

Mozzarella, the big cheese aiding Brazil's global growth

By John Paul Rathbone

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It is the great imponderable of the modern age. Will a new world order be built, brick by brick? The jury is out on whether emerging economies such as Brazil, Russia, India or China are able or willing to do so. Still, if one Brazilian company has anything to do with it, the world economy may at least be partially reconstituted out of mozzarella cheese.

The best mozzarella comes from Italy. And Italian buffalo mozzarella is the best of the best. But because of a shortage of suitable grazing land, Italy is struggling to produce enough buffalo milk to manufacture the 33,000 tonnes of soft cheese that the country makes every year. With the very future of Italian cuisine on his mind perhaps, Antony de Berardinis, a London-based entrepreneur, believes he has the solution.

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Using Italian-sourced technology, his Brazilian company, Ilha Grande Investments, produces a snap-frozen buffalo milk base on 80,000 hectares of prime grazing land near São Paulo. This is then exported to Italy for final mozzarella production. Italian chefs might turn up their noses at the idea of using shipped Brazilian milk. But Mr de Berardinis has tested his Brazilian-sourced cheese in Naples, the home of pizzas and therefore a demanding market, and says quality is not compromised.

Such are the pleasant surprises that globalisation occasionally delivers. But that is not what is really notable about this venture. What is most telling is that it would have been almost unthinkable only a decade ago. Indeed, Mr de Berardinis's enterprise is a symbol of sorts of how much Brazil has changed over the past decade and thus of its role in the world economy today.

Brazil's over-arching economic concern used to be macroeconomic stability. In 1998, for example, real interest rates – the difference between nominal interest rates and inflation – were a punishing 23 per cent. A track record of macroeconomic stability has since brought them down to about 7 per cent.

This has brought huge benefits. Lower rates slashed the government's interest bill on national debt, freeing-up money for other things, such as social spending. Macroeconomic stability also allowed Brazilian companies to focus on actually making things rather than worrying about the country's next financial crisis. That, in essence, is how the "New Brazil" was born – and with it ventures such as this one.

But what could block Brazil's progress? The most obvious threat lies elsewhere, with the possibility of a double-dip recession in the developed world. That may already explain why Brazilian economic growth has slowed recently from its breakneck 11 per cent annualised rate. It would almost certainly hurt foreign mozzarella demand, which had been growing at about 7 per cent a year.

Looking further ahead, it may even pull the rug out from under the idea that emerging economies such as Brazil can export their way to prosperity. This, after all, is the very notion behind global re-balancing, whereby future consumption growth lies not in the debt-burdened developed world but in emerging economies instead.

The second threat lies with Brazil itself. Investors have been pouring money into emerging economies, propelling their currencies higher. The Brazilian real, for example, has appreciated by about a third against the dollar since January last year. This boosts domestic Brazilian consumption. But it also hurts exports.

There are two things Brazil can do about this. It can improve local infrastructure, so that goods reach markets quicker and more cheaply. It can also save more. Cutting government expenditure would reduce the country's need for foreign savings, so reducing capital inflows and thus pressure on the exchange rate.

Itau-Unibanco estimates this might boost the potential growth rate of Brazil's \$2,000bn economy to about 7 per cent from 4.5 per cent now. That is not enough alone to keep the \$62,000bn global economy going. But it would help ensure Brazil keeps growing at a fast clip – and that the world never runs out of mozzarella.

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