Food ingredients South America

20-22 August 2019
São Paulo, Brazil

South America: Turning demand for natural ingredients into new business opportunities

Natural ingredients

Health ingredients South America

Contents

Why South America?

The South American continent, which includes 12 nations and a population of around 430 million[1], offers attractive possibilities for food ingredients suppliers. A growing affluent and informed consumer base is driving demand for natural and healthy products, while governments are creating favourable conditions for market penetration. Almost two-thirds of consumption growth to 2030 will come directly as a result of increased per capita spending, according to McKinsey[2].

Economic revival began in the 1990s, when the region adopted free market economies and opened itself up to global trade and consumer tastes. The 2016 Olympics in Rio de Janeiro — the first time the games have been held in South America — definitively brought the continent under the global spotlight. South America now accounts for around 10% of global agricultural product exports[3], and large economies such as Chile, Brazil, Argentina, Uruguay and Colombia have bounced back from recession. The other countries that make up South America are Bolivia, Peru, Paraguay, Venezuela, Suriname, Guyana and Ecuador. The Latin American economy as a whole (which includes the Caribbean and Central America) is forecast to grow 1.3% in 2018 and 2.1% in 2019[4].

Healthy opportunities

In common with other regions of the world, health has become a key driver. Higher incidences of obesity, diabetes and heart disease for example are leading to consumer demand for natural, healthy and organic products. A recent World Health Organization (WHO) study indicated that in absolute numbers, more than 200 million South Americans are now considered overweight or obese versus 52 million who are considered underweight[5].

Sugar reduction in food and beverages for example has become a key issue, with demand for natural sweeteners such as stevia spiking. According to Mintel, Latin America accounted for 17% of global food and beverage product launches featuring stevia in 2017[6]. Similarly, over 25% of Brazilian adults are currently hypertensive, and the population consumes twice as much salt as internationally recommended levels[7]. Recent national voluntary strategies to reduce the salt content of food products suggests there is consumer demand for healthier choices.

Linked to this rise in health consciousness has been increased demand for protein-enriched products. A recent survey commissioned by Arla Foods Ingredients[8] found that nearly two-thirds of South Americans would be willing to pay extra for a food or beverage product that is higher in protein. Some 39% stated that they would pay up to 5% more, 17% said they would pay up to 10% more, and 5% admitted they would pay over 10% more. This presents a clear market opportunity for ingredients suppliers.

Anne Hoest Stenbaek, Senior Global Marketing Manager at Arla Foods Ingredients[9], says:

> *"South America has grown to become an important market for protein suppliers in recent years. Consumers in the region have good awareness and knowledge of protein and appreciate its benefits to their health."*

Functional growth

The South American functional food market continues to look healthy. Products for weight management for example are witnessing impressive profit margins due to the popularity of innovative novel ingredients like Yacon root[10]. In Brazil, fortified/functional packaged food will remain the largest category within health and wellness over the next five years, though 'better for you' packaged food and 'free from' options will likely increase their market share[11].

Functional dairy products hold the highest market value in the Brazilian market; with popular products including fortified flavoured milk drinks, fortified yogurt and probiotic yogurt[12]. The South America probiotics market is expected to increase by 7.1% between 2018 and 2023, from a relatively modest global market share of 12%. These figures underline however the region's capacity for growth and the opportunities for ingredients firms[13]. Brazil's share of the South American probiotics market was estimated to be around 48% in 2017[14].

New product potential

Consumer demand for healthy, natural ingredients can be seen across a number of recent product launches in South America. While hot cereal launches for example have focused on oat-based preparations, consumer interest in local ingredients - such as pendant amaranth and cañihua grains – presents manufacturers with an opportunity to explore regional traditions and support local growers[15]. Quaker Oats with Andean Seeds is a prime example of this. The popularity of breakfast cereals in key markets like Brazil also suggests that there is significant market potential for new cereal products.

Another South American health trend influencing new product development is growing awareness of carbohydrate intake. In 2017 for example, some 41% of Brazilians said that they were limiting how many carbs they ate, or were interested in doing so in the future[16]. While pasta has long been a staple in many South American countries due in part to sizeable Italian communities, per capita consumption has been declining. This has opened up the market for 'better-for-you' innovations such as protein-enriched pastas. Wholegrain pastas accounted for 11% of category launches in the 12 months to March 2018[17].

