The Monthly Magazine for Food and Agricultural Exporters

AgExporter

United States Department of Agriculture
Foreign Agricultural Service

August 2002

Hemispheric Observations

Taking Stock of NAFTA

Food and beverage markets in Mexico and Canada

Brazil's growing appetite for imports

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Taking Stock of the North American Free Trade Agreement


5328

A speech given by Franklin D. Lee, FAS' deputy administrator for Commodity and Marketing Programs, before the Colorado Agricultural Outlook Forum, Denver, Colo., on Feb. 19, 2002, reviews the promise, reality and future of our first and so far only regional trade agreement—the North American Free Trade Agreement (NAFTA). The following are highlights from that speech.

"Trade agreements, whether in this hemisphere or another, have led to real, measurable gains in U.S. exports and farm income. In the case of NAFTA, those gains should be $1.5 billion a year by the time the agreement is fully implemented in 2008.

The Promise of NAFTA

"NAFTA was envisioned as the world's largest free-trade zone—from the Yukon to the Yucatan. NAFTA was designed to open markets, expand trade, stimulate economic growth and investment and boost the overall strength and competitiveness of North America's economies and producers. When fully implemented, it will have removed most barriers to trade and investment among the United States, Mexico and Canada, including barriers to trade in agricultural products.

"Under NAFTA, all non-tariff barriers to agricultural trade between the United States and Mexico were eliminated. They were converted to either tariff-rate quotas or ordinary tariffs. This included Mexico's import licensing system, which had been the single greatest barrier to U.S. agricultural sales in that market.

"Many tariffs were eliminated immediately on Jan. 1, 1994, when implementation began: others are being phased out over periods of five to 15 years. For import-sensitive products, such as dairy, sugar and sugar-containing products, long transition periods, tariff-rate quotas and special safeguards will allow for an orderly adjustment to free trade with Mexico.

"The agricultural provisions of the U.S.-Canada Free Trade Agreement (FTA), in effect since 1989, were incorporated into NAFTA. Under these provisions, all tariffs affecting agricultural trade between the United States and Canada were removed before 1998, with a few exceptions for items covered by tariff-rate quotas (dairy and poultry in the case of Canada; dairy, sugar and sugar-containing products for the United States).

"Mexico and Canada reached a separate bilateral NAFTA agreement on market access for agricultural products. The Mexican-Canadian agreement eliminated most tariffs either immediately or over five, 10 or 15 years. Tariffs affecting trade in dairy, poultry, eggs and sugar are maintained."

The Reality of NAFTA

"NAFTA has greatly benefited all sectors of the U.S. economy:

- U.S. exports to Mexico and Canada now support 2.9 million American jobs–900,000 more than in 1993. Such jobs pay wages that are 13 to 18 percent higher than the average American wage.
- When Congress approved NAFTA in 1993, trade between the United States and Mexico totaled $81 billion. In 2001, U.S.-Mexican trade reached $233 billion.
- U.S. exports to our NAFTA partners increased 104 percent between 1993 and 2000; U.S. trade with the rest of the world grew only half as fast. Today, the United States exports more to Mexico than to the United Kingdom, France, Germany and Italy combined.

"America's farmers and ranchers–not to mention Canadian and Mexican farmers and ranchers–have greatly benefited from NAFTA. Two-way agricultural trade between the United States and Mexico has increased more than 80 percent since 1994 when the agreement went into effect, reaching more than $12.6 billion in fiscal 2001. Over this same timeframe, two-way agricultural trade between the United States and Canada grew more than 66 percent, reaching more than $17.5 billion.

"When the agreement is completely implemented in 2008, U.S. agricultural exports to our NAFTA partners are projected to have risen by almost $3 billion. "Certainly import competition has increased under NAFTA for some commodities. This is not unexpected. As the economies of our trading partners continue to grow, and trade barriers fall, it is not surprising that U.S. imports grow. But it is important to remember that U.S. agricultural imports provide American consumers with a broader array of competitively priced, high-quality products year-round.

"Even more important, U.S. agricultural exports have grown under NAFTA. Without this agreement, the United States would have lost these expanded export opportunities.

BECAUSE OF NAFTA, CANADA AND MEXICO HAVE EDGED OUT THE EU AS AN EXPORT MARKET FOR U.S. FARMERS AND RANCHERS, AND NOW RIVAL JAPAN IN IMPORTANCE.

"Since implementation of the U.S.-Canada FTA in 1989, U.S. agricultural exports to Canada have increased fivefold, making Canada our No. 2 agricultural export market, with purchases of $8 billion in fiscal 2001. Since 1993, U.S. agricultural exports to Mexico also have nearly doubled, reaching nearly $7.3 billion in fiscal 2001 and making Mexico our third largest agricultural market.

"Because of NAFTA, Canada and Mexico have edged out the European Union (EU) in importance as an export market for our farmers and ranchers, and are closely approaching Japan in importance as well.

"In addition, a broad cross-section of U.S. agricultural products is being shipped to Canada and Mexico, suggesting the benefits of NAFTA are widely distributed across the food and fiber sector. From fresh fruits and vegetables to snack foods, and from red meats and poultry meat to pet food, Canada and Mexico purchased record levels of U.S. agricultural products in fiscal 2001.

"Clearly, the agreement has boosted trade in a wide variety of agricultural and food products, which has had a positive effect on member countries' economies by supporting jobs and economic activity in rural communities and urban areas. As NAFTA implementation continues, it is expected to continue providing long-term benefits to each of our countries.

"NAFTA-induced structural changes take time to work through the economy, so the complete effects of NAFTA will not be felt until the agreement is fully implemented and markets have adjusted to the

60325

IF WE MEASURE RESULTS BY GROWTH IN U.S. SALES, ACCESS AND MARKET SHARE, NAFTA IS WORKING.

new trade environment. One of NAFTA's benefits is that it 'locks in' trade-related reforms in member countries.

"No trade agreement solves every trade problem. NAFTA is no exception. But while trade disagreements may cause occasional pain, we have been successful in resolving many issues of mutual concern. For example, the United States and Canada signed a Record of Understanding and established a Consultative Committee on Agriculture to provide some structure and focus so that we could resolve agricultural issues in an orderly and constructive way.

"Although we have a long way to go on some issues, we have made good progress on others.

