

NEWS FROM THE  
BRAZILIAN CHAMBER OF COMMERCE  
IN GREAT BRITAIN

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# BRAZIL BUSINESS BRIEF

APRIL 2012

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NEWS FROM THE BRAZILIAN CHAMBER  
OF COMMERCE IN GREAT BRITAIN



1942 • 2012

# CONTENTS

CONTENTS

ARTICLES	04
EVENTS ROUND-UP	14
NEWS FROM OUR MEMBERS	18
DATES FOR YOUR DIARY	19
EDITORIAL	20

# EDITOR'S LETTER



LENA BERALDO & ALEX THOMAS

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Dear Members,

We warmly welcome our readers to the April 2012 edition of Brazil Business Brief. The Brazilian Chamber had a successful first quarter of 2012, continuing to organize lively events and productive networking sessions for all those interested in Brazil-UK business opportunities.

There are various events scheduled for the next few months – not least, of course, our annual Gala Dinner on 15th May, when the recipients of this year's Personality of the Year awards will be Lord Sebastian Coe, chair of the organizing committee for the London 2012 Olympics and Paralympics, and Carlos Arthur Nuzman, president of the Rio 2016 organizing committee. Presenting the awards will be our guests of honour Hugh Robertson MP, the UK's Minister for Sports and the Olympics, and Sergio Cabral, Governor of Rio de Janeiro State.

On 4th July our Summer Networking Event will be celebrating the 70th anniversary of the Chamber's founding in 1942. See the events page for more details of this and the other dates for your diaries: [www.brazilianchamber.org.uk/events](http://www.brazilianchamber.org.uk/events).

In this issue we are grateful for contributions from Brian Elliott ('Insuring Infrastructure in Brazil') and Vera Helena Dantas ('Visas to live and work in Brazil') which provide additional information related to the events that took place at Deloitte (February) and King's College London (March) respectively. We also thank Professor Anthony Pereira for his very interesting article on the challenges faced by the government of President Dilma Rousseff, now in its second year.

As always we would like to hear your thoughts and suggestions regarding possible future events and articles: please send them to [editor@brazilianchamber.org.uk](mailto:editor@brazilianchamber.org.uk).

Here's looking forward to meeting new members and guests, and to seeing familiar faces, at the Gala Dinner and other forthcoming events.

Best wishes,

Lena Beraldo ●

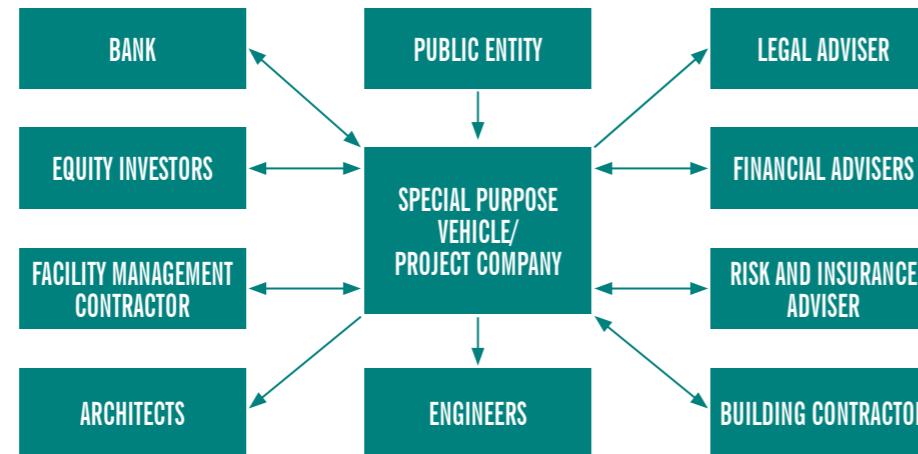
# ARTICLES

# INSURING INFRASTRUCTURE PROJECTS

BY BRIAN ELLIOT, MARSH

**B**razil is preparing for the 2014 FIFA World Cup and the 2016 Olympics. Even more significantly for Brazil's long-term future, a major infrastructure programme covering energy, railways, roads, ports, and airports is expected to cost R\$246.4 billion (2011-2014). Such projects require long-term funding to close the debt/equity equation and the need to mitigate uncertain regulatory, governmental and legal environments, as well as risks of physical damage, loss of income streams and liability. Insurance has a key role to play in this exciting stage of Brazil's economic development, offering robust risk mitigation through the construction and operational phases, and materially enhancing project bankability.

