



Doing Business in Brazil: A Country Commercial Guide for U.S. Companies

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Chapter 1: Doing Business In Brazil

Market Overview

With a gross domestic product (GDP) of approximately US\$700 billion, Brazil represents roughly half of the South American territory and economy. The country is rich in agricultural, mineral, and industrial resources and offers substantial market opportunities for US exporters in a diverse array of sectors that support Brazil's drive to industrialize further, court energy and transportation investment, and cultivate export-led growth.

The US continues to be Brazil's single largest trading partner. From January – December 2006, US exports to Brazil were US\$19.23 billion, US\$3.856 billion more than 2005, and Brazilian exports to the US were US\$26.39 billion, US\$1.953 billion more than in the same period in 2005. Brazil's GDP grew at just under 3.0% in 2006 – a growth rate that continues to concern Brazil's economic authorities.

Market Opportunities

Most industrial economic activity, which includes automobiles, steel, petrochemicals, computers and steel, is focused around the southeastern states of Rio de Janeiro, Minas Gerais, and São Paulo. Brazil's agricultural sector is well diversified and the country is a world leader in producing sugarcane, coffee, soybeans, and orange juice.

Brazil has a diversified industrial sector as well, with many opportunities for both large and small U.S. businesses. Though the government is a large part of the Brazilian economy, it is often difficult for U.S. businesses to take advantage of public sector opportunities. It is extremely difficult for U.S. companies to get involved in government procurement without a local Brazilian partner.

There are a number of promising areas for U.S. exports and investment that U.S. Commercial Service Brazil has identified, including: Agricultural Equipment; Agriculture; Aircraft and Parts; Airports; Computer Software; E-Commerce; Highways; Insurance; Iron and Steel; IT Hardware; Medical Equipment; Mining; Oil and Gas; Pharmaceuticals; Pollution Equipment; Ports; Railroads; Safety & Equipment; Telecommunications & Tourism. One-page reports on each of these sectors are found later in this Guide.

Market Challenges

Brazil's population – at 188 million making it the world's 5th most populous country – continues to face a number of challenges. The country continues to experience high unemployment in major urban centers. Crime, drug abuse, epidemics, poor public education, and environmental degradation are major problems that are exacerbated by one of the most unequal distributions of wealth in the world.

Beyond the need for greater economic development, Brazil faces the challenges of prevalent black and gray markets. These markets form the basis of Brazil's large informal economy, hindering tax collection and promoting piracy in technology, consumer goods and other products.

Despite partial liberalization in recent years, the complexities of Brazil's business environment still create substantial obstacles for US exporters. Doing business in Brazil requires intimate knowledge of the local environment, including the explicit as well as hidden costs of doing business (referred to as "Custo Brasil"). U.S. companies face tariff barriers, a difficult customs system, a heavy and unpredictable tax burden, and a legal system that is overloaded and often incapable of enforcing business law or intellectual property rights effectively. Nevertheless, many companies find that the opportunities outweigh the risks.

Still, there is reason for optimism about Brazil and its future. Even as the Brazilian Real heavily appreciated against the U.S. Dollar, the country's exports continued to grow. Additionally, the government has been able to hold inflation at bay through high federal discount rates. The discount rate has been lowered to 13% from near 20%, and while it has been blamed by some for dampening consumer demand, memories of hyper-inflation have blunted policy makers from lowering it too quickly. Some also worry that the country's export-led growth strategy could overexpose the country to the ups and downs of the global market. The country's current account was positive in 2006, as in 2004-2005, and is expected to be so in 2007.

U.S. and Brazil – Common Commercial Goals

Overall relations between Brazil and the US are good. President Luiz Inacio Lula da Silva, of the left-leaning Workers' Party (PT), has pursued orthodox macroeconomic policies since taking office in January 2003. His administration has focused on tax and social security reforms and the fight against hunger and poverty. In 2005, however, legislative progress on Lula's micro-reform agenda stalled. In the long run, sustained GDP growth is the best antidote to Brazil's poverty and inequality. Many US companies have invested heavily in Brazil and continue to view it as an attractive export market.

In June 2006, the U.S. Commerce Department and Brazil's Ministry for Industry, Development and Commerce launched the "U.S. – Brazil Commercial Dialogue" to facilitate trading relations between the two countries. Key activities under the umbrella of this dialogue include customs facilitation, IPR protection and export promotion.

Market Entry Strategy and Assistance

One of the best ways to enter the Brazilian market is by attending a trade show. The U.S. Commercial Service Brazil frequents many of the trade shows held throughout Brazil, and can provide counseling assistance or organize meetings with potential buyers during these events. More information on upcoming events can be found at www.buyusa.gov/brazil.

Some of the other key ways that U.S. businesses enter Brazil are through agents, distributors and joint ventures. Some firms even establish an office in Brazil. Further discussion of these alternatives can be found in the "Marketing Products & Services" chapter. With each of these options, and because Brazil's business culture is one largely based on personal relationships, it is often best for a U.S. company to visit Brazil to meet one-on-

one with a potential partner. At the very least, a U.S. business should receive credit information on a potential partner from a well-respected source.

With offices in Brasilia, São Paulo, Rio de Janeiro & Belo Horizonte, the US Commercial Service Brazil (www.buyusa.gov/brazil) helps US exporters enter the Brazilian market through research, matchmaking and advocacy. To the best of our knowledge, the information in this report is accurate. However, readers should conduct their own due diligence before entering into business ventures.

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Chapter 2: Political and Economic Environment

For background information on the political and economic environment of the country, please click on the link to the U.S. Department of State Background Notes: www.state.gov/r/pa/ei/bgn/35640.htm#political

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Chapter 3: Selling U.S. Products and Services

Agents/Distributors critical for most companies

Although some companies import directly from foreign manufacturers without local representation, in most cases the presence of a local agent or distributor can be very helpful. As in other countries, the selection of an agent requires careful consideration. In general, larger companies will have a wider net of sales offices and smaller agents will be geographically limited. Because of regional economic disparities, poor infrastructure and a host of other issues, it is often difficult to find one distributor that had complete national coverage.

Lawyers recommend that exporters and representatives have a written agreement to help exporters limit liability in case of product defects, protect a trademark, better ensure payments and define a warranty.

It is up to the foreign firm and the local partner to negotiate the representative agreement, including whether it is or is not exclusive and does or does not include specific performance targets. Contract clauses are freely negotiated between the foreign and local firms. However, the US Commercial Service strongly suggests that US companies consult a Brazilian law firm before signing any agreement, so to avoid future legal problems. Under Brazilian law, an agency agreement entitles an agent to receive a termination amount equivalent to at least 1/12 of all commissions received throughout the contract.

Establishing an Office in Brazil

Either setting up a company in Brazil or acquiring an existing entity is an investment option for Brazil. Setting up new companies is relatively complex, although the Ministry of Development has signaled a desire to simplify the process. Acquisitions of existing companies are monitored by the Central Bank. Corporations (“sociedades anonimas”) and limited liabilities (“limitadas”) are relatively easy to form. Local law requires that foreign capital be registered with the Central Bank - failure to do so may cause serious foreign exchange, capital repatriation, or profit remittance problems. More information for potential investors can be found on our “Investment Climate” report (www.focusbrazil.org.br/ccg), or through Brazil’s Ministry of Foreign Affairs, Trade Promotion Department (www.braziltradenet.gov.br).

Franchising

Franchising accounts for approximately 25% of gross revenue in the retail sector. Local Brazilian Franchises dominate the market (90%); however, foreign groups, particularly from the US, are making their way into the market.

To take advantage of this huge market, U.S. franchisers should adapt their product or service, invest in market research, and test market receptivity through pilots. Franchise consultants call this process “the tropicalization” of the franchise.

The Franchising Law requires close attention. It states that franchisers or their master-franchisees should provide all potential franchisees with a Franchise Offering Circular (Circular de Oferta de Franquia). This must contain basic information about the financial health of the franchiser, as well as information on any pending legal disputes.

A full discussion of the Franchising sector can be found in the “Best Prospects” section of this Guide (www.focusbrazil.org.br/ccg).

Direct Marketing & E-Commerce – Growing Fast

Brazil is a large country with an untapped interior that is perfect for direct marketing. E-commerce is on the rise and provides many additional marketing and business opportunities. Because of its excellent postal service, direct marketing is a proven way to reach 35 million middle-class Brazilian consumers. On average, Brazilians only receive 10 percent as much direct mail as US citizens each year.

Although Brazil differs from the US in regards to telemarketing, postal rates, regulations, fulfillment, printing and mailing services, US catalog, e-commerce and teleservice firms have been successful.

Brazil is Latin America’s most advanced Internet and e-commerce market. Today, over 20 million Brazilians are on-line regularly, often using broadband.

US exporters may sell directly to Brazilian consumers or distributors. However, different Brazilian customs rules apply to these types of transactions. As far as shipments to distributors or Brazilian trading companies, US exporters can only sell to Brazilian companies that are registered with the Secretariat of Foreign Trade (SECEX) of the Ministry of Development, Industry and Commerce. SECEX plays a central role in the implementation of directives on trade issues in general. With respect to sales to end users or consumers, US exporters may ship goods directly.

JVs and licensing: Essential to some sales

Joint ventures are very common in Brazil, particularly as a way for foreign firms to compete for government contracts or in heavily regulated sectors, such as telecom and energy. Usually joint ventures are established through "sociedades anônimas" or "limitadas," which are similar to corporations and limited partnerships in the US. Licensing agreements are also common in Brazil. Use of a competent local attorney in structuring such an arrangement is advised. All licensing and technical assistance agreements, including trademark licenses, must be registered with the Brazilian Industrial Property Institute (INPI, www.inpi.gov.br/).

Selling Factors and Techniques

Price, quality and payment terms are extremely important sales factors. Generally, US goods are perceived as high quality, though the market’s opening in the early 1990s brought greater foreign and domestic competition. To be competitive, U.S. companies should adapt their products to local technical requirements and culture. In many cases, products manufactured at U.S. standards are not acceptable, while the country’s size creates

numerous cultural differences. Competing with an ever-increasing amount of Chinese imports can be difficult because of their lower price – thus, again, emphasizing the quality of the product is key for U.S. companies.

Advertising and Trade Promotion

With its well-established and diversified industrial sector, Brazil has a variety of specialized publications that can provide excellent advertising outlets. TV advertising can also be important, particularly for consumer goods and food products.

Most of the world's top agencies are present in Brazil, and though top advertisers vary from year to year, often included are Unilever, VW, Fiat, Ford, and GM. The top ad categories per investment are trade & commerce, consumer services, culture, leisure, sports & tourism, media, and public & social services.

The most popular magazine in Brazil, with a circulation of over one million copies, is the weekly *Veja*, published by the Abril Publishing Company (www.uol.com.br/veja). The largest daily circulation newspaper is *Folha de São Paulo*, published by the Folha Group, with a circulation of 400,000 on Sundays and 300,000 from Monday through Saturday (www.uol.com.br/fsp).

Participating in trade fairs is another important marketing tool. The city of São Paulo hosts around 300 trade fairs per year, and other cities host significant shows as well, e.g. Oil and Gas (Rio de Janeiro) and Mining (Belo Horizonte). These events attract many visitors and exhibitors from Brazil and foreign countries. The USCS Brazil participates in many of these events and can help you attend and arrange meetings with potential agents, distributors, lawyers, and customers.

Product Pricing – a Challenge for Sales in Brazil

Payment terms are extremely important in Brazil because of the country's high interest rates – it is not unusual for a company to select a supplier whose prices are higher but who offers better terms.

In Brazil, all import-related costs are generally high because of taxes – thus some U.S. companies implement efficient logistic systems and lower expected profit margins. In some cases costs are so high that a simple calculation may indicate that margins will not allow you to compete with a local product. For more information on calculating the landed costs for exports to Brazil, please refer to our report on Trade Regulations and Customs at: www.focusbrazil.org.br/ccg.

After-Sales Service and Customer Support

The “Consumer Protection Law” of 1992 requires customer support and after-sales servicing. In the case of imported products, the importer or the distributor is responsible for such services. Thus, US manufacturers should appoint agents or distributors that are qualified to provide such services.

Government Sales: Possible, but Challenging

Winning contracts with the Brazilian Government is challenging, even for large US companies. Without a significant in-country presence and the patience and financial resources to respond to legal challenges, charges of corruption, and bureaucratic delays, exporters should proceed cautiously. Still, the Brazilian Government is expected to spend a significant amount in a variety of areas, and US companies may find success by subcontracting with larger Brazilian firms that can navigate the procurement maze.

Government Procurement – Theory vs. Reality

Brazilian Government procurement policies apply to purchases by government entities and parastatal companies. Government procurement regulations contained in Law 8666 of August 1993 established an open

competitive process for major government procurement. Under this law, price is to be the determining factor in selecting suppliers. Law 8666 establishes general norms for tenders and administrative contracts (for goods and services) to be followed at the Federal, State, and Municipal level, by entities directly and indirectly administered by the Federal Government, special funds, public enterprises, and public-private companies.

In theory, the Brazilian Government may not make a distinction between domestic and foreign-owned companies. However, in the case of a tie in the tendering process, preference is given to goods produced or services supplied by Brazilian firms of national capital or domestically produced in Brazil.

Most government procurement processes are open to international competition, either through direct bidding, consortia or imports. However many of the larger bids (e.g. military purchases) become very political and are done through sole sourcing or national security arrangements that exclude competition. This kind of purchasing often requires an act of Congress, which can be difficult and time consuming.

Brazil is **not** a signatory of the WTO multilateral Agreement on Government Procurement (GPA), and as such does not necessarily use the same procedures as other signatories. International bidding is required for all procurement with international development bank funding, i.e. the Inter-American Development Bank, the World Bank, etc. The Brazilian executing agencies of IDB loans require international bidding above specific ceilings, according to IDB procurement guidelines. For example, consultant contracts require international bidding above US\$200,000 and civil works above US\$5 million. However, portions of major projects financed by IDB may not require bidding where local Brazilian counterpart funding is involved.

Government procurement of telecommunications and informatics equipment is exempt from the above requirements. Special requirements were established in 1993 and 1994 allowing locally manufactured telecommunications and informatics products to receive preferential treatment in government procurement, and to be eligible for tax and other fiscal benefits based on local content and other requirements.

These exceptions to WTO norms are significant. The Brazilian Federal Accounting Court noted that 51% of the Government's procurement in 2003 was done without a formal competitive bidding process. Often the Brazilian Government cites emergencies in procurement actions that would make the open bidding process time-prohibitive. At all levels, corruption remains a concern.

Government Bidding: Obtain a Local Partner

It is often difficult for foreign companies to operate in Brazil's public sector unless they are associated with a local firm. To be considered Brazilian, a firm must have a majority of Brazilian capital participation and decision-making authority, or operational control. A Brazilian State enterprise is permitted to subcontract services to a foreign firm if domestic expertise is unavailable, but a foreign firm may only bid to provide technical services when there are no qualified Brazilian firms.

In the case of international bids to supply goods and services or specific government projects, successful bidders are required to have local representation -- i.e., legal presence in Brazil. Since the open period for bidding is often as short as one month, it is advisable to have a resident partner in Brazil.

The inclusion of local purchases of Brazilian goods and services, or significant subcontract association with a Brazilian firm, may improve a bid's chance for success. Similarly, a financing proposal that includes credit for the purchase of local goods and services for the project will be more attractive.

Advanced descriptions of US suppliers' capabilities can prove influential in winning a contract, even when they are provided before the exact terms of an investment plan are defined or the project's specifications are completed. Such a proposal should include financing, engineering, and equipment presentations.

The success of e-government has prompted Brazil's Government to change Law 8666 and pilot a more efficient system using electronic purchase contracts, with the goal of making small companies more competitive. The pilot program currently only covers a few categories.

Distribution and Sales Channels

All of the customary import channels exist in Brazil: agents, distributors, import houses, trading companies, subsidiaries and branches of foreign firms, among others. Brazilian importers generally do not maintain inventory of capital equipment, spare parts, or raw materials, partly because of high import and storage costs. Recently, because of the creation of additional bonded warehouses, industries that rely heavily on imported components and parts are maintaining larger inventories in these warehouses.

Obtaining a Local Attorney

Local legal assistance is extremely important when trying to understand the legal aspects of entering, consolidating or expanding in Brazil. Without appropriate legal assistance, U.S. businesses could be subject to several liabilities - from denial to operate in Brazil to obstacles with a Brazilian partner.

Local lawyers can also help minimize tax burdens by taking advantage of local, state or federal tax incentives. Lawyers can also explain negotiation, real estate, labor, intellectual property, and antitrust laws, all of which can be complicated.

The USCS Brazil maintains a list of lawyers with demonstrated experience, which is available under *Business Service Providers* on www.buyusa.gov/brazil.

Due Diligence: Checking Banks, Agents, Customers

Because laws regulating commercial agreements and transactions vary from country to country, we strongly encourage all US companies conduct legal and financial due diligence before completing a commercial transaction or formalizing any agreement. In Brazil, the USCS can provide US companies with lists of well-known and respected credit rating companies and law firms who can conduct credit checks on potential customers or provide important legal advice. Additionally, the USCS Brazil offers US companies detailed background information, including visits to the target company, through its International Company Profile (ICP). For information on this product, please go to our *Guide to Services* at www.buyusa.gov/brazil.

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Chapter 4: Leading Sectors for U.S. Exports and Investment

Agricultural Equipment

Brazil is a major producer of a variety of agricultural commodities and is the world's largest producer of coffee, sugarcane and oranges. It is also the world's second largest producer of soybeans, cattle meat, poultry, tobacco leaves, bananas and brazil nuts and the third largest producer of maize, pineapples, pepper and cashew nuts.

Besides already being an agriculture powerhouse, Brazil is also one of the few countries still capable of increasing its planted area. In fact, Brazil has more unused commercial viable agricultural land than any other country in the world.

This strength in the agricultural sector means there is growing demand for agricultural equipment that improves the quality and yield of crops and reduces costs. Moreover, since farms are generally large, Brazil is ideally suited to incorporate a wide range of American agricultural machinery and technology.

Brazilian farmers enjoy a comparative advantage in many agricultural segments, particularly the grain, fruit, fiber, and animal protein sectors. This advantage is due to a temperate climate with plenty of light, the world's largest surface and ground fresh water reserves, excellent quality and diversity of soils and diverse agro-ecological systems.

Brazilian Agricultural Sector

The majority of the Brazilian agribusiness sector will not miss the year of 2006. Pressed by adverse weather in several regions, lower profit margins because of rising production costs and lower exports from a devalued U.S. dollar, Brazilian farmers have gone through a long period of production adjustment.

Traditional crops, such as soybean and cotton, that in previous years experienced a time of euphoria and untamed enthusiasm about profit perspectives, are now going through a period of new awareness; specifically about the need for equilibrium, productivity differentials, quality, and process controls.

Sugarcane and corn, though, continue to expand. Brazil's sugarcane fields continue to provide good returns, and the 2005/2006 season brought corn back to a prominent position in domestic agribusiness.

Overall, prospects for 2007 are encouraging as international prices for major agricultural commodities are already above their historical averages.

Foreign and U.S. Participation in this Sector

In 2005, Brazil produced 52.9 thousand agricultural machineries, and 5.5% increase in 2006 was estimated. A large portion of agriculture machinery manufactured in Brazil is for export. In 2005, Brazil exported 30,706 units of agricultural machinery, including tractors, pickers, motorized seeders, and backhoe loaders. The state of Rio Grande do Sul is Brazil's leading agricultural machinery producer, accounting for 54.8% of the market, followed by São Paulo (28%), Paraná (15.5%) and Minas Gerais (2.7%).

Brazil has most international agricultural machinery producers manufacturing locally and exporting agricultural machinery to other South American countries, including Agco, Agrale, Caterpillar, John Deere, Komatsu, Valtra and CNH (Case, Fiat Allis and New Holland). Total installed production capacity in Brazil is 86,000 machines per year.

Top U.S. export prospects in this sector include sophisticated, state-of-the-art machinery with higher efficiency levels, including the following equipment: post-harvest machinery, including field refrigeration units/storage for tropical fruits; fruit, grain, seed and vegetable cleaning, sorting and grading machinery; GPS and precision agriculture devices; and poultry equipment.

Resources

- For more information about export opportunities in this sector contact US Commercial Service Industry Specialist Igly Serafim at: Igly.Serafim@mail.doc.gov
- For more Market Research: www.export.gov/marketresearch.html

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Aircraft Parts

Brazil is a world leader

In 2006, the growth of commercial aviation and of Embraer boosted the aircraft, parts and components segment. According to the Ministry of Development, Industry and Commerce, from January to November 2006, Brazil imported US\$836 million in aircraft, parts and components, approximately 40 percent originating in the U.S.

Opportunities in numerous sectors

In *commercial and corporate aviation*, both Boeing and Embraer foresee continuing high demand for commercial and corporate aircraft. According to Embraer, Brazil's largest aviation company, exporter and importer of aircraft parts and components, growth in United States, Canada and Caribbean with 51 percent of market share China, the Middle East and Latin America will drive demand for its products, and in turn Embraer's demand for US parts and components.

Helicopters, including parts and components, represent a good opportunity for U.S. businesses. On the rotorcraft level, there are almost one thousand civilian helicopters flying the Brazilian skies nowadays. According to the Department of Civil Aviation (DAC), 50 percent that market is concentrated in Sao Paulo State. Helibras of the Eurocopter group is the market leader, followed by Bell Helicopter and Sikorsky. According to market specialists, the maintenance sector saw turnover increase by approximately 35 percent in 2006.

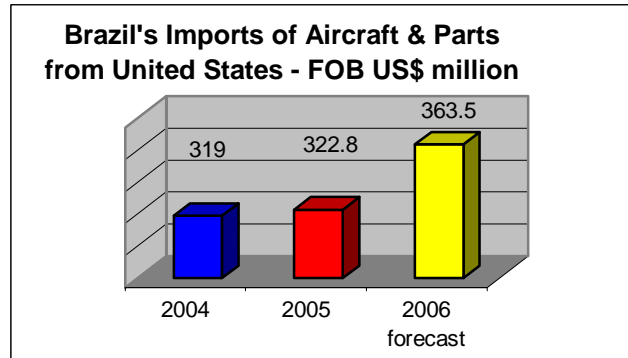
In Military Aviation, though the Brazilian government has had a refurbishing program since the end of 2003, which includes acquisition and modernization of aircraft for all military forces, budget restrictions have meant that over the past two years, the armed forces have been unable to implement such programs. The Brazilian Navy was unable to purchase needed fixed wing aircraft, and though the Army was able to purchase versatile helicopters, the budgetary difficulties halted their purchase of attack mission aircraft.

Brazil's Maintenance Market Grows

The aeronautic maintenance market continues growing, and expansion is expected through the coming years. In 2007 the global maintenance market is estimated to reach US\$100 billion. In Brazil, the MRO market for commercial aviation alone should total approximately US\$1.5 billion annually. Brazilian companies working in the military and civil maintenance markets in Brazil, reported grosses of US\$ 600 million in 2006.

Embraer: US\$220 billion market

EMBRAER has designed, developed, manufactured, sold and provided after-sales support to the global aircraft market for 36 years. The company foresees a global demand for 7,500 jets in the 30 to 120 seat capacity segment over the next 20 years, with an estimated total market value of US\$ 220 billion. Embraer expects to deliver, in 2007, between 160 and 165 aircraft in the commercial, executive, defense and government aviation segment. For 2008, the company estimates delivery of 195 to 205 aircraft, including 15 to 20 Phenom 100 Very Light jets. The U.S. is Embraer's largest parts supplier, with companies from more than 15 U.S. states supplying components and material. The U.S. is also Embraer's largest customer, accounting for 60 percent of



Source: Trade Balance Report from the Ministry of Development, Industry and Trade. Values from January to October 2006. www.mdic.gov.br

the purchases. Embraer has developed "risk sharing" partnerships with key suppliers, including GE Engine Company, Honeywell, Hamilton Sundstrand, C&D, and BF Goodrich.

Leading Products for U.S. Exporters

As Brazil's market continues to expand, imports of aircraft, parts and components continue to increase, representing good business opportunities for U.S. suppliers. The products expected to have the most potential are: Offshore helicopters; Parts and components for helicopters; Avionics and Systems; Turbojet aircraft engines; Aircraft control systems; Aircraft propeller parts; Aircraft accessories.

