



Doing Business in Brazil

an introductory guide





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A Department of Foreign Affairs
and Trade/Austrade Initiative



**FOREIGN
AFFAIRS AND
TRADE**



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FOREWORD

By Mark Vaile

“Doing Business in Brazil” is a follow-up to the 1999 publication “Doing Business in Latin America”. Along with the portfolio’s annual “Capture the Americas — Latin America” seminar series, it is another tangible sign of the Government’s commitment to promoting Australian trade and investment in Latin America, and supporting the efforts of the business community.

The importance of expanding Australia’s relations with Latin America was highlighted by the report, tabled in September 2000, on “Australia’s Trade and Investment Relationship with South America” by the Trade Sub-Committee of the Joint Standing Committee for Foreign Affairs, Defence and Trade of the Australian Parliament. The report assessed that the region had considerable market expansion potential and could play a more important role from Australia’s trading perspective.

The Government has responded positively to the thrust of the recommendations. In particular, at the time of his visit to Brazil in March 2001, my colleague, Mr Downer, and I jointly announced the creation of the Council on Australia Latin America Relations (COALAR). The Council, which will include prominent business representatives with experience in Latin America, will advise government and business on ways to further Australia’s commercial, economic and political interests in the region.

Of all the region’s markets, Brazil stands out. It is already Australia’s largest trading partner there, and, due to its economic size and diversity, offers significant potential.

My first official overseas assignment as Australian Trade Minister in September 1999 included a visit to Brazil. I was struck by the warm and positive relations that exist between our two countries. I was able to speak to Australian business people on the ground and obtain first-hand assessments of the opportunities for our exporters.

While the commercial relationship is growing, it remains less than optimal: Brazil, the ninth largest economy in the world, accounts for only 0.5 per cent of Australia’s total exports. Clearly, the potential for further commercial cooperation is substantial.

Of course, there are historical and commercial reasons for this modest trade relationship, but changes to the Brazilian economy are providing new opportunities. For example, Brazil has made substantial progress in opening its markets to investment. It is now a primary target for North American and European capital, with many of the world’s largest companies making strategic acquisitions.

Importantly, Brazil has also made progress towards further trade liberalisation. As the economy becomes more outward-looking, the opportunities for Australia will continue to expand.

Already there is substantial evidence that more Australian companies are looking to Brazil as a market for growth. Some of our traditional corporate leaders such as Burns Philp, WMC and BHP are being joined by a new guard of innovative small and medium-sized enterprises such as Open Telecommunications, Quiksilver, Maptek, Agrichem, Securrency and Hills Industries that are featured in this publication. These companies are leading the way for all Australian companies.

Apart from the direct commercial relationship, Australia and Brazil have much in common in our approaches to trade policy. For example, as members of the Cairns Group, Australia and Brazil work together to promote freer global trade in agriculture. This cooperation has extended to lobbying against barriers to sugar exports. Brazil and Australia are the world's two largest sugar exporters.

The message in this publication is a simple one: Brazil offers a major market for Australian businesses. I encourage more Australian business people to take a look at this South American giant for themselves.

A handwritten signature in black ink, appearing to read "John Howard". The signature is written in a cursive, slightly stylized font.

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PART 1

Understanding Brazil

Introduction

Case Study — Securrency

Political and Economic Outlook

Brazil, Mercosul and Free Trade Agreements

**Australia's Trade and Investment Relationship
with Brazil**

INTRODUCTION

By Peter Shannon

Peter Shannon is Assistant Secretary of the Americas Branch of the Department of Foreign Affairs and Trade. Peter has taken a leading role in encouraging Australian business to look at Latin America.

'Doing Business in Brazil' is an introductory guide to the Brazilian commercial scene aimed at providing some basic insights for Australian business people. It covers topics such as Brazil's economic outlook, commercial issues, sectoral analyses and a range of business case studies. It also includes a list of contact points for those companies interested in further exploring the market.

I am pleased to say that the publication is a partnership with Austrade and the business community, which is reflected in the various contributions and the support of sponsors Veirano Advogados and Associados and Banco Santander Brazil, a member of the Banco Santander Central Hispano group. The support of these two prominent Brazilian firms is tangible evidence of the awareness in Brazil of the growing interest of the Australian business community in the opportunities on offer in Brazil's exciting markets. This augurs well for the broadening of the bilateral trading relationship.

If you are considering taking your commercial interest in Brazil or other Latin American countries further, the Australian Government is well placed to assist you in dealing with foreign governments, market analysis and planning advice, and once established, on-going support for your trading and investment interests.

Department of Foreign Affairs and Trade (DFAT)

Through the Australian Embassy in Brasilia (the capital of Brazil), DFAT is at the forefront of efforts to improve access to the Brazilian market for Australian exporters by seeking to reduce both tariff and non-tariff barriers. This lobbying for access can extend to assisting Australian firms on an individual basis. In close cooperation with Austrade staff in the commercial capital of São Paulo, DFAT representatives also promote Australian business know-how and expertise to Brazil's commercial sector.



Foreign Minister Alexander Downer (pictured here with Ambassador Garry Conroy) opens the new Australian Embassy in Brasilia, March 2001.

A key service offered by DFAT staff is 'opening doors' to Government bodies and decision-makers. The value of this service should not be underestimated in a country and region where, typically, government plays a more central role in business than is the case in Australia.

A notable recent example of business support provided by DFAT in Brazil involved the introduction of polymer currency notes by Securrency in 2000. Securrency, a joint venture involving the Reserve Bank

of Australia and Belgian firm UCB Films, is the world leader in polymer banknote technology. Facing a campaign of disinformation aimed at raising doubts about the polymer note's security features — led by suppliers of the more traditional paper — DFAT assisted Securrency in its efforts to reassure Brazilian Government officials of the benefits of their technology by making a series of representations on the company's behalf. A case study on Securrency's experience follows this chapter.

In addition to the Embassy in Brasilia, Australia also has an Honorary Consulate in Rio de Janeiro.

Austrade

As the Australian Government's principal international trade and investment facilitation agency, Austrade is well placed to assist Australian companies through its substantial network of offices around Australia and 94 cities throughout the world. In Brazil, the Austrade office in São Paulo works closely with other regional offices in Buenos Aires, Lima, Mexico City, and Santiago de Chile to identify commercial opportunities for Australian firms throughout Latin America.

For both investors and exporters alike, Austrade can assist in both the planning and ready-to-do-business stages. It can help define target markets in Brazil by providing a wide range of business development services including market research, business matching, market entry strategies, trade fair participation, product launches, visit programs and assistance with cultural/language issues. Intelligence on the political, economic and social dynamics of markets and advice on business practices and regulations are just some examples of the information Austrade can provide.

In Brazil, Austrade has assisted many companies from diverse market segments successfully enter the market. Oil and gas, mining, education, infrastructure and information technology and telecommunications are sectors where Austrade Brazil is particularly active.

Export Finance and Insurance Corporation (EFIC)

EFIC assists exporters manage payment and financing risks through the provision of a range of insurance and finance products and services. It has supported a wide range of export transactions for small to medium sized firms, as well as some of Australia's largest companies.

EFIC evaluates payment risks in over 200 countries on an ongoing basis. Each country is assigned a grade between 1 (least risk/most creditworthy) and 6 (highest risk/least creditworthy) that measures country risks only ie the risk of non-payment due to country factors. On its schedule of short-term market grades, EFIC has graded Brazil 4. EFIC's underwriters assess commercial risk separately on a case-by-case basis.

EFIC has supported exports to Brazil ranging from agricultural machinery to electronic commerce hardware.

Broader Government Services

The Foreign Affairs and Trade portfolio is not alone in promoting Australia's commercial interests abroad. Exporters and investors should make themselves aware of the services which agencies such as the Australian Quarantine and Inspection Service, the Department of Agriculture, Fisheries and Forestry Australia, and the Department of Industry, Science and Resources. Further information can be accessed effectively through the internet at <<www.fed.gov.au>>.

Where To From Here

The information provided in this guide is intended only as an introductory overview of the Brazilian market. Topics considered include business processes and conduct as well as sectoral analyses in the fields of consumer goods, mining, IT&T, oil and gas, environmental services and technologies, agriculture and education. The messages of companies already involved in the market have also been harnessed in the form of case studies, and I would like to thank those companies concerned for their involvement.

If, after reading the guide, you believe Brazil may hold some potential for your business, I urge you to use the Government services outlined in this chapter to find out more. Useful contacts and websites can also be found in the appendix to the guide.



SECURENCY: CIRCULATING IN BRAZIL



Securrency is the recognised world leader in polymer substrate technology and the supplier of a range of unique substrates, which are used for the printing of banknotes and other security documents. In addition to Australia, polymer banknotes are in circulation in a growing number of countries worldwide. Formed in 1996, Securrency is a joint venture between the Reserve Bank of Australia (RBA), Australia's Central Bank, and UCB, a Belgian multi-national films, chemicals and pharmaceuticals company.

First Steps

Securrency's Brazilian venture dates back to 1997 when, following initial contact, key Brazilian Government decision-makers visited Australia at the company's invitation to witness first-hand the benefits of polymer notes in action. According to Securrency CEO Myles Curtis, "This was absolutely critical to the project. As with the introduction of any new technology, confidence in that technology is vital to its acceptance. If we were to have any chance of the project getting off the ground, the Brazilians had to see first-hand the technology at work in an established market".

Following further visits to Australia and to other Securrency customers around the world, Brazil agreed to a first print trial of polymer substrate notes. The decision was taken in March 1999 to release a special issue R\$5 (Reais) note commemorating the European discovery of Brazil. This was later changed to the R\$10 note. Project delays resulting from personnel changes at Brazil's Central Bank saw the final project approval slip to July, with production of the banknote commencing in January 2000. It was finally released on 24 April 2000.

"We have been very pleased with the trial which by all accounts has been an overwhelming success. In fact, shortly following the note's release, the order quantity was dramatically increased".

The Securrency Experience

Securrency has had to overcome several substantial challenges to make their business a success in Brazil. While the superior technology and security features of the polymer substrate notes were the major selling point in a country with counterfeiting problems, substantial effort was required to assure Brazilian Central Bank officials of the benefits of the technology.

Securrency also faced a public campaign by older technology suppliers. Newspaper articles critical of the polymer substrate technology and a lobbying effort against the introduction of the notes were just some of the humps along the way. Myles says, "It was not always easy, but we kept working away and we were confident in our technology. Good legal representation was critical and I believe we had the best."



\$10 Reais banknote

While challenging, Securrency has found doing business in Brazil both exciting and rewarding. “Brazil is a wonderful country with excellent people to work with. Sure, our experience has been a little different from other Australian companies involved in the market to the extent that we deal predominantly with Brazil’s Federal Government. Nevertheless, when you

travel in Brazil, what immediately strikes you is the sophistication of the economy and the skilled workforce which services it”.

For Securrency, one of the prerequisites to success in Brazil is to understand that it is not a Portuguese-speaking Australia. “The people we were dealing with have different traditions and business methods. For this reason it is vital to take time to understand the sector, the market and the country more broadly. Use local expertise and where possible be prepared to consider local investment. Above all be flexible, respond quickly to issues and remember, patience is a virtue in a country where wheels can turn slowly.”

The Future

Following the enthusiastic acceptance by Brazil of the R\$10 commemorative note, Securrency is making plans to manufacture future note runs in Rio de Janeiro. “We now consider Brazil an important addition to our global customer base. Most importantly, it has given the company a foothold in South America where potential for our product abounds.”

Brazil — At a Glance

Population	165.9m (2000 EIU/Viewswire estimate)	
Area	8 547 395 km ²	
Capital	Brasilia	
Key Economic Centres	São Paulo, Rio de Janeiro, Belo Horizonte, Salvador	
Language	Portuguese	
Currency	100 Centavos = one Real (R\$)	
Political System	Bicameral Federal Republic — Elected President	
Next Election	October 2002 (President, Gubernatorial and Congressional)	
Measurement	Metric	
Time	AEST — 13 hours	
Public Holidays	New Years Day	1 January
	Epiphany Day	6 January
	Carnival	Feb/March*
	Easter/Good Friday	March/April
	Tiradentes Day	21 April
	May Day	1 May
	Corpus Christi	June
	Independence Day	7 September
	Patron Saint Day	12 October
	All Souls Day	2 November
	Proclamation Day	15 November
	Christmas Day	25 January
	* four days before Ash Wednesday	

THE POLITICAL AND ECONOMIC OUTLOOK

By Ambassador Garry Conroy

Garry Conroy has been Australia's Ambassador to Brazil since May 1998. Garry has travelled extensively throughout Brazil and has seen many commercial opportunities for Australia first hand. He believes that while new entrants need to make careful assessments of the potential barriers to trade and investment, there are substantial commercial opportunities for Australian companies in many sectors.

In the past decade, Brazil has undergone an economic and political transformation that has fundamentally changed this South American giant. Since the adoption of the new constitution in 1988, Brazil has enjoyed a remarkable period of democratic consolidation and has cast off the import substitution policies of the 1970s for a more orthodox economic approach.

Liberalising political and economic forces will continue to drive changes within Brazilian society. However, challenges to the reform process and modernisation are also likely to continue and intensify and will have an important bearing on Brazil's future economic success.

The Economy

Understanding the Brazilian economy is the first challenge to potential exporters and investors looking at the powerhouse of South America. On the one hand, Brazil offers immediate attractions to new market entrants such as a population of some 166 million people, the sophisticated centres of Rio de Janeiro and São Paulo, a burgeoning middle-class consumer base, a very large industrial base and huge natural resources. On the other, it continues to face economic uncertainties and is struggling to improve its competitiveness, build a broadly based modern infrastructure, and reform its public sector.

Reshaping the Economy

The current phase of Brazil's economic transformation gained momentum in 1994 with the launch of the Real Plan by the Brazilian President Cardoso, then Finance Minister in the administration of President Franco. Cardoso's strategy was to reign in the damaging effects of hyperinflation and develop a more stable and business-friendly environment in order to improve international competitiveness and attract greater local and foreign investment. The centerpiece of the plan was the launch of the Real, which replaced the Cruzeiro, and an associated program of structural reform.

Cardoso's plan achieved its primary goals, reducing inflation from a high of 2050 per cent in 1994 to a low of 3.2 per cent in 1998. The wide electoral support enjoyed by the Plan was reflected in his election as President in 1995.

In his first term as President, Cardoso continued to push a program of reforms including administrative changes in the public sector and the privatisation of major public sector enterprises and deregulation of the markets. Key reforms during this period included: an end to state monopoly

in oil and telecommunications (1995); guarantee of national treatment of foreign investments in most sectors (1995); an end to state monopoly in reinsurance; the creation of a legislative framework to allow for the privatisation of telecommunications (1997); the establishment of a national petroleum agency, ANP, to award concessions for oil exploration and production (1997); and public service administrative reform (1998).

President Cardoso's reforms also exposed some serious structural problems in the economy. While the Administration recognised the need to improve public sector management, contain federal spending and modernise the taxation system, reforms were difficult due to growing opposition in Congress. Slow progress on reform led to burgeoning public sector debts and deterioration in the current account balance.

Moreover, the Administration found it increasingly difficult to promote fiscal responsibility among the states. The 26 states play an important role in public expenditure and have substantial holdings in public sector enterprises. President Cardoso's efforts to manage the economy in a more responsible manner have led to several confrontations with some state leaders.

Facing the Crisis

In October 1997, with the economic crisis in Asia worsening, the Administration moved to introduce an austerity package. The package aimed to shore up the government's fiscal position through tax increases and a round of public service job cuts. These dramatic moves offered Brazil a temporary hiatus, insulating the domestic economy to some extent from mounting international pressures.

Despite these efforts, by mid-1998 the Real was again coming under increasing pressure from international financial markets concerned about economic reform and the potential spread of instability in developing markets. By mid-August, the Russian devaluation sent a shudder through developing markets and led to a crisis of confidence in Brazil's economy. This led to an unprecedented capital flight with almost US\$22bn flowing from the economy in September alone.

Opting for a "crawling peg"¹ on the currency, the Administration found its foreign currency reserves rapidly dwindling as it intervened to maintain the price band. Despite a further depreciation of 8.3 per cent (effective), interest rates at 49.75 per cent, a new Fiscal Stabilisation Program and an IMF rescue package of US\$41.5bn, the pressure continued.

On 15 January 1999, the Brazilian economy captured world attention with the floating and subsequent collapse of the Real. The decision was precipitated by market reaction to the announcement by Minas Gerais Governor and former President Itamar Franco of a moratorium on the servicing of the state's US\$15.3bn debt.

The successes of the Cardoso administration in controlling inflation and kickstarting the processes of economic reform did little to allay the fears of investors as the economy plunged into uncertainty. The Real continued its decline from a pre-float level of 1.21 against the US dollar to a low point of 2.25. Reputable financial analysts predicted a decline in GDP of as much as 6 per cent in 1999.

¹ A system which allowed for a gradual and controlled annual devaluation.

The Road to Recovery

In the face of the crisis, the Cardoso Administration maintained tight monetary policy, while seeking to increase revenues and further reforms. Shocked by the collapse of the Real, the Congress approved controversial tax increases on civil servants and pensioners, increases to the unpopular financial transactions tax and a Fiscal Responsibility Law which curbed the excesses of the states. These measures went some way to bolstering government revenues, while official interest rates rose to 45 per cent to limit capital outflows and dampen inflationary pressure.

By May 1999, the first tangible signs of recovery became evident. Helped by the positive effect of devaluation and a bumper agricultural harvest, Brazil was able to cut short the technical recession in early 1999 to record modest growth of 0.8 per cent for the year. Inflation also held to pre-float limits and the currency began to recover.

Brazil's Economy Today

Two years after the Real's collapse, Brazil has gone on to record a remarkable economic rebound. Driven by strong performances in the industrial and agricultural sectors, growth is estimated to have reached around 4 per cent in 2000 according to consensus forecasters.

