

Brazil – a country of mixed fortunes

Brazil dominates the whole of South America both geographically and economically. It is also a world leader in the production of meat, sugar, coffee, orange juice and leather. Indeed, its leather industry has a sound base from which to start. The country possesses the largest commercial bovine herd in the world, estimated around 150 million head and set to reach 220 million by 2010, with a yearly kill of 49 million.

There are around 800 tanneries employing 44,700 people and total sales worth some \$2.5 billion. The industry is particularly strong in the states of Rio Grande do Sul in the south and São Paulo in the southeast. The combined leather and footwear sector currently employs half a million people. It is an important part of the Brazilian economy.



Brazil has elegant styling as in this men's shoe by Betarello

Leather exports

Total Brazilian leather exports increased 22% in 2004 on a year-on-year basis. The main markets were Italy at 28.44% (up 18% on 2003) and Hong Kong at 17% (up 28% over 2003). Other important markets were the USA, Portugal, Taiwan, Malaysia (with a 138% increase), Japan, Canada and South Africa. In terms of volume, wet-salted hides fell by 27%, wet blue hides—that account for 60% of total leather exports—increased by 19%, crust leather by 4% and finished leather—that accounts for 29% of all exports—by 32%.

In 2005 the increase slowed to 8%, with a total of \$1.4 billion compared with \$1.25 billion in 2004. In the first eight months, finished leather exports increased 6% in terms of volume and

turnover grew from \$400.4 million to \$431.9 million, with Italy, China, Hong Kong and the United States remaining the main destinations.

However, figures released by the Brazilian Department of Foreign Trade showed a decidedly marked drop of 9% in leather export revenues in October compared with September and a 6% reduction in volume. Brazilian tanners clearly have much to complain about as while unit value may be up, the reduced volume implies reduced plant efficiency and labour utilisation, both of which can soon offset any price gains. China was the largest importer of Brazilian leather with import volumes and revenue increasing by 60% and 25% respectively during the period.

Revenue from wet-blue exports was 10% lower in the 10-month period and the number of hides exported also fell by 4%. Finished leather exports increased by 8% in terms of revenue and 7% in terms of volume.

Problems with the exchange rate

A major hurdle for exporters has been the low US dollar exchange rate that has hindered the efforts of many Brazilian exporters to the extent that some companies have cut back on production and announced redundancies. Between August 2004 and June 2005, the dollar exchange rate against the Real fell from just over R\$3.00 to R\$2.37, a reduction of approximately 21% in less than a year.

As a result, trade associations representing various industrial sectors have protested strongly to the government and demanded changes in the country's currency exchange policy. Roberto Gianetti da Fonseca, president of the Foreign Trade Study Foundation (Funcex) pointed out that while all Brazilian exporters have become dispirited due to the overvaluation of the Real, manufactured goods—and in particular footwear and textiles—have

been hit the hardest.

▶ Heitor Klein, managing secretary of the Brazilian Association of Footwear Manufacturers (Abicalçados), estimated that shoe exports, which reached \$1.8 billion in 2004, would have fallen by 20% by the end of 2005. That is a serious drop in volume and value by anybody's standards. For example, from January to May 2005, exports were 10 million pairs lower than in the same period of 2004 (89.6 million as against 99.8 million). This reduction hit the Vale do Sinos region in Rio Grande do Sul particularly hard and led to over 11,000 redundancies.

Footwear tries a new approach

Brazilian footwear manufacturers had hoped to increase exports by 15% in 2005. Instead, they fell 9% in terms of volume between January and September 2005, although the value rose 7% in dollar terms. Despite the lower volume, the value of exported footwear actually increased from \$842.4 million to \$921.4 million, a 9% increase. This is due to the fact that the average price of Brazilian footwear rose 17% from \$8.44 to \$9.86 per pair year-on-year.

Brazilian shoemakers have clearly read the signs and realised that no matter what they do, they can never compete on price terms with countries like China and Vietnam. What they are seeking to do instead, is to remain competitive in higher added value products, which is a market niche that allows more flexible pricing. The main target market is now Italy, where exports doubled in 2004.

Statistics show that Brazil is also diversifying its export markets. In the past, shoe exporters largely depended on America but, as the US has gradually replaced Brazilian shoes with Chinese-made products, many Brazilian factories have closed down. Brazil's Minister of Development, Industry, and Foreign Trade, Luiz Fernando Furlan said that ▶



WORLD FOOTWEAR

in 2005 sales fell by \$90 million—or the equivalent of 23 million pairs of shoes in NAFTA (North American Free Trade Area). This is why Brazil is now seeking new markets and Brazilian shoes are currently exported to over 100 countries. As witness to this drive, the Brazilian stand at Micam in March 2006 in Milan will be twice as big as it was in October 2005.

Problems with taxation

A further adverse factor is the negative effect of taxation. As well as a general tax load of over 35% of the country's GDP and interest rates of 19.75%, the CICB says the sector is also still being affected by a tax policy that benefits the export of leather as wet-blue. Brazilian manufacturers are not seeking any preferential advantage but believe they should have the same opportunities as competitors such as China and Italy as under the current tax system, wet blue leather is cheaper for importers than for Brazilian producers.

In the last 10 years over \$300 million has been invested in technology, machinery and equipment for training in the industry, with the aim of maximising the added value of exported products. In 2004, the leather and footwear industry's turnover was \$4 billion; the CICB says it has the potential to reach \$12 billion with an industrial and taxation policy that prioritises added value products. In the face of such adversity, one can well understand why Brazilian exporters have become so dispirited—especially as the country has so many natural advantages.

