

The Deloitte-Brazilian Chamber of Commerce in Great Britain Survey 2015

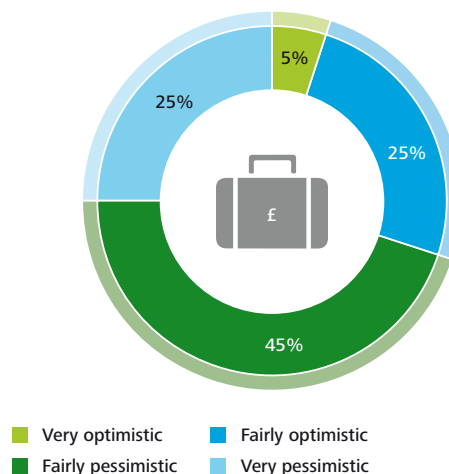
UK companies are optimistic about their short term prospects in Brazil despite the headwinds in the economy.

Deloitte and the Brazilian Chamber of Commerce in Great Britain remain optimistic about the prospects of better integration between the Brazilian and UK economies and believe the headwinds faced by the Brazilian economy are temporary. We should see a return to growth if the current economic measures succeed in rebalancing the public finances, investment is refocused in areas like infrastructure and the government promotes a friendlier business environment for Brazilian and foreign companies.

The first Deloitte-Brazilian Chamber of Commerce survey measuring how C-suite executives of UK businesses perceive the future prospects of Brazil confirmed that certain sectors, most notably agribusiness, are optimistic about both the Brazilian economy and the future of their financial prospects in the country.

Other sectors, such as professional services, infrastructure and aerospace, were more pessimistic about the economy and their short term prospects. Some companies were more optimistic about their own prospects than that of the overall economy. Two thirds of the respondents, representing a range of sectors, are very or fairly pessimistic about Brazilian economic prospects over the next twelve months. However, this has not tainted the optimism about the prospects for UK companies in Brazil, with over half of the respondents asserting that investments in Brazil are fairly or very important to the future of their organisations.

Figure 1. Overall, how optimistic do you feel about Brazil's economic prospects over the next 12 months?



“The survey hasn’t converted us to a belief in the long-term prospects of the Brazilian economy: we held that belief already. But it’s extremely gratifying to have our opinion confirmed by such an authoritative source.”

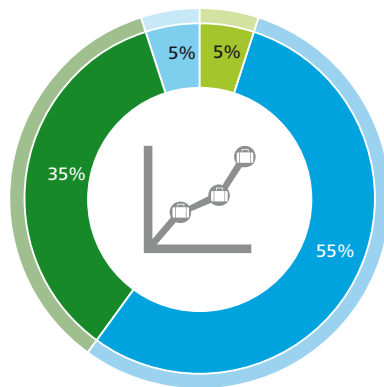
Sir Martin Sorrell
CEO WPP

“The survey shows that Brazil is an important market for exports and an attractive destination for direct investment by UK companies.”

Jaime Gornsztejn
Chairman of the Brazilian Chamber of Commerce

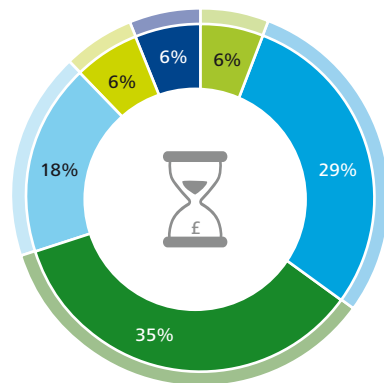
The majority of respondents indicated they still expect their revenues in Brazil to increase by up to 50% in the next 12 months. This is driven in part by the fact that many of these companies have only launched their Brazilian operations and investments in recent years and are therefore still playing catch up with foreign competitors. Revenues generated in Brazil by large UK corporations still represent a relatively small proportion of their global revenues.

Figure 2. Overall, how optimistic do you feel about the financial prospects for your company in Brazil over the next 12 months?