Other economic indicators have also been positive. Despite a spike in July 2000, inflation was held within expectations at 7 per cent for the year. While still at comparatively high levels, the Selic interbank interest rate has fallen to 16.75 per cent, with the current account deficit for 2000 coming in at US\$25bn. Furthermore, US\$18.2bn has already been paid off the US\$20bn drawn from the IMF package.

Business confidence has also rebounded to near record levels. Expectations of growth and increased profits persist with the vast majority of business executives, while the Bovespa (Brazil's share index) continues to record solid, although inconsistent, results.

In a vote of confidence in Brazil's long-term future, international investors have continued to pour in massive levels of foreign direct investment. A record US\$32.66bn of foreign direct investment in 1999 was followed in 2000 by an additional US\$29.8bn flowing into newly privatised enterprises and other strategic investments. This sentiment has been backed by the US-based international credit rating agency, Moodys, which has returned Brazil to its pre-crisis rating.

But the news is not all positive. Concerns about Brazil's competitiveness have been highlighted in recent times with a poor balance of trade record. Despite the trade benefits of the devaluation of the Real, Brazilian exports fell well short of early predictions of a US\$4–5bn surplus in 1999.

Brazil's economic prospects have also been affected by the economic difficulties in Argentina. Of most impact has been the effect on Brazil's financial markets, triggering falls in the currency and rising interest rates. It is hoped that Argentina's agreement with the IMF of December 2000 will ease investor concerns.

Politics

An Unfinished Economic Agenda

Brazil's political and business leaders face important challenges. While politically difficult, broad-ranging economic reforms are required to secure Brazil's future prospects. In particular, significant improvements need to be made to industrial competitiveness. This will require further improvements in infrastructure, reductions in government expenditure at all levels, reform of the taxation system and further opening of the economy to international competition.

Despite successfully steering Brazil through the worst of the turmoil, the popularity of President Cardoso and his party has suffered over the past two years. Discontent has followed the perceived failure of the Administration to deliver improved government services in areas such as health, education and poverty alleviation. The extent of the fall in support for the President was reflected in the win by the main opposition Workers Party of several important mayoral positions in municipal elections including in São Paulo in 2000.

Despite the governing coalition holding a comfortable majority, neither the coalition parties nor individual members can be relied upon to support reform proposals. The Government is forced to steer reform legislation through a Congress with the support of a capricious coalition. Some 15 parties are currently represented, alliances are weak and interest groups very strong.

While President Cardoso has indicated that his Administration will continue to push for further reform, falling electoral support will make it increasingly difficult to pass legislation through a Congress looking to the next election. The ongoing success of the current reform program is by no means assured.

2002 Elections

With no clear reformist successor to President Cardoso, the presidential and congressional elections due in October 2002 may once again focus the concerns of international financial markets on the prospects and pace of reform.

Further economic and political reform beyond the October 2002 elections will depend heavily on the commitment of the new President and Administration. Some presidential hopefuls are already beginning to stake their ground, with several potential candidates positioning themselves by taking a more populist position on key reform issues.

Commercial Implications

While Brazil continues to face a range of difficult economic and political challenges, the size of the Brazilian market and the considerable progress already made in economic and political reforms point to a more positive longer-term outlook. Reforms have already changed for the better the operating environment and the expectations of the Brazilian business community. Consecutive years of record foreign direct investment inflows have underlined the high expectations of some of the world's largest and most influential companies.

However, the experience of 1998 is an important lesson for how quickly economic conditions can change. Exporters and investors need to take this into account when developing business plans for the Brazilian market.

Who's Who in Brazilian Politics

Government Parties	Brazilian Social Democrat Party (PSDB) Liberal Front Party (PFL) Brazilian Democratic Movement Party (PMDB) Brazilian Progressive Party (PPB) Brazilian Labour Party (PTB)
Main Opposition Parties	Worker's Party (PT) Democratic Labour Party (PDT)
President	Fernando Henrique Cardoso
Key Ministers:	
Foreign	Celso Lafer
Finance	Pedro Malan
Agriculture Minister	Marcus Vinicius Pratini de Moraes
Communications	Joao Pimenta da Veiga Filho
Mines and Energy	Jose Jorge Vasconcelos Lima
Education	Paulo Renato de Souza
Development Industry and Commerce	Alcides Tapias
Science and Technology	Ronaldo Sardenberg
Central Bank President	Arminio Fraga

As at May 2001

BRAZIL, MERCOSUL AND REGIONAL TRADE AGREEMENTS

By Rowena Thompson

As a Second Secretary at the Australian Embassy in Brasilia, Rowena works to improve market access to Brazil for Australian exporters. She also monitors the evolving regional trading architecture and its implications for Australia.

Introduction

Nowhere has the growing trend towards regional economic integration through preferential and free trade arrangements been more evident than in Latin America. Over the last decade in particular, Latin American governments have favoured the introduction of selective trade agreements as a means to increase trade and political ties within the region, and as a vehicle for regional economic development. Brazil has been a central player in this approach.

Today a significant proportion of inter-regional trade enjoys either preferential or free trade access and there are plans to further unify various groupings, notably the Andean Community and Mercosul, and to extend the coverage and intensity of many existing agreements. Interestingly, this trend has continued despite various economic and political difficulties in recent years.

The Latin American community has also expanded the web of trading arrangements beyond the region. Discussions for a hemisphere-wide Free Trade Area of the Americas (FTAA) and an EU-Mercosul Free Trade Agreement are well underway, with the potential also for preferential linkages with South Africa and other European countries. These agreements have implications for Australia's existing interests in Brazil and other markets.

Mercosul — An Increasingly Integrated Market

The pre-eminent regional trading agreement in Latin America is the Southern Cone Common Market, commonly known by its Portuguese and Spanish acronyms: Mercosul/Mercosur. Mercosul's members are Argentina, Brazil, Uruguay and Paraguay, while Chile and Bolivia are currently associate members. Although Chile has full-membership aspirations, this is unlikely in the near to medium term, given some significant differences in trade policy (eg differing tariff regimes) and also Chile's announcement in November 2000 that it would concurrently pursue a bilateral free trade agreement with the US. This has raised questions about Chile's commitment to Mercosul integration. Already with the four core members, the group encompasses an area of some 12 million square kilometres (more than four times the size of Europe), a population estimated at 213 million (1999) and a combined GDP of US\$1 104m in 2000.

At the heart of the agreement is a commitment by members to free trade within the group's borders and the application of a Common External Tariff (CET), which came into force on January 1 1995. It is estimated that 95 per cent of intra-Mercosul trade is now conducted free of tariffs. For most other major trading partners, such as the US, EU and Japan, the CET, which ranges up to 35 per cent and covers 85 per cent of products imported into the group's borders, is applied.

The remaining 15 per cent of goods are covered by exceptions lists which vary between members, but which include products such as capital goods, information technology, autos and sugar. The CET on these products is expected to converge by 2006.

Mercosul's longer-term agenda includes work towards liberalising and/or harmonising policies on, for example, safeguards mechanisms (such as anti-dumping) and technical standards, services, government procurement, investment, labour, the environment and macroeconomic management. Integration in many of these non-tariff areas will be complex and progress is slow.

Recent Developments

Although political relations between Brazil and Argentina remain solid, there have been continuing tensions since the onset of the Asian and Russian financial crises of 1997-98. Central to these tensions has been the significant advantage that Brazilian manufacturers now enjoy over their Argentine counterparts. Since the devaluation of the Real against the US dollar by almost 50 per cent, lower comparative costs on domestic inputs have given some Brazilian exporters a major competitive advantage (the Argentine Convertibility Law ties the Argentine Peso to the US Dollar). Subsequently, Argentina's exports to Brazil fell from US\$7.8bn in 1998 to US\$5.6bn in 1999. This decline has resulted in several trade disputes in the most politically sensitive areas of clothing, footwear, dairy, poultry, meat, sugar and the automotive sector.

As Argentina approaches three years of recession, the new Minister for the Economy, Mr Domingo Cavallo, recently canvassed the option of unilaterally withdrawing Argentina from Mercosul's CET. In light of the severity of Argentina's economic problems and fear of the spillover effect on its own economy, Brazil has accepted an Argentine proposal that has resulted in Argentina temporarily increasing its CET tariffs on consumer goods to 35 per cent, while temporarily removing tariffs on capital goods. Argentina hopes that as part of a package of measures, these changes will stimulate economic activity by improving competitiveness and encouraging greater investment.

Despite these problems, Mercosul looks likely to weather current political and economic difficulties. This reflects the simple imperative of the interdependent economies of Argentina and Brazil and the need to cooperate to solve economic and trade issues in a way that is mutually beneficial. Rather than shying away from further commitment to Mercosul, the grouping's Presidents agreed to a timetable and detailed targets for policy convergence of fiscal deficits, public debt and inflation at the most recent Mercosul Summit meeting held in Florianapolis in December 2000.

Mercosul's Linkages to Other Major Markets

Brazil, in particular, has been considering ways in which Mercosul's political and economic influence can be expanded. A key motivator is the modest progress in multilateral trade negotiations on agriculture and services in the World Trade Organization and the growing frustration by some developing economies in gaining better access to the EU and North American markets.

Mercosul has been involved in free-trade talks with the European Union and is an important caucusing group in the Free Trade Area of the Americas (FTAA) negotiations. There has also been a commitment to commence free trade negotiations with the European Free Trade Area and South Africa.

In December 1995, Mercosul and the European Union signed a framework agreement on political and economic co-operation. Mercosul and EU ministers met in Rio in late June 1999, and agreed to negotiations that will define the structure, methodology and timetable of an inter-regional association concerning trade. Negotiations cover all sectors (including the highly sensitive agriculture sector), with outcomes to be implemented as a single undertaking. The current mandate states that negotiations will not be concluded until after the conclusion of a new WTO round.

FTAA discussions reached an important milestone with the Declaration of Quebec City, which was issued in April 2001 at the conclusion to the Summit of the Americas. It commits members to finalise free-trade negotiations by no later than January 2005 and to seek entry into force of an agreement no later than December 2005. Venezuela was the only participant at the summit to reserve its position on this timing of an agreement which, when completed, would include all countries of the Americas with the exception of Cuba.

Brazil has been cautious in its approach to FTAA negotiations, concerned about the influence of the US and its North American Free Trade Agreement partners, Canada and Mexico. It has sought to strengthen South American negotiating power through initiatives such as the convening of a summit of South American Heads of Government in September 2000. Mercosul countries have advocated a gradual approach to western hemispheric integration, in light of the need for industries in less-developed countries to increase competitiveness before the advent of freer trade. Of equal concern is the removal of protection in US markets, particularly for agriculture, and what Brazil and others consider the inappropriate use of anti-dumping measures as a non-tariff barrier by the US Government.

Brazil and the US will co-chair the FTAA process from November 2002 to December 2004,

Implications for Australia in Latin America

The implications for Australia of an FTAA or an EU-Mercosul arrangement remain unclear. Firstly, the likely scale and prospects for success of both arrangements are uncertain. Secondly, the prospect for a new round of multilateral WTO trade negotiations in the same time period may delay or complicate any outcome and potentially reduce any impact on Australian commercial and economic interests.

However, as Latin America accounts for only 1.2 per cent per cent of all Australian exports (2000 statistics), the national impact of these arrangements for Australia is limited in the short term. At the same time, there is a legitimate concern that these developments may offer a considerable advantage to European or North American competitors of Australian companies already in these markets. In the longer-term, such agreements may increase the challenges for Australian companies seeking to develop or expand a market presence in the developing markets of Latin America.

There are, of course, implications for Australian traders if preferential conditions were to be given to Latin competitors in NAFTA, European and South African markets. The Department of Foreign Affairs and Trade continues to closely monitor these regional developments and is considering further analytical work to assess the implications, including on Australian interests in North American and European markets. The Australian Government is currently exploring the possibility of entering into an FTA with the US with a view to obtaining greater market access for Australian

industry. Australia's policy is to consider free trade agreements where they deliver substantial gains to Australia that cannot be achieved in a similar timeframe elsewhere. FTAs that are comprehensive in scope and coverage, and are WTO consistent, can complement and provide momentum to our wider multilateral trade objectives.

AUSTRALIA'S TRADE AND INVESTMENT RELATIONSHIP WITH BRAZIL

By Mr José Blanco

José Blanco is Chairman of the Australia Latin America Business Council and Head of Financial Institutions, Asia-Pacific, for Spanish bank Banco Santander Central Hispano, which has one of the largest banking networks in Latin America. In both capacities, José is a vocal advocate for improved Australia-Latin America commercial links. He travels regularly to Latin America and has broad expertise in the region's markets.

I am in no doubt that Australian businesses are missing out on profitable export and investment opportunities in Latin America. As I travel around Australia encouraging Australian businesses to take a look at this emerging region, I talk to many successful companies that cannot understand why more of their counterparts are not taking up the challenge of Brazil and Latin America. There is money to be made and many Australian companies have much to offer.

An Australian business in 2001 that has not assessed the potential of a market like Brazil may well be limiting its future growth potential. Today, Brazil is a more open economy, with a growing consumer and industrial base. Companies from around the world are looking to Brazil as a base for their interests across Latin America.

The History of Commercial Ties

In my travels to South America, I am constantly reminded of the modest nature of our existing links and the limited development of an Australia-Latin America business network. Despite the tremendous promise these dynamic markets offer to foreign investors and world-class exporters of goods and services, the Australian business community is yet to make its mark, particularly in Brazil.

The history of our modest links is not hard to fathom. Colonial histories, import substitution policies, distance and cultural heritages explain much of the historical divide between the two regions. Nowhere is this more evident than in our trade and investment relationship with Brazil. Both Australia and Brazil have traditionally looked towards Europe and North America as main sources of trade and investment.

However, this situation has clearly changed in the past few decades as both countries have sought to take greater advantage of the new international economic and trade environment. Brazil has become more outward-looking as it seeks to expand its exports and establish new markets. It is also encouraging greater commercial cooperation with world class firms to provide new technologies and improvements in Brazil's international competitiveness.

Brazil has already opened substantially to international investors and while there is still much work to be done, the Government has made some progress in reforming the Brazilian market and removing barriers to trade.

Trade

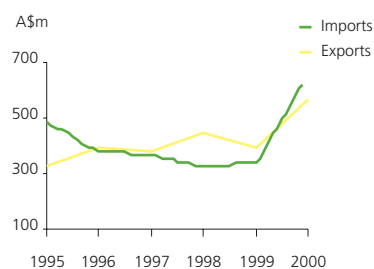
Australia's Merchandise Trade with Brazil, 2000 (A\$m)

	Exports	Imports	Balance
	571	655	-84
Brazil's rank in Australia's total trade in goods		29	Share: 0.5%
Brazil's rank in Australia's exports of goods	29		Share: 0.5%
Brazil's rank in Australia's imports of goods		30	Share: 0.6%

Australia's Major Imports (2000)	A\$m	Australia's Major Exports (2000)	A\$m
Other Food Products	279	Coal	297
Paper/Pulp Mill Machinery	44	Passenger Motor Vehicles	56
Fruit Juices	39	Crude Petroleum	31
Coffee/Coffee Substitutes	26	Nickel	28
Footwear	20	Measuring/Controlling Instruments	22

Source: Market Information and Analysis Unit, DFAT

Australia's Trade with Brazil

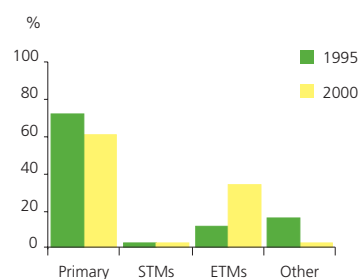


Source: Market Information and Analysis Unit, DFAT

Australia's existing commercial relationship with Brazil continues to be modest. Two-way trade totalled A\$1.226bn in 2000, or a half of one per cent of total Australian exports. The potential for expanding exports to Brazil is highlighted when compared to a similar sized trading partner such as Fiji. While exports to Fiji are slightly greater than to Brazil, Fiji's GDP is the equivalent to about 0.2 per cent of Brazil's economy.

Australia's bilateral trade with Brazil has grown consistently since 1995, with the exception of a disappointing year in FY1999 at the height of Brazil's economic turmoil. However, Australian exports recovered in FY2000.

Australia's Exports to Brazil



Source: Market Information and Analysis Unit, DFAT

Primary exports continue to be an important component in Australia's trade with Brazil. Continuing a well-established pattern, coal continues to be Australia's number one export.

Recently, there has been a significant trend toward diversification of exports. Growth has been particularly strong for elaborately transformed manufactures (ETMs), with passenger motor vehicles now second only to coal in terms of total exports. Changes in the export mix show that manufactures growth has largely

followed in the wake of key investments, particularly mining. Electrical power machinery, civil engineering equipment and pumps for liquid all figure prominently in the export mix. The export of telecommunications equipment has also increased steadily, with Australian companies taking advantage of Brazil's privatisation program. Services exports are also on the rise.

New Australian Trade Activity in Brazil

Sector	Company	Activity
Auto	GMH	The Holden Commodore, marketed locally as the Chevrolet Omega, is Australia's second ranking export to Brazil.
	ERG	Sells plastic add-ons to auto after-market.
IT&T	Open Tel	A supplier of provisioning software, Open Tel has recently signed a contract with large Brazilian telecommunications firm Embratel.
Services	Keycorp	Supplies monitors, PIN pads and key-stations for Bradesco, one of Brazil's largest commercial banks.
	Securency	In April, the Brazilian Government released a new R\$10 note to commemorate the date of Brazil's discovery 500 years ago. The note represents a trial use of plastic currency, using technology developed by Securency Limited, a joint venture involving the Reserve Bank of Australia. Education: Brazilian students are increasingly drawn to Australian institutions to undertake study in schools, in English language classes and in TAFE and tertiary institutions as a result of competitive fee structures and Australia's emerging reputation as a world class education provider.