Resources

- For more information please contact Industry Specialist Daniele Andrews: daniele.andrews@mail.doc.gov
- For more market research reports please visit: www.export.gov/marketresearch.html
- DAC - Department of Civil Aviation: www.dac.gov.br
- Embraer: www.embraer.com.br
- Ministry of Defense: www.defesa.gov.br
- CTA - Aerospace Technical Center: www.cta.br
- AIAB - Associação das Indústrias Aeroespaciais do Brasil: www.aiab.org.br
- Ministry of Development, Industry and Trade Commerce www.mdic.gov.br

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Airports

The Importance of INFRAERO

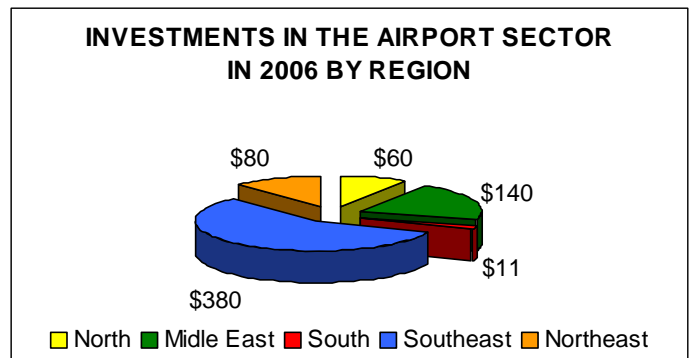
Over 90 percent of Brazil's airports are managed by state-owned INFRAERO (Empresa Brasileira de Infra-Estrutura Aeroportuária). Historically, Brazil's airport system was comprised primarily of ex-military landing strips. Since 2000 INFRAERO has been integrating and improving Brazil's airport system. In 2006, INFRAERO invested approximately US\$ 700 million dollars, over 50 percent in the Southeast.

INFRAERO is responsible for designing, building, operating and managing 67 airports and 81 navigation support stations, all of which have air traffic control, telecommunications services, and flight protection systems and services. INFRAERO is headquartered in Brasília and has seven regional business centers located in Belém, Brasília, Manaus, Porto Alegre, Recife, Rio de Janeiro, and São Paulo.

Brazilian Public Sector Investment

INFRAERO is modernizing airports across Brazil. In the Northeast, airports in Natal (Rio Grande do Norte) and João Pessoa (Paraíba) are under construction. INFRAERO is also building a new airport in Macapá (Amapá), in Brazil's Northwest.

In the South, INFRAERO already started the bidding process to construct the Florianópolis Airport in Santa Catarina State, and also opened a bid to modernize the runway at Curitiba Airport in Parana State. In the Center West region, Infraero is building a new airport in Goiania with US\$122 million in investment.



Source: Infraero Main Investments 2003 / 2006. Values are in US\$ million dollars by region.

In the Southeast, a new terminal at Vitória Airport (Espírito Santo) is under construction. The Viracopos International Airport in Campinas (São Paulo), one of Brazil's main cargo airports, received US\$14 million in investments in 2006. In 2007 INFRAERO is expected to invest roughly US\$67 million to modernize the elevator system and build a new express cargo terminal. INFRAERO has also begun constructing a new passenger terminal at the Guarulhos International Airport in São Paulo.

All airport construction projects are contracted by INFRAERO through public auctions. The winning contractors will then choose subcontractors to participate in the projects. INFRAERO uses its own finance resources to implement airport modernization projects. However, some of INFRAERO's airport projects are done in conjunction with state governments.

Specifics on Current Projects

São Paulo:

Guarulhos International Airport: the estimated US\$560 million project includes construction of a third passenger terminal, extension of aircraft tarmac and equipment purchases. The project holds excellent opportunities for US suppliers of airport security and ground support equipment such as access controls, non-intrusive drug and explosive detectors, metal detectors, mobile boarding bridges, baggage handling equipment, and products and technologies that lessen environmental impact.

Congonhas International Airport: an estimated US\$100 million for the second stage of a passenger terminal modernization project. This project should be concluded in 2007.

Recife: Construction of a new passenger terminal, with investments approximating US\$165 million.

Natal: INFRAERO is investing approximately US\$50 million to build a new airport in Natal, State of Rio Grande do Norte. Project should be concluded in 2009.

Goiania: the estimated US\$122 million project includes acquisition of baggage X-rays, air traffic control/radar systems, metal detectors, elevators and passenger bridges.

Piauí: The Senator Petronio Portella Airport will receive investments totaling US\$20 million for modernization of the passenger terminal and the aircraft tarmac.

Curitiba: The Afonso Pena International Airport will receive approximately US\$60 million to modernize the tarmac area.

Rio de Janeiro: The Santos Dumont Airport project includes modernization of the passenger terminal, tarmac and runways. Project should be concluded beginning of 2007 for the Pan Am Games. The total value of investments will reach approximately US\$145 million.

Santa Catarina: The estimated US\$147 million Florianópolis international airport project includes construction of a new passenger terminal.

Macapá: INFRAERO developed a partnership with the State of Amapá to build a new airport. The estimated US\$39 million project includes acquisition of X-rays, metal detectors, elevators, passenger bridges, and other equipment.

Best Prospects for US Firms

US companies primarily compete with Finnish, French and Canadian companies. The most competitive firms generally provide the most attractive financing arrangements. The best prospects for US suppliers are radar system for air traffic control, passenger bridges; equipment for drug & explosive detectors; boarding bridges; baggage X-rays; air traffic control systems; radar systems; and baggage handling equipment. As most first-order procurement is through Brazil's formal bidding process, we urge suppliers to contact us early to find out about strategy, and assistance.

Resources

- For more information please contact Industry Specialist Daniele Andrews: daniele.andrews@mail.doc.gov
- For more market research, please visit: www.export.gov/marketresearch.html
- INFRAERO: www.infraero.gov.br
- DAC - Department of Civil Aviation: www.dac.gov.br

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Computer Hardware

IT Hardware: one of Brazil's growth sectors

Brazil's hardware market has been Latin America's fastest growing, expanding 15% in 2005 to reach US\$48 billion. Brazilian firms will spend approximately 28% of their IT budgets on hardware, 35% on software and outsourcing, and the remaining 37% on items and services including voice and data transmission.

Computer Hardware Market

US\$ millions	2005	2006	2007 est*
Market Size	\$32,420	\$37,000	\$48,000
Local Production	\$17,920	\$22,000	\$29,260
Exports	\$5,500	\$6,000	\$9,200
Imports (Global)	\$14,500	\$15,000	\$18,743
Imports from US	\$2,400	\$2,800	\$2,698

(*Source Abinee, US\$ 1.00 = R\$ 2.15 (December 2006)

According to the Brazilian Electrical and Electronic Association (ABINEE), the industry's 2006 total revenue reached US\$48 billion, a 15% increase over the previous year's US\$37 billion. U.S. exports to Brazil of IT hardware increased 8% from US\$2.4 billion in 2005 to US\$2.7 billion in 2006. Brazilian IT hardware imports totaled US\$18.7 billion in 2006, 24% more than 2005, an increase that can be attributed to a 42% increase in telecommunication component imports.

In 2006, 22% of Brazil's IT hardware exports went to the United States. Although this was a 15% reduction from 2005, the United States is still Brazil's second largest export market. Brazil's total electric and electronic exports increased 18% in 2005, from US\$7.7 billion in 2005 to US\$9.2 billion. Cell phones accounted for a significant increase of the products exported in 2005, totaling US\$ 2.9 billion (a 22% increase).

PC sales increase rapidly

According to IDC Brazil, PC sales jumped 3.6 million units during the first half of 2006, a 43% increase over the same period in 2005. PC sales have continued to increase since 2005, when the government implemented a tax exemption plan for computers priced up to R\$2,500. This tax exemption reduced the overall price for many PCs, boosting sales.

According to IT Data Consulting, Brazil will see a heavy influx of low-priced notebooks during the coming years. Much of this growth is because a number of companies that were once part of the black market were legalized through the "Lei do Bem" (The Good Law). Following the passage of the law, 2006 saw a drop in the number of black market PCs sold – from 73% of market share to only 45%. Dozens of regional manufacturers,

such as Tecnosul, Bitway, Login, Megaware and Kellow have regained market share as a result. The Lei do Bem exempts both PCs priced up to R\$2,500 and laptops priced up to R\$3,000 from the Social Integration Program (PIS) tax and the Contribution for the Financing of the Social Security (Cofins) tax (which totals 9.5%).

Brazil's corporate market holds excellent potential as corporations computerize industrial and commercial processes in their drive to cut costs. Brazil's small and medium-sized businesses should also continue receiving key attention from PC manufacturers in 2007.

Perspectives and Opportunities

Forecasts show revenues in the IT hardware sector increasing 20% in 2006, from US\$30 billion in 2005 to approximately US\$36 billion. Brazilian imports in this sector are projected to grow about 44%.

In the electric/electronics industry, telecomm should continue to see strong investment, particularly in cellular telephony. Additionally, the total accumulated communication equipment market size for BWA/WiMAX in Brazil will represent a lucrative US\$300 million by 2010, making Brazil a key market in this segment.

Laser printer sales grew 42% in Brazil from 2004 through 2005, according to IDC Brazil. Although it has made no definite forecasts for 2006, IDC is betting on even greater expansion. From June 2005-June 2006, some printer manufacturers sold 200% more than in the previous 12-month period.

The main reasons for growth in Brazil's IT hardware segment are economic stability, lower dollar values and tax exemption on computer sales through the "Lei do Bem". Though this law was targeted to PCs, with increased computer sales comes increased demand for printers.

According to industry forecasts, 2007 should be the "Year of the Notebook", as mobile computers costing R\$3,000 will be launched. According to estimates by retail experts, within two months of the launch of the lower-priced notebooks, prices could drop even lower because of increased sales volume for computer components and the continued expected weakness of the U.S. dollar (as many components are imported).

Sales of corporate network servers in Brazil should increase about 20% this year, reaching approximately 80,000 units. Falling prices of the machines, the renewal of the established base and the computerization of small and medium-sized companies are among the factors contributing to the expansion.

The server market should continue to grow over the next five years due to renewal of installed bases and investments by small and medium sized companies.

Brazil will continue to import computer hardware and peripherals as local production cannot kept pace with demand, while PC manufacturers may not be able to meet demand because of some processor shortages.

Gray market

The legal PC sector continues to grow because of increased enforcement by tax and police authorities, the government's program for 'Digital Inclusion', and lower tax costs associated with the Lei do Bem. From 2004 to 2006, Brazil's gray market share dropped from 73% to 45%, and will continue to lose ground through 2007, according to IT Data consultancy.

Resources

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- ABINEE: www.abinee.org.br
- Brazilian Association of ISPs: www.abranet.org.br
- Brazilian Telecommunications Agency: www.anatel.gov.br
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Computer Software

Brazil Leads Latin American Software Revenues

As the largest and most dynamic information technology (IT) market in Latin America, Brazil offers significant opportunities for U.S. suppliers of IT products and services. Five important sectors of the Brazilian economy — agribusiness, textiles, health, electrical appliances and auto making — lose about US\$21.03 billion annually because of inefficiencies in their production chains, caused primarily by inadequate integration of IT systems within companies and between their suppliers and clients. Medium-sized businesses are beginning to leverage IT assets by adopting new applications designed to boost productivity and help them catch up with enterprising customers, suppliers and competitors. The above statistics are unofficial estimates.

Computer Software

US\$ millions	2004	2006	2007 est*
Market Size	\$9,400	\$12,100	\$13,730
Local Production	\$5,200	\$6,800	\$7,500
Exports	\$200	\$300	\$330
Imports (Global)	\$4,200	\$5,300	\$5,900
Imports from US	\$3,450	\$3,800	\$3,900

(*Source Abinee, US\$ 1. 00 = R\$ 2. 15 (December 2006)

Given the forecast for steady economic growth over the coming years, Brazilian IT spending should increase at a healthy pace. Demand for telecommunication software is expected to grow as data, voice, conventional, and mobile technologies converge. Most significant within this sector is increased data communication in cellular telecommunications, which is expected to continue growing for a number of years.

According to the Brazilian Distance Education Association (ABED), at least 1.27 million Brazilians completed coursework through distance learning technologies in 2005, taking courses accredited by the Ministry of Education and Culture (MEC) or through public and private initiatives. The number of institutions with MEC authorized courses rose 30.7% between 2004 and 2005, from 166 to 217.

Information security from hackers and viruses continues to be an area of interest for companies in Brazil, with medium-sized enterprises (MEs) particularly interested in data security and information backup/recovery technology. With increasing network and Internet-based connectivity, combined with frequent electronic attacks from viruses and worms, Brazilian MEs are realizing their vulnerability and have begun systematically implementing IT security measures.

Data Storage Should Surpass, US\$1 billion in Latin America

Though the data storage market already has considerable business volume and technological development, it continues to expand. This year, Brazilian companies will increase spending on data storage by 10% to US\$475 million. Investments in hardware should amount to US\$311 million, and in software to US\$164 million,

according to an IDC study. In Latin America the sector should surpass US\$1 billion for the first time in history, with revenues of US\$728 million in hardware and US\$305 million in software. The figures correspond to 14% growth in hardware and 12% in software.

Open Source Gaining Favor in Brazil

Several Brazilian companies are already using Linux. According to the research held by IDC in February 2006, Linux has reported more than 20% growth in server sales, while Windows grew less than 5%. Unix loses more than 6% per year. According to Novell, corporate clients are discussing options to increase the use of Linux, versus three years ago, when they discussed not using the system. Nevertheless, a study disclosed that most consumers participating in the government's digital inclusion program choose to substitute free software that they came with a computer for another program, often pirated.

US Software Industry is Competitive

Industry experts predict US\$13.7 billion in software sales in Brazil during 2007. Of this, US\$5.9 billion will be imported, almost 70% from the United States.

Although Brazil is the world's 7th largest software producer, only 2% of the industry's revenues are earned through exports. Brazil's government hopes to increase the country's software exports to US\$3 billion by 2007, assuming world software demand will triple over the next 5 years to US\$900 billion. The development of an export-ready software market should create opportunities for US suppliers and consultants.

US IT companies with proven sales and export records can be competitive in Brazil. While some in Brazil see the presence of competing multinationals as a negative, the combination of a burgeoning local industry and international competition are indicative of a maturing software market.

Software Piracy is Widespread

U.S. software manufacturers should be aware that severe software piracy exists in Brazil. Illegal copies of software are made locally or come from Southeast Asia and enter Brazil through Paraguay or other border states. The Business Software Alliance estimates that 50 - 60% of all software used in Brazil is pirated, resulting in losses of US\$500 – US\$600 million. Brazil's government has recently publicized stricter penalties, but uneven enforcement and judicial delays continue. The US government continues to follow this trend closely. For more information please refer to our Intellectual Property report at www.focusbrazil.org/br/ccg.

Resources

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- For more market research: www.export.gov/marketresearch.gov
- Business Software Alliance: www.bsa.org
- For IPR-related issues please contact Dorian Mazurkevich, Regional Intellectual Property Attaché (Latin America), at dorian.mazurkevich@mail.doc.gov

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Energy - GTD

Projected Growth & Regulatory Uncertainty

Brazil's electricity generation is largely in federal and state hands. Over 40% of installed generation capacity is controlled by state-owned Eletrobras, approximately 35% by state-owned energy companies, and the remaining

25% private. In all, Brazil has installed capacity of 93,728 MW (as of January 2006) with hydroelectric accounting for 84% of the total, as shown here:

By 2015, Brazil's electricity consumption should increase from the present 2,049 kWh to 3,053 per inhabitant, while the country's installed capacity is expected to reach 134,667 MW. Hydroelectricity's installed capacity percentage is expected to decrease to 71% of the total, while natural gas power plants may increase from 4.5% to 13%, and nuclear generation to 3.7%. In fact, the Brazilian of Mines and Energy (MME) is close to releasing the

Energy - GTD

US\$ millions	2005 est*	2006 est*	2007 est*
Market Size	\$3,945	\$4,840	\$5,730
Local Production	\$3,290	\$4,180	\$5,010
Exports	\$395	\$400	\$400
Imports (Global)	\$1,050	\$1,060	\$1,120
Imports from US	\$262	\$265	\$280

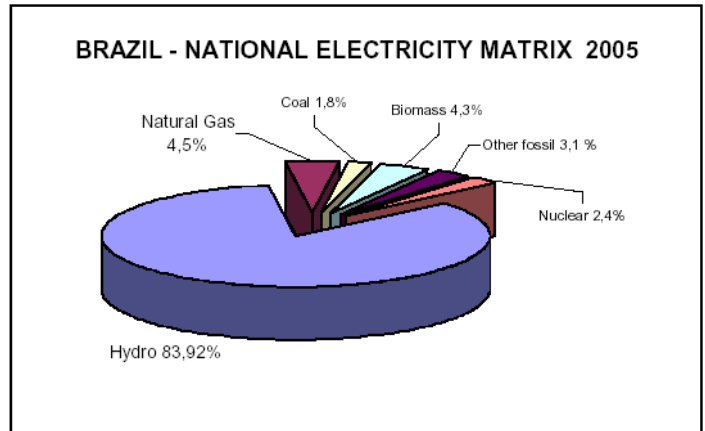
Source: Industry Sources

Ministry

of Mines and Energy (MME) is close to releasing the 2030 National Energy Plan, which reportedly includes the construction of about 5,000 MW of nuclear power through that period.

The 2006 estimate for Brazil's power market is US\$4.8 billion: US\$1.1 billion imported equipment, US\$265 million from the US. Power generation grew modestly in 2005 because of an energy surplus, postponed power auctions, changes in the Brazilian Minister of Mines and Energy (MME), and a complex environmental permit process. More substantial growth in the power generation segment began in mid-2006, after contracts from the December 16, 2005 power auction were signed. This auction included hydro and thermal power plants, greenfield projects, plants that have secured a concession or authorization as of March 16, 2004, and those that were operating by January 2000 but had not secured long-term energy sales contracts by February 14, 2005.

Two power generation auctions were held in 2006. Adding to the December 2005 auction, a total of 6,072 MW of power have been contracted for delivery from 2008 to 2011. Considering an average 3.5% annual growth rate, experts estimate that Brazil's power generation sector needs annual investments of roughly \$4.7 billion to avoid shortages. The 2007-2015 Power Expansion Plan recently published by government-owned Brazil's Power Research Company calls for US\$40 billion investment during this period. Eletrobras plans to invest US\$3 billion in 2007, half of which will fund power generation projects sponsored by its subsidiaries.



Brazilian government and private sector agents have been debating the possibility of power shortages and lack of natural gas. Natural gas accounts for just 4.5% of Brazil's power generation market. Despite such a small percentage, natural gas power plants may again be dispatched to optimize Brazil's hydropower system. The major concern is the lack of sufficient natural gas to power these plants that, together, could generate about 4,400 MW. (Note: In October 2006, Brazil's National Power System Operator concluded that 11 gas power plants lacked gas to operate.) Despite an ongoing program to convert these plants to flex-fuel facilities that could run with gas, diesel, biodiesel, or ethanol, the conversion process has not been concluded. Additionally, if the planned hydropower plants do not go online because of delayed environmental licenses, trade sources predict risks of power shortages in 2008 and 2009. About 60% of the hydropower plants that could start operating by 2008 are delayed. Additionally, the Brazilian government has labeled other hydropower projects, slated to begin operating by 2009 and 2010, as "difficult to construct". The gas deficit in Brazil may only be resolved in 2009 or 2010 when new domestic gas production fields start to operate. Currently, Brazil imports 51% of its gas demand from Bolivia, but the recent changes in Bolivia's hydrocarbon sector and the fast-

growing industrial and vehicle gas consumption markets in Brazil have created a potential power shortage in this segment.

The Ministry of Mines and Energy (MME) has stated that while energy generation will be competitive, state-controlled companies will still play an important role, and as such, public-private partnerships are expected to be the best means of market access for new-to-market US power companies.

Renewable Energy

As a result of the MME's "Proinfa" Renewable Energy program, launched in 2004, investments in renewable energy are expected to reach US\$2.5 billion in 2005-2007. Proinfa provides incentives, such as a 20-year power purchase contract with Eletrobrás, and below-market rates for financing from Brazil's national development bank (BNDES) for wind, biomass and small-scale hydroelectric projects. However, about 60% of these projects are delayed – a concern as the MME was counting on them to reduce an eventual power shortage.

Transmission

Brazil's 2001 energy crisis was exacerbated by transmission system bottlenecks. To increase power transmission line construction, the National Electric Energy Agency (ANEEL) held several auctions in 1999-2005 for 16,400 km of transmission lines with tensions of 230, 345, 440 and 500 kV, valued at about US\$6 billion. In 2006, Brazil's power regulator tendered 14 lines and three substations. The new winner concessionaires will build approximately 2,250 Km of TLs with estimated investment of US\$ 500 million. The next power TL tender is scheduled for December 15, 2006 where six lots of 10 TLs and three substations will be auctioned off.

Distribution

The Brazilian electrical power distribution sub sector is gradually resuming investments after years of stagnation caused by power rationing and reduced revenues. The sub sector's revenues grew 17.5% in 2005, compared to 2004, reaching about US\$ 1.02 billion. For 2006, the Brazilian Association of the Electrical and Electronic Industry (ABINEE) estimates that distribution sector revenues continue grew around 13%, to US\$1.13 billion. The reasons for this sustainable growth are higher consumption power levels and the five-year power tariff reviews. The "Light for All" rural electrification program is one of this sub sector's most important programs. It entails US\$4 billion investment to bring electricity to about 12 million rural consumers by 2008. Additionally, while the recent wave of company acquisitions in this sub sector is expected to reduce the number of players, it may also mean new business opportunities. After the mergers are complete, the new owners are likely to invest in power distribution system upgrades to make their companies more competitive, and meet Brazil's regulations concerning client satisfaction. Studies released by the Acende Brasil Institute (formerly known as Brazilian Chamber of Power Investors) suggest that the power distribution segment will call for US\$1.2 billion investment over the next decade to meet increased power demand. The government-owned Research Power Company (EPE) has published a *Ten-Year Power Expansion Plan* estimating that Brazil's power consumption will jump from 373.5 TWh in 2005 to 617.7 TWh in 2015.

The average frequency of electricity interruptions (referred to as "FEC") reached 12.61 events in 2005, up from 12.13 in 2004. Likewise, the duration of electricity interruptions ("DEC") also increased in 2005 (16.67 hours versus 15.82 hours in the previous year). These numbers signal that the power utilities need to invest to improve their FEC and DEC indexes to reduce their exposure to fines and to retain clients.

US Participation in this Sector

US investment in Brazil's energy sector is concentrated in power distribution & generation as a result of the country's privatization process that began in 1996. US companies such as El Paso, Duke and AES compete

with Spanish (Iberdrola), French (EDF) and Portuguese (EDP) companies. The strongest competition for US GTD equipment suppliers are locally established multinationals (mostly European and Japanese). US companies should note that the federal and state owned companies that largely control this sector often follow “buy local” policies.

Resources

- For more information please contact Industry Specialist Regina Cunha at: regina.cunha@mail.doc.gov
- Eletrobras: www.eletobras.com.br
- EPE (Empresa de Pesquisas Energéticas): www.epe.gov.br
- Ministry of Mines and Energy (MME): www.mme.gov.br
- National Electrical Energy Agency: www.aneel.gov.br

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Franchising

Overview

The Brazilian franchise sector has seen continuous success over the last two decades, and is becoming ever more professional and sophisticated. Some Brazilian companies are actually starting to prospect markets outside Brazil to expand their concepts. Results of the latest research carried by the Brazilian Franchise Association (ABF) and Grupo Cherto shows that in 2005 the sector accounted for 25% of the gross revenue in the retail segment with around 970 franchise chains/brands and 61,500 thousand franchise units. Brazil’s franchise market is the 2nd largest in the Americas (after the US) in terms of franchise units. Total sector revenue in 2005 was approximately US\$ 17.5 billion, a 13 percent growth over 2004 figures.

Brazilian franchises have proven very successful, particularly for expanding small and medium-sized companies contributing to the country’s investments, exports, imports, jobs, and income. Franchises have been particularly popular because of the proven business model that considerably reduces risks of owning and running a brand new company.

Highlights, Best Prospects, and Trends

Personal accessories and shoes made up the best performing franchise sector in 2005 with a total revenue increase of 46 percent. Clothing franchises saw a 32 percent increase over the previous year. According to the ABF the continued growth of internal consumption as well as the entrance of traditional companies into the franchise system helps explain these increases. Sub-segments such as sunglasses, clothing, and casual shoes greatly contributed to this growth.

Another franchise sector that showed large growth figures was Informatics. According to local sources, growth resulted from continuous modernization of various industry segments and the expansion of cellular telephony. In addition, recent anti-piracy actions from the government and society have reduced the gray market for computers, software, and other IT devices and thereby strengthened the retail market.

A new franchising trend is in the Education and Training sector. For instance, Bit Company, a well know computer learning center, has launched the Multi Idiomas brand, which uses its space and buildings for foreign language programs. In many cases the company is franchising the new brand to its current franchisees.

The Food and Restaurant sector has seen a 25.5 percent increase in the number of restaurant chains and a 16 percent increase in overall revenue. The Sports, Health, and Beauty sectors continue to present very good

performance with 20 percent growth from 2004 to 2005. Companies in this group tend to become more and more segmented and niche oriented. Most recent examples are fitness centers only for ladies over a certain age such as Contours Express and Curves.

Challenges and Opportunities

U.S. Franchises should pay special attention to the various legal aspects of franchising in Brazil to avoid, as much as possible, future disputes with local partners/franchisees. Serious problems and failures of franchise operations have occurred for various reasons, including a lack of knowledge of the market, lack of planning, poor choice of franchisee, and macroeconomic trends. These cases have resulted in financial losses for the U.S. and the Brazilian companies; a negative impact on brands, both in Brazil and internationally; and a negative image for U.S. franchisers entering this market.

