



# BRAZIL MEANS BUSINESS

Brazil's historic crossroads creates new business opportunities.

Presentation by: Danny DeVito  
Senior Commercial Officer  
São Paulo, Brazil

# Why Brazil?



- 200 million consumers with increased purchasing power
- GDP of over US\$1.5 trillion in 2009 > Russia and India
- Per capita income 2x China's
- Weathered financial crisis better than other world markets.
- Ag sector rivals U.S.

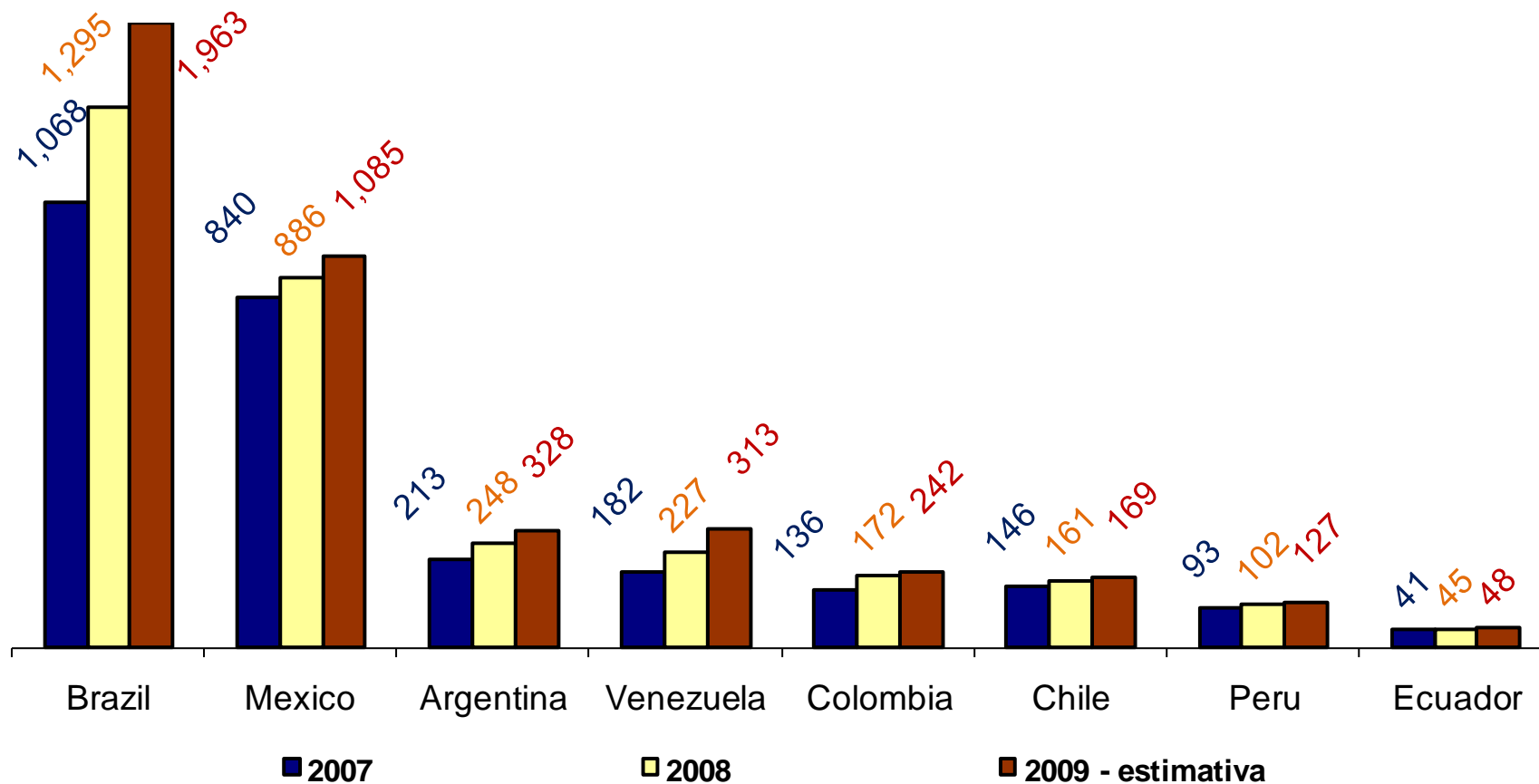
# Why Brazil?



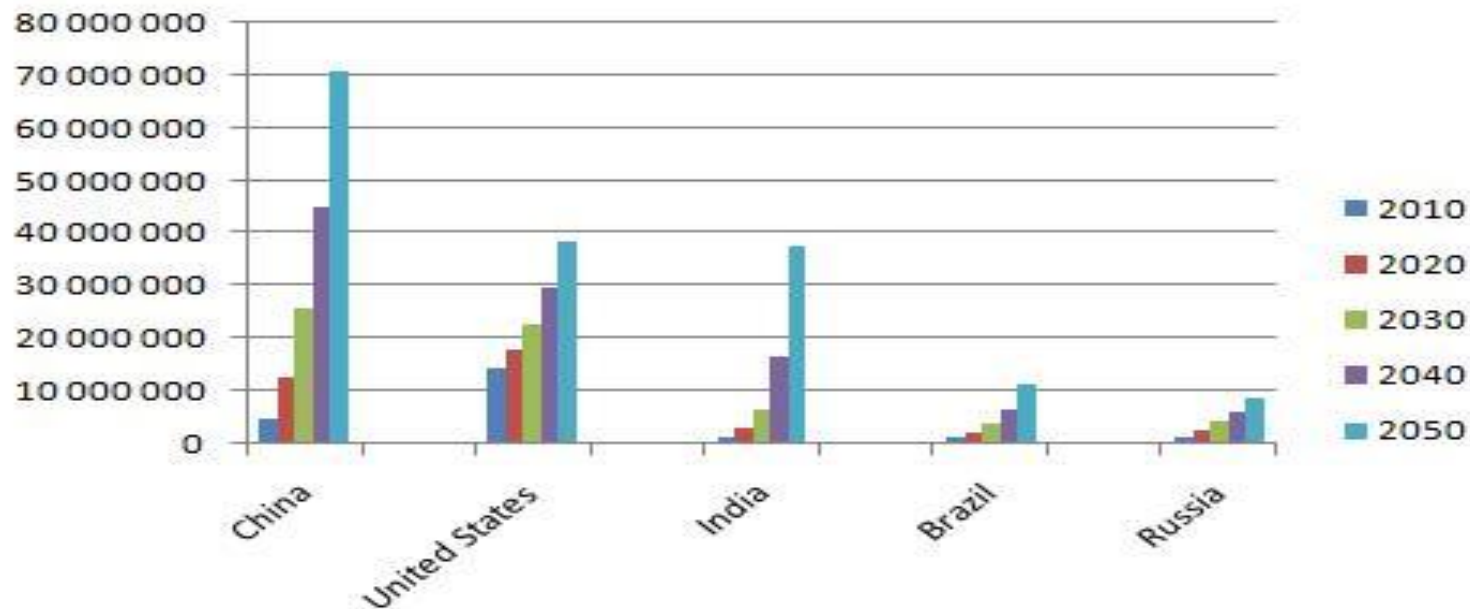
- Oil and gas growth could equal North Sea
- U\$45 billion FDI in 2008 rep. 300% growth in last decade
- Trade between the US and Brazil was US\$40 billion in 2009.
- In 2009 US exports to Brazil totaled US\$21.30 billion - a decrease of 30% from 2008.