Investment

Globalisation and the sourcing of capital on international markets makes it increasingly difficult to determine levels of 'national investment'. Estimates of Australian investment in Brazil range from US\$248m (Central Bank of Brazil) to US\$564m, although these figures would appear to underestimate the actual total, as they do not take into account a considerable amount of Australian investment directed through third countries. While Australian investment is still largely limited to a few sectors, most notably mining, there has been a trend to diversify into the manufacturing and agriculture sectors. Entertainment is also a sector now attracting Australian interest.

Major Australian Investment Activity in Brazil

Sector	Company	Activity
Natural Resources	BHP	Owns 40 per cent of iron ore operation, Samarco, in the Brazilian state of Minas Gerais.
	WMC	Involved in non-ferrous metal exploration in Brazil.
	Hamersley Iron	Owns a small iron ore operation at Corumba in the south. Represents an investment of US\$50m.
Entertainment	Hoyts	In partnership with North American company General Cinemas International, is investing US\$250m towards the development of cinema complexes.

The Future

My message to Australian business people looking to trade and/or invest in Brazil is simple: a decade of market reform, expansion of infrastructure and the emergence of greater consumer demand have created a range of unlimited market opportunities for Australian know-how. But time is of the essence. Believing that the time is right to take advantage of the enormous potential offered by Brazil, many major European and North American firms are busy reinforcing commercial roots in the country. Don't let this put you off. The experience of Australian companies already active in the market indicates that Brazilians are receptive to Australian products and services.

Opportunities abound across a range of sectors where Australia has considerable experience and expertise. Certainly the expansion of the mining sector, an area of traditional appeal to Australia, will provide a rich seam of opportunity, including for equipment and services supplies. New areas of interest include the oil and gas industry, IT&T and transport, to name just a few sectors of obvious potential. All I can say is get out there, explore the market and make contacts. In the process, you will discover a vibrant and dynamic business culture that may offer considerable potential for your business.



PART 2

Getting Down to Business

Understanding the Brazilian Market

Legal Issues for Exporters and Investors

**Identifying an Agent, Representative or
Joint Venture Partner**

Business Checklist for Exporters

Investing in Brazil



UNDERSTANDING THE BRAZILIAN MARKET

By Gerard Seeber

Gerard has been Australia's Consul General and Trade Commissioner in São Paulo for the past two years. He and his staff provide a broad range of services to Australian businesses seeking to establish or expand their interests in Brazil. Gerard believes that the size and sophistication of the Brazilian market is surprising to many Australian business people travelling to Brazil for the first time. The good news is that an increasing number are now staying to do business.

Doing business in Brazil can be a real challenge to new entrants. This is a market that generally rewards those seeking to develop a genuine long-term business relationship, which can take extra money and perseverance than may be the case in other markets. For those willing to make that commitment there is an adage — “It may take twice as long and cost twice as much, but the returns are twice as great”.

The Brazilians

Brazil is a big country and Brazilian business people have “big country” ideas. They think big and act like “Portuguese-speaking Texans”. As a generalisation, they are worldly and have an approach to business that is strongly entrepreneurial.

Australian business people generally find their Brazilian counterparts friendly and welcoming. They are generous hosts and approach business matters in a flexible and tolerant manner. Many Australian business people feel a particular affinity with their Brazilian contacts because of their relaxed disposition and informal approach. Altogether, this creates a comfortable and familiar environment in which to develop business links.

While this affinity is welcome, it is essential to recognise the uniqueness of the Brazilian business culture. Firstly, personal contacts play a special role. Developing relationships will make the difference between finding an open or closed door. These relationships take time to build and may even require a number of visits to Brazil before the deal can be completed.

Brazilians may also not be as straightforward as Australians are accustomed to when it comes to discussing business issues. Many have a policy of not blatantly saying “no”. When a response to an important proposal is unclear, it is important to seek a variety of opinions before proceeding.

Another important feature of Brazilian business culture is the approach to time. ‘Flexible time’ is a local practice, but varies regionally. Meetings rarely start on time, and visitors can be frustrated by delays. On the positive side, Brazilian business people understand when visitors are late and seldom expect meetings to start punctually. This can be particularly useful for visitors to the larger cities, especially São Paulo.

Many Brazilian business contacts speak English, with fluency more prevalent among both the more senior and younger business people. It is to be expected that some contacts will have only modest

English language abilities and they may feel more comfortable in business meetings if an interpreter is present. We recommend being accompanied by a local contact. An important point to note is that written correspondence with potential business partners should also be in Portuguese or in English, and not Spanish as a substitute for Portuguese.

It is also helpful to remember that Brazilian business people come from a range of backgrounds, social strata and have a range of educational qualifications. In large and medium companies, senior executives often come from wealthy families, many are educated at prestigious foreign universities — Brazilian families place great emphasis on high quality education — and live very comfortable lifestyles. Other levels of business contacts may vary significantly depending on the size of the company and the location. With the strong influx of foreign investment capital in recent years, you may also encounter one of the growing number of expatriate business executives.



The Holden Commodore, marketed locally as the Chevrolet Omega — a recent Australian export success story in Brazil.

Various Brazilian business contacts have welcomed the typically low-key, flexible and cooperative approach of many of the Australian companies now operating in the market. It has led to favorable comparisons with the more discernible presence of companies from North America and Europe. The Sydney Olympic Games have also been very helpful in raising general awareness of Australia in Brazil. The Games helped to reinforce the widely held view of Australia as a modern economy with much to offer in terms of technology and commerce.

Brazil's Cities

On a first visit to Brazil, you are likely to travel to at least one of the three main commercial centres: São Paulo; Rio de Janeiro; and Belo Horizonte. As Brazil's main commercial hubs, these cities are where many of the national corporate headquarters are situated.



The heart of downtown São Paulo

São Paulo is the largest population and business centre in South America. It is a business-oriented city that operates at a frenetic pace and is a preferred destination for foreign investment. While this metropolis offers every conceivable business activity, it is renowned as the centre for Brazil's finance, engineering and manufacturing sectors. Almost half of Brazil's economic activity takes place in São Paulo City or the surrounding state.

Visiting São Paulo requires a good deal of planning. The difficulties of getting around the city limits visitors to around 4 meetings in any day, due to distance and traffic considerations. Peak hour traffic (8–10 AM and 5:30–7:30 PM) can be impossible, and during the rainy season (January to March), the already slow traffic flows can be virtually paralysed.

The internationally celebrated city of Rio de Janeiro is a magnet for visiting business people. While the style and opulence of the city have made it a mecca for tourists, Rio has had to work hard to maintain its role as an international business centre. In recent times, it has become home to Brazil's oil industry and headquarters for Brazil's largest mining company, CVRD, and is the most important centre for the telecommunications sector. It retains its pre-eminence as Brazil's major tourist destination.

Although not as internationally well-known as either São Paulo or Rio de Janeiro, as the capital of the state of Minas Gerais Belo Horizonte remains critical to Brazil's economic well-being, due to its location at the heart of the nation's mineral wealth. In fact, translated into English, Minas Gerais literally means General Mines. This reflects a rich and colourful mining-related past, which includes a gold-rush and management by the Federal Mines Department of the area now covered by the state. Brazil's third largest city, Belo Horizonte is a "must-see" for Australian mining-related interests seeking out opportunities in Brazil's rapidly expanding mining sector.

Of course there are many other locations which may be worth a visit by Australian companies seeking new ground. These include Curitiba, with its highly developed infrastructure, Salvador, which offers state tax incentives to major investors such as Ford, and the Free Trade Zone of Manaus.

The Business Environment

Brazil's business elites exude considerable confidence in the future of the Brazilian market. Business sentiment underlines positive expectations of growth and profitability, and money is being poured into new ventures and expansions. Many leading international companies have moved strongly in the past two years to make strategic acquisitions, with many seeing Brazil as one of 'the' places to do business now. Business visitors will see few outward signs of the recent economic turmoil.

When conducting any form of business one of the main hurdles to achieving your goals is the Brazilian administrative and legal systems. Both are complex, and criticisms are often made of the myriad of forms that must be completed in order to do business. Criticisms are also often made of Brazil's bureaucratic structures and the lack of predictability concerning rules and regulations. Both of these criticisms reflect a situation where Government is more involved in the "business of doing business" than is the case in Australia. Remember however, that in Brazil, there is ultimately "always a solution" and many barriers and problems, which arise in everyday business, can often be dealt with or solved in a simple way. This is one reason why it is important to have a good local partner.

Importing and customs authorities can sometimes prove an obstacle. Red tape may be exhausting, but ultimately it may prove necessary to accept and adopt the local pace. The best way to avoid bureaucratic red tape, avoid customs problems and be assured that all legal requirements are fulfilled is to hire a customs agent ('despachante aduaneiro') or a specialised foreign trade company prior to dispatching any goods to Brazil. Based on a percentage fee, these professionals handle all steps of the process.

When formulating a business plan for Brazil, it is important to take into account that economic conditions, including the exchange rate, can move significantly within relatively short periods of time. To avoid any confusion, remember that most Brazilian business people think in US dollar terms when discussing business.

Another important feature of Brazilian business practice is the use of trade exhibitions and conferences. These are plentiful and cover most sectors. They are good venues in which to assess an industry and its players. Accordingly, they can prove a valuable market entry tool in a country where careful planning and research is essential.

Looking to the Future

It is important to remember that you will not succeed in Brazil without developing a sound business plan and a longer-term strategy. Important points to address early on include:

- potential local business presence — agent, representative office or joint venture partner;
- strategies to deal with administrative and legal requirements, including tariffs and taxes;
- a strategy to counter variations in the economic climate and how these may affect your business plan; and
- the need to localise manufacture of the product at some stage.

This last point is one that faces an increasing number of Australian exporters. Brazil is becoming a market where, in the medium term, companies may have to consider establishing a presence and localising product to be able to compete effectively. Taxation and tariffs make it more difficult for Australian imports to compete and the rate of foreign investment by North American and European interests reflects an understanding that they need to be on the ground to make the most of the market.

This should in no way discourage exporters from considering Brazil. World-class products such as Australian wine and specialised agricultural products, for example, are enjoying success here. However the spectre of the competition investing locally for the competitive edge is true for most sectors, a fact that needs to be considered in any market-entry strategy.

LEGAL ISSUES FOR EXPORTERS AND INVESTORS

by *Ronaldo Veirano*

Ronaldo Veirano is Senior Partner of Veirano and Advogados Associados, one of Brazil's leading corporate law firms. An active advocate of open markets and global trade, he is currently Chair of the British Chamber of Commerce and Industry in Brazil, a member of the Board of Directors of the American Chamber of Commerce in Brazil-Rio de Janeiro, and a Director of the Brazil-Canada Chamber of Commerce. Dr Veirano was appointed Australia's Honorary Consul in Rio de Janeiro in November 2000.

The Brazilian legal system poses few impediments to Australian interests wishing to do business in Brazil. Since the beginning of the 1990s, the country's legal infrastructure has been adapted to provide a secure and encouraging environment for foreign investors as the country has opened up its economy to the world and privatised major state assets. These on-going reforms have been reasonably successful to date, creating a modern legal architecture for both domestic and foreign investors alike.

The following is a brief outline of features of the Brazilian legal system and its recent reforms. Due to the complex nature of the system, exporters and investors are strongly advised to seek specialised advice when developing their Brazilian market strategy.

Codified System

Laws and statutes in Brazil are issued by the legislative power at the federal, state and municipal levels. Codes exist for the most relevant areas such as Tax, Civil, Commercial, Criminal and Labour Law.

Although deemed as a source of law, court precedents are not binding under the Brazilian legal system.

Civil and Commercial Law

Civil and commercial law matters are generally governed by the Civil Code, enacted in 1916, and the Commercial Code, enacted in 1850, and a substantial body of additional civil legislation.

Contractual relationships are generally governed by the Civil Code. In certain cases, depending on the nature of the obligation, the law stipulates that contracts should follow certain essential formalities, such as registration as a public document. Although permissible, oral contracts are neither usual nor advisable.

Forms of Business Organisations

Many forms of business organisations exist under Brazilian law. Foreign companies usually opt for organising subsidiaries in the form of:

- a 'limitada' — limited liability company, a hybrid between a corporation and a partnership; or
- a 'sociedade anônima' — a publicly listed corporation, the most common form of business structure in Brazil.

Under both structures, participants have limited liability. Companies become corporate entities with separate legal identity following registration at the Commercial Registry.

Under Brazilian law, a company organised according to the laws of Brazil and which has its headquarters and management in the country is deemed to be a Brazilian company, regardless of equity ownership. Even if all company shareholders are domiciled outside of Brazil, such a company will be regarded as Brazilian.

In a very few areas, collective interest telecommunications services for example, the law requires that the Brazilian company be controlled by Brazilian individuals or entities. This is a clear exception to the rule.

Regulatory Agencies

Companies involved in infrastructure sectors need to be aware of guidelines set by their respective regulatory agencies which have been created to oversee the privatisation of key sectors of Brazil's economy. Regulatory agencies currently exist in the areas of power energy (ANEEL), oil and gas (ANP), telecommunications (ANATEL) and water (ANA). Legislation has been enacted to provide such agencies with reasonable independence from political influence.

The primary purpose of the regulatory agencies is to provide consumers with fair prices for products and services and to put in place a competitive environment. Their role in competition law is complementary and secondary to the role of the antitrust agencies.

Antitrust Law

An antitrust law enacted in 1992, subsequently amended, provides a legal basis to curb anti-competitive behaviour and to allow a competitive market structure. The law focuses on the effects of practices in the market rather than the form of the practices. Any act or agreement that may limit competition may constitute a violation. Because the law is effects based, it is extraterritorial in application and therefore applies to conduct and agreements which, although not executed in Brazil, may have effects in the Brazilian market.

The remedies for non-compliance with anti-trust law are various and include fines and divestiture orders. Injunction relief is sometimes available.

Tax System

Taxation in Brazil is governed by the Federal Constitution of 1988, Federal Tax Code 1966 and additional legislation. The taxation system is rather complex and subject to regular legislative amendments. Like Australia, taxes are collected at all three tiers of government: federal, state and municipal. Key taxes are:

- taxes on earnings — corporate income tax, social contribution on profits;
- taxes on consumption and transactions — excise tax, sales and services tax, municipal services tax;
- import tax; and
- financial transactions tax.

There is currently no Double Taxation Treaty between Australia and Brazil.

Labour Law

Brazil has extensive legislation regulating the relationship between employers and employees. Brazilian labour law requires employers to pay several mandatory labour benefits and related charges and to contribute to social security and the employees' severance and pension plan system. The law is protective of employees and the benefits provided for may not be waived. In instances of disputes arising from labour relations, special courts will adjudicate.

One way to make labour relations more flexible is to entertain good relations with employees' unions and negotiate collective bargaining agreements acceptable to both parties.

The costs levied on companies' payroll may reach over 50 per cent of the employees' remuneration.

Judicial System

Brazil's judicial system is rather complex. Access to justice is a constitutional right central to a series of (usually constitutional) principles existent under the Brazilian legal system. The Federal Constitution assures the right to submit to the courts injuries or threats of injuries. A practical result of this democratic principle is that the court system is overburdened with judicial proceedings.

As a result of the several tiers in the structure and the related right to appeal, a civil case may take between two to six years, especially if there is either a federal or constitutional legal issue involved.

Arbitration

In 1996, Brazilian Arbitration Law was enacted for the purpose of ensuring the enforceability and effectiveness of arbitration clauses. Despite a challenge to the constitutional validity of certain articles of the law, the expectation of both the legal and business community is that the outcome of the challenge will be favourable to the constitutionality of the law i.e. that arbitration clauses are enforceable under Brazilian law.

The law allows parties to freely choose the law applicable to the arbitration and the seat of arbitration. If the place of arbitration is outside Brazil, the respective award will be treated as a foreign ruling. Such an award requires ratification by the Brazilian Federal Supreme Court prior to its enforcement by a Brazilian Court.

Investment Promotion and Protection Agreement

There is no Investment Promotion and Protection Agreement between Australia and Brazil.

IDENTIFYING AN AGENT, REPRESENTATIVE OR JOINT VENTURE PARTNER

By Laercio Farina

An experienced trade and commercial lawyer, Laercio Farina is President of the Brazil-Australia Chamber of Commerce in São Paulo and is a member of the board of the Australian Business Centre. In both capacities, Laercio works tirelessly in efforts to expand trading ties between the two countries.

One of the first decisions facing potential exporters is how to establish effective marketing and supply arrangements in Brazil. Successful exporters give considerable weight to assessing market prospects for their particular products or services, including aspects such as consumer preferences and existing competitors. However, the most successful also give equal priority to identifying the right business partners, understanding how local business practices impact on supply and marketing decisions and establishing business arrangements that allow sufficient flexibility for current and future export needs.

Local Presence

The first question I am asked by many new exporters is whether a local presence is necessary to export to Brazil. No doubt, some exporters have enjoyed success without such an arrangement. There are off-shore companies that market directly to the consumer, particularly with the growing reach of the internet in Brazil. Others, exporters of raw materials or intermediate and capital goods, have also been able to establish direct business relationships with Brazilian corporate buyers, servicing major clients through regular visits.

For most exporters, however, it is necessary to establish a local presence through an agent/distributor, representative office or joint venture partnership. Where business contacts need to be maintained or where regular sales or service follow-up is required, being on the ground is critical to your business prospects. Brazilians do not respond well to short and infrequent visits by foreign representatives, preferring instead a continuous working relationship. Rarely is a deal completed by telephone or letter. Buyers in particular are concerned with after-sales service and support, due to the extremely rigorous local consumer protection legislation.

