

DOING BUSINESS WITH BRAZIL



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1. GENERAL INFORMATION

Official Name: Federative Republic of Brazil.

Nickname: Brazil

Capital: Brasilia (pop. 2.3 million). Brasilia was inaugurated in 1960 on the Mato Grasso plateaus. Rio de Janeiro, the former capital, is regarded as the undisputed cultural capital and major international transportation hub of Brazil.

Major towns:

- Sao Paulo (10.8 million)
- Rio de Janeiro (6.1 million)
- Salvador (2.6 million)
- Belo Horizonte (2.4 million)
- Fortaleza (2.3 million)
- Curitiba (1.7 million)
- Recife (1.5 million)
- Porto Alegre (1.4 million)

Official language: Portuguese.

Other languages: Few Brazilians speak English fluently but it is taught in high school. Brazilians living near the country's border with French Guiana, Guyana and Surinam understand and speak French, English and Dutch while those living on the border with Colombia, Peru, Argentina, and Paraguay understand and speak Spanish. There are incentives to preserve the many native Amerindian languages which are spoken in indigenous communities, primarily in Northern Brazil.

Government: Presidential Federal Republic. In 1500, Brazil was discovered by Portuguese Pedro Alvares Cabral. It remained a colony of Portugal until September 7, 1822 when it gained independence as the Brazilian Empire. On November 15, 1889, Brazil became a republic but it had a bicameral legislature from 1824 when its first constitution came into effect. The Federation comprises indissoluble association of three autonomous political entities - states, the Federal District and the municipalities. Currently, there 26 states and 5,564 municipalities. Under the 1988 constitution the federal government, made up of executive, legislative, and judicial branches has broad powers. The executive and legislative branches are elected by direct suffrage. The National Congress which is the bicameral legislative is made up of the Federal Senate and the Chamber of Deputies. There are 81 senators, three for each state and the Federal District, and 513 deputies. Elections are held every four years and the president can be elected for two terms. Senate has eight years terms which are staggered to ensure that at least two-thirds of the upper house is elected at one time and the other third, four years later. Chamber terms are for four years with elections determined by a system of proportional representation. Members of the Supreme Federal Tribunal are appointed by the president. It comprises eleven lifetime positions.

Head of State: President - V. Luiz Inacio Lula da Silva re-elected Oct. 2006.

Vice president- Jose Alencar Gomes da Silva (2003)

President of Chambers of Deputies- Arlindo Chinaglia

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President of the Senate- Garibaldi Alves Filho
Chief Justice- Ellen Northfleet

Political Parties: Brazil has many political parties and it is often difficult for a single party to win at the polls therefore coalition governments are often formed. The major parties are Workers' Party (PT-center-left), Liberal Front Party (PFL-right), Brazilian Democratic Movement Party (PMDB-center), Brazilian Social Democratic Party (PSDB-center-left), Progressive Party (PP-right), Brazilian Labor Party (PTB-center-right), Liberal Party (PL-center-right), Brazilian Socialist Party (PSB-left), Popular Socialist Party (PPS-left), Democratic Labor Party (PDT-left), Communist Party of Brazil (PCdoB-left), Socialism and Liberty Party (PSOL-left)

Population: 188.7 million (2006 World Bank Est.)

Population density: 22/km2 (57/sq.miles)

Age structure:

0-14 years: 25.3 %
15-64 years: 68.4 %
65 years and over: 6.3%

Ethnic Composition: Brazil's population is made up of Portuguese, Italian, German, Spanish, Japanese, Arab, African, and indigenous people. It can also be classified as 53% white, 38% mixed, 6% black with less than 1% indigenous (an estimated 519 000 of Amerindian descent mainly from the Tupi and Guarani language stock).

Religion:

Roman Catholic - 73.4 %
Protestant - 15.4 %
Spiritualist - 1.3 %
Bantu - 0.3%

Education: The 1988 Brazilian constitution describes education as "a right for all, a duty of the state and the family." Education is divided into three levels, each with several grades. Everyone including adults has access to free fundamental education which is mandatory for children between six to fourteen years. This is the only stage of education that is mandatory.

The Ministry of Education controls almost all higher education through its standard-setting agency, the Federal Council of Education. Government also operates at least one Federal university in each state. Competition for entry into higher education institutions is intense. Demand exceeds supply by a large amount therefore colleges and universities, public and private, use an entrance exam as a selection tool. In fact up to university education is free providing it is accessed at public institutions.

In 2004, some 10 per cent of 18-24 year olds were enrolled in higher education. In 2004, there were 1,859 higher education institutions, including 163 of which 79 universities were government owned. Some 84 universities are privately owned. These include 26 operated on a pro-profit basis and 28 on a non-profit basis.

Adult Literacy (15 years and over)¹:

Overall 88.6% (2005)
Male: 88.4% (2004)
Female: 88.8% (2004)

¹ World Bank Estimates

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Life Expectancy:

Life expectancy at birth (yrs.):
70.8 years

Probability of not surviving to 40 yrs:
10.3

Population without sustainable access to improved water sources:
10%

Physicians per 100,000 people: 115

Health: Access to health services as well as health conditions vary by region. While large cities have an adequate supply of doctors, the interior faces shortages of physicians, nurses, hospitals, clinics, and pharmacists. However, the Ministry of Public Health has been undertaking a health surveillance project in Amazonia which includes epidemiological and environmental health surveillance, indigenous health and disease control components. The project has the backing of a US\$600 million World Bank loan which will go towards operational infrastructure, training of human resources and research studies. Almost a quarter of the population is covered by health insurance. It is compulsory that all workers and employers contribute National Institute for Social Security (INSS) which provides the right to health services and a pension. Free treatment including emergencies is available at municipal hospitals.

Area: 3,287,597sq miles (8,514,877 sq km)

Land Use:

Arable land-	7 %
Permanent crops	1%
Meadows and pastures	19%
Other	67%

Climate: Five climatic zones (tropical, equatorial, semiarid, highland tropical and sub-tropics) exist in Brazil. About 90 per cent of the country is in the tropical zone but there is much variation in the climate which reflects the fact that the Equator traverses the mouth of the Amazon giving the North its tropical climate while the Tropic of Capricorn crosses at the latitude of the city of Sao Paulo, which is the temperate zone. Southern Brazil has subtropical temperate climates therefore in the winter months, June to August there is frost but in mountainous areas such as Rio Grande do Sul and Santa Catarina it occasionally snows.

Geography and Topography: Brazil, located on the South American continent, crosses the Equator and Tropic of Capricorn. It is almost land lock but has 7,367 kilometres of coastline on the East where it touches the Atlantic Ocean. Barring Ecuador and Chile, Brazil shares a border with every South American country. To its north are Venezuela, Suriname, Guyana and French Guyana and to the north west is Columbia. Bolivia and Peru are on the west; while Argentina and Paraguay are on the south west and Uruguay, the south. A number of archipelagos, such as Penedos de Sao Pedro e Sao Paulo, Trindade and Martin Vaz, Fernando de Noronha and Aol das Rocas, are part of Brazil. The country is made up of hills, mountains, savannas, highlands and rain forests. On the Atlantic side, mountain ranges reach an altitude of 2,900 metres or 9,500 feet but the country has higher mountain peaks such as Peak of Mist/Fog or Misty Peak (3,104 metres). The terrain on the north is mostly low lying rainforest whereas the south contains small hill and low mountains. Brazil is home to the world's

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second largest river, the Amazon. Other rivers include Parana and its main tributary, The Iguacu River with the Iguacu Falls; Sao Francisco, Xingu, Medeira and Tapajos River.

Weights and Measures: The metric system is used in Brazil. Temperatures are expressed in centigrade. 860 fahrenheit = 300 centigrade. Clothes and shoes sizes differ from North American and most European sizes.

For example, a size 5 United Kingdom shoe is size 38 in Brazil and France but size 5/5.5 in the United States.

Electricity: Brazil gets 80 per cent of its electricity from hydroelectric dams. The country plans to build another ten dams in the Amazon basin by 2010 and so generate 27,000 megawatts as part of government's economic acceleration plan. This is being met by opposition from environmentalists.

Brazil has no standard voltage; most states use 110 volts, but some in the north as well as some hotels use 220-240V.

Time Zones

Brazilian standard time: GMT-3
(GMT-2 in summer)
Eastern Brazil (Rio, Salvador, Sao Paula, Brasilia, Recife, Belem): GMT-3
(GMT-2 in summer)
Central Brazil (Mato Grosso, Manaus, Campo Grande): GMT-4
Far West Brazil (Western edge of the Amazon, Amazon time zone): GMT-5 (GMT-4 in summer)
Fernando de Noronha Island: GMT-2
Acre State: GMT-5 (no summertime)

Daylight saving time is in operation between October and February, but some states don't observe it.

Public Holidays

In addition to those listed below, other public holidays are celebrated in different states and at different times. Generally, Brazilians work half day on Christmas Eve and New Years.

