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# BRAZIL BUSINESS BRIEF

APRIL 2013

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NEWS FROM THE BRAZILIAN CHAMBER  
OF COMMERCE IN GREAT BRITAIN



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# EDITOR'S LETTER



LENA BERALDO & ALEX THOMAS

Dear Members,

Welcome to the April 2013 edition of the Brazil Business Brief.

In this issue we have contributions from Thomas Nemes (Growing British and Brazilian Bilateral Cooperation is the Key), Vera Dantas (The 11<sup>th</sup> Oil and Gas Round in Brazil) and Catarina Costa (Investing in Brazilian Concessions).

With our annual 'Personality of The Year' gala dinner taking place on the evening of 14<sup>th</sup> May, we have also included interviews with the two recipients of this year's awards: Rubens Ometto Silveira Mello, chairman of the board of Cosan S.A. and Cosan Ltd., Comgas and Raizen; and Sir Frank Chapman, former CEO of BG Group.

As always we are keen to hear your suggestions for articles and events: you can contact us via [brazilianchamber.org.uk/contact-us](http://brazilianchamber.org.uk/contact-us)

We hope to see you at the gala dinner and at our other future events - for the full calendar please see page 23.

Best wishes,

Lena & Alex ☺

# ARTICLES

## GROWING BRITISH AND BRAZILIAN BILATERAL COOPERATION IS THE KEY TO GREATER TRADE AND INVESTMENT

BY THOMAS NEMES  
PR AND PUBLIC AFFAIRS CONSULTANT AT TETRA STRATEGY

Trade and investment is fast becoming a cornerstone of Britain's strengthening relationship with Brazil, which also includes greater political cooperation and recent cultural and sporting milestones. It is important, though, to bear in mind that this emerging bilateral dynamism is only a very recent phenomenon, instigated in 2010 by the coalition government.

Britain's ties with Brazil, and Latin America more generally, date back to when cooperation took off with the rise of the independence movements. After all it was Britain that negotiated the terms of the independence of Brazil from Portugal. This early promise, however, rather ebbed away over the course of the 20<sup>th</sup> century. This weakening of bilateral relations is no secret, and was confronted head-on by foreign secretary William Hague within the first months of the formation of the coalition government following the May 2010 general election. Delivering the Canning Lecture in November 2010, the first by a British foreign secretary, Mr Hague acknowledged that "Britain has a track record of underestimating Latin America and neglecting its opportunities". He



declared, however, that the "current British government is determined to address" this neglect, and that Brazil was its principal focus.

Businesses might have received the message with a touch of scepticism, however, because statements of intent are far removed from the actual work of bolstering relations. It did take time for the current government to get moving on the issue, with deputy prime minister Nick Clegg and Mr Hague both cancelling trips to Brazil due to domestic squabbles in Parliament. Also, although David Cameron and Dilma Rousseff had already met at the margins of multilateral summits, their

first official bilateral engagement took place only last summer, ahead of the Olympics. In the meantime Mr Cameron already had already collected stamps in his passport from visits to the other BRIC countries.

Nonetheless the British government has been true to its pledge to strengthen relations with Brazil. Once he finally made it to Brazil in June 2011, Mr Clegg announced the UK's commitment to double exports to Brazil to £4 billion by 2015. Commenting on this announcement, trade and investment minister Lord Green said that "Brazil is a natural partner for the UK on global issues such as climate

change and security; this is why we are committed to doubling exports with Brazil by 2015". The following year saw Ms Rousseff visit Britain just before the Olympics opening ceremony. During the visit both leaders noted with some satisfaction that between 2010 and 2011 bilateral trade grew from £5.2 billion to £5.7 billion. They also welcomed the significant increase of British investments which made Britain the 4<sup>th</sup> largest investor in the Brazilian market in 2010, and acknowledged the significant amount of Brazilian direct investment in Britain, which reached nearly £700 million in 2011. In a sign of Britain's commitment to building on this momentum, plans were also announced to set up a 'launchpad' service at the Brazilian British Centre in São Paulo to provide temporary office space for British companies during the initial phase of establishing their businesses in Brazil.

Mr Cameron reciprocated this successful visit with a visit of his own to Brazil soon after in September 2012, in which he took a 58-strong business delegation with him. During his visit he said that trade deals signed during the trip would "create" and "protect" 3,000 British jobs. Revealing the extent of Brazil's importance

to Britain's future growth, he emphasised that "this visit is about British jobs, British growth and the British economy, because I want Britain to be tied up to the fastest growing economies on the planet."

Mr Cameron's visit also saw an important new development that has contributed to elevating bilateral relations to a more strategic level. While he was in Brazil the two countries agreed to launch a new Dialogue of Trust, which includes an Annual Foreign Ministers' Dialogue. The talks will be held annually and have been set up to focus on foreign policy and international security issues, in recognition of Brazil's increasingly important role on the world stage. The first meeting was held in February 2013 when Brazilian foreign minister Antonio Patriota visited Britain. While in London, Mr Patriota welcomed the talks as a "crucial and welcome occasion for us to strengthen our partnership in areas such as peace and security, sustainable development, food security, human rights, science, technology and innovation, and an ever more dynamic bilateral relationship." Though much of the discussion focused on foreign policy and global security and stability, there was also agreement on the

importance of driving forward discussions on trade policy issues with the Joint Economic and Trade Commission (JETCO) talks between the two countries' trade ministers due to be held in Brazil later this year.

In yet another development, soon after Mr Cameron's trip to Brazil, and probably as a result of it, he announced the appointment of political veteran Ken Clarke as a trade envoy with a special focus on the emerging economies of Brazil and China. This canny move will see Mr Clarke focus on the energy sector in Brazil, including the sale of British expertise from the North Sea to the burgeoning Brazilian oil and gas industry.