Machinery paints a brighter picture

Few Brazilian industrial sectors enjoyed such good results as the leather and footwear machinery industry in 2004. According to the Brazilian Association of Manufacturers of Machines and Equipment for the Leather, Footwear and Allied Trades (ABRAMEQ), exports reached \$13.6 million, a 60% increase compared with the \$8.5 million recorded in 2003. This has been directly attributed to investment in the development of innovative technologies that satisfy market requirements at competitive prices.

This probably also explains why the main customers almost all fall within Latin America. Shoe machinery accounted for \$11.1 million in exports to 32 countries, but Mexico was the main importer, taking \$4.4 million worth of machinery, while Argentina and Chile imported \$2.9 million and \$821,000 respectively. Eighteen countries imported Brazilian leather machinery worth a total of \$2.5 million, topped by Uruguay at \$646,000 and Mexico at \$626,000. Small beer compared to leather and footwear exports but nevertheless encouraging.

Joint ventures

As in other countries, such as India, with a large raw material base and competitive labour costs, Italian tanners have seen good commercial opportunities in Brazil. Italian tanner Zini (which also has facilities in China, India and the USA)



Braspelco's tannery in Uberlândia, Minas Gerais State

and Brazilian tanner Belafranca have set up a joint venture, Belazini Indústria e Comércio de Couros with an initial investment of \$2 million. The aim, as usual, is to combine Italian technology with local production advantages and the company began operations in January 2005. 70% of sales will go for export, 20% to domestic customers in the state of São Paulo and 10% in Rio Grande do Sul. Output is expected to reach 100,000m² per month by the end of 2006, although the plant has a monthly production capacity of 200,000.

Talk of protectionism

At the same time as it refuses to devalue the Real and resolve the tax burden, the Brazilian government has declared its intention to protect the

footwear industry as much as it can from cheap imports and a possible 35% duty rate has even been mooted.

Luiz Fernando Furlan, the Minister of Development, Industry and Foreign Trade, has stated that the government is fully aware of the sector's worries about low-price imports, from China in particular, and is also discussing the problem with its partners in the region's Mercosur group of trading nations. The Foreign Trade Chamber has also discussed the issue with Chinese authorities in the hope of avoiding legal measures. How far anything will actually go remains open to question.

While there has been much talk of the 'bra wars' in Europe, with millions of Chinese-made garments being blocked in European ports due to quotas being filled, a similar situation has also occurred with Argentina. This time, however, Brazil was the target and after Argentina decided to implement new rules for importing footwear on September 1, over 620,000 pairs of Brazilian shoes were blocked by customs.

Abicalçados estimated that goods worth \$5 million were directly affected, not only at the border, but also in warehouses in Buenos Aires. Meanwhile, on the Brazilian side of the border, thousands more pairs of shoes which should have already been shipped to Argentina had to be stock-piled in factories in Rio Grande do Sul and São Paulo. Brazilian manufacturers have been forced to seek new licences, a process that can take up to 60 days. Argentina imported 15.3 million pairs of shoes from Brazil in 2004.

Safeguards against China

Brazil has imposed safeguards against certain Chinese imports including footwear and textiles in an attempt to protect the country's most important manufacturing sectors. Until now, there were no specific protection mechanisms against imports from China as the country's general safeguards for specific products were not applicable to any single country.

Resolution 5.556, signed by President Luiz Inácio Lula da Silva and published in

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the Official Journal on October 6, 2005, has changed all this and enables industrial sectors that feel threatened by Chinese imports to request specific measures for their protection. However, the safeguards will not be implemented automatically and each industry must apply for protection. Abicalçados has requested that action be taken in the light of a 130% increase in Chinese imports between January and August 2005.

In 2004, Brazil imported 7.2 million pairs of shoes from China, yet in the first seven months of 2005 alone, imports had already reached 9.4 million. Comparing the January-August period in 2004 and 2005, imports increased 60% in financial terms and in August alone Brazil imported one million pairs from China compared with 595,000 pairs in the same month a year earlier, an increase of 81%. One would have thought the shoemakers had a good case, so whether this all proves to be just another example of political posturing or whether the



Brazil also makes great children's shoes – this by Diogo Scheffel

Brazilian government really is prepared to protect its industries, remains to be seen.

Pushing for better quality

In an attempt to improve overall quality, a leather technology centre is being built in the state of Mato Grosso do Sul, to carry out tests and research on cattle leather as well as sheep, pig, alligator, fish, capybara, ostrich, chinchilla and even frogs. The Centre of Leather Technology (CTC) will eventually house five laboratories for research and product testing.

In a further move, the Brazilian Association of Leather, Footwear and Leathergoods Component Suppliers (Assintecal) and supplier of petroleum products Petrobrás, have combined to offer an award to stimulate research and technological development in the leather and shoe sector. Their aim is to encourage research and development of new technologies and their implementation into leather and footwear chain.

In common with many other countries, the Brazilian leather and footwear industry as a whole has clearly realised that innovation and more advanced technology are key assets in the modern world. If nothing else, the threat of Chinese domination of global markets has proved to be an incentive for technological development all over the world. However, much commercial blood will be spilt in the meantime and Brazilian tanners and shoemakers have suddenly found themselves in the same firing line as those in Europe and elsewhere. 

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