"NAFTA was the first major trade agreement to establish principles on the use of sanitary and phytosanitary (SPS) standards in trade. Its provisions requiring a scientific basis for such measures have helped to curb the unjustified use of such restrictions as disguised import barriers.

"A dispute-settlement process was also created as part of NAFTA, and several ongoing committees were established, including committees on agricultural trade and on SPS measures to promote cooperation in these areas. In addition, producers in all three countries have worked to meet higher quality standards and help formulate new ones that allow greater trade without compromising SPS objectives.

"We have an expansive trilateral work program both to ensure the implementation of NAFTA and to address issues as they arise.

"In the United States, NAFTA did not require any state to change its laws. At the Federal level, NAFTA did not change the fundamental openness of the U.S. economy.

"On the other hand, Mexico's changes to achieve greater openness have been, in relative terms, far more expansive and had a greater impact. They have been positive because they have created a Mexican economy that is more resilient, more competitive—ultimately, an economy that will be more productive and generate higher incomes.

"Some critics claim that NAFTA has either destroyed, or threatens to destroy, the ability of states to legislate health, safety or other areas that are within their jurisdiction. This is simply not true. In most cases, NAFTA requires that foreign commercial entities be treated like domestic entities. States can raise their environmental and health standards if they want to, for example, without running afoul of NAFTA.

"Every state has seen an expansion of trade (agricultural and nonagricultural) with Mexico and Canada since NAFTA went into effect. The *smallest* percentage increase recorded for a state from 1993 to 1998 was 29 percent, while some states have seen trade increases of 100, 200 or even 300 percent."

5156

The Future of NAFTA

"NAFTA is built on the recognition of the mutually beneficial effects of free and open trade among sovereign nations. We are moving toward harmonization in standards, but in ways that continue to express the wants and needs of each country's citizens.

"When difficulties arise, we have tried, through the trilateral work program, to address the issues head on. We are not claiming NAFTA is perfect–no trade agreement is. But we should measure progress by the issues that have been satisfactorily resolved, and by the growth in access, growth in sales and growth in market share. By these measures, NAFTA is working." ■

Exporting to Brazil? Try High-Value Products

By Fabiana Borges da Fonseca

With Brazil's leaders pursuing reform, South America's leading economy has been going through a transformation that promises not only tremendous growth, but a considerable consumer market with a population of over 174 million.

Food Sector Dynamic

The good news about the food industry sector is that Brazilians are eating more and better.

The country's food processing industry, which makes up a dynamic portion of its economic scenario, has required heavy investments by domestic companies to maintain competitiveness.

The industry, composed mostly of small- and medium-sized companies, manufactures more than 820 types of products. Despite Brazil's economic slowdown, the 45,000 food processing businesses have demonstrated positive growth.

Brazilian consumers have become better educated and more selective about the price and quality of their foods, and products have vastly improved. The food sector is characterized by a plethora of sophisticated, enhanced products.

In 2000, according to the Brazilian Supermarket Association, the food retail sector accounted for 6.2 percent of Brazil's gross domestic product of $596 billion. This share was up 12.4 percent from 1999.

Supermarkets (with two or more cashiers) accounted for 92 percent of the retail sector's 61,259 stores. In 2000, supermarket mergers continued, enabling the top 20

60275

Step by Step, Navigating Customs

Moving goods through Brazilian customs requires a good working relationship between the importer and U.S. exporter. These steps detail the process:

- Exporter and importer determine transaction costs.
- Parties decide on mode of transportation and who will pay for it.
- Broker enters data into SISCOMEX, giving commercial, financial, tax and exchange details of transaction to determine if import licensing is needed.
- Importer authorizes shipment, securing prior approvals if needed.
- Exporter ships goods; sends documentation to importer, such as:
  - Shipping information (bill of lading, or airway bill)
  - Commercial invoice
  - Certificate of origin for international agreement products
  - Phytosanitary certificate if required
- Payment is processed.
- Importer presents documentation to customs and prepares import declaration in SISCOMEX.
- Importer pays taxes and user fees.
- Customs issues an import warrant after verifying merchandise, compliance with tax laws and importer's identity.
- Based on available data, SISCOMEX automatically selects the customs clearance method:
  - Green: Customs clearance authorization is automatically issued.
  - Yellow: Mandatory inspection of documentation is required and, if no evidence of irregularities is found, customs clearance authorization is issued.
  - Red: Mandatory inspection of documentation and of merchandise is required.
  - Gray: Mandatory inspection of documentation, merchandise and taxable basis for import tax is required before customs clearance.
- For options other than green, importer presents collected documentation and proof of customs payments (or waiver thereof) to Brazil's Federal Revenue Office.
- Gray option goods require a further declaration of customs value.
- Products are transported to buyer.

14291

retail companies to increase their outlets by 12 percent.

The Brazilian food service industry encompasses bars, restaurants, fast food outlets, snack shops, bakeries, pastry shops and industrial catering. The sector purchased $12.8 billion of processed food items in 2000, representing 23 percent of the food processing industry's gross sales. Purchases by this sector jumped 97 percent from 1995 to 2000.

The industrial segment of food service is still underdeveloped. In 1999, this segment served 7.5 million meals daily. The Brazilian Industrial Caterers Association calculates the long-term daily potential to be over 20 million meals for private companies and 17 million for schools, hospitals and the military.

Because of infrastructure and cold chain shortcomings, food service still struggles to avoid food losses, creating increased demand for dehydrated and pre-cooked products.

Consumer Market Changing

Consumption patterns have changed significantly in the past 30 years. Whatever the food sector, the emphasis is on convenience. According to the Brazilian Geography and Statistics Institute, one of every five meals is consumed outside the home (one of four in urban areas). Forty percent of women are in the workforce; family size is decreasing; and 9 percent of the population lives alone (up 41 percent in the last 18 years).

Retailers today tend to have more sophisticated imports—specialty foods, well-known brands or products new to market. The primary reason an upper income Brazilian consumer purchases an imported product is not so much price as perceived value.

For now, exporters should offer high-end, value-added products that target more affluent consumers. Proper placement, pricing and marketing are also becoming more important factors.