It is a testament to Brazil's growth and newfound global standing that it can now pick and choose who to deepen cooperation with. Far from being deterred by this competition for attention, the current British government has seized the opportunity with relish and has shown great initiative in ensuring that Britain remains very much on Brazil's agenda. Although this enthusiasm to consolidate the bilateral relationship must be sustained if there are to be any real long-term gains, the signs are all pointing in the right direction. ☺

# ARTICLES

## THE 11<sup>TH</sup> OIL AND GAS ROUND IN BRAZIL

BY VERA DANTAS

PARTNER AT NORONHA ADVOGADOS, LONDON

On 11<sup>th</sup> January 2013 the Brazilian National Agency of Petroleum, Natural Gas and Bio-fuels (ANP) received authorisation from President Dilma Rousseff to hold the Eleventh Bidding Round for the concession of rights for the exploration and production of oil and natural gas. It is scheduled to take place in May 2013.

Generally referred to simply as the '11<sup>th</sup> Round', the tender has been eagerly anticipated by companies in the oil and gas sector in Brazil and abroad, as the last auction of this type took place in 2008. According to the ANP website, 289 blocks should be on offer under the concession regime, onshore and offshore.

### Preliminary Invitation to Bid

On 24<sup>th</sup> January 2013 ANP published the so-called Preliminary Invitation to Bid ("Pré-edital") of the 11<sup>th</sup> Round. At the time of writing, the final Invitation to Bid and Concession Agreement had not yet been published (the scheduled date was 11<sup>th</sup> March) and the information herein is stated as set forth in the Preliminary Invitation to Bid for companies interested in participating of the 11<sup>th</sup>

Round. In a recent event in London about infrastructure in Brazil, however, Magda Chambriard, ANP's director general, said she believes that the final invitation to bid should not differ substantially from the Preliminary one, as only a few points were raised in relation to the rules during the consultation phase that ended on 4<sup>th</sup> February.

### Registration of Interest with the ANP/Qualification/Submission of Bids Schedule

Companies interested in participating in the 11<sup>th</sup> Round were asked in the Preliminary Invitation to Bid to register their interest and present the documentation relating to their technical, economic and financial and legal qualification **by 26<sup>th</sup> March 2013**.

Confirmation by the ANP of the interested companies' qualification, and therefore of their right to go forward into the second phase of the bidding process, when bids are presented, will be decided by 10<sup>th</sup> April.

Bids will be taken on 14<sup>th</sup> May, and if necessary also on the following day, 15<sup>th</sup> May. Finally, concession agreements should be executed between ANP and the bid winners in August 2013.

### Qualification Requirements

Companies will be entitled to participate in the 11<sup>th</sup> Round provided that:

- They confirm their interest in the bidding process, pursuant to requirements set forth in the Preliminary Invitation to Bid;
- They pay the required Participation Fee – please note that this must be made by each company individually, even if submitting a bid via a consortium. Also, payments originating from abroad must be made to ANP via bank transfer; and
- They obtain technical, legal and financial qualifications granted by ANP pursuant to the rules set forth in the bidding notice and demonstrate their tax and labour good standing, as per the rules established in the Preliminary Invitation to Bid.

### Consortia

The formation of consortia is expressly permitted. In this case, companies will have to qualify individually. Each consortium must have at least one company which is qualified as an Operator and this company must not



have a percentage which is smaller than 30% in the consortium.

### Foreign Companies

Foreign companies must present all required documentation, but in the cases of documents which do not actually exist in their country of origin, they are permitted to submit an equivalent or similar document instead.

All documents obtained abroad must be notarised and legalised at the

Brazilian Consulate as well as translated into Portuguese so as to be valid in Brazil.

### Submission of Offer Guarantees

Individual bidding companies or one of the companies in a consortium must provide ANP with an Offer Guarantee for the block(s) of interest in the amounts indicated in the Preliminary Invitation to Bid. Only Letters of Credit or Surety Bonds are admitted forms of guarantee and must be submitted by 26<sup>th</sup> April.

An Offer Guarantee will be enforced where a company, having won the bidding process, fails to execute the

Concession Agreement within the deadline set forth by the ANP.

### Bidding elements

Bids presented to ANP shall necessarily contain the company's commitments as regards signature bonus, minimum exploration programme and local content undertaking, as follows:

- I. Signature Bonus: this corresponds to the minimum amount to be paid up-front by the win-

ning companies which obtain the concession. The minimum amounts applicable to each of the blocks being offered are stated in Annex XI of the Preliminary Invitation to Bid;

- II. Minimum Exploratory Programme: to be expressed in Units of Work, as determined by the Invitation to Bid, this corresponds to the set of exploration activities to be performed by the concessionaire, which are defined in Annex XII of the Preliminary Invitation to Bid; and

- III. Local Content Undertaking: "local content" is the proportion between the amount applying to equipment manufactured and services rendered in Brazil for the execution of the concession agreement and the total value of the goods and services under the agreement. Under prevailing rules in Brazil, the concessionaire must observe a minimum percentage of participation of Brazilian companies in the supply of equipment and services under the agreement.

The following Local Content indexes apply:



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## • Exploration Phase:

Deep waters: minimum of 37% and maximum of 55% Shallow waters (400m to 100m): minimum of 37% and maximum of 55% Shallow waters: minimum 51% and maximum of 60% Onshore: minimum of 70% and maximum of 80%

## • Development Stage:

Deep waters: minimum of 55% and maximum of 65% Shallow waters (400m to 100m): minimum of 55% and maximum of 65% Shallow waters: minimum 63% and maximum of 70% Onshore: minimum of 77% and maximum of 85%

In addition, minimum and maximum indexes of local content are established **per item and sub-item** to be offered.

