



REPORT OF THE SALTED FISH MISSION
TO BRAZIL

SAO PAULO, RIO DE JANEIRO

September 12 - 24, 1982

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March 1983

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MISSION SUMMARY

Mission Objectives

The objectives of the Mission were to sell salted fish and to develop better understanding of the Brazilian market, in order to undertake longer term expansion. The Mission strategy included individual and group meetings with Brazilian importers and government officials and resulted in a positive progression of good will on both sides. It is concluded that group export effort is an effective foundation for immediate and future business development. In particular, group effort would be perceived by Brazilian importers as a serious attempt by Canadians to offer continuity of supply and thus to address the current Brazilian importers' problems of poor product mix and insufficient supply of large salted cod.

Southern Brazil

80 percent of the value of salted fish imports into Brazil are handled by firms in Sao Paulo and Rio de Janeiro. The Mission recognized the southern region as a market of growth for Canada. Import agents and wholesalers are large and competent firms and have distribution links with the central and northern regions of Brazil.

Import Permits

Brazilian importers are required by law to obtain a licence to purchase foreign goods. This measure to control the outflow of foreign currency, is exercised by CACEX, the foreign trade department of the Central Bank of

Brazil. Goods including fish judged to be non-essential are curtailed regardless of need or demand.

Deposit
with LOC

Business transacted by Letter of Credit (LOC) requires that the Brazilian importer must open the LOC by making a deposit without interest equal to the f.o.b. value at the Central Bank for the duration of the transaction.

180 Days
Credit

In October 1982, Brazilian authorities imposed a complementary measure to importation regulations already in affect. This measure requires that import of goods henceforth have to be on the basis of a credit term extending 180 days.

Market
Prospects

In spite of the depressed economic conditions and the restrictive government import measures, Brazilian importers are confident that salted fish trade will be maintained, although at import levels below former years. The Brazilian firms emphasized that trade reciprocity, particularly in Canadian purchases of Brazilian shellfish, would favourably influence the issuing of import permits by the Brazilian government for the purchase of salted fish from Canada. Canadian firms should recognize that the reciprocity issue is not new in Brazil trade, but it has been given a high profile recently.

RESULTS OF THE SALTED FISH MISSIONS TO BRAZIL, SEPTEMBER 1982

Objectives

Achieved

The Mission objectives were more than achieved. A better understanding of the logistics and characteristics of the Brazilian trade was obtained. There are several product specifications which are unique to Brazil and these are detailed in this report.

New

Business

The Mission was successful in affecting immediate business worth \$800,000 and a new contract was negotiated for salted fish valued at \$1.7 million for delivery in January 1983. The import permit for the latter amount is being sought.

Meetings with 1) Sao Paulo Foodstuffs Wholesalers' Syndicate, 2) the Foreign Trade Department (CACEX) and 3) the Brazilian Department of Fisheries (SUDEPE) gave the mission: 1*) better understanding of importers' and representative agents' product requirements; 2*) the nature of the Brazilian import regime as it pertains to imports generally and salted fish in particular; and 3*) the Brazilian Government's interest in fishery technology transfers and trade reciprocity.

Numerous contacts with importers representatives established sufficient potential liaison to develop new business relations. Both sides reached an understanding of the legal obligations of conducting trade.

Mission members and importers together visited municipal markets to observe fish display, quality, retail prices and to assess the appropriateness of product preparations.

Liaison
with
Government

Reciprocity was examined: Brazilians, outlined for Canadians the problem of slow access to import permits from CACEX and Canadians expressed openness towards diverting to Brazilian suppliers a portion of the shellfish imports into Canada. CACEX officials stated that reciprocity would enable them to have greater latitude in allowing imports permits for Canadian fish. The importance of reciprocity has been urged upon the Canadian import trade sector by the Mission members.

MOU on
Fisheries

The possibility of exporting Canadian cod which is partially processed for finishing or drying in Brazil was discussed with importers, processors and government officials. The issue will be further explored following the signing of a Memorandum of Understanding on Fisheries, early in 1983.

