanding. The importer has to offer a greater selection of products and constantly identify new items to launch in the market. However, since the number of these consumers is limited and importers are reluctant to order new-to-market goods by the container-load, the operation involves mixed containers and negotiations with a wider number of suppliers, which sometimes is a restriction to trade.

### Brazilian Beer Production (Billions of liters)



Source: [sindicerv.com.br](http://sindicerv.com.br)

### Per Capita Beer Consumption (Liters/year)



Source: [sindicerv.com.br](http://sindicerv.com.br)

In terms of preferred serving size and packaging for retailed beer, according to a 2004 ACNielsen study, about 68% is sold in 600 ml bottles and about 28% is sold in cans of 350 ml. Also, average alcohol content for Brazilian made beer is 5%.

Company Profiles**Leading Brazilian Brewers**

<b>Company</b>	<b>Principal Brands</b>	<b>Production</b> (billions of liters)		<b>Estimated 2004 Production Share</b>
		2003	2004	
AmBev	Antartica, Bohemia, Brahma, Skol, Miller, Carlsberg	5.5	5.8	66
Schincariol	Nova Schin, Primus	.9	1.4	16
Molson	Kaiser, Bavaria, Heineken, Xingu	1.2	1	11
Cintra	Cintra	.187	.184	2
Others	Local Microbrewers (about 60)	.41	.43	5

Brazil's Exports and Imports of Beer**Exports**

<b>Year</b>	<b>US\$ FOB</b>	<b>Quantity (liters)</b>
2003	12,583,396	30,297,537
2002	9,303,883	29,603,559
2001	16,177,156	39,786,596
2000	22,462,194	48,617,844

**Imports**

<b>Year</b>	<b>US\$ FOB</b>	<b>Quantity (liters)</b>
2003	1,306,017	2,259,068
2002	1,762,735	3,174,997
2001	2,069,957	3,999,420
2000	1,859,516	3,784,518

Source: sindicerv.com.br from Ministry of Development, Industry and Foreign Trade

**SECTION III. COSTS AND PRICES**

Tariffs – The import tariff for beer imported from outside the MERCOSUL<sup>1</sup> is 20%. There is no tariff-rate quota.

Inspection Fees and Customs Brokers' Fees: Inspection Fees:

– Customs Broker Fees: 2.5% of FOB value; Administration Commission on Imports, \$50/transaction.

Cargo Unloading, Transport and Storage Fees – Cargo Handling: Approximately 2.3% of FOB value; Transport Santos to Sao Paulo, approximately 10% of FOB value; and Storage Fees amount to approximately 1% of CIF value for less than five days to 3% for up to 20 days.

<sup>1</sup> MERCOSUL – Regional free-trade bloc with Argentina, Brazil, Paraguay and Uruguay as members with Chile as an affiliate member.

Value-added, Sales and Other Consumption Taxes –

- A) IPI – An excise tax or tax on manufactured goods that is applied to bottled and canned beers, locally produced and imported, and ranges from .0696 to .1582 centavos/unit.
- B) Value-added Tax (ICMS) = 25% for Sao Paulo state. Each state sets its own ICMS tax rate.
- C) Social Contributions Tax (PIS/COFINS, a tax on gross corporate revenue and a goods and services sales tax, respectively) = 9.25%
- D) Average mark-ups between different stages of the marketing chain:  
Taxes – 35.6%, Production 26.3%, Retail 26.6% and Distributors 11.5%
- E) Costs (slotting fees, price breaks, promotional support) in securing retail store shelf space. Not surprisingly, slotting fees, price breaks and promotional support vary from retailer to retailer. High-end slotting fees are reported to be R\$1,000/SKU and promotional support of up to 100% of a given product (40 cases being provided for the twenty ordered) have been reported. On the whole, it appears that this category of cost is completely open to negotiation.
- F) Typical price spreads of competing domestic and imported products at final point of sale (from representative Sao Paulo supermarket).

Packaging/Size	Avg. Price for Local Beer (in R\$)	Avg. Price for Imported Beer (in R\$)
Cans from 261 to 360 ml	1.15	5.57
Cans from 361 to 660 ml	1.60	10.17
Bottles from 261 to 360 ml	1.21	2.50
Bottles from 361 to 660 ml	5.66	7.84

- G) Other factors including transport/cold storage infrastructure limitations, discounts based on shipping season and volumes, and special contract terms.

## SECTION IV. MARKET ACCESS

The main impediments to market access are the aforementioned value-added and excise taxes and assorted other fees that apply to imported, and, in many cases, locally produced goods as well. Government of Brazil bureaucracy can be somewhat daunting and contributes in part to what is referred to as the “Custo Brasil”, the Brazil Cost.

For imported beer, the Ministry of Agriculture’s Department of Plant Health and Inspection Services (DDIV) is the agency responsible for regulating the registration and labeling of this product as well as testing of imports for clearance to sell. For beer, both the importer and product must be registered with DDIV. In terms of food law, product labeling, packaging and container requirements, Brazil regulations are similar to those applied to the U.S. It should come as no surprise that imported products must carry basic product information in Portuguese usually affixed in sticker form. The information typically provided includes:

- Name of the Food
- Country of Origin
- Net Weight (in metric un)
- Date of Production
- Food Additives and Colors
- Expiration Date (shelf life, established by the manufacturer)
- Statement of Ingredients
- Special Storage Instructions (when necessary)

## Importer's Name and Address

Other than the above, there are no extraordinary grading or other product quality standards, nor testing, certification and documentation requirements that affect imported beer. For a thorough report of Brazil's food and agricultural product import regulations and standards, please see the Brazil FAIRS report, BR4616, available at:

[www.usdabrazil.org.br](http://www.usdabrazil.org.br)

or

[http://www.fas.usda.gov/scripts/attacherep/attache\\_lout.asp](http://www.fas.usda.gov/scripts/attacherep/attache_lout.asp).

**SECTION V. KEY CONTACTS AND FURTHER INFORMATION**

Trade Association: Brazilian Food and Beverage Exporters and Importers Association

Telephone/Fax: 55 11 5087-9546

E-mail: [abba@aabba.org.br](mailto:abba@aabba.org.br)

Brazilian Government Agency: Ministry of Agriculture's Department of Plant Health and Inspection Services (DDIV)

Telephone: 55 61-322-3250 / 218-2675 / 218-2567

Fax: 061-224-3874

E-Mail: [ddiv@agricultura.gov.br](mailto:ddiv@agricultura.gov.br)

Website: [www.agricultura.com.br](http://www.agricultura.com.br)

U.S. Agricultural Trade Office: If you're interested in marketing your products in Brazil or have other questions about beer production, consumption and sale in Brazil, please contact us as follows:

(U.S. Mailing Address)

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