## Bidding Presentation and assessment

Bids must be made and presented individually for each aimed block.

The bids presented will be assessed in accordance with the criteria, formulae and calculations clearly set forth in the bidding notice, and the weightings used in calculating the final score will be as follows:

- Signature bonus: 40%.
- Minimum Exploratory

Programme: 40%.

- Local Content: 20%.

## A Final Word – further opportunities

In order to meet requirements and to be able to succeed in Brazilian invitations to bid, it is essential for foreign companies to start preparing their participation in the contest as early as possible. One of the first important considerations is whether the company will be participating in the process on its own or in a consortium with a Brazilian company.

Entering into a consortium with a Brazilian company can be a very good option as a company will only have to be set up in Brazil, for the purposes of implementing the obligations under a concession agreement, if the consortium wins the bid. Brazilian law on public biddings (Law 8666/93) establishes that the parties in a consortium must be **jointly liable** for their obligations towards the public authority, whether during the bidding process or later on, during the stage of the performance of the concession agreement. However, a Consortium Formation Undertaking document, setting forth the obligations of each of the consortium's parties, must be presented to the bid authorities at the

very start of the process.

Companies abroad who have not yet started the process to compete in the 11<sup>th</sup> Round process will of course have very little time to be ready for this particular bidding. The purpose of this article, however, is to raise awareness of the bidding process among oil and gas companies who might be interested in future opportunities in the sector in Brazil. In this regard, in addition to the May concession, auctions relating to the pre-salt area, under the Production Sharing system, will take place in November 2013. Moreover, and as announced on 7<sup>th</sup> February 2013 by National Council of Energy Policy (CNPE), ANP will promote oil and natural gas bidding rounds specifically for small and medium-sized companies.

Although the rules in the next auctions will probably not be exactly the same as those under the concessions to be granted in the 11<sup>th</sup> Round, auctions organised by ANP must follow the general rules applying to bidding processes in Brazil, which were the basis for the preparation of the Preliminary Invitation to Bid discussed above.

In conclusion, therefore, the time to start preparing for future opportunities is now. ☺

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## INVESTING IN BRAZILIAN CONCESSIONS

BY CATARINA COSTA  
SENIOR MANAGER AT PWC BRAZIL

The decline of public investment over the past three decades has forced Brazil to seek new strategies to increase its infrastructure capacity, a bottleneck for the country's continued growth. Financial data, for example regarding returns on investment in the form of profits and dividends, are critical for private sector investors evaluating alternative forms of investment in infrastructure. Therefore the private sector will look first at cash returns and internal rates of return, but accounting is also important due to the impact on the calculation of earnings per share, gearing ratio, dividends and tax, among other key measures.

Brazil has had a fast-growing economy for much of its recent history, and recovered rapidly from the 2008 global financial crisis. But it still has a huge challenge to sustain steady growth in future years, and infrastructure improvements will be key to ensuring long-term investments and becoming a more developed economy.

Brazil's government has been playing an important role in pushing the country forward. In the mid-1990s Brazil started the privatization process, reacting to deficiencies in public infra-



structure. During the last decade public investment in Brazil has averaged 2% of gross domestic product (GDP). Although in the previous two decades it had averaged 4% of GDP, the Growth Acceleration Program (PAC), launched in 2007, was initially conceived as a means of reducing poverty and inequality, and in 2010 the government launched the second phase of the PAC,

comprising more business-focused investments aimed at increasing the country's energy production capacity and building infrastructure to support a developed economy.

The cuts in infrastructure expenditure by the government affected virtually all sectors and have been attracting private-sector investors from around the world. Brazil lags behind

BRAZIL HAS HAD A FAST-GROWING ECONOMY FOR MUCH OF ITS RECENT HISTORY, AND RECOVERED RAPIDLY FROM THE 2008 GLOBAL FINANCIAL CRISIS. BUT IT STILL HAS A HUGE CHALLENGE TO SUSTAIN STEADY GROWTH IN FUTURE YEARS

in most core sectors of infrastructure including roads, ports, airports, electricity, railways, water and sanitation, telecommunications and health care.

Private participation in the provision of public services can take many forms. Public Private Partnerships (PPP) are one of the methods whereby governments attract private sector participation in the provision of infrastructure services. These types of arrangements are often described as concessions where a private sector entity may construct the infrastructure, maintain and provide the service to the public. The provider may be paid for its services in different ways such as availability or demand. Many concessions require that the related

infrastructure assets are returned or transferred to the government at the end of the concession.

Before deciding to invest in infrastructure, investors need to take into account the relevance and potential implication of the terms of the agreement when accounting for the concession arrangements. There is currently no specific stand-alone international or Brazilian accounting standard that applies to service concession arrangements as the concepts impact on a number of existing standards such as those covering revenue recognition, leasing, property, plant and equipment and construction contracts. International Financial Reporting Interpretation Committee No. 12 (IFRIC 12) 'Service Concession Arrangements' and its Brazilian equivalent (ICPC 01) describe how concession terms should be interpreted within the various standards applicable for defining the accounting requirements for these arrangements. Due to the complexity of the Brazilian regulatory environment, the Brazilian standard setter issued specific additional orientations applicable to the Brazilian environment in the form of OCPC 5 'Contratos de Concessão' (Service Concession Arrangements).

Arrangements where the grantor (the government or its agents) controls or regulates what services the operator provides with the infrastructure, to whom it must provide them and at what price, and also controls any significant residual interest in the infrastructure at the end of the term of the arrangement, are under the scope of ICPC 01 and IFRIC 12.