Leaping Export Hurdles

In an attempt to keep the country's commodities competitive, the Brazilian

A Picture of the Brazilian Market

Advantages	Challenges
International companies generate more dynamic trade.	Cultural traits can restrict acceptance of foreign products.
U.S. products are perceived as being of high quality and safe.	A lack of knowledge about U.S. products and brands still exists. Consumers often equate U.S. culinary culture with fast food. This perception gives European products a competitive advantage in targeting niche markets for upper-end consumers.
U.S. exporters are seen as very reliable; much more so than European and other third-country suppliers.	Though dependable, U.S. suppliers are viewed as aloof and too contract-oriented. European businesses are considered very flexible regarding local retailers' demands and more customer-oriented. Local representation is important.
Segmentation and differentiation in the retail sector are opening more opportunities.	Most imported items are not price-competitive with local items. To develop niche markets and generate differentiation, exporters must introduce new high-end products to the market.
U.S. products are the standard for local industry. Major U.S. trade shows are well known and visited.	U.S. suppliers are viewed as one-shot sellers. Developing a long-term relationship with local buyers that involves frequent contact is important.
The trend toward convenience is growing consistently, with urbanites in particular pursuing a healthier lifestyle.	Quality of U.S. products should be highlighted when developing niche markets. Overcome barriers such as the reluctance of importers toward refrigerated items. Local industry has limited experience in handling and marketing such products.

government constantly modifies Brazil's foreign trade regulations. Brazilian importers have their work cut out for them in keeping up with new standards and decrees.

The main Brazilian offices that control agricultural imports are:

- **Ministry of Agriculture, Livestock and Food Supply (MAPA)** oversees and enforces most of the regulations regarding production, import and export of products and sanitary and phytosanitary issues.
- **Ministry of Health (MS)** enforces regulations on processed food products, regardless of origin (similar to the Food and Drug Administration).

Except for poultry, U.S. animal products are allowed into the Brazilian market. However, these products must come from a federally inspected plant that has the approval of the Brazilian Animal Products Origin Inspection Service (DIPOA).

Unprocessed products of plant origin—such as fruits, seeds and grains—can be exported to Brazil after a pest risk analysis by the Brazilian Plant Health and Inspection Service (DDIV). The product must be accompanied by a phytosanitary certificate from the Animal and Plant Health Inspection Service.

SISCOMEX Sorts Out Imports

In 1997, Brazil computerized import-related activities such as licensing, customs clearance and exchange monitoring via a software program known as the Integrated Foreign Trade System (SISCOMEX). This system has led to greater transparency for import and export procedures, and it also provides Brazil with a tool to minimize trade deficits and fraud, and better control tax payments.

Before a product enters Brazil, importers must secure transaction and transportation cost documents.

The complexity of the import licensing process depends on the product. Products requiring special approval must have licensing prior to shipment. Products needing prior licensing include those of animal origin, unprocessed products of plant origin and some pre-registered plants.

Payments can be in advance, by collection or by letter of credit. Foreign currency transactions are formalized by a foreign exchange contract issued by the Brazilian Central Bank.

The two most common mistakes that delay the process include exporter documentation not matching SISCOMEX data entered by the importer, and errors by the exporter and/or importer in the product's numerical fiscal classification. ■

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For details, see FAS Report BR1031. To find it on the Web, start at **www.fas.usda.gov**, select **Attaché Reports** and follow the prompts.

Roll Out the Barrels: U.S. Beer and Other Beverages Sell South of the Border

The removal of tariffs resulting from the North American Free Trade Agreement (NAFTA) has given U.S. alcoholic beverage producers a leg up in the Mexican marketplace.

Under NAFTA, 24 alcoholic beverages have no import duties. Nine more categories achieve duty-free status in 2003.

The next two years will present an unparalleled opportunity for U.S. producers to establish a customer base. The effect of reduced tariffs and consequently lower retail prices for U.S. products might be transient, because Mexico plans to embark on more free trade agreements with other countries.

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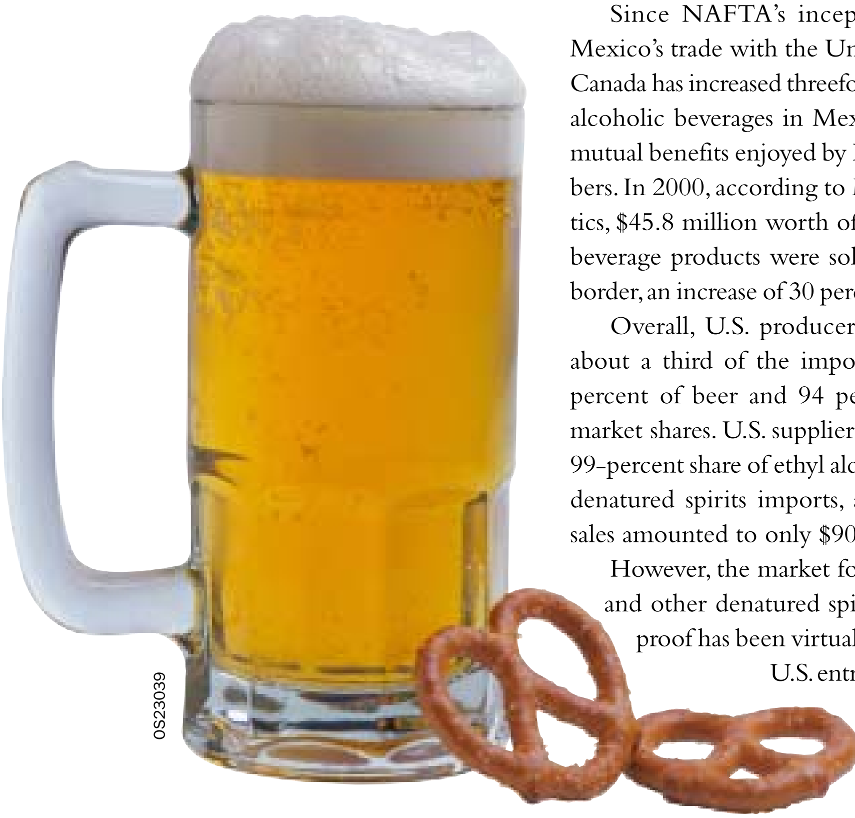

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Since NAFTA's inception in 1994, Mexico's trade with the United States and Canada has increased threefold. Sales of U.S. alcoholic beverages in Mexico reflect the mutual benefits enjoyed by NAFTA members. In 2000, according to Mexican statistics, $45.8 million worth of U.S. alcoholic beverage products were sold south of the border, an increase of 30 percent over 1999.

