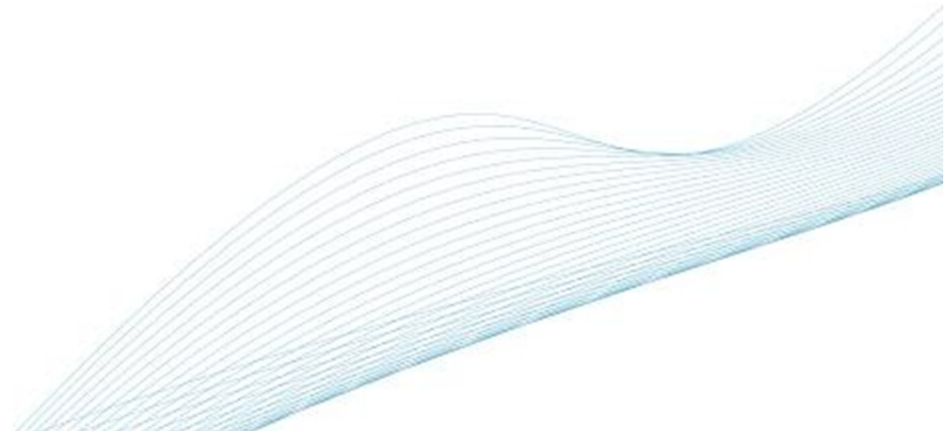


Brazil (& Latin America)

Geert Aalbers – [Control Risks](#)