# Brazil GDP Compared to rest of Latin America (US\$ Billion)



Forecasts vary, but sometime in the decade after 2014—Brazil is likely to become the world's fifth-largest economy, overtaking Britain and France.



The five largest economies in the world in 2050, measured in GDP nominal (millions of USD), according to [Goldman Sachs](#).<sup>[18]</sup>

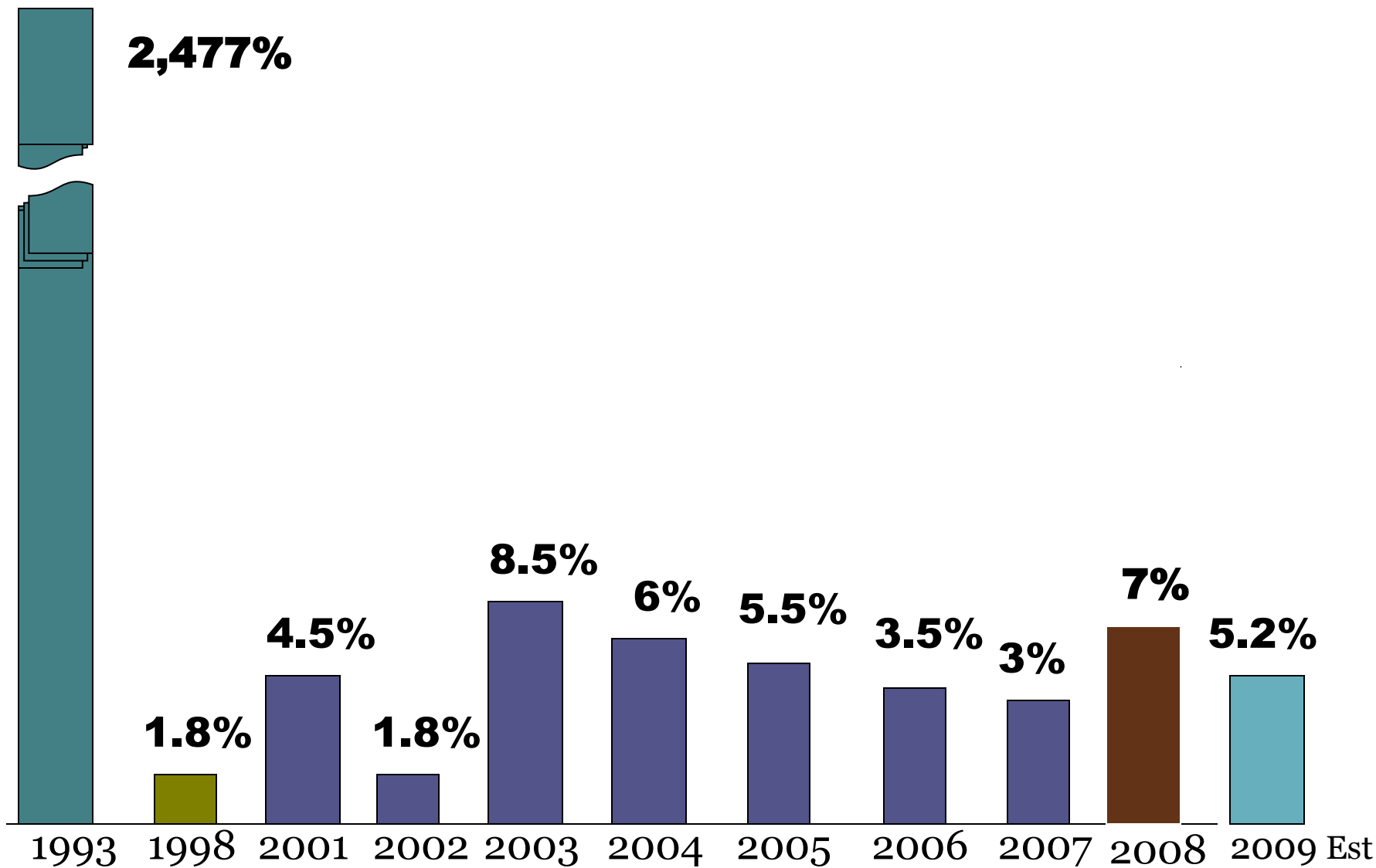


# Healthy economy: Macroeconomic Analysis

- Strong economy (relative to crisis)
- Achieved investment grade status (S&P Rating Services – April 2008)
- Falling inflation rates
- Appreciating currency
- Falling interest rates