Public Holidays

January 1	New Year
February 2	Carnival until
February 5	
February 6	Ash Wednesday
March 23	Easter
April 21	Tiradentes Day
May 1	Labour Day
May 22	Corpus Christi
September 7	Independence Day
October 12	Nossa Senhora
Aparecida	
November 2	All Souls Day
November 15	
	Proclamation of the Republic
December 25	Christmas day

2. THE ECONOMY

2.1 Economic Indicators

National currency: Real.

Exchange rate Real: US\$ (average)
1.95 (floating rate).

Balance of Payments: 2007:
US\$42.9 billion surplus

Exports: US\$161,164 million (f.o.b.
2007 Est.);

Major markets: European Union
25 %, United States 19.2%, and
Mercosur 0.4%.

Imports: US\$ -116,463 million (f.o.b.
2007 Est.)

Major suppliers: European Union
25.4%, United States 17.2%, Argentina
8.5%, and China 7.3%.

Current account balance US\$8,540
million

Principal exports: Transport equipment
and parts, Metallurgical products,
Soybeans, meal and oils, Chemical
products

Principal Imports: Machinery and
electrical equipment, Oils and
derivatives, Chemical products,
Transport equipment and parts

Gross Domestic Product: GDP: \$943
billion (official exchange rate; 2006,
est.).

GDP (PPP): US\$1,804 trillion² (2007,
est.)

GDP per capita: US\$10.073 (2007,
est.).

Per capita GDP (PPP): \$8,600

Annual real growth: 3.7%.

**Projected annual growth rate (2008-
2012):** 4 %

**Outstanding external debt (% of
GDP):** 16%

Outstanding external debt: 60%
(% of exports of goods & services)

Unemployment rate: 12.8% (2004)³

Workforce: 96.3 million

Inflation Rate: average 3.4% (2007).

Projected: average 3.7% (2012)

2.2 Prices and Income

Brazil has a minimum wage aimed at ensuring that a family of four (two adults and two children) can provide itself with the basics including food, health, housing, transportation and leisure. During 2007, the minimum monthly wage was Real 330 up by Real 30 on the previous year's figure. This wage as well as salaries has been increasing since the election of President Lula who has a strong trade union background. The economy has also made some strides giving government space to increase civil servants' salaries.

Brazil has a history of chronically high inflation to prevent this history from being part of the country's future government adopted a rapid disinflation strategy in early 2000s. One target was to cut inflation to 12.5 per cent by the end of 2002 and to 4.5 per cent in 2005.

In fact during 2007, the country's central bank president Henrique Meirelles, described inflation as benign and at its slowest pace in years. The International monetary Fund reported that consumer prices moved from 6.8 per cent in 2001 to 3.4 in 2007.

Despite this Brazil was listed as having two of the most expensive cities in the world. In 2006 Sao Paula and Rio de

² International Monetary Fund

³ WTO Trade Policy Review 2004

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Janeiro climbed 25 places up the Economist Intelligence Unit's scale⁴ on the wing of a 25 per cent rise in currency and consumer prices. However the situation is very far way from the despair of the 1980's when companies were complaining of inflation at 1,000 per cent annually. Consumer prices are said to vary from place to place with the cities offering cheaper prices than rural areas.

In 2006 out of the estimated of 54.7 million private households in Brazil, approximately 10 million (18.3%) received money from social programmes and the majority (8.1 million households) received money from the programme "Bolsa Família". Such income support programmes for the poor combined with the government's disinflation strategy has led to a significant decline in poverty rates however, Brazil is still one of the world's most unequal countries.

2.3 Structure of the Economy

Brazil has a diversified manufacturing sector and is a large efficient producer of agricultural goods and mining products. Here is the origin of its GDP in 2006:

Agriculture	5.1 %
Industry	30.9 %
Services	64.0 %

Source: Economists Intelligence Unit (2006)

2.3.1 Agriculture

Agriculture is important to Brazil's economic growth and foreign exchange earning power. It benefits from fertile soil, an abundance of water and vast expanse of land. Though agriculture directly accounts for less than ten per cent of the country's GDP, when agribusiness is included this figure reaches 30 per cent. Agriculture also accounts for about 40 per cent of Brazilian exports and in 2006, the country had an agricultural trade balance of US\$43 billion.

Brazil is the world's largest producer of sugar cane, coffee, tropical fruits, frozen concentrated orange juice. Its other agriculture products include soybeans, cocoa, rice, livestock, corn, oranges, cotton, wheat, and tobacco production. It also has the largest commercial cattle herd counting 170 million head which is 50 per cent bigger than that of the United States.

From 2000, Brazil's agriculture exports have been increasing by an average of 20 percent per year annually and by 2005 reached US\$30.9 billion, made up mainly of soybeans and products, sugar, ethanol, milk, seafood, beef, pork, and poultry. The United States is the only country that produces more beef and poultry than Brazil. The country also became a net exporter of corn and cotton, providing the world with 7.7 of the corn and 5.8 percent of the cotton traded in 2003. In addition, Brazil is the second-largest net exporter of beef and broiler meat and the third-largest exporter of pork.

Between 1992 and 2002, its net exports of soybeans, soybean meal, and soybean

⁴ This refers to an index produced by the London-based Economist Intelligence Unit as a guide for companies in calculating executive pay in more than 130 cities around the world.

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oil increased by over 200 per cent putting that country's share of world trade in these commodities to between 30 to 40 percent. Despite the impressive growth in exports of sugar and sugar-alcohol, meats, coffee, cereals and fruit, Brazil's major agricultural product is still soya, with exports totalling US\$ 9.3bn in 2006.

Brazil's success is partially linked to the development of large-scale, commercially oriented, forward-looking farms which continually strive to improve productivity while driving down cost. However these are not the only type of farming operation there. In the Southeast which is the traditional agricultural areas farms are small averaging 30 hectares (ha) but these size farms are becoming fewer as at least 100 ha are required to become a competitive soybean producer.

In the Center-West, farms more than 65 percent of farms are in excess of 1,000 ha and are generally owned by families (for example, the Maggi Group). Farms in this area are highly capitalized, use advanced mechanization and state-of-the-art technologies, such as global positioning systems (GPS) to take advantage of precision farming practices.

The sugar sector contributes 21 percent of Brazil's total exports and employs a million people, or two per cent of the labour. This is not surprising, given that the country is one of the world's leading and most efficient producers of sugar cane and its by-products sugar, and ethanol (fuel alcohol). As a result, Brazil exerts considerable power on the international sugar market and can easily and quickly adjust production to

potential world short falls and international prices.

Sugar cane is grown mainly in the Center-South and North-Northeast regions which are subjected to different agronomic and government policy conditions. More than half of Brazil's sugar canes and over 70 per cent of its sugar output and 90 percent of its ethanol are produced in the Center-South region (which is mainly made up of the state of Sao Paulo). Here harvesting is done between May and November. The remainder of sugar and its by-products originate in the North-East mainly the states of Pernambuco and Alagoas where soils are poorer and the terrain hilly. Harvesting taking place September through April and the process is subjected to less mechanized than in the Center-South. Producers receive a significantly higher price for their sugar canes than their counterparts in any other part of the country. They benefit from the Brazilian Government's allocation of the United States sugar import quota to the region to help low-income farmers. In 2006, the value of sugar cane production was put at US\$8 billion or 17 per cent of the country's agricultural output. This total, 423 million tons, also represented 31 per cent of world production.

Brazil, the world's largest raw and refined sugar producer, produced 28.7 million tons or 20 per cent of the world's sugar production in 2006 at a production cost of \$170-\$210 per ton. This compares with South Africa's \$250 per ton, Mexico's \$308 per ton in Mexico, the United States' \$525 per ton and Italy's \$770 per ton⁵.

⁵ Figures taken from the Organisation of Economic Cooperation and Development.

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Sugar industry:

Brazil is the world's largest exporter of ethanol and sugar (raw and refined) to world markets. In 2006, the country exported 18.3 million tons of sugar, or 41 per cent of the world's sugar exports and 1 billion gallons or 52 per cent of the world's ethanol market. Brazil has 320 sugarcane processing plants, 226 of which are located in the Center-South. These include sugar mills, mills with distillery plants, and independent distilleries.

Domestic consumption is high with a per capita sugar consumption that ranks about fifth in the world. In 2005, consumption reached 10.8 million tons or about 40 per cent of Brazil's sugar production between 2003 and 2005. This reflects growing incomes and population growth. About 55 to 65 per cent of local consumption is consumed directly while the remaining 35 to 45 is used by food manufacturers to produce carbonated drinks, chocolate, ice cream, crackers, and pasta. In 2005 reached 10.8 million tons, or about 40 percent of Brazil's sugar production in 2003-05.

In 2006, sugar exports totaled US\$ 6.2bn, which is an increase of almost 60 percent on the amount exported in 2005. Sugar-alcohol exports almost doubled the 2005 figure reaching US\$ 1.6bn.