An important aspect of Brazil that U.S. franchisors need to be aware of is Brazil's judiciary system. Based on the Roman law, this system naturally provides many options for appeal in all stages of the legal process. In addition to that, the slowness of the already overloaded Brazilian courts can cause a 10 or 12 years delay in the decision on a case. Litigants can take advantage of the situation by not paying franchise fees and yet keeping the business running while the brand is degraded.

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Insurance

Brazil: Life, Health and Automobile Market

In 2005, the Brazilian insurance market reached US\$28.0 billion, approximately 3.4% of Brazil's GDP, and almost half of South America's Insurance market. The Brazilian insurance industry has grown for six years at higher rates than GDP, doubling since 1994, with life and health insurance showing the greatest growth. The market's potential continues to attract foreign companies - in 1994, Brazilian companies controlled 95% of the market - but today, foreign companies have 40% market share (US insurers 21%).

Insurance

US\$ billions	2005	2006 est*	2007 est*
Market Size	\$28.13	\$33.70	\$44.10
Foreign Insurer Participation	\$11.25	\$11.50	\$13.80
US Insurer Participation	\$5.90	\$3.20	\$3.90

Source: trade/industry resources, US\$1 = R\$2.20

Regulatory Environment

Brazil's government regulates private insurers through:

The National Council of Private Insurance (CNSP): CNSP sets insurance policy guidelines and rules, regulating insurer creation, organization, and activity. CNSP establishes guidelines for insurance contracts, reinsurance rules and sets general accounting and statistical standards. CNSP is comprised of representatives from the Ministries of Finance, Justice, and Planning; the Office of the Superintendent of Private Insurance, IRB (the state owned reinsurer), Brazil's Central Bank, and four private insurers.

Superintendent of Insurance (SUSEP): SUSEP is an independent agency subject to the Ministry of Finance. SUSEP monitors the insurance and private pension market through a solvency index; establishes and monitors operational risk limits; supervises technical reserves; regulates open pension funds; and regulates insurance brokers.

IRB-Brasil Resseguros SA: IRB is a 51% state-owned company that currently is Brazil's only reinsurer. In the late 1990's, Legislation was passed approving IRB's privatization, however, the current governing party, the

PT, launched a court injunction that halted the privatization. We do not anticipate the reinsurance market's opening until (at least) mid-2007. Several foreign reinsurers who had established branches in Brazil left the country, though some continue to maintain offices in Rio de Janeiro to provide reinsurance to IRB.

New Regulatory Agency: Creating a new insurance sector regulatory agency, similar to those in Canada, Japan and Scandinavia, is being studied. The new agency would combine SUSEP, CVM (Brazil's SEC) and part of the Finance Ministry that oversees pension fund administration.

Property & Casualty Insurance

Brazil's property and casualty insurance market is dominated by auto insurance, a segment that continues to be one of the best opportunities for US insurers operating in or seeking to enter Brazil. In 2002 Brazil had 1 car for every 8.8 inhabitants, and some insurers predict that the ratio will be 1 car for every 4.2 Brazilians in 2007. Brazilians still do not purchase much homeowner's insurance, but once interest rates drop to single digits and homes can be purchased on credit, which requires homeowner's insurance, more opportunities should arise.

Pension Insurance

Brazil's pension system is composed of public social security, administered by the National Social Security Institute (INSS), and private plans. Though the government recently reformed the public system it still runs a deficit.

The private system consists of open and closed funds. Closed funds are for employees of specific companies-the largest for employees of state owned enterprises. Open funds are available to the public and operate as an insurance product, i.e., clients contribute to the plan through premiums and are paid an annuity when they retire. Insurance firms and banks' insurance subsidiaries are the main open fund providers.

Two funds similar to 401(K) plans are also being offered. The Individual Programmed Retirement Fund (Fundo de Aposentadoria Programada Individual) is a long-term individual savings and retirement fund, operated by financial institutions, that allows small and medium companies to supplement employee social security plans. The Tax-Free Benefits Generation Plan (Plano Gerador de Benefícios Livres) is offered by insurance companies and is popular because of its tax incentives.

Entering Brazil's insurance market

U.S. companies wishing to enter Brazil's insurance market are advised to open a subsidiary, enter into a joint venture, or acquire/partner with a local company. Under current legislation insurance companies must be organized as corporations, submit an application to SUSEP requesting permission to operate as an insurance company, and if approved, not engage in activities other than insurance.

To set up a new insurer, investors must first invest in an insurance company - an estimated minimum investment of US\$5 million. Although legislation is vague, it appears that foreign firms cannot set up managing general agents without first capitalizing the company. Foreign insurers may set up a representative office in Brazil, though the representative office cannot issue policies. Legislation does now allow foreign insurance companies to hold all the equity/voting stock of a Brazilian insurance company. Currently, Aetna, AIG, Chubb, Cigna, Hartford, Liberty Mutual, MetLife, Mony, Prudential, and the insurance brokers AON and Marsh/McLennan are in Brazil.

Resources

- For more information please contact Industry Specialist Patrick Levy at: patrick.levy@mail.doc.gov
- For more market research: www.export.gov/marketresearch.html

- Brazilian Superintendent of Insurance: www.susep.gov.br
- Brazilian Association of Insurers: www.fenaseg.org.br
- IRB: www.irb-brasilre.com.br

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Iron & Steel

Brazil is a Critical Steel Supplier to the World

Brazil is the world's eighth largest steel manufacturer. By mid-2006, the country's output reached approximately 49% of Latin America's steel production and 3% of global production. Brazil's total crude steel production in 2005 was 31.6 million metric tons, compared to 31.1 Mt in 2003. In 2004 this output had already reached 32.9 Mt as all manufacturers were running full capacity due to a steel shortage in the international market.

Steel Products

US\$ millions	2005	2006	2007
Market Size	10,373	10,100	10,000
Local Production	16,000	15,700	16,200
Exports	6,500	7,000	7,400
Imports (Global)	873	1,400	1,200
Imports from U.S.	90	145	140

Source: Brazil Steel Institute & Press Reports, US\$1.00 = R\$2.15 Dec. 2006

Total Brazilian steel imports in 2005 were US\$873 million FOB or 756,000 metric tons. These imports have been growing steadily in quantity (from 370,000 t in 1995), but not in value, indicating that the country has imported larger quantities of less expensive steel in the last years. Brazil's total steel exports in 2005 were US\$6.5 billion FOB, or 12.5 Mt, compared to US\$2.4 billion or 10 Mt in 1999, indicating that the country's exported steel has been increasing significantly in price.

The latest available statistics show that for the period January-October 2006, domestic production decreased 2.9% compared to the same period of in 2005, while exports grew 2.3% in quantity and 1.4% in value; imports were up 204% in quantity and 80.4% in value. This import surge is probably due to the current low exchange rate in Brazil, of US\$1.00 = R\$2.15, while it was almost R\$3.80 in 2002 and 2003.

Approximately 92% of Brazilian steel is made in continuous casting process and 8% in conventional casting. 75% of it is made in oxygen (LD) / or BOF process, and 25% using electric processes. Nearly 45.5% of the total output is sold as flat products, 27.0% as long products (all data as of 2005) and 18.5% as further processed, semi-finished products.

Brazilian manufacturers are concentrated in the states of Minas Gerais (38.5% of total production), Rio de Janeiro (17.6%), Espirito Santo (18.7%) and São Paulo (18.3%). The largest manufacturers are Usiminas (8.7 Mt in 2005), including its subsidiary Cosipa, Gerdau (6.9 Mt), CSN (5.2 Mt), Arcelor (8.9 Mt), and V&M Tubes (592,000 t). The only Brazilian stainless steel producer is Acesita, with 2005 output of 753,000 t. This company belongs to the Arcelor Group.

Steel Manufacturing Running at Full Capacity

All Brazilian steel manufacturers were operating at full capacity during 2003 and 2004 because of the international market's strong demand and high steel prices. Since early 2005 the market has cooled, and Brazilian output decreased by 3.9% during 2005. This decrease can be considered small if compared with the expansion of the previous years, and local manufacturers are still running near full capacity and planning for expansion. The largest projects in this sector in Brazil are currently:

- CSA, a joint-venture of German Thyssen and CVRD (Brazil's largest mining company), is building a steel mill near Rio de Janeiro, with capacity for 5 million metric tons/year of steel plates, all of it planned to be exported. Start-up of this mill is planned for 2009. Thyssen owns 90% of the project and CVRD 10%. The total investment will be US\$3.6 billion.
- The Gerdau Group is investing US\$1.5 billion to expand output of its subsidiary Açominas, from its current 3 million t/y, to 4.5 million by 2009. Açominas is a manufacturer of steel ingots, billets and slabs, especially for export.

Brazil's 2005 steel imports from the U.S. were 30,862 metric tons, valued at US\$90,548,000. In terms of tonnage, 2005's amount was 5.4% of the total Brazilian imports, and in terms of dollar value it was 10.4% of the total Brazilian imports. The most-exported product from the U.S. to Brazil were seamless tubes/pipes, accounting for 30% of all U.S. exports of steel products to Brazil in 2005, and respectively 25% in the previous year and 45% in 2003.

Brazil Still Imports Some Key Products

The largest steel exporters to Brazil in 2005, in terms of quantity, were Argentina (107,000 metric tons), Germany (86,000 t), Trinidad & Tobago (52,000 t), and Ukraine (45,000 t). Germany was the largest exporter in terms of value (US\$123 million FOB), followed by Argentina (US\$94 million), the U.S. (US\$90.5 million), and Japan, Sweden and Italy (US\$48 million each one).

Brazilian steel manufacturers are very competitive, exporting to all parts of the world. Nearly 39.5% (or 12.5 Mt) of all Brazilian steel output in 2005 was exported. The U.S. was the largest importer of Brazilian steel, with a share of 1,380,000 t and US\$1,344,000,000 or 20.6% of the total exported value. Brazilian per capita consumption of steel is about 100 kilograms per inhabitant per year, which is relatively low by international standards. It is assumed that as the economy continues to grow so to will Brazil's steel consumption.

Best Prospects for US Steel Suppliers

Three key areas of opportunity exist for US suppliers. First, Brazilian steel manufacturers have a positive view of US technology and are interested in precision equipment that would reduce downtime and achieve improved quality control. Also, consultancies for managing downtime and minimizing changeover costs might find Brazil an attractive market.

Second, Brazilian manufacturers are running at almost capacity, so there are short term shortages for a variety of steel products, allowing US manufacturers a point of entry.

Third, domestic demand exists for specialty steel products that Brazil does not yet produce in sufficient quantity.

Resources

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- For more market research: www.export.gov/marketresearch.html
- Brazilian Steel Institute: www.ibs.org.br

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Brazil purchases most medical equipment in SA

Brazil is the largest medical equipment market in South America. The total market for medical equipment in Brazil should continue to expand through 2007. Brazil is both a major medical equipment producer and importer. This industry comprised of a number of related products and services:

- Medical equipment and devices.
- Dental equipment and products.
- Radiological and diagnostic imaging equipment.
- Laboratory equipment.

Brazilian medical equipment revenues in 2005 reached an estimated US\$ 2.7 billion, which represents an increase of 33% from the previous year. The U.S. Commercial Service estimates the market reached approximately US\$3 billion in 2006. The United States accounts for approximately 40% of the import market, with U.S. sales mainly going through local agents, distributors and importers who sell to hospitals and clinics.

There are few high-quality Brazilian manufacturers of advanced medical products so Brazil's reliance on imports should continue for some time. Local buyers view US and other foreign products (mainly Canadian and European) as having comparable quality and reliability. Thus, financing terms often become the differentiating criteria in making a sale.

Distribution largely controlled by regional firms

There are some 3,000 equipment and supply distributors in Brazil, but only 3.3% of these firms can be considered large companies. Excluding direct sales networks of multinational manufacturers such as GE, virtually all distributors are regional rather than national.

In addition to the attractive size of the Brazilian medical market, US exporters should consider the opportunities offered by Mercosul, and use Brazil as a "spring board" for export into Argentina, Uruguay and Paraguay. Since compulsory product registration before sale is required for all of Mercosul countries, US exporters should consult a local lawyer/consultant before signing a contract with any agent/distributor.

An interesting trend in Brazil is the growing market for home health care products, which has increased dramatically in recent years. Brazil has approximately 150 home health care companies compared to approximately 1,440 in the US. In Brazil, these companies are increasingly viewed as good ways to cut hospitalization costs while offering better services for patients. Brazilian health insurance companies are responsible for paying 99% of the costs related to home care treatment, and as such, the U.S. Commercial Service sees the market for home health care products growing dramatically during the coming years. Brazil's Regional Nursing Council is currently developing procedures on how to regulate this market, including standards for health professionals.

Private entities such as universities and even religious organizations represent new opportunities for both US equipment and training/management service suppliers. Interested US suppliers should look for opportunities beyond the larger communities of São Paulo, Rio de Janeiro and Minas Gerais. Excellent opportunities exist in

Medical Equipment

US\$ millions	2005	2006	2007
Market Size	2,670	2,940	3,410
Local Production	1,600	1,620	2,030
Exports	398	478	573
Imports (Global)	1,470	1,800	1,98
Imports from U.S.	588	720	792

Source: Secex, Abimed

the northeastern states of Bahia, Ceará, Pernambuco, Paraíba and Rio Grande do Norte and the southern states of Paraná, Santa Catarina and Rio Grande do Sul.

Brazil's recently strengthened currency has meant that private and public hospitals have greater purchasing power, and with continued expansion of Brazil's private health care sector, the market should grow. New opportunities for US exporters abound, particularly for:

- More advanced medical equipment.
- Disposables.
- Diagnostic devices.
- Implants and components.

Resources

- For more information please contact Industry Specialist Jefferson Oliveira at: jefferson.oliveira@mail.doc.gov
- For more market research: www.export.gov/marketresearch.html
- Brazilian Ministry of Health: www.saude.gov.br
- ABIMO - Brazilian Association of Dental, Medical and Hospital Equipment: www.abimo.org.br
- SINAEMO - Syndicate of Medical, Dental, Hospital and Laboratory Industries: www.abimo.org.br
- ABIMED – Brazilian Association of Equipment, Products and medical Supplies Importers: www.abimed.org.br

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Mining

Brazil: World's 5th Largest Mineral Producer

Brazil is the world's fifth largest mineral producer and has one of the world's largest mining equipment markets, and still the country's mineral potential has not been fully surveyed. Most of Brazil's mines are open pit so underground mining equipment market is relatively small, though more underground mining is expected in the next 3 - 7 years.

Mining Equipment

US\$ millions	2005*	2006*	2007*
Market Size	3,800	4070	4350
Local Production	4000	4300	4600
Exports	500	570	600
Imports (Global)	300	340	350
Imports (from U.S.)	110	120	125

Source: Numerous industry sources, US\$1.00 = US\$2.15

Brazil's largest installed mining operations are for iron ore, with 2005 output at 285 million metric tons (mt), representing nearly 24% of the world's total. Brazil also produces bauxite (21 mt/y in 2005), gold (41.0 t/y in 2005), kaolin (2.4 mt/y), manganese (3.6 mt/y), niobium (with 94% of the world reserves), potash K20 (650,000 t/y), phosphate concentrate (6 mt/y), zinc (180,000 t/y of metal content) and cement (38 mt/y). Brazil's coal production is relatively small, only 6.0 mt of steam coal in 2005. In 2005 Brazil had to import 17.3 million tons (US\$1.65 billion) of metallurgical coal.

CVRD: Companhia Vale do Rio Doce

Brazil's largest, and the world's second largest, mining company is Companhia Vale do Rio Doce (CVRD). Privatized in 1997, CVRD is responsible for more than 50% of Brazil's mineral output based on value, and represents an excellent opportunity for US equipment suppliers. CVRD produces nearly 85% of Brazil's iron ore, 100% of Brazil's potash, 85% of manganese, 43% of kaolin, 80% of bauxite, and is also the top player in

aluminum, copper, and nickel. CVRD is also the top logistics player in Brazil, especially for ports and railroads, not only for its own use, but also as a supplier of logistic services to other companies. It is the largest Brazilian consumer of electricity. In November 2006 CVRD bought the Canadian company INCO, the world's largest nickel producer.

Opportunities in multiple segments

A number of mining investments are planned in Brazil, and the following illustrate some opportunities for US businesses.

IRON ORE:

- Companhia Siderúrgica Nacional (CSN) is investing US\$500 million to expand production from 20 mt/y to 45 mt/y by 2009; US\$900 million in a pelletizing plant for 6 mt/year; US\$100 million in railroad infrastructure; and US\$132 million in port infrastructure.
- Samarco is investing US\$1.18 billion to build a third pelletizing plant of 7.5 mt/y, an iron ore pipeline, and increase output from 15 mt/y to 21 mt/y by 2009.
- CVRD is expanding output of most of its mines.
- MBR (www.mbr.com.br) will invest US\$460 million between 2006-2008, to build a pelletizing plant with an output of 7 mt/y.

COPPER: CVRD has five large copper projects:

- Sossego, begun in July 2004 with US\$384 million in investment, for 140,000 t/y of copper metal & 3 t/y of gold.
- Alemão/Igarape Bahia, start-up planned for 2009, for 160,000 t/y of copper content and 8.5 t/y of gold content, with a total investment of US\$600 million.
- Alvo 118, start-up will be in 2008 for 36,000 t/y of copper cathodes, total investment of US\$232 million.
- Cristalino, estimated start-up in 2010, for 100,000 t/y of copper content and 1.5 t/y of gold content, US\$ 500 million total investment.
- Salobo, still in feasibility study, may begin after 2009 for 200,000 t/y of copper metal and total investment of over US\$ 1 billion.

GOLD:

- AngloGold plans to expand production from 380,000 to 600,000 ounces/year.
- Kinross is investing US\$470 million to expand output from 5.6 t/y to 10.5 t/y by 2007.
- Yamana Gold (Canada) is investing US\$200 million to produce 61,000 tons of copper and 4.7 t/y of gold by 2007.
- Jaguar Mining is investing in several projects to produce 300,000 ounces/year by 2008.

TIN, TANTALUM AND NIOBIUM:

- The Parapanema group has proposed a US\$ 72 million tin, tantalum and niobium project to Brazil's National Development Bank. Financing approval is pending.

NICKEL:

- CVRD's nickel projects, "Onça Puma," and "Vermelho" call for more than US\$2 billion in investment over the next 4 years, to produce 76,000 of nickel content by 2009.

Top Prospects for US Exports

Brazil's has a limited turnkey machinery market as a number of leading multinationals have facilities in Brazil, with some even exporting their products abroad. Among those already in Brazil are Caterpillar, Volvo, Case

New Holland, Cummins, Ingersoll Rand, Metso, Atlas Copco, Sandvik, Siemens, Alston, Scania, ABB, 3M, Liebherr and GE. These equipment manufacturers, though, provide excellent opportunities for US parts and components for earth-moving equipment (including tires), belt conveyors, crushers and grinding equipment, laboratory instruments, and drill bits and equipment.

The most important trade show of this sector in Brazil is Expositram, which is held every second year in Belo Horizonte. The next edition of this show will be in Sep. 25 – 28, 2007 in Belo Horizonte. *Participation is highly recommended for U.S. manufacturers of mining equipment.*

Resources

- For more information contact Industry Specialist Mauricio Vasconcelos at mauricio.vasconcelos@mail.doc.gov
- US Commercial Service Market Research Worldwide: <http://www.export.gov/marketresearch.html>
- Ministry of Mines and Energy (MME): www.mme.gov.br
- Brazilian Geological Service: www.cprm.gov.br
- CVRD: www.cvrld.com.br
- Brazilian Mining Institute (IBRAM): www.ibram.org.br
- Specialized magazines: www.signuseditora.com.br (Magazine “Brazil Mineral”), www.minerios.com.br/minerios (Magazine “Minerios”), www.inthemine.com.br (Started in 2006).
- www.geologo.com.br (professional geologists association)
- www.abimaq.org.br (ABIMAQ - Brazilian Association of Machinery Manufacturers)

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Oil and Gas

Dramatic Changes Create Opportunity

Brazil’s oil & gas industry is one of the most attractive sectors for US businesses. Since state-owned Petrobras’ monopoly ended in 1998, over 60 international firms have entered Brazil, with 633 oil blocks awarded during eight oil-concession offerings, most recently in November 2006. Still, Petrobras was

awarded the majority of these concessions so most opportunities for US firms are servicing/supplying Petrobras (interested suppliers must register at www.petrobras.com.br - “Suppliers Channel Guide”). The 2006 estimate for Brazil’s oil & gas equipment market is US\$13.4 billion: US\$4.7 billion imported, US\$2.6 billion from the US.

Oil & Gas

US\$ millions	2006 est*	2007 est*	2008 est*
Market Size	\$13,495	\$14,775	\$16,895
Local Production	\$8,815	\$9,645	\$11,040
Exports	\$65	\$65	\$65
Imports (Global)	\$4,745	\$5,195	\$5,920
Imports from US	\$2,610	\$2,860	\$3,260

Source: trade/industry resources

Petrobras’ Importance

Petrobras maintains 97 oil production platforms and has plans for 16 new platforms (10 under tender or construction). With US\$60 billion (R\$136.6 billion) in 2005 net revenues, Petrobras wants to expand international operations and domestic production to become a global player by investing US\$87 billion (2007-2011) to increase production from 2005’s 1.847 million barrels of oil and 370,000 barrels of natural gas per day, to 3.493 million barrels by 2011. Oil exploration & production (E&P) is expected to account for 50% of Petrobras’ annual investments. In 2005 Brazil refined 1.86 million bpd (1.76 million barrels of domestic, mostly heavy oil, and 103,000 of imported light oil). By 2010, 91% of oil refined in Brazil will be domestic. In April 2006, the country reached oil self-sufficiency.

Upstream Overview

Opportunities exist for US offshore & onshore equipment and services, including flexible pipes, oil well completion systems, pumps, valves, drill pipes, and undersea services. Currently Brazil has 43 onshore and offshore drilling rigs, mostly operated by Petrobras, 326 exploration blocks, 47 fields under development stage, and 256 production fields which contain proven reserves of 11.4 billion barrels of oil and 296.9 billion cubic meters of natural gas. Petrosynergy, W. Washington, and Shell produce oil in Brazil, while others, including El Paso, Chevron-Texaco, Ipiranga, Queiroz Galvão, Starfish, and Repsol YPF are developing offshore & onshore oil production projects. Devon, El Paso and Chevron are expected to produce oil in 2007. Combined investment by these and other oil players, not including Petrobras, are expected to exceed \$20 billion through 2011.

Successful exploration rates have decreased in recent years compared with the Gulf of Mexico, Nigeria or Angola. Yet, from 2002 to 2005, Petrobras has discovered and confirmed the commercial viability of seven important oil and gas fields in Brazil.

Downstream Overview

Petrobras' refining capabilities have historically focused on light crude, but offshore production shifts have dramatically increased heavy crude production. Petrobras has reached its heavy crude refining capacity and is currently forced to swap heavy crude for light crude abroad. Petrobras has plans to build two refineries in Brazil, one that will also function as a petrochemical unit, and by 2011 they plan to disburse US\$23.1 billion in the entire refining and supply segments to improve oil product quality, double heavy oil refining capacity and for safety and environmental upgrades.

Natural Gas Overview

Natural gas currently accounts for 9% of Brazil's energy matrix and 4% of Brazil's power generation market. Natural gas production totaled 48.3 million cubic meters per day in 2005 (only 26 million of which are available for consumption).

The recent changes in Bolivia's hydrocarbon sector have accelerated Petrobras' plans to bring its gas fields into production to supply Brazil. Currently Bolivia supplies 51% of Brazil's gas market. This market has been growing at 7.3% annually, mostly in the vehicular and industrial segments, but recently, the Brazilian government has also been concerned with the lack of gas to operate the existing gas-fired power plants in case of a power shortfall. As a contingency plan, Petrobras has been converting some of these plants into flex-fuel to run with gas, diesel, biodiesel and/or ethanol. Through the PLANGAS program, Petrobras and its partners are investing US\$22 billion to produce 74.5 million m³/day of natural gas by 2011. Additionally, Petrobras will import liquefied natural gas (LNG) for two or three new plants in Brazil, and build 4,273 km of new gas pipelines with an investment of nearly US\$5 billion, currently under process.

Sector Challenges: Tax and Local Content

Petrobras, federal & state governments increasingly favor local firms or firms with significant local content. Because local content in Petrobras' purchases varies from 51% in E&P to 92% downstream, US companies are encouraged to seek local supplier partnerships.

Local content sentiments have also created tax changes. For example, to attract foreign oil & gas investors, Brazil's government created a special federal tax exemption regime (Repetro) in 1999 (scheduled until 2020). Although domestic suppliers were also eligible, foreign suppliers benefited the most because they were also exempt from state sales tax (ICMS). In June 2003, though, Rio de Janeiro State abolished the ICMS exemption for foreign oil & gas equipment suppliers. After lobbying from drilling service providers, since 2004 the state

has allowed ICMS exemptions for oilrig, exploration and drilling equipment suppliers, and extended this benefit to rig and spare part suppliers for oil development projects whose contracts were signed before June 2003. Such unpredictability deters further oil investment, and some oil companies have urged the government to reconsider fiscal terms for E&P activities, arguing that the trend in Brazil is finding heavy oil in ultra-deep water, increasing risk, costs and reducing rewards.