Detailed analysis of the specific arrangement is necessary in order to determine whether it is within the scope of the aforementioned interpretations. It takes a considerable amount of time and effort to provide comprehensive guidance that would cover all such situations. Interpretation of complex terms, contractual right to receive cash for investments, renewal options, indemnification at the end of the concession, and the regulatory environment are among the factors which might impact on the decision about how to account for the concession and which accounting model is more appropriate for the operator. Some complex arrangements may contain elements of different accounting models.

This article doesn't intend to discuss how to account for concession arrangements but indicates the

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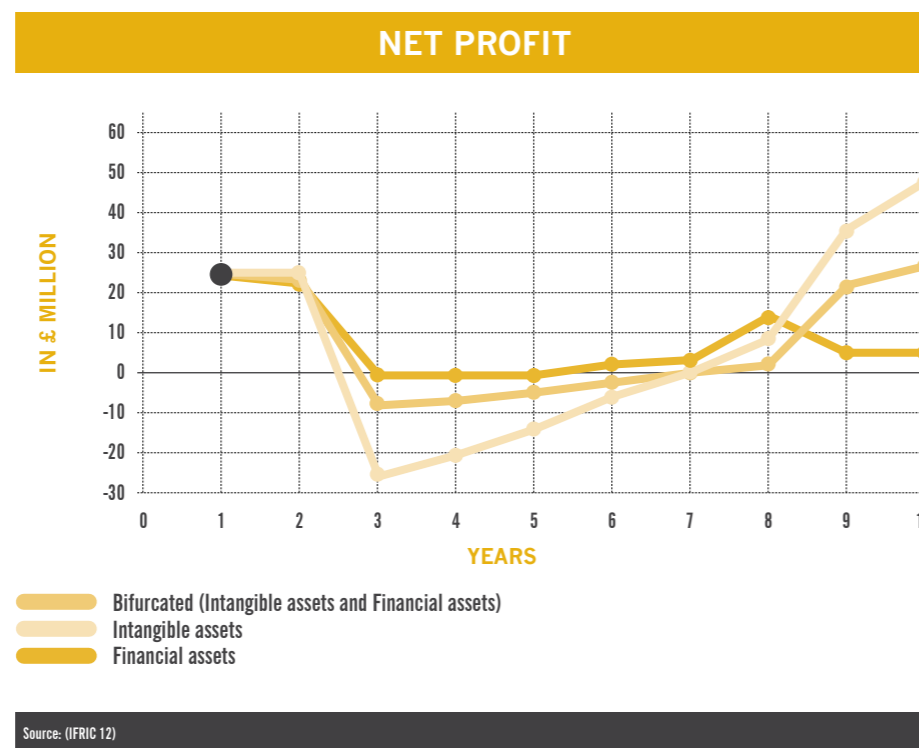
potential impact on the financial information of the operators due to the complexity of arrangements between governments and service providers.

The two possible accounting models that an operator applies to recognise the rights received under a service concession arrangement are financial assets and intangible assets. The operator recognises a financial asset if it has the unconditional contractual right to receive cash or another financial asset from, or at the direction of, the grantor for the construction services while if the users pay for the services provided by the operator and the operator recovers its investments in the infrastructure from the payments made by users, it should recognise an intangible asset. In order words, if the operator bears the risk of the cash flows the infrastructure should be classified as an intangible asset (the operator has a right – a license – to charge users of the public service). On the other hand, if the grantor bears the risk of the cash flows the infrastructure should be classified as a financial asset (the operator has a right to be paid by the grantor for providing construction services).

See on the right an illustrative example of the impact on the allocation of net profit of the operator over the con-

cession period depending on what type of accounting model the operator is subject to over the concession period.

Evaluation of the relevant terms of the arrangements, related legislation and its impact on the accounting models play a critical role in how decision-makers plan to invest. Local experience with legal and regulatory interpretation of contracts and complex accounting issues related to concession arrangements are also very important factors to take into account. ●



# INTERVIEWS



## RUBENS OMETTO SILVEIRA MELLO

BY IEDA GOMES  
THE BRAZIL BUSINESS BRIEF

CHAIRMAN OF THE BOARD  
COSAN S.A. AND COSAN LTD., COMGAS AND RAIZEN

**R**ubens Ometto Silveira Mello is the chairman of the board of Cosan S.A. and Cosan Ltd., Comgas and Raizen.

He has led Cosan's transformational growth, helping the company become Brazil's largest sugar-ethanol group.

In 2011 Mr Mello led the formation of Raizen, a joint venture with Shell for sugar and ethanol production, power co-generation and fuel distribution.

Under Mr. Mello's direction Cosan has acquired the controlling stake of Comgas, Brazil's largest natural gas distributor, from BG Group.

It is due to his entrepreneurship in key areas for the growth of Brazil's econo-

my that Mr. Mello was chosen to be the Brazilian recipient of the Chamber's Personality of the Year award.

**Could you tell us about the trajectory of COSAN and how it became the largest ethanol and sugar producer in Brazil?**

Our journey began in 1936 in Piracicaba, São Paulo state, with the Costa Pinto mill established by the Ometto family, which today produces sugar, ethanol and power through the process of energy cogeneration. In the mid-1980s we started to expand our operations through the acquisition of several other mills in São Paulo state.

Over the years we have consistently grown, modernised our operations,

made strategic acquisitions and become Brazil's largest sugar-ethanol group. Our growth has enabled diversification into key sectors for our country such as infrastructure and energy.

Our business portfolio ranges from sugar and ethanol production, co-generation, fuels distribution, base oil and lubricants production to a logistics system that enables the transportation and port loading of agricultural commodities, mainly sugar, from the field to the port of Santos situated on the coast of Sao Paulo state. We also own and manage one of the country's largest portfolios of agricultural properties.