2.3.2 Services

Brazil's diverse and sophisticated service sector accounts for over half of the country's GDP. Mail and telecommunications are the largest sub sectors, followed by banking, energy, commerce, tourism and computing. Analysts have predicted that Brazil's Information Technology (IT) services

sector, valued at \$1.1 billion by Frost & Sullivan in 2007, will triple by 2012 so that is expected to move up the rank. Most of the service companies employ five people or less with only a few employ 100 people or more.

Financial services:

Brazil's capital market is fairly well developed providing many investment opportunities. Brazil has a modern and solid banking system with reliable market infrastructure. Its national banks boost a wide network of branches countrywide. These banks use advanced technology and are among the leaders in internet banking. A new payment system allowing final and irrevocable transfers in real time was launched in 2000. It is now customary that cheques issued anywhere in the country are cleared and settled within 48 hours.

Trading

Brazil also has largest stock market in Latin America and the world's largest equity option exchange. Located in the State of São Paulo, the Brazil's Stock Exchange (BOVESPA) is the only stock trade center in Brazil and Latin America's largest stock exchange, accounting for nearly 70 per cent of the region's trade volume. It boasts technological infrastructure comparable to the world's most developed markets and is a member of the World Federation of Exchanges, Federacion Iberoamericana de Bolsas and International Organization of Securities Commissions. Previously only brokers owing stock exchange memberships were allowed to trade at the exchange but a restructuring during 2007 consolidated the demutualization process

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and unpegged the stock ownership from access to the trading and other services.

BOVESPA trades in listed publicly quoted companies and funds, shares, derivatives and bonds, securitization certificates, and other paper issued by corporations and investment funds. Foreign investors are exempted from the Provisory Contribution on Financial Transactions as it relates to equity transactions on the stock exchange and public offerings, initial or secondary, of listed companies. In 2005, initial public offering and secondary offerings on BOVESPA soared to unprecedented levels. Companies listed have to adhere to the "Novo Mercado" and the Level 2 of Corporate Governance of BOVESPA, and must therefore follow the highest levels of corporate governance and transparency. In 2006, 26 new companies were listed and transactions including secondary one totaled R\$30.4 billion.

Brazil's only futures exchange, the Brazilian Mercantile & Futures Exchange (BM&F) S.A. is the world's largest futures exchanges based on contracts traded. It trades futures, forwards, options on futures, flexible options, swaps, spot, structured transactions and government bonds. It also develops and manages systems for the trading and settlement of securities and derivatives products based on interest rates, foreign exchange, equity and inflation indices, financial indicators, commodities, energy prices, transportation and climate. It also allows for hedging against risks, arbitrage prices between markets and/or securities diversify investment allocations and leverage investment strategies. It registers and settles OTC derivatives

contracts primarily interest rate swaps, exchange rate swaps, inflation rate swaps and equity index swaps, as well as exotic options based on these assets. Among the derivatives contracts traded are interest rate futures contracts, Brazilian real/US\$ dollar futures contracts, equity index futures contracts and futures based on the Ibovespa equity index and local U.S. dollar interest rate futures. In addition, it offers futures and options contracts based on agricultural commodities including coffee, livestock, feeder cattle, soybeans, corn, cotton, sugar, and ethanol. During 2005, BM&F joined with the Ministry of Development, Industry and Foreign Trade set up the BM&F Carbon Facility aimed at developing a Brazilian carbon market to provide incentives for the reduction of greenhouse gas emissions. The state-of-the-art electronic system allows for online registration of projects with the potential to generate carbon credits consistent with the principles established by the Kyoto Protocol. There are also plans to set up conditions for carbon credit trading in the option, forward and spot markets. It is said to have the right conditions to become a key player in the international carbon credit market.

2.3.3 Industry

Brazil has abundant natural resources including mineral resources which are the source of industries. It is the world's second largest exporter of iron and a leading aluminum producer. As a result many of the big automobile manufactures have production facilities in Brazil. In fact, it is increasingly becoming an important international player in the textile, aircraft, pharmaceuticals, cars, steel and

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chemicals markets. Its impressive performance in agriculture has also not gone unnoticed by numerous international food processing groups who have set up processing plants there. Most of the industrial activity is in the southeastern region; about 50 per cent is in state of Sao Paulo.

Ethanol

Ethanol production started in the early 1970s as rising oil prices forced the country to look for alternatives as a means of reducing its dependency on oil imports. At the time Brazil imported 80 per cent of its oil. Government support encouraged innovation which led to the use of biomass and the development of the ethanol industry. A few years ago government invested in infrastructure and technology to propel the ethanol production.

In 2006, Brazil produced four billion gallons or nearly 38 percent of the world's ethanol, making it the second highest producer, just behind the United States. However, it is the largest producer, consumer and exporter of ethanol for fuel. About 15 per cent of Brazil's total supply of liquid fuels is ethanol.

The country's fleet of 18 million units uses 4.2 billion gallons of gasoline yearly and 3.1 billion gallons of hydrated or anhydrous ethanol. All gasoline sold in the retail market has a 23-percent addition of anhydrous ethanol. Ethanol is used almost exclusively for passenger cars and trucks; buses and work vehicles are powered by diesel. Brazil is aiming to double its production of ethanol by 2012, in order to replace 10 per cent of the gasoline consumed worldwide and

increase Brazil's share of exports in total output to 20 per cent from the current 15 per cent. The Brazilian Ministry of Agriculture is projected that by 2008 over 60 per cent of the cane harvested will go to ethanol production.

Construction

Brazil's construction firms are using the huge new investment by foreigners to help meet the growing demand. The country's biggest mortgage financier, the government-run Caixa Econômica Federal, estimates that Brazil needs 7.9 million new homes. Ninety-two percent of those homes are needed by people who are classified as lower-middle income.

Mortgages are still rare in Brazil, with bank loans for house purchases representing just a tiny fraction of the country's gross domestic product. Those few who did qualify for mortgages customarily got loans over a maximum of 15 years at interest rates well into double figures. Home buyers needed to put down around 35 percent of the property's value.

The number of houses financed by Caixa Econômica Federal more than doubled in three years, to more than 600,000 last year from 261,327 in 2003. The amount lent by the bank doubled in the first three months of this year over the same period in 2006.

Energy

Brazil met all its oil needs from local sources in 2006 but a year later, driven by a surge in domestic demand that marked strong economic growth, the country recorded an oil-trade deficit estimated at US\$400m. During the next

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ten years, the country is not only expected to satisfy local demands but is projected to become a net producer as a result of large offshore deep-water discoveries. Government estimated that these finds will produce 70bn-100bn barrels which would place Brazil among the world's ten-largest oil reserves in the medium to the long term.

As for gas, which has become a more widely used source of energy in Brazil, most of the country's needs are met by importing from Bolivia and, on a smaller scale, from Argentina. Therefore the country is affected by developments, such as the nationalisation of the Bolivia's natural-gas sector.

2.4 Economic Performance and Outlook

Brazil is Latin America's largest market, the world's fifth-most populous country and the world's tenth-largest economy in GDP terms. Its economic history includes some painful experiences. Among the more recent episodes was the 1999 crisis that was linked to years of fiscal profligacy and during which the real suffered a devaluation. A few years later (2001 and 2002) during the contagion started with Argentina's collapse Brazil's finances came under severe pressure but escaped economic depression. This challenge occurred early in the presidency of left-winger Luiz Inácio Lula da Silva who was elected in 2000 promising an orthodox economic policy.

The economy returned to growth path in 2004 and poverty has been declining. Encouraged by this improvement, the government promised to repay its IMF

loans (US\$15.5 billion) early. Net public debt has declined significantly, moving from around 60 per cent at end 2002 to 46 per cent at end 2006. Government has also repaid a large amount of its external debt thereby reducing the country's vulnerabilities but debt is still a huge problem. In 2006 credit-rating agencies pushed up Brazil's sovereign rating to just below investment grade.

Brazil has been recording rapid export growth leading to sustained external current account surpluses which combined with strong private capital inflows has accounted for a health cushion of foreign exchange reserves. In 2006, Brazil's trade surplus was 4½ percent of GDP. Investment has been on the up buoyed by declining country risk premia, relatively high interest-rate differentials and reduced exchange rate volatility. It was therefore no surprise when in early 2008 the central bank reported that for the first time, the country was a net creditor with the rest of the world as result of US\$190 billion of reserves. The stock market, Bovespa has also been performing well and in fact reached number one spot on MSCI's⁶ emerging-markets index. In an effort to ensure that the economy continues to improve, the government announced what it termed a Growth Acceleration Program comprising projects to boost public and private investment.

Brazil's economy is expected to continue on its growth path with an annual average of four per cent between 2008 and 2012, which is less than the average for the previous four years. The Inflation is expected to remain below

⁶ Only shares that can be bought and sold by foreigners and are traded frequently are included in the MSCI index. Brazil's Bovespa is much smaller than China's stock market.

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four per cent on average. According to the IMF, Brazil's main challenge will be in creating conditions for higher sustainable economic growth and further poverty reduction. It has recommended that government implement sound macroeconomic policies and deepening structural reforms to make the economy more flexible and competitive.