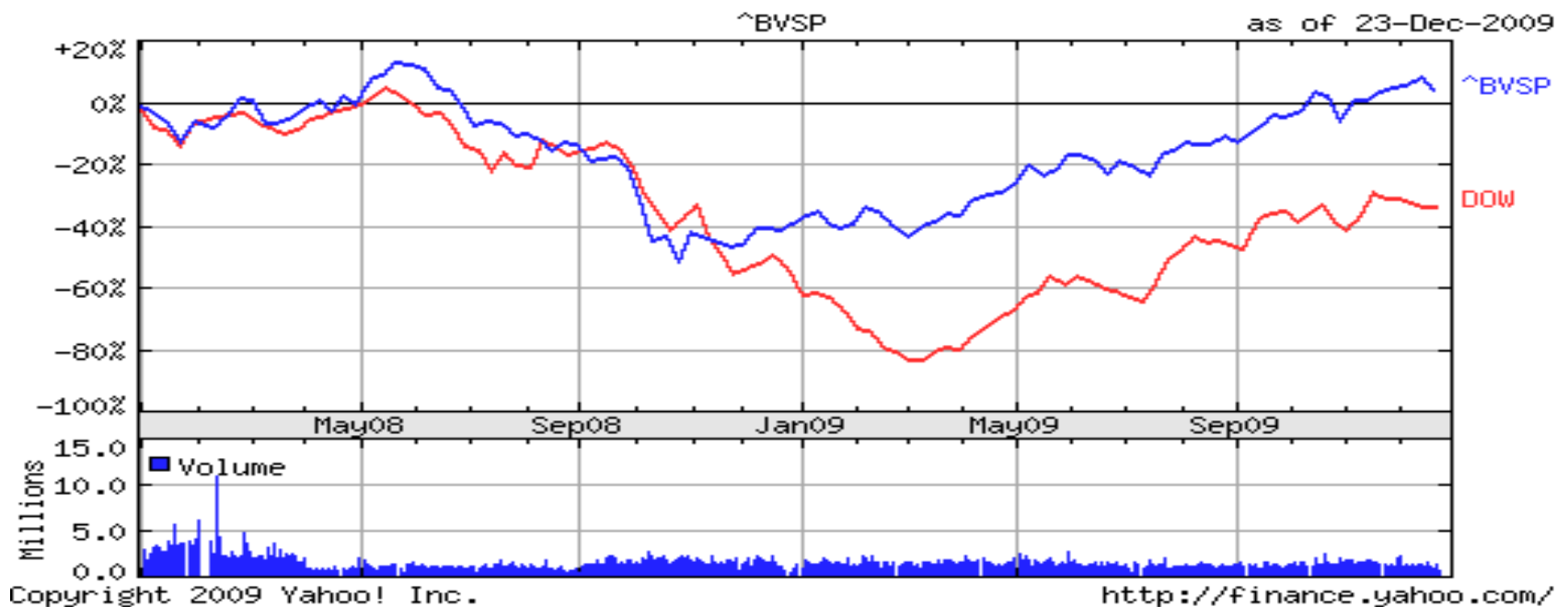
# Inflation Rate (1993 - 2009\*)



# Investor Confidence

- The main São Paulo Stock Exchange Index, the Bovespa, has risen more than 100% from its low point in October 2008.
- Since January 2009, R\$23 billion has been invested in the Bovespa from overseas

Bovespa (Blue) vs. Dow Jones Industrial Average (Red)



# Investor Confidence (cont.)

- . Bank of America strategists wrote in an e-mailed report on 1/6/10. “We expect earnings growth in Brazil to be 30 percent higher in U.S. dollar terms over the coming year, and believe the government’s strong balance sheet and the resilient consumer will drive equity performance.”
- The Emerging Markets Private Equity Association says in 2009 that Brazil just beat India into second place by having a slightly larger number of investors rating it as *very attractive* – 18% versus 16% for India.
- Brazil is the fourth most attractive destination for Foreign Direct Investment (FDI), said a report by the United Nations Conference on Trade and Development (Unctad) in 2009.

# Investor Confidence (cont.)

- In April 2009, Standard & Poor's maintained Brazil's sovereign debt rating at investment grade.
- In May 2009, Fitch Ratings also reaffirmed Brazil's sovereign debt rating as investment grade.
- Sizeable international reserves numbering over U\$238 billion can cushion Brazil against the effects of the financial crisis



# U.S. - Brazil Trade Relations

- Brazil Business Concerns with the United States
  - Agricultural Subsidies (cotton, ethanol, soybeans)
  - Restrictive Tariff Rate Quotas (sugar, OJ, ethanol)
  - U.S. Anti-dumping policies
- U.S. Business Concerns with Brazil
  - High tariffs (20%) & complicated taxes (Up to 60% FOB)
  - Enforcement of Intellectual Property Rights
  - Onerous licensing & Regulatory Requirements
  - Transparency, bureaucracy, different judicial system, slow customs



# Opportunities (Macro view)

For U.S. Companies

# 2010 Best Prospects

- **Ag. Equipment**
- **ACE\***
- **Aviation/aerospace**
- **Defense**
- **Energy**
- **Envirotech**
- **IT hard/software**
- **Infrastructure\***
- **Insurance**
- **Medical Equipment**
- **Safety and Security Equipment**
- **Sporting Goods**
- **Telecom**
- **Transportation\***
- **Tourism**



# KEY PAC PROJECTS

SECTOR	MINISTRY	FUNDING
Infrastructure	Civil Cabinet, Ministry of Transportation and Ministry of Finance	R\$ 504 billion
Sanitation	Ministry of Cities	R\$ 40 billion
Science and Technology	Ministry of Science and Technology	R\$ 35 billion
Education	Ministry of Education	R\$ 8 billion
Security	Ministry of Justice	R\$ 6.7 billion
Youth Programs	Ministry of Labor	R\$ 5.4 billion
Health Care	National Health Foundation	R\$ 4 billion
Transportation	Ministry of Cities	R\$ 450 million
<b>TOTAL PLANNED PAC EXPENDITURES</b>		<b>R\$ 603.85 billion</b>



# FUTURE GROWTH

## Infra-structure matters in Brazil

	<b>BR</b>	<b>US</b>	<b>Difference</b>
• Soy production costs	187	238	51 dollars cheaper in Brazil
• Transportation costs	97	26	71 dollars cheaper in U.S.
• Port costs	7	3	4 dollars cheaper in U.S.
• <b>Total USA</b>	<b>291</b>	<b>267</b>	<b>24 dollars in favor of</b>

**Conclusion:** To produce soy in Brazil is 51 dollars cheaper than in the US. But the logistics costs eliminate this advantage and invert the equation. At the end, it is 24 dollars cheaper to produce in the U.S. than in Brazil.

