



# Difficult times for Brazilian exporters

**B**razilian exporters are dispirited because of the overvaluation of the Real,' said Roberto Gianetti da Fonseca, president of the Foreign Trade Study Foundation (Funcex), and it is the shoe and the textile sectors that are the most seriously affected.

The country's minister of development, Luiz Fernando Furlan, has clearly expressed his concern with the low US dollar exchange rate that is hindering the efforts of Brazilian exporters. 'Some sectors have cut down production and are already dismissing employees,' he claims.

A group of trade association delegates representing various industrial sectors has also handed in a protest note to the Brazilian government complaining about the low US dollar exchange rate and demanding changes in the country's currency exchange policy. It is worth mentioning that the dollar exchange rate against the Real has gone down from just over R\$3.00 in August 2004 to R\$2.37 in June 2005, a reduction of approximately 21% in less than one year.

Even though exports in general are growing, the business sector is complaining that the low US dollar exchange rate is already affecting exports of manufactured goods, especially textiles and footwear.

'At the moment, shoe manufacturers are right in the middle of negotiating new contracts. We have already lost \$200 million in deals that could not be closed,' says Heitor Klein ➤, managing secretary of Abicalçados, the Brazilian Association of Footwear Manufacturers. He estimates that shoe exports, which reached \$1.8 billion in 2004, would fall 20% this year.



In an attempt to address this problem, the Brazilian government is now looking into the possibility of imposing a 35% tax on footwear imports. Speaking at the opening of the international fair of footwear, fashion accessories, machinery and components show, Francal, held in São Paulo in July, Mr Furlan expressed Brazil's intention of protecting its footwear industry, stating that the government is aware of the sector's worries about low-price imports, from China in particular. 'We are dealing with this in Brasília, with our Mercosur partners as well, and believe that a solution will be found quickly,' said the minister.

José Augusto de Castro, vice-president of AEB, the Brazilian Foreign Trade Association, points out that many exporters are increasing imports of components, taking advantage of the drawback facility and the low US dollar exchange rate. In general, he feels, exports of commodities have not been affected as international prices have gone up in US dollars.

## Leather exports drop

The volume of Brazilian leather exports has dropped 3% although revenue has grown 8% from January to May this year

compared with the first five months of 2004. In the state of Rio Grande do Sul, the principal added-value leather production area, exports have seen a 3% rise in revenue but a 13% reduction in volume. Sales to the main buying markets have dropped significantly: Italy (-9%), Hong Kong (-39%), USA (-21%) and China (-26%) if compared to the same period of last year.

According to Amadeu Pedrosa Fernandes ➤, president of CICB—Centre of the Brazilian Tanning Industry, Brazil has achieved the No.1 position in the international ranking of leather producers and exporters as a result of the heavy investment made by companies to modernise the sector and by using its well-known competitive advantages wisely. Amongst those advantages are the largest commercial herd in the world and the wide availability of natural resources such as water and suitable grazing land.



However, the country may lose its top spot unless it fights the negative impact resulting from the overvaluation of the Real and the widespread problem of company liquidity, a consequence of the delay by the government in refunding fiscal credit to companies.

The negative effect of the incredibly heavy Brazilian tax burden of over 35% of the country's GDP and the astronomical interest rates currently fixed at 19.75% are equally worrying. In the face of such economic adversity, it becomes very difficult to compete on equal terms with competitors in the global market.

## Footwear exports fall by 10 million pairs

Brazil's footwear exports have already dropped 9% in the first six months of 2005. According to Abicalçados, exports fell from 113 million pairs in the first half of 2004 to 103 million pairs in the same period in 2005.

The industry had hoped to increase exports by 15% in 2005, but reaching this target now seems unlikely due to the problems facing the sector such as high inflation and currency factors.

This reduction has not only been felt by the country as a whole as the third largest footwear producer in the world, it has seriously affected the various shoe manufacturing clusters around the country, especially in various districts of the Vale do Sinos region, in Rio Grande do Sul, where 11,000 people have already lost their jobs.

Birigüi, a small town in the state of São Paulo with a population of 90,000 and 164 shoe factories employing 19,000 workers, is Brazil's largest children's footwear manufacturing cluster. In 2004, Birigüi's exports amounted to 15% of local production. This year, manufacturers had hoped to increase exports to 20% of their output but in view of the current problems the growth should not exceed 10%.

Franca, also in the state of São Paulo, is Brazil's main men's ➤



shoe producer. Exports from Franca dropped 20.54% to 592,133 pairs in April against the 745,238 pairs exported in April 2004. Revenue fell 5.12% from \$11.885 million to \$11.277 million.

Some factories are reluctant to ship old contracts because of the losses they may face if they do and others have been forced to close down, especially small businesses that were decapitalised by the crisis.

Sales to the USA, the main market for Brazilian footwear, fell 22% in volume and 7% in turnover between January and May 2005 when exports amounted to \$380.9 million while in 2004 the revenue added up to \$409 million. Mexico also imported fewer Brazilian shoes in the same period with a decrease of 26% in volume and 20% in revenue. Exports to Canada fell 13% in volume and 19% in turnover, respectively. However, because of an increase in the average price of shoes for export, the revenue from Brazilian shoe exports grew 8% to \$765.9 million in the first five months of this year against \$707.2 million of 2004.

"Because of the overvaluation of the Real the footwear sector is becoming less competitive and is already losing contracts to China," said Élcio Jacometti, president of Abicalçados.

### Fewer machines are leaving the country

In 2005, Brazilian exports of leather and shoe machinery and equipment went up by 60% on 2004 figures. The exchange rate

problem has greatly removed the competitiveness of Brazilian goods in the international marketplace and it will be very hard to repeat last year's performance.

### Change in direction

However, despite the problems facing the industry, there is still positive news to be found. Whilst it is struggling to maintain a stronghold in its traditional export markets, new markets are beginning to open up, offering new opportunities for the leather and footwear sectors. In the first half of 2005, for instance, Brazilian leather exports to Tunisia increased by an astounding 514% from \$117,400 in the January-July period of 2004, to \$720,400 in the same period in 2005.

This increase has been attributed to the effectiveness of Apex, a partnership between the Brazilian Export Promotions Agency and Tunisia that was initiated in 2002. The country has a free trade agreement with the European Union and ambitious plans regarding footwear production for the EU region.

Whilst it is an indisputable fact that Brazil's leather and footwear industries are facing many challenges at present due to currency issues and competition from China and other low cost countries, with organisations such as Apex, Abicalçados, AEB, and the CICB working to look for new directions and opportunities, the industry may be down, but it's certainly not out. 🌐

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