The Mission served well to create a discernable feeling of trust and goodwill between the Brazilian and Canadian parties and advanced the Brazilian interest to rely more heavily on Canada for supplies of salted fish.

IMPORT REGULATIONS

Import Permits & Rationale

The Government of Brazil requires that importers obtain a license to purchase foreign goods. This measure, which became critical in the late 1970s, was designed to control the outflow of foreign currency. This control of foreign exchange is exercised by CACEX, the foreign trade department of the Central Bank of Brazil. CACEX officials rarely have been generous in the issuance of permits to import foreign goods. CACEX has been compelled by financial circumstances not only to delay granting of permits but also to curtail quantities applied for regardless of need or demand.

CACEX, in following government policy and directives, intervenes more and more in private and government companies' import programs and plans. Goods judged non-essential or speculative are curtailed and stock piling for consumption, is tolerated to three months or less.

Given that all imports including salted fish require a permit, Brazilian importers must register with CACEX. A Letter of Credit cannot be opened until an import permit has been issued, thus slowing the business transaction from the

start. If business is to be transacted by Letter of Credit, as distinct from the preferred Cash-against-documents deal, the Brazilian importer must arrange the foreign exchange contract with a commercial bank and a compulsory 100 percent deposit of the f.o.b. value of the Letter of Credit must be made at the Central Bank without interest, for an average duration of 47 days.

It is also mandatory for 20 percent of the invoice value of salted fish shipments to be withheld by the Central Bank for 20 days after arrival of the shipment, or until the quality of the shipment is declared acceptable by the importer. If examination of a shipment at the Brazilian port reveals an incidence of dun, discolour, abrasions, etc., the 20% retention is unlikely to be paid.

In July 1982, CACEX announced a reduction of 15 percent in the 1981 volume of salted fish imports by individual firms, except for those firms that have a current favourable balance of trade. An importer who is not an exporter would be cut 15 percent allowable imports.

New Restrictions - Sept./Oct. 1982

The Mission had just returned to Canada, September 23, 1982, when the Brazilian Government introduced a series of economic measures designed to address a critical balance of payments problem. The most significant element of these measures was import restrictions. An extensive list was published of some three thousand items which CACEX had deemed to be superfluous and importation of which was now prohibited. The list included both small and large volume sectors of imports.

Salted cod (bacalhau) is significantly not/not on the published list of banned imports.

While import permits issued prior to publication of these new restrictions remain valid, CACEX made it clear that certain approvals for extended periods would be re-examined and cancelled if it is deemed appropriate. CACEX alternatively could ask an importer to re-submit a request for an import permit, an effective bureaucratic delay.

In explaining how the list of prohibited goods is arrived at, CACEX officials indicated that the first test was judgment on whether goods were superfluous to Brazil's needs; secondly, consideration of the firm's balance of trade at the time of filing an import application (if poor then the importer would

have to reapply after one month) and thirdly, judgment of the nature of trade relations with the exporting country.

Financing Requirement

On October 6, 1982, CACEX issued Resolution 767 stipulating a complementary measure to importation regulations already in effect. It addressed, in particular, mandatory payment conditions, that is, in addition to the bank deposit requirement for importers, all importation of goods must be done under a minimum credit term of 180 days. Salted fish, although exempt from the list of prohibited goods, was included in the new requirement for 180 days financing.

This financing requirement is a stringent import control in the view of salted fish exporters and importers.

Representations by exporting countries for exemptions from the terms of Resolution 767, was without immediate success. This new problem requires full orchestration and it may be a propitious time for Canadian salted fish exporters to pursue joint ventures and direct investment as an approach to increase market share. The concept of joint venture has for several years been encouraged by the Government of Brazil and still is well received if the new firm is established in Brazil for the shared benefit of the domestic economy.