London, 18 September 2013



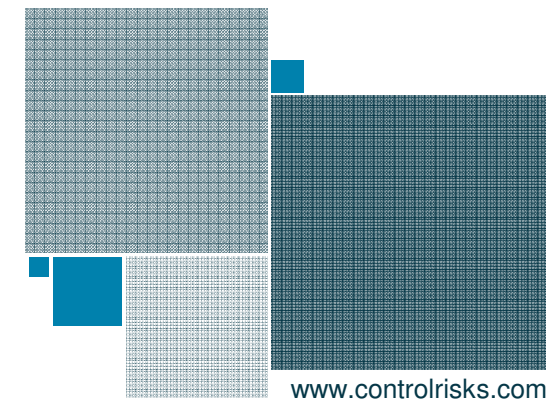


RISKMAP – Latin America



■ Political, Operational and Social Risks

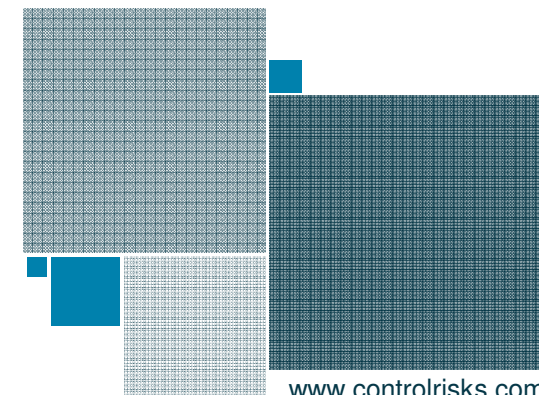
Brazil vs Latam



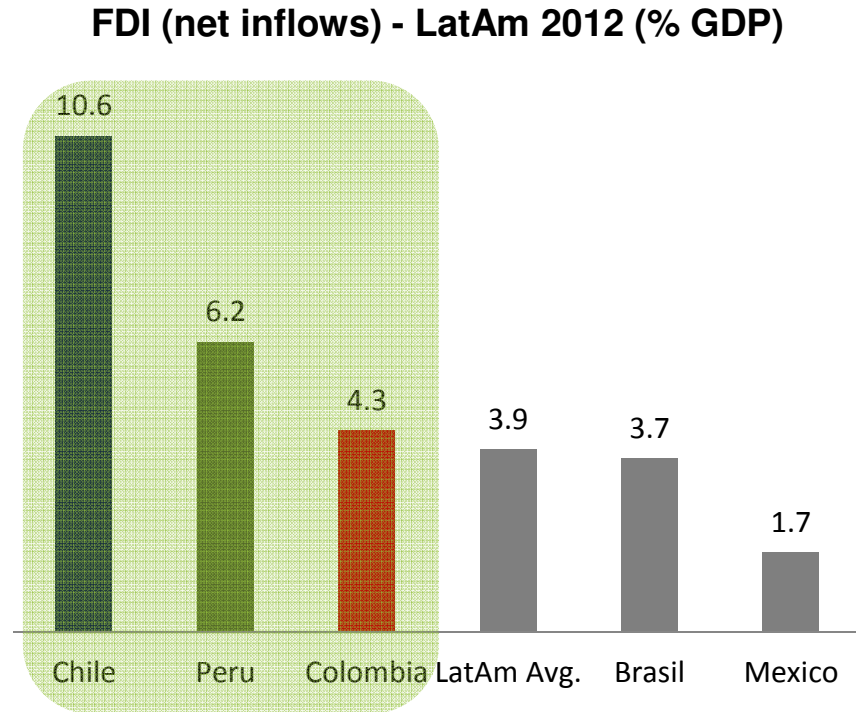
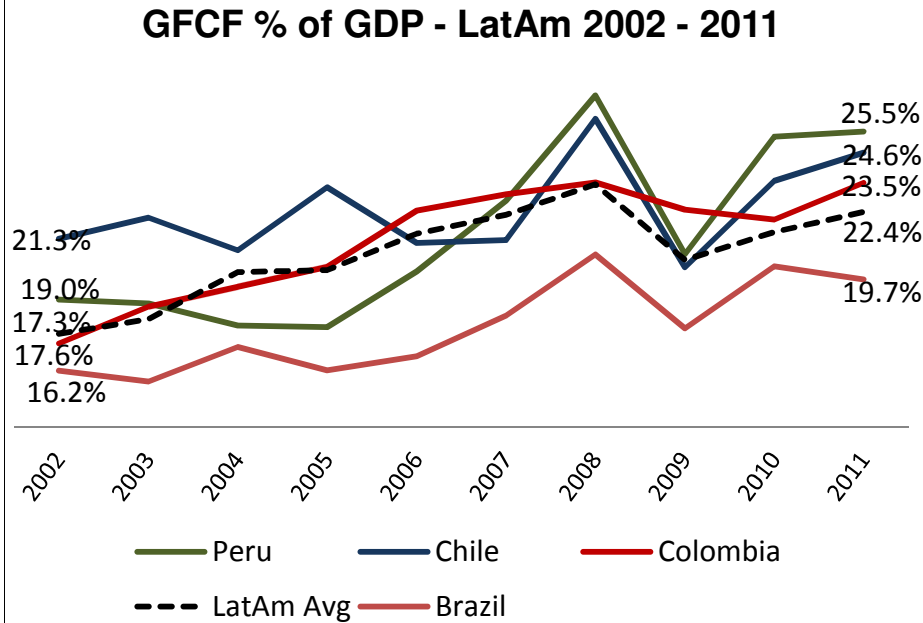
Nationalisation and Expropriation Risk



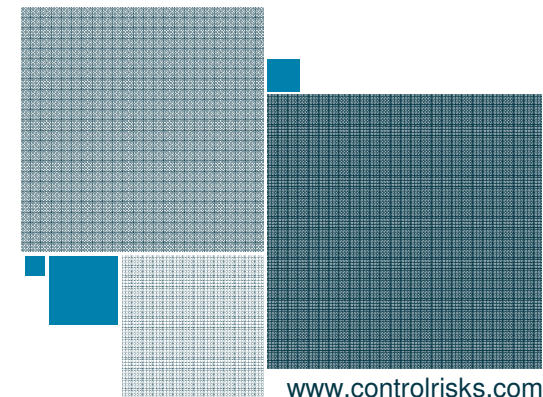
- Brazil remains among the major global destinations of Foreign Direct Investment (FDI)
- Pragmatism, if not outright openness to foreign investment
- No challenge to the privatisation programme undertaken in the 1990s
- The government's "resource-nationalist" tone is far from reaching the levels seen in other Latin American countries