Overall, U.S. producers have bagged about a third of the import market—97 percent of beer and 94 percent of cider market shares. U.S. suppliers also control a 99-percent share of ethyl alcohol and other denatured spirits imports, although these sales amounted to only $90,000 in 2001.

However, the market for ethyl alcohol and other denatured spirits below 160 proof has been virtually untapped by U.S. entrepreneurs. This category includes liquors, such as cognacs, brandies, whiskeys, rum, gin and vodka.

There have been reasons for suppliers not pursuing this segment. European suppliers are fierce competitors and have cultivated consumer preferences—consumers who may not have sampled U.S. brands and view U.S. products as more expensive.

Of the 85 countries that export alcoholic beverages to Mexico, six are strongly positioned in defined product categories:

- Spain—brandies and wines
- Great Britain/Ireland—whiskeys
- France—cognacs
- Chile—wines
- Italy—liqueurs and wines

Younger Consumers Are Best Customers

Mexico's population, currently 102 million, has expanded by almost 2 percent a year in recent years. While not all segments of the population can afford imported products, about a fifth of Mexico's residents, mostly urban, can and do buy imports.

Promoters need to target the 18- to 34-year-old age group that buys 80 percent of alcoholic beverages sold in Mexico. This segment is expected to grow by 14 percent in the next five years.

Domestic Production Down

Domestic production of alcoholic beverages is concentrated in rum, brandies, tequila, vodka, gin, liqueurs and wines.

Commercial producers face strong competition from home brewers who might account for as much as 45-50 percent of total consumption. This informal production, which is expected to increase, limits commercial sales.

Wines are not exactly the beverage category of choice in Mexico, yet. Per capita consumption is estimated at 200 milliliters (67.6 ounces) per year. Only middle- and high-income imbibers tend to favor fermented grapes. In 1998, Mexico was ranked 65th in world wine consumption and 27th in production.

Though Mexico exports about 17 percent of the beer it brews and is the world's seventh largest producer, per capita consumption of beer is estimated at 50 liters, a little over half the 92 liters quaffed in the United States.

Retail, HRI Biggest Purveyors

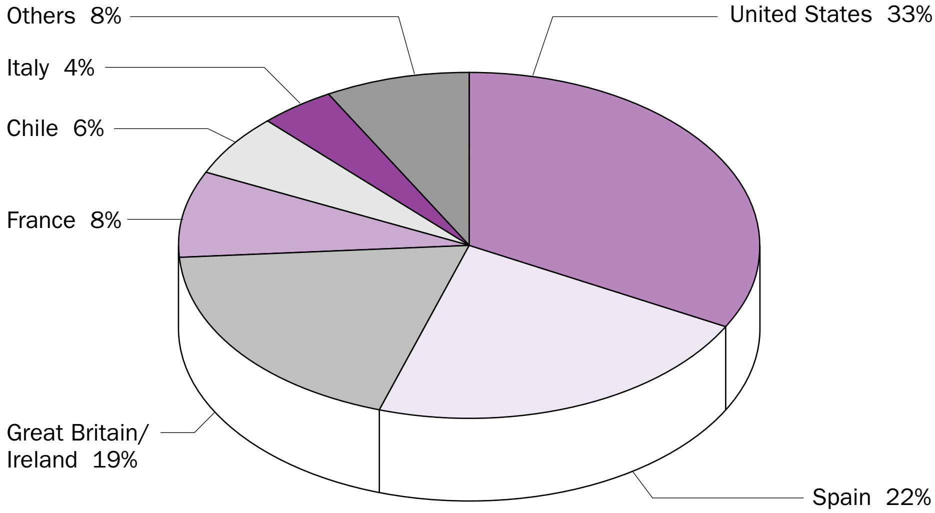
Mexico's retail sector is composed of big supermarket chains (with 1,117 stores) and convenience stores (2,085 outlets), which account for 60-70 percent of all food retail sales. Traditional mom-'n'-pop stores (950,000) attract most of the remaining sales share.

Most retailers buy their alcoholic beverages from distributors. Only a few large chains import directly. Supermarkets, which account for more than half of all alcoholic beverage retail sales, are popular sources and often sponsor promotions that lower prices.

Traditional stores are not good venues as yet. However, as these stores modernize, they could become outlets for imports.

Of the hotel, restaurant and institutional (HRI) sector, hotels have 96,000 establishments (80 percent of Mexico's tourists are from the United States). The upscale hotels and restaurants tend to buy products from manufacturers and specialized com-

In 2001, the United States Supplied One-Third of Mexico's Alcoholic Beverage Imports



Labeling in Spanish

Labels (or stickers) must be in Spanish and carry the following commercial and sanitary information.

Commercial:
- Brand name
- Product name
- If brandy: *Brandy* and the legend *100% de uva* (from grape)
- Exporter's name and address
- Quantity in metric units
- Producer's name and address
- Country of origin
- Importer's name, company name and address
- For beer and wine coolers: taxation code of importer

Sanitary:
- The health warning, *El abuso en el consumo de este producto es nocivo para la salud* (Abuse in the consumption of this product is hazardous to your health)
- Alcoholic content
- Percent of alcohol in volume at 20 degrees centigrade, displayed as "(Number)% Alc. Vol."
- Lot number
- If aspartame is an ingredient, *Fenilcetonuricos: contiene fenila anina* (Phenylketonurics: contains phenylalanine)
- Classifications of *bajo en calorias* (light) or *sin calorias* (without calories), if appropriate
- Prepared drinks and cocktails only: list of ingredients

5113

panies—such as those providing premium wines only or from vintners. However, they look to large central wholesale markets for some specialty food items.

Though the official number of restaurants in Mexico City is around 33,000, a count of informal restaurants would likely double this number.

Restaurants source their products from specialized companies, manufacturers, wholesale centers, local markets and smaller vendors. Some traditional restaurants have a central purchasing department that selects suppliers through a bidding process.