Brazilian companies also do not generally maintain stocks of capital equipment or raw materials because of the high level of taxes. They often require supply and service at short notice, a particular problem for Australian exporters who face typically longer shipping times than major competitors.

Agent

Brazil enjoys a large choice of reputable and experienced sales agents. Agents are a popular choice for new exporters seeking to develop a market presence, particularly for smaller companies. Agents generally involve lower market entry costs than representatives and can provide good access to potential buyers. The challenge is to find an agent with the right contacts and right experience to suit your product.

Identifying the right agent will depend largely on the item to be sold. Certain types of sophisticated equipment or products may have one or two dozen buyers in Brazil. In these cases, identifying an agent in these market segments may prove relatively simple. On the other hand, more generic equipment or products, with a broad market potential and the need for service all around the country, demand excellent organisation and, usually, agent specialisation. Coverage is generally not a major problem, as most agents have several offices, servicing companies and consumers nationwide.

Prospective exporters should look closely at the agency and distribution arrangements of exporters of similar products to gain an insight into marketing and supply issues. It is also advisable to assess the availability of the representative to promote your specific product. Agents with good references but many clients may have little time to devote to your product.

The vast majority of those interested in exporting to Brazil also seek to identify an agent who picks up their products at the port. The CIF value of the products forms the basis on which the goods are charged import duty. Customs clearance procedures can be complex and require some facilitation. A local agent can be invaluable in getting your product through the ports.

Once you have arrived at the choice of an agent or agents, the next issue is the distribution contract. Good local legal representation should always be engaged before proceeding. Commercial distribution contracts generally conform to international commercial norms. The type of representation, exclusivity, geographic and product restrictions, and duration are just some of the issues that need to be resolved. Once the contract is signed, the agent is protected by law from unilateral breach of the contract. The law also imposes a series of obligations on the agent, especially in respect of contract termination.

Representative Office

A smaller number of exporters choose to establish representative offices. Given the considerable costs in setting up such an office, these companies usually have specific needs that cannot be met by agents or distributors. These are usually companies that require a high degree of control over their products and after-sales service, or where commercially sensitive intellectual property is involved.

Engaging a good legal representative, as well as an accountant, is recommended. A representative office involves establishing a local company under Brazilian law, which further entails a range of legal and administrative responsibilities and costs.

There are also many practical considerations that will be critical in your business's success. These include:

- office location eg São Paulo, Rio — this will depend on the market you wish to supply or service;
- the engagement of good quality local staff;
- how to go about bringing in your own managerial and expert staff, given Brazil's stringent working visa requirements;
- how to develop good business contacts; and
- how goods will be transported.

Joint-venture Partnerships

One option that is increasingly popular is the establishment of a joint-venture partnership with a local company. One attraction of such partnerships is that costs and risk are shared by the partners, with the Brazilian partner bringing to the venture local market knowledge, know-how and experience in the Brazilian business environment.

Due to the peculiar legal, cultural, and especially bureaucratic characteristics of Brazil, it is highly recommended that Australian companies interested in entering the Brazilian market consult a law firm before establishing a binding link with a Brazilian partner. When choosing a law firm, it should be remembered that larger ones may be more suited to servicing large companies, whereas small to medium enterprises can benefit from the use of medium, or small, law offices, which offer commensurate saving of costs. The same recommendation applies to hiring the necessary accounting services.

Legal Issues

A note of caution: exporters should make themselves aware of the implications of Brazilian labour laws. If the correct practices are not followed, these laws can expose the exporter to the serious risk of defending against a lawsuit brought by the agent for contractual cancellation. An adverse finding can result in heavy costs against the exporter. It is very important that the company represented include the following restrictions in all contracts of commercial representation:

- representation should always be contracted with a company; and
- the company should avoid dealing directly with the partners of the contracted company as agent, but rather should direct all communications and instructions to the company itself.

It is advisable that Australian companies undertake legal and financial 'due diligence' prior to completing a commercial transaction or formalising representation outside Australia. Because of the extremely demanding Brazilian legislation on foreign exchange these measures should include identifying a financial institution that acts in both countries, to facilitate transactions that involve the remittance of exchange values from one country to another.

The same precautions apply to the search for partners for a joint-venture. In this case, in addition to those already discussed, exporters and investors should be aware that any act established between firms in which one (or more, in the case of a contract involving more than two) has registered a turnover equal or greater than R\$400m (about US\$200m) must be submitted to CADE (Conselho Administrativo de Defesa Econômica — Administrative Council for Economic Defense), which is the government organ that monitors the acts of economic concentration and, therefore, competition in Brazil.

BUSINESS CHECKLIST FOR EXPORTERS

By Geoff Short

As a commercial lawyer and trade specialist, Geoff has been advising Australian companies on market access issues for 20 years, and recently established a joint business centre with a Brazilian partner in São Paulo to expand his efforts. Geoff is currently President of the Australia-Brazil Chamber of Commerce and is a member of the Customs and International Trade Committee of the Law Council of Australia.

Exporting to Brazil can be a worthwhile, challenging, educational and potentially rewarding endeavour. However, there are many potential pitfalls which confront exporters.

Most exporters and their suppliers are adept at managing the supply side of the export equation — ie, issues such as quality control, cost control etc. In addition, experienced exporters are also practised at scoping the demand side of the export equation — ie, objectively assessing the market for their goods or services in the target country, market research on demographics of that country, the ability and willingness of the consumers to pay, competition, manufacturing and distribution alliances, branding, intellectual property protection, contractual issues etc.

However, many neglect the vital area between demand and supply — the area of trade regulation — barriers to trade that are often invisible or opaque, that vary over time, that discriminate between goods from different origins, that incur delays that can frustrate contracts or impose costs that eliminate profit.

Many are subtle and only apply to specific goods. This is not to suggest that Brazil is any better or worse than other export destinations. It is merely to emphasise that it is incumbent on an exporter to Brazil to assess the impact of trade barriers.

What follows is a basic checklist of issues for exporters to factor into their preparation for exporting, long before the first supply contract is signed.

Tariff Classification

Which sub-heading in the Brazilian tariff applies to the goods? If in doubt, seek professional guidance (from a Brazilian customs broker or freight forwarder) or obtain a ruling from Brazilian Customs.

Are the rates subject to phasing which will see them reduced progressively over a period of time?

Only when the tariff classification is settled, will the exporter know what duty rate applies to the goods. The exporter will also be able to ascertain the rate of IPI (Industrialised Products Tax) — similar in nature to a sales tax, and payable on most imported and locally manufactured products.

Tariff Preferences

If exporting from a third country, do the goods qualify for preferential tariff rates because of a trade agreement — eg Mercosul.

Tariff Concessions	<p>Are there concessional rates of duty for imports that do not compete with locally produced products?</p> <p>If there is such a system but no concession or by-law currently applies to the specific goods exported, how does one apply for the concessional by-law?</p> <p>Does drawback apply to goods imported for re-export?</p>
Customs Valuation	<p>In Brazil, the cif value is the basis for valuing goods for customs purposes. This is significant for the purposes of costing.</p> <p>If the goods are being exported to a related company, will the transfer price be accepted by Customs or will the value be uplifted for duty calculation purposes?</p>
Quotas	<p>Are there quantitative quotas in place which prevent importation or impose penalty duty rates on shipments in excess of quota?</p>
Import Prohibitions	<p>Are the goods affected by regulations, which prohibit the importation outright or require permission of a Brazilian authority or certification by an Australian authority?</p> <p><i>Imports subject to approval from government authorities prior to the issuance of an import licence include second-hand equipment and machinery, weedkillers and insecticides, skins and hides, sugars and alcohol, mercury, certain petrochemical and computer products, aircraft, and human blood and body parts.</i></p>
Import Licensing	<p>Is it necessary to obtain an import licence? What is the cost and what is the expected delay?</p> <p><i>In Brazil, all importers must first be registered with the Foreign Trade Department (DECEX). Additionally, an import licence is required for the majority of imports. This is obtainable by the importer in Brazil using the computerised import monitoring system — SISCOMEX. In most cases, the licensing procedure is automatic and takes up to five days. However, there is a range of products (cars, toys, wine, tyres, ammunition, steel, cosmetics, certain fruits, vegetables and fish) where licensing is manual and where delays may be experienced.</i></p>
Anti-dumping/countervailing	<p>Are there any measures in place to impose a dumping duty on the goods (where the export price is less than the normal value of the goods) or a countervailing duty (where the exporter obtains a subsidy from the exporting country's government)?</p>
Pre-Shipment Inspection	<p>Is it necessary to obtain an SGS (or other pre-shipment inspection agency) clean report of findings before the goods can be shipped?</p>
Indirect Taxes Upon Importation	<p>How do these impact on the final price of the goods to market?</p> <p><i>In Brazil, there are many additional taxes which apply to the importation of goods. Some of these are value-added: IPI (see above), and ICMS (ie. Merchandise Circulation Tax: a state tax). Other taxes are ATP (a harbour services tax); AFRM (Merchant Marine tax); Guia de Importação (Import Licence fee), and other taxes which relate to harbour services.</i></p>

Labelling/Packaging

Are there requirements for country of origin, ingredient or similar labelling?

Will the Australian label suffice in the Brazilian market?

Are non-English labels required?

Do the labels need formal approval by a Brazilian authority?

Is it necessary to show compliance with international or Brazilian standards?

Specific Product Regulation

Are product approvals/registrations required before importation?

What is the likely cost and delay?

Brazil recently imposed a requirement for Quality Certificate stamps on imports of certain products prior to entry. More than 23 products are affected, including food and beverages, agricultural products, pharmaceuticals, medical and veterinary products, toys, cosmetics and tyres.

Australian export controls

Are export permits or licences required, as is the case for encryption software, military and dual-use goods.

Quarantine

Are the goods or the containers in which they are packed subject to quarantine?



INVESTING IN BRAZIL

By Andrew Jacobi

Andrew is one of KPMG's leading experts on the markets of Latin America and is also a director of the Australia Latin America Business Council. He has spent considerable time in the region undertaking client work, including asset disposal, and has authored many reports analysing the various markets.

Introduction

The size of the Brazilian economy and its dominance in South America explains its attractions to foreign investors. Foreign investment is generally welcomed and the regulatory environment is friendly. However, there is a need for caution and there are some limits.

Only a few economic activities such as media and health insurance services continue to be off-limits to foreigners. Foreign investors can currently hold only a minority participation in financial institutions and insurance companies, but with prior authorisation from the government or under a reciprocal agreement, they may acquire control of a bank. There are restrictions on foreign participation in activities subject to national security concerns, but these limitations will not normally affect most investors.

A potential investor should consult the government agencies that would most likely hold an interest in a proposed project. This process can sometimes yield significant benefits to the foreign investor, since the government generally prefers to use incentives, rather than restrictions, to encourage investors to modify their plans. For example, a government may have an interest in locating a new factory in a less developed region of the country, rather than in the São Paulo metropolitan area. In order to encourage this, the government may offer low cost or rent-free land, tax incentives or other similar benefits.

Potential investors who are invited to confer with government officials should first seek advice from local partners or consultants, in order to ensure the development of a smooth relationship, as well as to make sure that they are aware of the potential range of benefits.

Registration of Foreign Capital

Foreign capital should be registered with the Central Bank of Brazil, which will issue a certificate of registration reflecting the amount invested in foreign currency and the corresponding amount in Brazilian currency. Such certification permits the remittance of profits abroad, the repatriation of capital, and the registration of the reinvestment of profits.

Remittance of Profits

Generally, there is no limit to the amount of profits that may be remitted, although the law specifically recognises the right of the Brazilian government to restrict the remittance of hard currency during a severe balance of payments crisis.

Repatriation of Capital

The Central Bank has adopted the following procedures regarding the repatriation of registered foreign capital:

Sale of Investment — Sale proceeds up to the amount of the registered foreign capital can be repatriated immediately. If there is any capital gain, the Central Bank reviews the sale price for reasonableness, taking the financial condition of the company into consideration. Once this review is satisfactorily completed, the portion of the sale proceeds relating to the capital gain can be converted to foreign currency and repatriated, after payment of a withholding tax of 15 per cent of the capital gain which is calculated in the foreign currency.

Capital Reduction — The Central Bank will reduce the foreign capital registration in proportion to capital refunded to shareholders.

Acquisition of Property

Foreigners can hold commercial property in Brazil under freehold or leasehold. Regulations governing the acquisition of property provide that foreign nationals are not permitted to own land within a short distance of international borders.

Title to large areas of Brazilian land have been in dispute since colonial land grants were made. It is therefore very important to ascertain that a seller has good title. Title verification is done by checking the ownership of the property at the real estate registry. Upon purchase of freehold property, buyers should register the change of title at the real estate registry.

Intellectual Property, Trademarks and Patents

Brazil is a signatory to the Uruguay Round Agreements, including the Trade Related Aspects of Intellectual Property (TRIPS) Agreement, signed in 1994. In addition, Brazil is a member of the World Intellectual Property Organisation (WIPO) and is a signatory to the Berne Convention (protection of copyrights). Brazil has also signed the Universal Convention on Copyrights, which protects literary and art works.

The registration of foreign software prior to marketing is no longer required. However, registration is usually recommended. The Ministry of Industry and Commerce provides registration through one of its agencies.

Software protection is granted for 50 years as of the following January from its publication. In contrast, copyright protection is for 70 years.

Foreigners may qualify for software protection, as long as their home country grants similar rights to Brazilians.

The registration of a trademark in Brazil is required to guarantee the protection of ownership rights. Trademarks that have not been registered previously, with certain exceptions, can be registered. Trademarks are registered at the INPI (Federal Intellectual Property Agency). Trade names are registered with the local "Junta Comercial" (Commercial Registry).

The fraudulent use of internationally “famous” marks has been a significant issue in Brazil. However, progress has been made in the last four years to provide greater protection for such marks. In addition, some foreign firms have been successful in taking court action against trademark infringements.

Four kinds of trademarks are legally protected in Brazil:

- industry trademarks used by manufacturers to distinguish their product;
- trademarks used by merchants to identify their merchandise;
- service marks used to protect services or activities; and
- general marks used to identify the origin of a series of products or services that are individually distinguished by specific marks.

In order for an invention to be protected it must be patented in Brazil. Brazil is a signatory of the Paris Convention. Therefore, citizens of other signatory countries, which have filed for patents in their home country, have an exclusive right to apply for patents during certain periods depending on the nature of the property:

- individual designs and models — 6 months; and
- inventions and utility models — 12 months (as of the date of registration in the country of origin).

Once a patent is published, it is considered to be in the public domain and cannot be registered in Brazil.

Patents are granted for the following:

- inventions — new products;
- utility model — new arrangement of known materials which improve a product;
- industrial model — a new configuration which can serve as a model for an industrial product; and
- industrial design — a new combination of lines or colours for the exterior design of a product.

A patent is valid for periods of 20 years for inventions, 15 years for utility models and 10 years for industrial design from the date of filing.

Due Diligence

A note of caution. When planning an acquisition in Brazil, it is extremely important to conduct a rigorous due diligence of the target company. In the past there have been several foreign companies that have found themselves confronted with tax liabilities, often in back taxes, that they did not fully account for in their acquisition assessment process. It is very important to have experienced advisers on these issues.



PART 3

Sectoral Analyses

Agribusiness

Case Study — Agrichem

Consumer Products

Case Study — Quiksilver

Case Study — Hills Industries

Oil and Gas

Mining

Case Study — Maptek

Education and Training

Information Technology and Telecommunications

Case Study — Open Telecommunications

Environmental Services and Technologies

AGRIBUSINESS

by Elizabeth M.M.Q. Farina, Samuel Giordano, Claudia Viegas and Tatiana Farina

The authors are members of the Food and Agribusiness Program (PENSA) of the University of São Paulo, Brazil. Integrating the Business, Economics and Accounting Schools, the Program was founded in 1990. Its main objectives are: to undertake academic research in Agrichain Management and Strategies, continuous education in agribusiness and to provide agribusiness consultancy in services. PENSA can be found at <<www.fea.usp.br/fia/pensa/index.htm>>.

Brazil's agri-food sector represents 20 per cent of Brazil's GDP, 40 per cent of exports and 37 per cent of employment. Given its vast land mass and well distributed rains year-round, the country is able to produce a wide range of products varying from coffee and soybean to oranges, apples, pears, melons, grapes, and a range of meat products. Nevertheless, utilising just 10 per cent of the 19 per cent of the world's arable land available to it, and collecting 19 per cent of the earth's water, the potential for growth in the already strong agricultural sector is considerable.

Current agricultural production and processing is concentrated in the South and Centre South, with new croplands areas opening in the Centre West and North East. Of greatest farming potential is the "Cerrado" (Savannah) region in the Midwestern part of the country.

Recent developments

Although the total value of Brazil's agricultural exports have grown since 1996, it is the country's changing internal consumption patterns and dynamics which have been predominantly responsible for recent innovation in agricultural production, distribution and organisation techniques. In addition, while the value of bulk and intermediate products has declined, consumer oriented products show increasing value.

Brazilian food consumption growth since the monetary Stabilization Plan of 1994 is astonishing when compared to the European and USA markets in the same period, with dairy products alone growing by 25 per cent in volume in the period 1994-1997. Moreover, the percentage of average family expenditure on "takeaway" meals grew 80 per cent, while prepared foods almost doubled, as well as soft drinks, and hot and cold beverages. These figures show that the Brazilian food consumer market is growing and changing towards products with higher added value.