3. GENERAL MARKETING FACTORS

Postal

This includes direct marketing, e-commerce and virtual shopping supported by the postal service. The direct marketing market grew from R\$7.5 billion and contributing 0.68 per cent to the GNP in 2000 to R\$12.8 billion and contributing 0.71 in 2005. The market contains a number of sub sector including financial institutions (which represents 27% of the market), telecommunications & utilities (14%), publications and subscriptions (12%), commerce and catalogues (10%) and fundraising and religious 5%.

E-commerce is also an important element of the postal sector with turnover of R\$549 million in 2001; by 2005, e-commerce was at R\$2,500 million. CDs & DVDs; books, magazines & newspapers, electronic goods, health & beauty and information technology are the best selling items using e-commerce. Brazil post has exclusive rights to a national directory, created from a commercial data base developed over 30 years. Services also include use of Correios Net shopping, which is a commerce solution for hosting virtual shopping.

In addition all post office counters are on line and almost all municipalities (4826) operate postal banking services as a result by the end of 2005, Banco Postal had an estimated five per cent share of Brazil's banking customers

3.1 Distribution & Sales Channels

3.1.1 Wholesale Food Distribution

Supermarket chains have been using new intermediaries, sidestepping or transforming the traditional wholesale system. These new players are specialized wholesalers, focused on meeting retailers' specific needs and enforce private standards and contracts for the supermarkets. They are being used to cut transaction and search costs. In response to this trend, leading agribusiness firms have set up divisions to cater to supermarkets and some traditional wholesalers have set up specialized large-scale operations. However smaller and more regional/local chains continue to rely on traditional wholesale markets.

3.1.2 Retail Food Distribution

Brazil is considered one of the world's largest retail markets, not surprising given the size of the country's population. With disposable income improving generally and the size of the middle income group growing the market is expected to continue on a growth path. It has therefore attracted a number of multinational retailers, chief among these are the French chain, Carrefour SA, the United States headquartered, Wal-Mart Stores Inc and Casino. These chains operate in three leading formats by sales, hypermarkets supermarkets, and hard discounters. Carrefour's typical format is the hypermarket, which averages 80,000 square feet and offers a wide range of up to 80,000 stock keeping units of food and non-food products.

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From the supply side, however, the Brazilian market is relatively fragmented and made up of the international players and resilient traditional and small retail units.

A wave of consolidation took place during the 90's with mergers and acquisition in the retailing and food processing sectors. From 1994 to 2005 the five largest supermarket chains almost doubled their market-share and the ten largest food processors controlled almost one third of industrialized food sales. More than half of the retail market is food sales. These food sales are dominated by the top five supermarket chains which make about 40 per cent of the national sales.

Brazil's top three retailers are leading multinational retailers who are investing huge sums in this increasingly competitive market. Wal-Mart operates 296 stores in 17 of Brazil's 26 states with sales of about US\$3,382 or 4.1 per cent of Brazil's modern grocery distribution market. Wal-Mart's growth is attributed to the development of new stores as well as large acquisitions including the Bompreço chain from Ahold in 2004 and Sonae, the Brazil operation from Portuguese retailer Modelo Continente in 2005. Bompreço added 118 units including hypermarkets, supermarkets and mini markets in northeastern Brazil to Wal-Mart's store base and Sonae added 140 hypermarkets, supermarkets and wholesale units in the São Paulo region and Brazil's southeastern regions where most Brazilians live and average income is high.

Brazil's market leader, Companhia Brasileira de Distribuição (Grupo Pão de Açúcar) held 9.2 per cent (US\$82.4

billion) of Brazil modern grocery distribution in 2006. It operates 85 extra hypermarkets and 460 supermarkets under the Pão de Açúcar, CompreBem and Sendas banners. Grupo is followed by Carrefour, which has 260 Dia discount stores, 147 Carrefour hypermarkets and superstores (including 35 former Champion supermarkets).

Between 1995 and 2005, the number of stores increased by 45 per cent and average number of Brazilians per store declined by 18 per cent. Yet companies are continuing to expand for example, Carrefour. Brazil is the second important market to Carrefour ahead of its home base France; it is therefore not surprising that Carrefour plans to build 15 hypermarkets an investment of about US\$329million. Wal-Mart plans to invest US\$346million in the construction of 15 hypermarkets, supermarkets and wholesale stores in Brazil's southeastern regions.

This expansion is an indication of how fierce the competition is in the retail market. Retailers are therefore not only in expansion but are implementing strategies that pushing down operational costs in a bid to increase profitability. Wal-Mart wants to expand its Sam's Club warehouse stores, especially in Brazil's northeast while Carrefour is focusing on hypermarkets and superstores, divesting its underperforming Champion supermarket operation and is operating hard discount stores under the Dia banner as a franchise. The franchising sector grew between 9.35 per cent between 2001 and 2005.

Despite the growth of international players, Brazil market still has a strong

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representation of smaller operations including Sonda, Zaffari, Epa, Bretas, Coop and Angeloni, and mom and pop operations. In 2005, these accounted for about 40 per cent of total revenues. While this size of business is growing, medium and larger size supermarkets with between ten to 49 checkouts are under pressure. Analysts say this reflects the behaviour of Brazil's ageing population who choose an outlet based on proximity and time saving. This age group now calculated as 16 per cent of the population is expected to grow to 23 per cent by 2020 therefore these small retail stores are expected to continue successfully as part of the retail landscape.

3.2 Use of Agents and Distributors

3.2.1 Commercial Representative and Agent

A commercial representation is defined by Brazilian law as an intermediation activity performed permanently by a person or company contracted to participate in the goods or service market on the behalf of the contracting company. Such a contracted person or company is called commercial representatives or agents. They obtain buying proposals from prospective customers for the represented companies who can disapprove or approve them. The commercial representative is paid a contractually agreed percentage of the transaction.

Companies and individuals providing agency service must be registered with the Council of Commercial Representatives of the relevant Brazilian state as well as

register their articles of incorporation with the Board of Trade.

The law specifies that agency's contracts must be in writing, and in addition to conditions agreed by the parties, must contain information relating to:

- the general conditions of representation; indication and features of products;
- duration of the contract;
- the area where the activity will occur and permission (for the represented company to perform direct sales in the indicated area);
- granting of (total or partial) exclusivity in the sales area;
- commissions due to the commercial representative and payment schedules
- exclusivity or otherwise of the represented company's products; and,
- compensation for the commercial representative in case of termination (this amount must be less than one twelfth of total remuneration paid to the Commercial Representative throughout the contractual relationship).

There are usually two types of distribution contracts, commercial distribution agreements and ordinary distribution agreements. Commercial distribution agreements are limited to transactions between automobile makers – of automobiles, trucks, buses, agricultural tractors and motorcycles - and their dealerships. These agreements are governed by Law 6.729 of November 28, 1979 (amended by Law 8.132 of December 26, 1990) but no specific law governs the relationship between the parties to ordinary distribution agreements instead these

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contracts must comply with the general provisions of the Brazil's Civil Code. This means that contracting parties are freer in setting out the terms of their relationship. However if they involve intermediation by a distributor, the relationship will be termed a commercial representation under the law.

3.3 Payment Conditions

Most transactions are done in United States dollars. An importer has to pay at sight or financed over a minimum of 90 days for imports of more than US\$10,000 originating from a non-MERCUSOR country and US\$80,000 from a MERCUSOR country. If an importer does not have an import licence (ROF - Registro de Operações Financeiras) he must pay at sight and will not be allowed a financing term. Import licences are issued to Brazilian importers by SISBACEN (Central Bank) which also examines and approves credit terms within five working days of receiving an application. No credit period is set for payments of less than US\$10,000 and these must be paid immediately.

3.4 Transport and Communication Facilities

3.4.1 Travel and Transportation

Brazil has one of the largest domestic air networks in the world, which is fortunate given the country's size and the fact that there is no real alternative to air transport across much of the country. One-fifth of roads are passable, and the rail network is limited and caters mainly to cargo.

Air Transportation

Regular air shuttle service operates between many cities. To facilitate time and cost efficient travel, people can buy air passes. These are available for travel within the country as well as to neighbouring countries and are offered by domestic as well as international airlines.

Brazil has 4,276 airports; 718 have paved runways and 3,545 unpaved⁷. Air traffic in Brazil is concentrated in the south and north-east of the country with three-quarters of traffic handled by just ten airports. The busiest airport is São Paulo/Guarulhos Governor André Franco Montoro International Airport (GRU), located 25 kilometres northeast of the city (São Paulo). It is a hub in South America. An estimated 18,795,596 passengers and 187,960 aircraft landings were recorded there during 2007. Judging from the volume of cargo traffic handled it is also Latin America's busiest airport. But Forbes magazine listed it in third in the world for delayed flights. It has two passenger terminals, 260 check in counters and connections to 28 different countries and more than 100 cities in the world and Brazil. Many international airlines land here. The airport is usually referred to as Cumbica or Guarulhos.

Domestic air travel is not cheap and departure taxes are charged on domestic as well as international flights. There are connections to major cities including Miami, New York, London, Paris and Milan.