In 2011 Cosan and Shell formed Rai-

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zen, a joint venture that was already born as one of the five largest companies in Brazil. In the renewable energy segment Raizen operates 24 sugar and ethanol mills with a total crushing capacity of 65 million tonnes a year and 900 MW of power cogeneration capacity. In the fuels distribution segment Raizen is one of the three largest players in Brazil and the most efficient one with the highest throughput per fuel station. Under the "Shell" brand, Raizen serves a network of 4,700 service stations, 54 airports, 750 convenience stores and operates 55 logistics terminals.

Recently, in October 2012, Cosan announced the acquisition from BG of the controlling stake in Comgas – Companhia de Gás de São Paulo, the largest natural gas distributor in Brazil. Comgas serves one million residential, commercial and industrial customers in the city of São Paulo and the surrounding region.

**From your traditional business roots, based upon ethanol and sugarcane, you have diversified into bold acquisitions in logistics and natural gas distribution. What are the synergies and complementarities for those businesses?**

Over the years Cosan has acquired

new skills and expanded its business portfolio. The diversification of its businesses has been essential for the company's recent development. We are no longer just a large producer of sugar and ethanol: we now participate at different levels of the production chain. Raizen is Brazil's first fully vertically integrated bioenergy company. In logistics we control and operate Rumo Logística, a company that since its inception in 2009 has become the world's largest provider of sugar transportation and port loading services. It is one of the main services providers to Raizen and has an exclusive sugar transportation agreement with the country's largest agricultural products' railroad operator. Comgas' acquisition was the opportunity that Cosan was seeking to enter the promising natural gas distribution business. It is a leading player in a business segment that will grow as Brazil continues to leverage its energy sources based on the country's rich and diverse natural reserves. Historically Cosan has shown a great ability to create value from the companies it has acquired, becoming more resilient to the adversities deriving from its original commodities businesses.

**Back in 2006 Brazil and the**

**US were the largest producers of ethanol in the world, each producing nearly 18 billion of litres per annum. In 2012, while US production jumped to nearly 50 billion litres per annum, Brazil is still producing only 18 billion litres and also became an importer of ethanol. In your opinion what does Brazil need to do to reclaim the leading position in ethanol?**

The production of sugar and ethanol is predominantly an agricultural activity which is both labour- and capital-intensive. The industry as a whole has suffered in recent years from lack of investment in the expansion of planted areas. The country's "sugarcane belt" in the centre-south region has also suffered tremendously from unstable weather conditions that have impacted on sugar and ethanol production and led to an increase in the industry's average production cost. As a consequence there was a shortage of ethanol that forced players to import it to normalize the domestic supply. This situation has already subsided and in 2012 Brazil had a production surplus that enabled the country to become a net exporter to the US and other parts of the world.

**There has been much talk about the second generation of etha-**

**no. When do you think it will become available? Is Brazil going to be a leader in technology development?**

We are big believers in the second generation of ethanol and along with Logen Corporation, Raizen is investing to build a production capacity that will grow over time. Through the use of biomass (tops and leaves that used to be left in the sugarcane fields), Raizen has a potential within its 24 mills to produce up to 15 billion litres of ethanol through the use of 6 million tonnes of biomass a year. Due to the amount of sugarcane biomass available, Brazil has the potential to become one of the leaders in the development of new technologies to improve productivity and reduce operational costs for the production of biofuels.

**Cosan is listed on the Brazilian and US stock exchanges. Since then you have created Raizen in partnership with Shell. What business opportunities do you envisage for Raizen in the United Kingdom?**

We have built overtime a good working relationship with our partners. That paved the way for the development of new business opportunities worldwide. In July 2012 Cosan Lubricants acquired Comma Oil & Chemicals

Limited from Esso Petroleum Company, Limited. The acquisition of Comma reinforces Cosan's strategy to enter the UK and continental Europe's lubricants & specialties market.

**In Brazil the large business conglomerates are still controlled by family groups whereas in the UK and the US control is shared among financial investors, pension funds and the public, with an emphasis on corporate governance and compliance. Do you see Brazil following the US and UK models in the near future? What steps are you taking to develop a new generation of professional executives?**

I believe in good governance, which means a strong and diverse board of directors and an independent and capable management team. This is what we have at Cosan today.

I also see great value in having strong shareholders who set, along with the company's board of directors, the strategic direction of the businesses and who should be accountable for the development of the company towards the market. I personally prefer to invest in companies with a very well-defined leadership.

When there's an alignment of interest between the controlling and the

minority shareholders there's a much greater chance of success.

Through our strategic moves we have aggregated a vast array of executives with different profiles in the last four to five years. We managed to retain over 95% of the executives we brought from Exxon Mobil when we acquired their fuels distribution business back in 2008. We brought together people from different backgrounds when we formed Raizen with Shell. Today we attract the best professionals in the market based on our successful story.

We are big believers in accountability and meritocracy.

**What is your view about the future of renewable energy and biofuels in the world? What are the key measures needed to advance the agenda?**

Biofuels are unquestionably the most viable alternative to fossil fuels. We have to focus on the development of new technologies like the second generation of ethanol. There's a potential to improve productivity and reduce production costs which will make ethanol even more competitive. Along with Shell we are positioning Raizen to become not only the lowest cost producer but one of the largest

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producers of ethanol in the world. Biomass is a relevant source in Brazil's diverse energy mix and we see great opportunities to further explore the use of biomass in the reduction of carbon emissions. We have invested, with the support of Brazil's government, in the development of alternative uses of biomass. Raizen is a leading producer of power from biomass. Through the recent creation of Cosan Biomassa we are collecting and converting sugarcane tops and leaves into biofuel pellets. This is another example of how it's possible to transform waste into energy.