But FDI and Investments as % GDP is another story



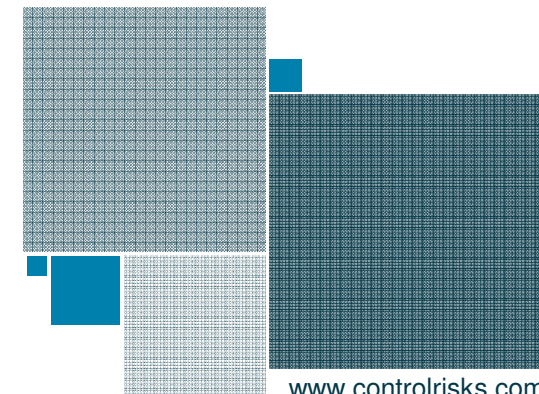
- Brazil is largest recipient of **FDI**, but not as % of GDP
 - Chile almost triples the regional average
- Investments of app.19% of GDP (2013) are below other Latin America countries, and a far cry from China`s 40%.
 - 20% of this investment from BNDES



■ State Intervention Risk



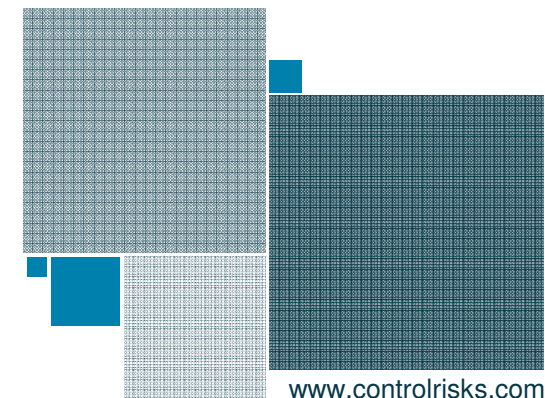
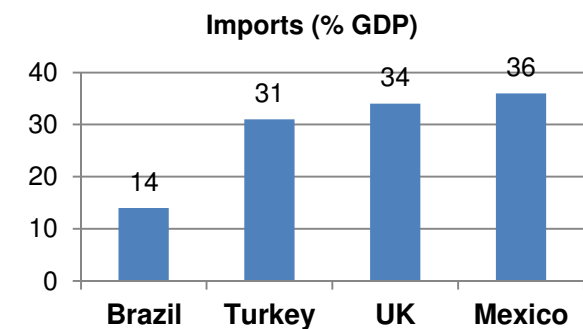
- The “developmentalist” (*desenvolvimentista*) state: a national development strategy in which the state is assigned a strategic role but nevertheless maintains a predictable framework for private investment
- ‘Strategic’ industries such as **hydrocarbons** and **mining**
- Barrage of ad hoc regulatory changes and tax breaks/subsidies for select sectors
- Local content requirements + National champions
- Strong influence over mixed capital companies such as Vale, Petrobras and Eletrobras
- Pressure on banks, telecoms and electricity distributors to lower rates for consumers (inflation)



Trade Risk



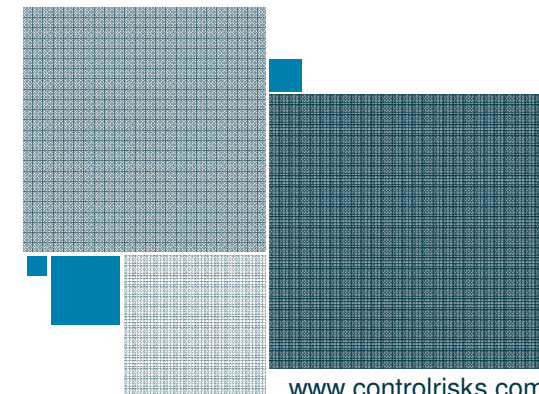
- A highly protected economy: imports equal 14% of GDP, the lowest among 110 countries surveyed by the World Bank (WB)
- 6th most protectionist country globally since the 2009 financial crisis (WB/2012)
- Few – and limited bilateral trade agreements
- Local content requirements (O&G), high preference for local goods (pharmaceuticals)
- Mercosur: a ‘free trade’ bloc turned protectionist