The second largest cargo airport, Viracopos International, is undergoing a

⁷ CIA World Fact Book, 2007 figures.

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US\$100 million expansion programme⁸ which will transform it into a mega airport capable of storing 720,000 tons of cargo as well as handling 470,000 take-offs and landings and 55 million passengers yearly. Several electronics manufacturers have opened facilities in Campinas, Sao Paulo, to take advantage of the proximity to Viracopos.

Five busiest airports in Brazil

1. Sao Paulo-Guarulhos International
2. Congonhas-Sao Paulo International Airport
3. Brasilia international Airport
4. Rio de Janeiro-Galeao International Airport
5. Deputado Luis Edurado Magalhaes International

Water Transportation

River: Many rivers crisscross Brazil allowing for internal travel by river transport. This is provided by private companies with ferries serving coastal ports.

Sea: Brazil has almost 100 sea ports which cater to cargo and passenger movements. All major ports have extensive warehouse facilities including refrigerated stores and bonded warehousing. It is relatively easier to ship cargo between Brazil and the United States and Europe than between Brazil and the rest of Latin America (excluding Argentina and Uruguay).

The main ports for containers are Santos (São Paulo); Rio de Janeiro; Rio Grande (Rio Grande do Sul); Paranaguá (Paraná); Vitória (Espírito Santo) and Salvador (Bahia). These ports have

excellent links to hydro ways, roads, railways and terminals which are used for the transportation of cargo. Some terminals are privately owned; over 40 of these deal specifically with specific commodities such as oil, minerals, coal, wood and sugar. It is common practice for importers to employ freight forwarders, or Despachantes as they are called in Brazil, to clear goods because they do the job more timely using their local acquaintances. Thirty six of the ports are deep water harbours. The largest ones are Belém, Fortaleza, Ilhéus, Imbituba, Manaus, Paranaguá, Porto Alegre, Recife, Rio de Janeiro, Rio Grande, Salvador, Santos, and Vitória.

In 2005, Tubarao ranked 31st among the world's busiest port with regards to cargo. It was used to move 92.7 million tonnes of cargo.

Land Transportation

Highways are the main means of transporting passengers and freighting goods in Brazil. The country has the fourth largest highway network in the world; almost two million kilometres long of highway with approximately 200,000 km of paved roads were recorded in 2004. This facilitates bus, car and other road transportation.

However, while there are good transportation corridors on the South and Southeast region, especially in São Paulo, the network lacks stability and integration. The Southern and Southeast are connected by highways while the North is least connected with paved highways due to the Amazon rainforest. Places like Manaus have no major paved roads connecting it to any other city in the north but Boa Vista Roraima.

⁸ It is expected to be completed in 2008.

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Weather conditions and heavy usage has led to the deterioration of most of the federal highways. In addition, highways as the national arterial system is expensive to transport freight compared with trains which are cheaper, generate less pollution and create less traffic congestion. But Brazil had only 24,000 km of railways in 2003. This was mainly used for transporting mineral resources from mines to the seaport. Government is planning to rebuild a highway through the heart of the Amazon jungle to replace one built 35 years ago but now impassable.

The 885-km. road estimated to cost Real\$700 million and to be completed by 2011, will link Porto Velho, capital of Rondônia state on the border with Bolivia, with Manaus, the capital of Amazonas. But environmentalists are opposition it saying it will lead to further deforestation and new waves of migration to the northern city of Manaus. Instead they are proposing a railroad which will lead to less deforestation and no carbon emissions, though it would cost three times more.

Transportation Statistics

Railways: total: 29,252 km (1598 km electrified) (2005).

Highways: total: 1,751,868 km; paved: 96,353 km; unpaved: 1,655,515 km (2005).

Waterways: 50,000 km (most in areas remote from industry and population) (2005)

Roadways: 1,751,868km paved: 96,353 km (2004)

Ports and harbours: Gebig, Itaquí, Rio de Janeiro, Rio Grande, San Sebastião, Santos, Sepetiba Terminal, Tubarão, Vitória.

Airports: 4,276 (2006 est.).
Heliports: 16 (2007)

3.4.2 Communication Facilities

Brazil is listed among the top countries with regards to internet use which was estimated in 2000 to be growing at 25 per cent annually. The country is also becoming much computerized. Government is encouraging this by providing monetary and taxation schemes. The use of mobile phones is also growing rapidly, tripling between 2002 and 2007.

The mobile-cellular density is now (2007) almost 55 per 100 persons. There is an extensive microwave radio relay system and a domestic satellite system with 64 earth stations. Business people whose digital phones are compatible with the USA system can use them in Brazil but those whose phones are not can rent on arrival at the airport. There are kiosks in the arrival halls at São Paulo (Guarulhos) and Rio (Tom Jobim) airports.

Despite the high mobile phone use, fixed connections have been described as stable with about 20 connections per 100 persons.

Communications Statistics

Telephones: Main lines in use: 38.8 million (2006)

Mobile cellular: 99.9 million (2006).

Radio broadcast stations: AM 1,365; FM 296; shortwave 161 (1999).

Television broadcast stations: 138 (1997).

Internet hosts: 8.265 (2007).

Internet users: 42.6 million (2006).

4. MARKET ACCESS CONDITIONS

4.1 Customs Tariffs

Import licences are needed to import goods into Brazil. These⁹ can be obtained by applying online to Secretary of Foreign Trade (SECEX), Ministério do Desenvolvimento da Indústria e Comércio Exterior.

The foreign supplier must produce most of the information on the application including his or her price list or catalogue. Applications for import licences for second-hand goods must be accompanied by a technical report.

Imports are controlled by SECEX which supervises registration and licensing, and the Central Bank of Brazil, which approves the payments for imported products.

Imports are either “automatically licensed” which means they require no authorization from Brazilian authorities prior to their shipment and clearance through Customs or they are “non-automatically licensed” which means they must have prior examination and special control by appointed government agencies.

Licences are denied if SECEX finds importation will interfere unduly with free trade; influence prices to the detriment of the Brazilian balance of trade; constitute dumping or unfair

⁹ Online licences are unavailable for a few items including second-hand goods and products detailed in Annex A to SECEX Portaria No.8.

competition or pose a risk to the national economy. It can also refuse to issue a license for products imported from countries that discriminate against Brazilian products.

4.1.1 Custom Duties and Fees

As a member of MERCUSOR, Brazil has put in place a Common External Tariff (CET), of between 0% and 20%. This is not extended to telecommunications equipment, computers, and some capital goods. It also has a national exception list which includes consumer electronics, cars and shoes.

Brazil also levies the following taxes and fees on imports above duty and tax:

- Brokerage fee: 1% of C.I.F value.
- Warehouse fee: 1% of the import duty.
- Fee for handling charge- varies according to the value of product (ranging between US\$20 and US\$100).
- Administration commission: Fixed US\$50
- Additional Port tax: fees totaling 3% of CIF value.

4.2 Taxation

The Federal Union, the States, and the Municipalities can levy taxation, which includes taxes, fees, betterment fees, other contributions, and compulsory loans. Betterment fees are levied on property owners that benefit from public work. Contributions can only be levied by the Federal Government and comprise social contributions (payroll charges); contributions to intervene in the economic domain; contributions in the interest of professional or economic

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categories, and contributions to finance social security. The Federal Government is also the only entity which can institute compulsory loans which are used for urgent public investment of national interest, or extraordinary expenses related to public calamity or foreign wars.

Taxes and duties on imports include: import duty at selective rates on the CIF price; excise tax (IPI) due on the import price grossed up by the import tax and based on selective rates; State sales tax (ICMS) due on the import price grossed up by the import duty and IPI (ICMS is 18% in most states); and maritime transport fee (AFRMM) due on the value of freight, usually at a rate of 25%.

Federal Taxes: These include import duties, export duties; income and capital gains tax; tax on industrialized goods (IPI); tax on credit, exchange and insurance, or on securities transactions (IOF); tax on rural Land (ITR), and tax on large fortunes (IGR).

Income tax (Imposto de Renda – IR) is levied on income and wealth increases at 15% and 27.5 % and on capital gains of corporate entities at 15%. Corporate income tax is on profits and capital gains generated by operations in Brazil or abroad based on the company's net profits. It is 15 on net profit but a 10% supplementary tax is applicable to the portion of net profits which exceeds R\$ 20,000 per month.

Withheld income tax (Imposto de Renda na Fonte – IRF) is due on income paid, credited, remitted, or delivered to non-residents, at the rate of 15% or 25%.

Tax on Industrialized Goods is levied on output and on the importation of industrialized goods. It is levied at 10% but export goods are exempted

Tax on Credit and Exchange Transactions, insurance and securities is paid on bank loans and similar transactions, foreign currency transactions, insurance premiums, and securities traded. The rate depends on the type of operation.

States and Federal District Taxation: States and federal district taxes include inheritance and gift tax; tax on circulation of goods, interstate and inter-municipal transport, and communications); tax on ownership of motor vehicles.

The primary state tax is the tax on circulation of goods and services which is paid on operations involving circulation of goods (including manufacturing, marketing, and imports) and on interstate and inter-municipal transport and communications services.

