
BRAZIL BUSINESS BRIEF

JANUARY 2015

NEWS FROM THE BRAZILIAN CHAMBER
OF COMMERCE IN GREAT BRITAIN



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EDITORS' LETTER



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Dear Members,

Welcome to the January 2015 edition of the Brazil Business Brief. As ever, we're extremely grateful to our guest writers, whose contributions to this edition cover a broad range of topics.

We're planning a busy events calendar for 2015, the highlight being the gala dinner and Personality of the Year awards on 12 May. See more details on page 18.

We wish all our members and friends a very happy and successful new year.

Lena & Alex

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BRAZIL'S ELECTIONS IN 2014: DEVELOPMENT OR DECAY?

BY DR A.W. PEREIRA



The 2014 elections did not produce the change at the federal level that the opposition to President Dilma Rousseff had hoped for. Many in opposition believe that sixteen years is too long for the PT (*Partido dos Trabalhadores*, or Workers' Party) to be in power, and that a change would have rejuvenated both the economy and the country's governmental institutions. So what does President Rousseff's re-election represent for Brazil's economic and

political development? While it is too early to answer that question definitively, the election does raise three vital questions about Brazil's economic trajectory, social cohesion, and political institutions.

The first question is about economic growth. What can the government do to reverse the slowdown? The new Dilma Rousseff government is being pressured to tack towards more orthodox economic policies, starting with greater fiscal discipline, and to appoint a new economic team. The

President has appointed Joaquim Levy as Minister of Finance and Nelson Barbosa as Minister of Planning, while Alexandre Tombini remains in charge of the Central Bank. This could go some way towards restoring investor confidence in the government.

However, the challenge the new government faces is at least in part structural. Brazil is an upper-middle-income country and can no longer compete on the basis of low wages. The commodities boom allowed previous governments to be complacent.

Now that most commodity prices are falling and international interest rates are rising, growth depends on policies that increase productivity, make Brazil more economically competitive, and reverse, or at least reduce, deindustrialisation.

There are some signs that Brazil is doing well in facing this challenge. Brazil will always have more room to manoeuvre than most other middle-income countries, because of the size of its domestic market. In recent years, for example, the government has increased investment in infrastructure through public-private partnerships, most notably in airports and roads. It has increased formal-sector employment and greatly expanded access to university and technical higher education. Brazil's spending on research and development is also above average for middle-income countries. Its central state has a relatively high fiscal and bureaucratic capacity. However, in other areas, such as the overall rate of savings and investment, and trade deficits in high value-added sectors, the country's prospects don't look so good.

The new government will be judged, more than on anything else, on growth. Whether Dilma becomes a "better president", as she said she

THE NEW GOVERNMENT WILL BE JUDGED, MORE THAN ON ANYTHING ELSE, ON GROWTH. WHETHER DILMA BECOMES A "BETTER PRESIDENT", AS SHE SAID SHE HOPED TO BE IN THE AFTERMATH OF HER VICTORY, DEPENDS ON INCREASING THE AVERAGE ANNUAL RATE OF GROWTH IN HER SECOND TERM

hoped to be in the aftermath of her victory, depends on increasing the average annual rate of growth in her second term. In her first term it was only about 1.5%.

A second question facing Brazil concerns redistribution. Like other middle-income countries, Brazil has above-average levels of income inequality. Reducing poverty and inequality contributes to economic development by raising aggregate demand and output, and adds to social cohesion by expanding opportunities

for the previously excluded. Brazil has done remarkably well in recent years in this regard. Recent social change has improved the life chances, for example, of Afro-Brazilians and women. Three-quarters of the so-called "new" middle class or "Class C" (whose standard of living is still not very high by European standards, by the way) are non-white. And formal sector employment for women increased 139% between 1992 and 2012.

It could be argued that in recent years what the political scientist Ben Ross Schneider calls an "upgrading coalition" in favour of redistribution has taken charge in Brazil. The economic stabilisation and reforms of the Cardoso presidency, coupled with expanded social programmes and increases in the minimum wage under President Lula, resulted in a substantial drop in poverty and a modest decrease in income inequality.

But how solid is the consensus in favour of redistribution? The 2014 elections saw an unprecedented wave of anti-PT and anti-Dilma feelings that divided the country. Some people in the opposition have spoken ominously of a coming PT "dictatorship", even though the 2014 elections were highly competitive and took place within the

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framework of independent regulatory institutions capable of checking and balancing the executive branch. In the government that will be inaugurated in January, the PT will have only 15% of the seats in the Senate, 14% of the seats in the lower house, and five out of twenty-seven governorships, with all other congressional seats and governorships in the hands of politicians from other parties. It's hard to understand how authoritarianism can be attributed to a government needing to embark on so much coalition building and make so many compromises. And yet, strangely, there was a demonstration in São Paulo after the election calling for the President's impeachment and even a military coup.