Ease of doing business



- World Bank's 'Ease of doing business' Brazil ranks 130 out of 185 economies, while the regional (Latin American) average is 103. Pacific Alliance 30`s - 40`s.
 - starting a business
 - construction permits
 - registering property
 - Taxes, labour
 - Enforcing contracts
 - Resolving insolvency
 - Ranks relatively well on protecting investors
- "Custo Brasil"



Global Ranking 2013 – Ease of Doing Business

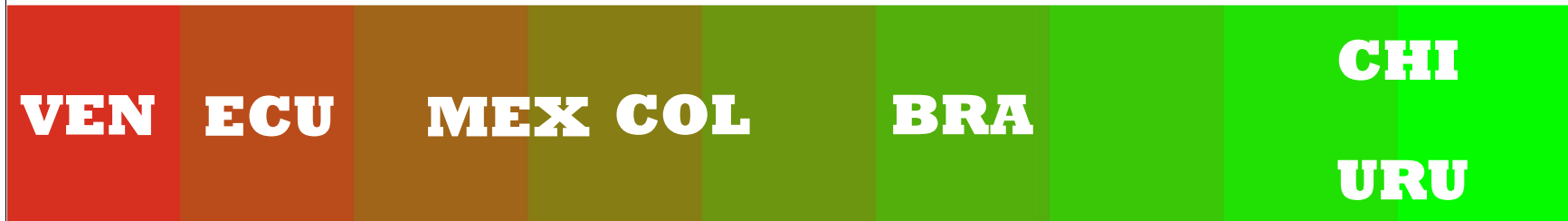


Source: World Bank

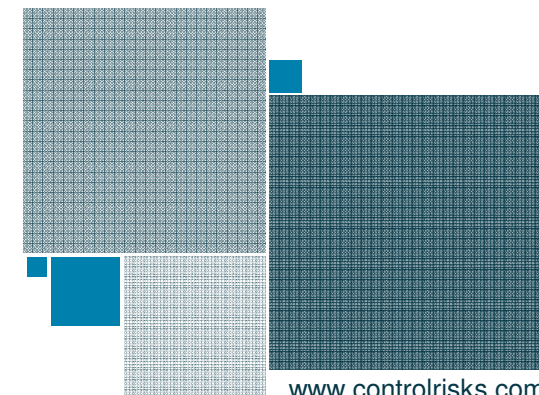
Regional Ranking 2013

| Country | LatAm Ranking |
|-------------------|---------------|
| Chile | 1 |
| Peru | 2 |
| Colombia | 3 |
| Mexico | 4 |
| Panama | 5 |
| Costa Rica | 6 |
| Argentina | 7 |
| Brazil | 8 |
| Ecuador | 9 |
| Bolivia | 10 |
| Venezuela | 11 |

■ Corruption Risk



- 2012 Corruption Perceptions Index (CPI) by Transparency International: Brazil ranks 69th out of 176 countries, behind top performers Chile, Uruguay and Costa Rica, but ahead of all other LatAm countries
- Drivers: politics of patronage, pork-barreling in Congress, decentralised public procurement
- High impunity rates for politicians and businesses
- Clean Company Act – a breath of fresh air