# World Cup 2014 and Olympic Games 2016 - Business Opportunities

- Rio de Janeiro will host the first-ever Olympic Games in South America August- September 2016
- 12 Brazilian cities will host the the 2014 World Cup Games.
- These two events will generate numerous trade and investment opportunities in several areas.



## Olympic Games 2016 - RIO DE JANEIRO - Estimated investments

- Investments from 2010-2016 may reach US\$50 billion in infrastructure, construction, transportation, public security, education and training, among others.
- Most of those investments will occur through Public-Private Partnerships (PPPs) under Brazil's Growth Acceleration Program (PAC).
- Political alignment on all levels will facilitate the procurement process.

# World Cup 2014 Investments - BRAZIL

- **WORLD CUP 2014 (Held in 12 Brazilian Cities)**
- **Infrastructure: US\$ 51 billion**
- **Stadiums: US\$2.7 billion**
- **Airport renewals: US\$3 billion**
- -----
- **TOTAL: US\$56.7 billion**
- **(Not including the High Speed Train Rio/Sao Paulo, which might not be ready by 2014, and which is valued in US\$20 billion)**



# Opportunities (Micro view)

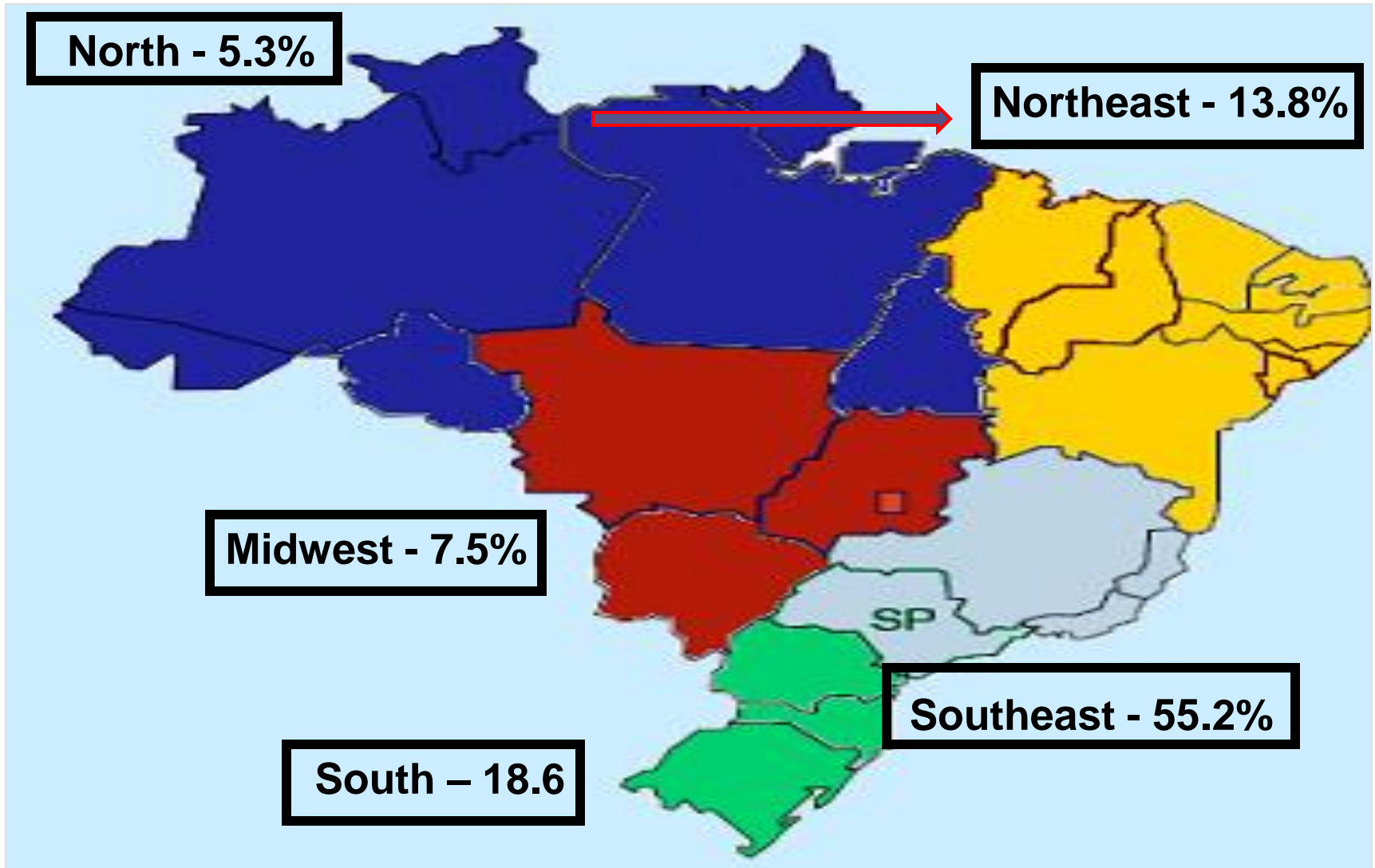
For U.S. Companies



# Regional Disparities



GDP share - % of total GDP - 2009



## The Middle Path: Respecting Market Principals + Offering Social Programs

- Since 2002, a commodities boom has fueled strong growth and lowered poverty across Latin America.
- Brazil's progress most notable because it has far more poor people than any other South American country and has long been one of the world's most unequal societies.
- Brazil has made solid progress by:
  - creating 8.5 million jobs since 2003
  - instituting programs such as food assistance for poor families
  - offering low-interest credit for first-time home buyers and small-business owners