An ongoing reappraisal of natural fats also suggests that butter and butter-based products could do well in South America. Unprocessed fats from natural sources, such as butter, are increasingly being touted as important components of a healthy diet. Mintel reports that more than a third of Brazilians agree that butter is healthier than margarine, and as fat continues to shed its stigma, butter brands should enjoy even greater prominence[18].

The clean eating trend is also driving significant change in the South American food and beverage industry. Consumers are increasingly seeking out products that are less processed, healthier and "free-from" perceived negatives. From 2012 to 2016, interest in organic foods jumped more than 20%[19]. Six out of ten shoppers say no preservatives and no artificial sweeteners are extremely/very important factors in influencing them to try a different brand food or beverage[20].

Getting your strategy right

The economic fundamentals are positive; demand for new ingredients appears to be there; and your business is ready to expand into new markets. To successfully penetrate South America however, you still need to do your homework. Eugenia Muinelo, Regulatory Affairs Manager at EAS Strategies, outlines some of the key import issues that food ingredients suppliers need to think about.

Eugenia Muinelo, Regulatory Affairs Manager, EAS Strategies

First and foremost, says Muinelo, businesses should assess if their ingredient will be accepted and permitted in the first place.

> *"Every company wants to see their product flow freely through customs. But it is quite common to see products held up in due to a lack of regulatory compliance."*

Eugenia Muinelo adds:

> *"My main recommendation would be to always carry out an initial assessment of the regulatory status of the product prior to import. While we are seeing increased harmonisation of rules within the region, we are still far from what you would see in Europe. This means that businesses need to look carefully at each product category in each country."*

Muinelo believes that one day we will be closer to a situation where having a product approved in one market will mean that other countries will permit it - but that we are not there yet.

Entering the market

Eugenia Muinelo continues:

> *"Another aspect to consider is that in many food categories, products must be registered. This means that entering the market can take more time than expected, but it also means that once this is done you have a higher level of legal certainty for marketing. When it comes to innovative and new ingredients, not all South American countries have a defined process for novel ingredients/foods; Brazil is currently the only country with a specific regulation. Other countries have more informal procedures that need to be carefully considered and managed. Once again, this needs to be reviewed carefully so that plans about product launch and timing can be managed effectively."*

Uneven harmonisation

Two trade blocs can be found in the region: the Mercosur trade bloc (composed of Argentina, Brazil, Bolivia, Paraguay and Uruguay), and the recently formed Pacific Alliance (composed of Chile, Colombia, Mexico and Peru).

According to Muinelo:

> *"In the case of Mercosur several pieces of regulation have been harmonised covering labelling and additives, while the Pacific Alliance is working to develop harmonised rules on foods and beverages. Most South American countries have, I am glad to report, also developed more flexible health claims regulations than those found in the EU, allowing for claims to be made on many ingredients that could be more challenging in Europe."*

Muinelo continues:

> *"Based on our experience of working with many companies across the region, it is often easier to enter the 'smaller' markets in the region rather than the 'major ones'. It is often a good idea to gain the experience of engaging with the regulatory processes in the smaller ones prior early in a Latin American plan".*

EAS Strategies provides regulatory intelligence, impact assessments and strategic advice. It also guides businesses through compliance checks, new ingredient applications and notification procedures, among other services.

Intelligent policy making

Demand for natural and healthy ingredients is being supported by forward-thinking policy making. The Pan American Health Organisation (PAHO), a regional WHO office for the Americas, has worked to promote the consumption of unprocessed and minimally processed foods and freshly prepared dishes[21], and countries themselves are now very much the agents of change.

The Brazilian Dietary Guidelines for example have been recognised by the FAO as the first food-based dietary guidelines that take social, cultural, economic and other aspects of sustainability into account[22]. The guidelines, which cite principles such as "healthy diets derive from socially and environmentally sustainable food systems,"[23] will help to further drive demand for natural ingredients in South America's largest market.

Open for business

South America is very much open for business. Here is a quick snapshot of the relevant customs and import authorities in four key markets: Brazil; Argentina; Colombia; and Peru.

Brazil, the world's sixth most populous country, is an obvious entry point into the South American food market. The Brazilian Department of Trade and Investment Promotion of the Ministry of External Relations[24] offers information on how to conduct business and invest in the country. A member of the World Trade Organisation (WTO) and World Customs Organisation (WCO), Brazil is also a full member of Mercosur[25], the Southern Common Market. The other full members are Argentina, Uruguay and Paraguay.

In **Argentina** the Customs General Directorate, part of the AFIP (Federal Administration of Public Revenue), is responsible for the import/export process, and more information can be found on their website[26]. The country is also a member of the WTO and the WCO.