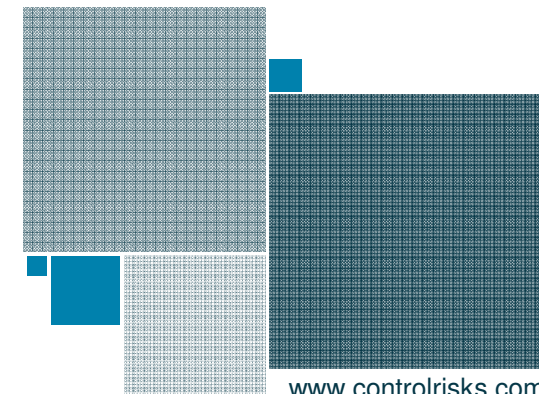


Social Risks



- Lively civil society – trade unions, environmental activists, landless movements
- Rising wealth & rising expectations
- Slowdown, inflation, currency depreciation – slipping back?
- Socially networked population
- June 2013 demonstrations: change in profile of social unrest

- *Heightened risk of unrest until the World Cup*
- *Public's greater acceptance of street protests as a legitimate democratic tool*



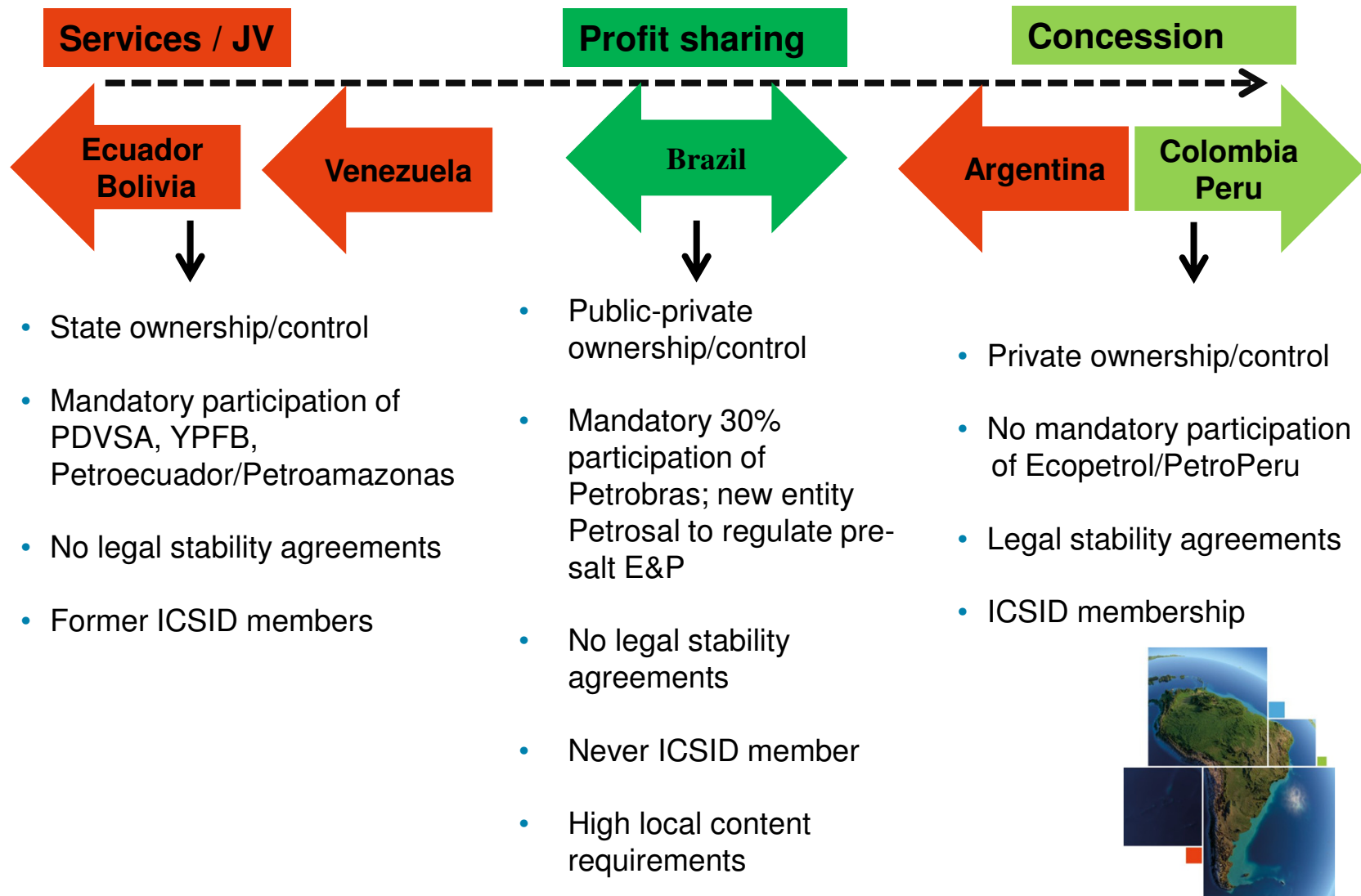
Oil & Gas - Latin America

- *Resource nationalism* - high commodity prices and the advent of left-leaning governments substantially increased state ownership and control over hydrocarbons
 - = **greater government interest and intervention in sector**
- *Changes in % of government take, upfront payments and timing of payments*