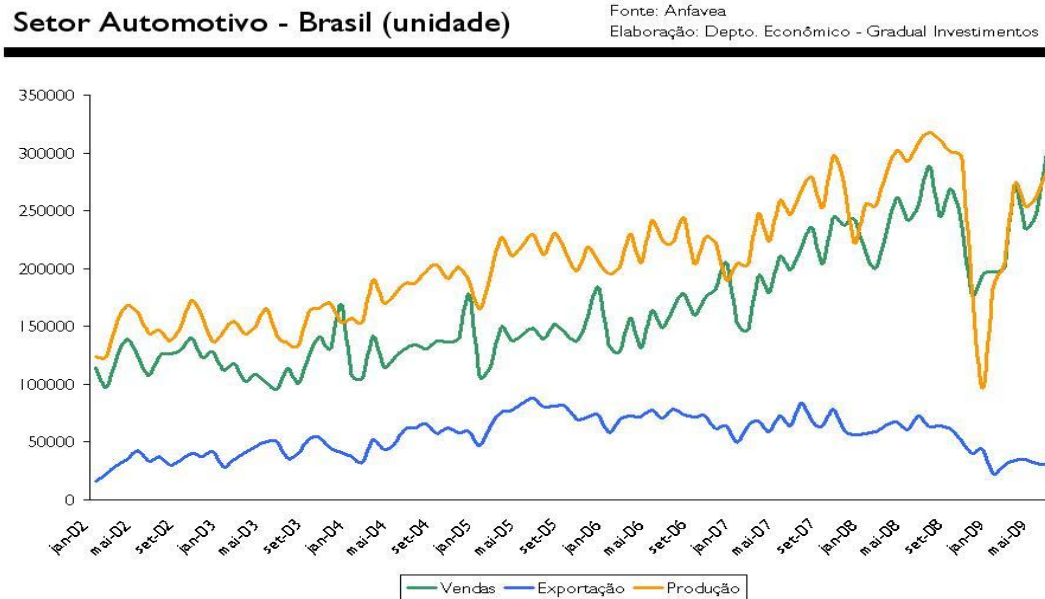
# Credit Expansion



- **More than 1.5 million new jobs in 2009**
- **15 % Expansion of consumer credit for millions Brazilians**
- **20% Home Buyer Credit Expansion *in 2009 and 25 % in 2010***
- **Housing Finance increased 30% in 2009.**
- **Consumer credit reached 48% of Brazilian GDP in 2009. Some contraction in 2008.**

# GoB Stimulus:Automotive Sector

- The GoB cut the IPI (federal tax on most domestic and imported manufactured products), which has stimulated car sales.
- Auto sales in Brazil in 2009 were up 9% compared to 2008.



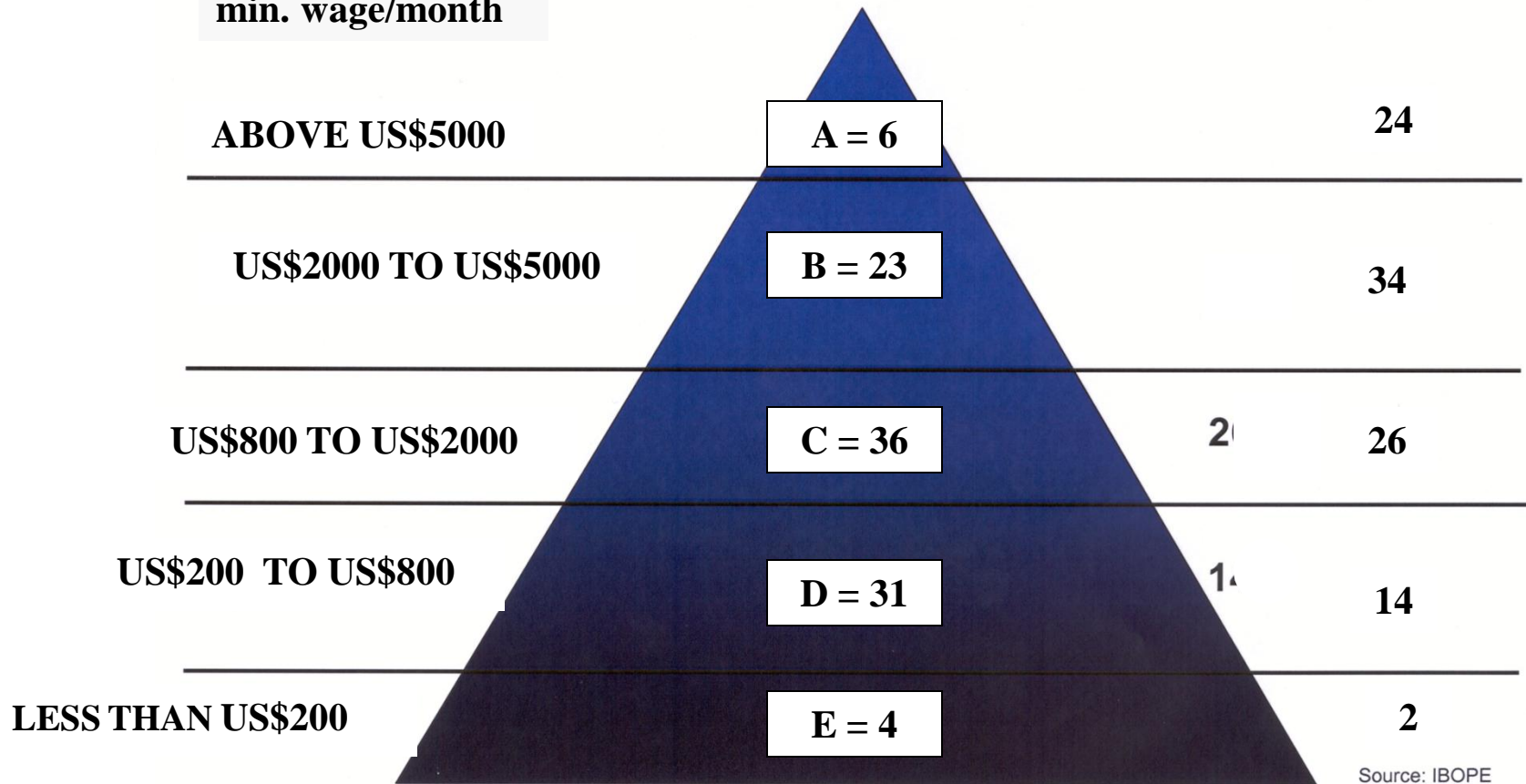
Source: Anfavea (Associação Nacional dos Fabricantes de Veículos Automotores)