Resources

- For more information please contact Industry Commercial Specialist Regina Cunha: regina.cunha@mail.doc.gov
- For more market research: www.export.gov/marketresearch.html
- Petrobras: www.petrobras.com.br
- Ministry of Mines and Energy (MME): www.mme.gov.br
- Geological Service of Brazil: www.cprm.gov.br
- Brazilian National Petroleum Agency: www.anp.gov.br

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Pharmaceuticals

World's 10th Largest Pharmaceutical Market

The Brazilian pharmaceutical industry is comprised of 370 companies, representing a total market value of US\$9.2 billion in 2005, and an estimated \$10.9 billion in 2006. It is the 10th largest pharmaceuticals market in the world and the second largest in Latin America after Mexico. Despite stagnating pharmaceutical sales from 2001 – 2004, Brazil is still among the five largest pharmaceutical markets in the world in terms of unit sales (as opposed to dollar value sold). According to Brazil's Pharmaceutical Industry Syndicate (SINDUSFARMA), Brazilian pharmaceutical product imports in 2005 approximated US\$2 billion. This reflects a 14% increase over the previous year's level. US exports account for approximately 20% of Brazilian pharmaceutical imports.

Pharmaceuticals

US\$ millions	2006 est*	2007 est*	2008 est*
Market Size	\$9,214	\$10,964	\$11,512
Local Production	\$7,650	\$8,954	\$9,221
Exports	\$473	\$638	\$829
Imports (Global)	\$2,037	\$2,648	\$3,120
Imports from US	\$407	\$530	\$624

Source: Febrafarma , US\$1 = R\$2.18

Most Brazilian health insurance companies do not reimburse patients for prescription drugs. Consequently, over 80% of drug purchases are made by individual users. Estimates vary, but various sources suggest that 40-50% of the population have limited or no access to needed pharmaceuticals because of financial constraints.

About 80% of pharmaceutical companies operating in Brazil are national, but they are only responsible for a minority of domestic sales. Foreign firms mostly from the United States and Europe, along with their Brazilian subsidiaries, supply 70% of the market, not including direct sales to the Government.

Multinationals operating in Brazil have expressed concerns about the slow to non-existent approval of pharmaceutical patents in the country, with roughly 18,000 pharmaceutical patents currently pending approval. Also, taxes applied to medicines in Brazil are among the highest in the world. The Government collects over US\$ 1 billion in taxes from the pharmaceutical sector. The cascading tax method applied on manufactured goods in Brazil affects several industries, and is one of the most important topics that private industry has raised with the Government. The process aimed at reducing taxes on pharmaceutical production is slow and bureaucratic. According to Government statements, however, taxes applied on pharmaceutical products are

expected to be decreased in order to make drugs more affordable for the population. This has been seen more on the State level rather than the Federal, though.

Opportunities for US Firms

Brazil's Pharmaceutical market represents an excellent opportunity for US firms for a variety of reasons. The size of the pharmaceutical market is significant, and this market will likely grow as the government does lower taxes on these products. Tax decreases will not only increase per client sales for current patient, but will bring into the fold those currently forgoing medication because of financial constraints.

Product Registration and Approval

U.S. firms seeking to enter the Brazilian market must register their products with Brazil's National Agency for Sanitary Health (ANVISA). ANVISA is an agency of the Brazilian Ministry of Health, the Brazilian equivalent of the U.S. Food and Drug Administration. More information on the registration process is available in English from ANVISA's web site: www.anvisa.gov.br/eng/drugs/registration.htm.

Generic Pharmaceutical Products

U.S. firms seeking to enter the Brazilian market should be aware that the local generic drug market is growing rapidly. Generic drugs first entered the Brazilian market in 1999. Since then, the sector has grown rapidly and is estimated to have accounted for 14.2% of sales in 2006 (approximately US\$ 700 million). Nearly all generic production is purchased by state public health care systems as part of the government's program to distribute medicines to the poorest. It is expected that by 2008, the generic market will reach US\$ 1 billion in sales. Local generic drug manufacturers in Brazil operate at world-class levels.

Opportunities for US firms to export raw materials to Brazil are abundant. Approximately 85% of the raw materials used in the production of generic drugs in Brazil are imported. In addition, we see major demand for equipment and services associated with the construction of pharmaceutical manufacturing plants, representing another opportunity for US exporters.

Resources

- For more information about export opportunities in this sector contact US Commercial Service Industry Specialist Jefferson Oliveira at: jefferson.oliveira@mail.doc.gov.
- US Commercial Service Market Research Worldwide: <http://www.export.gov/marketresearch.html>
- Brazilian Agency for Sanitary Health: www.anvisa.gov.br

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Pollution Control Equipment

Opportunities in Pollution Control Equipment

Environmental experts estimate that Brazil's environmental technologies market (including equipment, engineering / consulting services and instrumentation associated with pollution control and cleanup projects) is valued at roughly US\$ 3.1 billion, of which US\$ 2.1 billion are related to the water and wastewater sub-sector. According to the Ministry of the Cities, investments in water treatment and distribution in 2004 were R\$ 1.1 billion (US\$ 380 million), whereas investments in sewage collection and treatment were R\$ 1.4 billion (US\$ 480 million). Investments in solid waste management technologies are estimated at US\$700 million, whereas investments in air pollution control equipment and services are US\$ 300 million.

Business opportunities for international companies in the Brazilian market are mostly in offering innovative solutions and technologies, rather than supplies. Some of the critical segments in Brazil's water industry offer potential for international technologies, particularly in the areas of water loss and water reuse.

The water loss rate in Brazil corresponds to 40 to 50% of the potable water produced in urban areas. Losses that result from inaccurate consumption metering and leakages are responsible for financial loss of about US\$ 5 billion per year. Opportunities include complete solutions related to water distribution systems, including services and equipment.

Water reuse is becoming increasingly important in Brazil, especially in large centers where water scarcity represents high operational costs for water impounding and adduction. Recent legislation imposing charges for collecting and disposing effluents in water bodies increases the demand for specialized consulting services and effluent treatment technologies.

Air Pollution Control Sub-Sector:

According to the industry magazine "Quimica e Derivados," the need to comply with the existing legislation on pollution emissions, the reutilization of raw materials and adoption of environmentally friendly policies, determine investments in air pollution control equipment and services. The magazine estimates this market to increase by about 20% per year. In addition to the industrial market, the increased number of CDM projects in sanitary landfills in Brazil is also creating demand for gas emission monitoring technologies.

Opportunities in Public and Private Realms

Although urban cleaning and public waste management services operated under municipalities, some major private sector companies participate through contracts or long-term concessions. In addition, there are several Brazilian manufacturers of solid waste treatment equipment. There are also a number of companies, several of them international, in the hazardous waste treatment business.

Figures from ABRELPE, the Brazilian Association of Urban Cleaning and Hazardous Waste Collection and Treatment Companies, indicate that the sector generates annual revenues of R\$ 5 billion (US\$ 2.17 billion), has a fleet of 9,600 compactor trucks and invests R\$300 million (US\$ 130 million) in compactor trucks per year. Investments in sanitary and hazardous waste landfills are expanding significantly, as 90% of Brazil lacks sanitary landfills for waste disposal.

Although smaller than the public sector, the private sector is an important market for pollution control technologies. Some of the driving forces affecting this market are stricter environmental legislation, pressure from communities and clients, the introduction of environmental management practices by a growing number of industries and increased number of industries with ISO 14001 certificates. The ISO 14001 certificate requires continuing improvement in production processes and adoption of pollution prevention measures. Industries in Brazil demand technologies for water reuse, solid waste treatment, recycling, CDM for greenhouse gases, etc.

U.S. Participation in this Sector

U.S. companies generally export products such as soil/water contamination treatment equipment and services; healthcare waste treatment technologies; laboratory instruments; odor control products, recycling technologies, etc.

Resources

- For more information about export opportunities in this sector contact US Commercial Service Industry Specialist Teresa Wagner at: Teresa.Wagner@mail.doc.gov

- For access to further Market Research, please go to www.export.gov/marketresearch

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Ports

Port Investment Plans

Allocated investment for transportation infrastructure, in the Brazilian government's Bi-Annual Investment Plan (2004-2007), was US\$ 11.9 billion. Moreover, it is foreseen that R\$ 197.5 billion will be invested in infrastructure between 2007 and 2010 is R\$ 1.9 billion (US\$863 million) in dredging and intermodal connection improvement such as between highways and railways. European companies are poised to capture a large share by offering packages that include long-term financing.

Ports

US\$ millions	2005	2006*	2007*
Market Size	210	690	640
Local Production	114	373	346
Imports (Global)	295	317	294
Imports from US	40	131	122

Source: trade/industry resources. US\$1 = R\$2.20

Brazilian ports –

Opportunities for Investment in Ports

Approximately 93% of Brazil's international trade is by ocean freight, making port investment a governmental top priority. Until 1990, the federally owned port administrator Portobrás was responsible for virtually all aspects of public ports, including administration, policy, tariffs and investments. In February 1993, the Port Modernization Law (Law 8,630/93) was passed, decentralizing, deregulating and reducing state control of the sector. Brazil's public port system is now run through eight federally owned companies in various Brazilian states (the current local Port Authorities), five state concessionaires and one private port concession. According to the Ministry of Planning, the Brazilian government will inject R\$ 2.9 billion (US\$ 1.3 billion) every year in infrastructure. This amount to be divided between highways recuperation (US\$ 910 millions) and port infrastructure (US\$ 632 millions) was agreed with the IMF (International Monetary Fund). Moreover, the government claims that it will invest US\$ 227.3 million in small projects, to help lower the costs immediately. However, Wilen Manteli the president of ABTP (Brazilian Public Container Terminal Association) said that he is not aware of this investment and believes that it is not near enough. US\$ 4.5 billions should be the correct figure for the next 5 years.

Duty exemptions for key port upgrade imports

Brazil's heavy investment in ports, specifically in improving operational security and efficiency, has prompted several categories of upgrade imports to be declared duty-exempt. For more information on these duty-exempt goods, please contact Ruy Baptista at ruy.baptista@mail.doc.gov.

Port Location

The ports of Rio de Janeiro, Santos and Rio Grande do Sul have become important container terminals, with container gantry cranes for loading/discharging 20' and 40' containers. They are equipped with mobile machines for handling containers, an extensive paved yard for stacking and storage, and offer easy access to rail and road transport. The port of SUAPE Industrial Complex, located in the eastern-most part of Brazil, is one of South America's most important deep-water ports. SUAPE can dock vessels up to 170,000DWT and has an operational depth of 14.5 meters. Ports such as Fortaleza, Salvador, Ilheus, Vitoria, and Paranagua handle large numbers of containers with conventional shore cranes and/or ship's gear. Some have specific berths with priority for container vessels and have mobile equipment for handling container units on shore, but are without container gantry cranes.

Medium and Long Term Investments

Brazilian companies generally have world-class cargo logistics and are constantly seeking to improve cost-effectiveness because of the difficult fiscal regime they operate under. These efforts to achieve competitive shipping costs could translate into excellent opportunities for U.S. consultants. According to the ABTP, US\$615 million has been invested by the private sector in this segment by 10 affiliated terminals since 1995, and they expect to invest \$150 million more in 2007.

Port costs mean opportunity for US business

Brazil's shipping cost is in the average 20% above the international average. 37% of total operational costs for ports are incurred during vessel loading and unloading. To lower costs, operators need to invest an estimated US\$1.6 billion in additional security & control equipment; traffic control equipment; yard management equipment and software; and additional cranes and material handling equipment.

Resources

- For more information please contact Industry Specialist Ruy Baptista: ruy.baptista@mail.doc.gov
- For more market research: www.export.gov/marketresearch.html
- US Ex-Im Bank: www.exim.gov
- Ministry of Trade & Development: www.desenvolvimento.gov.br

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Rail

Rail Investment

Allocated investment for transportation infrastructure, in the Brazilian government's Bi-Annual Investment Plan (2004-2007), was US\$ 11.9 billion. Moreover, it is foreseen that R\$ 197.5 billion (US\$89.8 billion) will be invested in infrastructure between 2007 and 2010, according to the latest BNDES (National Bank for the Economic Development) research. Regarding transportation, R\$ 12.2 billion (US\$5.5 billion) will be invested in railroads – permanent ways implementation, implementation of new branches, constructions of new ways.

Rail

US\$ millions	2005	2006*	2007*
Market Size	1,500	1,540	2,900
Local Production	870	890	1,700
Imports (Global)	630	647	1,200
Imports from US	303	308	600

Source: trade/industry resources. US\$1 = R\$2.20

Investment Opportunities in Railroads

In spite of the real growth already achieved since the privatization of the railroads in 1997, the potential for future growth of the rail freight business in Brazil is still immense. Specialists of the "freight on tracks movement" guarantee that a promising future is supported on basic rules of simple Arithmetic. A rail wagon carries the load equivalent to three 35-ton-trucks. And as they operate in a much bigger scale, the train freight is in average six times cheaper than trucks to transport cargo, based on 1 ton per thousand kilometers.

Between 1997 and 2005, the increase in cargo transported by rail increased from 253 to 392 million TKUs - 55% increase. Furthermore, the modernization of the privatized railroad, helped increase production efficiency from 137 (tons per useful kilometer) in 1997, to 222 billion in 2005 - 62% increase. The estimates for 2006 is 237.7 billion TKUs, representing 7.1% expansion in relation the 2005 and 73% if compared with 1997. These numbers are results of investments that have jumped from US\$ 10 million in 1995, two years before the privatization process, to US\$ 1.5 billion in 2005. According to the Associação Nacional de Transportadores Ferroviários – ANTF (National Railroad Association), from 1997 until September 2006 investments in rolling stocks and maintenance in the railway lines exceeded R\$ 12 billion (US\$5.5 billion).

From January to September 2006, US\$833 million have been invested by the private sector. The estimation is that by December the investments should reach US\$ 1.1 billion. In addition to investing in operating capacity, the concessionaires have upgraded management skills in all areas of the administration - legal, financial, commercial and accounting.

Instead of slowing down, large operators such as Vale do Rio Doce - CVRD, America Latina Logistic - ALL and MRS continued investing heavily. Because in this industry the fixed operating costs are significant, the attainment of large scale is a crucial ingredient for success. In the case of the CVRD, considered as one of the bigger investor and players of the sector, investments in logistics - where railroads represent 80% of the revenues – reached US\$785 million in 2006.

On the other hand, according to Alexander Fields, director of ALL, the investments they made in 2006 amounted to US\$114 million, this should double in 2007. He said “considering our maintenance and expansion plan, we should reach the US\$ 225 million bracket annually, next year, accounting for the entire Brasil Ferrovias network, that will lead to a synergy and will create a new exportation corridor.”

MRS is set to invest US\$1.4 billion in next the four years. According to the company’s President, Júlio Fontana Neto, the investments allocated for 2006 are almost all carried out – totaling US\$295.5 million. For 2007, they are allocating US\$ 318.2, he said. MRS is controlled by the large mining and steel companies including CVRD, Gerdau, Usiminas and CSN - and having as their main artery the Ferrovias do Aço, that connects the city of Belo Horizonte (MG) to Barra Mansa (RIO DE JANEIRO), MRS wants to have the capacity to transport 200 million useful tons annually by 2010. In last the ten years, the operator invested approximately US\$ 1 billion and increased by 170% the volume of cargo carried, going from 42 million tons in 1996 to 114 million in this year.

One of the concessionaires’ biggest challenges today is to better supply the demand of the Brazilian industry. There is a lot of industrial cargo today that is not being hauled by the railroads, due to high rates of use of the capacity of the wagons that are being used to transport commodities such as agricultural products, iron ore and other products. According to logistics specialists, a number of industrial activities are being cramped in some regions that have poorly developed rail offerings.

ALL’s Industrial Director confirmed that in 1997, when ALL was created, it only transported agricultural commodities. Since then, although the movement of grain has been growing in absolute terms, percentage wise the participation of the industrialized products has gone up considerably. In 2005, half of the volume transported was agricultural commodities and the others half was split between products of higher aggregate value.

With the purchase of Brasil Ferrovias Railroads, whose main focus has been the transportation of grains, the ratio at ALL has changed: now 70% of the volume is commodities and 30% of general cargo, explained Fields. But, looking forward, the potential growth is enormous in all segments. The operator can count on 21,000 kms of tracks, integrating its network in the Southern part of Brazil, connecting the Mid Western states, as Mato Grosso and Mato Grosso do Sul (agricultural granaries) to São Paulo, the industrialized center of the country.

In the opinion of the president of MRS, Júlio Fontana Neto, the concentration of the network in the transport of commodities is a fact but it according to him it hasn’t hindered general cargo growth for their railroad. In that region, MRS transports containers for almost every kind of industry, he says. For him, one of the most promising segments of the market is the auto-parts sector, both in the domestic market as well as for exportation and importation. Another promising prospect, according to Fontana, is chemical products considered semi-

dangerous, transported in the so-called iso-containers that are manufactured especially to keep certain conditions, such as temperature.

Private consortiums, which include a number of US participants, invested US\$ 2.5 billion in Brazilian concessions. Noel Group, Brazil Rail Partners, Railtex International Holding, Ralph Partners, and BankBoston are some of the US groups participating in the these concessions. US suppliers are expected to capture 25% of the market, as there is a local preference for US technology and product. Railroad companies are focusing their investments on important export corridors, particularly to Mercosul partners and other neighbors.

Ministry of Transportation's Expansion Plan

The Ministry of Transportation has concluded a project to revitalize Brazil's railway network that includes investments of R\$ 10.5 billion (US\$4.7 billion). The project divides Brazil's rail network into sections, with the first and most critical section having a R\$ 2.7 billion (US\$1.2 billion) budget and the second a R\$2.5 billion (US\$1.1 billion) budget. This project is awaiting the implementation of the government's Public Private Partnership program, which has been slow to start. The first two sections should be finalized by 2007. The final phase of the project will be discussed in 2007 and it foresees an investment of R\$5.3 billion.

A Variety of Potential Investors

Brazil's private railroad operators plan to invest millions of dollars in purchasing and refurbishing locomotives; purchasing locomotive spare parts, braking systems, couplings, diesel engine parts, communication systems, signaling systems, track maintenance equipment and services, railroad ties of concrete and wood; and remodeling, duplicating and electrifying 3,300 km of railroad tracks, replacing rails and ties, and enlarging and remodeling maintenance facilities.

CVRD (Companhia Vale do Rio Doce), Brazil's largest mining firm, is planning on spending US\$ 274 million on its railroad company, Vitoria a Minas (EFVM). US\$ 227 million will be used to acquire and rebuild locomotives and railroad cars. The remaining US\$ 47 million will be used to buy light equipment and to expand and upgrade their tracks. In addition, 46 railroad cars will be purchased or re-built.

Resources

- For information contact Industry Specialist Ruy Baptista: ruy.baptista@mail.doc.gov
- Market research: www.export.gov/marketresearch.html
- US Ex-Im Bank: www.exim.gov
- Brazilian Ministry of Transport: www.transportes.gov.br
- National Association of Transporters: www.antf.org.br
- Valor Economico Magazine

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Telecommunications Equipment

Brazil - the Telecom Giant in Latin America

With roughly 35 percent of the region's revenues, Brazil remains Latin America's largest telecom market. 2005 net revenue from telecom equipment and services was near US\$46 billion, 32.8% higher than previous year. Sector revenues are split among

Telecommunications

US\$ millions	2005	2006*	2007*
Market Size	7,186	7,976	8,854
Local Production	5,442	6,041	6,705
Exports	2,832	3,144	3,489
Imports (Global)	1,744	1,936	2,149
Imports from US	520	577	641

Source: trade/industry resources. US\$1 = R\$2.15

fixed carriers (39.6%), mobile carriers (25.8%), manufactured products (19.3%) and services (15.3%). Motorola, Nokia, Nortel and Cisco have manufacturing facilities in Brazil, giving the country one of the region's best telecom infrastructures.

Fixed phones are still the absolute leaders but the distance separating them from mobile phones decreased in 2005. Among services, Internet access companies had the highest percentage growth with total revenues of US\$ 633 million (123% increase as compared to 2004). By the end of 2006, Anatel (the National Agency for Telecommunications) estimated that total telecom investment reached US\$45 billion, 47 percent for fixed services and 19 percent for mass communication services.

Trends – Wireless Mobility is Driving Growth

Once again mobile products and technologies were the market driving force, growing 32.8 percent in 2005. For 2006, the sector saw an estimated 11 percent growth. Brazil's import market for telecom equipment and components reached US\$1.7 billion in 2005, and is surpassed US\$1.8 billion in 2006. US market participation decreased from 20 percent in 2005 to 17 percent in 2006, while Southeast Asian (mostly South Korean, Chinese) grew from 34 to 42 percent.

Wireless penetration continues to grow. According to Anatel, in November 2006 there were approximately 98 million cell phones in service, a 19% increase as compared to same period last year. Estimates show Brazil reaching more than 100 million users by year-end 2006, with 81 percent of the phones prepaid and 19 percent post paid.

Vivo (CDMA/TDMA), is the largest mobile operator (29.4% market share, followed by TIM (TDMA/GSM) (25.4%, Claro (TDMA/GSM) (23.5%), Oi (GSM) (13.2% and other companies such as Telemig/Amazonia and Brasil Telecom (TDMA/GSM) and CTBC (TDMA/GSM) have 8.5% of the market.

Brazil's GSM client base is growing significantly with (60.4% market share), CDMA (26.0%) while TDMA still has 11.0 million access. Brazil's GSM and CDMA client bases are growing monthly by 9.8% and 2.4% respectively.

Because all telecom carriers except Vivo decided for GSM standard, the participation of this technology increased significantly in 2006 and as of November 2006, it had 60.4% market share. Vivo, with CDMA technology, has 26% of the market. Due to the increase of GSM technology, market analysts believe that Vivo is exploring alternatives for the migration to third generation licenses (3G). Brazil's government appears to favor the European approach of investing in a single standard as a means to speed adoption and ease roaming.

Prospects: 3G WiMax, Broadband, VoIP, E-Commerce, IpTV

Anatel had planned on holding a WiMax auction in September 2006, but its original criteria was overruled by the communications ministry and a federal judge, creating delays and confusion within the industry. Anatel received 100 bids before the original September 4 deadline, but it cannot grant licenses until final rules are decided. The auction is expected to take place by the end of June 2007.

Though broadband penetration is still only 10% of the market, Internet use and PC penetration in Brazil are the highest in Latin America. In fact, the Internet is having a profound effect on Brazil, and Brazilians have rapidly become the Latin American leaders in technological innovation and Internet applications. Today, Brazilian users are ranked even higher than Europeans in time spent and relative usage of audio-visual content, e-banking and e-commerce.

According to market indicators, as of October 2006 there were more than 5 million broadband subscribers in Brazil for all types of technology. This represents an increase of more than 40 percent as compared to the previous year. To face the rising demand for broadband services, telecom carriers have increased investments in 2006 and are adopting WiMax technology and the IP (Internet Protocol) connections to replace dial-up service at a more attractive price for lower income populations. Most carriers have decided to generate extra revenue by focusing on the corporate segment with special attention to small to mid-size companies (SMEs) and the SoHo (Small Office Home Office) market. SMEs represent more than 80 percent of this business and there are excellent opportunities for U.S. companies supplying this technology. The penetration rate of cable broadband in Brazil is still very low as compared to other Latin American countries, but Cable TV experienced a 102% increase in their client's base for Internet users via cable modem in 2006.

Growth in Internet based services and consumers' desire to cut telecom costs has increased demand for Voice over Internet Protocol (VoIP). This should couple with technology upgrades to prompt a demand surge for new VoIP equipment that at least in the short-term can almost be exclusively supplied by US firms.

As for E-commerce, there are approximately 28 million Internet users in Brazil, a figure that places Brazil among the global Internet elite. Use of the Internet continued to grow in 2006 and Brazilian users ranked even higher than Europeans in terms of time spent and relative usage of audio-visual content, e-banking and e-commerce. Brazilian teenagers spend an estimated 14 hours per month on the web, more than the time they use to read newspapers or go to the movies. This year, Brazilian executives surfed the web at home almost the same amount of time as their American counterparts.

The largest companies in the E-commerce market are online Brazilian retailers Americanas and Submarino. In October Americanas announced a merger with Submarino to create a larger company that can tap into Brazil's growing e-Commerce market. The two companies held about 57 percent of the online retail market share in Brazil in 2005 and sell everything from computers to jewelry, wine and groceries. The most popular products in the Internet are books/newspapers/magazines (18.4%), CD's/ DVD's/Videos (15.9%), electro-electronics (14.3%); Informatics (8.4%); Beauty & Health (7.9%).

Direct sales from the US are subject to customs and duties regulations. Although Brazil has made substantial progress in reducing traditional border trade barriers (tariffs, import licensing, etc.), tariff rates in many areas remain high and continue to favor locally produced products. Tariffs, in general, are the primary instrument in Brazil for regulating imports. All tariffs are ad valorem, with rates between zero and 35 percent, levied on the Cost Insurance Freight (CIF) value of the import, with the exception of some telecommunication goods.