Before describing some of the key features of an appropriate insurance programme, it is important to trace how contract structures have evolved internationally. The old structure was the simple one of public entity, contractors and architects/engineers. This mutated via France and Britain's Channel Tunnel project into the more complex structure typical of the Project Finance Initiative (PFI), devised to



promote private expertise and investment in such projects.

Under PFI the private sector builds, finances, maintains and operates an asset which is used in the delivery of public services. In return the public authority pays a monthly charge which covers both the repayment of the capital investment and the ongoing

service costs. The Project Company/Special Purpose Vehicle will seek finance, typically with an 80%/20% debt/equity split. To date, these have all been on an adversarial basis between the parties. Bitter lessons were learned on some high profile projects in the UK, demonstrating the limitations of such relationships. As an antidote to these difficulties, BAA brought in the Partnership Agree-

CONSTRUCTION PHASE	OPERATIONAL PHASE
CONTRACT WORKS	PROPERTY DAMAGE
DELAY IN START UP	BUSINESS INTERRUPTION
THIRD PARTY/PUBLIC LIABILITY	THIRD PARTY/PUBLIC &
MARINE CARGO / MARINE CARGO DSU	PRODUCTS LIABILITY

ARTICLES

Because lenders will, for debt repayment, only have recourse to project revenues, they will be particularly interested that a robust insurance programme is taken out and maintained, including important features as follows:

- minimum financial ratings of insurers/reinsurers.
  - Multiple Insured Clause. The Contract Works policy, for example, requires the project company, the contractor, subcontractors and the lenders to take all reasonable precautions. Under this clause, failure by the contractor does not affect lenders' rights under the policy.
  - Loss Payee Clause.
  - insurance and reinsurance assignments.

These requirements must satisfy the local law and regulatory regime.

#### **Delay in Start Up (DSU)/Advanced Loss of Profits (ALOP) Insurance**

Lenders may require this cover, which is:

- only available from local insurers and local reinsurers in Brazil as a special acceptance.
  - generally a requirement of Project Financiers
  - perhaps the least understood of the required insurances.

It covers net profit, debt servicing, rent, take or pay obligations or fixed costs/debt service of the project owner (and increased cost of working to avoid or mitigate such a loss), arising from a delay in completion caused by physical loss or damage indemnifiable under Marine Cargo, Contract Works or Sabotage and Terrorism/Political Violence policies.

It generally applies to projects where completion is not date certain, but also to those which have to complete by a fixed date. Obvious examples in Brazil of the latter are the 2014 World Cup and the 2016 Olympics. Here, in the event of a fire at a stadium, the DSU policy may pay the increased costs of hiring a replace-



Brasilia National Stadium builders taking part in a football tournament

ment stadium and reduced income because of inferior seating capacity/media facilities.

The insured's insurance adviser should, prior to binding, ensure that the insured fully understands how to substantiate a DSU claim, especially the two key variables:

- the period of insured delay, especially the date on which, but for the delay in completion from the insured peril, the project would have commenced operations.

This may not be easy if completion could separately have been delayed by an uninsured event, for example, a strike or late delivery of materials.

# ARTICLES

2. the cash value of the loss. Unlike Business Interruption (where there will be business records making proof of loss relatively easy), DSU relates to future income streams, possibly for a unique project. Insurers will generally be reluctant to indemnify for a pre-agreed daily amount.

## Recommendations

- Prior to binding:
- possible benchmarking against financial performance of similar completed projects.
  - 'in principle' basis of indemnification signed off by all parties.

During the project period, progress reports allowing all parties proactive awareness of the likely project completion date should solve many problems.

## Lenders' insurance adviser

Lenders will appoint an insurance adviser to approve the proposed insurance programme prior to financial close and to monitor ongoing compliance until the loan is paid off. Early dialogue between the project company's insurance advisers and the lender's insurance adviser should avoid expensive retro fitting of the

insurance programme & delays to financial close.

## Environmental liabilities

Conventional third party liability insurance policies only cover legal liability for sudden and accidental pollution. However, Brazil's environmental legislation requires the polluter to pay regardless of fault. Lenders are taking an increasing interest in this issue.

Specialist policies cover gradual pollution and related exposures.

## Surety

Typical bonds are bid, performance, advance payment, warranty and completion bonds (for construction companies), and judicial/tax bonds (for construction/non construction companies).