Colombia has experienced significant economic development in recent years after overcoming civil strife. Numerous trade and investment opportunities have emerged as a result. The Colombian Confederation of Chambers of Commerce (Confecámaras)[27] represents 57 sector entities. The country is also a member of the WTO and the WCO.

Peru is one of the fastest growing economies in Latin America and offers significant growth potential. The Peru Ministerio de Comercio Exterior y Turismo (Ministry of Foreign Trade and Tourism)[28] is actively encouraging foreign investment and trade, while the ADEX (Association of Exporters)[29] provides useful business services to large, medium and small companies. The SUNAT (Superintendencia Nacional de Administracion)[30] is responsible for Peru's customs. Peru is a WTO and WCO member and an associate member of Mercosur.

Key takeaways

- Specific market drivers in the region such as increasing urbanisation, affluence and health-consciousness are opening up new market possibilities for natural ingredients
- Enlightened policy-making and awareness-raising is creating an informed consumer base, spurring demand for nutrition and health products
- South American nutraceuticals and probiotics markets are forecast to achieve further growth
- Businesses should first assess if their ingredient will be accepted and permitted however
- Furthermore, knowledge about individual import/export requirements and customs is necessary. There are government resources and market experts that can be consulted
- Businesses should consider that very few rules are harmonised across the region; while labelling and additives have to an extent been harmonised across the Mercosur countries, businesses still need to look carefully at each product category

Sources

[1] https://www.worldatlas.com/articles/the-richest-countries-in-south-america.html
[2] https://www.consultancy.lat/news/140/insight-on-how-to-thrive-in-south-americas-consumer-market
[3] https://www.worldatlas.com/articles/the-10-most-populated-countries-in-south-america.html
[4] https://www.bbvaresearch.com/en/category/regions-en/latin-america/
[5] https://foodminds.com/food-thoughts/food-thoughts-items/food-values-in-south-america/
[6] https://www.foodnavigator-latam.com/Article/2018/08/29/The-top-5-trends-from-Fi-South-America-2018
[7] https://www.foodnavigator-latam.com/Article/2018/08/29/The-top-5-trends-from-Fi-South-America-2018
[8] https://www.arlafoodsingredients.com/about/press-centre/2018/pressrelease/well-pay-extra-for-more-protein-say-south-american-consumers-2539596/
[9] https://www.arlafoodsingredients.com/about/press-centre/2018/pressrelease/well-pay-extra-for-more-protein-say-south-american-consumers-2539596/
[10] https://www.mordorintelligence.com/industry-reports/south-america-nutraceutical-market
[11] https://www.marketresearch.com/Euromonitor-International-v746/Fortified-Functional-Packaged-Food-Brazil-11767087/
[12] https://www.mordorintelligence.com/industry-reports/south-america-nutraceutical-market
[13] https://www.mordorintelligence.com/industry-reports/south-america-probiotics-market-industry
[14] https://www.mordorintelligence.com/industry-reports/south-america-probiotics-market-industry
[15] https://www.figlobal.com/southamerica/visit/news-and-updates/hot-cereals-present-range-regional-opportunities
[16] https://www.figlobal.com/southamerica/visit/news-and-updates/carb-concerns-threaten-pasta-brazil
[17] https://www.figlobal.com/southamerica/visit/news-and-updates/carb-concerns-threaten-pasta-brazil
[18] https://www.figlobal.com/southamerica/visit/news-and-updates/butter-has-bright-future-brazil
[19] https://www.figlobal.com/southamerica/visit/news-and-updates/shopper-demand-less-processed-foods-and-beverages-fuels-clean-eating-trend
[20] https://www.figlobal.com/southamerica/visit/news-and-updates/shopper-demand-less-processed-foods-and-beverages-fuels-clean-eating-trend
[21] https://foodminds.com/food-thoughts/food-thoughts-items/food-values-in-south-america/
[22] https://foodminds.com/food-thoughts/food-thoughts-items/food-values-in-south-america/
[23] https://foodminds.com/food-thoughts/food-thoughts-items/food-values-in-south-america/
[24] http://www.investexportbrasil.gov.br/dpr?l=en
[25] http://www.mercosur.int/
[26] http://www.afip.gob.ar/institucional/acuerdos_ingles.asp
[27] www.confecamaras.org.co
[28] https://www.gob.pe/mincetur
[29] www.adexperu.org.pe
[30] www.sunat.gob.pe/aduanas/version_ingles