With increasing competition from mobile phones and the resurgent cable industry, Brazilian fixed operators are preparing to deploy television services via DSL, a service otherwise known as IPTV. Due to regulatory constraints, offerings will at first be limited to video-on-demand services. This regulatory constraint, coupled with a strong native broadcast industry, will impact the development of IPTV negatively, as will the development of DTT. As a result, fixed operators are working very closely with Anatel to resolve pending regulatory issues and to offer the so called 'triple-play' services: voice, Internet and television.

Top Prospects for US firms are in Wireless

Brazil's wireless industry trends towards convergence, i.e., adding a range of telecom services to a single medium to maximize benefit and efficiency. Also, cell phones are expected to be the single biggest end-use market for Brazil's telecom equipment market. Motorola, Nokia, Samsung, Sony-Ericsson, Siemens, LG and Gradiente are increasing cell phone production to meet growing domestic and regional demand, and even export to North America.

Other best prospects include IP New Generation Networks, WiMax; new revenue-generating mobile services (preferably based on the existing network); broadband multiple services; intelligent services networks; new services merging voice, data, image and sounds; telemedicine equipment; security telecom equipment; and system integration services.

Resources

- For more information please contact Industry Specialist Ebe Raso at ebe.raso@mail.doc.gov.
- For more market research: www.export.gov/marketresearch
- ANATEL: www.anatel.gov.br
- Brazil's Ministry of Communications: www.mc.gov.br

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Travel & Tourism

Market update on Travel & Tourism

Brazil became the eight largest source of visitors to the United States in 2005. Brazil is the top arrivals market for South America, accounting for 28 percent of arrivals from the continent. Brazil has a very diverse population with diverse tastes, represented by their destination choices - France, Italy, New York, Florida, California, Australia, Canada and Asia. Before 2001, Brazil was one of the fastest growing outbound travel markets in the world. Travel dropped some after September 11th, but appears to be recovering. With only 4 million outbound travelers from a population of 182 million, and the country's economic growth prompting more middle-class travelers, growth seems likely to continue. In the first nine months of 2006, Brazilian arrivals totaled 386,000, up eight percent. Growth in visitation slowed throughout the year, up 18 percent, five percent and three percent for the first three quarters. While showing solid growth it is under 2005's growth rate of 26 percent. Brazil, a non-visa waiver country moved farther ahead of the Netherlands in total arrivals.

The U.S. as a Destination

The U.S. is Brazil's second most popular destination, behind only Argentina, competing for Brazilian travel dollars with Argentina, Europe, Australia, Canada and Asia. Though the number of Brazilian visitors to the U.S. dropped from 941,000 in 1997 to 349,000 in 2003 because of currency depreciation, security concerns, stricter visa requirements and competition from other countries, recovery seems to be on the horizon. More Brazilians are traveling to the U.S. because of promotions offered by U.S. companies and the Brazilian Real's increased value. The U.S. Department of Commerce's Office of Travel & Tourism Industries (OTTI) reported that Brazilian travel to the U.S. began recovering in 2004, when 385,000 Brazilians traveled to the U.S. - 10% more than 2003. In 2005, Brazilian arrivals in the U.S. showed an excellent growth of 26%. From January through September of 2006, arrivals from Brazil totaled 386,000, which represents a 8% raise.

The most popular destinations for Brazilian visitors in the U.S. are Florida/Miami, New York/New York City, California, Las Vegas, Los Angeles and Orlando. Washington, DC, New Orleans, Massachusetts, San Francisco and Texas are popular secondary destinations. Top activities were dining out, shopping, theme parks, historical visits, visits to small towns, art galleries/museums, night clubs/dancing and concerts/plays/musicals.

The Typical Brazilian visitor

Brazil's typical visitor to the U.S. has visited at least once before. The high season for Brazilian travel to the U.S. is Dec-Jan, and then July, because of school holidays. Shorter trips during public holidays are also very popular. Although not as popular as before, fly and drive trips are still popular and one can often find Brazilian

families driving through Arizona, California, Nevada, Colorado, Florida, Louisiana or New England. According to OTTI, in 2005, Brazilian travelers to the U.S. averaged 2.3 trips, spent 23.5 nights, visited 1.4 states and 2.1 destinations. Brazilian travelers are among the biggest spenders when traveling to the U.S., averaging \$3,557 per traveler. The greatest proportion of Brazilian visitors are in the age groups 35-44 and 44-54, married and professional, followed by the age groups 25-34, 55+, and 15-24 year of age.

Business Travel

Brazil's business travel industry continues to grow – U.S. Department of Commerce statistics show that over 40% of total outbound trips from Brazil are for business. Brazilian business travelers are lucrative targets as they often include some leisure days during their trip and spend more than the average traveler. FAVECC, the Forum of Corporate Travel Agencies in Brazil, reported sales of 2 billion in the first six months of 2006, in comparison with 1.8 bi in the same period of 2005. 2006 numbers are expected to close with a major growth in sales for international business trips and services.

Ski Travel

Brazil's outbound ski market, dominated by the upper-middle and upper class, has grown steadily. Argentina and Chile are the most popular ski destinations during Brazil's winter (June-Aug), the U.S. during Brazil's summer (Dec-Feb). Colorado, particularly Aspen, is popular, and many Brazilians have bought houses there. Ski tour operators predict 20% more Brazilians to be reported in Aspen in 2006, while Tahoe, Jackson Hole and Park City will remain popular.

Brazil's Travel & Tourism distribution system

While wholesalers are key travel distributors, Brazil's 10,000 travel agencies, 60% of whom issue international tickets, are most important. As many tour operators began as travel agencies, many do both, and stiffer competition has prompted most to upgrade technology and improve efficiency. Associations are important in Brazil's travel industry. The Brazilian Tour Operators Association (Braztoa), formed by 60 operators, is the main association of tour operators, and the Brazilian Travel Agencies Association (ABAV) has approximately 3,000 members responsible for just over 80% of travel sales. In 2006 the majority of Brazil's visitors to the U.S. went through a travel agency, while others went directly to airlines, through the Internet, or used state/city travel offices.

Promote to attract Brazil's diverse travelers

Travel and tourism promotion in Brazil has seen success over the past decade. Brazil's large and diverse population means the country has a diverse set of interests from which U.S. destinations can recruit travelers. For example, though Brazil has limited snowfall, U.S. ski areas successfully attract Brazilians. For a U.S. destination, finding the hook for potential Brazilian travelers could lead to great returns.

Resources

- For more information please contact Industry Specialist Jussara Haddad at jussara.haddad@mail.doc.gov.
- For more market research: www.export.gov/marketresearch.html
- ABAV: www.abav.com.br
- BRAZTOA: www.braztoa.com.br
- FAVECC: www.favecc.org.br
- Travel Agent Association of São Paulo's interior www.aviesp.org.br

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Chapter 5: Trade Regulations and Standards

Trade Barriers Continue to be Significant

Although Brazil has made substantial progress in reducing traditional border trade barriers (tariffs, import licensing, etc.), tariff rates in many areas remain high and continue to favor locally produced products.

This report touches upon a broad range of trade regulations that may affect US companies seeking to export to Brazil. The US signed a trade and investment framework agreement with Mercosul in 1991 and will continue to encourage the reduction of barriers to trade and investment, including tariffs and the creation of a customs union that is open and consistent with the WTO, specifically GATT Article XXIV.

Tariffs, Non-Tariff Barriers, and Import Taxes

Tariffs, in general, are the primary instrument in Brazil for regulating imports. All tariffs are ad valorem, with rates between 0-35%, levied on the Cost Insurance Freight (CIF) value of the import, with the exception of some telecommunication goods. According to the Heritage Foundation's Economic Freedom Index, Brazil's average tariff was 7.6% in 2004. The average tariff in 1990, by contrast, was 32%. Brazil also maintains a higher average tariff on processed items than on semi-processed goods and raw materials. The United States continues to encourage tariff reductions on products of interest to US firms.

Brazil and its Southern Common Market (Mercosul) partners, Argentina, Paraguay and Uruguay, implemented the Mercosul Common External Tariff (CET) on January 1, 1995. In November 1997, after consulting with its Mercosul partners, Brazil implemented an across-the-board three-percentage point increase on all tariffs (inside and outside the CET), raising the ceiling from 20 to 23%. The surcharge is being gradually phased out, but given uncertainties over Argentina's economic recovery, its elimination may be delayed. Other Mercosul members have also unilaterally adjusted their tariffs in response to economic crises, and given these developments, the CET is currently full of exceptions.

SISCOMEX – Computerized, but additional requirements

In January 1997, the Secretariat of Foreign Trade (SECEX) implemented a computerized trade documentation system (SISCOMEX) to handle import licensing, and a wide variety of products were subject to non automatic licensing. There are fees assessed per import statement submitted through

SISCOMEX, and importers must comply with onerous registration guidelines, including a minimum capital requirement, to register with SECEX (the Foreign Trade Secretariat). Complete information on requirements for importing into Brazil is available only through SISCOMEX, which is only available to registered importers

Beginning in October 1998, Brazil issued a series of administrative measures that required additional sanitary/phytosanitary (SPS), quality and safety approvals from various government entities for products subject to non automatic licenses.

To fight increasing under-invoicing, Brazil issued a series of measures that required additional approvals for products subject to non-automatic licensing, and broadened the list of such products. While the Government is now in the process of phasing these out and moving most products to the automatic license category, these requirements still present a barrier.

Under Brazil's new Customs Valuation regulations, Customs will focus its efforts on under-invoicing, and is authorized to hold up imports until the goods are valued.

WTO compliance?

A primary concern has been the use of minimum reference prices both as a requirement to obtain import licenses and/or as a base requirement for import. It appears that the Government of Brazil has required some products to meet minimum prices for the issuance of import licenses in order to receive normal customs processing. This requirement raises questions about whether Brazil's regime is consistent with its obligations under the WTO. In November 1999, the US actively participated as an interested third party in European WTO consultations on the issue, and in July 2000 the US held its own WTO consultations with Brazil. The Brazilian Government reportedly has modified its customs regime somewhat, but it has not codified these changes in a public document. Senior Brazilian officials have stated to US Embassy officers since late 1999 that such requirements currently do not exist.

In addition, product registrations from the Ministry of Health are required for imported processed food products and food supplement products effective March 1, 2000, with a reduced term of validity for registrations. Registration fees for these imports, as well as for medical and pharmaceutical products, also increased significantly over the course of 1999. The US Government also has received complaints relating to Brazil's "law of similars," including that it leads to non transparent preferences for Brazilian products in procurement bids for government and non profit hospitals and prejudices against the import of refurbished medical equipment when domestically produced "similars" exist. Implementation of such import measures continues to be poorly coordinated and not well publicized, magnifying the negative impact on US exports.

Taxes and Fees On Imports

Imports are subject to a number of taxes and fees in Brazil, which are usually paid during the customs clearance process. There are three taxes that account for the bulk of importing costs: the Import Duty (II), the Industrialized Product tax (IPI), and the Merchandise and Service Circulation tax (ICMS). In addition to these taxes, several smaller taxes and fees apply to imports; these costs are shown in the table. Note that most taxes are calculated on a cumulative basis.

Import Duty (II)

The Import duty is a federally mandated product specific tax. After the creation of the Mercosul customs union, the four member countries -- i.e., Argentina, Brazil, Paraguay and Uruguay -- adopted a single import tariff structure known as the "common external tariff" (known in Brazil as the "TEC"). While after the adoption of the TEC, Brazilian import tariff rates were reduced, they are still high in comparison to US import tariff rates. In most cases, Brazilian import duty rates range from 10 - 20 %.

Industrialized Product Tax (IPI)

The IPI is a federal tax levied on most domestic and imported manufactured products. It is assessed at the point of sale by the manufacturer or processor in the case of domestically produced goods, and at the point of customs clearance in the case of imports. The IPI tax is not considered a cost for the importer, since the value is credited to the importer. Specifically, when the product is sold to the end user, the importer debits the IPI cost.

The Government of Brazil levies the IPI rate by determining how essential the product may be for the Brazilian end-user. Generally, the IPI tax rate ranges from 0 to 15 %. In the case of imports, the tax is charged on the product's CIF value plus import duty. Often one can note that usually a relatively low import tariff rate carries a lower IPI rate. Conversely, a relatively high import tariff rate carries a correspondingly higher IPI rate. As with value-added taxes in Europe, IPI taxes on products that pass through several stages of processing can be adjusted to compensate for IPI taxes paid at each stage. Brazilian exports are exempt from the IPI tax.

Merchandise and Service Circulation Tax (ICMS)

The ICMS is a state government value-added tax applicable to both imports and domestic products. The ICMS tax on imports is assessed ad valorem on the CIF value, plus import duty, plus IPI. Although importers have to pay the ICMS to clear the imported product through Customs, it is not necessarily a cost item for the importer, because the paid value represents a credit to the importer. When the product is sold to the end-user, the importer debits the ICMS, which is included in the final price of the product and is paid by the end-user.

Effectively, the tax is paid only on the value-added, since the cost of the tax is generally passed on to the buyer in the price charged for the merchandise. The ICMS tax due to the state government is based on taxes collected on sales by a company, minus the taxes paid in purchasing raw materials and intermediate goods. The ICMS tax is levied on both intrastate and interstate transactions and is assessed on every transfer or movement of merchandise. The rate varies among states: in the State of São Paulo, the rate is 18 percent. On interstate movements, the tax will be assessed at the rate applicable in the state of destination. Some sectors of the economy, such as construction services, mining, electrical energy, liquid and gaseous fuels are exempt from the ICMS tax. Most Brazilian exports are exempt.

Customs Regulations – Still Burdensome

In 1997 the Brazilian Government established a computerized information system to monitor imports and to facilitate customs clearance known as the Foreign Trade Integrated System (SISCOMEX). The SISCOMEX has facilitated and reduced the amount of paperwork previously required for importing into Brazil, which, however, can still be burdensome. Brazilian importers must be registered in the Foreign Trade Secretariat's (SECEX's) Export and Import Registry and receive a password given by Customs to operate the SISCOMEX. The SISCOMEX has a graphic interface for the composition of electronic import documents and transmits information to a central computer.

Customs Clearance in Brazil can be a time consuming and frustrating process, even compared with other countries in Latin America. Products can get caught up for various reasons, including minor errors or emissions in paperwork.

Brazilian Customs has seen a number of work slow downs and strikes over the last few years. At times the work disruptions will take place at only specific ports. The U.S. Commercial Service will send notice of any customs strike or slowdown to the U.S. Export Assistance Center network, and incoming clients.

Import Licenses

Automatic Licenses

As a general rule, Brazilian imports are subject to the automatic import license process. This procedure requires the Brazilian importer to submit information concerning each import, including a description of the product, the harmonized tariff classification number, quantity, value of the shipment, shipping costs, etc. This information will be used for purposes of preparing the Import Declaration (locally known as the DI). Subsequently, all information is fed into the SISCOMEX.

Certain products and import operations are subject to special requirements, which should also be completed prior to the customs clearance process. For example, food products require additional approval by the Agricultural Ministry. Selected natural and synthetic rubbers require approval by the Environmental Agency (IBAMA). And a variety of product registrations may be required for asbestos, chemicals, pharmaceuticals, perfumes, cosmetics, and medical equipment.

Non-Automatic License (LI)

Whenever imports are subject to the Non-Automatic License (LI) regime, the importer must provide information concerning each shipment to Brazilian customs authority either prior to shipment or prior to customs clearance. The required information includes a description of the product as well as the harmonized tariff classification number, quantity, value of the shipment, shipping costs, etc.

Importers must seek clearance prior to shipment if they want to bring in products subject to special controls from SECEX or approvals from other Brazilian government agencies. Such products may include used products, products that enjoy import tariff reductions, and imports that do not involve payment from importer to the exporter.

Examples: samples, donations, temporary admission, psychotherapeutic drugs, products for human or veterinary research, weapons and related products, radioactive products and rare earth metal compounds, crude oil, oil derivatives or other petroleum derivatives, anti-hemophilic serum, medications with plasma and human blood, and products that may be harmful to the environment such as CFC and airplanes.

Importers must seek clearance prior to customs clearance if they want to bring in products imported under the drawback regime or items destined for the free trade zones or the National Council for Scientific and Technological Development.

Import Documentation for Health/Pharmaceuticals

Any product that comes in contact with the human body is controlled by the Ministry of Health, including pharmaceuticals, vitamins, cosmetics and medical equipment/devices. Such products can only be imported and sold in Brazil if the foreign company establishes a local Brazilian manufacturing unit or local office, or the foreign company appoints a Brazilian distributor who is authorized by the Brazilian authorities to import and distribute medical products. Such products must be registered with the Brazilian Ministry of Health.

Export Controls

At this time, the US Government maintains no export controls specific to Brazil. Normal controls are maintained on military equipment, high-tech information systems, and equipment of a highly sensitive nature. Items on the Munitions Control list are also a controlled export to Brazil requiring a special license from the State Department or Commerce Department depending on the item. You can see the current list of export controls at the US Bureau of Industry and Security (BIS) website: www.bis.doc.gov.

Temporary Imports – Taxes Reduced

Since 2000, the Government of Brazil has made an allowance for temporary importation of products that are used for a predetermined time period and then re-exported. The U.S. Commercial Service has seen a number of delays in regards to temporary imports, and continues to work through the “U.S. – Brazil Commercial Dialogue” to counter these problems.

Under Brazil’s temporary import program, the II and IPI are used to determine the temporary import tax. Products must be used in the manufacture of other goods and involves payment of rental or lease from the local importer to the international exporter. Examples of products falling under this program would be temporary importation of machine tools. The example above shows that taxes due are proportional to the time frame the imported product will remain in Brazil.

Permanent and Temporary Tax Example

CIF Price of Machine Tool	\$200,000
II of 10% on CIF	\$20,000
IPI of 5% x (CIF plus II)	\$11,000
Taxes that would be owed if importation were permanent	\$31,000
Total life span of machine tool	60 months
Time machine tool will stay in Brazil	12 months
Tax for temporary importation	\$6,200
Value=31,000 x [1-(60-12)/60]	
(20% of tax is owed as tool will stay in Brazil 1/5 of its useful life)	

Labeling and Marking Requirements

The Brazilian Customer Protection code, in effect since September 12, 1990, requires that product labeling provide the consumer with correct, clear, precise, and easily readable information about the product's quality, quantity, composition, price, guarantee, shelf life, origin, and risks to the consumer's health and safety. Imported products should bear a Portuguese translation of this information. Products should be labeled in metric units or show a metric equivalent. The labeling requirement for genetically modified organism (GMO) must follow the same procedures as mentioned above, although GMO is currently being debated in Brazil.

The US Senate Concurrent Resolution n° 40 adopted July 30, 1953, invited US exporters to inscribe, on external shipping containers in indelible print of a suitable size, "United States of America". Although such marking is not compulsory under law, US shippers are urged to follow this procedure in publicizing American-made goods.

More information can be found regarding required and recommended labeling and marking in the USCS Brazil's report on standards.

Prohibited Imports

The Brazilian Government has eliminated most import prohibitions. However, it places special controls on certain imports and does continue to prohibit the importation of others. In general, all used consumer goods are prohibited from being imported. Used capital goods are allowed only when there is no similar item produced locally. There is also specific legislation that prohibits the importation of products that the Brazilian regulatory agencies consider harmful to health, sanity, national security interest, and the environment.

Manaus Free Trade Zone

Imports of used machinery and equipment to the Manaus Free Trade Zone (FTZ) are subject to more liberal treatment than the general Brazil economy. While there are 7 other FTZs established in Brazil, the Manaus installation is the only one of consequence for most US exporters. Originally established in 1967, the Manaus FTZ recently had its protections extended to 2013. The FTZ covers a 3,900 square mile region that includes the city of Manaus on the Amazon River.

Manaus's FTZ status means that goods of foreign origin may enter without customs duties charges or other Federal, State or local import taxes. In addition, IPI taxes on certain commodities and ICMS taxes on most items are not applied. With very few exceptions, imported products to be used for processing, re-exportation, or transshipment to other parts of Brazil qualify for IPI tax exemptions. If items are shipped to other parts of Brazil, the ICMS still applies, however.

The Superintendent of the Manaus Free Trade Zone (SUFRAMA) is the Manaus FTZ authority. Commercial invoices and bills of lading must have a letterhead mentioning "Free Zone of Manaus" that must be typed on them, and one of the following statements: "Zona Franca de Manaus para Consumo" (Manaus Free Zone for Consumption) or "Zona Franca de Manaus para Reexportação" (Manaus Free Zone for Re-export). As noted in the Import Licensing section of this report, importers must still obtain licenses through SISCOMEX.

Manaus FTZ importers are allowed to supply foreign goods from their stock in Manaus to other parts of the country regardless of quantity. These goods, however, are subjected to all duties assessed under normal importation. On the other hand, there is the advantage that the ICMS is reduced to only 4 percent.

Manaus's very success in using a liberal tax regime to attract industry makes it a political target for other states, particularly in the southeast of Brazil, who feel at a competitive disadvantage. There has been considerable pressure on the Government of Brazil to water down Manaus's tax advantages, and US companies considering investments in this region are following developments carefully.

Detailed information on the Manaus FTZ can be obtained at SUFRAMA's website: www.suframa.gov.br.

Other Attempts at Fiscal Paradises

As noted, the seven other FTZs have not succeeded in attracting investments on the scale of Manaus, which was a strategic outpost for 19th century rubber exports from the Amazon. In addition, 19 export processing zones (ZPEs) have been authorized, but are not in operation. Finally, various states have attempted to use creative applications of the ICMS in order to attract investment.

We recommend that US companies exercise caution with ICMS promises. The Government of Brazil has launched legislation that would harmonize the ICMS in order to reduce interstate competition for investment, and it is not clear how states' longterm promises would be treated under a change in federal legislation in this area.

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Standards in Brazil

Brazil's efforts to establish uniform measurements and standards began as early as 1862, when the French decimal metric system became official. With industrial growth during the following century came the necessity to create more efficient measuring instruments for consumer protection. As a result, in 1961 the National Institute of Weights and Measures (INPM) was created.

In 1973, industrial production reached a level that new avenues were opened for manufactured good exports. With a focus on exports, Brazil needed to adopt qualitative and quantitative methods comparable to those in other industrialized countries. Thus, in 1973, the National Institute of Metrology, Standardization and Industrial Quality (INMETRO) was born with the objective to improve the quality of life of all citizens and the competitiveness of all industry through the use of metrology and improved quality.

Organization of Standards Bodies in Brazil

In 1973, Brazilian Federal law established a National System of Metrology, Standardization and Industrial Quality, SINMETRO, which is comprised of CONMETRO, INMETRO, ABNT, IPEM and accredited labs. INMETRO serves as the executive chair of SINMETRO.

Standards and Technical Regulations

Under SINMETRO, the development of voluntary standards is the responsibility of the Brazilian Association of Technical Standards (ABNT). ABNT is a private, non-governmental, not-for-profit organization that develops standards across all industries in Brazil. ABNT represents the country in relevant international and regional forums and acts as a certification body. Brazilian standards are developed either through ABNT's own technical committees or through Sectoral Standardization Bodies (ONS), which it accredits. ABNT annually publishes a National Standardization Plan, containing all of the titles it plans to develop throughout the year. It can only be accessed by a member of ABNT or by contacting the corresponding Brazilian Committee (ABNT/CB): www.abnt.org.br/normal_comite.htm. Membership in ABNT and its committees and working groups, which develop standards, is open to ANY company or individual legally registered in Brazil. Proposed

voluntary standards that are open for public comments can be accessed through: www.abnt.org.br/normal_consulpub.htm.

Voluntary standards can be adopted as mandatory technical regulations by any of the 9 Ministries. Alternatively, these Ministries may develop their own technical regulations. Brazil's technical regulations are available through INMETRO's website. This website also provides access to both proposed and final technical regulations: www.inmetro.gov.br/rtac/.

Brazil is a signatory of the Agreement on Technical Barriers to Trade (TBT) of the World Trade Organization (WTO), affirming its obligations relative to standards, technical regulations, and conformity assessment procedures. Under the agreement, INMETRO was established as the national inquiry point for information on standards-related issues. Additional information about technical barriers to trade and a formal system for inquiries is available through INMETRO at www.inmetro.gov.br/barreirastecnicas/index.asp.

Standards: First Analog, now Digital TV

Brazil is considered a standards developer, and its decisions regarding standards often influence its neighbors' decisions. An example of Brazil's activity regarding standards can be seen in its recent efforts regarding the selection of its digital television (DTV) standard. While a number of countries in the Western Hemisphere are adopting the US standard (ATSC), Brazil studied the various options and considered the outright adoption of one of the three existing DTV standards (U.S., European, Japanese), or, the development of its own Digital TV technical regulation. In June 2006, Brazil announced that the Japanese standard modulation (Integrated Services Digital Broadcasting Terrestrial - ISDB-T) would be the standard for Brazil's Digital TV (SBTVD). Video and audio compression systems are still being evaluated but it has been suggested that SBTVD will adopt MPEG-4. Under the current plan, Brazilian TV stations are to start their SBTVD rollout by December 2007 and the shutdown of Analog TV is expected to take place by 2017.