## Political risks insurance (PRI)

Where the projects involve concessions, licences, purchase agreements or other contracts with the host government, they are vulnerable to suits for breach of contract, non-payment, political violence, currency inconvertibility and inability to export dividends or funds, expropriation or other government interference and regime change. PRI mitigates impacts

of such interference/other events on project assets, valuations, capital structure, and cash flows.

## Reinsurance operations in Brazil: key changes

Reinsurance in Brazil was operated as a monopoly under IRB for 68 years. Of the three categories of reinsurer now permitted (local, admitted and eventual), local reinsurers have first refusal for 40% of the risk.

It is necessary to obtain the agreement of the main industry regulator, SUSEP (Superintendência de Seguros Privados), that local reinsurers have declined to accept their 40% and to the use of non-standard features such as reinsurance assignments.

## Insurance practice in Brazil and international market: policy wordings

Standard policy wordings for projects in Brazil will be cheaper but may not offer comprehensive cover or be acceptable to lenders. ●

*Brian Elliot is a senior consultant within the Construction Practice at Marsh, a global leader in insurance broking and risk management. To contact Brian please email: brian.elliot@marsh.com*

# VISAS TO LIVE AND WORK IN BRAZIL

BY VERA DANTAS, NORONHA ADVOGADOS, LONDON

The legal framework according to which foreign nationals are able to enter Brazil and stay in the country is provided by Law number 6815 of 19 August 1980, regulated by Decree number 86715 of 10 December 1981.

An entry visa to Brazil will be given in the form of a consular authorisation in the passport of the foreign national, allowing them to enter and remain in Brazil if immigration law requirements are met.

Brazilian law provides for temporary and permanent visas. The Ministry of Employment is in charge of granting the necessary authorisation for foreign individuals to work in Brazil without which visas cannot be granted by the Foreign Ministry. Within the Ministry of Employment, visa matters are assigned to the jurisdiction of the Brazilian National Council of Immigration (*Conselho Nacional de Imigração – CNI*). The CNI has issued various regulations (called "Normative Resolutions") in relation to the various types of visa that can be applied for.

Whenever an employee, or an investor, is to be transferred to Brazil, it is necessary to present an application to



Elza Fiúza/ABr

the General Coordination of Immigration (GCI) of the Ministry of Employment, located in Brasília, together with the specific documentation required by the foreign national in question.

## General principles applying

Applications for visas by foreign nationals wishing to live and work in Brazil are closely scrutinised by the Brazilian immigration authorities.

The Brazilian authorities favour applications related to inter-company

management transfers, but any company in Brazil may offer employment to a foreign national applying for residence in the country, provided that the link between the Brazilian company and the foreign company (the employee's company) can be verified.

For reasons of space, this text will deal only with those types of visa that are of greatest interest to most business people wishing to live in Brazil, which is to say visas for investors, directors and employees.

# ARTICLES

## (i) Investors – individuals/ permanent visa

A permanent visa may be granted to a foreign national who intends to invest in Brazil. This matter is regulated by Normative Resolution number 84/2009 of the CNI.

The main applicable requirements are as follows:

- proof of investment, in foreign currency, of the equivalent at least R\$150,000 "in production activities" (the investment can be made in a new company or in an already-existing one);
- in exceptional circumstances the authorities may grant a permanent visa to a foreign national who has made an investment of less than R\$150,000, as long as the investment is considered relevant from a social perspective. In this case a detailed business project containing a plan to employ Brazilian workers must be prepared.

Despite its name, the "permanent" visa is initially granted only for a period of three years: after that it will be necessary to demonstrate to the authorities that the investment has been made and the jobs created. If that happens, the visa can become definitive.

## (ii) Business or administrator/ permanent visa

A permanent visa may be granted to a foreign national who is to become the administrator or director of the Brazilian subsidiary of a foreign company. This matter is regulated by Normative Resolutions 62/2004 and 95/2011 of the CNI.

To apply for a permanent visa for a company director or administrator, the foreign shareholder must make a minimum foreign equity investment in the Brazilian company of (i) R\$600,000 or (ii) R\$150,000, while undertaking, in this latter case, to generate at least 10 (ten) new jobs within two years of having been granted the visa.

The visa will be granted for the period during which the foreign national is fulfilling their role in Brazil.

## (iii) Foreign nationals working for a Brazilian company/temporary visa

A temporary visa may be granted to foreign nationals who wish to work in Brazil under an employment agreement with a Brazilian company. The granting of this type of visa is also subject to the prior issue of a work permit by the Brazilian Ministry of Employment. This matter is regulated

by Normative Resolution 74/07.