BASICS OF BRAZILIAN DEMAND
FOR SALTED GROUND FISH

Product Specifications

Dry salted cod, saithe, cusk (zarbo) and European ling are the only fishery products imported in significant quantities into Brazil. Norway has been the dominant supplier in this market for the past three decades. Therefore, Brazilian importers have based their product specifications on good quality Norwegian preparations. Canadian product preparations match those of Norway and have taken over more or less 10% of the market. Canadian exporters are successfully meeting the expectations of the Brazilian salted fish trade. In practice, Norwegian "imperial" and "universal" qualities of product are respectively the same as Canadian "choice" and "standard" qualities and Brazilian importers have accepted this technical explanation.

The preparation of products for Brazil follows the process for traditional bacalhau (dried salted cod), but with emphasis on certain procedures in order to ensure excellent appearance of the finished product. Fish must be bled when caught and held chilled for eviscerating, removal of head and black membrane, removal of backbone and brushed clean in water before submitting to the salting process. Ideally,

salted fish should be dried to 38-40% moisture content for the Brazilian climate, but the importers have been accepting higher moisture content, where refrigeration is available.

The exporter should insist that the final product be severely graded for sizes and appearance and submitted to rigorous inspection and certification at the time of shipment. In this regard, the Brazilian importer is protected by a government regulation that 20% is retained from invoice value of the import order which will only be remitted to the supplier/exporter after arrival at destination, provided that the fish is accepted as in good order.

Processors of salted fish for the Brazilian market, in particular to meet the rigid specifications of the high priced Southern Brazil market, are likely to incur a higher cost of production relative to production costs involved in serving Caribbean and other traditional export markets. The following quotations selected to exemplify the type of business conducted in Southern Brazil are 1981 offers from Europe for fall delivery, reported by an importer in Rio de Janeiro:

- (i) cod, large variety: 38-42% moisture content; 50 kg wooden boxes, sizes 11-15 fish to 16-20 fish per box; shipments composed 80% imperial (choice) quality and 20% universal (standard) quality;

- (ii) Cod, smaller variety: 38-42% moisture content; 25 kg waxed cartons, sizes 10-12/13-15/16-20 fish per carton; shipments composed 80% imperial (choice) quality and 20% universal (standard) quality;
- (iii) Saithe (Atlantic pollock): 38-42% moisture; 25 kg cartons, sizes 16-20 and 21-30 fish per carton; 60% imperial, 40% universal per shipment;

Sizes of Fish

Cod finished dried: Extra large fish are longer than 25 inches (63.5 cm); larger fish are not less than 21 inches (53.3 cm) and not more than 25 inches (63.4 cm); small fish are not less than 16.5 inches and not more than 21 inches (53.3 cm). Smaller fish sizes are acceptable in northern Brazil, but this is not generally the case in the south.

Procedures

With regard to processing salted cod and codlike species for Brazil, it is imperative for fishermen and plants to adhere rigorously to the traditional procedures whose chief guidelines are outlined below:

- a) Select fish which have been bled when caught.

b) No technological imperfection should appear in the cutting which shall specifically be as follows:

- i) The finished product with skin on must have all fins complete and uncut;
- ii) Approximately $2/3$ of the front of the backbone shall be removed and thus the remaining back third of the backbone will be kept complete and intact;
- iii) the ventral region (pelvic fins) must be well opened by a straight and steady cut up to the tail;
- iv) no rough tearing or laceration of the skin, or any other coarse damage should be visible;
- v) the sephalo-abdominal separation surfaces must be regulated by accurate cuts around the natural connection of this region;
- vi) wash and brush clean the fish after splitting;

c) raw material should not present washing imperfections such as:

- i) mucus on the ventral surface or on the fins;
- ii) clots or blood stains in any portions; especially on the ventral surface;
- iii) bile stains (greenish yellow stains);
- iv) total or partial presence of viscera;

- v) spots or stains originating from excessive compression by the fish being piled up, or as a consequence of storage (usually known in Portugal and Brazil as "old fish");
 - vi) excessive presence of salt crystals on top of the fish.
- d) In order to obtain entry into southern Brazil, we should stress that dried salted cod is received only without peritoneum, or black membrane lining the stomach. The fish must be "white naped".
- e) No biological alterations of any kind, particularly those recognized by the presence of superficial mucus of a whitish colour, or identified through the accumulation of colonies of halophilous fungi (vulgarly, dun), caused by the halophilous mold of the Sporendonema genus which bring forth a "powdered" aspect of dark gray or chestnut color. Similarly, and of greater importance, the fish should not bear biological alterations identifiable by a greater or lesser degree of red pigmentation (ordinarily known as "pinkfish"), brought forth by the activity of halophilous bacteria, normally of the Serratia or Micrococci genera. Such type of alteration on the surface may extend into the interior of the tissues, especially along the backbone and in humid areas.