At times it seems Brazil has become two warring nations, each railing against a caricature of the other. Some of Dilma's supporters see an authoritarian dominant class, a subservient media and a status-conscious upper middle class who resent the increased opportunities the poor have enjoyed under PT rule and are determined to reimpose a kind of social apartheid on the country. For some of Dilma's opponents, the PT has taken over the state apparatus and is hell-bent on turning Brazil into a replica of Chavista Ven-

REDISTRIBUTION UP UNTIL NOW HAS FOCUSED LARGELY ON PROVIDING THE POOR WITH CASH. MORE COULD BE DONE TO RAISE THE QUALITY OF PUBLIC GOODS, ESPECIALLY PUBLIC TRANSPORTATION, HEALTH, AND BASIC EDUCATION

ezuela. Both portraits are distortions, but in the presidential election passions were aroused and the candidates and their supporters exaggerated the negative attributes of their opponents.

As growth has slowed down, so has redistribution. It remains to be seen whether continued reductions in poverty and inequality can occur in Brazil without generating a conservative backlash. Perhaps political scientist André Singer is correct in predicting that the consensus in favour of redistribution is likely to last for several decades. However, innovation in social policy may be required. Redistribution up until now has focused largely

on providing the poor with cash. More could be done to raise the quality of public goods, especially public transportation, health, and basic education. These improvements could expand opportunities for many people with low incomes and also enhance their productivity. They are costly, however, and at present there is little public appetite for raising taxes.

Although tax revenue as a share of GDP is high in Brazil (about 35%), income-tax rates and tax per person is relatively low. The tax system is also regressive, with 52% of tax revenue coming from taxes on consumption, compared to an OECD average of 33%. The poor in Brazil pay more tax, as a percentage of their income, than the rich. It's hard to envisage improvements in the quality of public goods without increased tax revenue, and it's not yet clear whether the royalties from pre-salt oil production will be sufficient.

The third and final question raised by the 2014 elections regards the ability of Brazil's political institutions to produce government seen as legitimate by the majority of citizens. Although the protests of June-July 2013 seem to have had little impact on this year's electoral outcomes, they have

left in their wake a lingering discontent. Like so many people around the world, 21st-century Brazilian citizens seem increasingly disenchanted with collective solutions to political problems, or at least the ones offered by conventional politicians and parties. Brazilians often regard those politicians as out of touch and corrupt. But their discontent is diffuse; there is no agreement, for example, on what political reform should look like.

Many voters grumble about the choices they face at the ballot box. Despite a plethora of candidates the same economic interests seem to prevail at election time. An estimated one billion reais (roughly £250 million) was spent by candidates in the 2014 elections. According to one newspaper report, donations by ten large firms (JBS, Bradesco, Itaú, Vale, Ambev, Odebrecht, Queiroz Galvão, Andrade Gutierrez, OAS and UTC Engenharia) helped elect 70% of the representatives in the lower house of congress. Many of these companies are recipients of large government contracts and subsidised credit from state banks. Their ubiquity in the electoral process breeds cynicism among voters and might have contributed to the fact that 21% of registered voters did

DESPITE A PLETHORA OF CANDIDATES THE SAME ECONOMIC INTERESTS SEEM TO PREVAIL AT ELECTION TIME. AN ESTIMATED ONE BILLION REAIS (ROUGHLY £250 MILLION) WAS SPENT BY CANDIDATES IN THE 2014 ELECTIONS

not vote in the second round of the presidential election.

The re-election of Dilma Rousseff is not the catastrophe that some in the opposition think it is. A president staying put does not disqualify a democracy. In Japan the Liberal Democratic Party won seventeen of the nineteen general elections held between 1958 and 2012. In Sweden the Social Democratic Party has formed part of the government after twenty of the twenty-five general elections held since 1932. In neither of those countries is there much sign of democratic decay, because party competition is vigorous and the quality of institutions is relatively high. The same can be said of Brazil. Although Brazil's is

a presidential system (rather than a parliamentary one, as in Japan and Sweden) the power sharing inherent in its politics makes it resemble a form of parliamentarism.

There are grounds to believe that the "upgrading coalition" forged during the Cardoso and Lula presidencies, which is essential to the continuation of economic development in Brazil, will remain intact during President Dilma Rousseff's second term. Development is not guaranteed, however, and there are formidable challenges with regard to economic growth, social cohesion, and trust in political institutions. Democracy requires a delicate balance between consensus about the rules of the game and conflict over public policies. If there is too much conflict over the rules of the game, democracy becomes paralysed; if there is too much consensus about policies, it lacks meaningful choice. But Brazilians have been improving their democracy for the last three decades, and on the basis of – or despite – the 2014 elections we shouldn't underestimate their capacity to continue doing so in the years to come. ●

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SHOULD WE STILL BELIEVE IN BRAZIL?