The requirements are as follows:

- The candidate must provide proof of his professional qualification and of experience compatible with the role to be fulfilled in Brazil, presenting diplomas, certificates or written declarations that demonstrate at least one of the following:
  - school attendance of at least nine years, and experience of at least two years in a job for which university-level education is not required; or
  - one year's experience in a profession for which university-level education is required, as of when qualification was obtained; or
  - completion of a postgraduate course (360 hours or more) or Master's degree, or higher, compatible with the activity to be performed;
- three years' experience in a profession of an artistic or cultural nature that does not require formal education.
- a contract of employment for an indefinite period of time, if it is intended that the foreign national will stay for more than two years (with at least the same clauses as in the Regulation).

The candidate will have to present an Employment Agreement signed by the parties (and in accordance with the model provided by the authorities).

The term of the Temporary Visa is established in the employment agreement and is up to two years. Subject to the approval from the Ministry of Employment, this term can be extended, once only, for a further two years. After that it is possible to apply for a permanent visa.

The Brazilian company interested in hiring the foreign employee must observe the ratio of two Brazilian employees to each foreign national hired. The same ratio will also apply in relation to the total pay-roll of the Brazilian Company.

Finally, in any of the above mentioned cases, it will be necessary to inform to the authorities the remuneration to be received by the candidate in Brazil as well as any remuneration that he will still be receiving abroad. There are other requirements that apply as well, but, as mentioned, in view of limitation spaces we will not expand on this matter. ●

# ARTICLES

## CHALLENGES FOR THE DILMA ROUSSEFF GOVERNMENT

BY DR A W PEREIRA

The government of President Dilma Rousseff, which is in its second year, faces several challenges after succeeding the administration of the extraordinarily popular President Luiz Inácio "Lula" da Silva (2003-2010). President Lula is a hard act to follow, having secured economic stability, sustained relatively high GDP growth (an annual average of 4%) and reduced poverty and income inequality in his two terms of office. This is a rare combination in a world of globalized markets that have been highly volatile and have shown a tendency to exacerbate inequalities. President Dilma must now build on the foundations left by her predecessor – and indeed by his predecessor, President Fernando Henrique Cardoso (1995-2002). She faces at least three inter-related challenges: to maintain her government's political cohesion, manage the economy, and improve the quality of state services.

Like the leaders of other coalition governments, President Dilma has as much, if not more, to fear from her allies as from her opponents. Although she has a very solid support base in Congress, the President has to super-

vise a delicate process of negotiation with party leaders over ministerial appointments, legislation and spending. No fewer than seven parties are represented in the cabinet. Since she took office she has removed more than a quarter of her ministers, mostly because of corruption allegations. In an attempt to readjust her support base she replaced the government leaders in both houses of Congress in March. But her ability to placate unrest within her coalition has declined somewhat as economic growth has slowed – it fell from 7.5% in 2010 to 2.7% in 2011, and is projected to be around 3.3% in 2012.

For much of 2012 the Dilma government will focus on the municipal elections scheduled for October, before looking ahead to the challenge of securing re-election in the presidential, gubernatorial, and congressional elections of 2014. For some candidates and parties the first set of elections will provide a springboard to the later ones. Predicting the outcome of these two sets of elections has been made more difficult by the creation of a new political party, the PSD (Partido Social Democrático, or Social Democratic Party), and uncertainty about who the principal opposition

candidates will be. The leaders of the Dilma government and her ruling party, the PT (Partido dos Trabalhadores, or Workers' Party) will hope they can sustain economic growth and complete the infrastructural improvements necessary for the 2014 World Cup (especially airports, and upgraded and new stadia) and 2016 Rio Olympics. If the economy is seen to be doing well in 2014 and the World Cup is deemed to have been a success (with or without a Brazilian victory on the pitch), this will augur well for the Dilma government's re-election chances.

The goal of maintaining the government's political cohesion is relatively straightforward in principle, if difficult in practice. Macroeconomic management, on the other hand, is complicated and involves difficult choices. A broad consensus seems to exist in the country that the government should prioritize the improvement of infrastructure, the quality of basic state education, the sustainability of public sector pensions, and the simplification of the tax system. The second of those goals, however, could take a generation to achieve, and it is unclear whether the fourth can be accomplished at all. This is because states

### ARTICLES

have control over some tax revenue, which state governors are reluctant to relinquish.