Table 1**Evolution of Brazilian Food Consumption
(in kilos per inhabitant / year)**

	1994	1995	1996	1997	97/94** (%)
Beef	32.6	34.5	35.6	36.0	10.4
Hot dogs	0.53	0.74	0.79	0.94	77.4
Chicken meat	19.1	23.2	22.0	22.8	19.4
Rice	75.4	74.6	74.3	73.3	-2.8
Beans	21.5	20.9	20.4	19.7	-8.4
Milk*	110.18	134.1	135.9	138.4	24.9
Powder milk	0.65	0.76	0.74	0.78	20.0
Macaroni	2.97	3.34	3.36	3.36	13.1
Cookies/crackers	2.75	3.43	3.83	4.34	57.8
Coffee	1.56	1.81	2.01	2.09	34.0
Chocolate	0.47	0.62	0.74	0.82	74.5
Whiskey*	0.13	0.17	0.16	0.18	38.5
Table Wine*	0.18	0.24	0.26	0.28	55.6
Soft drink*	34.4	46.6	48.3	50.6	47.1
Beer*	28.5	31.8	31.3	31.9	11.9

* in litres per inhabitant / year.

** Percent Variation from 1994 to 1997.

Source: *Brasil em Exame, 1998.*

At the same time as expenditure on foodstuffs has been increasing, Brazilian food retail has rapidly become concentrated. In five years the concentration ratio for the ten largest supermarkets has almost doubled. The process was accelerated after monetary stabilization and mergers and acquisitions were the main route for concentration and denationalization. Among the ten largest supermarkets which represent 45 per cent of the sector revenue, four are multinationals and one has a partnership with a French company. While the food industry remains less concentrated than the modern retail segment, mergers and acquisitions have increased and changed the competitive environment. Among the top ten, eight are multinationals.

Today, around 80 per cent of processed foods are sold by supermarkets in this new environment. Even for products traditionally bought in open-air markets, such as fresh fruits and vegetables, or in bakeries, such as fluid milk, supermarkets have become increasingly important. Modern retail is responsible for 72 per cent of food consumption expenditures, while 15 per cent goes to food services that include fast foods, traditional restaurants, and a Brazilian passion, kilo restaurants. As the name suggests, food in these restaurants is brought by weight rather than type.

The immediate consequence of new investments and entries in the food retailing industry has been an increase in competitive pressure, provoking lower prices, larger numbers of products, market segmentation, and differentiation. In particular, market differentiation has rested upon the quality dimension, including new consumer trends associated with health, nutritional concerns and food safety. As such, most of the recent developments of the European food industry such as food safety legislation, consumer concern of where and by whom food products are produced, demand for chilled and fresh fruit products are reflected in varying degrees in the Brazilian agri-food business sector.

This increase in consumer and retail expectations has had a dramatic effect on Brazilian farmers, who have been required to adopt new practices, invest in new or modified equipment and acquire new skills. The dairy industry, for which the Brazilian government is developing new legislation to regulate safety in dairy products in line with current requirements of processors, is an interesting case in point.

The proposed legislation will require refrigeration at farm level and refrigerated transport systems, while new quality assurance tests will also be mandatory. Over time, the legislation can be expected to have flow-on effects, including an upgrade to mechanical milking as farmers seek to take full advantage of the advantages offered by refrigeration technology, particularly a second milking. This experience can be expected to be replicated across the sector, where the room for enhancing grain, fruit and value-added processed products with technology, infrastructure and foreign investments is immense.

Opportunities for Australia

The revolution in Brazil's agribusiness sector offers a plethora of opportunities for Australian interests in the areas of both production and supply-to-store.

On the production side, the similarity in farming conditions between Australia and Brazil means that Australian agricultural solutions and methods can be applied to Brazilian situations. In addition, innovative and new Australian technologies can be expected to be the most promising opportunity for investments, as the sector moves to modernise. Opportunities include:

- specialised agricultural machinery eg post harvesting machinery, fruit sorting and grading machines;
- packing technology;
- irrigation technology;
- sugar cane harvesting technology;
- agricultural chemicals, fertilisers and soil conditioners;
- seeds-pastures/vegetable/forests;
- animal genetics; and
- agribusiness consulting and services.

With respect to supply-to-store, as noted elsewhere, Brazilian supermarkets sell food products from all over the world and can be an important channel of commercialization for Australia's high quality processed foods. Dried fruits, dairy specialties and energy/sport/health foods are all products with export potential for Australian producers and manufacturers.

AGRICHEM: FERTILE GROUND



From its manufacturing base in Brisbane, Agrichem Manufacturing Industries produces a range of liquid fertilisers, trace elements, systemic fungicides and surfactants. From modest beginnings in the agricultural and horticultural industry in 1986, the company has established an international reputation as a world leader in the manufacture of advanced high analysis flowable nutrients. Today, Agrichem exports to some 27 countries worldwide and has subsidiaries in New Zealand and Brazil. Exports now account for 30 per cent of the company's total trade.

Starting Out

For Agrichem Managing Director Fraser East, what started out as a personal connection with Brazil soon turned into a business opportunity. "I had not really thought about business opportunities in Brazil until my son spent twelve months there in 1995 as a Rotary exchange student. He was taken with the experience. He found Brazilians to be relaxed, friendly, and open, in many ways, much like people at home."

His son's enthusiasm for Brazil led Fraser to ponder the opportunities that might exist in the South American agricultural giant for his company's fertiliser products and in 1997, accompanied by his now Portuguese-speaking son, Fraser took the first step in exploring the market. "Basically, I used the opportunity offered by a visit to ExpoCHACRA in Argentina to go on to Brazil to make some initial soundings in the market. The Austrade office in São Paulo organised a program for me and undertook some preliminary market research. The very professional work done by the Austrade team soon opened my eyes up to the potential for Agrichem's products in the market."

What had begun as a chance visit rapidly evolved into a commercial presence in the Brazilian market. Initially establishing an export market presence in Brazil, Agrichem has gone on to open a joint-venture subsidiary in Ribeirão Preto to service the growing client base. Fraser is quick to recognise the importance of local involvement in marketing to the agriculture sector. "Essentially, our former distributors now own a 49 per cent stake in our Brazilian operation which they manage on a day-to-day basis. This gives us the on-ground presence, contacts and expertise required to ensure the operation remains a going concern."

The Agrichem Experience

In many ways, the Brazilian market is a natural fit for Australian agribusiness companies such as Agrichem. "Similar climactic and soil conditions in many of the country's more productive agricultural regions means that Australian products and know-how can be easily applied. No globally competitive company should ignore the Brazilian agriculture market which services a population of over 165 million and exports globally in several important commodities. The Australian agribusiness sector could benefit from taking a closer look."



Agrichem's Brazilian Distributors

Agrichem believes the three elements to their success in Brazil have been commitment, competitive pricing, and world class products. "It is fair to say that although Brazil and South America present an exciting challenge, bureaucracy and language barriers can cause some frustration outside the major business centers. Be patient. Commit the time to travel back and forth to Brazil several times in the start-up phase. Use local expertise. And remember, you need to offer a product or service that will make your Brazilian client want to change from their current supplier."

The Future

Although turnover from its Brazilian operation still only represents a fraction of the company's total turnover, Agrichem expects revenues to increase steadily. "Apart from growing the market in Brazil, through our operation in Ribeirão Preto, we will be better able to service our existing distributors in Chile, Uruguay and Colombia. As such, we see Brazil as a great springboard to the wider potential of this emerging region."

CONSUMER PRODUCTS

By Mr Ken Marshall

Ken Marshall has had considerable experience advising Australian businesses considering Brazil as an export destination. As an importer of Brazilian goods into Australia in the late 80's, Ken quickly realised the wealth of commercial opportunities offered by the Brazilian market and set about spreading the message to Australian SMEs. Over the past decade, Ken has assisted market-entry for products as diverse as wines, telecommunications equipment and clotheslines. Today, Ken is based in São Paulo, where his company, KMM Management Ltda, is registered.

The unleashing of consumer power in Brazil over the past decade has been dramatic. Government policies aimed at trade and economic liberalisation, particularly the abandonment of the country's import substitution policies, have led to more affordable prices for consumer goods, followed by a healthy growth in consumer demand in this massive market. Brazilians have become enthusiastic, though discerning, consumers who have embraced price competitive, quality, imported goods.

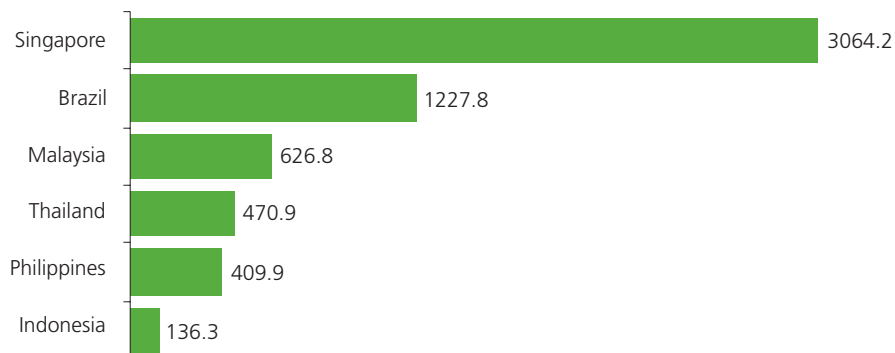
The most important outcome of this consumer revolution for Australian business is that today, product from all over the world can be found on Brazil's retail shelves. Indeed, realising the potential of the market, some trailblazing Australian companies have already taken steps to establish a market presence. Their positive experiences illustrate that with the right product, appropriate research, planning and strategy, market entry has to be neither overly complex nor difficult, while the rewards can be immense.

Background

The key to understanding the immense potential of Brazil's consumer market lies in an awareness of the magnitude of the country's annual private consumption expenditure (PCE), which increased by 8.3 per cent annually in real terms between 1993 to 1997. On current estimates, at US\$508.6bn (1997), Brazil's PCE is twice the size of Australia's Gross Domestic Product. The Economist Intelligence Unit estimates that of this total, the average annual household buying power of middle/upper class families (estimated at just under 25 million in total), was US\$18 091 in 1997. Importantly, in an exporting context, this segment of the population, well educated and well travelled, has developed a preference for imported goods, perceiving them to be of great importance to their social status.

In terms of retail sales, it is salient to note that on average, Brazilians spend more per capita per year than most consumers of Australia's traditional markets in South East Asia. Clearly, given such obvious potential, this is a market which cannot be ignored.

Retail Sales, US\$ per capita



Source: World Competitiveness Yearbook 2000

Recent Developments

Reflecting the reality of the emerging consumer market in Brazil, a key development in recent years has been the modernisation of the retail sector, highlighted by the entry of major international retail chains into the market and the growth of world class shopping complexes, where all major international brands can be found. Although each of the 26 states and the Federal District retain their own market characteristics, it is interesting to note that this development is true for most major population centres across the country, each now with similar product ranges, modern car parking facilities and the like. This situation will continue to develop as the major retail chains carry forward their plans for further expansion.



Brazil's world class supermarkets — competing with the world's best.

The entry into the market of international supermarket chains such as Wal-Mart (USA) and Carrefour (France), thanks to the opening up of the economy, has had a profound effect on Brazil's retail sector. Their presence has introduced the country to large, spacious, air conditioned shops, equipped with off-street, security-controlled parking stations and all the mod-cons associated with shopping in any of the major Western capitals. In fact to enter either is just like walking into one of their stores in the USA or Europe.

This in turn has had a very positive impact on the major local chains. Far from being 'steam rolled' by the two foreign chains, local supermarket chains such as Pão de Açúcar, Se, Extra, BIG, Zona Sul and Bon Marche have improved their respective performances. The same is true of the home and hardware segment, where local groups such as Telhanorte, Castorama, Conibra and Madeiranse are taking up the challenge to their international rivals.

Opportunities for Australian Consumer Products

Over the past 12 years, KMM has carried out extensive market and product research for many Australian goods and services. This research has revealed a higher than average appreciation for our products and lifestyle, a situation recently boosted by the positive images of all things Australian transmitted into Brazilian homes during the Sydney Olympics. Coupled with the right planning and long-term commitment and investment, this appreciation could prove a valuable asset in winning market share for your product. Although not a definitive guide, what follows are the retail sectors which I believe offer the best opportunities for Australian interests.

Identifying Commercial Buyers

While Austrade and consultancy firms such as KMM can assist with the identification of likely commercial buyers for your products and services, the Brazilian market is too large not to take a first hand look (budget, medium or high price travel alternatives are available). I believe that prospective exporters should spend at least a week assessing 2-3 of the main markets, in order to give themselves adequate time to collect the required market information. A must-see on any itinerary is the giant São Paulo market, which alone accounts for 40 per cent of Brazil's GDP and boasts a population of 34 million. Discussions with potential partners, representatives/agents and marketplace visits will generally reveal whether or not opportunities exist for your business.

Remember, careful market research is essential for any business considering Brazil and should include:

- I. Product Research
- II. Trade Research
- III. Potential Joint Venture Partner/Agent/Representative Research
- IV. Importing and Marketing Costs and Selling Price Research
- V. Test Marketing

Beverages

Wine: Although on average Brazilian consumption of wine is limited to three litres per year per capita (compared with the Australian average of nearly 20 litres), the southern states ie Rio de Janeiro, São Paulo, Parana, Santa Catarina and Rio Grande do Sul consume well above this average. In the main this is the result of a cooler climate and the high proportion of the population which is of European heritage.

Consumption of Australian wine continues its upward trend of the past ten years, with a far greater range of Australian brands and varieties now available on the market. Despite this, ample scope exists for new market entrants. Wine tours to Australia by groups and individual Brazilian wine aficionados are now on the horizon, with a number expected to take place in 2001.

Beer: Although the mass-market for beer is virtually owned by those who produce locally, opportunities exist for Australian beer producers at the premium end of the market, which is already supplied by a large volume of imported product.

Clothing

The similarity in the climates and lifestyles of Brazil and Australia means that most Australian clothes have a ready-made market in Brazil. Surf-related Australian leisure gear has already made an impact and there is further scope for the development of this particular sector. Other areas of clothing which would suit the Brazilian market include children's wear, men's and women's high fashion, sports clothes and casual clothing with Australian motifs/designs. Australian fine wool products would also find a natural market in the southern states in the winter months.

Home/Hardware products

Correctly marketed, most well-produced Australian items in this category would be favourably received in Brazil. Hills Limited is an excellent example of an Australian company which, after initial test marketing, looks set to reap substantial financial rewards as a result of its decision to export selected quality products (including the Hills Hoist) to the Brazilian market.

Foods

Brazilian supermarkets stock food products from all over the world and are natural outlets for Australia's high quality processed foods. Meats, seafood, dried fruits, dairy and energy/sport/health foods are all products with export potential for Australian producers and manufacturers.

Sporting Goods

Considerable scope exists for Australian manufacturers to use the excellent publicity generated by the success of the Sydney Olympics to market sporting related products in Brazil. Of particular interest are goods related to the beach culture common to both countries, particularly surfing goods and swimwear.

QUIKSILVER: SURF'S UP



From humble backyard beginnings in the late 1960s in Torquay, Victoria, Quiksilver is today the world's leading surfwear brand. While boardshorts remain an important item in the company's product range the distinguished Quiksilver logo can now be found on leisurewear the world over. Today, Quiksilver products are manufactured under licence internationally, including in Brazil.

Riding the Wave

For Rod Brooks, Quiksilver's Vice President for Licensing, what was initially a situation of some concern in Brazil twelve years ago quickly turned into an opportunity for the company to take advantage of the country's beach culture. "Initially our interest was motivated by the need to protect the company's trademark, which was being pirated by a local manufacturer. In order to secure it, we negotiated a licensing agreement with him which initially turned out to be quite a successful collaboration".



Renan Rocha, Quiksilver's top rated Brazilian surfer

But disappointing sales growth eventually led Quiksilver to be receptive to an approach from a larger leisurewear manufacturer, leading to a new agreement in 1998. "Under this arrangement, our sales performance has been very good, despite the fact that we are probably the most expensive brand on the market. In addition, the quality of our product has also improved which has greatly assisted our market position. While the lower to medium end of the market prevailed until a few years ago, design and quality now matter. The changing nature of this market is very evident at São Paulo's annual Surf and Beach Trade Show."

The Quiksilver Experience

Quiksilver sees Brazil as a natural market for its products and an important element in its global marketing strategy. "In the surf and beach scene, brand awareness is all-important. Brazil's beach culture, particularly in and around São Paulo and Rio de Janeiro, provides us with a ready-made consumer base."

Quiksilver's challenge is to harness these competitive advantages. The success of Brazilian surfers on the international circuit coupled with Quiksilver's sponsorship of Brazilian surfing events have been major assets in achieving this outcome. Rod is also quick to emphasise the similarities in the lifestyle between the target audience in Brazil and our own surf scene. "We are working on fertile ground. It is really only the language which differentiates us."

Rod adds that the successful protection of Quiksilver's trademark has underpinned the company's success in the market. "Having effective local representation is critical to any commercial endeavour in Brazil. In Quiksilver's case, the work done by our licensee has placed us in a situation where we are comfortable that our trademark is now well protected in the marketplace. This confidence means that in collaboration with our Brazilian partner, we can concentrate on growing our business."

The Future

The opening of a Quiksilver concept store in São Paulo in 2000 reflects the logo's growing popularity in the market. "Brazil now forms an integral part of Quiksilver's global network. We have no doubt that with the arrangements we have in place, the future is bright indeed. One day, the Quiksilver logo will be as at home on Rio's famous beaches as it is in Australia ."

HILLS INDUSTRIES: GETTING INTO BRAZIL'S BACKYARD



Since the launch of the Hills Rotary Hoist in 1946, Hills Industries has been a commercial and cultural icon in Australian life. Employing over 2000 Australians this innovative company exports a diverse product range. The company has three divisions — Electronics, Home and Hardware Products, Building and Industrial Products — with products ranging from wheelbarrows to satellite antennae and receivers. In addition to exporting from Australia, Hills has also established manufacturing operations in the UK.