# Population Segmentation

**Family (4) income  
x R\$550/US\$200  
min. wage/month**

**# of households (%)  
Total: 50.2 MM**

**Consumption (%)  
Total: R\$ 1.1 Trillion**



Source: IBOPE  
CRITÉRIO BRASIL

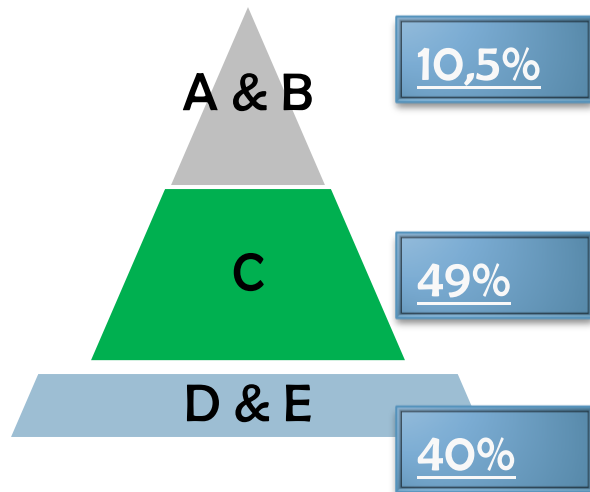
# The rise of a new middle class

	<b>Income (per person)</b>	<b>Income (Family 4 people)</b>	<b>% pop</b>
<b>Class A 1</b>	R\$ 9.733,47	R\$ 38.933,88	1%
<b>Class A 2</b>	R\$ 6.563,73	R\$ 26.254,92	4%
<b>Class B 1</b>	R\$ 3.479,36	R\$ 13.917,44	9%
<b>Class B 2</b>	R\$ 2.012,67	R\$ 8.050,68	15%
<b>Class C 1</b>	R\$ 1.194,53	R\$ 4.778,12	21%
<b>Class C 2</b>	R\$ 726,26	R\$ 2.905,04	22%
<b>Class D</b>	R\$ 484,97	R\$ 1.939,88	25%
<b>Class E</b>	R\$ 276,70	R\$ 1.106,80	3%

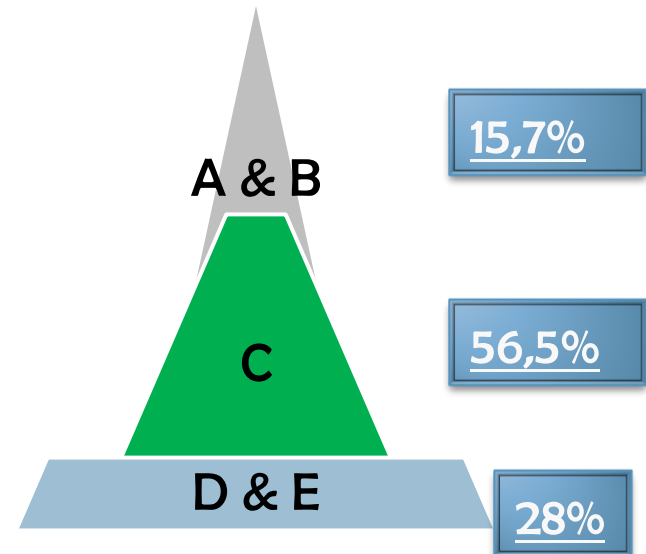
ABEP - Associação Brasileira das Empresas de Pesquisa