Though Brazil has recently achieved notable economic success, this appears not to be based primarily on innovation. According to the sociologist Alvaro Comin, my colleague in the King's Brazil Institute, Brazil's recent growth has been spurred by yet more of what already drove growth in the past: commodities and traditional industrial production. A glance at the list of Brazil's twenty biggest multinational companies reveals entities, some of them former state-owned enterprises, which have been around a long time. What is worrying, argues Comin, is the quality of Brazilian growth. Brazil's interest rates, at near 10%, remain the highest in the world. Inflows of capital have pushed up the value of the currency, the real. Manufacturing as a percentage of GDP has started to decline. The innovation index of Brazilian firms is quite low. Despite recent improvements, economic inequality is still vast, and there are still serious limitations on the quality of human capital. There is a risk that the Brazilian economy is not adapting quickly enough to the demands of 21st-century global competition.

One response to this challenge has been the Dilma government's launch of the Science without Borders programme, which aims to send 100,000 Brazilian students abroad to study science, technology, maths and engineering in the hope that when they return they will create new ideas, technology and companies for the benefit of the country as a whole. In other policy areas, however, there is no consensus

as to how the government can improve the quality of Brazilian growth. Debate seems to be polarized between two positions. Economic liberals assume that only more economic openness will force firms to become internationally competitive and more efficient. They urge orthodox policies, which include cutting taxes, reducing government spending, lowering the fiscal deficit, deregulating the labour



Brazilian President Dilma Rousseff

# ARTICLES

market, and making it easier to start businesses by getting rid of red tape. Developmentalists, on the other hand, believe that orthodoxy would be a mistake. The Washington Consensus, they argue, is over. Many governments around the world are engaging in quantitative easing, currency manipulation and various forms of protectionism, especially in agriculture. The government of the second-largest economy in the world, China, calls its economic model "socialist market" capitalism. This is a contradiction in terms, perhaps, but whatever it is, it is not laissez-faire. To compete in such a world, Brazil needs heterodox responses, including industrial policy, national content legislation, taxes on speculative capital, and a large state role in providing credit to Brazilian companies. While advocates of both approaches co-exist in the federal government, the developmentalists seem to have gained power in the Dilma administration.

The third challenge facing the Dilma administration concerns the quality of state services. Many Brazilians feel that the quality of the public services they rely upon – for example transportation, education, health care, and policing – is very low, and far be-

low what their level of taxation should entitle them to. They tend to turn to private provision as soon as they can afford it. Surveys suggest that Brazilians' trust in the state is quite low. Furthermore, corruption seems to be widespread, and while much corruption is exposed by diligent journalistic and prosecutorial investigations, impunity for the perpetrators is the norm. While there are excellent merit-based bureaucracies at the commanding heights of the state apparatus (for example the Central Bank, the Treasury, the BNDES, Itamaraty, and other federal agencies), outside of these islands of efficiency the state is often personalistic and patronage-based. It is not clear that this situation can be easily changed. It may be that the normal operation of everyday Brazilian politics is a long-term barrier to improvements in the quality of the state.

A recent study of the quality of the state by the Swedish political scientist Bo Rothstein produced some interesting findings. Looking at the Nordic countries in the nineteenth century, Rothstein finds that at the beginning of the century the quality of their public administration was quite low, with corruption, patronage, nepotism, and personalism all common. How-

ever, big improvements came quickly around mid-century, within a few decades, after defeat in war appeared to pose an existential threat to those countries. With this example in mind, Rothstein declares that attempts at incremental reform to curb corruption and improve the accountability, transparency and responsiveness of state agencies will often fail, until society arrives at a "tipping point" and then rapid change ensues.

It is unclear how we can apply this argument to Brazil. It may well be, for example, that there are many routes to better public administration and that the trajectory of the Nordic countries is only one of them. However, if Rothstein's insights are valid, they suggest that Brazil's problems of state quality may not yet be critical enough to push the country into a "tipping point" of rapid and widespread reform. The economy is still growing strongly, providing an increasing standard of living to tens of millions. The political system distributes the largesse of state resources broadly, balancing sectional, partisan, and regional interests. And internationally Brazil is gaining more recognition and more influence in the institutions of global governance.

As Brazilian ambassador to the UK Roberto Jaguaribe says, "you don't change a winning team". It is very difficult to make a convincing case for state reforms when the country still appears to be doing well.