Grades and Packaging

Shipment to Brazil in container lots is essential for economy of transportation and security of delivery. Salted cod, particular choice grade, large sizes 8-10, 11-15, 16-20 and 21-25 fish per 50 kg, ordinarily must be packaged in wooden boxes. Salted cod of smaller sizes are ordinarily packed in 25 kg cartons, and it is required that cartons contain uniformity of sizes 10-12, 13-15, 16-20 and so forth.

The usual provision demanded by importers for the southern Brazilian market is that an order be composed of 80% choice quality and 20% standard quality. It is also stipulated that the order be composed of 80% of larger sizes, although there is a tolerance for 60% of larger and 40% smaller sizes when world supplies are short and prices quoted are compensatory.

Resume of Brazil's Imports of Salted Fish

There has been a broken pattern of decline in Brazilian imports of salted fish during the last decade, as evidenced by the following schedule of import tonnages, 1973-82:

1973	38,090	1978	16,300
1974	24,252	1979	18,287
1975	24,818	1980	17,619
1976	18,962	1981	13,800
1977	14,173	1982	16,104
<u>73/77</u>	<u>24,060</u>	<u>78/82</u>	<u>16,420</u>

As indicated, the 1982 imports of 16, 104 MT were 58% less than 1973 imports of 38,090 MT. Average annual imports of 16, 420 MT for the past five years were 32% below the average of the previous five years. The Sao Paulo Foodstuffs Wholesalers' Syndicate are confident that the low in salted fish imports was reached in 1981 and a recovery is already taking place, if only to judge from the improved level of imports for 1982 at 16,104 MT, compared to 13,800 MT in 1981.

Causes of Falling Imports

The phenomenon of falling imports was not at first an economic problem. Brazil's economic performance has been among the world's best. During thirty years ending in 1980, economic growth in real terms averaged more than 7 percent per year, compared with the industrialized world's 4.2 percent. Per capital GDP rose at an annual average rate of 4.2 percent compared with 3.1 percent for industrialized countries. The GNP exceeds \$200 billion.

The boom in oil prices in 1973-74, put a stop to the race for growth, but Brazil used borrowed capital to maintain momentum in the economy. It was not until 1981 that real growth fell 1.9 percent, the first such drop in many years.

Although the Brazilian economy has had to cope with serious inflation, leading to the imposition of various controls under the Brazilian importation regulations in 1975 and subsequent years, this was not in itself an insurmountable factor curtailing salted fish imports until 1980 and not a critical deterrent to imports until the financing stipulation of 1982. The position repeatedly reported by a number of Brazilian importers is that the salted fish products (cod in particular) which they require are in short supply or unavailable. The potential demand for salted fish is perceived by the Mission members and the Brazilian trade at the level of 1975 imports of 25,000 tonnes, provided that price, qualities and species of product are able to match actual demand.

Since the 1950's, the world supply of salted fish in general and of codfish (bacalhau) in particular has been weakened by the diversion of catches to the more lucrative fresh and frozen trade in Canada and to the stockfish and frozen trade in Norway. After 1976, Spain, the second largest supplier (5,300 MT in 1975) to the Brazilian market after Norway, ceased to be a significant exporter of salted cod, as a result of loss of fishing grounds to extended jurisdiction. Norway, left as the sole supplier, able to deliver about 15-20 percent to Brazil's traditional salted cod

requirements, stepped up delivery of the alternate codlike species, saithe, cusk and ling with considerable success, but not in complete fulfillment of Brazilian consumer expectations.