Very optimistic Fairly optimistic
Fairly pessimistic Very pessimistic

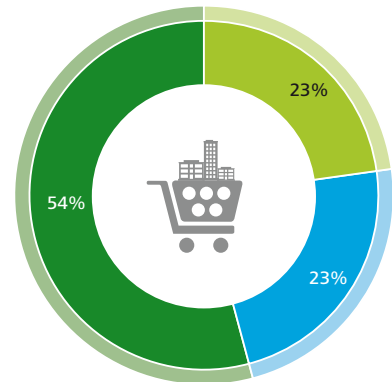
Figure 4. In the next 12 months do you expect your organisation's turnover in Brazil to ...



Increase by more than 50% Increase by <10%
Increase between 10% and 50% Decrease between 10% and 50%
Stay the same
Not sure

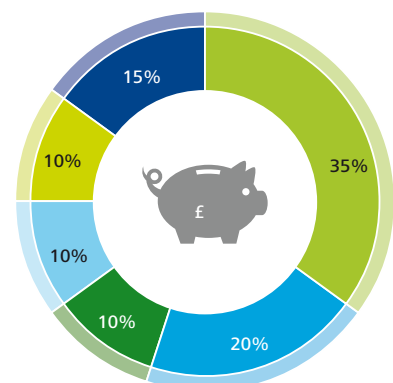
For medium sized UK corporations, revenues generated in Brazil represented up to 20% of their annual revenues, though some companies saw revenues in Brazil exceed half of their total revenues in the last year. It is worth noting that only 12% of the respondents believed their company's revenues in Brazil would decrease in the next 12 months.

Figure 3. How important would you say that your operations in Brazil are to your organisation's future growth?



Essential Very important Fairly important

Figure 5. What revenues do you expect to generate from Brazil in the next 12 months?



GBP1m GBP 1 – 10m
GBP 21 – 30m GBP 51 – 100m
More than GBP 100m Not sure

The opportunities

The respondents see a lot of opportunity in providing products and services to the Brazilian middle class and to participate in investments related to the preparation for the Rio 2016 Olympic Games and other major infrastructure projects.

Half of the respondents said investment or operations in Brazil can help them become more competitive in the country and across Latin America. Part of the attraction are the potential subsidies and tax incentives. Import taxes in Brazil and other Latin American countries can be relatively high when compared to OECD countries and the costs to import products per container in Brazil can be twice as much as the average cost in OECD countries.¹

20% of our survey's respondents operate in Oil and Gas. They consider Brazil an important investment opportunity despite the turmoil in the sector over the last year and the low international price of oil. While there is still interest in projects related to oil and gas, the level of interest has significantly reduced from the levels seen two or three years ago.

“The fundamentals of the Brazilian economy are strong and make the country attractive to foreign direct investment. However, the survey shows a cautious mood in the Brazil-UK business community in the short term, given the economic adjustments under way.”

Marcos Molina
Chairman of Marfrig Global Foods

Figure 6. The Top Four opportunities

What do you see as the main opportunities for your organisation in Brazil in the next two years?