 - = **greater uncertainty around, or less attractive, investor returns**
- *Royalty reforms* are upsetting regional balances and present greater risks than commonly thought
 - = **broader array of financially interested parties and stakeholders**



Control Risks

A CHANGING LANDSCAPE

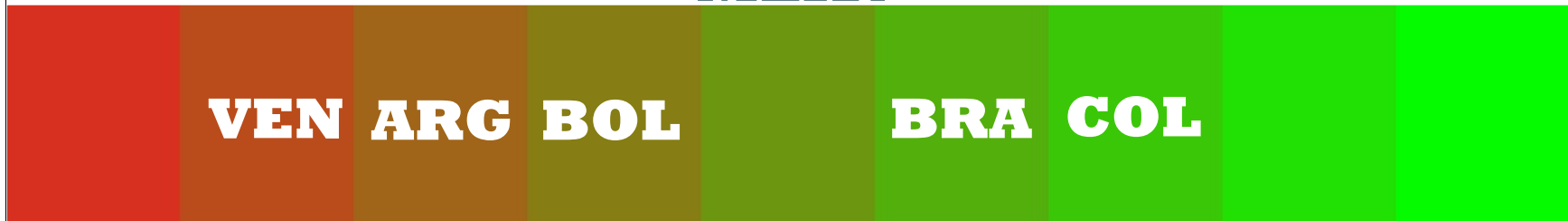




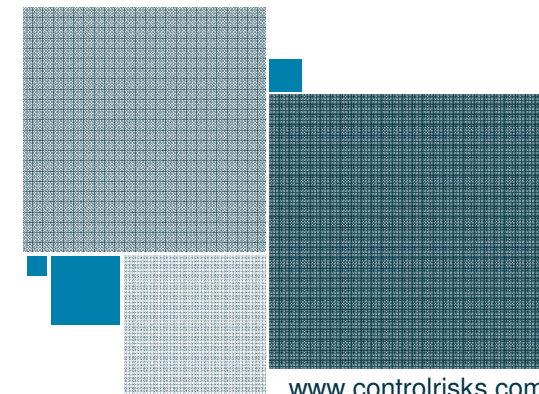
Oil & Gas



MEX?



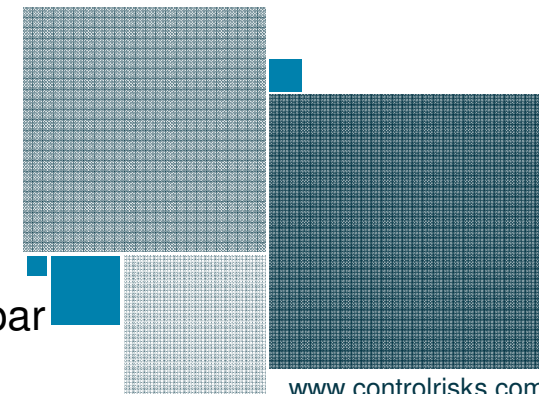
- Change from concession to profit-sharing system for the pre-salt areas
increase state's role in the sector
 - A reasonable – if challenging – framework for private firms to operate
- Political interference in Petrobras represents a credible risk (i.e. fuel prices)
- Local content requirements – 70% target in 2011, and expected to reach 77% in 2013