Raising the Hoist

According to Hills' General Manager Export, Barry Sharpe, the company's interest in the Brazilian market was the result of a deliberate decision taken in 1997 to expand its business by opening up new markets. "Basically my predecessor was given carte blanche by Hills to travel widely in the search for new markets. He travelled throughout Asia and the Americas, and soon realised the potential of South America. Unlike the cultural impediments to the acceptance of our products we had encountered in parts of Asia, the South American lifestyle and approach is so similar to our own that the markets there offered obvious opportunities".

As a result of this initial fact-finding expedition and subsequent market research, Hills' management agreed to a 6-month market-testing program for a range of products in Brazil. "While we were interested in other South American markets, the sheer size of the Brazilian market made it the obvious choice for our first foray in the South American market. If we were successful there, it was clear that we could use it as a base for further expansion into the region".

Although the market-testing program has taken longer than had initially been anticipated, Hills is more than happy with the result. "While there have been some challenges, not least of which was to convince sceptics in our own company of the potential of the Brazilian market, the acceptance of our products there means that we are proceeding with plans to establish a permanent market presence."

The Hills' Approach

The key to Hills' approach in Brazil has been patience and methodical planning. According to Barry this has been critical to the success of the market-testing program. "It was essential that we did this right from the very start because we basically had one shot at it".

The Hills plan consisted of three steps, critical in answering the key question: what products will sell where, and with a profit margin which would make an on-going market commitment worthwhile?

The first and most important step was to identify a consultant on the ground who knew the market and could represent Hills to potential buyers and Government agencies involved in the importation process. "This step was absolutely critical to our endeavours. There is no getting around the fact



Hills Hoist at home in Brazil.

that Brazil is a complex market. It is therefore essential to have someone on the ground who speaks Portuguese, has a good understanding of the business culture and your sector, and good market contacts. Without this presence, it's difficult to see how a business could succeed."

The next step was to use the consultant to identify and build relationships with stores that typically carried the types of products Hills was interested in selling. "When entering an established market like Brazil, personal relationships are essential. After all, even though one of our products is an Australian icon, in Brazil we were an unknown quantity offering products quite unlike anything already in the market, and at significantly higher quality specifications and retail price-points. As

such, we had to convince stores to participate in the testing program. What was critical to the endeavour was the cementing of relations with a wide variety of chains in various locations. This allowed us to test various products across several market segments."

Having carefully prepared the groundwork, the final step was to proceed with the testing. This involved shipping four containers with a variety of products which the company believed had the best chance of succeeding. "While we knew that clothes drying equipment had the best chance of selling, we still did not know which models were the most appropriate for the market. We therefore shipped a variety of styles. We also took the opportunity to test other products including trampolines".

The Future

The encouraging results of Hills' initial foray into Brazil have resulted in the company considering its next step — establishing a permanent market presence. "Once we have successfully concluded the market testing program such that it meets pre-determined performance criteria, we will set about implementing a business plan that clearly lays out the direction the company needs to take if we are to continue our success. This plan is to establish a joint-venture with an existing manufacturer in Brazil. Such a venture would provide speed-to-market by accessing both existing distribution channels and indigenous market knowledge. Both of these are critical if we are to meet the challenges of this exciting market."

OIL AND GAS

Brazil has rapidly growing oil and natural gas markets. Coupled with huge unexplored tracts which offer immense possibilities for the discovery of new oil and gas fields, deregulation in this sector has created a wealth of opportunities for new market entrants. Already, both multinationals and smaller sized companies from Europe and the USA have won exploration and production concessions, while others have taken the opportunity to supply the lucrative equipment, technology and services markets.

Background

With estimates of between 4.9 to 7.1 billion barrels in oil reserves at the beginning of 1998, Brazil contains the second largest oil reserves in South America after Venezuela. The Ministry of Mines and Energy projects that in 2005, oil demand will be 2.3 million barrels a day, and that the country will be self sufficient in oil as new fields come on stream. However, this projection now looks unachievable following the sinking of the world's largest oil platform off Rio de Janeiro in March. Although only commencing operations last year, the rig was already responsible for 6 per cent of total oil production, and the country will most likely have to increase its oil imports before it can find ways to compensate for the shortfall.

The Campos Basin, located South East of Rio de Janeiro, accounts for most reserves and the majority of current production. In 1999, Petrobras, the state-controlled (formerly state owned) oil entity, produced an estimated 1.4 million barrels per day. Offshore production accounts for 75 per cent of the total. The country's current main oil suppliers are Argentina, Venezuela and Saudi Arabia.

Brazil's natural gas production and consumption rose steadily throughout the 1990s, with both reaching 202 billion cubic feet in 1998. Natural gas reserves at January 2000 were estimated at 8.0 trillion cubic feet, with the offshore Campos and Santos basins the largest of the country's gas fields. Despite modest current levels, natural gas consumption is expected to rise from 3 per cent of total energy consumption to 10 per cent by 2010 as the country works to become self-supporting in the oil sector and to lessen its dependence on hydropower. Much of this increase is expected to be fuelled by imports, although Brazilian discoveries could mitigate the need for dramatic increases in natural gas imports, particularly as more attention is paid to natural gas exploration in Brazil's offshore, hydrocarbon rich, south east (US Energy Information Administration).

For 45 years up until 1998 Petrobras had a monopoly over the rights to exploration, production, refining, distribution, international sales and purchase of oil. This position came to an end in 1998 when the National Petroleum Agency (ANP) announced that more than 92 per cent of the nation's sedimentary basins were to be put up for bidding which would include other oil companies in addition to Petrobras. Moreover, Petrobras itself is in the process of privatisation. At this stage, the Government will maintain a 51 per cent stake in the company.

ANP — Brazil's National Petroleum Agency

The National Petroleum Agency (ANP) is a Brazilian Government Agency tied to the Ministry of Mines and Energy. Under direction from the National Council of Energy Policy, it is the regulatory body responsible for overseeing the privatisation of Brazil's oil and gas sector, particularly the sale of oil field concessions.

Like oil, natural gas exploration and production have historically been carried out by Petrobras. However, distribution was carried out at the state level. In an effort to raise necessary working capital, state governments have started to sell their natural gas distribution companies.



Copacabana by night — Rio de Janeiro is the base for many of Brazil's oil and gas interests.

Recent Developments

To date, two licensing rounds have been concluded for exploration and production of petroleum gas in Brazil. The first licensing round conducted in June 1999 saw 10 foreign firms enter the market, some in alliance with Petrobras. Agip, Texaco, Repsol YPF, ExxonMobil, Royal Dutch Shell and BP Amoco were all successful at winning exploration concessions, breaking the Petrobras monopoly either individually or as members of consortia. The second round, concluded in 2000, included smaller blocks intended to appeal to smaller oil companies. As a result, the round was marked by a lack of bids by the world's major oil companies. Nevertheless, the round was hailed as more successful than had been anticipated, with Petrobras winning many bids with small and independent Canadian, European and Brazilian companies. Two Australian firms participated in this round but were unsuccessful.

As the time of writing, the ANP is conducting a third licensing round, with 53 blocks up for bidding. The number of blocks is a record when compared to the two rounds already conducted ie 27 and 23 respectively. The ANP visited Australia in November 2000 as part of the Brazil Round Three World Roadshow. Further information on Round Three can be found at <<http://www.brazil-round3.com/round3/docs/index_english.htm>>. Plans are already in train for a fourth and possibly fifth round.

Increased demand for gas and Brazil's reliance on imported gas has resulted in actual and potential pipeline construction activity, particularly in the south of the country. The first pipeline to connect Brazil to foreign sources was the Brazil-Bolivia pipeline, tapping Bolivia's Rio Grande sources. Costing US\$2.1bn and covering 1432 miles, the project commenced in 1996 and came on stream in 1999 with service to São Paulo. BHP was a partner in this project. Other projects include pipelines linking Brazil and Argentina, and there is the potential for a second Bolivia-Brazil pipeline.

Opportunities for Australia

The opening of Brazil's oil and gas sector has resulted in the creation of market opportunities for Australian oil and gas know-how. Large new oil and gas projects are in different phases of development and new ones are to follow. The need for new equipment, technology and services for the development of new oil fields and exploration is expected to increase significantly in the next few years. In fact, suppliers of equipment and services expect a turnover of US\$7.5bn annually by 2004. The outsourcing of services and equipment is a key feature of Brazil's increased exploration activity.

Following are areas where the Brazilian oil and gas industry will be investing and which offer exciting opportunities for Australian companies:

Equipment

- drilling equipment/components/tools;
- equipment/components for:
 - seismic vessels;
 - production platforms;
 - refineries;
 - corrosion control; and
 - refrigeration;
- pumps/pipeline products.

Services

- drilling;
- exploration;
- airborne seismic surveys;
- engineering;
- environmental; and
- catering.

Software

- drilling;
- exploration;
- oil platform management; and
- geophysics.

Partnering Petrobras

The total Brazilian market for oil and gas field machinery and services reached approximately US\$3.9bn in 1997, with imports totalling US\$990m.

Currently, Petrobras imports about 25 per cent of its equipment purchases as the result of a procurement policy which stresses the acquisition of the best possible equipment and services available worldwide on the most favorable terms.

A state-controlled entity, Petrobras must abide by Brazilian public tender laws, which require all foreign bidders to have a legal representative in Brazil capable of legally representing the bidder. A successful marketing operation with Petrobras also requires an on-site agent who is knowledgeable of the local culture, capable of identifying and maintaining relations with the potential end-user department within Petrobras, and able to keep track of business opportunities.

An exciting new area of opportunity for Australian expertise lies in the environmental area. Petrobras recently inaugurated the first of nine environmental defence/response centres at its Duque de Caxias refinery in Rio de Janeiro's Guanabara Bay, the site of January's 1290 tonne oil spill. The centres will be equipped with pollution control equipment including containment booms, oil collectors, specialised watercraft and communication support equipment. Investment for making the centres operational and on-going management costs is estimated at US\$45m.

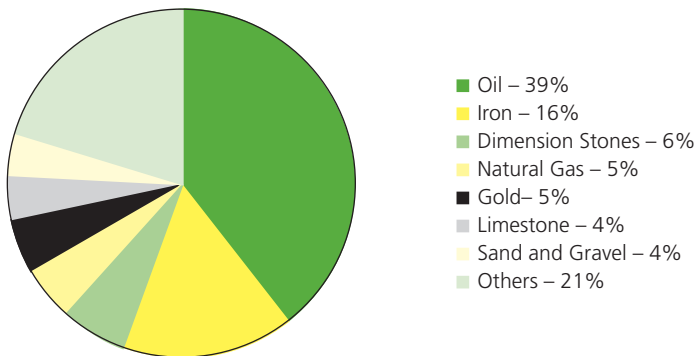
Suppliers of materials and equipment may obtain further information on Petrobras procurement procedures and opportunities at <<www.petrobras.com.br>>.

MINING

With 300 years of mining tradition, Brazil is the most important mineral producer in resource-rich Latin America, thanks to its favorable geographic diversity and vast landmass. Producing some 80 mineral commodities, about 1400 mining units operate throughout the country, with production normally taking the form of open pit or shallow mining. Informal small-scale production also exists, especially for gemstones, building materials, some industrial minerals and gold. The production of primary mineral goods, excluding oil and gas, reached US\$7.4bn in 1998.

Gold and iron account for 44 per cent of total production value, excluding oil and gas. Other minerals mined on a large scale include aluminum bauxite, kaolin and tin. In terms of exports, iron ore continues to be by far the primary mineral product most exported by Brazil, generating an average revenue of over US\$3.2bn annually.

Percentage of Minerals in Mineral Production in Brazil, 1999

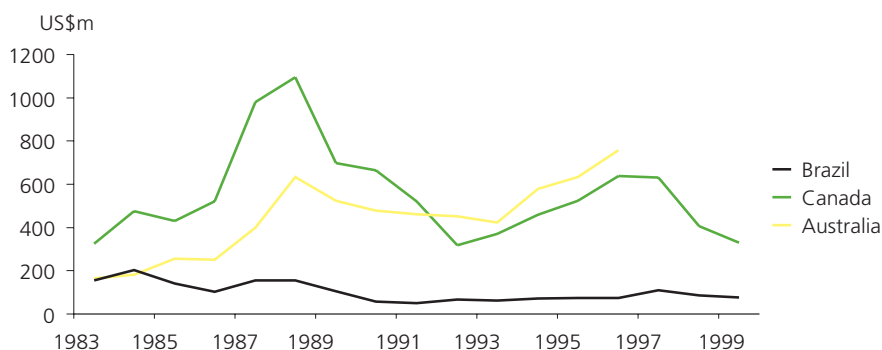


Source: DNPM

Despite the importance of mining to the Brazilian economy, and the country's position as one of the world's major mineral producers, the sector is significantly underdeveloped, particularly when compared with other leading mineral producers such as Australia and Canada, both of which have geographical characteristics and territorial dimensions of a similar nature. The cause of the distortion is the historically sharp difference in investment levels between these countries and Brazil.

The shortage of exploration investment capital in Brazil can be explained by legislative restrictions that were imposed on foreign investment until relatively recently. As a consequence, Brazil was excluded from the migration of mining capital towards Latin America which began in the late 1980's. This situation is now changing as legislative changes which commenced in the mid-90's begin to take effect. As a result, the sector is expected to boom in the next decade.

Comparison of Mining Exploration — Australia, Canada and Brazil



Source: DNPM

Recent Developments

The 1995 constitutional amendment, which allowed foreign investment in Brazil's mining sector, has been fundamental to modernising the sector. The key aspect of the amendment is that it ensures the equality of fiscal and economic treatment before the law for all companies operating in the country irrespective of the origin of their capital.

The passing of the amendment immediately attracted overseas interest to the sector, particularly in relation to gold exploration. However, it soon became evident that further reform would be required to overcome other negative factors that were impinging on the sector's development. These included a basic lack of geological information and the obsolescence of the concessions management and granting system. In order to tackle these issues, the Government has devised a mineral resources strategy, which is a comprehensive program designed to release the country's full mineral wealth potential.

Core elements of this program include the drafting of a new mining code, the strengthening of the Brazilian Geological Survey and the creation of the Brazilian Mining Agency to replace the Brazilian National Department of Mineral Production as the sector's regulatory body. The Government considered the restructuring of the regulatory architecture particularly necessary as a result of the decision to readmit foreign capital and to privatise Companhia Vale do Rio Doce, the world's largest iron ore producer.

The main outcome the Government hopes to achieve as a result of the reform process is a more efficient sector, which will significantly increase mineral production over the next decade. Key to this is its ability to attract new investment. By providing the basis for easier access to mining rights through accelerated and simplified bureaucratic processes, and fast and clear access to prospecting ground for domestic and international companies alike, the Government has clearly signalled that the mining sector is open for business.

Mining Sector Targets for the Next Decade

The mineral exploration spending and objectives for Brazil declared by the Brazilian Ministry of Mines and Energy over the next decade include:

- an increase in the level of exploration investment from the current US\$120m to US\$400m per year to 2003
- the tripling in the value of mineral production to reach US\$25bn by 2010
- the generation of 460 000 new direct jobs in the mining sector and approximately 4.3m related jobs
- to conclude airborne surveying of the Amazon region by 2002.

Opportunities for Australia

Although most machinery and equipment used by the mining industry is still produced domestically, there is a growing interest in diversifying the country's sourcing of equipment and services. Australia is well known in Brazil for its capacity to supply quality equipment and services to the mining sector and is therefore well placed to take advantage of the expansion of the sector there over the next few years.

Areas where the Brazilian mining industry will be investing in the near future include:

Equipment:

- sample analysis;
- trucks, shovels, drilling equipment, front loaders, wheeldozer; and
- environmental control equipment.

Services:

- drilling;
- exploration;
- airborne geophysics;
- materials handling;
- environmental management;
- engineering; and
- on-site management eg catering.

Software:

- mining;
- exploration; and
- geophysics.

Human Resources

For Australian companies looking to invest in Brazil's minerals sector, there is a ready supply of well-trained personnel from which to recruit. Federal Universities are the main centres for qualifying professionals, with courses and programs in geology, geophysics, geochemistry, geostatistics and mining engineering available to tertiary students. These professional courses are complemented by the availability of industry related training at public industrial technical colleges and schools which are a major source of skilled labour for the mining sector.

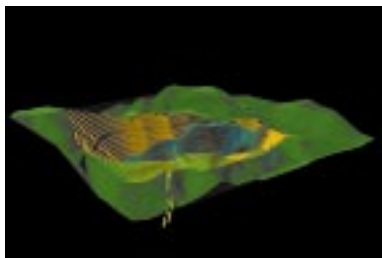
MAPTEK: BRAZIL — DIGGING IN



Established in Sydney in 1981, Maptek is a world leader in desktop software technology for three-dimensional modelling. The company's premier product, the VULCAN software suite, provides advanced 3D spatial information, modelling, visualisation and analysis systems in fields ranging from mining to defence, environmental management and urban planning. Today, Maptek has offices in the US, Chile, Brazil, the UK, Turkey, South Africa and Zimbabwe, and employs more than 110 staff worldwide.

Getting Started

Maptek's entry into the Brazilian market was the logical outcome of the company's decision to establish an office in Chile in 1991, where the company is now the market leader for software modelling. This success was the catalyst which encouraged the company to look farther afield in South America. Says Managing Director Dr Bob Johnson, "Basically, in our business, which is international by its very nature, you always have to be alert to the next opportunity. Brazil was an obvious next step. Its mineral potential, although underdeveloped, is well known. With the mining sector opening up to international investment, we decided we had little choice but to be there to take advantage of the emerging opportunities."



Maptek's Vulcan Software Suite — helping to design Brazil's mines.

From the very beginning, Maptek decided that success in the challenging Brazilian business environment required the establishment of an on-the-ground market presence. So in 1997, the company opened an office in Belo Horizonte, Minas Gerais, although the office was, and continues to be, managed from Chile. "Our operation in Brazil is managed from Viña del Mar. Initially, we believed this provided the most cost-effective start-up method. It has also had the dual benefit of allowing us to use the experiences and knowledge we had gained in Chile."