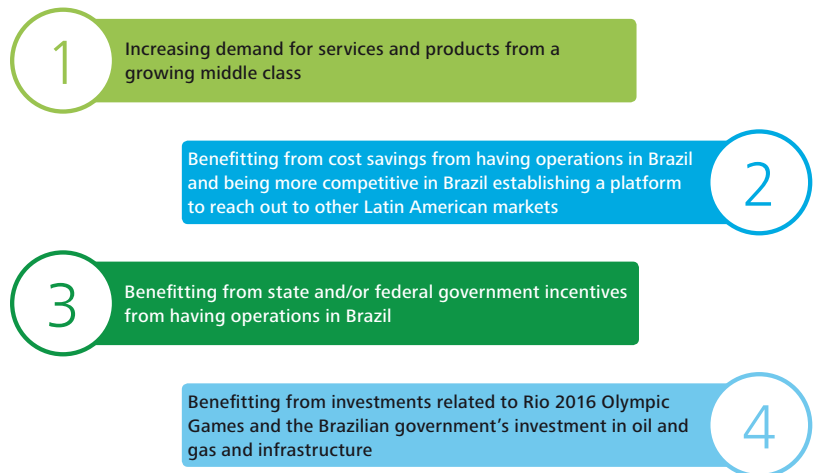
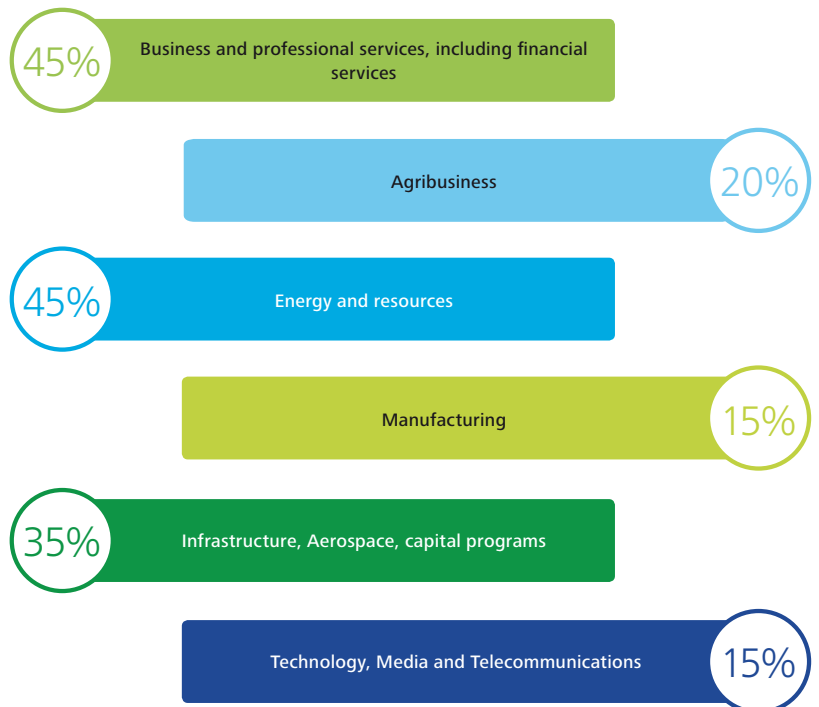


Figure 7. What sector[s] were the respondents related to?



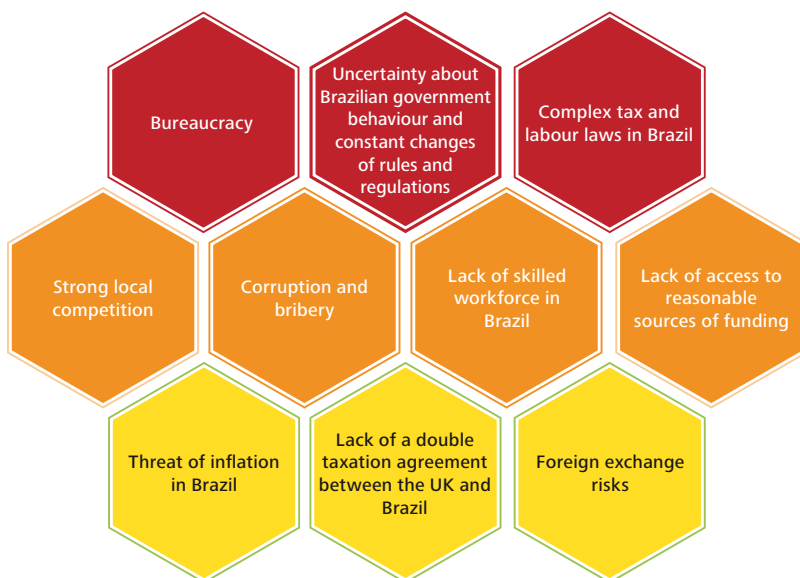
1. In accordance with estimates prepared by the International Finance Corporation (IFC), World Bank Group.

The challenges

Figure 8. On balance, how would you rate the ease of doing business in Brazil?



Figure 9. Key challenges of doing business in Brazil



1. In accordance with estimates prepared by the International Finance Corporation (IFC), World Bank Group.

Bureaucracy, constant changes to regulations combined with complex tax and labour laws were seen as the biggest negatives of doing business in Brazil. The number of hours a company spends in complying with tax, labour and legal requirements in Brazil¹ is estimated at 2,600 hours per year. The average in the OECD is 186 hours and 382 in Latin America. 85% of the respondents said this complexity represents a strong or slightly negative impact on doing business in Brazil.