BY THOMAS PEDROSO NEMES

You could say a lot has changed in Brazil in the last few years; or, from another angle, you could say things have largely stayed the same. Your perspective will depend largely on how you manage your expectations in a fast-paced world with an infectious culture of hyperactive stock markets, quarterly results and floating exchange rates.

One thing that's for sure, however, is that the presidential election in October has provided a good opportunity to take stock and ask whether Brazil remains the shining prospect that so many considered it to be until recently.

The presidential election was unprecedented in Brazilian history. Never in all the years of democratic government has the battle between two candidates been so fiercely contested, or so close: the final margin of victory was less than 3%. It must be noted that the campaigns of the two candidates in the second round, Dilma Rousseff and Aécio Neves, descended too easily into negativity and tit-for-tat smearing. Also, it quickly became clear that the markets favoured the contender, Neves, in the hope that a new pair of hands could restart Brazil's economic engine.



Uncertainty still surrounds President Rousseff's programme for government for her second term, and the appointment of a new finance minister to take over from Guido Mantega. [Joaquim Levy was appointed to the role on 27 November.]

There are variables the government can control, such as fiscal and monetary policy, and those it can't, such as the fall in China's demand for Brazil's commodities. The current Brazilian government is performing a balancing act between those two sets of variables, and in doing so remains on a long-term upward trajectory. In the

short term, however, we should be prepared for fluctuations in the economic growth rate which might frustrate investors and policy-makers alike.

We should never forget that Brazil is an emerging market, and that emerging markets by their very nature are far more susceptible to cyclical downturns than more established economies. Business journalists and analysts can one day be singing the praises of sizeable emerging economies such as Brazil, India, Turkey, Mexico or Indonesia, and another day be hoisting a red warning flag. It is imperative that we see beyond this kind of analysis.

Confirming Brazil's growth potential, the chief executive of the Canada Pension Plan Investment Board (CPPIB), Mark Wiseman, said in November that Brazil (along with China and India) still offers long-term investment value.

Moreover, Brazil has never been a market for "beginners". Speaking at the recent Latin American Private Equity & Venture Capital Association Summit, Warbug Pincus co-chief executive Charles Kaye made an important assessment: "When you invest in emerging markets, you've got to recognise the inherent cyclicity". He added, "While we think about the macro context of how we're investing, we don't invest top down, we invest bottom up ... you can get lost sometimes in speculating on the nature of macro-economic developments." It would be beneficial if this frame of mind were adopted more widely when assessing opportunities in Brazil.

It is also important to support this contextual information with actual on-the-ground experience and anecdotal evidence. I have been based in São Paulo since June this year, when I arrived from the UK to represent a client on a project with a local partner and open up Tetra Strategy's local office. These few months have been

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sufficient to support my conviction that Brazil remains a market which is open to British business, expertise and know-how. But only if there's the right mix of persistence, patience, on-the-ground capabilities and a willingness to hold out for long-term returns. These are crucial elements.

Brazil's population of just over 200 million means it has a sizeable internal market – and the country's continental proportions should be sufficient to ensure it is treated with a high degree of seriousness and commitment. As for the UK, it has strong unique selling points, such as in advanced manufacturing, research and innovation, services, education and healthcare. These factors make Brazil and the UK natural bedfellows.

My conviction stems from the

individuals and organisations I have engaged with, be they private companies, universities, or government officials. On every occasion there has been an appreciation of the skills and capabilities British solutions can bring to Brazilian challenges, and of how both sides can gain a tangible return.

As a note of caution, there will be short-term challenges in the Brazilian corporate world. There will be winners and losers in the corruption scandal involving Petrobras and other major industrial players, in addition to the criminal case against Brazil's former richest man, Eike Batista. But although these events have exposed greed and malpractice, they also display the increasing robustness of the Brazilian courts and will serve, in the longer term, to strengthen the rule of law, transparency, and corporate governance.

The challenge for us Brits, and especially members of the Brazilian Chamber of Commerce, is to accept that we need to approach Brazil in a bespoke way, and to communicate that message to potential investors and partners in the UK. To understand Brazil's different cultural and business practices we must accept those differences and ultimately embrace them. There are no shortcuts here. ●

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BRAZIL'S DEFENCE INDUSTRY

BY DR VINICIUS MARIANO DE CARVALHO

Brazil is one of the emerging countries whose prominence on the world stage has increased significantly in recent years, due not only to the economic and social changes the country has been undergoing but also to the leading role it has adopted with regard to South-South cooperation. These changes also make it appropriate to reflect upon the role of Brazil's defence policy, and specifically upon that of its defence industry.