■ Infrastructure



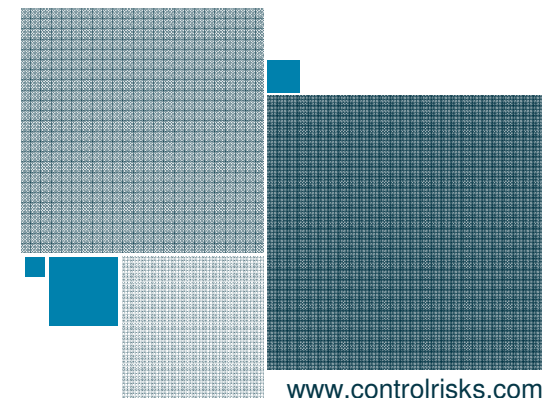
- Government is actively courting private sector to play an important role in upgrading infrastructure – i.e. privatisation of airports, ports, railroads and roads
- Limited ‘know-how’ – state has been in the driver’s seat for decades, “learn-by-doing” approach to privatisations
- “Unattractive” rates of return (partially ideological stance on private profits)
- Capital via public banks, pension funds and BNDESpar



■ Financial Services

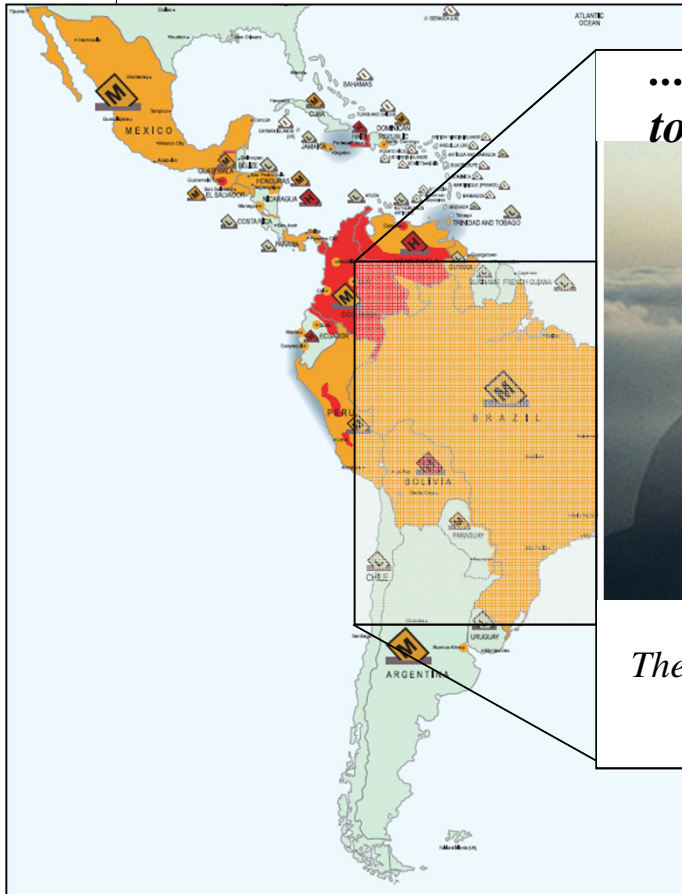


- A sound financial system: CVM is among the best staffed and budgeted security regulators in LatAm; developed capital markets (Bovespa)
- Banks strong-armed into reducing interest rates
- Significant presence of public sector banks - credit
 - BNDES



Control Risks

Remind me again?



