

Uruguayan and Argentine retailers adjust to Brazilian competition on border



Carlos Loaiza Keel of Uruguay's Chamber of Free Shops

The economic landscape along the Brazilian border has changed drastically in the last year since the Brazilian government permitted operators to begin establishing stores along the Brazil side of the border.

But despite the initial flurry of activity in the second half of 2019 when the first stores opened, for now things have slowed down, according to Carlos Loaiza Keel of Uruguay's Chamber of Free Shops. "These months have not been especially expansive, but we hope to hear from new openings for the first half of 2020," he says.

In an exclusive interview with *Americas Duty Free*, Loaiza Keel explains that the kickoff locations were likely selected because of the long-standing duty free activity across the border in Uruguay. "The success of the system on the Uruguayan side of the border was recognized from the beginning by its promoters," Loaiza Keel says. "In addition to that, in the Brazilian state there are several population centers with high purchasing power near the border, which generates an appetite for market players.

"We expect, however, that new stores will be opening at other border points," he adds.

Duty free stores have been operating for years in Uruguay and Argentina in cities with close proximity to the border in Brazil. Until now, Brazilian shoppers had to cross the border to do their duty free

shopping. The new law will allow land border duty free stores to open in Brazil in any of 32 Brazilian cities bordering Argentina, Paraguay, Peru, Colombia, Bolivia, French Guiana, Uruguay, Guyana, Venezuela and Suriname.

So far, nearly all of the duty free stores that have opened have been in the state of Rio Grande do Sul with the exception of Sky Duty Free and Duty Free Americas (DFA) in Paraná, home to Iguazu Falls. There are a number of stores in Uruguaiana, including DFA and the Dufry Group.

The first stores to take advantage of the new law were two small Brazilian businesses which opened stores in Barra do Quaraí and Jaguarão, both towns near the border with Uruguay in July.

Considerable sales

With the ability to shop in their own country, fewer Brazilians may be visiting Uruguayan and Argentine duty free shops, although Loaiza Keel says it is too soon to make a judgment call. "At the moment the impact is difficult to estimate, since sales on the Uruguayan side have been hit by the exchange difference and the decrease in consumption of Brazilians.

"However, we know that border free shops on the Brazilian side have had considerable sales in these first months of operation and that obviously could have been a sale for a Uruguayan free shop," he adds.

Brazilian Customs officials approved a US\$500 duty free allowance for its nationals shopping at the border duty free stores that took effect January 1, the same allowance permitted for shoppers at airport duty free stores in the country. But the Brazilian action has created inequalities for its competitors in Uruguay and Argentina.

"In Uruguay there has recently been a change of government, and of ideological tendency," Loaiza Keel says. "President (Jair) Bolsonaro has shown affinity with the new Uruguayan government, but we will not know if that is reflected in better understanding and concrete results for our regime (in Uruguay) until they take action."

For Argentina, however, the border duty free business and the impact of Brazilian border stores is the least of its worries. Argentina is now in the midst of an economic crisis that includes a need to restructure its debt and an inflation rate over 50%.