Marketing Tools a Must

Few distributors in the country have national coverage. U.S. firms wanting to enter the Mexican market must have locally based distributors to enjoy success with domestic buyers. The HRI sector would probably offer the most opportunities.

Promotional activities, tailored to the market and/or distributor, are a must. They can include a local sales office, trade shows, brochures and other materials in Spanish and technical seminars. On-site sampling is particularly popular with Mexican consumers.

Taxing Situation

Tariffs aside, as elsewhere, there are domestic taxes on alcoholic beverages—the 15-percent value-added tax (IVA), payable upon entry; another 5-percent IVA if the beverage is consumed in a restaurant or bar; and the special tax on products and services based on alcoholic content, which ranges from 25 to 60 percent. ■

Sanitary and Labeling Requirements

At the port of entry, producers must present a letter known as a sanitary import notice that details product information. The letter must contain the name of product, brand, specific quantity, name and address of producer and importer, port of entry and import tariff numbers.

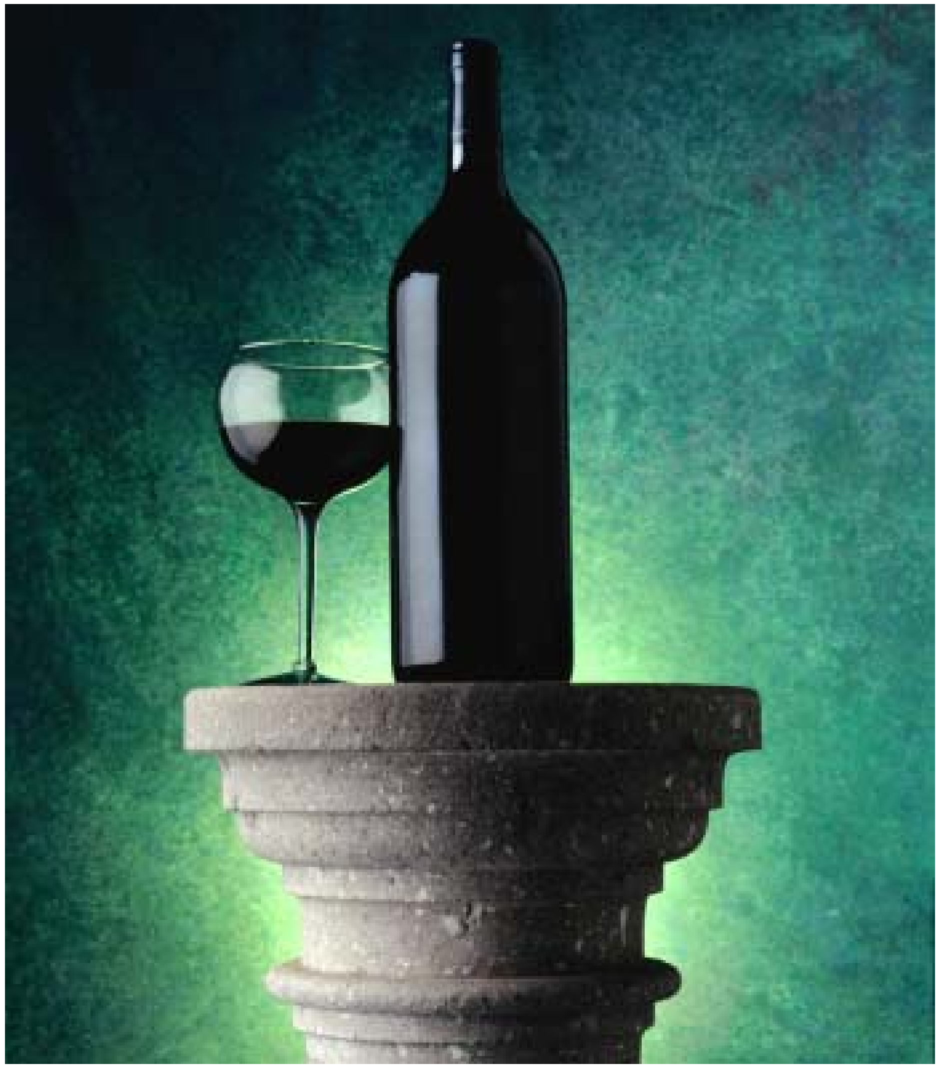
The letter must be accompanied by the invoice, airway bill and sanitary statement. This statement must come from a Food and Drug Administration certified laboratory and contain physical, chemical and microbiological analyses, country of origin and expiration date.

For more information on the alcoholic beverage market in Mexico, please contact the FAS Agricultural Trade Office (ATO) at the U.S. Embassy in Mexico City, Mexico. ATO Mexico City is a good place to start for trade show recommendations, market information, importer lists, distributor data and organizing marketing events. Tel.: (011-52-55) 5280-5291; Fax: (011-52-55) 5281-6093; E-mail: atomex@avantel

For details, see FAS Report MX2025. To find it on the Web, start at **www.fas.usda.gov**, select **Attaché Reports** and follow the prompts.

Uncorking Quebec for U.S. Wines

By Donald Businger, Catherine Goode, Hugh J. Maginnis, Marilyn L. Bailey and George C. Myles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U.S. vintners wanting to establish an export market with Quebec's wine aficionados have to leap two hurdles—a mindset biased toward French and Italian wines and an alcohol control board that protects Quebec's value-added wine bottling industry.

Exchange rates also can create a barrier. The recent elimination of tariffs on Canadian wine imports has been offset by the strong U.S. dollar of the past several years.

Market Thirsty for Quality Wines

The per capita average for wines downed each year by Quebec residents comes to 15 liters. In 2001, the amount of wines consumed by the province rounded up to 100 million liters. Put in perspective, Quebec's 7.4 million residents make up about a quarter of Canada's 31.1 million population, but they quaff one-third of all wines consumed in Canada.

The Quebec wine market also differs from the rest of Canada by its heavy reliance on European imports, mainly in bulk.

Liquor Board Protective

Unlike other countries' protective trade barriers that tend to protect wine producers, the state-owned Quebec Liquor Board (SAQ) protects the Quebec wine bottling industry, not vintners. Only 2 percent of the wine consumed in Quebec is produced by Quebec vineyards.