**According to leading Brazilian economists the key factor for Brazil's economic growth in 2013 will be private investment. What does the private sector want to see happening in 2013 to regain confidence and foster investment?**

The private sector has a significant role in Brazilian economic growth. On the other hand, the government has to create a positive environment to stimulate private sector investments with attractive rates of return in the long run. We believe this will be the case and we are positioning Cosan to be a leading player in logistics infrastructure in Brazil.

**You are considered one of the most successful and shrewd businessmen in Brazil. How did you develop your leadership and business capabilities?**

A good academic background and an independent professional career. I have always worked very hard and I like to be surrounded by people who work hard as well.

Money has never been my focal point. I see it as a consequence of my efforts. Every time that I worked for money I made wrong decisions. You have to be able to attract qualified professionals and give them freedom to work... but you also have to be present yourself.

**In your interviews you acknowledge the inspiring role of Jose Ermirio de Moraes in your career. What is your advice for young professionals starting a career in business? How can they find a good mentor like you did, and how would you define success?**

We all need to be inspired, no matter what we do. I was lucky to meet Mr Moraes when I was very young. He believed in me and gave me the opportunity to become the financial director of one of Brazil's largest industrial conglomerates when I was 25 years old. I love my job but I love to be together

with my family and my friends. I live a very balanced life and always find time to be with the people who make me happy. That's the most important factor in my success.

**You are going to receive the Brazilian Chamber of Commerce Personality of the Year award for 2013 in recognition of your entrepreneurship in key areas for the growth of Brazil's economy, energy and logistics – the awards will be delivered at the gala dinner on 14<sup>th</sup> May. On balance, what have been the most important achievements in your career, and what do consider your legacy?**

When I went to one of Brazil's leading engineering schools I had to give up partying with my cousins. That was a tough decision at the time but a very obvious one for me. I always wanted to play a valuable role, which to me is very different from being important. I'm proud of having built, along with the people who had trust in me over the years, a company that transformed itself over time. I believe that life is a film and not a photograph: it changes constantly and you have to adapt. If there's something I would like to be remembered for, it's my perseverance. ●

# INTERVIEWS



## SIR FRANK CHAPMAN

BY IEDA GOMES  
THE BRAZIL BUSINESS BRIEF

FORMER CHIEF EXECUTIVE  
BG GROUP

Sir Frank Chapman is regarded as an iconic chief executive who led BG Group from October 2000 until the end of last year. Over this period the value of the company, by market capitalisation, increased more than fourfold to some \$60 billion. One of the most significant developments during Sir Frank's tenure was the relationship he built with Petrobras, which resulted in the company partnering in the world-class 'Big Five' Santos Basin pre-salt discoveries – Lula, Sapinhoa, Iracema, Iara and Carioca. Today BG Group is the UK's largest investor in Brazil and by 2025 the company will have invested up to \$1.5 billion in research

and development in the country. As a key player in forging closer business ties between Brazil-UK, Sir Frank will be the British recipient of the Brazilian Chamber's Personality of The Year award on 14<sup>th</sup> May.

**Could you tell us about your professional trajectory and your main achievements during your career with BG Group? What do you feel most proud about?**

I have worked in the oil and gas business for more than 37 years and continue to believe it is one of the most interesting and exciting sectors. Its technical and commercial complexity, financial scale and international scope make it a truly fascinating business. It's all about the supply of a vital stra-

tegic commodity – energy – to power economies and for people to enjoy a standard of living where they can light and heat their homes and travel using reliable transport fuels. These are just a few of the many benefits that hydrocarbons production brings. Prior to joining BG Group in 1996, I spent a total of 22 years with Shell and BP. One of my proudest moments was becoming CEO of BG Group in October 2000 and knowing this business had so much potential we could unleash. I feel very proud about the highly energised organisation we have developed and the committed and skilled people I have had the pleasure to work with along the way, about the growth that has been achieved, and

# INTERVIEWS

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about our exploration record, which has seen resources grow from 1.2 billion boe to 18 billion boe over some 16 years. At the centre of this success lies the Santos Basin. What a memorable day it was when we penetrated the pre-salt and saw the first signs of oil, which were to become the Lula discovery. Overall, the 'Big Five' discoveries in the Santos Basin are key to Brazil's plans for its rapidly expanding economy, and we are committed to working with Petrobras and our other partners to see these fields commercialised rapidly and efficiently.

## **What are your current projects in Brazil and how do you see BG Group's growth in the country over the next 10-15 years?**

In Brazil we are partners with Petrobras in the Santos Basin, where we have between 20%-30% equity share across four concessions. The sheer scale and quality of the Big Five discoveries are as remarkable as the four short years it took to start production after first find.

We aim to have fifteen FPSOs on stream by 2018 and we are working closely with Petrobras to achieve this on time and on budget.

By 2020 we expect these fields alone to be producing over 2 million barrels

of oil per day – nearly as much as all the UK fields in the North Sea at the same stage in their life.

Brazil will be one of the primary drivers of BG Group's growth for many years and we look forward to further developing our long-term relationship.

## **Given BG Group's strong presence in Brazil, why did the company decide to divest its interest in the gas distribution business in the country?**

In February 2012 we took a strategic decision to focus our business globally on projects with the highest capital efficiency. This approach was taken in order to help underpin the funding of our excellent growth projects offshore in Brazil, but also notably in Australia. Subsequently the company has exited the vast majority of its Transmission & Distribution and Power businesses around the world, which collectively will contribute \$8.1 billion of capital release by the end of 2013.