Conformity Assessment

Conformity assessment includes all activities needed to demonstrate compliance with specified requirements relating to a technical regulation or voluntary standard. In Brazil, the conformity assessment system follows ISO guidelines. Conformity assessment includes test and calibration laboratories, product certification bodies, accreditation bodies, inspection and verification units, quality system registrars, and others. Conformity assessment can be voluntary or mandatory (done through a legal instrument to protect the consumer on issues related to life, health and environment). Interested U.S. parties can be accredited by INMETRO to perform conformity assessment activities.

Test and Calibration Laboratories

INMETRO accredits test and calibration laboratories authorized to operate in Brazil. The following link provides information on Brazil's accredited calibration laboratories: www.inmetro.gov.br/laboratorios/rbc/. One can search for accredited test laboratories at the following website: <http://www.inmetro.gov.br/laboratorios/rble/>.

Product Certification

Mandatory Testing and Mandatory Product Certification

For regulated products, the relevant government agency generally requires that entities engaged in product testing and mandatory certification be accredited by INMETRO. Generally, testing must be performed in-country, unless the necessary capability does not exist in Brazil.

INMETRO is a signatory to the mutual recognition arrangement (MRA) of the International Laboratory Accreditation Cooperation (ILAC), which can facilitate acceptance of test results from US laboratories that are accredited by US organizations who are also signatories. For a complete list of MRAs to which INMETRO belongs, visit the following website: <http://www.inmetro.gov.br/english/international/mutual.asp>. A complete list of products subject to mandatory certification can be found at: www.inmetro.gov.br/qualidade/prodCompulsorios.asp.

Non-Mandatory Testing and Product Certification

There is no legal mandate as of yet to retest non-regulated products that have been approved in their country of origin. For non-regulated products, some US marks and product certification may be accepted. As with all voluntary standards, any certification that may be required in non-regulated sectors is a contractual matter to be decided between buyer and seller. Market forces and preferences often lead to the need for a specific certification.

To facilitate US product acceptance in Brazil by recognizing existing certifications, agreements between US and local certifiers/testing houses are encouraged. Also, there is no impediment for the establishment of US certification organizations in Brazil.

If your product has been certified in the US or Europe, it probably will not need to be re-certified (see MRA above). If your product is not certified, please refer to the mandatory product certification link.

A list of certified products (both mandatory and voluntary) in Brazil is available at the following website: www.inmetro.gov.br/prodcert/Produtos/busca.asp

Accreditation and Quality System Registration

The General Coordination for Accreditation (CGCRE) of INMETRO is responsible for accrediting certification bodies, quality system registrars, inspection bodies, product verification and training bodies, as well as testing and calibration laboratories. Information about accreditation requirements and currently accredited bodies is available at: www.inmetro.gov.br/credenciamento/index.asp.

Labeling/Marking Requirements

The Brazilian Customer Protection code, in effect since September 12, 1990, requires that product labels provide consumers with correct, clear, precise, and easily readable information about the product's quality, quantity, composition, price, guarantee, shelf life, origin, and risks to the consumer's health and safety. Imported products should bear a Portuguese translation, and all products should use the official metric units or show a metric equivalent.

The US Senate Concurrent Resolution n° 40 adopted July 30, 1953, invites US exporters to inscribe, on external shipping containers and in indelible print of a suitable size, "United States of America." Although such marking is not compulsory under law, US shippers are urged to follow this procedure in publicizing US-made goods.

Other Comments

Brazil is a member of the Mercosul trading block, which has its own regional standards organization that issues and harmonizes standards. Technical committees write and recommend standards in selected areas. Each country must ratify the standard before they are adopted in that country. A number of standards have already been adopted as Mercosul standards. Adopted and proposed Mercosul standards are listed on Mercosul's

website: www.amn.org.br. The Executive Secretariat of the Mercosul Standards Organization is located in São Paulo, Brazil.

- For more reports on standards in other countries, please visit Export.gov's site for US Commercial Service Market Research Worldwide: www.export.gov/marketresearch
- American Embassy in Brasília: www.embaixadaamericana.org.br
- ABNT - Associação Brasileira de Normas Técnicas: www.abnt.org.br
- AMN - Asociacion Mercosul de Normalizacion: www.amn.org.br
- Brazil's Ministry of Development and Commerce: www.desenvolvimento.gov.br/

For information on the WTO-TBT inquiry point, contact:

- INMETRO – Instituto Nacional de Metrologia, Normalização e Qualidade Industrial: www.inmetro.gov.br

For information in the U.S., contact:

- National Center for Standards and Certification Information (NCSCI), National Institute of Standards and Technology (NIST): www.nist.gov/ncsci
- American National Standards Institute (ANSI): www.ansi.org

Information resources on labeling:

IPEM – Institute of Weights and Measures: www.ipem.sp.gov.br

CVS – Center for Sanitation Vigilance: www.cvs.saude.sp.gov.br

Resources

USCS Brazil's reports on Top Prospects for US exporters: www.focusbrazil.org.br/ccg

USCS Brazil's Guide to Marketing Services: www.buyusa.gov/brazil.

US Trade Information Center (TIC) for tariff information: www.ita.doc.gov/td/tic/tariff/.

US Trade Representative's Office for information on FTAA and trade disputes:

www.ustr.gov/Trade_Agreements/Regional/FTAA/Section_Index.html.

Government of Brazil's customs site: www.receita.fazenda.gov.br/Grupo1/Aduana.asp

Government of Brazil's SISCOMEX customs site:

<http://www.receita.fazenda.gov.br/aduana/siscomex/siscomex.htm>

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Chapter 6: Investment Climate

Brazil is open to and encourages foreign investment. The Brazilian Congress approved constitutional amendments in 1995 to eliminate the distinction between foreign and national capital. Foreign investors have been permitted to invest in the Brazilian stock market since 1991; new rules, which liberalized considerably foreign investment in equities and put foreign investors essentially on an equal footing with Brazilians, took effect in 2000. The 1962 Foreign Capital law and subsequent amendments govern most foreign investment. During the high point of the privatization program, Brazil was the second largest destination for foreign investment among emerging markets, with a peak inflow of \$32.8 billion in 2000; the country remains a leading investment destination.

Constitutional amendments passed in 1995 opened formerly closed sectors, such as petroleum, telecommunications, mining, power generation, and internal transport to foreign investors. In 2002, Congress approved a constitutional amendment permitting foreign investors to own up to 30% of media companies. Restrictions remain on foreign investment in a limited number of sectors: nuclear energy, health services, media, rural property, fishing, mail and telegraph, aviation and aerospace. Law 10,610 (2002) limits foreign ownership in media outlets to 30 percent, including the print and "open broadcast" (non-cable) television sectors. Brazil's legislature is considering extension of this restriction to cover Internet Service Providers, pay TV channels and operators, and content producers and distributors; such a change would pose a serious threat to a number of U.S. companies operating in Brazil as content producers/distributors.

New or expanded foreign investment in the banking sector is technically forbidden by the Constitution of 1988. However, since 1995 entry or expansion has been approved on a case-by-case basis; the vast majority of requests for entry or expansion have been granted. Foreign banks currently account for 35.84% of the net worth of the banking system and 24.56% of total banking system assets. Since 1996, the insurance sector has been open to foreign investors, and most major US firms are already represented, mainly via joint venture arrangements. The Brazilian Congress passed legislation in December 2006 which dismantled the monopoly on the reinsurance business that had previously belonged to the government-owned Brazil Reinsurance Institute (IRB). President Lula is expected to sign the bill into law.

In 1991, Brazil embarked on the world's largest privatization drive, selling off more than US\$ 100 billion worth of assets. Through 2005, Brazil had realized \$88.03 billion in sales revenue and another \$18.1 billion in debt transfer as a result of the national privatization program. Foreign investment accounted for about \$42 billion, or 48% of the total. One third of the foreign investment was from the U.S. (\$14 billion). With the exception of the power-generation sector, in which the majority of power generation capacity remains in government hands, most of the largest state enterprises have been sold in whole or in part. Privatization activity has slowed substantially since 2001; in 2002, it totaled only US\$ 2 billion; in 2003 there were no privatizations. The Lula administration has carried out three privatizations, the 2004 sale of the State Bank of Maranhao for US\$ 26.6 million, the December 2005 privatization of the State Bank of Ceara for US\$ 302 million and the 2006 privatization of Paulista Electric Energy Transmission Company for US\$ 230 million. In December 2004, the Congress approved and the President signed a Public-Private Partnership (PPP) investment law that promotes joint ventures in otherwise marginally profitable infrastructure investments. The federal government has yet to put out the first such projects for public bids, but some state governments are close to launching state-level PPP projects.

In December 2004 and April 2005, Brazil conducted its first auctions of long term energy supply contracts under a new energy regulatory framework advanced by the Lula administration. Under the new model the federal government now plays a more central role in establishing energy demand forecasts and energy prices. Although a central goal of the new model is to attract private investment in power generation, several investors that bought energy assets during the now-halted energy sector privatization were disadvantaged by the transition to the new regulatory system. Analysts, companies and investors also have expressed concern that the more centralized government role and low auction prices will inhibit private investments. A majority of power generation capacity remains in public hands.

During the early 1990s, foreign direct investment (FDI) was a crucial source of financing for Brazil's balance of payments. Dramatic growth in Brazil's exports has produced trade surpluses since 2001 and current account surpluses since 2003 have dramatically reduced the importance of FDI as a source of external financing. Moreover, the winding down of the privatization program has seen FDI fall from a 2000 peak of \$30 billion to a

low of \$10.1 billion in 2003. FDI inflows have since picked up, increasing to \$18.2 billion in 2004 and an estimated \$15 billion in 2005. For 2006, FDI is estimated to be about \$18 billion. 2006 also marked the first time that Brazilian investments overseas, estimated at \$26 billion for the year, exceeded inflows of FDI.

Brazil has undertaken a significant reduction in trade barriers in recent years. In 2006, Brazil's average Normal Trade Relations (NTR) tariff was 11.0%, versus 32% percent in 1990, according to the Foreign Trade Secretariat of the Ministry of Development, Industry and Foreign Trade.

Foreign investors may own real estate, but purchase of land along the borders by foreigners requires specific authorization.

Conversion and Transfer Policies

In 2005 the Central Bank introduced a new administrative regime for foreign currency transactions. The new regulations unified the foreign exchange market and removed many restrictions associated with remittances overseas, for example, removing a requirement for prior Central Bank approval for contracting loans in another country. The Central Bank maintained reporting requirements on all foreign exchange transactions. In a related effort, the Central Bank is working to streamline the regulatory regime for foreign investment transactions in Brazil.

There has been a relaxation since 1991 of the restrictions on the remittances of royalty payments for patent and trademark use between subsidiaries established in Brazil and the parent office headquartered overseas and on remittances of franchise contract royalties. A 1992 INPI resolution simplified procedures and, in particular, eliminated a number of requirements (but not all) concerning technology transfer agreements. No royalties or other fees may be transferred between related companies for the use of software.

There are few restrictions on converting or transferring funds associated with an investment. Foreign investors may freely convert Brazilian currency in the unified foreign exchange market wherein buy-sell rates are determined by market forces. All foreign exchange transactions, including identifying data, must be reported to the Central Bank. Foreign-exchange transactions on the current account have been fully liberalized in practice.

Foreigners investing in Brazil must register their investment with the Central Bank within 30 days of the inflow of resources to Brazil. Registration is done electronically. Investments involving royalties and technology transfer must be registered with the patent office (INPI) as well. Investors must have a representative in Brazil and register with the Brazilian securities commission (CVM). Subsequent transactions, such as reinvestment of profits, may also have to be registered with the Central Bank.

Foreign investors, upon registering their investment with the Central Bank, are able to remit dividends, capital (including capital gains), and, if applicable, royalties. Remittances must also be registered with the Central Bank. Dividends cannot exceed corporate profits. The remittance transaction may be carried out at any bank by documenting the source of the transaction (evidence of profit or sale of assets) and showing that applicable taxes have been paid.

Foreign loans obtained abroad no longer require advance approval by the Central Bank, provided the recipient is not a government entity (loans to government entities still require prior approval from Central Bank as well as the Finance Ministry Treasury Secretariat). Upon concluding the transaction, the loan must be registered electronically with the Central Bank. In most instances, the registration is completed automatically. Automatic registration is not issued when the costs of the operation are "not compatible with normal market conditions and

practices.” In such instances, the loan is reviewed by the Central Bank; if the Central Bank does not respond within five working days, the registration is considered complete.

Interest and amortization payments specified in the loan contract can be made without additional approval from the Central Bank. That also applies to early payments, if there is a provision in the contract for early payment. If the contract does not have such a provision, early payment requires prior approval by the Central Bank. According to Central Bank officials, this requirement is to ensure accurate records of Brazil’s stock of debt, and all requests have been approved since the new guidelines were issued in 2000.

In addition to payments associated with registered loans and investments, there are other approved procedures for transferring funds abroad that in practice can be used for a wide range of purposes.

Capital-gain remittances are subject to a 15 percent income withholding tax, with the exception of the capital gains and interest payments on domestically-issued Brazilian bonds, which became tax exempt in February 2006. Repatriation of an initial investment also is exempt from income tax. Beginning in 2000, lease payments were assessed a 15 percent withholding tax. Remittances related to technology transfers are not subject to the tax on credit, foreign exchange, and insurance (IOF), although they are subject to a 15% withholding tax and an extra 10% Contribution of Intervention in the Economic Domain (CIDE). Loans with terms of 90 days or less must pay the IOF (5%), while those of longer maturity do not. In 2002, Brazil eliminated the application of the financial transaction tax (CPMF), which is currently 0.38%, to stock market transactions. Foreign cable and satellite television programmers are subject to an 11 percent remittance tax; however, the tax can be avoided if the programmer invests 3 percent of its remittances in co-production of Brazilian audio-visual services.

Brazil has no double taxation treaty with the US, but does have such treaties with a number of other countries, including, among others, Japan, France, Italy, the Netherlands, Canada and Argentina.

Expropriation and Compensation

There have been no expropriatory actions in Brazil in the recent past nor any signs that the current Government is contemplating such actions. In 1999, a state government sought and obtained a court ruling canceling contractual obligations, signed by the prior state government, associated with the partial privatization of a state electricity company. The U.S. investors are appealing the court ruling. In 2003, a newly inaugurated government in another state refused to honor a number of contracts the previous state government had signed with a range of Brazilian and foreign investors; the parties involved continue to negotiate these contract disputes and have had recourse to local courts. Some claims regarding land expropriations by state agencies many years ago have been judged by courts in US citizens' favor. There remain individuals who have not yet been compensated because the states have appealed these decisions.

Dispute Settlement

Brazil is not a member of the International Center for the Settlement of Investment Disputes (ICSID - also known as the Washington Convention), but it is a party to the New York Convention of 1958 on the recognition and enforcement of foreign arbitration awards. In August 1995, Brazil ratified the 1975 Interamerican Convention on International Commercial Arbitration, as well as the 1979 Interamerican Convention on Extraterritorial Validity of Foreign Judgments and Arbitral Awards.

Arbitration clauses in contracts are not automatically enforceable. Foreign arbitral awards require confirmation by a court of the country in which the award was rendered and by the Brazilian Supreme Court. This confirmation is procedural in nature, and not meant to consider the merits of the case. Confirmation by the Supreme Court allows the claimant to enforce the arbitral award through Brazilian courts. The Supreme Court

has confirmed foreign arbitral awards between two private parties in multiple cases. Some companies opt for domestic arbitration as an alternative.

There is some legal controversy in Brazil over binding foreign arbitration between foreign investors and state entities. Some Brazilian legal interpretations claim this is prohibited under Brazilian law on the grounds that it infringes the sovereign rights of the state. The Federal Government nevertheless maintains, in the absence of a definitive judicial ruling on the issue, that it can agree to binding foreign arbitration and routinely enters into contracts that allow for such arbitration.

This legal uncertainty, as well as congressional politics, has held up ratification of Bilateral Investment Agreements that Brazil has signed with fourteen countries (not including the U.S.), which call for arbitration by either ICSID or a panel set up under the United Nations Rules for International Commercial Law. Given the doubts about the applicability under Brazilian law of these international arbitration provisions to Brazilian government entities, the government in December 2003 withdrew the agreements from consideration for Senate ratification.

Brazil has a functional commercial code that governs most aspects of commercial association, except for corporations formed for the provision of professional services, which are governed by the civil code. In December 2004, Congress approved an overhaul of the bankruptcy code. The reforms create a system, modeled on Chapter 11 of the U.S. bankruptcy code, which allows a company in financial straits to negotiate a restructuring with its creditors outside of the courts. In the event a company does fail despite restructuring efforts, the reforms give creditors a better chance at recovering their debts. An overburdened court system is available for enforcing property rights but decisions can take years. Judicial reform measures enacted in December 2004 streamline administrative procedures, and, by introducing the concept of binding precedent, should, over time, make judicial decisions more predictable.

Performance Requirements and Incentives

Geographic preferences consist of tax benefits for investment in less developed parts of the country, such as the Northeast and the Amazon, with equal application to foreign and domestic investors. These benefits have succeeded in attracting some major foreign plants to, for example, the Manaus Free Trade Zone, but most foreign investment remains concentrated in the more industrialized southern part of Brazil. Individual states have sought to attract investment by offering ad hoc tax benefits and infrastructure support to specific companies, negotiated on a case by case basis. Some municipalities provide land on favorable terms for industrial development.

In firms employing three or more persons, Brazilian nationals must constitute at least two-thirds of all employees and receive at least two-thirds of total payroll. Foreign specialists in fields where Brazilians are unavailable are not counted in calculating the one-third permitted for non-Brazilians.

On November 21, 2005, Brazil's President signed law 11,196 which provides tax benefits to qualifying exporters. The law's Special Regime for the Information Technology Exportation Platform (REPES) suspends PIS/PASEP and COFINS taxes on goods and services imported by companies which commit to export software and IT services to the extent that those exports account for over 80 percent of annual gross income. The MP's Special Regime for the Acquisition of Capital Goods by Exporting Enterprises (RECAP) suspends these same taxes on new machines, instruments and equipment imported by companies which commit for a period of at least three years to exports goods and services such that they account for at least 80 percent of overall gross income. The government also has a series of smaller programs designed to assist small and medium sized businesses to export.

The Special Agency for Industrial Financing (FINAME) of the National Bank for Economic and Social Development (BNDES) provides financing for purchases by Brazilian firms of Brazilian-made machinery and equipment -- capital goods with a high level of domestic content.

Right to Private Ownership and Establishment

Foreign and domestic private entities may establish, own, and dispose of business enterprises.

Protection of Intellectual Property Rights (IPR)

Brazil is a signatory to the GATT Uruguay Round Accords, including the Trade Related Aspects of Intellectual Property (TRIPS) Agreement, signed in April 1994. Brazil is a member of the World Intellectual Property Organization (WIPO) and a signatory of the Bern Convention on artistic property, the Washington Patent Cooperation Treaty, and the Paris Convention on Protection of Intellectual Property. In August 1992, Brazil removed its reservations and fully accepted the Stockholm revision of the Paris Convention. Brazil has not yet ratified the WIPO Treaties on Copyright and Performances and Phonograms. As a result of problems regarding protection of intellectual property rights, principally in enforcement, Brazil was retained on the Special 301 priority watch list in the 2006 review.

Patents

In most respects, Brazil's 1996 Industrial Property law brings its patent and trademark regime up to the international standards specified in the TRIPS Agreement. However, the law includes local working requirements which may be TRIPS-inconsistent. The law would theoretically permit the grant of a compulsory license if a patent owner has failed to "work" (i.e. locally manufacture) the patented invention in Brazil within three years of issuance. Invoking TRIPS provisions, Brazil has at times threatened to issue compulsory licenses for anti-retroviral drugs used in treating HIV/AIDS if satisfactory supply agreements, including a reduction in prices, could not be reached with patent-holders; to date Brazil has not issued such a license. Negotiations were successfully completed with two U.S. pharmaceutical companies in 2005 and are on on-going with one other.

Trademarks

The fraudulent use of internationally "famous" marks has been a problem in Brazil. However, the Industrial Property Law has provided improvements in Brazil's trademark regime, including better protection for internationally known trademarks. Some foreign firms have been successful in court actions against trademark infringement. Trademark licensing agreements must be registered with the National Institute of Industrial Property (INPI) to be enforceable; however, the failure to register licensing agreements will no longer result in cancellation of trademark registration for non-use.

Copyrights

Brazil's copyright law generally conforms to world-class standards. Likewise, its software copyright protection law contains provisions that introduce a rental right and an increase in the term of protection to 50 years. Despite passage of these copyright laws in 1998, widespread piracy of copyright and trademark material remains a problem. The US private sector estimates that trade losses from copyright infringements (including from piracy of videocassettes sound recordings and musical compositions, books and computer software) were \$960 million in 2004. Nonetheless, given progress on enforcement in 2005, the U.S. Government in January 2006 announced that it would maintain Brazil's trade benefits under the Generalized System of Preferences after a review prompted by a 2000 petition from the International Intellectual Property Rights Association.

The Brazilian Congress passed a law in July 2003 that increased minimum prison sentences for copyright violations and established procedures for making arrests and destroying confiscated products. However, the heftier sentences have not acted as effective deterrents due to the continued ability of judges to commute many of the prison terms to fines. A much-publicized Special Congressional Inquiry into IPR piracy completed its report in June 2004, amidst considerable sensation after a reputed piracy kingpin was arrested on charges of trying to bribe the chairman of the inquiry commission. In November 2004, the government created a high-level, inter-ministerial, National Council to Combat Piracy and Intellectual Property Crimes. In 2005, the Council developed and has begun implementing a national plan for combating piracy and smuggling.

Integrated Circuit Layout Designs

A government-drafted bill to provide protection for the layout design of integrated circuits (computer mask works) was introduced in the Brazilian Congress in April 1996. In 2004 the administration asked that the Congress give the bill greater priority as part of a package of measures to stimulate innovation and local production of electronics. The draft law has made it through several Congressional committees but was still under discussion in the Constitution and Justice Committee in 2006.

Transparency of the Regulatory System

Although some improvements have been made, the Brazilian legal and procedural system is complex and overburdened. State courts in particular can be subject to political influence. The central government has historically exercised considerable control over private business through extensive and frequently changing regulations. The bureaucracy has broad discretionary authority.

Taxes are numerous and burdensome, but do not discriminate between foreign and domestic firms, although in a few instances there have been complaints that the value-added tax collected by individual states (ICMS) is set to favor local companies. Taxes on commercial and financial transactions are particularly burdensome, and businesses complain that these taxes hinder international competitiveness of Brazilian products. Brazil has separate value-added tax systems run by the federal government and individual state governments. The administration has made some recent efforts at tax reform, including the conversion of invoice taxes to VATs at the federal level in 2003 and 2004. A 2004 measure reduces taxes paid on long term investments. A measure to simplify and harmonize the state-level VATs (which vary from state to state and product by product) was proposed but did not pass in 2003.

Regulatory agencies for sectors such as telecommunications, energy and transportation are a relatively young phenomenon in Brazil. ANATEL, the country's telecommunication agency, handles licensing and assigns bandwidth. The National Petroleum Agency (ANP) has been commended by the industry for its fair handling of auctions of oil exploration blocks and its willingness to assist industry in seeking to simplify regulatory procedures such as environmental licensing. Conversely, in the electric power sector, some companies have complained about the high level of regulatory risk, for example the tariff review process and the implementation of the Brazil's new energy model. The federal government in 2003 passed legislation setting fixed three-year terms for directors of the regulatory agencies. Congress passed legislation in 2005 to create a civilian air transport industry regulator (ANAC). The new agency began functioning in 2006, exercising regulatory functions previously the responsibility of a directorate overseen by the Brazilian Air Force. Separate legislation to further clarify the roles and responsibilities of the regulatory agencies and consolidate the multiple laws currently governing each separate regulator was still under consideration by the Congress at 2006. Separate legislation will refine the personnel systems of these agencies and discuss their focus and capability to work.

Efficient Capital Markets and Portfolio Investment

Banking shakeout results in improved system

The Brazilian financial sector is large and sophisticated, in part a legacy of the high inflation period when good financial management was critical to survival. Despite current moderate inflation rates, bank-lending spreads remain extremely high due to taxation, repayment risk, lack of judicial enforcement of contracts, high mandatory reserve requirements and administrative overhead. Brazilian banks have weathered a difficult period of consolidation and streamlining over the last decade. The elimination of high inflation in the mid-1990s, and with it the disappearance of so-called "float income," led to liquidity problems among many banks. A series of failures, mergers, and acquisitions took place in the late 1990's. The surviving banks have returned to profitability. Today, the financial sector is fairly concentrated, with the 10 largest institutions accounting for over 65% of financial sector assets. Acquisitions have contributed to this trend as banks seek economies of scales, including through partnerships with retail chains. Lending by the large banking institutions is focused on the largest companies, leaving small and medium-sized companies underserved.

Most government-owned banks, in particular those that were owned by state governments, have been privatized. These insolvent institutions were taken over by the federal government, liquidated, privatized, or transformed into development agencies. Three federally owned banks, the largest in the country, still play a prominent role in the financial system. These federal banks, while in better shape than their state-level counterparts, were also undercapitalized and carrying poorly performing loans, many the result of the loss-making "social" lending. These banks have, to an extent, recapitalized by selling back government bonds. Extraordinary bank profits in 2002 - 2004 also have improved the health of their balance sheets. As part of an effort to prevent the need for future recapitalizations of these federal banks, the government now requires that loss-making social lending programs by any government-owned bank be supported with an explicit government subsidy.