Brazil's defence industry generates about 25 thousand jobs directly and a further 100 thousand indirectly, and in 2009 contributed 0.17% of Brazil's GDP. That same year, the total revenue of the companies belonging to the Brazilian Association of Manufacturers of Products for Defence and Security (ABIMDE) was US\$2.7 billion, with sales of heavy military equipment, weapons and ammunition accounting for 17% of that income. This represented a significant increase in relation to 2005 because of the re-equipping of Brazil's armed forces which had taken place in the intervening years.

Although the defence industry represents only a small part of total industrial employment, there are strong



growth prospects due to several strategic projects which have been planned in order to meet the demands of the armed forces over the next twenty years. These projects are brought together under the Defence Equipment and Articulation Plan (PAED), a direct result of the National Defence Strategy (END) approved in December 2008 and revised in July 2012. This strategy aims to achieve the goals set by the National Defence Policy, including actions for the short, medium and long term in three main areas:

- i. reorganization of the armed forces;
- ii. restructuring of the national defence industry; and
- iii. training of armed forces personnel.

With regard to restructuring the national defence industry, the National Defence Strategy proposes that independent technological know-how be increased and then applied in the development of products to be used by the armed forces. The intention is that Brazil's own defence industry should meet a greater proportion of

the armed forces' needs, reducing dependence on external suppliers.

DEFENCE BUDGET

Brazil's defence budget is basically divided into three categories of expenditure: personnel, costs and investment. Personnel expenses are the biggest item, accounting for 71% of the total budget in 2012. Spending on retirees and pensioners represents a major portion of those expenses: 62% in 2012. The second-most expensive of the three categories within the defence budget is costs, which include the money spent in ensuring Brazil's military is in a state of constant readiness for deployment. These costs were 72% greater in 2012 than in 2003. The third category, investment, refers to the acquisition of the means and resources needed to adapt the armed forces and provide them with specific equipment (e.g. aircraft, ships, tanks, heavy armaments), which tends to be a longer-term undertaking. Investment rose by 568% between 2003 and 2012, reflecting a concerted effort to re-equip Brazil's armed forces.

Because the prospects for Brazil's defence sector are good, many groups and large companies are either already investing or looking at the

PERSONNEL EXPENSES ARE THE BIGGEST ITEM, ACCOUNTING FOR 71% OF THE TOTAL BUDGET IN 2012. SPENDING ON RETIREES AND PENSIONERS REPRESENTS A MAJOR PORTION OF THOSE EXPENSES: 62% IN 2012

possibility of doing so. Part of Brazil's defence industry operates in a diversified sector, also supplying the civilian market. In some cases, such as those of Embraer and Odebrecht, the defence sector accounts for only a small proportion of a company's revenue.

A study entitled *The Industrial Base of Defence in Brazil*, commissioned by Brazil's Agency for Industrial Development (ABDI) and prepared by a team from Campinas University, has listed 20 Brazilian companies (four state and 16 private) and five foreign companies working in various branches of the country's defence industry. In addition there are dozens of other suppliers of defence-related products. And there also major players such as Andrade Gutierrez, Camargo Corrêa

and Queiroz Galvão which are not yet operating in the defence sector but have plans to do so.

Brazil's balance of trade in the area of defence is still negative, however, and the country remains something of a timid military presence on the international stage. Despite Brazil's increased economic importance, its spending on defence (both in absolute terms and as a percentage of GDP) is not only lower than that of the permanent members of the United Nations Security Council but also lags behind that of other emerging countries – such as the other BRICs – which have similar foreign-policy aspirations.

This appears to indicate that efforts are needed to promote a more effective performance in the area of defence, especially in the modernisation of the armed forces. What is more important, however, is to promote an understanding that the development of the defence industry actually goes hand in hand with broader national development. The defence industry does much more than produce armaments: it generates highly-skilled jobs and stimulates advances in science and technology. Boosting defence, therefore, would help raise Brazil's international stature both economically and politically. ●

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WHAT IT TAKES TO WIN IN BRAZIL

BY IGOR TASIC

From many perspectives it appears the so-called “Brazilian wave” has already passed. Recent macroeconomic figures and indicators suggest that succeeding in Brazil is becoming a difficult proposition. So, is this the end?

The short answer is no. Brazil is still an economy with 200 million consumers eager for new products and services. But the question is, how can your business succeed if it decides to enter the Brazilian market?