SAQ is also unique in its position as the sole legal importer and controller of all wines sold in Quebec. SAQ collects federal and provincial duties and taxes on alcoholic products and adds its own markup prior to sale, collecting a tidy sum for the Canadian and Quebec governments. In 2001, SAQ net sales (gross sales less taxes, discounts and returns) of wines hit $663 million, up 12 percent from a year earlier.

SAQ limits bottled wine imports by restricting their sale to its own 379 stores and 303 agencies (smaller outlying outlets). Only bulk wine bottled in Quebec can be sold where the majority of wines are sold—in the 9,200 retail grocery and convenience stores. However, U.S. and other foreign bottled wines can be purchased in Quebec's 14,000 hotels, restaurants and bars.

European Wines Dominate Market

SAQ imports most of its bulk and bottled wines from Europe. Imports from France (48-percent market share) and Italy (26-percent share) make up three-quarters of bottled wine sales. With only a 3-percent market share, the United States is the fifth largest supplier of bottled imports in Quebec.

Imported bulk wines make up over 22 percent of total Quebec sales and just under 30 percent of total imports. Wine imports from three countries—France (55-percent market share), Germany (23-percent share) and Italy (14-percent share)—make up 92 percent of Quebec's bulk wine imports. U.S. wines account for less than 1 percent.

Almost a quarter of total wine sales

come from locally bottled, "elaborated" wines, which are almost 99-percent SAQ-imported grape products blended with small amounts of grape products from Ontario and British Columbia.

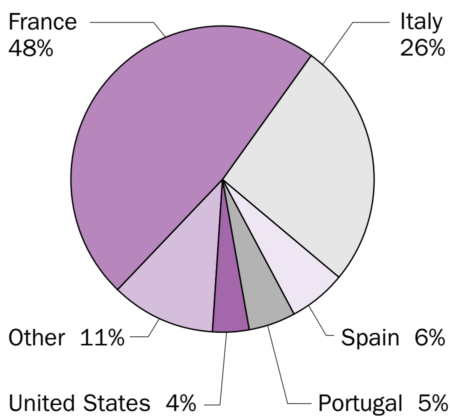
What Is AOC?

SAQ categorizes wines by AOC designation (*appellation d'origine controllée*), such as Bordeau or Beaujolais. This regional designation, used mostly by producers in France and Italy, indicates a quality wine. The United States designates wines by the type of grape, such as Merlot or Riesling, instead of using an AOC label.

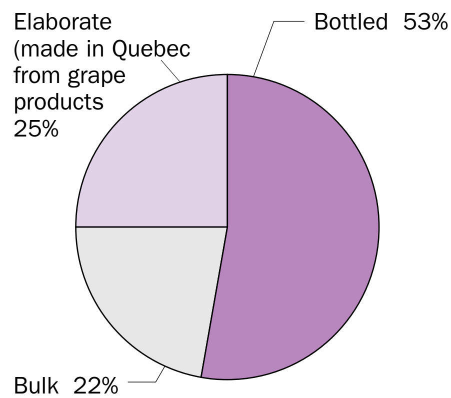
AOC-designated wines make up 45 percent of Quebec's total imports—56 percent of bottled and 18 percent of bulk. Imported AOC wines account for half of Quebec's wine sales, with table wines (which are less expensive) making up a third. These preferences differ from overall Canadian sales, where table wines make up 80 percent of total wine sales, and mid-quality wines the other 20 percent.

In 2001, Quebec Imported 53 Million Litres of Bottled Water

United States Was No. 5 Supplier



In 2001, SAQ Sold Nearly 100 Million Litres of Wine



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Despite the higher quality of wines sold in Quebec, the average price is affordable. Almost half retailed for less than $6.50 per bottle, and 40 percent sold for $6.50-9.75. Red wines like Merlot and Cabernet Sauvignon sell much better than whites or rosés.

The good news and challenge for U.S. vintners is that Quebec is a high-consumption market for quality wines, whether AOC or not, and market share could be won from French, Italian and other suppliers.

Listing Requirements

SAQ maintains a listing of eligible general suppliers who must meet certain requirements, including a commitment to attain minimum sales of $195,000. A general listing with SAQ would put the supplier in the SAQ general catalog, and any SAQ outlet could order the wine. Private importers, such as hotels and restaurants, order wine from SAQ for a specific purpose.

U.S. suppliers might find an advantage in providing specialty products (those considered prestigious, distinctive or ethnic), especially when SAQ opens a superstore that will carry many of these items. Specialty products and private imports are not required to meet any minimum sales target.

As of April 1, 2002, SAQ conducts all wine purchases electronically, so suppliers wanting to do business in this market need

Quebec's Wine Facts

- Quebec bought 42 percent of all red wines consumed in Canada in 2000.
- Though more partial to reds, Quebec still consumed more white and rosé wines (5.9 liters per capita) than the rest of Canada in 2000.
- Quebec imported 465 million hectoliters of bulk wines in 2001—almost 99 percent of Canada's total bulk imports.
- Maison des Futailles SEC and Vincor, both based in Quebec, are Canada's biggest wine importers and dominate the province's bottling industry.

SAQ Misstep?

Wine consumers in Quebec may end up paying higher prices for fewer choices if the government-owned liquor monopoly, SAQ, proceeds with a plan to manage its purchases. The plan could also mean increased marketing costs for U.S. wines.

How did this come about? Two years ago, SAQ bought a 45-percent share in the e-commerce business Global Wines & Spirits. Shortly thereafter, SAQ announced plans to channel all its product purchases through Global's online ordering system. SAQ will require each supplier to pay a registration fee, plus product listing fees and up to a 2-percent sales commission.

This alliance of a government monopoly and private industry has been hard to swallow for many producers. Pressure from wine groups forced SAQ to offer free supplier registration until March 31, 2003. However, SAQ has purchased wines exclusively via this source since April 1, 2001.

As of March 2002, 750 wine producers in 22 countries had registered with Global. However, in an average year, SAQ buys wines from as many as 10,000 producers in 55 countries. Only a few of the 100 major companies that supply 90 percent of Quebec's wine purchases have signed up.

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to register through:

Web site: www.globalwinespirits.com; or Tel.: (1-450) 442-9463

Liberalization in Global Wine Trade

Canada's trade agreements with the United States, the European Union and among its own provinces have led to the elimination of most preferential treatment for local wines and tariffs.

