

Brazil: Market of the Future?

• by *Huston Keith* ●●●●●●●●●●

Brazil –the term conjures images of a tropical paradise, replete with flamenco dancers, rain forests, and beautiful beaches. At the same time we hear of an unstable economy, massive poverty, corruption, urban crime. All of which are true. But in my recent visit to speak at the Latin America PET 2001 conference, I also found modern cities, businesses, factories and farms, pleasant parks and suburbs, hospitable and hard-working people – more than a continent teeming with opportunities for exciting growth.

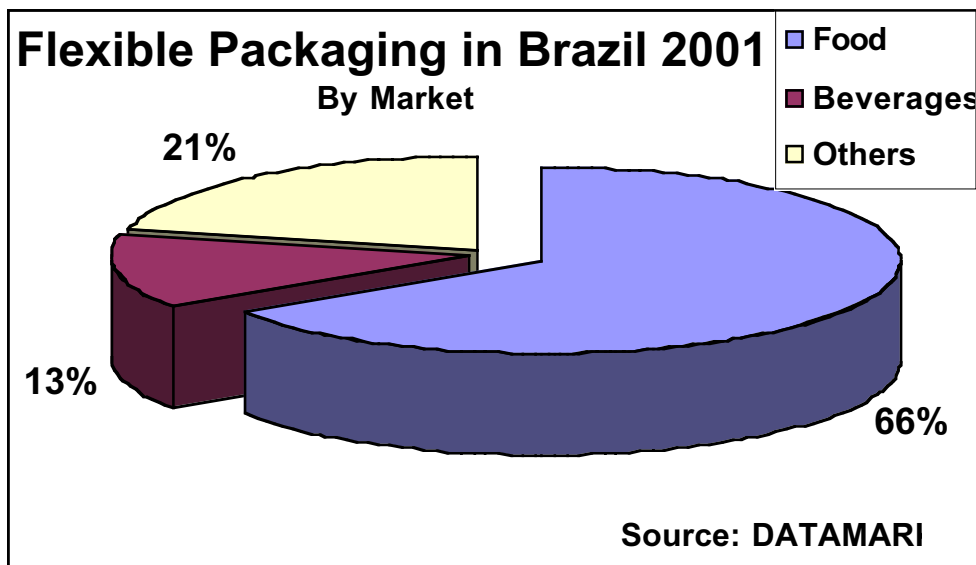
Latin American Leader

Larger in land area than the continental United States, Brazil is far from realizing its enormous potential of its rich natural resources. The 2000 gross domestic product of \$595 billion pales next to the \$9.8 trillion USA economy, according to the WorldBank. It is, however, the largest economy in Latin America, accounting for 30% of economic activity, just nosing out Mexico and double that of third-ranked Argentina.

Its farms and forests make it a leader in timber and crops such as coffee and bananas. It is rich in minerals and has extensive production of autos, aircraft, chemicals, foods and pharmaceuticals. Its 170 million population is also a third of Latin America, far more than other countries in the region and over half USA's 281 million.

Packaging its products

Brazil also has a significant, well-developed flexible packaging market of \$3.1 billion and 1.3 billion pounds of material in 2001, according to Datamark's Brazil Focus (www.brazilfocus.com). This is nearly a third of \$10 billion and 5 billion pounds for USA and Canada, reported by Keymark Associates in *North American Flexible Packaging Strategies 2002*. Neither figure includes labels, merchandise bags, carryout bags and waste bags often included in many industry sources.



Food overwhelmingly dominates with two thirds of the market; beverages add another 13% to total 79% for all edible products. Non-foods such as chemicals, health and beauty products and cleaning products comprise the remaining 21%. Nearly two-thirds of materials are monolayer, although coextruded and laminate structures are growing more rapidly.

This contrasts with USA and Canada, where Keymark reports that the food/non-food split is 54/46. This could be an indicator of Brazil's potential as more packagers outside of the traditional food areas discover the economic and space-saving advantages of flexible packaging.

Packaging players

Not surprisingly, major converters from North America have made significant investments to capitalize on Brazilian opportunities. Dixie Toga, perhaps the largest converter at about \$600 million in sales, sold a third of its shares in 1998 to Minneapolis-based Bemis, the largest flexible packaging company in North America. Sealed Air, the second largest in North America, also has significant operations in Brazil, as do large foil manufacturers Alcan and Alcoa.

Nonetheless, 13 of the 20 major flexible packaging converters in Brazil are based there, according to Graham Wallis of Datamark of Sao Paulo (www.datamark.com.br), a leading consumer goods market intelligence firm.

Opening up Opportunity

After rapid development in the 1970s, Brazil has had many difficulties. Raging inflation, often in the double digits monthly, was a huge problem in the 1980s and early 1990s despite considerable growth. Strict financial controls in the early 1990s, controlled inflation and helped the economy get back on track. In 1999, Brazil was forced to devalue its currency. Since then, growth has been healthy, but not outstanding, and inflation controllable.

The woes of its neighbor Argentina have created problems for Brazil. As members of Mercosul, a common market also including much smaller Uruguay and Paraguay, their economies are somewhat linked.

According to Paulo Mansur Levy of IPEA (Institute of Applied Economics Research, an agency of the Brazilian government), foreign investment in Brazil has been reduced since Argentina's difficulties, partly because investors incorrectly perceive that Brazil will suffer a similar fate. Despite this, he believes that Brazil will prosper in the coming years.

Wallis also expects the packaging industry to prosper. He believes that Internet will help businesses more efficiently exchange goods and services. Datamark has launched Just i2i (www.justi2i.com) to connect buyers and sellers of packaging, a first for Latin America.

Brazil will certainly maintain its leadership in Latin America. With the continued stability of the past few years, it has great potential to be a leading growth market in the 21st century.