Below is a list of things you should bear in mind when putting a price tag on your product and deciding on the best “landing” strategy:

- **YOU’LL FACE THE CUSTO BRASIL,** which is to say the major additional operating costs deriving from red tape, poor infrastructure and low workforce productivity. You’ll have to factor these in to your investment and price equations
- **YOU’LL HAVE TO FIND A LOCAL PARTNER.** Typically, your chances of success will rise if you work together with a local business. Indeed, in some industries – such as oil & gas – this is virtually an

obligation. Finding a good local partner isn’t easy, but if you do so you’ll quickly learn more about the Brazilian business environment

- **IT’LL PROBABLY TAKE MORE TIME AND MONEY THAN YOU EXPECT.** Expanding a business abroad always entails difficulties and risks, and going to Brazil is no different. Don’t expect “business as usual”, as if you were still in the UK. Brazil is still an emerging economy and, as such, many rules are yet to be established. It’s your job to help shape the future of the business environment in Brazil – a future which might not be very predictable but certainly offers many opportunities
- **YOU’LL HAVE TO FLY (A LOT).** Brazilians like the “human touch” in business (sometimes literally). Be prepared to spend a lot of time engaging in icebreakers, business lunches and happy hours. Your chances of success depend to a large extent on the amount of time you invest in your relationships with local partners, customers and stakeholders. In Brazil, a business owner talking to another business

owner can be immensely productive. Don’t send your intern to that tradeshow in São Paulo: get on the plane yourself

- **YOU’LL HAVE TO ADAPT YOUR PRODUCT OR SERVICE.** As I discussed in a previous article, it might be the case that the product you’ve been selling elsewhere is still too sophisticated (and perhaps expensive) to be widely consumed in Brazil. However, there are great opportunities to sell to the “base of the pyramid”, and it’s your job to understand how these Brazilian consumers behave and what they value in a product/service. Do your homework, invest in product development (which might mean a complete redesign process), and test it out on Brazilian buyers before you make bigger decisions

My intention is certainly not to sound pessimistic or to dampen your enthusiasm. But I believe that those who are best informed are best placed to succeed, and that when it comes to doing business in Brazil it’s vital to have read the script before auditioning for a part in the play. ●

BRAZIL AND THE POLES OF THE EARTH

BY SERGIO C. TRINDADE

There is no reason for Brazil to remain eternally the country of the future. For example it has the credentials to lead the world in terms of sustainability – but will there be sufficient will and leadership to promote sustainable development either at home or abroad? And what, specifically, might Brazil’s role be with regard to the pressing issue of preserving the Arctic and Antarctic?

BRAZIL’S LOW POLAR PROFILE

In the Arctic, where there are native populations and territory belonging to eight different countries, the Ottawa Declaration established the Arctic Council in 1996. This body promotes understanding and joint actions among member countries and indigenous communities. It includes Canada, Denmark (Greenland and Faroe Islands), the United States, Finland, Iceland, Norway, Sweden and Russia. Non-Arctic countries are able to participate as observers – an opportunity already taken by China, India, South Korea and Singapore.

One might expect Brazil to have an interest in the partial opening of the Arctic Ocean to commercial navigation resulting from climate change, and

the access now provided to natural resources and fisheries, but the country has stayed on the sidelines despite its aspirations to play a more prominent role on the global stage.

In Antarctica there are no native populations or areas of national sovereignty. Land-use criteria were established by the Antarctic Treaty of 1959, the original signatories of which were South Africa, Argentina,

Australia, Belgium, Chile, the United States, France, Japan, Norway, New Zealand, the United Kingdom and Russia. Brazil was accepted as consultative party to the Antarctic Treaty in September 1983 after starting a scientific research programme in the region. Since then, Brazilian engage-



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ment in Antarctica has become gradually more institutionalised.

Overall, however, if Brazil really wants to boost its status on the world stage, it will need to obtain observer status in the Arctic Council and invest more financial, human and political resources – both public and private – in Antarctica.

THE WAY AHEAD

Brazil's original interest in Antarctica probably derived from a desire to project national power and the possibility of territorial claims and access to natural resources.

The Brazilian Antarctic Programme suffered a serious blow in February 2012 when a fire destroyed the Comandante Ferraz Station on the Keller Peninsula. It is expected that a new station will be built and opened by 2015.

The Plan of Action for Brazil's Antarctic research during the period 2013-2022, coordinated by the Ministry of Science, Technology and Innovation, does not specify a budget but nevertheless merits attention.

To raise awareness among the Brazilian public and mobilise relevant "stakeholders" in the areas of technology, education, economics and sustainability, there needs to be

THE BRAZILIAN ANTARCTIC PROGRAMME SUFFERED A SERIOUS BLOW IN FEBRUARY 2012 WHEN A FIRE DESTROYED THE COMANDANTE FERRAZ STATION ON THE KELLER PENINSULA. IT IS EXPECTED THAT A NEW STATION WILL BE BUILT AND OPENED BY 2015

a critical analysis of the quality and significance of Brazil's activities in Antarctica, and of the resources used and their multiplier effects.