90% of respondents said that the unpredictability of government behaviour and concern over changes to rules and regulations have a strong or slightly negative impact on doing business in Brazil. This high level of negative impact is consistent with the view that investors need a stable tax, legal and regulatory environment in order to plan for long term investments.

20% of respondents said it is very difficult to do business in Brazil while 55% consider it fairly difficult. In addition to the factors above, perceived limitations in finding a skilled workforce and cost-effective sources of funding were also stated as reasons why it is difficult to do business in Brazil.

55% of the respondents are interested in investing in energy and resources, infrastructure, aerospace and capital programmes. Therefore, concerns over corruption and bribery were identified as a significant challenge, not only from a business perspective but also the need to appropriately comply with the requirements of the UK Bribery Act and the new Clean Companies Law in Brazil.

“The survey shows that Brazil, for all its complexity and short term difficulties, remains an attractive prospect for British companies. The British diplomatic network in Brazil is here to help manage the difficulties and open the opportunities.”

Alex Ellis
HM Ambassador to Brazil

Conclusion: Brazil as an International Destination for Investment

The Deloitte and Brazilian Chamber of Commerce survey targeted respondents that already operate or have investments in Brazil (65%) and those that do not currently have operations or investments in the country but intend to do so in the near future (35%).

Despite the challenges, 63% of respondents that do not currently have operations in Brazil intend to establish their own operations or a partnership with a Brazilian company and the remaining 37% intend to export to the country. All respondents believe Brazil represents a significant growth opportunity for their company. We believe this is a positive result in a time when the Brazilian economy is going through a significant adjustment to many of its economic policies and a period of uncertainty.

We also asked respondents how doing business in Brazil compares to other Latin American countries. Those with experience of doing business across Latin America said Chile and Mexico were the easiest countries to do business in.

Figure 10. How are you planning to enter the Brazilian market?