Therefore this third challenge, that of improving the quality of the state, may end up being left largely to a future generation. Maintaining political cohesion and managing the economy so as to ensure continued growth will be difficult enough. If the quality of growth can be addressed, even in incipient fashion, that would be a bonus. There will be much to look out for in the next two years. ●

# EVENTS ROUND-UP



## AN INVESTMENT GRADE FUTURE FOR RIO / INSURING INFRASTRUCTURE PROJECTS

The first quarter began with two interesting events organised by the Brazilian Chamber of Commerce in Great Britain in partnership with Deloitte and Berwin Leighton Paisner LLP.

The first event, *An Investment Grade Future for Rio*, was held on January 19 at BLP LLP's office in London Bridge. The Secretary of Finance of Rio de Janeiro, Eduarda La Rocque, talked about investment opportunities in the city and how it is preparing itself for

the years to come. Fiscal adjustment, debt restructuring, new management measures and financing instruments are just some of the means through which the city is exploring new paths to growth, creating a dynamic and modern business environment with a wide range of investment opportunities. A follow-on event, *Rio Investors Day*, will be held in May.

The second event, *Insuring Infrastructure Projects*, was on February 15. It was sponsored by Deloitte and kicked off with opening remarks

from Leonardo Ferreira, a partner at Deloitte, with presentations by Jaime Gornsztejn from BNDES and Brian Elliot from Marsh. The speakers gave an overview of forthcoming infrastructure projects in Brazil and the environment for insuring infrastructure projects in the international market. With Brazil playing an increasingly important role in the global economy, upgrading its infrastructure is a key element in ensuring its success as an emerging power. Both events were well attended and delegates had plenty of opportu-

## EVENTS ROUND-UP

nities to network and exchange ideas.

Please visit [www.brazilianchamber.org.uk](http://www.brazilianchamber.org.uk) to see photos and download presentations.

● **Words of Debora Chobanian**

## BRAZIL'S ECONOMIC OUTLOOK AND CAREER OPPORTUNITIES

WEDNESDAY 7<sup>TH</sup> MARCH 2012

Although Brazil has not suffered a serious 'brain drain' compared to some countries, such as India and South Africa, a significant number of skilled Brazilian professionals did leave to seek opportunities in the United States, Europe and Australia during the 1980s and 90s.

Since the first term of President Lula's government, however, the economic outlook for Brazil has changed. The country is now recognised as an emerging power and as a land of opportunities for skilled Brazilian and foreign professionals.

On 7th March 2012, in an effort to highlight these work opportunities and to attract London-based professionals, Banco do Brasil and Petrobras sponsored the workshop *Brazil's Economic Outlook and Career Opportunities*, organised by the Brazilian Chamber of Commerce in association with King's College London.

The event began with opening remarks from Professor Anthony Pereira, director of the Brazil Institute at King's College London, and from Jaime Gornsztejn, chair of the Brazil-



Anthony Pereira - King's College London

ian Chamber of Commerce. Mr Gornsztejn then gave the first presentation, *The Brazilian Economy and Capital Markets*, focusing on the rapid changes in the areas of innovation and competition, as well as the impressive growth Brazil has experienced in recent years and which is projected to continue.

Next there was a round-table entitled *Sector and Career Opportunities in Brazil*, chaired by Mr Gornsztejn.

The participants were Paulo Guimaraes, general manager of Banco do Brasil UK, who talked about banking; Giuliano Hippert and Francisco Nepomuceno, both from Petrobras, who discussed oil and gas exploration and production in Brazil; and Vera Dantas, a partner at Noronha Advogados UK, who spoke about visas and legal requirements for working in the country.

The round-table focused specifically on the strength of the financial system in Brazil, which was vital in mitigating the effects of the global economic

crisis; the job opportunities likely to be created by the substantial oil reserves in deep and ultra-deep waters – with a need for professionals in areas such as turbo machinery, automation, structure and marine systems and telecommunications, as well as for middle and back-office staff for oil operations within and outside Brazil; and the ways foreign nationals can tackle the bureaucracy in order to obtain a Brazilian work visa.

In terms of feedback we heard Professor Anthony Pereira say that students appreciated the fact that the presentations were very concrete and directly oriented to their interest in Brazil-related jobs. "The reception afterwards also gave people time to network, which is very important," he added.

If this event was anything to go by, Brazil seems to be heading for a period of 'brain gain' and the Chamber of Commerce is playing its part in bringing that about.