Outlook

Since September 1982, the consuming need in Brazilia to contain the deficit in external trade has displaced concern for long-term priorities in general and trade relations in particular. The planned surplus in trade for 1982 suddenly turned into a balance of payments crisis and, on October 6, 1982, the Brazilian Government ordered that importation of all goods, other than those covered by inter-government agreements, be subject to financing terms of 180 days. Therefore Brazilian purchases will continue to be restrained until (a) the financing barrier is withdrawn by the Brazilian authorities or (b) exporters can provide the necessary credit terms. There is concern that the majority of Brazilian consumers could not afford to absorb the additional cost of financing charges. Already the retail price of salted fish of premium qualities is somewhat expensive for the consuming public.

In spite of new import restrictions and escalating retail prices, consumer demand for salted fish remains strong. Brazilian importers are optimistic that salted fish imports can be maintained near the level of 16,000 tonnes for 1982 and 1983, but a favourable economic turnaround will probably be required to restore imports to higher levels.

The critical factor is the restriction of imports by CACEX. From the Mission perspective, it has become evident that every effort must be made by the industry and trade officials involved to ensure that this problem is effectively addressed. The work of three trade missions since 1979 culminating in the most recent sales mission of September 1982 has created a solid base for future business.

In the opinion of many observers, if the Brazilian government's current economic policies are effective and are coupled with a recovery in international trade, Brazil should be able to resume from the mid-1980s onwards the economic expansion with which it is associated.

NORWEGIAN DRI-SAL EXPORTS TO BRAZIL, 1979-82

(Values in Canadian Dollars f.o.b.)

Groundfish Dried Salted	1979		1980		1981		1982	
	MT	\$000 \$/KG	MT	\$000 \$/KG	MT	\$000 \$/KG	MT	\$000 \$/KG
Cusk	4,647	9,480 2.04	4,424	11,590 2.62	2,636	7,882 2.99	3,241	8,692 2.68
Haddock	238	466 1.96	468	1,114 2.38	282	660 2.34	11	na
Cod	4,274	15,215 3.56	3,358	15,010 4.47	2,804	13,515 4.82	3,672	16,256 4.43
Saithe	2,811	5,425 1.93	4,083	9,187 2.25	3,144	7,294 2.32	3,855	9,122 2.37
Ling	3,214	9,160 2.85	3,781	12,590 3.33	3,096	10,433 3.37	3,833	12,696 3.31
Total Dri Sal	15,184	39,746	16,114	49,114	11,962	39,784	14,612	46,838

Source: Statistik Sentralbyra, Oslo

IMPORTS OF DRIED SALTED COD & CODLIKE SPECIES INTO BRAZIL
BY COUNTRY OF ORIGIN 1977-1982
(VALUES IN CANADIAN DOLLARS F.O.B.)

ORIGIN	1977		1978		1979	
	MT	\$'000	MT	\$'000	MT	\$'000
W. Germany	4	7	9	N/A	10	N/A
Canada	306	473	378	692	756	1,569
Spain	250	346	57	115	358	681
Iceland	711	1,052	895	1,581	1,359	2,475
Norway	12,901	26,172	14,732	34,282	15,814	39,746
Portugal	-	-	229	571	-	-
Totals	<u>14,173</u>	<u>28,050</u>	<u>16,300</u>	<u>37,241</u>	<u>18,287</u>	<u>44,471</u>

ORIGIN	1980		1981		1982	
	MT	\$'000	MT	\$'000	MT	\$'000
W. Germany	73	144	196	221	N/A	N/A
Canada	814	2,200	1,261	3,400	1,400	4,000
U.S.A.	-	-	114	266	92	230
Iceland	618	1,404	267	341	N/A	N/A
Norway	16,114	49,114	11,962	39,784	14,612	46,838
Totals	<u>17,619</u>	<u>52,862</u>	<u>13,800</u>	<u>44,012</u>	<u>16,104</u>	<u>51,068</u>

SOURCE: Official Statistics of external trade, Brazilia for W. Germany, USA, Iceland, Spain and Portugal. In order to avoid minor differences in cross reference, the official export statistics of Canada and Norway have been used instead of Brazilian import statistics.