## **What are you doing to develop local talent in Brazil? Could you tell us more about the technology centre BG Group is setting up in Rio de Janeiro?**

As part of our relationship with the Brazilian government, BG Group will invest 1% of gross production revenue in technological research and develop-

ment. This will help ensure long-term investment in Brazil and in the country's oil and gas industry.

We expect to spend a research and development budget of more than \$1.5 billion in Brazil by 2025. To put that into perspective, BG Group will be increasing the magnitude of its R&D investment tenfold between 2010 and 2020. Part of the investment includes building the company's Global Technology Centre in Rio, which will house up to 150 researchers and staff, and set up training programmes in Brazilian universities. This reflects the opportunity to develop some of the untapped talent in the country, increase technical capacity in the oil and gas industry in Brazil, and help enhance the country's knowledge-based economy.

In addition BG Group also plans to contribute up to \$100m to the government's own training initiative, Science Without Borders, funding Brazilian students to study at universities abroad, including in the UK.

These efforts are all part of responding to the opportunities to create employment in a rapidly growing and changing economy. We see R&D and training programmes as a core competitive advantage that will help enrich and

sustain Brazil's economic well-being.

## **What advice would you give to young people when it comes to deciding upon their future career path? What could they learn from your career?**

The best piece of advice is quite simple. One must find a job one enjoys doing and which will in time become a passion. Delivering the very best one can, every day, is not a chore but a joy. Commitment and the steady delivery of good results will ensure that opportunities come your way, making elaborate long-term career plans unnecessary. This approach is what has got me out of bed and into the office with a spring in my step for almost four decades. I have immensely enjoyed being involved in all aspects of the oil and gas business.

I would also highlight the value of working abroad. It is a great way to broaden one's experience and gain exposure to managing a range of challenges in a variety of settings. If one wants to be a senior manager in an intensely international business, it is virtually impossible to do so without first-hand experience overseas.

## **How do you see the future of energy developing? What are the major drivers and challenges?**

As others have also observed, I believe that we will continue to see robust energy demand driven primarily by population expansion and industrialisation in the BRICs.

Much discussion in recent years has focused on the role of gas in meeting this new demand, and we anticipate approximately 900 billion cubic metres per annum of incremental global gas demand by 2020.

But this growth in demand doesn't give the full picture. Gas production from existing fields is declining. The challenge is not just to meet the 900 billion cubic metres per annum of new demand but, in addition, to make up for a decline in production of 1,500 billion cubic metres per annum. This is a huge task – one which will require more than \$2 trillion dollars of investment by 2020. Moreover, in order to develop energy sources to meet this demand, including the vitally important offshore oil discoveries in Brazil, there needs to be a strong relationship between all parties to take projects forward and develop the resources we need. BG Group is fortunate to enjoy a close working partnership with Petrobras in which we are also able to offer technical expertise as part of the way we find an effective and efficient ap-

proach to maximising the resources and reserves we have.

## **What is BG Group's philosophy when selecting and working with partners?**

Our view has always been the same. We work with partners who first and foremost share our relentless commitment to safety. This is core to who we are and how we go about our work. Clearly there has to be a powerful value proposition for every partner involved in any enterprise, but this must sit alongside the ability to work together in a way that is productive – and that requires deep mutual respect, the ability to listen to each other, and a sense of fairness in all we do.

BG Group believes that business success must be rooted in successful partnerships with its stakeholders, and that we must be ready to consult with, and be accountable to, those stakeholders for the decisions we take regarding our activities and operations. It is for these reasons that we are proud to be partners with Petrobras. The strength of our relationship with our Brazilian partner, built on our shared commitment to safety and close technical collaboration, is key to achieving a sustainable business and securing value for many years to come. ☺

INTERVIEWS

# BBB NEWS

## HOUSE OF COMMONS ROUNDTABLE BREAKFAST

BY THOMAS NEMES

PR AND PUBLIC AFFAIRS CONSULTANT AT TETRA STRATEGY

**O**n Wednesday 23<sup>rd</sup> January the British-Brazil All-Party Parliamentary Group (APPG) hosted a roundtable breakfast in the House of Commons with speakers Jaime Gornsztejn, chairman of the Brazilian Chamber of Commerce and head of BNDES's London office; and Silio Boccanera, London correspondent for Globo News. The breakfast was chaired by APPG chairman Robert Halfon MP and attended by parliamentarians and members of the Chamber.

The speakers discussed recent developments in Brazil, the challenges that lie ahead, and the ways in which those challenges present opportunities for Britain. Jaime told the guests that the Brazilian economy was fundamentally in good shape even though it was not growing as fast as Brazilian decision- and policy-makers would like. He added that the economy is now going through a process of rebalancing which is creating opportunities for British companies. Among the areas of opportunity, Jaime noted there is real appetite for participation in infrastructure, oil and gas, pharmaceuticals and biotechnology, education and defence and security.

Following on from Jaime's presenta-

tion, Silio argued that Brazil's potential is not being sufficiently exploited. He said British companies have to move fast to take advantage of opportunities in Brazil, but expressed confidence in Britain's "ingenuity to do the job" and noted the added benefit of the soft power it exercises through culture, sport, academia and the English language. Silio also commented that the British media does not generally have a tradition of promoting and raising awareness of Brazil, the exceptions being the Financial Times and the Economist, and to a lesser extent the Guardian and the BBC.