The future of Brazil in the Arctic and Antarctic is a national issue and should be treated as such. The country's involvement in the Antarctic needs to extend beyond its formal inclusion in the Antarctic Treaty. The Brazilian public need reliable information which will allow stakeholders to reach a consensus on the activities which best suit the country's aspirations with regard to the polar regions and thus mobilise the resources required to pursue them. ●

INTERVIEW



ELBIA MELO

BY IEDA GOMES
BRAZIL BUSINESS BRIEF

CHIEF EXECUTIVE OFFICER OF ABE EÓLICA

Elbia Melo is CEO of ABE Eólica, Brazil's Wind Energy Association. She was director of Brazil's electric power commercialisation chamber (CCEE) from 2006 to 2011. An economist by training, Ms Melo is a specialist in the regulation of electricity markets.

What can you tell us about the recent history of wind energy in Brazil?

The use of wind power in Brazil has grown exponentially. From 2009 to 2014, more than 13 GW were awarded to new wind projects in auctions held

by the Brazilian government. Such projects will increase the capacity of Brazil's wind power installations to more than 15 GW by 2018, nearly trebling the current installed capacity (5.6 GW) and attracting more than \$40 billion in investment.

The first awards of wind projects in Brazil's electricity auctions were in 2009, with 1.8 GW. Wind energy's place the Brazilian energy matrix was consolidated in 2011, when wind projects were awarded 2.9 GW in total. This allowed for the development of a sustainable production chain in Brazil. And in 2013 a new record was set as

wind energy was awarded projects totalling 4.7 GW in the government electricity auctions.

Moreover, wind has established itself as the second most competitive energy source in Brazil. At today's prices wind energy costs around \$50 per MWh – the only cheaper energy comes from big hydropower installations.

The upward trajectory for wind power generation in Brazil can be attributed to factors such as the government auction process and a developed supply – as well, of course, as favourable wind conditions in the first place. And the trend is towards con-

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tinued growth, with the government forecasting that wind will account for 11% of Brazil's total electricity generation by 2023.

Do you think the Brazilian government's incentive programme has had a significant impact on the development of wind energy?

The Incentive Programme for Alternative Sources of Energy (PRO-INFA), launched in 2004, is based on a structured model of financing and regional policies, and it's because of this programme that wind energy has become a reality in Brazil.

PROINFA has been responsible for hiring 1.3 GW of wind projects through subsidised prices. This policy has elevated Brazil to the unique position of employing non-conventional renewable energy without the need for subsidies such as feed-in tariffs.

In the wake of the international financial crisis, with investment levels in Europe and the US having fallen, Brazil, China and India have become key markets for wind power. The year 2014 market the tenth anniversary of the legal creation of PROINFA, and in that time we've already reached 5.6 GW of installed capacity.

Does wind energy require subsidies in Brazil or is it already

IN THE WAKE OF THE INTERNATIONAL FINANCIAL CRISIS, WITH INVESTMENT LEVELS IN EUROPE AND THE US HAVING FALLEN, BRAZIL, CHINA AND INDIA HAVE BECOME KEY MARKETS FOR WIND POWER. THE YEAR 2014 MARKET THE TENTH ANNIVERSARY OF THE LEGAL CREATION OF PROINFA, AND IN THAT TIME WE'VE ALREADY REACHED 5.6 GW OF INSTALLED CAPACITY

competitive with hydro power?

Unlike in other countries, particularly in Europe, wind power in Brazil is not subsidised. The Brazilian auction system puts an onus on free competition between entrepreneurs, aimed at achieving greater design efficiency and lower prices.

According to Brazil's Electricity Trading Chamber (CCEE) wind power ranks in second place in the electricity auctions conducted since 2005, with wind projects securing contracts total-

ling more than 13 GW. Since the first auction in 2009 an average 2.3 GW of wind energy has been contracted every year. This is an innovative industry with a high technological level, and it requires appropriate long-term investment signals. However, despite the poor recent performance of the Brazilian economy, the wind industry grew by 1500% between 2009 and 2013.

Why is Brazil focusing only on onshore wind? Isn't offshore wind competitive?

Brazil's onshore wind potential is in excess of 350 GW – or triple the country's current energy needs. At present, with an installed capacity of 5.6 GW, wind power contributes 4% of the national energy matrix. It's fair to say, therefore, that the onshore potential has hardly been exploited so far.

Since offshore wind has higher construction, operation and maintenance costs, and the Brazilian government prioritises low tariffs, the country's offshore potential will be exploited only in a second phase.

Many European countries have ambitious wind energy projects but there are issues with backup and transmission lines. Is that also the case in Brazil? What kind of backup will be required, given the restric-

tions on building hydro power plants with reservoirs?

Due to the current problems around building large hydropower plants with reservoirs, and also to the water shortage Brazil is facing at the moment, it's crucial that the country also is able to use other sources of power. Non-conventional renewable sources of energy have a role to play.