However, imported wines, like domestic wines, are still subject to federal excise taxes, a general sales tax and provincial sales taxes.

In 2001, Canada also signed a Mutual Acceptance Agreement on Oenological (wine culture) Practices with the United States, Australia, Chile and New Zealand. The agreement mandated increased market access, transparent requirements and a dispute settlement mechanism. These provisions apply as long as the wines are consistent with the country of origin's domestic laws, regulations and requirements. Canadian wine imports must also comply with compositional labeling, net quantity and standardized container size requirements.

Unfortunately for bottled wine suppliers, SAQ's policy of favoring bulk imports to protect its value-added industry and monopoly was unaffected by the free trade agreements. For U.S. wine exporters, the Quebec market has been tougher to penetrate than the rest of Canada where U.S. wine exports occupy a cozy 20-percent market share, the second largest after France.

But since tariffs on U.S. wines disappeared in 1999, and there has been some liberalization of SAQ policies and practices, U.S. wines have greater potential niche markets in Quebec. With these new incentives in place, promotional and marketing efforts could be well rewarded. ■

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For details, see FAS Reports CA2021 and CA2026. To find them on the Web, start at **www.fas.usda.gov**, select **Attaché Reports** and follow the prompts.

Oh, Canada!

A Vital Food and Beverage Industry Adds Up to Big Opportunities for U.S. Goods

Canada has long had a vibrant food and beverage processing industry that has evolved into a sophisticated and vital contributor to the country's overall economy.

Canada is a G-7 nation and one of the world's most developed economies, with high per capita income and strong consumer spending. In addition, the country offers a favorable business environment: tax credits for research and development, low-cost energy, excellent infrastructure and social and political stability. In fact, so attractive is the Canadian market that over three-quarters of the world's leading food and beverage firms have invested in processing facilities there.

The food and beverage processing sectors make up Canada's second-largest manufacturing sector, after transportation. The food service sector experienced exceptional sales growth in 2000, although it moderated in 2001 due to an economic slowdown.

The Factors Behind the Growth

Today's Canadians want fresh, authentic, quality foods and beverages to enjoy at traditional and not-so-traditional meal times. Four key demographic trends are shaping consumers' food choices:

Aging population: The graying of the baby boom generation has heightened interest in healthy eating and convenience.

Diversity: About 14 percent of the population is comprised of minorities, with the largest groups being Chinese and South Asian. These groups are generating demand for ingredients used in their traditional cuisines.

Women working outside the home: As women increasingly join the workforce, the time constraints of dual-career and single-parent families make alternatives to traditional meal preparation appealing.

Prosperity: Economic growth and rising disposable incomes are enabling Canadians to spend more for products and services that make their lives easier. Many baby boomers, for example, are willing and able to pay for the convenience of high-quality, value-added meals.

The 10 Most Popular Foods In Canadian Restaurants in 2000

Rank Item	Average Share of Bill Spent on Item
French fries	24%
Hamburgers	12%
Unsweetened baked goods	11%
Chicken	11%
Salads	11%
Pizza	10%
Sandwiches	9%
Sweetened baked goods	7%
Desserts	6%
Asian foods/Stir fry	5

. . . And the 10 Most Popular Drinks

Item	Average Share of Bill Spent on Item
Regular coffee	22%
Regular soft drinks	17%
Diet soft drinks	4%
Hot tea	4%
Juices	3%
Milk/Chocolate milk	3%
Beer	2%
Iced tea	2%
Wines	2%
Espresso/Cappuccino/ Specialty coffees	2%

3, 2, 1—Contact

In addition, FAS endorses CANADA CONNECT, a program to help U.S. export-ready companies to enter or expand in the Canadian market. Services include:

- Product analysis
- Identification of suitable business entities (agents, distributors, brokers and buyers)
- Background checks on prospective importers/buyers
- Arranging one-on-one appointments with prospective importers/buyers
- Market briefings
- Travel and logistical support

Services are offered by Faye Clack Marketing & Communications. Contact:

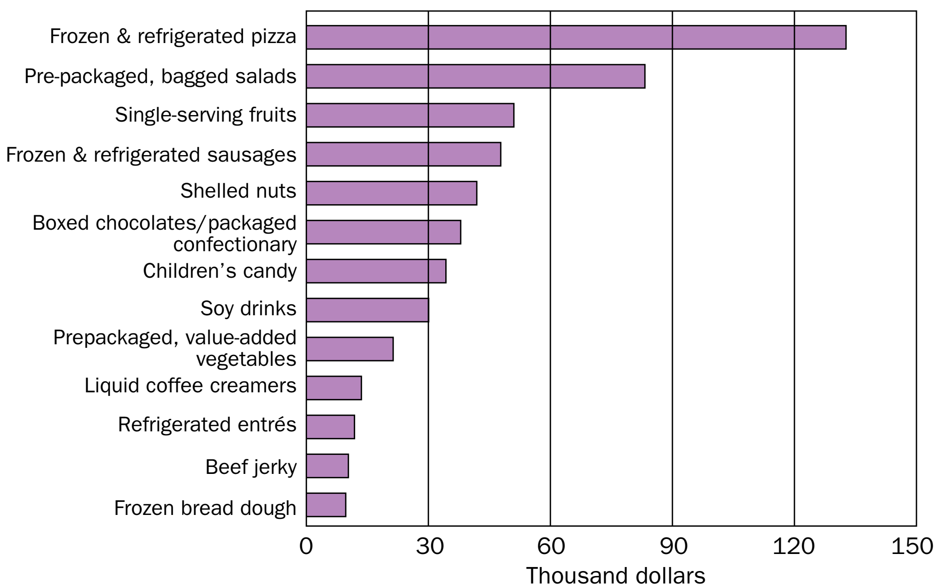
Cory Clack-Streef
Tel.: (1-905) 206-0577
E-mail: info@fayeclack.com

Industry Inclinations

Canada itself supplies 82 percent of the primary (low-value, unprocessed) products and value-added ingredients used in its food processing industry, and sources the remainder from foreign suppliers. The United States supplies 62 percent of Canada's imports of primary and value-added ingredients. Half of all U.S. fruit and vegetable exports go to Canada. Other products include dairy, red meats, and poultry meats. And more opportunities exist, particularly for raw and processed horticultural products, other processed ingredients and food flavorings.