There was also an opportunity for guests to ask the speakers questions and to share their own experiences and insights with regard to Brazil. Parliamentarians were keen to know what practical steps they could take to promote bilateral links. Since the event took place, both Iain Wright MP, shadow business minister, and Baroness Hooper, British-Brazil APPG vice-chair, have tabled parliamentary questions asking the UK government about bilateral negotiations on a double taxation agreement, which was an issue raised by a Chamber member. ●

# EVENTS ROUND-UP

THE BRAZILIAN CHAMBER OF COMMERCE ORGANISES OVER 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 LISTEN TO TALKS, DOWNLOAD PRESENTATIONS, SEE PICTURES AND LEAVE COMMENTS.

FOR MORE INFORMATION PLEASE VISIT [BRAZILIANCHAMBER.ORG.UK/EVENTS/PAST-EVENTS](http://BRAZILIANCHAMBER.ORG.UK/EVENTS/PAST-EVENTS)

IN THE FIRST QUARTER OF 2013 THE CHAMBER ORGANISED THE FOLLOWING EVENTS:



From left to right: Rt Hon Ken Clarke, John Doddrell, Jaime Gornsztejn, Julio Alvarez and Stephen Williams at the Brazilian Health Seminar.

## BRAZIL AND THE CHANGING WORLD

15<sup>TH</sup> JANUARY 2013

This talk by Jim O'Neill, chairman of Goldman Sachs Asset Management and creator of the acronym BRICs, was our first event of the year. You can listen to the whole talk and download Mr O'Neill's presentation on the Brazilian Chamber's website. ●

**BERWIN  
LEIGHTON  
PAISNER**



Jim O'Neill

## BRAZILIAN HEALTH SEMINAR AT THE HOUSE OF COMMONS

25<sup>TH</sup> FEBRUARY 2013

**T**he seminar, organised in partnership with UKTI, was addressed by the Rt Hon Ken Clarke MP Minister without Portfolio. John Doddrell, HM Consul-General in Sao Paulo and Director of UKTI Brazil; Jaime Gornsztejn, head of BNDES London and chair of the

Brazilian Chamber of Commerce; Stephen Williams, sales director of Intersurgical Ltd, and Julio Alvarez, director of Abimed discussed Brazil's economic and political landscape, cultural considerations, and what British companies need to know in order to be successful in the Brazilian market. ●



# EVENTS ROUND-UP

# DATES FOR YOUR DIARY

## SEMINAR ON UK-BRAZIL JOINT VENTURES

20<sup>TH</sup> MARCH 2013

This seminar, held at Freshfields, aimed to advise companies about how to penetrate the Brazilian market through joint ventures. The panel – Jaime Gornsztejn, chairman of the Brazilian Chamber of Commerce; Daniella Carneiro Nicklin, associate director of KPMG; David Sonter, a partner at Freshfields Bruckhaus Deringer LLP; David Brett, business development manager at EM&I (Maritime) Ltd; and Chris Wall, a business specialist at UK Trade & Investment – discussed the benefits, challenges and potential pitfalls, focusing on practical points around the creation and management of joint ventures and alliances in Brazil. ☺



Jaime Gornsztejn, Daniella Carneiro, David Sonter and David Brett at the Seminar on UK-Brazil Joint Ventures



19<sup>TH</sup> APRIL

**OPPORTUNITIES FOR RENEWABLE ENERGY IN BRAZIL**  
MAYER BROWN, 8.30 AM

14<sup>TH</sup> MAY

**GALA DINNER & 'PERSONALITY OF THE YEAR' AWARDS**  
LONDON HILTON PARK LANE, 7.00 PM

5<sup>TH</sup> JUNE

**NETWORKING RECEPTION TO INTRODUCE THE DESIGNATE  
H.M. AMBASSADOR TO BRAZIL, MR ALEX ELLIS**  
MILLENNIUM HOTEL LONDON MAYFAIR, 6.00 PM

11<sup>TH</sup> SEPTEMBER

**RECEPTION AT THE HOUSE OF COMMONS**  
6.30 PM

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

# EDITORIAL

## BRAZIL BUSINESS BRIEF APRIL 2013

NEWS FROM THE  
BRAZILIAN CHAMBER OF COMMERCE  
IN GREAT BRITAIN

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PICTURES BY RONALDO BATALINI // SMILE PHOTOGRAPHY

# BE PART OF THE UK-BRAZILIAN BUSINESS COMMUNITY

THE BRAZILIAN CHAMBER OF COMMERCE HAS BEEN ACTIVELY PROMOTING TRADE AND BUSINESS BETWEEN THE UNITED KINGDOM AND BRAZIL FOR OVER 70 YEARS.

JOINING THE CHAMBER WILL GUARANTEE YOU EXCELLENT OPPORTUNITIES TO MEET AND NETWORK WITH MEMBERS OF THE UK-BRAZILIAN BUSINESS COMMUNITY.

THE CHAMBER ORGANISES OR CO-ORGANISES ABOUT 30 EVENTS ANNUALLY AND ALSO PROVIDES INFORMATION ABOUT OTHER BRAZIL-RELATED BUSINESS EVENTS IN THE UK.

TO FIND OUT MORE, SEE [WWW.BRAZILIANCHAMBER.ORG.UK](http://WWW.BRAZILIANCHAMBER.ORG.UK).



**Brazilian Chamber**  
of Commerce in Great Britain



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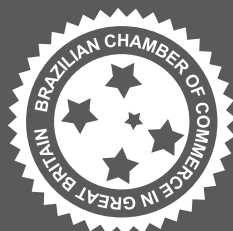
BRAZILIAN CHAMBER OF COMMERCE  
IN GREAT BRITAIN  
PRESENTS

GALA DINNER  
**PERSONALITY  
OF THE YEAR  
AWARDS 2013**

14<sup>TH</sup> MAY 2013  
AT THE LONDON HILTON  
ON PARK LANE  
7.00PM



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**Brazilian Chamber**  
of Commerce in Great Britain