As for transmission, there was something of a mismatch between the construction schedules for power generation plants and transmission lines in Brazil, but the situation will be solved by the end of 2014 with the connection of wind farms to the grid.

What are the main barriers to the development of wind energy in Brazil?

One barrier is the new BNDES rules established in January 2013, with their local-content criteria when it comes to the production of parts and components. The aim behind this is to boost Brazilian participation in the industrial processes and to encourage technology transfer in the industrial sector. Since most companies in the wind sector are foreign, they'll have to conform to these rules.

There's also the barrier of logistics. At the moment it can still be

difficult to deliver wind turbines and their components from the production sites to the actual wind farms – the road and maritime infrastructure falls short of the industry's needs in that respect. But the problem's been partly solved with the shifting of manufacturing facilities to the regions where the wind farms are.

The delay in the commissioning of transmission lines has also been a negative factor. There are currently 24 wind farms which are able to operate but are not connected to the grid.

What are the opportunities for British companies in wind projects in Brazil?

Given that this is such a promising time for the Brazilian wind market, there really are great investment opportunities for UK companies – especially because these companies have already acquired useful experience elsewhere. According to a recent study published by the World Wind Energy Association, Brazil ranks third in the world in terms of new installed capacity and is one of the best markets in which to sell wind turbines. ●

INTERVIEW

DATES FOR YOUR DIARY

29 JANUARY

BUNZL AND INVESTMENT PERSPECTIVES IN BRAZIL
MARRIOTT HARRISON LLP, 8.30AM

12 MAY

GALA DINNER AND PERSONALITY OF THE YEAR AWARDS
LONDON HILTON ON PARK LANE, 7.00PM



The 17th annual gala dinner and 'Personality of the Year' awards will take place at the London Hilton on Park Lane on Tuesday 12 May. As every year, this popular black-tie event will recognise the achievements of two business leaders – one Brazilian, one British – who have been particularly instrumental in forging closer commercial ties between Brazil and the UK.

We are delighted to announce that the recipients of the 2015 Personality of the Year awards will be Marcos Molina and Sir Martin Sorrell.

Marcos Molina is the founder and chairman of Marfrig Group, a multinational company with operations in the food and food-service sectors in Brazil and several other countries. It has become a major investor in the UK through Moy Park, one of the largest producers of poultry in Europe.

Sir Martin Sorrell is the chief executive and founder of WPP, the world's leading advertising and marketing services group. WPP is an important investor in Brazil and owns several Brazilian businesses.

More information will be available soon and tickets will be on sale from 5 January 2015.

Please save the date!

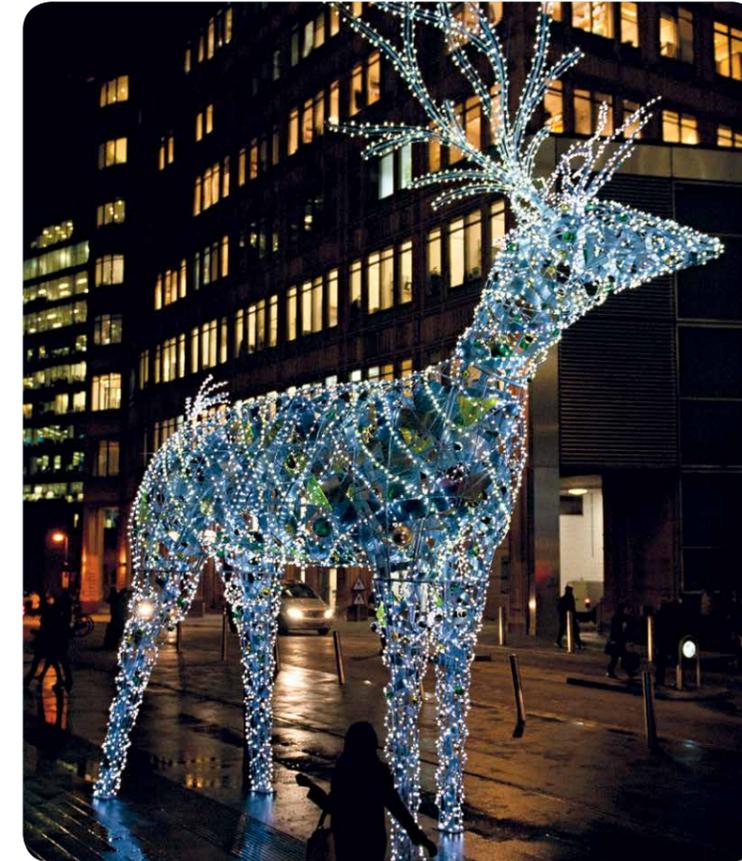
14 JULY

SUMMER NETWORKING BARBECUE
NORTON ROSE FULBRIGHT LLP, 6.00 PM

EVENTS ROUND-UP

THE BRAZILIAN CHAMBER ORGANISES AROUND 20 EVENTS PER YEAR ON A VARIETY OF SUBJECTS, ALWAYS AIMING TO RAISE THE PROFILE OF BRAZIL AND TO PROMOTE NETWORKING OPPORTUNITIES. ON OUR PAST EVENTS PAGE YOU CAN DOWNLOAD PRESENTATIONS, SEE PICTURES AND LEAVE COMMENTS.