The Maptek Experience

For Maptek, the Brazilian experience has been a challenging and at times frustrating one. "Make no mistake. Although the Brazilian economy and business methods have undergone rapid modernisation in recent years, Australian companies thinking about Brazil need to be aware that they may still encounter laws and practices that can frustrate and delay the most determined of businesses. Of course, this should not stop them from doing business there. But they need to be aware of such issues and take them into account in their business planning".

The key issue Maptek has faced in Brazil is government involvement in private enterprise, which although diminishing, remains substantial. "Brazilian bureaucracy is at times an imponderable beast which affects business at almost all stages of the commercial cycle. Paperwork, in particular, can sometimes prove a headache. For this reason, it is crucial to be on the ground, preferably represented by an agent and/or employee who knows the system and who can knock on relevant government doors when required".

The Future

Maptek is in Brazil for the long haul. "Despite the challenges it presents, this is just not a market you can afford to ignore. Its sheer size and potential and actual wealth see to that. With continued economic reform, we believe business opportunities can only increase for our products in the future. Of course, the substantial and increasing Australian stake in the mining sector will also be good for our business".

EDUCATION AND TRAINING

By IDP Education Australia — Brazil

Representing more than 250 educational institutions, IDP Education Australia is Australia's leading independent international education organisation. IDP's mission is to assist in making the teaching, consultancy and research services of Australian education and training institutions available to overseas countries, institutions and individuals. IDP opened an office in São Paulo in 1999 to service the growing Brazilian student market.

Brazil is South America's leading source of international students, with a strong tradition of overseas study among the middle and upper classes. While languages have traditionally been the courses of choice, the number of students now undertaking their undergraduate and postgraduate studies abroad has been growing in recent years. At the same time, a growing number of students are seeking interesting, safe and cost competitive alternatives to the traditional destinations of the USA, Canada and Europe. Australia is well placed to take advantage of these trends.

Recent Developments

Brazilian educational standards have risen considerably in the past 10 years, with education one of the main priorities on the national social agenda. Prior to this, years of neglect had resulted in an education system largely inadequate for the requirements of an industrialised state. Particular problems included underpaid teachers, a high dropout rate and a lack of technical schools. Standards also came to reflect the distribution of income imbalances between regions, with the quality of education in the South and South East better than in the North.

While there remains some way to go to rectify this situation, considerable progress has been made over the past 5 years. In particular, the major reorganisation of Brazil's education sector and close collaboration among the three levels of government has ensured more rapid, innovative and effective reforms. As a result, good primary and secondary schools, as well as reputable universities, both in the public and private sectors, now service the sector. Student numbers have also risen markedly, with approximately 54.2m students involved in education at all levels. Growth has been particularly impressive at the secondary level, where numbers rose from 3.5m in 1990 to 8.7m in 2000.

Propelled by the growing number of secondary school graduates, higher education is also expanding rapidly. The number of students enrolled in undergraduate tertiary courses grew by 7 per cent per annum in the 1994-1998 period. Such growth can be expected to continue as new teaching methods, such as distance education, are used to overcome barriers to universal education.

Distance Education in Brazil

Although still in its infancy, distance education has become an accepted method of delivery for educational services in Brazil. This recognises the reality of the country's vast distances and the improvement in telecommunications services since the privatisation of the sector. A key project currently running is School TV, an education oriented channel that offers 3 hours of programs 3 times a day. Under the program, 40 000 schools have also been provided with communications equipment, particularly benefiting students in far-flung corners of the country.

Australia's long experience in distance education means that it is well placed to offer support services in this emerging sector. For instance, markets exist for Australian visual educational products for use on cable television channels, while opportunities also exist for Australian providers of teacher training in distance education. Australia's growing experience in Internet based learning may also be of interest to Brazilian education providers.

The Brazilian Education System

The founding principles of the Brazilian education system lie in the 1988 constitution, with education the right of every Brazilian. While the Federal Government has responsibility for legislating on national education guidelines and coordinating and developing national education plans, it also provides technical and financial assistance to the states, Federal District of Brasilia, and municipalities for the development of their education systems and for priority assistance to compulsory schooling.

Divided into two levels, Basic and Superior, a key aspect of schooling in Brazil is the pursuit of national unity. For this reason subjects such as Portuguese, history and geography are core curriculum subjects. Apart from such core subjects, schools may determine other subjects to be taken, taking into consideration regional and local characteristics and aptitudes of students.

Basic education consists of elementary and secondary schooling over a twelve-year period, while Superior education covers tertiary courses at both undergraduate and graduate level. Entrance to tertiary level study is dependent on the successful completion of Basic schooling. At university, enrolment is completed by subject, in a non-sequential system, with duration depending upon the course taken.

A clear advantage for Australia in seeking to attract students from Brazil is the alignment of the academic year:

Semester 1:	February – June
Semester 2:	August – December
Christmas/Summer Break:	December – January
Winter Break:	July

An important element in the Brazilian Government's efforts to modernise the education system is international cooperation. The Brazilian Ministry of Education and Sports has signed various exchange agreements within the framework of cultural and educational cooperation agreements with other countries. Individual universities are also pursuing bilateral links with their counterparts abroad. While such agreements are aimed at improving education generally, they are also targeted at creating the conditions for the development of the country's technological capacity. Where the local market is not able to fulfil local educational demand, the expectation is that Brazilian students will search for educational opportunities abroad.

Opportunities for Australia

Opportunities abound in Brazil for Australian tertiary and vocational training institutions seeking to diversify their international student base. While it is difficult to obtain exact numbers, it is estimated that up to 80 000 students study abroad annually, with at least one third of these considered to be full fee paying students in academic programs. The remaining students participate in exchange programs or study under a scholarship arrangement.

Popular areas of study for Brazilian students abroad include business management, hospitality and international relations at an undergraduate level. English courses remain popular. Many universities require a high level of English in order for students to enrol, and there is also a growing recognition in the business community that English is essential for success in the international business environment. Each year organisations such as Cultura Inglesa (one of Brazil's largest English language Institutes) send hundreds of students abroad for short courses. This has proven to be lucrative for English language providers in the UK and USA in particular.

Opportunities for Australian Training Providers

Opportunities for Australian training providers exist across a range of private and public sector occupations as a result of recent economic reforms, particularly Brazil's massive program of privatisation.

A key market segment, which is facing high demand for specialised professionals, is the telecommunications sector. Since privatisation of this sector in 1999, many multinationals have opened offices in Brazil demanding highly skilled employees for the installation of equipment, systems and equipment maintenance and product development. Other sectors with high training requirements include: tourism and hospitality, environmental management, agriculture, information management, and education and training.

The key to growing the Brazilian student market for Australia is the successful promotion of the Australian education and training sector, particularly to parents who generally fund the overseas study of their children and therefore play a major role in determining the destination. Australia's world-class education and training institutions, coupled with lifestyle advantages and relatively low cost of living, compared to more traditional destinations, are already attracting a modest number of Brazilian students. Of the approximately 75 000 Brazilians who undertook studies abroad in 1998, 4.5 per cent chose Australia as their destination. There is no reason that, with well targeted marketing and promotional activities, this number cannot increase markedly in coming years.

INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS

The seventh largest telecommunications market in the world, Brazil is without doubt the largest potential market in terms of opportunities in IT&T products and services in Latin America. Ongoing deregulation and liberalisation have released pent up demand for basic wire line and cellular telecommunication services, in turn, changing the very nature in which Brazilians communicate and do business. Whereas the prohibitive costs of installing and maintaining even one telephone once meant that most households did without and businesses made do with inadequate services, privatisation has brought telephony services within the reach of ordinary Brazilians at a competitive price and in a more efficient manner.

A knock-on effect of the subsequent enthusiastic take-up rate has been the extraordinary way in which Brazilians have taken to the Internet. Today, Brazilians are more than comfortable conducting their banking affairs over the web, while e-commerce, although still in its infancy, is finding its niche in what is a huge consumer market.

Background

Prior to 1998, the Brazilian Government monopoly, Telebras, operated 95 per cent of all public telephone infrastructure installed in Brazil. Telebras was made up of 27 state telephone companies and Embratel, which managed all interstate, long distance and international trunking services. It also provided both domestic and international data links and data exchange networks to private and government subscribers through an installed infrastructure worth approximately US\$27bn. With a huge bureaucracy (90 000 employees), Telebras was plagued with a continuous shortage of investment capital, excess regulation and was more noted for its inefficient practices than for what it actually delivered.

In line with global trends in the 1990s, the Brazilian government made a policy decision to privatise and deregulate the telecommunications sector in order to reduce prices and improve services. The highlight of privatisation was the break-up and auction of the Brazilian Government's controlling stake in Telebras on 29 July 1998. The largest privatisation in Latin America's history brought a total selling price of US\$19bn, a 64 per cent premium over the minimum asking price.

In preparation for privatisation, Telebras was broken into 12 components — three regular telecoms, one long-distance carrier and eight cellular companies (the so-called "A-band" cellular system). Simultaneously, a new regulatory body was created, the National Telecommunications Authority (ANATEL), which, although substantially independent, remains linked to the Ministry of Communications (MINICOM) due to its constitutional framework. Created to deal with all telecommunication services except broadcasting, ANATEL's overall mandate is to control regulatory issues and to ensure that new service operators comply with the contractual terms as defined in the bidding process.

The result of the July 1998 auction was the entry into the market of foreign firms from Spain, Italy, Portugal, Canada and the US, which together initially purchased 70 per cent of the old Telebras system. MCI (also known as WorldCom), the sole US firm to enter the bidding, paid US\$2.3bn for Embratel, the long distance carrier.

In addition to the initial auction, the Government introduced almost immediate competition by selling concessions for three new fixed-line phone companies and international carriers — so called mirror companies. Although initially restricted to a given area, after 2001, all mirror companies will be allowed to compete outside their original region.

The Situation Today

The Brazilian telecommunications revolution has rapidly transformed an industry which had suffered from plummeting investment levels during the 1980s. Reforms already implemented have increased



Rio de Janeiro's Central Business District — home to Brazil's emerging IT&T sector

access to efficient telephone services by both ordinary Brazilians and Brazilian commercial interests alike. This situation will continue to improve as more investment comes on stream in line with the Federal Government's 1995 7 year investment plan, which projects a total of US\$83.5bn to be invested up to the year 2003. While still insufficient to satisfy demand, this level of investment will increase telephone density from the current 12 access lines for every 100 habitants to 23 per 100. In addition to the expansion of fixed line services, mobile services are expected to boom.

A direct consequence of the transformation of Brazil's telecommunications sector is the emerging role being played by information technology, particularly the Internet. The privatisation of Telebras was crucial in the growth of the market. Whereas prior to privatisation, every Internet Service Provider (ISP) was compelled to subscribe to Internet access through Embratel, private operators may now form subsidiaries to offer Internet access to end-users, as Spain's Telefonica has done. Private companies are also now permitted to develop their own backbone networks. With one of the fastest Internet growth rates in the world there is now estimated to be five million users, with predictions that this will rise to seven million users by year-end 2001. Sixty per cent of traffic is centred around São Paulo, 30 per cent around Rio De Janeiro and the remaining 10 per cent in other areas of the country.

Key players in the rise of new Internet services in Brazil are the country's banks. Already one of the most sophisticated banking industries in the world as a result of technologies developed to cope with hyperinflation in the 1980s, the banks consider the Internet a crucial tool in the battle for the expansion of market share, an increase in revenues and a reduction in costs to consumers. Already, Itau and Banco Bradesco combined have over 1.4m customers with electronic access to their accounts, while Unibanco expected to have some 600 000 on-line clients by the end of 2000. In an endeavour to maintain this momentum, the banks have been at the forefront of Brazil's free Internet access revolution. Moreover, in an attempt to place more computers in the hands of clients, Itau and

Unibanco have developed financing options for PCs at interest rates below the inflation rate. The development of the mobile services market and the increasing prevalence of Wireless Application Protocol (WAP) technology provides further opportunity for the banks to develop on-line services.

The Internet and the New Entrepreneur

The brain-drain of the 1980s which saw 1.5 million Brazilians leave home to work abroad may now be in reverse, thanks to the rapid growth of the telecoms sector since privatisation in 1998. In particular, the Internet has created a market to finance aspiring entrepreneurs. Economists estimate that around US\$1bn of private equity has gone into the Internet in Brazil since 1998. "It was not the tradition here for the best prepared people to look after their own financing", says Octavio Pereira Lopes, a partner at GP Investimentos, until recently one of the few venture capital companies in Brazil. "The Internet has brought this world with it and created the space for people to run their own businesses."

Source: Financial Times — 26 October 2000

The recent boom of e-commerce is further evidence of the embrace of the Internet by both Brazilian consumers and business. The volume of annual sales generated on-line was expected to increase from US\$243m in 1999 to US\$449m in 2000, with transactions ranging from simple purchases of goods and services to more sophisticated investment advice. Leading supermarket chains such as Pão de Açúcar have used the Internet to leverage their already considerable grocery delivery services, while book stores and music chains are also rapidly developing on-line services. On the business-to-business (B2B) front, while most schemes are still in the experimental stage, B2B sites have experienced significant growth. Motor vehicle companies including Volkswagen, General Motors, and Ford are leading the way, using B2B solutions to interact with dealerships in Brazil. E-marketplaces, where businesses trade goods and services among themselves, are also growing in popularity.

The challenge now is for Brazil's lawmakers at both state and federal levels to regulate the burgeoning e-commerce sector to ensure that growth is not compromised. Issues which are being addressed in a current legislative effort include privacy, security and consumer rights.

Opportunities

Equipment and Infrastructure suppliers are preparing themselves for the boom in the market resulting from privatisation and deregulation. ANATEL estimates that investments should reach US\$10bn per annum over the next 4 years, and could hit US\$100bn by 2007. In particular, with telephone density so low, and a key Government priority to increase the general population's access to telephony services, there are major opportunities in the access product market eg digital pair gain, digital loop carriers. Opportunities for Wireless Local Line (WLL) technology are also set to take off with an estimated 8 million lines to deploy WLL technology. Other opportunities exist in the fields of:

- telecoms network management;
- provisioning;
- customer care and billing software;

- e-business technology;
- edutainment/entertainment software;
- wireless applications protocol technology;
- smartcard and EFTPOS technology; and
- IT&T training.

Recognising the potential offered by Brazil's IT&T revolution, pioneering Australian companies have already established a presence in the market. Outstanding examples include Keycorp, which sells e-commerce solutions including key pads and related software to Banco Bradesco, Open Tel and Total Tel which both sell telecommunication software packages to Brazilian interests, and Milcom, which provides IT&T training services. Each of these companies show what can be achieved with good planning and due diligence.

OPEN TELECOMMUNICATIONS: BRAZIL CONNECTING



Founded in 1992 as Open Technology, Open Telecommunications (OT) has built a reputation for its skills in developing and integrating software solutions for the telecommunications industry that enhance established and fixed line networks and new world Internet Protocol networks. OT has an international customer base and currently has offices in Australia, New Zealand, Europe, Asia, North America and Brazil.

Getting started

OT's entrance into the Brazilian market was the result of collaborative efforts between the company and Austrade to identify commercial opportunities in South America. OT has been exporting since 1992 but first enlisted Austrade's assistance in 1998 in response to a payment dispute in Peru. Following the successful resolution of the matter, OT signed a retainer agreement with Austrade's São Paulo office for market research services in Brazil. The outcome was the signing in January 2000 of a A\$1.4m contract with Embratel for the provision of support and development services to the long distance carrier and a new contract signed by Embratel for a second software license and additional services totalling A\$2.4m.

As a result of the on-going privatisation of the telecommunications sector since 1998, Brazil is now an integral element in OT's global strategy. According to OT Managing Director Wayne Passlow, "The dynamics operating in many countries in South America, including Brazil, are similar to the Australian experience of a deregulated telecommunications market. We are positioning ourselves to capitalise on the opportunities on offer and can clearly define the benefits to the company of increasing our resources and presence in this large market".

OT's Experience

A key player in OT's success in Brazil is Regional Manager and former Austrade Trade Adviser and Senior Business Development Manager - IT&T — Wendy Barker. Wendy believes that OT's commitment and understanding of the Brazilian market has been critical to its success. "This is a vast and complex market. In an industry like telecommunications you need a big investment of time and money to make it here. For this reason, OT decided very early on to establish a presence on the ground. This enabled the company to make the right contacts and establish trust with potential clients, which is essential to conducting business in Brazil".

One of the issues Wendy believes potential Australian investors must be aware of is high salary costs. "Professional salaries, particularly in the IT&T sector, are at the upper end of the scale. And add-on costs, including tax, can often double this amount. This is largely the result of a limited pool of trained professionals who have become a valuable commodity in the newly deregulated environment." This situation can be expected to change as Brazil's training sector adapts to the requirements of the new economy.

Wendy also believes that being an innovative Australian company has its advantages. "Our Brazilian employees have been eager to embrace the company's way of doing business, because our methods offer them greater opportunities than many of our competitors. It is quite obvious from our dealings in the market that Brazilians appreciate the tendency for Australian companies to respect and value local knowledge and personnel when doing business, and not merely imposing a corporate structure that mirrors the one back home."

In fact, Wendy believes that OT's success has been built on the unique partnership between the innovative Australian company and the efforts of the team in Rio de Janeiro. "Our approach is to build a partnership and not export solutions. After all, market knowledge resides here. The key is to harness this knowledge and talent in a cooperative and productive manner."



OT — helping Brazil connect to the outside world.

Finally, Wendy says that flexibility is a major ingredient to business success in Brazil. "There is no getting around the fact that Brazil can be a frustrating market for all sorts of reasons. However, with a flexible approach, a long-term commitment and the forging of local partnerships and no pre-judgments about what might or might not work here, there is no reason why successful Australian companies cannot succeed in the market".