# Income Pyramid Predicted from 2008 to 2015

2008

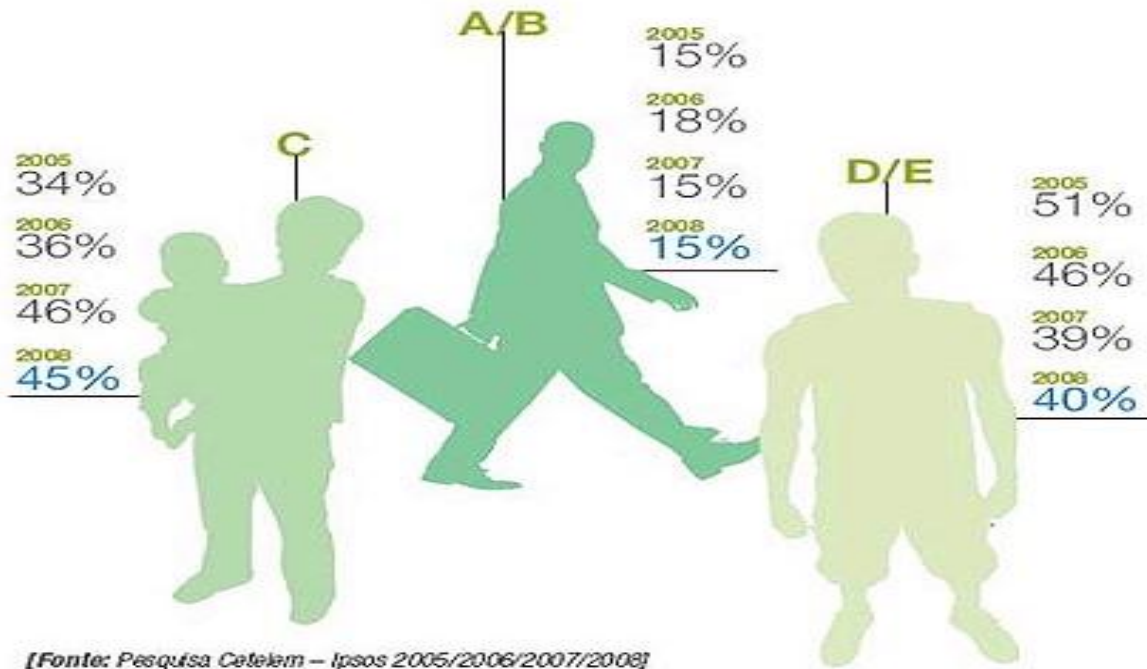


2015 projection



# Results of following the “Middle Path”

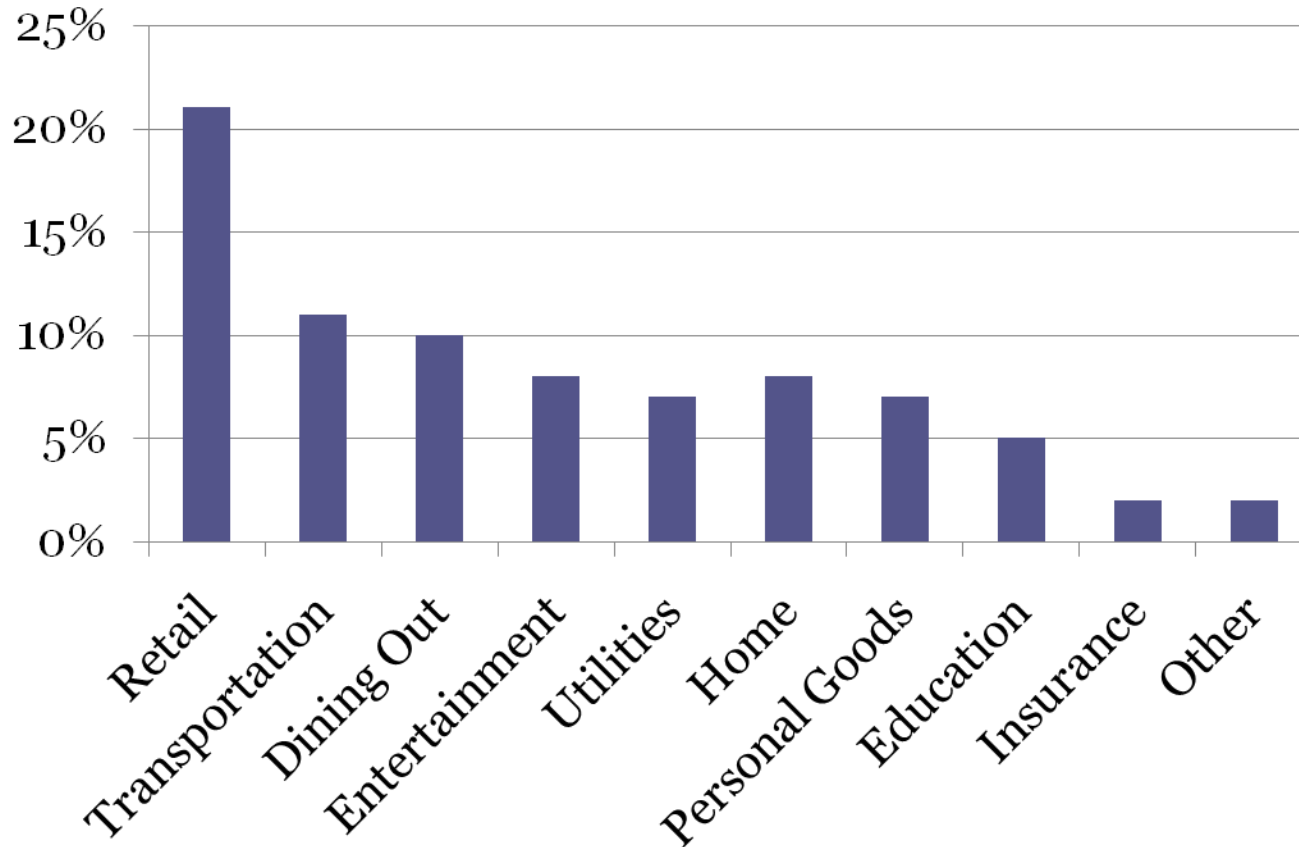
## Movement from Class D to Class C



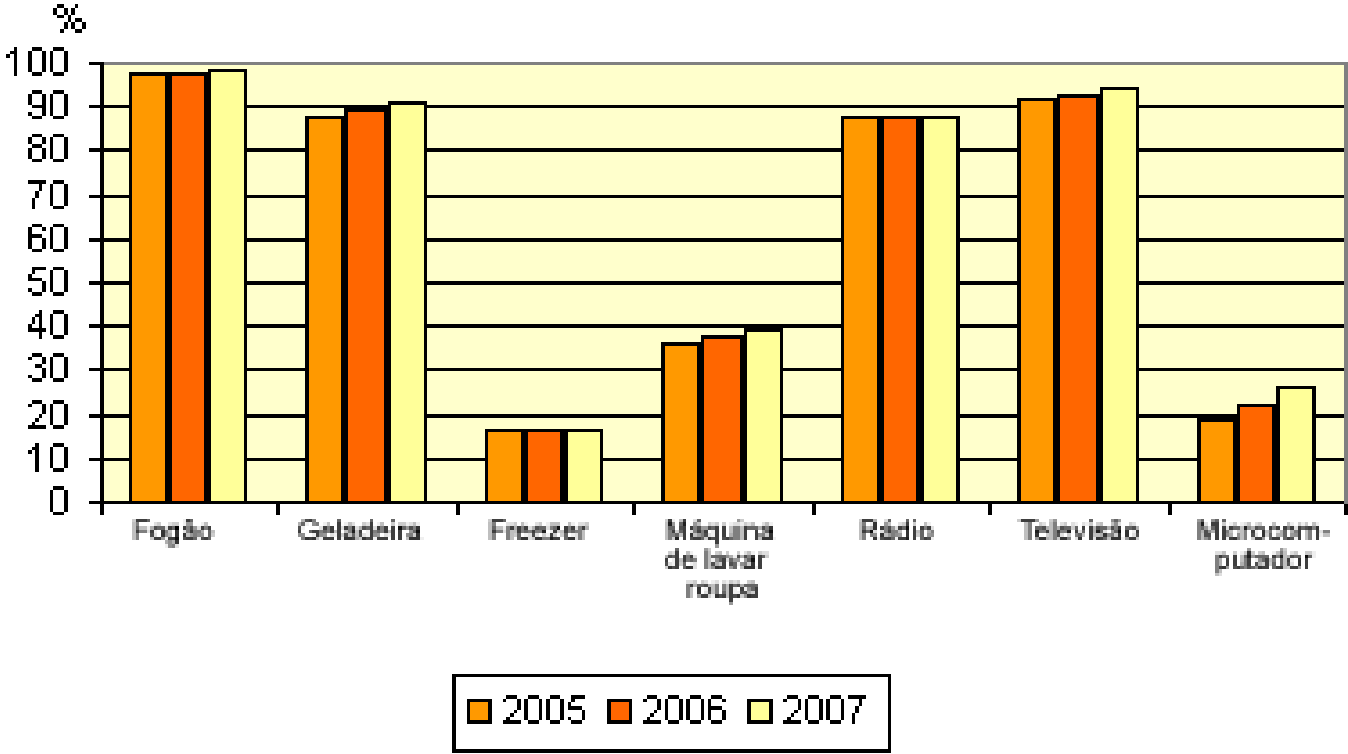
Since 2003, more than 32 million in a total population of 198 million people entered the middle class, and about 20 million have risen above poverty.

Source: Social Policies at the Getúlio Vargas Foundation

## Where the Middle Class Spends



# Consumer Goods Penetration at Class C, D, and E



Source: IBGE 2007



# Doing Business in Brazil

## Tips for U.S. Companies

# Doing Business In Brazil



- **Is complex!**
- **Requires an intimate knowledge of the local environment, including “Custo Brasil”.**
- **Best done for SMEs through a local agent or distributor.**
- **This is valid whether your company is a bank, a realtor, an engineering firm or any type of industry or service provider.**

# THE BUSINESS ENVIRONMENT

Rank of countries according to favorable conditions for doing business

Dealing with licenses	Procedures	Days
Argentina	28	338
Bolivia	17	249
Brazil	18	411
Chile	18	155
Colombia	14	146
Ecuador	19	148
Mexico	11	131
Paraguay	13	291
Peru	21	210
Uruguay	30	234
Venezuela	11	395

# Type of company best suited to do business in Brazil

- **Highly motivated**
- **Experienced Exporter**
- **Proven Track Record**
- **Increase to market**
- **Products with modern design**
- **New gadgets @ the right price**



# **CUSTO BRAZIL: THE TAX SYSTEM**

## **FEDERAL**

**Import – II**

**Export – IE**

**Industrialized Products – IPI**

**Credit Operations – IOF**

**Rural Property – ITR**

**Fortune**

## **STATE**

**Heritage and Donation – ITCMS**

**Circulation of Goods and Services – ICMS**

**Property of Vehicles – IPVA**

## **MUNICIPAL**

**Urban Property – IPTU**

**Transmission of Property – ITBI**

**Services of any Nature – ISS**

# Custo Brazil:

## Hypothetical Cost Buildup for an Imported Machine in US Dollars

<b>FOB price of Product</b> .....	<b>100,000</b>