FOR MORE INFORMATION PLEASE VISIT WWW.BRAZILIANCHAMBER.ORG.UK/PASTEVENTS



CHRISTMAS DRINKS AT HERBERT SMITH FREEHILLS

4 DECEMBER 2014

More than one hundred members and friends of the Chamber came along to our Christmas drinks party, the last event of the year, which was again kindly hosted by Herbert Smith Freehills in their Liverpool Street offices.



DATES FOR YOUR DIARY

EVENTS ROUND-UP

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EVENTS ROUND-UP



BRAZIL'S ELECTION: NEW OPPORTUNITIES OR BUSINESS AS USUAL?

19 NOVEMBER 2014

The Law Society of England and Wales hosted a panel discussion about President Dilma Rousseff's re-election and its possible implications for UK law firms and their clients. The panel, comprising Vitoria Nabas (Nabas Legal International), Jaime Gornsztejn (BNDES), Colin Johnson (Grant Thornton) and Richard Lapper (Financial Times), talked about the new government's composition, policy options and priorities. ●



BRAZIL, THE NEXT 4 YEARS, AND WHAT IT MEANS FOR YOUR BUSINESS

23 OCTOBER 2014

In the run-up to the second round of the presidential election, Geert Aalbers of Control Risks discussed some of the likely features of the post-election scenario, including potential changes to economic policy, the prospects for sectors such as oil and gas, mining and agriculture, and the likelihood of progress in tackling corruption and the so-called 'Brazil cost'. ●



BRAZILIAN DEBT CAPITAL MARKETS

25 SEPTEMBER 2014

Marina Nakano of Itaú BBA gave a presentation on the performance of Brazilian companies looking to fund their activities through debt capital markets domestically and abroad, and the challenges they face. ●



EVENTS ROUND-UP

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EVENTS ROUND-UP

WHAT'S NEXT FOR BRAZIL: THE PRESIDENTIAL ELECTION OF 2014

18 SEPTEMBER 2014

The 2014 presidential election campaign was transformed in August by the death of PSB candidate Eduardo Campos and the selection of Marina Silva, his running-mate, as his replacement. For a while the polls suggested Silva would go into a run-off with President Dilma Rousseff. Discussing the implications were Timothy Power (University of Oxford), Dr Sonia Goncalves (Brazil Institute, King's College London) and David Sontor (Freshfields). The discussion was chaired by the director of the Brazil Institute at King's College London, Professor Anthony Pereira. ●



RECEPTION IN THE HOUSE OF COMMONS

2 SEPTEMBER 2014

Every year the Brazilian Chamber holds a networking event in the Terrace Pavilion at the House of Commons, an enjoyable way of fostering trade and investment links between the UK and Brazil. Brazil's ambassador to the UK, Roberto Jaguaribe, was our keynote speaker. The event was kindly hosted by Robert Halfon MP and sponsored by one of our premium members, Air Europa. ●



EVENTS ROUND-UP



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The British Chamber of Commerce and Industry in Brazil

MISSION

"To be the focal point for the UK-Brazil business community by providing a forum to foster bilateral trade, investments, services and relationships".

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- ✓ An institution which has an almost 100 year old tradition, recognised by Brazilian and British governments and with national and international coverage;
- ✓ We are a reference in the business community in both Brazil and the United Kingdom;
- ✓ We advise small and medium-sized British and Brazilian companies in their search for the right partners on both sides of the Atlantic;
- ✓ We work in partnership with diplomats from both nations;
- ✓ We generate mechanisms to discuss sectorial issues between the countries.

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EDITORIAL

BRAZIL BUSINESS BRIEF, JANUARY 2015

NEWS FROM THE
BRAZILIAN CHAMBER OF COMMERCE
IN GREAT BRITAIN

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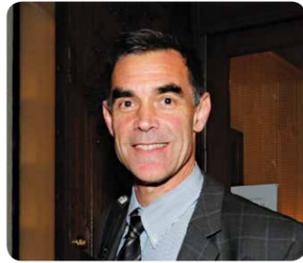
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THE BRAZILIAN CHAMBER OF COMMERCE
IN GREAT BRITAIN
PRESENTS

GALA DINNER
**PERSONALITY
OF THE YEAR
AWARDS 2015**

12 MAY 2015
AT THE LONDON HILTON
ON PARK LANE
7.00PM



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Brazilian Chamber
of Commerce in Great Britain