Municipalities and the Federal District are empowered to implement urban property tax, tax on real estate transfers and services tax, levied at an average of 5% on certain services listed in federal law.

4.3 Documentary Requirements

Among the documents used in the importation of goods are:

- Commercial Invoice which must be completed by the supplier in the country of origin showing full details of the goods;

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- Bill of lading / Air Waybill; and,
- Phyto-sanitary or health certificates are necessary for the importation of foodstuffs, plants and seeds, livestock as well as timber packaging used in the shipment of goods.

These documents must contain an import licence number issued by SECEX. Other necessary details include:

- name and nationality of the ship or aircraft carrying the goods
- full address of the shipper
- full address of the manufacturer
- full address of the seller
- full address of the consignee
- import number, issued by SECEX
- date of order
- shipping date
- port of shipment and destination
- delivery and payment terms
- a complete description of the goods (in Brazilian Portuguese or with a translation) including:
- country of origin
- marks, numbers, quantity and type of packages
- unit and total price of each type of merchandise, in currency of transaction, indicating the list price
- gross and net weights in kilogram
- export marking
- freight and other expenses, with free on board (fob) and cost, insurance & freight (c.i.f.) value in the currency negotiated with the importer.

A non-negotiable copy of a numbered and dated bill of lading/air waybill should be attached to each copy of the commercial invoice. The Bill of lading should contain the import licence number and its date of expiry and details of the freight charges in words and numbers.

4.4 Samples and Carnots

Brazilian regulations allow for temporary admission of products which are imported for a pre-determined period and with a clear objective. Some samples require previous authorization from specific government departments; others cannot be sent. It is therefore important to make arrangements before sending samples.

To travel with samples, business people must obtain a business visa. They can transport samples in their luggage providing the amount can qualify as having no commercial value in which cases, the import duty is waived.

Samples of value can be imported duty free but these must be listed and the business person must post a bond covering payment of any duties and taxes if the samples are not re-exported. Samples, whether of commercial value or not, which are sent to importers must be accompanied by the same documentation -including an import licence - as ordinary commercial shipments. These documents should be marked "Amostra Gratis" i.e. "Sample, not for sale". Only one sample of each product should be sent and these should be samples of products not manufactured locally.

4.5 Labelling and Marking Requirements

According to the Consumer Protection Code imported products can be sold in their original packaging but a label must be attached which sets out the following in Brazilian Portuguese:

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- The name and address of the importer
- The country of origin
- A description of the product
- Its weight according to local standards
- The product's composition
- Its validity
- Relevant warnings regarding health risk or security

Instruction manuals must be in Brazilian Portuguese. There are special labeling regulations for importing pharmaceutical specialties, antiseptics, disinfectants, cosmetics, beauty and hygienic preparations, alcoholic beverages, foodstuff.

4.6 Trade Agreements

Market access is affected by the trade agreements signed by Brazil. At the multilateral level, Brazil is a member of the World Trade Organization (WTO) and consequently a signatory to the General Agreement on Tariffs and Trade (GATT) and the Marrakech Agreement and is part of the General Agreement of Trade in Service (GATS) framework.

Brazil is also a member of Common Market of the South (MERCOSUR) which includes Argentina, Uruguay, Paraguay and Venezuela.

MERCOSUR has free trade agreements with Colombia, Ecuador, Peru, adding to its existing agreements with Chile and Bolivia to establish a commercial base for the newly-launched South American Community of Nations. Mercosul is pursuing free trade negotiations with Mexico and Canada and has resumed trade negotiations with the EU. The trade bloc also plans to launch trilateral

free trade negotiations with India and South Africa, building on partial trade liberalization agreements concluded with these countries in 2004. China has increased its importance as an export market for Brazilian soy, iron ore and steel, becoming Brazil's fourth largest trading partner and a potential source of investment.

4.7 Other Regulations and Factors that Affect Trade

Foreign Exchange Control

Remittance of profits is not restricted but there is a 15 per cent withholding tax. Foreign currency can be bought for transactions which are authorized and controlled by the Central Bank. To buy foreign currency from an authorized broker, purchasers must present the relevant documentary evidence. Brazil has a floating exchange rate which is published daily in local newspapers and can be found in some international editions including the Financial Times and New York Times.

5 INVESTMENT POLICY

5.1 Export Processing Zones

Brazil has four special export processing zones (ZPEs). They are Manaus in the state of Amazonas; Macapa/Santana in Amapc; Tabatinga in the Amazonas; and Guajaramirim in Rondonia. To stimulate investments investment, the ZPEs benefits from lower import duty on inputs intended for industrialization, exemption from the tax on industrializes products and reduction on the income tax.

Manuas is the largest ZPE. According to International labour Orgainisation figures, it employed 60,288 people in 309 firms during 2003. The firms employed 60 288 and were in the electronics, computer science assets, watchmaker, thermoplastics, mechanics, wood, chemical, textiles and toy sectors. The zone contributed US\$9,042 billion to exports.

In early 2008, government implemented a new tax regime applicable to ZPEs under Provisional Measure 418. The main features are the suspension of the import tax, federal excise tax, P.I.S. (Program for Social Integration contribution), COFINS (the Contribution for the Financing of Social Security), and the additional tax on freight on imports and domestic purchases carried out by companies authorized to operate within a ZPE. These will be waived for the acquisition of used assets and equipment that will be incorporated into the ZPE company's capital.

Provisional Measure 418 also:

- regulates situations where ZPE authorization may expire;
- establishes the jurisdiction of the ZPE National Council to regulate ZPE-related issues;
- restricts ZPE companies from operating, creating branches, or participating in other companies located outside ZPE areas;
- establishes requirements for ZPE authorization, including a list of the relevant products to be produced by the ZPE company, and guarantees tax breaks for a period of 20 years;
- requires a commitment by the ZPE company to earn at least 80 per cent of its gross income from export sales; and
- prohibits companies from installing plants within a ZPE that are indicative of a mere transfer of industrial facilities already operating outside ZPEs.
- Under Provisional Measure 418 public and private international bids are eligible for the domestic drawback customs regime. This regime allows eligible taxpayers to import components free of import duties, provided that the final product is exported to foreign clients. A minimum exchange gain (the export price over the import costs) must be paid for taxpayers to get relief from import duties.

5.1.1 Tax Exemptions

Government has a tax reduction regime for imports of capital goods with no national similar product called the "Ex-Tariff", which is aimed at the expansion and re-structuring of national industrial capacity, and improving the services

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infrastructure. Reduced import taxes are applied to acquisitions of machines and equipment not produced in Brazil.

There are also a number of other exemptions including:

- Import Tax rebates of between 2% to 14% for purchases of capital goods, information technology and telecommunications goods which are not produced in Brazil. This is extended to industrial companies and service providers
- Reduced rates of Tax on Industrialized Products (IPI) as well as zero tax on capital goods.
- Rebates on the IPI tax on construction materials offered to the civic construction sector
- Special tax regime aimed at investment in ports. This is a tax rebate on purchases of machines and equipment, with lower rates of IPI, COFINS PIS/Pasep and import tax (in the case of equipment not produced in Brazil).
- Special Regime for the purchase of capital goods by companies export 80% or more of their annual sales, and shipyards.

Fiscal incentives for technological innovation 10such as:

- Income Tax and Charge on Net Profit (CSLL) rebates for R&D expenses;
- Reduced tax on industrialized Products (IPI) on purchases of machines and equipment for R&D
- accelerated depreciation of such goods;

- accelerated amortization of intangible goods;
- reduced Income Tax withheld at source, on transfers abroad resulting from technology-transfer contracts;
- exemption from Income Tax withheld at source on remittances abroad for registration and maintenance of trademarks, patents and cultivars; or economic grants for contracting of researchers holding master's degrees or doctorates, employed by companies to engage in research, development and technological innovation activities; technological research and innovation.

During July 2007, number of measures were introduced measures to strengthen and enhance the competitiveness of the manufacturing sector, especially leather articles, footwear, textiles and garments, furniture, electrical and electronic goods, and automobiles. These measures include:

- Special lines of credit - working capital, investment, and exports (pre-shipment) and an additional line for restructuring of companies. All these lines include a solvency bonus of 20% on the interest, thus reducing the rate effectively charged.
- Specific Taxes on Imports of Clothing: Taxes will be charged on the quantities of goods imported (ad rem) rather than on the value of the goods imported (ad valorem), in accordance with minimum values, per kilogram, for each category of product for clothing and raw materials used to make garments.

¹⁰ Cited on

<http://www.braziltradenet.gov.br/CDINVESTIMENTO/?Idioma=I>

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- Government also provides rebates on income taxes and charges on net profits in relation to R&D expenditures. These rebates which are extended to corporate entities conducting technological research and development for technological innovation include:
 - Tax on Industrialized Products (IPI) rebates on the purchase of machines and equipment for R&D
 - Accelerated depreciation of such goods;
 - Accelerated amortization of intangible goods;
 - Withheld income tax rebates on remittances abroad stemming from technology transfer contracts;
 - Exemption from withheld income tax for remittances abroad for the filing and maintenance of trademarks, patents, and cultivars; and,
 - Economic grants for the contracting of researchers, with MAs or PhDs.
- Companies that produce computers, automation and telecommunications equipment, microelectronics, software and technical services are also given rebates for IT providing they are produced under the Basic Production Process, described in Informatics Law (minimum set of operations at the manufacturing plant, characterizing effective manufacture of the product).