<b>Freight</b> .....	<b>2,400</b>
<b>Insurance (1%)</b> .....	<b>1,000</b>
<b>CIF Price of Product</b> .....	<b>103,400</b>
<b>Import Duty Rate: 19% -- applied to CIF</b> .....	<b>19,646</b>
<b>IPI: 5% -- applied to CIF + import duty</b> .....	<b>6,152</b>
<b>ICMS: 18% -- applied to CIF + import duty + IPI</b> .....	<b>23,256</b>
<b>Merchant Marine Tax: 25% of ocean freight cost</b> .....	<b>600</b>
<b>Warehouse: 0.65% of CIF; or min. US\$ 170, max US\$ 235</b> .....	<b>235</b>
<b>Terminal Handling Charges: average US\$ 100 per container</b> .....	<b>100</b>
<b>Contribution to Custom Broker's union 2.2% CIF; or min of US\$ 71, max US\$ 160</b> .	<b>160</b>
<b>Custom Brokerage Fee: average 0.65% of CIF or min US\$ 170, max US\$ 450</b> ....	<b>450</b>
<b>SISCOMEX Fee</b> .....	<b>30</b>
<b>Typical Cargo Transportation charge</b> .....	<b>35</b>
<b>Typical Bank Costs: 2% of FOB</b> .....	<b>2,000</b>
<b>FINAL COST</b> .....	<b>156,064</b>

# Ipod Index

iPod prices around the world

Here is the CommSec iPod Index, based on January 2010 prices for Shuffle 2Gb Silver .

1	Brazil	\$167
2	Germany	\$86
3	China	\$100
4	France	\$85
9	United Kingdom	\$75.00
23	United States	\$49.00
24	Japan	\$62

# Payment Terms

- US Exporters need to consider the full range of sales and export finance options.
- Visit the following USCS publication entitled “Getting Paid by your Brazilian Buyer” in order to learn more about possible payment / export finance mechanisms:  
[http://www.buyusainfo.net/docs/x\\_4677546.pdf](http://www.buyusainfo.net/docs/x_4677546.pdf)
- Also consider Ex-Im Bank financing:  
[www.exim.gov](http://www.exim.gov)