Dealing with the bank failures and consolidations of the last several years has led the Central Bank to strengthen bank audits, implement more stringent internal control requirements, and tighten capital adequacy rules to better reflect risk. It also established loan classification and provisioning requirements. These measures are applied to private and publicly owned banks alike. The Central Bank intervened in medium-sized Banco Santos in late 2004 after embezzlement left the institution insolvent. Banco Santos was liquidated in 2005.

Stock markets not an option for most companies

Brazilian stock exchanges serve to raise financing primarily for domestic companies, although the Sao Paulo Stock Exchange (BOVESPA) aspires to a regional role. The Brazilian subsidiaries of some U.S. companies, however, have issued shares on the BOVESPA. There were 9 Initial Public Offerings (IPOs) on the Sao Paulo Stock Exchange (BOVESPA) in 2005. For 2006, this number increased to 26 new IPOs, where the total volume of money accounted was R\$ 15,2 billion. In June 2004, Brazilian airline Gol executed an initial public share offering simultaneously on the São Paulo and New York stock exchanges. The total number of companies listed on the BOVESPA increased to 394 in 2006, as of year-end 2005 it was 382. It was 361 in June 2004, compared to 399 in 2002 and 428 in 2001. Total turnover was about \$673 billion in 2006. Trading is highly concentrated, with the top 10 stocks accounting for over 44.6 percent of turnover. As of 2006, some 34 Brazilian firms, including Petrobras, Embraer, Banco Itau, CVRD, Brasil Telecom and Ambev, are also listed on the NYSE via American Depository Receipts (ADR's). The top 10 stocks accounts in Bovespa for 2006 were Petrobrás, Vale do Rio Doce, Bradesco, Usiminas, Telemar, Itau, Gerdau, CSN, CEMIG and Unibanco, been Usiminas the only company of those not listed in the NYSE.

In 2000, with the intent of promoting the stock market and improving liquidity, the numerous regional stock markets agreed to consolidate. All stock trading is now done on the São Paulo stock market, while trading of public securities is conducted on the Rio de Janeiro market. The São Paulo stock market also launched a "New

Market,” in which the listed companies would comply with strict corporate governance requirements. As of 2005, the new market had 18 listed companies, down from 31 in June 2004.

Until recently, up to two-thirds of a corporation's capital could be preferred (non-voting) shares, so that it was possible to achieve majority control of voting shares, in some cases, by holding only 17 percent of total capital. In 2001, the Congress approved a law that limits preferred shares for new issuances to 50 percent. The same proposal strengthens rights for minority shareholders.

The Brazilian Securities Exchange Commission (CVM) directly regulates the stock exchanges, brokers, distributors, pension funds, mutual funds, and leasing companies. In 2001, new legislation granted the CVM independence and established stronger penalties against insider trading.

In January 2000, Brazilian regulators removed a number of remaining restrictions on foreign portfolio investment. As a result, foreign investors – both institutions and individuals – can directly invest in equities, securities and derivatives. The foreign investors are required to trade derivatives and stocks of publicly held companies on established markets. As of 2005, foreign investors accounted for 37.1% of the total turnover on the BOVESPA. Domestic institutional investors were the second most active category of market participants, accounting for 28.95% of BOVESPA transactions.

Export credit availability

BNDES, the government national development bank, is the primary Brazilian source of longer-term credit, and also provides export credits. FINAME (Special Agency for Industrial Financing) provides foreign and domestic companies operating in Brazil financing for the manufacturing and marketing of capital goods. FINAMEX (Export Financing) is a part of FINAME, which finances capital good exports for both foreign and domestic companies. An export credit program for capital and some consumer durable goods, known as PROEX, was established in 1991. PROEX receives funds from the National Treasury to offer assistance in the areas of interest rate equalization, capital and other goods exports, and service exports.

Other issues: accounting and mergers

Wholly owned subsidiaries of multinational accounting firms, including the major US firms, are present in Brazil. The failure of major banks and large businesses during 1995, notwithstanding positive financial statements prepared by the major accounting firms, raised doubts about the credibility of these financial statements. Beginning in 1996, auditors have been personally liable for the accuracy of accounting statements prepared for banks.

Brazilian law recognizes mergers, in which one company loses its separate identity by being merged into another, and consolidations, in which the pre-existing companies are extinguished and a new entity emerges. The procedures for both are essentially the same. Sales of Brazilian companies usually result from private negotiations, rather than stock exchange activities. Acquisitions resulting in market concentration in excess of 20 percent are subject to review by the Administrative Council for Economic Defense (CADE) under Brazil's 1994 Anti-trust Law.

Political Violence (As it May Affect Investments)

Brazil's major urban centers suffer from significant drug trafficking-related and organized crime-related violence. Poverty, gangs, drugs and a lack of government resources have combined to erode state authority in some urban slums (favelas). There have been episodes of drug-related violence prompting major police crackdowns, particularly in Rio de Janeiro and São Paulo. Police have been implicated in significant human rights violations, including extra-judicial killings, abuse of prisoners, and other criminal activity. Since mid-

2003 the Landless Workers' Movement (MST) has continued its aggressive invasions of a variety of agricultural interests, both domestic and foreign, in its campaign to force redistribution of land. In rural areas, powerful landowners, sometimes aided by police or private security agents, have used violence to settle land disputes, including but not limited to those with the MST or indigenous peoples, and to influence the local judiciary.

Corruption

Corruption can be an obstacle to investment in Brazil. In general terms, businesses find corruption an obstacle in government procurement and at some levels of the judiciary. In 2006 the Government of Brazil (GoB) continued investigations into a series of corruption scandals of unusual scope that emerged in 2005. Parallel investigations by Brazilian congressional committees and law enforcement authorities revealed illicit financing by several political parties of their 2002 presidential campaigns and a related scheme involving vote-buying in Congress by elements within the ruling party and the executive branch, financed by kickbacks on contracts. A separate high-profile corruption case involving multiple members of Congress involved inflated billing for ambulances purchased with public funds. Brazil is a signatory to the Organization for Economic Cooperation and Development (OECD) Anti-Bribery Convention. While federal government authorities generally investigate allegations of corruption, there are inconsistencies in the level of enforcement among individual states. In some cases, primarily in states in the Amazon basin, corrupt local and judicial officials have facilitated land-grabbing using fraudulent titles.

Bilateral Investment Agreements (BITs)

Brazil has signed Bilateral Investment Agreements (BITs) with fourteen countries. There are two Mercosul investment-related agreements: the Buenos Aires Protocol ("extra-bloc") and the Colonia Protocol ("intra-bloc"); the latter has not been signed by Brazil. Seven of the bilateral investment treaties have been sent to the Brazilian Congress, but have not been ratified. All of these treaties pending ratification were withdrawn from Senate consideration by the Executive in late 2003. The Executive cited the need for further review of the treaties so as to avoid potential juridical conflicts. At issue are the international arbitration clauses of these treaties, which may not be binding on Brazilian government agencies under Brazilian law. The U.S. signed an Investment Warranty Treaty with Brazil in 1965 (OPIC). The U.S. and Brazil currently have no plans to discuss a BIT.

OPIC and Other Investment Insurance Programs

Programs of the Overseas Private Investment Corporation (OPIC) are fully available, and activity has increased in recent years. The size of OPIC's exposure in Brazil may occasionally limit its capacity for new coverage. For more information on OPIC, please go to <http://www.opic.gov/>. Brazil became a member of the Multilateral Investment Guarantee Agency in 1992.

Labor

Employer Federations Play a Significant Role

Investors should be aware that employer federations, supported by mandatory fees based on payroll size, play a significant role in both public policy and labor relations. Each state has its own federation, which reports to CNI (National Confederation of Industries), headquartered in Brasilia.

The Brazilian labor force comprises nearly 84 million workers in a wide range of occupations and industries. Nearly half of the labor force is employed in the service sector, roughly a quarter in agriculture, while the retail and manufacturing sectors combine to employ another quarter. The participation of women, who now account for over 43,9 percent of the labor force, continues to grow. The labor market has a high rate of informal sector

employment; sources estimate that approximately 39.1 percent of all workers are not formally registered, pay no income taxes, and do not enjoy full protection under the law. About a quarter of all workers are self-employed.

Unemployment – significant

The Brazilian Institute of Geography and Statistics (IBGE) calculates an average unemployment rate for the country based on data collected monthly in Brazil's six largest metropolitan areas. According to this survey, the unemployment rate in October 2006 was 9.8% and in November the number dropped to 9.5%. This average masks some significant variation, from a high of 21.6% in Salvador to a low of 7.3% in Rio de Janeiro.

Real wages halt decline, disparities significant

Real wages in 2004 halted an almost decade-long slide and began an upward trend that continued in 2005 and 2006. Real wages were up 5.7% in November 2006 over November 2005. The average monthly wage in Brazil's six largest cities was approximately 1057 Reals (approximately \$503) in November 2006, and the minimum monthly wage was raised from 260 Reals in April 2004 to 300 Reals (approximately \$130) in 2005, and 350 Reals in 2006. The minimum wage will be increased to 380 Reals in April 2007. These averages gloss over some stark wage inequalities, as the wealthiest 50% of the Brazilian population earn nearly 90 percent of total income. Earnings also vary significantly by region and industry. The typical industrial worker in São Paulo, for example, earns about three times as much as the average retail worker in the northeastern state of Bahia.

Differences in earnings are caused in part by the regional disparity in educational attainment and in the availability of skilled workers. According to a 2006 government studies, 67 percent of the population has fewer than 10 years of schooling, with this number reaching 45 percent in the Southeast (including Rio and São Paulo) and 70 percent in the Northeast (including Recife and Salvador). Illiteracy rates also exhibit regional disparities. The IBGE reports that about 18 percent of the population is illiterate, with 6 percent illiteracy in the Southeast and 15 percent in the Northeast.

Unions play a significant role

Labor unions, especially in sectors such as metalworking and banking, tend to be well-organized and aggressive in defending wages and working conditions. In more remote areas with smaller local unions, however, unions tend to be less effective. Union members account for approximately 19.04 percent of the workforce according to the last IBGE release (2005-PINAD), but unions represent more than twice this number in collective bargaining. Unions, which are funded largely by a mandatory tax equivalent to one day's wages per year, are obliged to represent all formal sector workers in a professional category and geographical area, regardless of membership status.

The Ministry of Labor estimates that there are over 16,000 labor unions in Brazil, but Ministry officials note that these figures are inexact. Local unions often associate with state federations and national confederations in their professional category. In addition, four major labor federations, known as "centrals," have emerged: the Workers' Unitary Central (CUT), the Union Force (Força Sindical – FS), the Workers' General Confederation (CGT), and the Social Democratic Union (SDS). Labor unions channel much of the political activity of the labor movement. They also organize strikes and salary campaigns involving multiple professional categories and represent workers in many governmental and tripartite councils. While some labor organizations and their leadership operate independently of the government and of political parties, others are viewed as closely associated with political parties.

Extensive regulation, slow legal system

The labor code is highly detailed and relatively generous; formal sector workers are guaranteed 30 days of annual leave, an annual bonus equal to one month's salary, and severance pay in the case of dismissal without cause. Brazil also has a system of labor courts that are charged with resolving routine cases involving unfair dismissal, working conditions, salary disputes, and other grievances. Currently, over 2.5 million cases languish in the labor court system, where they may remain unresolved for four or five years. The Brazilian government is attempting to reduce this backlog and increase the efficiency of the labor courts through recent initiatives to expedite legal procedures and increase the number of claims that are resolved before reaching the courts.

Labor courts have the power to impose an agreement on employers and unions if negotiations break down and either side appeals to the court system. As a result, labor courts routinely are called upon to determine wages and working conditions in industries across the country. The system is tantamount to compulsory arbitration and does not encourage collective bargaining. In recent years, however, both labor and management have become more flexible and collective bargaining has assumed greater relevance. The Inter-Union Department of Socioeconomic Studies and Statistics (DIEESE) no longer collects data on the number of strikes each month. Strikes have been a frequent occurrence, however, particularly among public sector unions.

Foreign Trade Zones

The federal government has granted tax benefits for certain free trade zones. The most prominent of these is the Manaus Free Trade Zone, in Amazonas State, which has attracted significant foreign investment, including from U.S. companies. Most of these free trade zones aim to attract investment to the North and Northeast of Brazil. Most foreign investment, however, remains concentrated in the more industrialized southern part of Brazil.

Major Foreign Investors

According to the Central Bank's most recent foreign-capital census (November 2006), the US was the largest single foreign investor in Brazil followed by Netherlands, Cayman Islands, Spain, Canada and Mexico. Investment from the Cayman Islands began growing rapidly in 1995 and is thought to represent mainly repatriation of Brazilian capital entering the country as foreign investment and, to a lesser extent, investment activity by other national groups. Investment from Spain and Portugal surged beginning in 1998 due to involvement in telecom privatizations and greatly increased investment in the banking sector by Spain.

The stock of foreign direct investment in Brazil stood at \$103 billion as of December 2000, the most recent year for which detailed data is available. Of this, the US had the largest share at about \$24.5 billion (24%). Spain had 11.9% of the total (\$12.2 billion) and The Netherlands 10.7% (\$11.0 billion). Investment inflows since 2000 have amounted to about \$98 billion, exclusive of depreciation and capital repatriation. (The Central Bank is expected to publish updated investment stock figures in early 2007.)

Despite its leading position among foreign investors, as of 2006 the local operations of only two US companies - Cargill and AES - were among the top thirty domestic firms in terms of revenues. Four of the top ten importing firms were foreign: Nokia, Motorola, Bunge, and Ford Motor Co. Six of the top ten exporters -- Bunge, Volkswagen, Cargill, General Motors, Ford and Halliburton -- represented foreign investment.

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Chapter 7: Trade and Project Financing

How does Brazil's Banking System Operate?

Financial services in Brazil, including banking, leasing and insurance services, are ruled by the Brazilian Constitution, which established the National Financial System (SFN in Portuguese). This system, headed by the Ministry of Finance, is organized as follows:

Regulatory Agencies:

-National Monetary Council (CMN in Portuguese), an official body whose main functions are to: maintain control of the medium of exchange and the circulation of money; establish directives for exchange policy and dealings in gold; manage credit and the provision of guarantees; regulate the establishment, operation and control of financial institutions; protect the liquidity and solvency of financial institutions; and guide the application of resources to promote the orderly development of the country.

-Central Bank, a federal agency entrusted to implement the CMN's policies to improve and stabilize the SFN. Its functions include control of the money supply, the physical issuance of currency, the regulation and control of financial institutions, control of foreign capital flows, credit policy, managing market liquidity levels, monitoring interest and exchange rates, and maintaining savings at levels compatible with the country's needs.

-The Brazilian Securities Exchange Commission (CVM) directly regulates stock exchanges, brokers, distributors, pension funds, mutual funds and leasing companies.

-The National Council of Private Insurance (CNSP), comprised of the Ministry of Finance, the Superintendent of Private Insurance (SUSEP), the Brazilian Reinsurance Institute (IRB), the Central Bank, representatives of the Ministries of Justice and Planning, and four private insurance companies. The CNSP's responsibilities include: setting insurance policy guidelines and rules; regulating private insurance firm creation, organization, activities and supervision; establishing guidelines of insurance contracts; establishing reinsurance rules; and keeping general accounting and statistical records.

-The Superintendence of Private Insurance (SUSEP), an independent agency subject to the Ministry of Finance through the CNSP. It monitors the insurance and private pension market through the solvency index; establishes operational risk limits; supervises technical reserves; and regulates open pension funds (equivalent to the U.S. KOLC) and insurance brokers.

Classification of institutions under the National Financial System

1. Financial Institutions: Banking and Non-Banking
 - a. Banking: multiple banks; commercial banks; savings and loan banks; cooperative banks and credit cooperatives.
 - b. Non-Banking: investment banks; development banks; finance companies, saving & loan companies and mortgage companies.
2. Ancillary Institutions: security dealers and stockbrokers.
3. Other entities (not considered financial institutions but subject to CMN and Central Bank supervision): consortium management; commercial leasing companies; advancement and development agencies; investment funds and companies; savings and loan associations; small business credit companies and factoring companies.

4. Insurance and capitalization companies and private pension funds: these organizations are not considered financial institutions and are not part of the SFN, however, the CMN has the authority to regulate their investment portfolios.

With the elimination of high inflation in the mid-1990s and the disappearance of so-called "float income" due to high inflation, the banking sector entered a period of consolidation in 1995. Domestic banks began to experience liquidity problems, and 1996 and 1997 were marked by a series of failures, mergers, and acquisitions. Three of the country's ten largest banks failed and were taken over by other banks, and some 20 smaller banks were liquidated.

The public-owned federal banks are listed below:

- Banco do Brasil: finances both public and private sector projects, and is a primary lender to the agricultural sector;
- National Economic and Social Development Bank (BNDES in Portuguese): though not a commercial bank, it provides long-term financing and administers the privatization program;
- Caixa Econômica Federal: finances social programs, including housing and education, for low-income citizens. It is the principal governmental entity responsible for financing urban development and sanitation.

The number of state-level banking institutions has fallen in recent years due to the central government's financial and banking reform efforts. Three of Brazil's states still have state-owned or state-controlled banks offering public and private banking services: the states of Santa Catarina, Ceará and Piauí.

Number of banks and their origins:

According to the March 17, 2006 issue of the Brazilian edition of *Forbes Magazine*, the results obtained in 2005 by Brazilian banks place the two biggest private banks, Bradesco and Itaú, among the ten most profitable in Latin America and the United States. The profitability over net equity of Itaú (35.3%), of Bradesco (32.1%), of Banco do Brasil (26.8%), of Banespa (25.5%) and of Unibanco (24.2%) are superior to that of the 20 biggest American banks, which marginally exceed 20%.

A good part of this profitability can be attributed to the high Brazilian interest rates. For some analysts, the reduction in interest rates currently underway will cause profits to grow at a slower pace beginning this year. However, others believe that the growth rate will remain steady because the banks are finding new niche markets, and are directing more resources into operations with individual clients.

Foreign-Exchange Controls

As mentioned in the text above, the Brazilian Central Bank is a federal agency entrusted to implement the CMN's policies to improve and stabilize the SFN. Its functions include the control of foreign capital flows. See www.bcb.gov.br, or better www.bcb.gov.br/?FOREIGNCAPITALNORMS

U.S. Banks and Local Correspondent Banks

U.S. commercial and investment banks have been in Brazil since 1915. In terms of assets, BankBoston, Citibank, Banco Ford, JP Morgan & Chase and Banco GM were among the top 50 institutions in the country as of December 2005 with BankBoston and Citibank ranking 14th and 15th, respectively. The Main U.S. banks' assets were: BankBoston, US\$10 billion, Citibank, US\$9.6 billion and JP Morgan, US\$4.3 billion. One must note, though, that Banco Itaú acquired BankBoston on May 2, 2006, for US\$ 2.2 billion.

Other U.S. banks with a presence in Brazil include: American Express Bank Ltd. , Bank Audi, Bank of America – Illinois, Bank of America International of Florida, Bank of America International of Texas, Bank of America National Trust and Savings Association, Bank Ford, Bank General Motors, Bank John Deere, Bank Merrill Lynch, Bankers Trust Company, Bear Stearns & Co., Inc., Capital Bank, Cargill Bank, Caterpillar Financial, Chemical Bank, Corestates Bank N.A., Delta National Bank and Trust Company of New York, First Interstate Bank of California, First Republic Bank Dallas, N.A., GE Capital, Goldman Sachs, Harris Trust and Savings Bank, IBM (Brazil) Leasing, Manufacturers Hanover Trust Company, Mellon Bank, Merrill Lynch, Morgan Stanley, M & T Bank, Nations Bank, NCNB National Bank of North Carolina, Pinebank, Pittsburgh National Bank, Security Pacific National Bank, Texas Commerce Bank N.A., UBS Securities Inc. (São Paulo), Union Bank of California, N.A., The Bank of New York, Wachovia Bank. (Source : *Brazilian Banking Association – FEBRABAN*)

Getting Paid by your Brazilian Buyer

For in depth analysis of getting paid by your Brazilian buyer, please refer to our report, “Getting Paid by your Brazilian Buyer: Payment Terms and Financing Options to Maximize Sales While Protecting Against Nonpayment”, http://buyusainfo.net/docs/x_4677546.pdf

Financing Exports to Brazil

When exporting to Brazil, US firms should be aware that Brazilian companies will push hard for unsecured open account credit terms because the country’s high interest rates. The Selic Rate, Brazil’s equivalent to the US Federal Discount rate, was over 19% per annum through much of 2005, and was 18% at year-end. Short-term interest rates (60 to 90 days) are 20% - 60%, with an average of approximately 30%.

Selling on open account terms gives exporters an advantage when competing with firms insisting on confirmed letters of credit. Doing so, though, is very risky, particularly with new clients. Credit due diligence should always be undertaken and continue through a relationship. For information on credit due diligence, please refer to www.export.gov/finance.html or our report Getting Paid by Your Brazilian Buyer.

Export Finance & Credit Insurance Sources

Brazil has one of the most sophisticated financial systems in Latin America. All standard methods of export finance are available and used in Brazil. These include local commercial banks and subsidiaries of international banks, the US Export–Import Bank and USDA’s Credit Assistance Program. Brazilian importers have a number of options for financing imports, including the Brazilian Development Bank, FINAME and FINEP (see below). Brazil’s largest domestic commercial banks are Banco do Brasil (federally controlled), Bradesco and Itau. US banks have been in Brazil since 1915, with BankBoston and Citibank listed among the country’s top financial institutions.

Ex-Im Bank

The U.S. Export–Import Bank (Ex-Im), www.exim.gov, offers a range of loan, insurance and loan guarantee programs to facilitate US exports, authorizing US\$213 million in 2004 to support US exports to Brazil.

Financing

Ex-Im’s programs can support US exports to Brazil when the obligor is a creditworthy private sector entity. A Brazilian public sector entity may also be an end-user, obligor, or guarantor of Ex-Im guaranteed financing. However, Brazil’s Government does not accept Ex-Im’s arbitration clause, which challenges Ex-Im’s support for Brazilian public sector transactions.

Ex-Im does not require a guarantee by a private sector commercial bank on all transactions. The bank will consider applications by creditworthy enterprises with audited financial statements, a strong balance sheet and good operating/commercial records. Ex-Im requires information on proposed obligors and guarantors, including financial statements, credit references and engineering data for long-term transactions. Most of Ex-Im's recent medium-term business transactions in Brazil have been authorized under the Guarantee Program, where Ex-Im acts as a guarantor for US bank loans to Brazilian buyers or banks.

Credit Insurance

Ex-Im offers credit insurance for short- and medium-term export credit, letters of credit and lease defaults. Other Ex-Im export credits are available from the Private Export Funding Corporation (www.pefco.com), which borrows in the commercial market and re-lends for exports. Ex-Im has approved major changes in its foreign content and local cost policies, and the new flexible procedures have facilitated co-financing projects with foreign export credit agencies. More information is on Ex-Im's website, with its new Brazil page.

US Department of Agriculture (USDA)

USDA, www.usda.org.br, has a number of credit assistance programs for foreign purchasers of US agriculture, which help reduce nonpayment risk and lower interest rates.

GSM-102 Credit Guarantee: For up to three years, the US Government (USG) guarantees 98% of a letter of credit used to purchase US agricultural products.

Supplier Credit Guarantee Program (SCGP): For up to 180 days, the USG guarantees 65% of an importer's promissory note when they purchase US agricultural products.

GSM-103: For 3 – 10 years, the USG guarantees letters of credit for livestock and animal genetics.

Facilities Guarantee Program: US suppliers and Brazilian buyers are eligible for FGP, through which the Commodity Credit Corporation guarantees letters of credit for U.S. manufactured goods and services used to improve agricultural-related facilities.

BNDES, FINAME & FINEP

State owned BNDES's, www.bndes.gov.br, main credit activities are financing fixed investments, Brazilian exports, or machinery and equipment acquisition/leasing. In 2005, R\$21.6 billion (US\$ 9.8 billion) went towards infrastructure investments, 42% more than 2004.

The FINAME program (www.bndes.gov.br/linhas/finame.asp), administered by BNDES, provides loans of up to 90% of purchase cost, to a maximum of US\$7 million, to purchase new industrial equipment with no less than 60% local content. Interest rates are well below commercial rates, and loans have an amortization period of 6 months - 5 years.

FINEP, www.finep.gov.br, run by the Ministry of Science and Technology, provided US\$260 million in 2002 for new products, research centers, quality systems and joint ventures. FINEP funds are available through development banks.

Brazil Needs More Foreign Direct Investment

Brazil requires major investment in virtually all areas of its economy and infrastructure. Accordingly, there are significant opportunities for US firms seeking to expand into Brazil. Capturing project financing for foreign

direct investment (FDI) in Brazil and other countries is more complex and challenging than for domestic projects. Thus, US firms should be aware of the wide variety of available project financing tools.