● **Words of Debora Chobanian**

# EVENTS ROUND-UP

## BRAZILIAN CONSUMERS

MONDAY 19<sup>TH</sup> MARCH 2012

Collyer Bristow Lawyers recently hosted a breakfast and seminar at their offices on the subject of Brazilian Consumers on March 19. The keynote speakers were Janaina Roque and Adriana Ribeiro.

Ms Roque is a director for Integration Consulting and has a wealth of experience in a number of different industries, focusing particularly on retail and consumer goods. She spent six years in Brazil before moving to Mexico, Argentina and finally London. She currently runs Integration's European operations.

Ms Ribeiro has worked for Pepsico for more than ten years, occupying different positions in the marketing area before becoming Marketing Director in 2005. She has worked in Mexico, the US and the UK, and is currently studying for an MSc in Leadership and Strategy at London Business School.

### Brazil is an Evolving Retail Market

Ms Roque discussed the unique characteristics of the emerging Brazilian retail economy and the key factors businesses need to consider when planning to engage with the Brazilian consumer.

Despite its wealth Brazil is a country in which 26% of the population lives below the poverty line. The good

news for businesses, however, is that this percentage is shrinking, meaning that more and more people have disposable income. The emerging middle class – a significant proportion of a total population of more than 190 million – presents a wealth of opportunity to potential retail entrepreneurs. Indeed, Brazil has just overtaken the UK as the sixth-largest economy in the world and is expected to carry on growing at a healthy rate for the foreseeable future. Brazil has falling unemployment (very rare in the current economic climate), falling inflation, and a rising population of working women – just a few of the positive attributes that bode well for a robust and fertile retail economy.

Brazil's consumers are classed into four main categories: A, B, C and D. Classes A and B occupy the higher end of the personal income scale. Class C, containing those with low to middle incomes, is growing the fastest. New opportunities are constantly arising for astute retail businesses as Brazil takes on characteristics usually associated only with the most advanced western economies:

- More working women
- Growing class of Double Income No Kids couples ('DINKS')
- Longer life expectancy
- Greater consumption of health-related products

As a result of these developments the consumer market in Brazil is evolving. Although still a relatively young population, the average age is set to rise, which along with the general increase in affluence will create new desires for consumer goods.

Among the distinctive traits highlighted during the seminar was the concentration of wealth in a few regions of Brazil, 18 in total, which together account for approximately 48% of all retail trade. Of these regions, the Northeast, with the largest proportion of people below the poverty line, is also changing quickly, with the fastest growth in class C consumers. Interestingly, 70% of point of sale stores, around 400,000, are small independent stores, not large chains, and in geographical terms are spread out thinly. This clearly presents a challenge to retailers attempting to reach the consumers.

Important considerations for businesses when planning on entering the Brazilian retail market include:

- Identifying the consumer
- Understanding their unique desires
- How to communicate with the consumer to meet these desires
- How to meet the geographical challenges of the Brazilian landscape

### Success in Brazil: a Case Study

Ms Ribeiro presented interesting studies on how major western brands have successfully penetrated the Brazilian retail market.

Pepsico was very keen to enter the chocolate drink market in the Northeast, this particular kind of drink being very popular with Brazilians. It decided to buy Magico, a product already on the market but not performing very well. In-depth consumer research allowed Pepsico to discover that consumers in the Northeast actually preferred their chocolate drink to have a slightly different flavour to

## EVENTS ROUND-UP

those in the South – so they altered their product and then repackaged and remarketed the new Magico formula. It was a roaring success: the Magico chocolate drink went from relative obscurity to second-biggest seller in the Northeast. Pepsico realised that knowing the customer is key.

However, this was only part of the success story, as Pepsico also identified the geographical constraints presented by Brazil's landscape. It was essential to have a dedicated sales force and distribution network to serve the small retail outlets spread out over the region. Going to each individual area and understanding its unique needs and challenges allowed Pepsico to triumph in this retail arena.

An aspect of the retail market in Brazil which should not be overlooked is the 'corner shop', which is extremely important in Brazil because the majority of class C and D consumers purchase most of their products there – not from the large shopping outlets we have become accustomed to in the UK, where corner shops account for a mere 10% of total sales. Unlike the population of the UK, most Brazilians don't own a car and therefore tend to do more 'top-up' as opposed to 'bulk' shopping.

Ms Ribeiro explained that many businesses were finding ways of successfully reaching the emerging class C and D consumer in Brazil. These consumers often desire luxury goods similar to those usually purchased only by class A and B consumers – and with the advent of easier credit and payment plans they are now able to acquire the washing machines, flat-screen televisions and other such

items which until recently had been beyond their economic means.