6 ESTABLISHMENT OF A BUSINESS

6.1 Right to Private Ownership

Companies wishing to incorporate must apply to the Board of Trade accompanied by the following documents:

- Three original copies of the Articles of Association signed by all the partners and two witnesses;
- Certified photocopy of each partner's identity card;
- Power-of-attorney from partners resident or incorporated abroad, signed before a public notary in the country of origin, stamped at the Brazilian Consulate, translated by a public sworn translator in Brazil and registered at a Brazilian Deeds and Documents Registry Office;
- Documentary proof of existence of any foreign partner resident abroad;
- Personal declaration signed by each partner or manager of the society that he is not prevented from engaging in commercial activities, which may be made in the articles of association themselves or in a separate document;
- Forms with data on the company and its partners, duly filled out, accompanied by proof of payment of filing fees.

6.2 Work Permit Requirements

The type of work visas issued depends on the specific situation. They are work visas for professionals employed by Brazilian companies; technical personnel with no employment contracts; artists and athletes; research scientists;

registration upon entry into Brazil; foreign corporation officers: individual investors; travel in advance of permanent and temporary employment.

Workers with specialized skills or knowledge, unavailable in Brazil, can get visas for up to two years, renewable for an additional two-year period. Such applicants must provide proof of at least a year's experience in the relevant field; of specialized knowledge or skills. At least two-thirds of a Brazilian company's staff must be Brazilian citizens therefore the company which is importing skills must also provide evidence of its corporate wage structure and the wages to be paid by the immigrant worker. The amount paid in Brazil must be about 25% higher than the portion paid abroad.

An officer of a foreign company with branches or subsidiaries in Brazil and those to be permanently transferred to work there for a subsidiary or branch of a foreign-owned company as an officer may apply for a permanent visa with the right to work.

The foreign company must have invested at least US\$ 200 000¹¹ in Brazil for each foreign officer or at least US\$ 50,000 and the commitment to hire at least ten new Brazilian employees within the next two years. The Ministry of Labour must authorize the application if the officer is appointed in more than one company of the same group.

Foreign company officials and workers can apply to the National Immigration Council for work permits and visas. Temporary visas are available for

¹¹ This investment must be registered with the Brazilian Central Bank.

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foreign workers on contract; these have a lifetime of two years but are extendable.

Foreign performers and sport persons can also obtain temporary visas but these have a lifetime of 90 days but are also extendable. Foreign investors, representatives of financial institutions with head offices abroad are among those who are eligible for permanent visas. The procedures and type of documents to be produced depend on the type of visa.

- Request for permanent visas can be made to the National Immigration Council. The applicant has to provide:
- Request for Work Permit Form
- Company and Candidate Data Form
- Federal Tax Payment Form (GRU) – Record of payment of the individual immigration tax for the foreigner and for each legal dependant, of the sum of R\$ 16.93 per person;
- The legal bylaws of the company (articles of incorporation or consolidated
- Bylaws and their amendments) duly registered with the Board of Trade or with an official notary's office.
- Proof that the foreign capital invested is fully paid up in the capital stock of the applicant company;
- Minutes of the election or appointment of the legal representative of the applicant institution,
- Power of attorney by public instrument, when the foreign investor is represented by proxy.

These documents must either be in Portuguese or authenticated by the Brazilian consular service and translated

by a sworn translator in Brazil. The documents to accompany permanent visas' applications for other categories of persons must be accompanied by similar documentation. Employers have to justify the need to import workers based on conditions in Brazil's labour market.

In the case of a foreign investor, a permanent visa may be granted if the investment is no less than US\$50,000 in a new or existing Brazilian company. If the amount is less, permission may be granted from the Ministry of Labour once the company is committed to creating no less than ten new jobs for Brazilians in the following five years.

Persons employed by a Brazilian company who hold permanent or temporary work visa must pay Brazilian taxation from the date of entry into Brazil. Holders of other types of temporary visas are considered residents for tax purposes as of their 183rd day in Brazil.

6.3 Intellectual Property Rights

6.3.1 Laws of Patents, Trademarks and Copyrights

Brazil is a member of the World Intellectual Property Organisation (WIPO) and a signatory to the Paris Union Convention for the Protection of Industrial Property, including the Hague Revisions of 1935 and the Stockholm revisions of 1967. It is also a party to the Patent Cooperation Treaty (PCT) and the 1971 Strasbourg Agreement¹², which have been incorporated in Brazilian domestic laws.

¹² This outlines the standards for International Patent Classification

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In addition, a number of bilateral agreements relative to industrial property issues influence Brazil's laws. The National Institute of Industrial Property (INPI) is the government body responsible for industrial property rights, for formal examination of requests for patents, and registration of trademarks.

Patents: Patents cover inventions, utility models and industrial designs and extend for various time spans depending on the type. A period of 20 years is extended to inventions, 15 years to utility models and 10 years 13 to designs. If improvements are made to an invention these can be protected by a patent through the use of a Certification of Addition which will cover the same period of time as the patent.

To get a patent, an application must be made to the INPI. The application should include: the inventor's claims, a detailed description of the invention including drawing where applicable and evidence of compliance with all legal requirements.

A certificate is issued after a preliminary formal examination and the application remains confidential for 18 months after which it is published but the inventor may request early publication. With 36 months of the application the inventor or any interested third party can request a formal examination of the application. If this is not done, the application is deemed withdrawn, and the patent goes into public domain. A request for restoration must be filed within 60 days and a fee paid. A formal decision regarding the denial, granting or shelving of a patent is published after a technical examination.

The holder of a foreign patent can file an application for a corresponding patent within a priority claim as stipulated under the Paris Convention which allows 12 months for patents of invention and utility models, and six months for industrial designs. If commercial use of a patent does not start within three years of approval, it can be the subject of a Compulsory License.

A patent lapses due to: expiry of its legal term; caducity; failure by the inventor to pay the required INPI fees; waiving of the inventor's privilege; and in the case of a foreigner inventor, the absence of a duly qualified attorney domiciled in the country, or administrative cancellation or court annulment.

Under Brazilian laws, patents for medical drugs registered in Brazil can be compulsory licensed in cases of abuse of economic power, such as anti-competitive practices or failure to manufacture the product in Brazil three years after granting of the patent. Compulsory licences can also be granted in cases of national emergency or in the public interest.

In 2004, a new Bio-Security Law was approved by the Chamber of Deputies and was expected to go before the Federal Senate. This seeks to forbid genetic experiments and research on human cloning, and establish standards for research, planting and marketing of genetically modified seeds.

Trademarks: A company applying for a trademark must prove that it is in good standing under the laws of its parent country and that the company's field of business is required in Brazil. Trademark protection is granted for ten years but

¹³ This can be extended for three five-year period.

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can be extended for ten-year periods. Foreign trademarks are registered under the terms of the Paris Convention. This allows for an exclusive priority term of six months, from the date of the application in the country of origin, for its holder to apply for registration of this same trademark in other countries party to the Convention.

If a foreigner patent holder applies for a Brazilian trademark outside of the priority claim as set out in the Paris Convention, it is considered a Brazilian trademark and will not be granted the benefits spelt out under the Convention.

Under Brazilian law and regulations, royalties are not charged for trademark and patent license agreements under the below conditions:

- the trademark or the patent is not duly registered/granted in Brazil;
- the trademark or the patent was not filed in Brazil within the priority term, mentioned above;
- the registration of the trademark has not been renewed;
- the license agreement is between a foreign parent company and its Brazilian branch;
- the previous owner of a transferred trademark or patent was not entitled to remuneration.

Franchise: The Brazilian Franchising Association 14(ABF) has a self-regulation code which conforms to Brazil's franchise laws. It therefore that sets out the rules that governs the franchising systems, and resolves issues relating to franchising.

In addition, Brazil Law 8.955/94 sets rules for the relationship between franchiser and franchisee from preliminary negotiations to formalizing a franchising agreement. It also sets penalties for non-compliance. Under the law, the franchiser must furnish the potential franchisee with a Uniform Franchise Offering Circular (UFOC which contains summary of conditions and duties of the potential franchisee as well as:

- a brief background, modality of company, full name and trade name of the franchiser and all associate companies;
- balance sheets and financial records of the for the past two fiscal years.
- a list of all judicial liabilities involving the franchiser, the controlling companies and owners of the trademarks, patents and copyrights, that might impede the franchise;
- a detailed description of the franchise (business and activities)
- a profile of the ideal franchisee including details of experience, education;
- details on the direct involvement of the franchisee in operation and management of the business;
- a detailed description of the initial investment necessary to implement the franchise, affiliation fees, or collateral, and estimated costs of installations, equipment, and initial supplies;
- precise information on periodic charges (royalties, rents, insurance, etc.)
- other sums to be paid by the franchisee to the franchiser, or to third parties indicated by the franchiser;

¹⁴ This looks after the interests of franchises in Brazil.