The food and beverage sectors tend to be highly concentrated. About 11 percent of processed foods comes from 2,139 plants (70 percent of all facilities), while 89 percent comes from large plants (30 percent of all facilities). Similarly, 4.2 percent of beverage production comes from 60 percent of the plants, and 95.8 percent from the other 40 percent.

Hottest Sellers in Canada's 2000 Retail Grocery Market



Further consolidation is expected as mergers and acquisitions bring more plants under one corporate umbrella. As a result, U.S. food and beverage processors face increasingly aggressive and dominant grocery and food service sectors.

Coming Across With the Goods

Most food and beverage processing companies prefer to import directly rather than dealing through an intermediary. Direct buying reduces handling and costs while boosting expediency and efficiency.

Order consolidation and shipping logistics are also important to food processors, and processors often have procurement teams just for these functions. On the other hand, when less volume of a product is needed (say, less than a truckload), a processor may procure it from a wholesaler, importer, broker or other agent.

Canada's food and beverage processing sectors will have to adapt to meet the shifting challenges of globalization, sophisticated consumer demands, demographics, food safety and health issues, technological changes and general economic conditions. Producers, processors, retailers and food service operators will need to work in partnership to meet market demands and remain competitive. ■

For general market and retail sector information, or for assistance in identifying contacts and developing strategies for Canada, start with the FAS Office of Agricultural Affairs, U.S. Embassy, Ottawa, Canada. Tel.: (1-613) 688-5267; Fax: (1-613) 688-3124; E-mail: info@usda-canada.com

Canada's Food Processing Industry Offers U.S. Exporters Many Advantages...	...And Numerous Challenges
Continued growth of Canada's well-developed, sophisticated food processing industry due to rising domestic and export demand	Strength of U.S. dollar in recent years, which has made U.S. goods comparatively more expensive
Overland (rather than overseas) shipping	Competition from Canada and Europe, whose growing, packaging and shipping practices are often viewed as superior to U.S. methods
Canada's short growing season	Canada's abundant agricultural production, constraining import demand during peak domestic production periods
North American Free Trade Agreement smoothing exports' path	Canadian tariff rate quotas
Food processing and retailing consolidation, resulting in bigger players needing higher product volumes	Fewer players to offer such opportunities

For details, see FAS Report CA1126. To find it on the Web, start at **www.fas.usda.gov**, select **Attaché Reports** and follow the prompts.

TRADE SHOW OPPORTUNITY

GULF FOOD 2003

DUBAI, UNITED ARAB EMIRATES

The Show: Gulf Food offers a lucrative market for U.S. food companies looking to begin or expand their export business. U.S. companies can use the Middle East's premier food show to tap into moderate to major markets not only in the United Arab Emirates (UAE), but also in Egypt, Iran, India and Pakistan. U.S. exports of food and agricultural commodities to the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE) were close to $1 billion in 2001, almost half of it in consumer-ready products. Gulf Food 2001 attracted 9,200 buyers.

Location: The U.S. pavilion at Gulf Food, World Trade Center Dubai, United Arab Emirates

Dates: **Feb. 23-26, 2003** (Sunday-Wednesday)

Deadlines: **A nonrefundable deposit of $1,700 must be received by Sept. 30, 2002. Final payment is due Nov. 30, 2002.**

Contacts:

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Trade Notes...

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Chile, EU Sign Free Trade Agreement

Chile has signed a Free Trade Agreement with the European Union (EU) that will go into effect Jan. 1, 2003. Most agricultural products of interest to Chile will gain access to the EU market through generous quotas within four to eight years. Some commodities such as apples and table grapes gain immediate improved access through increased quotas. Other commodities such as beef will gain first-time entry through generous quotas.

New U.S. Dairy Plants Cleared To Export to Brazil

In April, after a three-year hiatus, Brazil resumed registration of additional U.S. dairy processing plants for export to Brazil. The first of these newly registered plants will export whey mixes and food preparations. Under the new procedures, all U.S. dairy plants approved by the Food and Drug Administration (FDA) and USDA's Agricultural Marketing Service (AMS) are eligible for registration to export to Brazil. For the last three years, only plants previously approved by the Brazilian Meat and Dairy Inspection Service have been allowed to export. New plants were not approved due to Brazilian concerns about U.S. dairy inspection, certification and product labeling procedures. The new procedures are the result of prolonged work by FAS, AMS, FDA and the U.S. Dairy Export Council. The U.S. trade impact of this agreement is estimated at an additional $3-5 million annually in U.S. sales.

U.S. Soybean Sales to Canada Rise

Demand for U.S. soybeans in 2001/02 has increased thanks to Canada's reduced soybean and rapeseed production this past season. As of April, U.S. export sales totaling 460,000 tons had already been shipped with an additional 58,000 in sales to be shipped at a later date. This is up nearly twelvefold from the same period last year. Total soybean exports to Canada are forecast to reach 1.1 million tons in 2001/02 compared to 400,000 tons in 2000/01.

U.S. Exporters Net Big Sales at European Seafood Exposition

Eleven U.S. exporters exhibiting products at the European Seafood Exposition (ESE), held during April in Brussels, Belgium, reported at-show sales of $1.6 million during the three-day event, up 102 percent from the 2001 level of $798,000. The companies exhibiting in the mini-pavilion of the American Seafood Institute (a participant in the Market Access Program) estimated that sales within six months after the show will reach $30 million. High-value seafood displayed included lobster, sea scallops, crabs, clams, squid, skate and a variety of fin fish. The ESE boasted an international following that included exhibitors from 67 countries.

U.S. Horticultural Exports to Middle East Continue Steady Growth

U.S. horticultural product exports to the Middle East and North African countries in 2001 were valued at $260 million, down 1 percent from the record level of 2000, but up 15 percent from 1997. The growth of U.S. horticultural product exports during this period has been attributed mostly to a steady increase in shipments of edible tree nuts, fresh vegetables, and miscellaneous fruit and vegetable products.





Also in This Issue:

- **Trade show opportunities in the Americas and the Middle East**

And Next Time, Turn to AgExporter *for:*

- **Retailing U.S. agricultural products in Asia:**
  Indonesia, South Korea, Thailand and other ports of call

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