The lesson, therefore, is that gaining an understanding of the unique Brazilian consumer, retail arena and geography is essential for businesses looking to break into and succeed in this emerging giant of a retail economy.

● **Words by Andrew Kollington**

## OUR EVENT'S SPONSORS:



# NEWS FROM OUR MEMBERS

NEWS FROM OUR MEMBERS

## SHORTLISTED

### HAPPY CHILD INTERNATIONAL: EXTENDING HELP TO THE CHILDREN OF RECIFE

BTG Pactual and BM&Bovespa, both members of the Brazilian Chamber of Commerce, were shortlisted for the FT ArcelorMittal Boldness in Business Awards in the Emerging Markets Category. The awards ceremony was held on 20th March 2012 and the winner in the Emerging Markets category was Samsung Electronics. ●

In mid-June this year a UK trade mission will be visiting Recife. The economy is booming in this northeastern port city and ships are on Brazil's shopping list, along with hundreds of thousands of tonnes of steel.

The charity Happy Child International is also focusing on Recife. Since 1991 it has been rescuing children from the streets of Brazil and reintegrating them into family and community life. Having begun with a 24-hour shelter in Belo Horizonte, southeast Brazil, it now has ten homes and an ecological farm, which are government-assisted and running successfully.

In Recife our plan for 2012 is to open three urgently needed centres, including a girls' home with a mater-



Sarah de Carvalho, CEO,  
at Happy Child facility.

nity unit, thereby trebling the number of children and teenagers we reach from around 150 to 450. The local government is seeking to meet half the cost; the other half needs to be raised in the UK. Already the Brazilian ambassador to the UK, London-based newspaper the *Brazilian Post*, and several Brazilian companies in the UK are pledging their support.

To find out more about our work and our plans for Recife, please visit our website [www.happychild.org](http://www.happychild.org). ●

# DATES FOR YOUR DIARY

8<sup>TH</sup> MAY

**DOING BUSINESS IN RIO GRANDE DO SUL, BRAZIL**  
AT FOUR SEASONS HOTEL LONDON ON PARK LANE

15<sup>TH</sup> MAY

**GALA DINNER - PERSONALITY OF THE YEAR AWARDS 2012**  
AT THE LONDON HILTON ON PARK LANE, 7PM

28<sup>TH</sup> JUNE

**DOING BUSINESS IN BRAZIL AT DELOITTE HOUSE**  
AT THE OLYMPIC PARK (DETAILS TBC)

4<sup>TH</sup> JUNE

**SUMMER NETWORKING AND 70TH ANNIVERSARY  
OF THE BRAZILIAN CHAMBER**  
AT DARTMOUTH HOUSE (DETAILS TBC)

12<sup>TH</sup> SEPTEMBER

**RECEPTION AT THE HOUSE OF COMMONS**  
(DETAILS TBC)

FOR MORE INFORMATION PLEASE VISIT OUR EVENTS PAGE AT  
**[BRAZILIANCHAMBER.ORG.UK/EVENTS](http://BRAZILIANCHAMBER.ORG.UK/EVENTS)**

DATES FOR YOUR DIARY

# EDITORIAL

BRAZIL BUSINESS BRIEF APRIL 2012

NEWS FROM THE  
BRAZILIAN CHAMBER OF COMMERCE  
IN GREAT BRITAIN

**EDITORS**  
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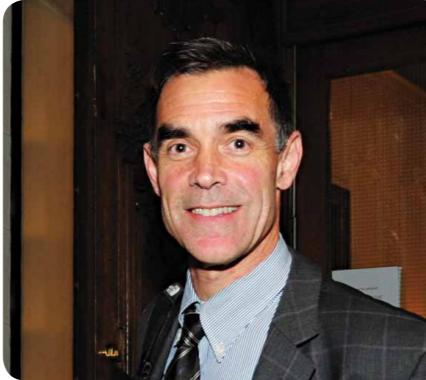
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APRIL 2012

EDITORIAL

BRAZIL BUSINESS BRIEF

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BRAZILIAN CHAMBER OF COMMERCE  
IN GREAT BRITAIN  
PRESENTS

# GALA DINNER PERSONALITY OF THE YEAR AWARDS 2012

15<sup>th</sup> MAY 2012

AT THE LONDON HILTON  
ON PARK LANE  
7.00PM



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