Sources of Project Financing

The largest source of project finance for US firms is the commercial banking sector. Though the sector is very active, lenders are generally more interested in major or medium-sized projects of at least US\$2 million.

Other sources of project finance available to US firms, particularly for smaller projects, are the Overseas Private Investment Corporation; the US Ex-Im Bank; the Inter-American Development Bank and the World Bank.

OPIC

The U.S. government's Overseas Private Investment Corporation (OPIC), www.opic.gov, was established in 1971 as a development agency. OPIC helps US businesses invest overseas, fosters economic development in new and emerging markets, and complements the private sector in managing risks associated with foreign direct investment. Because OPIC charges market-based fees for its products, it operates on a self-sustaining basis, with no net cost to taxpayers.

Ex-Im Bank

In June 1994, the United States Government Export-Import Bank (Ex-Im), www.exim.gov, established a Project Finance Division. Ex-Im can finance all creditworthy projects that request its support. Ex-Im Bank has no minimum or maximum project size limitations and no specific country lending caps. The cost of using Ex-Im Bank financing will be directly based on the risks associated with each project and will be designed so that the bank neither makes nor loses money.

Development Banks/International Financial Institutions

The Inter-American Development Bank (IDB) and the World Bank are also involved in supporting infrastructure projects in Latin American countries.

As of November 30th, 2005 the IDB approved had 26 projects worth \$28 billion in Brazil. In 2004, the World Bank approved 24 Brazilian projects totaling US\$2.05 billion. The Bank's activities include traditional co-financing, World Bank guarantees, infrastructure funds to finance private project companies, and designing projects for future private sector participation.

Sources of Political Risk Insurance

Regardless of where project financing is sought, a significant number of lenders require that their loans be secured by publicly funded political risk insurance. Political risk insurance covers investors against the risks of expropriation, political violence and war and currency inconvertibility/non-transfer.

There are a number of public and private providers of political risk insurance. The main private political risk insurers are Chubb, American International Group (AIG), Zurich, and Lloyd's of London. Public insurers available for US firms are OPIC and the World Bank's Multilateral Investment Guarantee Agency (MIGA), www.miga.org.

OPIC has insured a number of projects in Brazil, including Anheuser Busch (US\$5 million), BankBoston Leasing (US\$44.1 million), and Citibank (7 Different Loans, primarily in telecom, totaling US\$359 million).

MIGA provides political risk insurance for new projects in developing countries with the aim of supporting economic growth and reducing poverty. MIGA has provided insurance for a number of projects in Brazil,

including a US\$90 million guarantee of medical equipment leases for MRI's, CT scanners and other medical equipment, and partial guarantees for a US\$650 million non-shareholder loan for a telecom project in São Paulo.

Project Finance Opportunities for US Lenders

There is great potential for project finance in Brazil because of a lack of public funds for infrastructure investment. The Brazilian Government's public-private partnership (PPP) was meant to help promote economic growth without adding to the Government's debt. However certain aspects of the legal framework of the Federal program still require further regulation and no Federal project has been launched. At the State level, though, the legal framework is better defined and projects are beginning. With the development of the PPP, US firms should see more opportunities appear.

Since February 1995, Brazil's Government has granted concessions to private companies for exploring activities formerly reserved for the State (electricity distribution/generation, highway repair, and port development and operation). These concessions have, and will, provide US banks with new business opportunities in Brazil. Generally, US Banks will need a Brazilian office to successfully prospect for clients, though most foreign banks handle the transaction and raise funds outside of Brazil. Citibank, Banco Bradesco, Banco Itaú and Unibanco are some of the banks in Brazil that have been involved in project finance.

Web Resources

- Export-Import Bank of the United States: <http://www.exim.gov>
- Country Limitation Schedule: http://www.exim.gov/tools/country/country_limits.html
- OPIC: <http://www.opic.gov>
- Trade and Development Agency: <http://www.tda.gov/>
- SBA's Office of International Trade: <http://www.sba.gov/oit/>
- USDA Commodity Credit Corporation: <http://www.fsa.usda.gov/ccp/default.htm>
- U.S. Agency for International Development: <http://www.usaid.gov>

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Chapter 8: Business Travel

Business Customs

While Brazil is well known largely for Carnival, one should note that its business environment is very sophisticated, and U.S. businesses should make efforts to comport themselves accordingly.

Business meetings will often start late – sometimes more than 1 hour late – and they will often run late. Traffic in São Paulo above all other Brazilian cities means that sufficient time should be scheduled for transportation.

If there is a business event such as a cocktail hour at night, it will often begin at 8 or 8:30, but most will not show up until 9:30 or later. Often there are associated events with the cocktail, such as an award ceremony, that may take an hour.

Dinner in Brazil, even during the week, usually starts at 8:30 p.m. at the very earliest. Often, one can see families arriving at a restaurant sometime after 10 p.m. On the weekends, the meals may start even later, and last well into the late night or early morning.

During a first visit to a company it is often customary to give a gift, though it is not required. Business dress is often formal, though it will depend on the type of business and position of the individual with which one is meeting.

Personal space standards in Brazil are different than the U.S., so one should not be surprised if a local contact is standing very closely while speaking, pats one on the shoulder or even hugs. In spite of the difference in personal space, it is smartest to act more formal rather than less during an initial meeting.

Travel Advisory

ALL U.S. CITIZENS TRAVELING TO BRAZIL REQUIRE A VISA. PLEASE REFER TO THE BRAZILIAN EMBASSY IN WASHINGTON, DC FOR MORE INFORMATION: www.brasilemb.org.

U.S. Department of State travel advisory on Brazil: http://travel.state.gov/travel/cis_pa_tw/cis/cis_1072.html

Language

Portuguese is Brazil's official language. English is spoken among many businesspersons, though it is often a good idea to have a translator accompany you on meetings to ensure that there are no major misunderstandings.

Currency

The Brazilian currency is the Real (R\$). Through 2006, the value of the U.S. Dollar as compared to the Real decreased to roughly US\$2.15:R\$1. Exchange rates change often, so U.S. businesses should check the currency prior to their trip to Brazil.

Health & Safety

Crime rates throughout Brazil have increased, but remain highest in the larger cities. The incidence of crime against tourists is greater in areas surrounding beaches, hotels, discotheques, bars, nightclubs, and other similar establishments that cater to visitors and is especially prevalent during Carnival (Brazilian Mardi Gras). Occasionally, crime against tourists has been violent and has led to some deaths. While the risk is greater at dusk and during evening hours, street crime can occur during both the day and night, and areas considered "safer" are not immune. Incidents of theft on city buses are frequent, and such transportation should be avoided. Several Brazilian cities have established specialized tourist police units to patrol areas frequented by tourists.

"Express kidnappings," where victims are abducted and forced to withdraw money from ATMs, are becoming frequent. At airports, hotel lobbies, bus stations and other public places there is much pick pocketing, and the theft of carry-on luggage, briefcases, and laptop computers is common (including some reports of thefts on internal flights). Travelers should "dress down" when outside and avoid carrying valuables or wearing jewelry or expensive watches. "Good Samaritan" scams are common. If a tourist looks lost or seems to be having trouble communicating, they may be victimized by a seemingly innocent and helpful bystander. Care should be taken at and around banks and internationally connected automatic teller machines that take U.S. credit or debit cards. Very poor neighborhoods known as "favelas" are found throughout Brazil. These areas are sites of uncontrolled criminal activity and are often not patrolled by police. U.S. citizens are advised to avoid these unsafe areas.

While the ability of Brazilian police to help recover stolen property is limited, it is nevertheless strongly advised to obtain a "boletim de ocorrencia" (police report) at a "delegacia" (police station) whenever any possessions are lost or stolen. This will facilitate the traveler's exit from Brazil and insurance claims.

Travelers are required to show proof of a yellow fever vaccination in their Yellow Vaccination Booklet at the port of entry in Brazil, if the traveler has visited, within the last 90 days, any of the following countries:

- Africa: Angola, Benin, Burkina Faso, Cameroon, Democratic Republic of Congo, Gabon, Gambia, Ghana, Guinea, Liberia, Nigeria, Sierra Leone, Sudan.
- South America: Bolivia, Colombia, Ecuador, French Guyana, Peru and Venezuela.

Yellow fever vaccination is advisable if the travelers' destination in Brazil includes any of the following States: Acre, Amazonas, Amapá, Federal District (Brasília), Goiás, Maranhão, Mato Grosso, Mato Grosso do Sul, Pará, Rondônia, Roraima and Tocantins.

A polio vaccination certificate is mandatory at the port of entry in Brazil for children between the ages of 3 months and 6 years.

Local Time & Business Hours

Brazil observes daylight savings from December to February. When daylight savings is in effect in the United States, i.e April to October, Brazilian time is one hour ahead. When daylight savings is in effect in Brazil, i.e November to March, Brazilian time is three hours ahead.

While office hours in Brazil are generally 8 am - 6 pm, decision-makers begin work later in the morning and stay later in the evening. The best times for calls on a Brazilian executive are between 10 am - noon, and 3 - 5 pm, although this is less the case for São Paulo where appointments are common throughout most of the day. Lunch is often two hours. While many Brazilians may speak English, they may wish to conduct business in Portuguese. The non-Portuguese speaking U.S. executive may need an interpreter on more than 50 percent of business calls. Correspondence and product literature should be in Portuguese, and English is preferred as a substitute over Spanish. Specifications and other technical data should be in the metric system.

U.S. business visitors should become accustomed to several business conditions specific to Brazil. Compared to the US, the pace of negotiation is slower and is based much more on personal contact. It is rare for important business deals to be concluded by telephone or letter. Many Brazilian executives do not react favorably to quick and infrequent visits by foreign sales representatives. They prefer a more continuous working relationship. The Brazilian buyer is also concerned with after-sales service provided by the exporter.

The slower pace of business negotiations does not mean that Brazilians are less knowledgeable in terms of industrial technology or modern business practices. In fact, one should be as prepared technically when making a call on a, São Paulo firm as on a Chicago firm. In addition, a US businessperson is encouraged to learn as much about the Brazilian economic and commercial environment as possible before doing business.

Telecommunications

Telecommunication standards in Brazil are good. Internet can easily be found in major hotels as well as Internet cafes. Within metropolitan areas the phone system is reliable and many people use cell phones.

Transportation

Brazil has numerous international and domestic airports. The country's size often means that U.S. businesses will have to fly during their time in Brazil, unless they stay in one metropolitan area. The country's taxi system runs very well, though U.S. citizens are recommended to not simply hail them on the street but rather meet one at a Taxi Stand or ask the restaurant, hotel or other establishment to call one. Public transportation is available, though in major metropolitan areas it can often be unsafe.

Visa Information

A passport and visa are required for U.S. citizens traveling to Brazil for any purpose.

There are no "airport visas," and immigration authorities will refuse entry to Brazil to anyone not possessing a valid visa.

All Brazilian visas, regardless of the length of validity, must initially be used within 90 days of the issuance date or will no longer be valid. *The U.S. Government cannot assist travelers who arrive in Brazil without proper documentation.*

The Government of Brazil has previously required fingerprints/photographs all U.S. citizens arriving in Brazil. In the first six weeks of 2004, two U.S. citizens were fined (an average \$15,000 each) for making obscene gestures while being photographed.

Minors (under 18) traveling alone, with one parent or with a third party, must present written authorization by the absent parent(s) or legal guardian, specifically granting permission to travel alone, with one parent, or with a third party. The authorization (in Portuguese) must be notarized and then authenticated by the Brazilian Embassy or Consulate.

For current entry and customs requirements for Brazil, travelers may contact the Brazilian Embassy at 3009 Whitehaven St. N.W., Washington, D.C., 20008; telephone (202) 238-2818, e-mail: consular@brasilemb.org; Internet: <http://www.brasilemb.org>.

Travelers may also contact the Brazilian consulates in Boston, Houston, Miami, New York, Chicago, Los Angeles, or San Francisco. Addresses, phone numbers, web and e-mail addresses, and jurisdictions of these consulates may be found at: <http://www.braziltourism.org/visas.shtml>.

Resources

- For more information about doing business in Brazil, please review your Industry Sector report and contact the Industry Specialist, or email sao.paulo.office.box@mail.doc.gov.
- For more Market Research: www.export.gov/marketresearch.html

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Chapter 9: Contacts, Market Research, and Trade Events

Contacts

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U.S. Commercial Service Belo Horizonte

Office Director: John Mueller (John.Mueller@mail.doc.gov)

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U.S. Commercial Service Brasilia

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Ph: 011-55-61-312-7418; Fax: 011-55-61-312-7656
SES - Av. das Nações, Quadra 801, Lote 03
Brasilia - DF 70403-900

U.S. Commercial Service Rio de Janeiro

Principal Commercial Officer: Camille Richardson (Camille.Richardson@mail.doc.gov)
Ph: 55-21-3823-2000; Fax: 55-21-3823-2424
Av. Presidente Wilson, 147 / 4º Andar
Rio De Janeiro RJ 20030-020

U.S. Commercial Service São Paulo

Principal Commercial Officer (acting): James Cramer (James.Cramer@mail.doc.gov)
Ph: 55/11/5186-7300; Fax: 55/11/5186-7399
Rua Henri Dunant, 700
Chacara Santo Antonio
04709-110 - Sao Paulo - SP

Market Research

To view market research reports produced by the U.S. Commercial Service please go to the following website: <http://www.export.gov/marketresearch.html> and click on Country and Industry Market Reports.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, but free of charge.

Trade Events

Please click on the link below for information on upcoming trade events throughout the world. <http://www.export.gov/tradeevents.html>

You can also access information on trade events specific to Brazil at www.buyusa.gov/brazil, under “Upcoming Events” on the left hand menu.

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Chapter 10: Guide to Our Services

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

For more information on the services the U.S. Commercial Service offers U.S. businesses, please click on the link below.

Overview of the US Commercial Service

The U.S. Commercial Service offers comprehensive, customized solutions to your international trade challenges and provides export promotion assistance through a variety of products and services. We have over 100 offices in the US and programs in nearly 70 countries abroad.

Our mission is to:

- Promote the export of US goods and services to strengthen the US economy.
- Maintain job security and create jobs.
- Protect and advocate for US business interests abroad.
- Assist US firms in realizing their export potential by providing counseling, overseas market information, international contacts, and trade promotion vehicles.
- Support the export promotion efforts of other public and private organizations, creating, through partnership, a full-service export development infrastructure.

The U.S. Commercial Service recognizes that exporting is a critical part of ensuring a healthy future for the US economy and US jobs. To that end, we champion the interests of the US business, particularly small and medium-sized enterprises, around the world. See what Commercial Service has to offer and why you can look to us as your international business advisor, your advocate, and your partner in export success.

The U.S. Commercial Service in Brazil (CS Brazil)

CS Brazil is one of the US Commercial Service's largest organizations, with 8 US officers and over 50 Brazilian staff members, all of whom are based in Brazil and are fluent in both English and Portuguese. Many of our staff members have years of sector-specific experience with the private sector and with Brazilian government entities.

Services to Help US Companies Export to Brazil

CS Brazil offers a variety of services designed to help you do more business in Brazil. Each of our offerings is listed below. For more information, please contact us at: sao.paulo.office.box@mail.doc.gov.

You can also contact one of our sector-specific team leaders through our website at www.buyusa.gov/brazil.

Customized Research Services

The US Commercial Service has published a substantial body of market research that is available free of charge to US companies. For starters, we suggest you to look at our Country Commercial Guide: <http://www.focusbrazil.org.br/ccg/>, which highlights what we consider to be top prospects for US exporters. In addition, the Market Intelligence section of our website www.buyusa.gov/brazil is a good start for free CS Market Research, not only for Brazil, but for over 70 countries.

What if you need more specific information?

CS Brazil knows that concise up-to-date information is the key to making intelligent marketing decisions and we have the resources to obtain the information you need. We provide customized answers to your inquiries about the Brazilian market and its receptivity to your products and services.

If you use this service you will also automatically be eligible for a free one-year online promotion on our Brazilian website. You give us a summary of what your company offers, including links to your website, and we will translate it into Portuguese and post it on our website where over 8,000 registered Brazilian companies will be able to view it.

Please contact us (sao.paulo.office.box@mail.doc.gov) for more information on any of these services.

Customized Market Research

We provide customized market research for companies with specific questions about such factors as the overall marketability of a product or service, market trends or size, customary distribution and promotion practices, market entry requirements, regulations, product standards and registration, key competitors, and potential agents, distributors, or strategic partners. You have flexibility to design your own questions.

Cost: Price is dependent on the level of detail involved, the availability of information, and the time required to process your request.

Delivery Time: Depending on scope, will normally be completed in 2-15 business days.

Video Market Briefing (VMB)

Take advantage of state-of-the-art technology! The VMB gives you live video conferencing access to customized market information, without the cost of a plane ticket or hotel bill, to help properly identify and evaluate key dynamics of the Brazilian market, and to understand the opportunities and challenges it offers. We will structure the briefing, the participants, the interpreters (if needed), and any necessary materials. You may even be able to use the video conferencing services of your nearest Export Assistant Center.

Cost: Price will be quoted to you prior to providing the service, covers the customized research, additional services is needed, and up two hours of video conferencing with our specialists.

Delivery Time: depending on scope will normally be completed in 30 business days.

Finding a Business Partner in Brazil

We will save you time and money finding pre-qualified buyers, distributors, licensees, and other business partners. Let us help you locate the most qualified Brazilian partners for your company!

If you use any of these services you will also automatically be eligible for a free one-year online promotion on our Brazilian website. You give us a summary of what your company offers, including links to your website, and we will translate it into Portuguese and post it in our website where over 8,000 registered Brazilian companies will be able to view it.

Please contact us (sao.paulo.office.box@mail.doc.gov) for more information on any of these services.

Customized Contact Lists

Using a variety of sources, including in-country databases and local expertise, we will provide a Contact List of 10 – 20 potential Brazilian agents, distributors, and importers of your product. The list will contain basic information, such as company name, address, and phone/fax numbers. In addition, it will contain such information as contact names, a company description, company size, products/services offered, foreign companies represented, year established, territory covered, and sales revenue if available.

Cost: US\$ 200.

Delivery Time: 5 – 10 business days from receipt of payment.

International Partner Search

Based on parameters you provide – product data, pricing guidelines, and other information – we will conduct a pre-screened search to identify up to 5 qualified potential representatives, distributors, licensees, franchisees, or strategic partners interested in your product or service in Brazil. The preferred method for showing your

products and company information to Brazilian firms is your website or electronic catalog/brochure. If a website or electronic catalog is not available, we will require 20 sets of product literature.

Cost: US\$ 600.

Delivery Time: 15 business days from receipt of materials.

Gold Key Matching Service (GKS)

The GKS is perhaps the most effective service we offer. It is designed for US companies ready to travel to Brazil to meet face to face with potential business partners. We will prepare a customized schedule of appointments with pre-screened potential agents, distributors or other business contacts according to your needs. We will give you a minimum of 4 appointments per day, typically at each Brazilian company's offices. We will also arrange initial hotel reservations, driver services, and interpreters upon receipt of your credit card.

Cost: US\$685 for the first day and US\$400 for subsequent days.

Delivery Time: Six weeks advance notice required. If needed, we can arrange for an interpreter and a driver for an additional fee.

Video Gold Key Matching Service (VGK)

Don't have the time to travel, but still want a personal approach? Use of our VGK offers many of the advantages of the GKS, without the expense of travel. We will arrange for pre-screened potential agents, distributors, or other business contacts to come to our offices for a one-hour video meeting. The service can be tailored to your specifications but would typically include at least 3 quality meetings with pre-screened potential Brazilian firms and up to 4 hours of video interaction (including a briefing with CS Brazil staff).

Cost: Please contact us regarding current fees and the method of payment. We can provide interpretation services for an additional fee.

Delivery Time: Six weeks advance notice is required.

International Company Profile

The ICP enables US companies to evaluate potential Brazilian business partners by providing confidential background checks on their financial health and business standing in Brazil. CS Brazil will conduct due diligence on a Brazilian company through such actions as visiting the company, its suppliers, customers, neighbors, and bankers. You can request answers to a detailed set of questions or add special ones of your own to our standard list.

Cost: US\$520.

Delivery Time: 10 business days.

Platinum Key Service (PKS)

The PKS is intended for US firms active in a key industry sector, involved in bidding on a major project, or seeking commercial intelligence to achieve their business goals. A senior staff member will actively monitor and seek out information and intelligence in your area of interest. You will receive up-to-the-minute privileged market intelligence, trade leads, insights, and major projects news or developments. These reports, via e-mail or through confidential periodic telephone or videoconferences with CS Brazil specialists, will discuss political, strategic, financial and competitive developments in your firm's sector or in any number of specific projects in Brazil. In short, you can now access the perfect tool to know – or double check – what your foreign competitors, colleagues, customers, private and government clients are doing and how it affects your competitive position. The PKS may include bundled GKS services and customized market research.

Cost: Price varies depending on scope of work and timeframe.

Delivery Time: Varies depending on timeframe agreed upon prior to initiating the service (typically six months – one year renewable).

Trade Events

Participating in trade events is an excellent way to explore opportunities in the Brazilian market. Get high-profile exposure for your products and services by taking advantage of the many trade event options the US Commercial Service in Brazil (CS Brazil) offers you.

Please contact us (sao.paulo.office.box@mail.doc.gov) for more information on any of these services. You can also contact one of our sector-specific team leaders at: www.buyusa.gov/brazil.

Trade Fairs in Brazil

We sponsor US pavilions in selected Brazilian trade shows and provide counseling and other support to US exhibitors. One-on-one matching at the show with potential buyers arranged by our team of market and industry specialists can help you generate sales and long-term business relationships at these high-volume local shows.

Trade Mission Support

We provide detailed marketing information, advance planning, meeting arrangements, and publicity for US Department of Commerce matchmaker events, trade missions, seminar missions, and industry or state-organized trade missions.

You can find out about upcoming trade events in a variety of ways. First, you can check out the exhaustive list of US and Brazilian trade events on our **Upcoming Trade Events** page at www.buyusa.gov/brazil. Second, you can view a broader global set of trade events at our export.gov website for trade events: http://export.gov/comm_svc/tradeevents.html. Third, you can contact your local Export Assistance Center (http://www.export.gov/comm_svc/eac.html) to inquire about forthcoming events. Please call 1-800-USA – TRADE or check the web site above to locate the office nearest you.

Catalog Shows

The US Commercial Service's International Catalog Exhibitors Program offers a convenient, affordable way to stimulate sales leads and find representation around the world, without leaving your office. These catalog show events showcase your company's product literature, videos, and other visuals in fast-growing export markets for US goods and services.

Showcase your product or service literature in this important emerging market. You don't even have to leave the US! Let us do the legwork and send you the leads.

To learn more about this service, please go to the [Catalog Exhibition Program](http://export.gov/comm_svc/catalog_program.html) website at the following address: (http://export.gov/comm_svc/catalog_program.html).

International Buyer Program

This joint government-industry effort is designed to increase US export sales by promoting international attendance at major US industry exhibitors. CS Brazil regularly organizes delegations of Brazilian buyers to these selected international shows in the US. Take advantage of this opportunity to meet with Brazilian buyers at these Department of Commerce sponsored events.

Please check the International Buyer Program website www.export.gov/comm_svc/intl_buyer_program.html for a list of forthcoming events. If you would like to exhibit at these shows, please contact the organizer. You can also contact one of our industry sector experts directly or simply contact us.

Single Company Promotions

Want to get the attention of the major Brazilian players in your industry? We can help you or your local representative organize a product launch, technical seminar, cocktail reception or other similar event in Brazil. We may also be able to help obtain competitive rates at hotels or other venues. This service is tailored to your specific needs. Price varies based on venue and services requested.

Featured U.S. Exporters (FUSE)

Promote your products and services to thousands of Brazilian buyers, distributors and representatives by listing your company profile on the local website of the U.S. Commercial Service. Your company profile will be posted online in the local language and will remain on the site for six months. Material will be reviewed by one of our International Trade Specialists previous to publication on the site. The U.S. Commercial Service can help you translate your product description into the local language. In addition, your profile is marketed through our Network USA email system to over 3.5 million Brazilian entrepreneurs interested in doing business with U.S. companies. This online listing is an effective and inexpensive way to gain additional exposure in the Brazilian Market.

Cost: \$ 200 for six months period. However, if your company is paying for any other service with our office such as a Gold Key or International Partner Search, you can benefit from this service for free.

Consulting and Advocacy

The US Commercial Service in Brazil can help you through our advocacy support. We can help you resolve your investment and trade disputes with Brazilian firms, overcome trade barriers, bureaucratic problems, or unfair trade practices, enabling you settle your differences through friendly negotiations and making sure that your company has the best possible chance to sell its US products and services in Brazil.

If you are bidding on an international tender and would like assistance, please go to our Advocacy Assistance Website (<http://www.export.gov/advocacyassistance.html>). The US Commercial Service's mission is not only to increase US exports, but to defend US business interests overseas. If you are experiencing problems with Brazilian business partners, please contact us (sao.paulo.office.box@mail.doc.gov) for more information on this service. You can also contact one of our sector-specific team leaders at www.buyusa.gov/brazil. You will receive a reply to your request for information within two business days.

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U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>. To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.