*...but it will take some time
Brazil takes off
to reach cruising altitude*



The Economist, 12 November 09

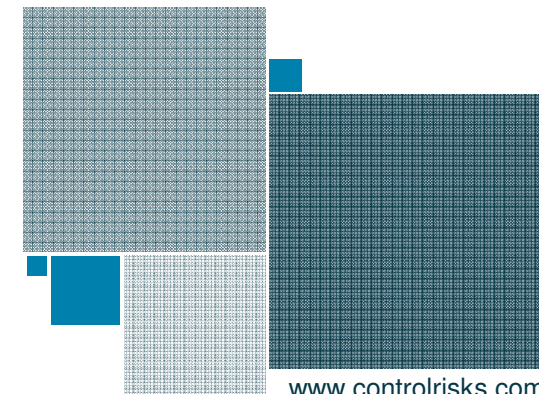


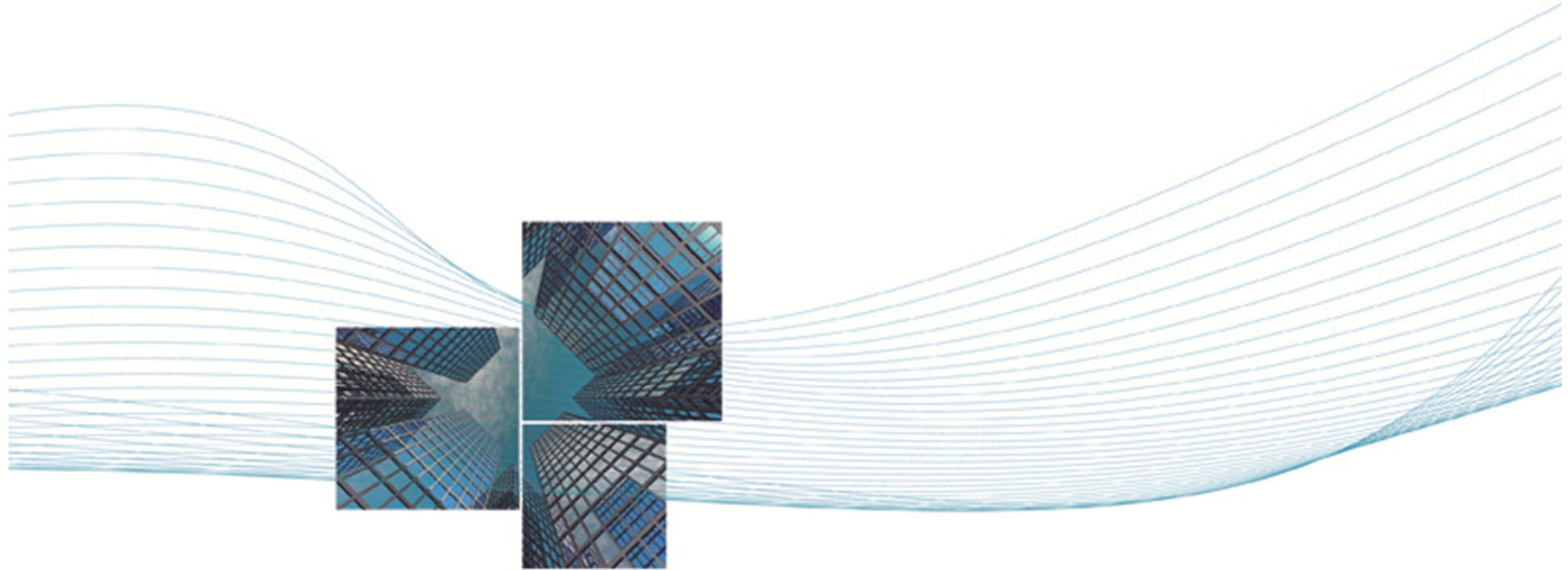
Brazilian Chamber
of Commerce in Great Britain

- Complex and risky, but too big to ignore
- Against a broad range of political risks, Brazil fares in middle, or just to the right
- No significant change in political course after 2014

Major potential:

- O&G potential – 50+ bb – top 10 producer by 2030
- Infrastructure – USD 500 billion next 5 years
- Well regulated and capitalized financial system
- Agricultural commodities powerhouse
- **World Cup 2014– bets are out**





Questions?