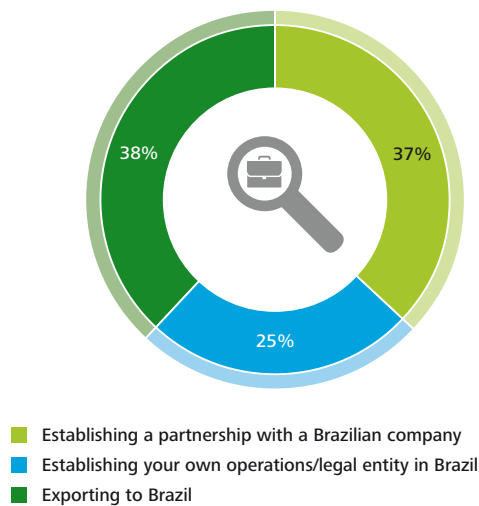
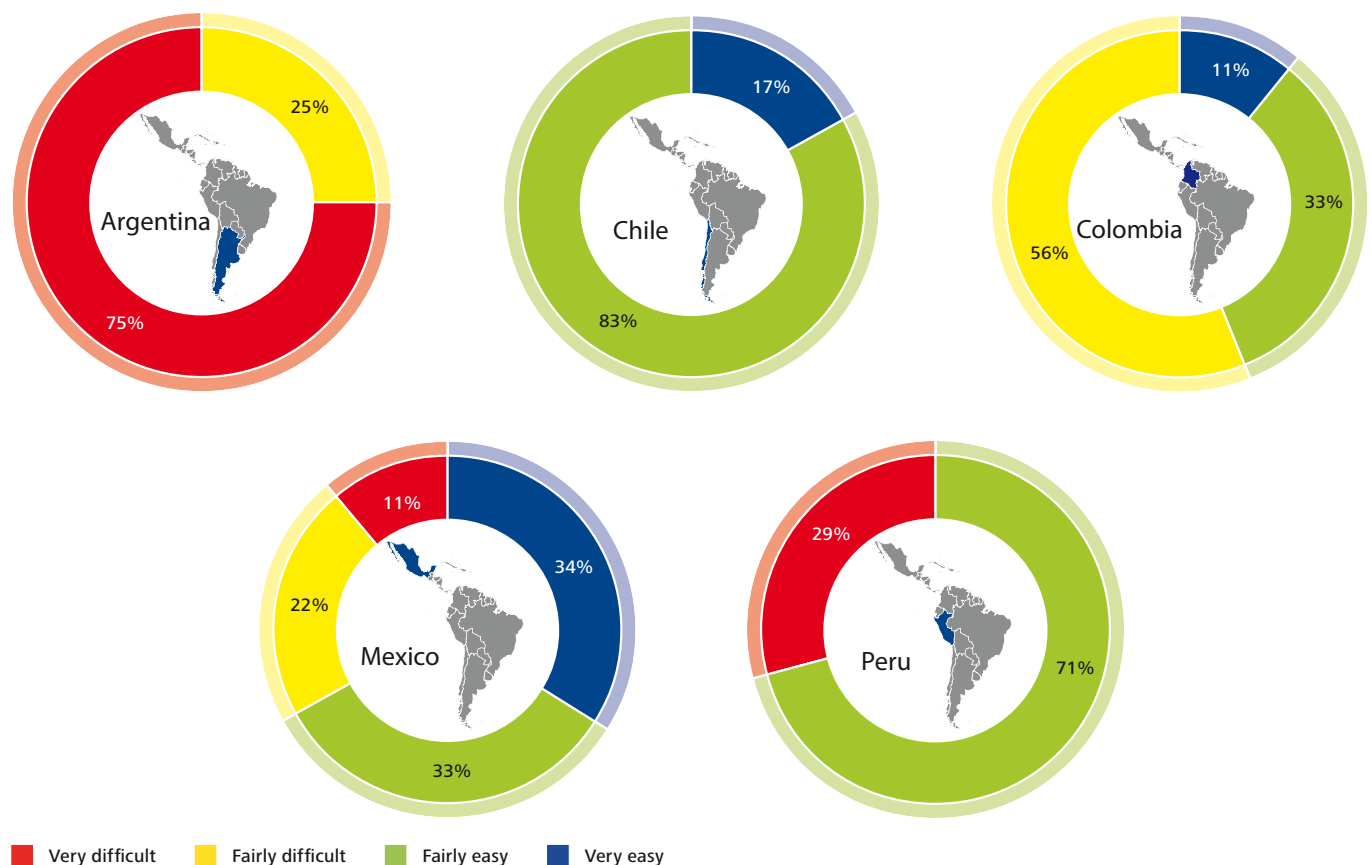


Figure 11. How difficult is it to do business in ...



“The respondents pointed out several challenges that impact their businesses. In the short term, the economic and political situation is a source of volatility that may motivate some companies to reassess investment plans. In the long term, stable rules, skilled labour force and increased ease of doing business would foster more trade and investment.

The long term prospects, however, remain strong. Opportunities related to the domestic market driven by the middle class and investments in infrastructure and oil and gas were highlighted as the basis for optimism by the participants in the survey.”

Jaime Gornsztejn

Chairman of the Brazilian Chamber of Commerce

“Since the 19th century Brazil has been a site of choice for foreign investors. Reliable institutions, solid opportunities and rate of returns have ensured the country’s attractiveness. Over the past years Brazil has retained its position as one of the five main recipients of FDI in the world, a testament to continuous investor’s confidence in Brazil’s fundamentals and economic future.”

HE Roberto Jaguaribe

Ambassador of Brazil

Finally, we must acknowledge the limitations of this survey. The respondents represent a very small percentage of the UK economy – a sign that there are still a lot of companies that do not intend to invest or export to Brazil. Many of these companies are focusing on other emerging markets like China and India but also many of them do not understand the opportunities that a Brazilian strategy could bring to them or believe Brazil is “just too complicated”. While Brazil does have its challenges, our survey shows those are not a barrier to pursuing worthwhile opportunities.

At Deloitte and the Brazilian Chamber of Commerce we are proud to help UK companies understand both the opportunities and challenges.

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