The Future

OT sees a bright and profitable future in Brazil. Investment in IT equipment and telecommunications software is expected to reach US\$500–700m per annum over the next few years as the effect of wide-ranging privatisation and deregulation gain momentum.

"With deregulation only beginning in 1998, the telecommunications software market in Brazil is at the beginning of the growth curve. Telecommunications providers are looking to companies like OT for new value added services in their quest to win new customers and expand market share. We are planning to be there for the long run", says Wendy Barker.

ENVIRONMENTAL SERVICES AND TECHNOLOGIES

Like any developing country, Brazil faces the difficult task of providing environmental security for its population while also securing the country's economic future. This daunting task is all the more challenging given Brazil's vast geographic area, where environmental issues differ from region to region and in scale. Despite this, Government authorities at all levels and industry are making a renewed commitment to environmental protection. As a result, Brazil is now the largest environmental technologies market in Latin America, estimated at US\$3.4b in 1998. Some estimates place growth for the foreseeable future in the order of 5-10 per cent per annum as recent laws and regulations take effect.

In terms of a regulatory framework for environmental protection, Brazil has traditionally been at the forefront of best practice for developing countries, with environmental legislation dating back to 1973. The objectives of environmental policy are defined in minimum environmental standards, which the Federal Government has established for air and water. Central to pollution control policy is a licensing system that requires a valid environmental license for every potential polluting activity. While the Federal Government has been responsible for national framework legislation, states have implemented their own licensing systems with differing systems of fines for transgressors. Municipalities are now also playing an important role in pollution management and are responsible for zoning, water sanitation, solid waste and drainage services (World Bank Policy Report — Brazil: Managing Pollution Problems).

Despite this comprehensive framework many environmental problems remain unsolved and in many instances pollution levels remain well above internationally accepted levels. The reasons for this include lack of effective implementation and enforcement and excessive reliance on Government finance which must often meet other national priorities. However, the renewed national effort on environmental protection will go some way to alleviating this situation as the Federal Government endeavours to meet international commitments and the expectations of an increasingly environmentally aware population.

Recent Developments

Brazil's renewed commitment to the environment is illustrated by initiatives of both Government and the private sector. Of perhaps greatest impact was the enactment in 1998 by President Cardoso of Law no 9 605 which established criminal sanctions for activities harmful to the environment. As a result of the new law, enforcement and punishment for environmental crimes increased (US Foreign Commercial Service Report — Brazil: Solid Waste Products and Services).

In particular, conformance with the law requires industries to improve operations and production systems to reduce environmental impact. This has directly influenced the environmental technologies market as industries have had to invest in pollution prevention, including solid waste management and impact minimisation.

Brazil: Common Pollution Problems, Sources and Controls

Pollution Problem, Pollutants and Location	Source	Typical Control Options
Water: Organic material (most urban surface waters: rivers, bays, beaches)	Mostly sewage (collection systems and runoff); also industry and landfill runoffs	Conventional sewage and wastewater treatment
Water: Nutrients (phosphorous, nitrogen)	Mostly sewage, also agricultural runoff	Chemical precipitation of waste water
Water: Toxics and Metals	Mostly industrial effluent, also landfill runoffs	Wastewater pretreatment
Air: Fine particulants (most serious in São Paulo, Rio de Janeiro, elsewhere local)	Combustion (mostly industry, also transport and solid waste burning)	Filters and precipitators in industry; switch to low-sulfur and other cleaner fuels)
Air: Ozone/smog (likely in São Paulo, Rio de Janeiro and other major urban centres)	Mostly transport emissions of NOx and VOC (ozone precursors)	Catalytic converters in vehicles, vehicle maintenance, transport system strategies
Air: Carbon monoxide, aldehydes (areas with high transport density)	Transport	
Hazardous wastes (air, water, land)	Mostly industry	Industrial landfills, incineration
Poor solid waste management	Domestic and industrial solid waste	Complete coverage for solid waste collection, disposal in sanitary land fills

Source: Brazil —Managing pollution problems — World Bank Policy Report, 1998

In tandem with Government efforts, industry is also playing an important role in improving environmental standards. This is the result of the convergence of various factors, which have seen local companies invest in new environmental programs and equipment in recent years. In many ways, the key has been the opening of the Brazilian economy to world markets. Today, companies are often expected to comply with environmental regulations by their international customers, while local subsidiaries of multinational companies are beginning to follow the environmental standards of their head offices located abroad.

An important driver has also been the need for local companies to adopt quality control programs and environmental regulations such as those mandated under ISO14000 in the face of increased global competition. The ISO14000 certification is an environmental quality norm which is being implemented by multinationals and local manufacturers attempting to export. Large Brazilian companies including Petrobras and CVRD have created the GANA Group (Environmental Normalisation Support Group) to support standards promotion and implementation. Sectors represented include mining, chemicals, electronics, pulp and paper and electroplating.

An important aspect of the ISO14000 is its multiplier effect, with certified companies responsible for holding their suppliers to equally high management systems. This will continue to have a major effect on Brazilian small to medium sized firms who are increasingly obliged to meet international environment standards (US Foreign Commercial Service Report — Brazil: Solid Waste Product and Services).

Build-Operate-Transfer

As state, regional and municipal projects increase in size and importance, a squeeze in the availability of finance has resulted in demand for a packaged product, including equipment supply, servicing and finance. In particular, the Build-Operate-Transfer model is emerging as the method of choice for structuring environmental projects, especially the large municipal wastewater projects (US Department of Commerce). Australia is well placed to take advantage of this trend.

Opportunities for Australia

While over 80 per cent of Brazil's market for environmental technologies is provided for domestically, new opportunities for Australia are emerging as the sector expands. To date, principal foreign suppliers have been the US, France, Britain, Germany, Japan and Canada.

Areas of potential for Australian businesses include:

- water and wastewater management;
- waste management equipment;
- waste management services;
- air pollution control equipment;
- resource recovery; and
- consulting and engineering services.

GHG Management — The Brazil Option

GHG Management, a leading Australian environmental technologies firm which actively participates in the development of greenhouse funds and a global pool of emission credits, is currently developing plans for entry into the Brazilian market. Opportunities already identified as possible entry vehicles include tropical timber management and energy generation sourced from waste for use by industry.

Trade in greenhouse gas emissions has also been identified as a medium term opportunity. Explains GHGM's Executive Director David Toyne, "The sheer size of Brazil, its economy and the rapid pace of economic and social change means that the prospects of finding viable greenhouse gas related projects to pursue are high compared to most other places. Most people would be surprised to learn that there is a high level of awareness in Brazil in relation to the greenhouse gas issue. This has placed pressure on Governments and industry to rethink their environmental management strategies, opening up a myriad of opportunities for a company such as ours."



APPENDIX

Useful Tips for the Business Traveller

Contacts/Websites



USEFUL TIPS FOR THE BUSINESS TRAVELLER

Visas

Visas are required for Australians travelling to Brazil. Passport holders will need to check with the Brazilian Embassy or Consulate for information on obtaining a visa. Contact details for the Brazilian representatives in Australia can be found on page 93.

Getting There

Most Australians fly to one of the two main international airports; Guarulhos (GRU/São Paulo); and Galeão (GIG/Rio de Janeiro), via Buenos Aires. QANTAS currently services the route with two flights per week from Sydney via Auckland. There are several less direct routes such as the East Coast via Santiago or Los Angeles, while a flight to Brazil via Johannesburg may be a more viable alternate route for Western Australian travellers.

Note for travellers to Guarulhos: the airport is situated on the outskirts of São Paulo. While travelling time to the main commercial areas is usually under an hour, it can take over two hours during peak hours.

Getting around Brazil

Large distances and poor land transport links make air travel the preferred transport option for most business travellers within Brazil. While expensive by Australian standards, air travel is frequent and comfortable on reputable airlines. While Guarulhos and Galeão service all major destinations in Brazil, it is useful to note that the domestic airports in Sao Paulo and Rio are near the commercial area and can be significantly more convenient.

For travel within the major cities, taxis are plentiful and metered by law. There are special taxi services at the international airports, with the company name painted on the door panel. Taxis operating from São Paulo international airport charge set fares to the city of approximately US\$65.00. Reliable chauffeur-driven car services can also be hired for around A\$250 per day.

Insurance

Visitors to Brazil are advised to ensure that they have adequate travel insurance, both medical and general.

Climate

While most of Brazil is situated in the tropics, there are significant regional differences. The north, central and north-east regions are hot and sunny most of the year, with average temperatures ranging between 27°C and 32°C. The southern states experience average summer highs of around 33°C, although it is not uncommon for temperatures to reach 40°C. Winter temperatures average around 14°C, but can fall as low as 5°C. As Australia and Brazil share the same seasons, a good rule of thumb is to compare São Paulo to Sydney and Rio to the Gold Coast.

Clothing

Business dress standards are comparable to those applying in Australia, with most business meetings conducted in a suit and tie or equivalent. Although air-conditioned offices are commonplace, lightweight materials are recommended in the warmer months.

Salutations

The convention in Brazil is to use formal titles (Professor, Doctor), 'Senhor' (Mr) or 'Senhora' (Mrs) for business conversations. During meetings (even formal meetings), use the title "Mr" or "Mrs" and the other parties first name, not their last name (i.e. Sr. Carlos, Sr. Paulo, Sra. Julia, Sra. Marta).

Business Hours

Office hours are usually between 9:00am to 6:00pm, Monday to Friday.

Opening hours for supermarkets, department stores and shopping centres vary. Most stores operate between 10:00am until 10:00pm, Monday to Saturday and 10:00am until 06:00pm on Sunday.

Banks are open from 10:00am to 4:00pm, Monday to Friday.

Currency

Visitors to Brazil have traditionally opted for the security and convenience of US dollar denominated traveller's cheques. In recent times, ATM cash withdrawals have become more popular as these machines have become widely available in the larger cities when using internationally-recognised credit cards.

Australian holders of Visa and MasterCard credit cards can withdraw cash from credit accounts. Banco do Brasil has terminals at airports and major branches which perform this function. Credit card friendly terminals can also be found in Blockbuster stores.

Note: Australian dollars are literally impossible to exchange in Brazil. Of course, payments at all major hotel and shopping chains and many restaurants can be charged to major credit cards. It is also advisable to carry a small amount of some local currency for incidental expenditure.

Electricity

Most Brazilian cities (including São Paulo and Rio de Janeiro) are serviced by a 110 volts system, with a two pin plug. One notable exception is Brasilia which has a 220 volts supply.

Security

Foreigners must be aware of personal security when visiting Brazil. This awareness is of highest importance in the larger cities, particularly São Paulo and Rio de Janeiro, but sensible precautions are warranted in all areas. Brazilian authorities are keen to reduce crime and several Brazilian cities have established specialised tourist police units to patrol areas frequented by tourists. However, crime is on the rise and visitors are asked to check the latest DFAT travel advisory for Australian citizens. See page 93 for details.

Perhaps the best approach is to take advice from seasoned travellers to Brazil and locals. Do not carry valuables such as jewellery, expensive watches, passports and air tickets with you. Don't take anything to Rio de Janeiro beaches apart from enough money for lunch and drinks. No camera, no bag and no jewellery — wear your bathing suit and carry a towel. Note: by law you must carry a passport with you at all times, but many travellers opt to carry a photocopy whilst they move about the city and leave their passport locked in the hotel safe.

Great care must be taken when crossing Brazilian streets. Although contrary to Brazilian law, vehicles rarely give way to pedestrians. Even when a walk sign is green, look in both directions first before attempting to cross the street.

CONTACTS/WEBSITES

DFAT

Canberra

Canada, Latin America and Caribbean Section
The RG Casey Building
John McEwen Crescent
BARTON ACT 0221

E-mail: Latin.Desk@dfat.gov.au
Website: www.dfat.gov.au

Brazil

Australian Embassy
SES QD 801 Conjunto K
Lote 07
Brasilia DF 70200-010

Tel: +55-61 226 3111
Fax: +55-61 226 1112
Website: www.embaixada-australia.org.br/

Export Finance and Insurance Corporation (EFIC)

Export House Level 5
22 Pitt St
SYDNEY 2000

Tel: (02) 9201-2111 Fax: (02) 9251-3851
Website: www.efic.gov.au

Level 20 HWT Tower Southgate
40 City Rd
SOUTHBANK 3006

Tel: (03) 9206-4900 Fax: (03) 9206-4914
Website: www.efic.gov.au

AUSTRADE

Canberra

Anthony Fernando
Manager — America's office

Tel: (02) 6201 7577
Fax: (02) 6201 7300
E-mail: anthony.fernando.gov.au
Website: www.austrade.gov.au

Brazil (São Paulo)

Gerard Seeber
Trade Commissioner and Consul General

Tel: +55-11 3849 6281
Fax: +55 11 3842 8412
E-mail: gerard.seeber@austrade.gov.au
Website: www.australian-consulate.org.br

In Australia

Australia-Brazil Chamber of Commerce, Inc

PO Box 549
Neutral Bay
NSW 2089

E-mail: abcc@australiabrazil.com.au
Website: www.australiabrazil.com.au/

The ABCC provides information concerning merchandise trade and investment with Brazil. It conducts seminars and events to further broaden the business communities knowledge of the Brazilian market, and can assist business with making relevant business contacts on the ground in Brazil

Embassy of the Federative Republic of Brazil

19 Forster Crescent
Yarralumla ACT 2600

Tel : (02) 6273 2372
Fax: (02) 6273 2375
Email: brazil@connect.net.au
Website: <http://brazil.org.au>

Brazil Trade Bureau

Consulate General of Brazil
Level 17, St. Martins Tower
31 Market Street,
SYDNEY NSW 2000.

Tel: (02) 9267 4414 /4416
Fax (02) 9267 4416 /4419
E-mail: trade@brazilsydney.org
Website: www.brazilsydney.org/

The Brazil Trade Bureau provides information on investment opportunities in Brazil, the country's economy and business infrastructure, trade fair calendars and links to non-government industry associations and chambers

Australia Latin America Business Council (ALABC)

C/- PO Box N137
Grosvenor Place
NSW 220

Tel: 02 9247 4747
Fax: 02 9247 4704

The ALABC seeks to promote and encourage trade, investment, technical and economic cooperation and tourism between Australia and Latin America. Its activities include trade missions to Latin America, seminars/workshops, and distribution of the Latin American Bulletin and other economic and trade data relating to the Latin American markets

Western Australia Latin America Business Associated Incorporated (WALABAI)

PO Box 1250
West Perth
WA 6872

Website: www.walabai.com

A business association with active interests in the region, WALABAI has organised missions to various Latin American countries in the past few years. Membership interests include mining, oil and gas, and education

In Brazil

Brazil Australia Chamber of Commerce

Rua Said Alach 161
Ibera Poera
São Paulo SP
CEP 04003 020
Brazil

Tel: +011 889 8388
Fax: +011 887 9851
Website: www.australia.org.br

The sister chamber of the Australia Brazil Chamber of Commerce
(Portuguese)

Brazilian Ministry of Foreign Relations

Website: www.mre.gov.br

The website of Brazil's Ministry of Foreign Relations provides useful information on the current direction of Brazil's trade policy, particularly with reference to Mercosul and related issues. Contains useful links to other Brazilian Government websites
(Portuguese/English)

Central Bank of Brazil

Website: www.bcb.gov.br

Provides timely and comprehensive information and analysis on Brazil's economy, including macro-economic settings and inflation
(Portuguese/English)

Brazil TradeNet

Website: www.dpr.mre.gov.br

BrazilTradeNet offers to non-Brazilian companies a wide range of business opportunities focused on importing from or investing in Brazil. A non-Brazilian company can post "Trade Opportunities" or "Investment Offers", which will be made available to potential partners in Brazil, or it can consult the "Export Offers" or "Investment Opportunities", posted by Brazilian companies. Requires free registration
(Portuguese/English)

National Telecommunications Agency (ANATEL)

Website: www.anatel.gov.br

Comprehensive site which provides up to the minute details of developments in the privatisation process currently underway in Brazil's telecommunications industry. Includes license bid details
(Portuguese/English)

National Bank of Social and Economic Development (BNDES)

Website: www.bndes.gov.br

The chief federal agency for long-term funding which aims to promote the country's development. It has been a key player in all phases of the Brazilian development effort since it was created in 1952. BNDES operates in every sector of the economy and its strategy focuses on industrial restructuring, infrastructure expansion and revamping, managing the Brazilian Privatization Program, supporting foreign trade, environment conservation and improving the competitiveness of agriculture and services
(Portuguese/English)

National Confederation of Industries

Website: www.cni.org.br

As the top representative of Brazilian industry, the National Confederation of Industry (Confederação Nacional da Indústria — CNI), CNI coordinates a system comprising 27 Industry Federations in all states and the Federal District — with a membership of 1016 employers' unions — and oversees the National Industrial Training Service (SENAI), the Industrial Social Service (SESI), and the Euvaldo Lodi Institute (IEL). The website provides a list of products and services available to both domestic and international commercial interests
(Portuguese/English)

Brazilian Ministry of Finance

Website: www.fazenda.gov.br

Provides up to the minute information on the Brazilian economy and government economic policies and programs including tax reform and fiscal stabilization
(Portuguese/English)

National Petroleum Agency of Brazil (ANP)

Website: www.anp.gov.br

ANP is the regulatory agency responsible for overseeing the deregulation and privatisation of sections of Brazil's petroleum industry. Although this sight is predominantly in Portuguese, it provides English language links to information on bidding for exploratory licensing rounds

National Petroleum Company of Brazil (Petrobras)

Website: www.petrobras.com.br

Provides detailed information on partnering and supply opportunities with Petrobras, the Brazilian oil giant

Other**World Bank**

Website: www.worldbank.org

Provides details by sector of development projects in Brazil and the wider region, including opportunities for international tenders and procurement