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- a complete listing of all franchisees (name, address, telephone number), sub-franchisees and sub-franchisers, including those one that have left the net in the preceding twelve months; and,
- a model of the agreement to be signed.

Copyrights: Brazilian laws protect literary, scientific and artistic works, industrial property rights, industrial and commercial utilization of inventions, trademarks, patents, and industrial designs. It also speaks to crimes against industrial property. The National Institute of Industrial Property (INPI) is the government body responsible for industrial property rights, for formal examination of requests for patents, and registration of trademarks. The Software Law (1998) address the authorship of works traded in the electronic commerce environment.

7. CULTURAL PRACTICES

7.1 Entry Procedures

Under Brazilian law, there are various types of visa depending on the specific purpose of travel. These include transit; tourist, temporary, permanent, courtesy, official and diplomatic visas but the most common categories of Brazil are tourist, temporary and permanent visas.

Short term visas for business and tourists does not allow the holders to work, provide technical assistance services, nor receive payment for services from any source in Brazil. A business visa allows the holder to participate in meetings, conferences, fairs and seminars, visit potential clients and conduct market research.

Business visas are generally obtained at the Brazilian Consulate in the country of the applicant's residence. The application should be accompanied by a letter from the foreign or Brazilian company pointing out the purpose of the trip and what the foreigner will do while in Brazil. It should also include:

Names, addresses, and telephone numbers of business contacts in Brazil;
Proposed arrival and departure dates;

Guarantee of financial responsibility for the applicant for the duration of the visit.

7.2 Business Hours

Commercial Hours: 9:00 a.m. to 7:00 p.m. Monday to Friday
9:00 a.m. to 1:00 p.m. Saturday
Shopping centres: 10:00 a.m. to 10:00 p.m. Monday to Saturday

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APPENDICES

ECONOMIC DATA

BALANCE OF PAYMENTS

Trade balance (FOB)

In US\$ million

2006	2007	2007 Q3	2007 Q4	2008 Q1	2008 M01	2008 M02	2008 M03
46,457	40,028	10,356	9,097	2,838	944	882	1,012

Exports (FOB)

In US\$ million

2006	2007	2007 Q3	2007 Q4	2008 Q1	2008 M01	2008 M02	2008 M03
137,807	160,649	43,385	44,050	38,690	13,277	12,800	12,613

Imports (FOB)

In US\$ million

2006	2007	2007 Q3	2007 Q4	2008 Q1	2008 M01	2008 M02	2008 M03
91,351	120,621	33,029	34,953	35,852	12,333	11,918	11,601

Current account

In US\$ million

2006	2007	2007 Q2	2007 Q3	2007 Q4	2007 M12	2008 M01	2008 M02
13,643	1,461	2,196	879	-1,856	-398	-4,232	-2,090

Total external debt

In US\$ billion

1999	2000	2001	2002	2003	2004	2005	2006
241.5	236.2	226.1	227.7	235.4	220.2	188.0	199.4

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ECONOMIC ACTIVITY

Per capita GDP

In year 2007 US\$ (exchange rate average 2007)

2000	2001	2002	2003	2004	2005	2006	2007
6.11	6.10	6.17	6.15	6.41	6.52	6.67	6.94

Real GDP

Percent change same period of previous year

2006	2007	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4
3.75	5.42	4.40	5.14	4.39	5.42	5.58	6.20

Nominal GDP

In R\$ million

2006	2007	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4
2,332,936	2,558,821	593,033	626,519	598,848	635,160	645,231	679,583

Industrial production

Percent change same period of previous year

2006	2007	2007 Q2	2007 Q3	2007 Q4	2007 M12	2008 M01	2008 M02
2.82	6.02	5.80	6.34	7.93	6.32	8.69	9.71

Nominal investment rate

Percent of GDP

2006	2007	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4
16.50	17.57	16.93	15.92	16.68	17.47	18.38	17.67

Real investment

Percent change same period of previous year

2006	2007	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4
9.96	13.44	9.75	11.20	8.85	13.92	14.58	16.03

Volume of retail sales

Percent change same period of previous year

2006	2007	2007 Q2	2007 Q3	2007 Q4	2007 M11	2007 M12	2008 M01
6.18	9.68	9.85	9.28	9.82	10.39	9.49	11.80

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EMPLOYMENT AND WAGES IN METROPOLITAN AREAS

Employment

In thousands of persons

2006	2007	2007 Q2	2007 Q3	2007 Q4	2007 M12	2008 M01	2008 M02
20,282	20,883	20,605	21,044	21,377	21,381	21,261	21,160

Unemployment rate

Percent of labor force

2006	2007	2007 Q2	2007 Q3	2007 Q4	2007 M12	2008 M01	2008 M02
9.98	9.29	9.97	9.33	8.10	7.40	8.00	8.70

Average real wages

In R\$

2006	2007	2007 Q2	2007 Q3	2007 Q4	2007 M11	2007 M12	2008 M01
1,138.77	1,179.35	1,143.27	1,133.42	1,294.92	1,245.68	1,484.11	1,175.79

PRICES, INTEREST AND EXCHANGE RATE

IGP-DI: General Price Index (domestic supply)

Annualized rates

2006	2007	2007 Q2	2007 Q3	2007 Q4	2007 M12	2008 M01	2008 M02
3.79	7.89	2.24	12.37	13.89	19.21	12.50	4.65

IPCA: Extended Consumer Price Index

Annualized rates

2006	2007	2007 Q2	2007 Q3	2007 Q4	2007 M12	2008 M01	2008 M02
3.14	4.46	3.29	3.62	5.83	9.25	6.68	6.04

Core inflation - IPCA - extended consumer price index - prospective (4 months)

Annualized rates

2006	2007	2007 Q2	2007 Q3	2007 Q4	2007 M12	2008 M01	2008 M02
5.50	6.13	5.96	6.13	6.42	6.68	7.06	6.42

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Interest rate - Overnight/Selic

Annualized rates

2006	2007	2007 Q3	2007 Q4	2008 Q1	2008 M01	2008 M02	2008 M03
15.08	11.87	11.66	10.97	10.78	11.75	10.03	10.56

Nominal exchange rate

In average period R\$ / US\$

2006	2007	2007 Q3	2007 Q4	2008 Q1	2008 M01	2008 M02	2008 M03
2.18	1.95	1.92	1.79	1.74	1.77	1.73	1.71

Effective exchange rate real INPC exports

index (average 2000 = 100)

2006	2007	2007 Q2	2007 Q3	2007 Q4	2007 M12	2008 M01	2008 M02
96.62	92.51	92.94	91.96	89.57	89.42	87.10	86.25

PUBLIC SECTOR

Public sector borrowing requirements - primary concept

Percent of GDP (last 12 months)

2006	2007	2007 Q2	2007 Q3	2007 Q4	2007 M12	2008 M01	2008 M02
-3.86	-3.97	-4.27	-4.03	-3.97	-3.97	-4.13	-4.18

Public sector borrowing requirements - nominal concept

Percent of GDP (last 12 months)

2006	2007	2007 Q2	2007 Q3	2007 Q4	2007 M12	2008 M01	2008 M02
2.90	2.17	2.08	2.18	2.17	2.17	1.92	1.96

Total public debt

Percent of GDP

2006	2007	2007 Q2	2007 Q3	2007 Q4	2007 M12	2008 M01	2008 M02
44.72	42.67	44.05	43.18	42.67	42.67	41.94	42.19

Source: Reprinted from

http://www.ipeadata.gov.br/ipeaweb.dll/ipeadata?SessionID=254214149&Tick=1207332251031&VAR_FUNCAO=Ser_Pan%28%29&Mod=M

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USEFUL ADDRESSES

WEBSITES

http://www.bmf.com.br/portal/portal_english.asp - Website of the Brazilian Mercantile & Futures exchange.

<http://www.bvrj.com.br/> - Rio de Janeiro stock market.

<http://www.bovespa.com.br/indexi.asp> - Brazil Stock Exchange

www.aeb.org.br – Brazilian Foreign Trade Association

www.bndes.gov.br- Banco Nacional do Desenvolvimento Economico e Social

www.cnpq.br – National Scientific and technological Development Council

www.ibge.gov.br- Brazilian institute of Geography and Statistics

www.sebrae.com.br - Brazilian Micro and Small Sized Company Support Service

www.bcb.gov.br/?english – Brazil's Central Bank- Banco Central do Brasil

<http://www.brazilexporters.com/corporate.html> - online corporate directory

<http://www.brazilexporters.com/impa.html> - directory of Brazilian importers

www.braziltradenet.gov.br - BRAZIL TRADEnET

TRADITIONAL ADDRESSES

Brazil's Stock Exchange
VBolsa de Valores de São Paulo
Rua VX de Novembro, 275
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