
BRAZIL BUSINESS BRIEF

JANUARY 2018

NEWS FROM THE BRAZILIAN CHAMBER
OF COMMERCE IN GREAT BRITAIN



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MESSAGE FROM THE CHAIRMAN



SÉRGIO GULLO

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Dear Members,

Compliance and corporate governance are vital elements that corporations have been incorporating in their day-to-day activities – a fact reflected in this edition of the Brazil Business Brief by an article from Marcio Fernandes about how the ongoing corruption cases in Brazil have transformed the business environment. Policies aligned with the global markets and better practices are offering improved conditions for doing business in the country.

The business opportunities between the UK and Brazil are vast. When it comes to import-export it is important to have the required documentation and comply with the appropriate timeline – and in this edition Jon Morgan of Latin America Logistics has kindly prepared a table with specific advice in that respect.

Roberto Aron, with an analysis of the cost of hedging, provides another article on the theme of doing business in Brazil. Despite the falling rate of inflation in Brazil, positive GDP growth expected for 2017-18, and a relatively stable BRL-USD exchange rate, it is important to understand how the market works in Brazil and to take the necessary precautions to protect your assets.

The fact that we are now heading into an election year in Brazil provides the context for Jairo Nicolay, a professor at the Federal University of Rio de Janeiro and currently an academic visitor at King's College London's Brazil Institute, to present a detailed chronological analysis of electoral reform in the country. It is fascinating how the changes approved by Congress are likely to affect campaign financing, promote greater transparency and reduce the number of political parties.

We are confident 2018 will be another transformational year for UK-Brazil relations. Our trade relationship will continue to thrive and the Brazilian Chamber of Commerce will remain an important forum in London for fruitful discussions and debates.

Enjoy this first edition of 2018!

Yours truly,

Sérgio Gullo

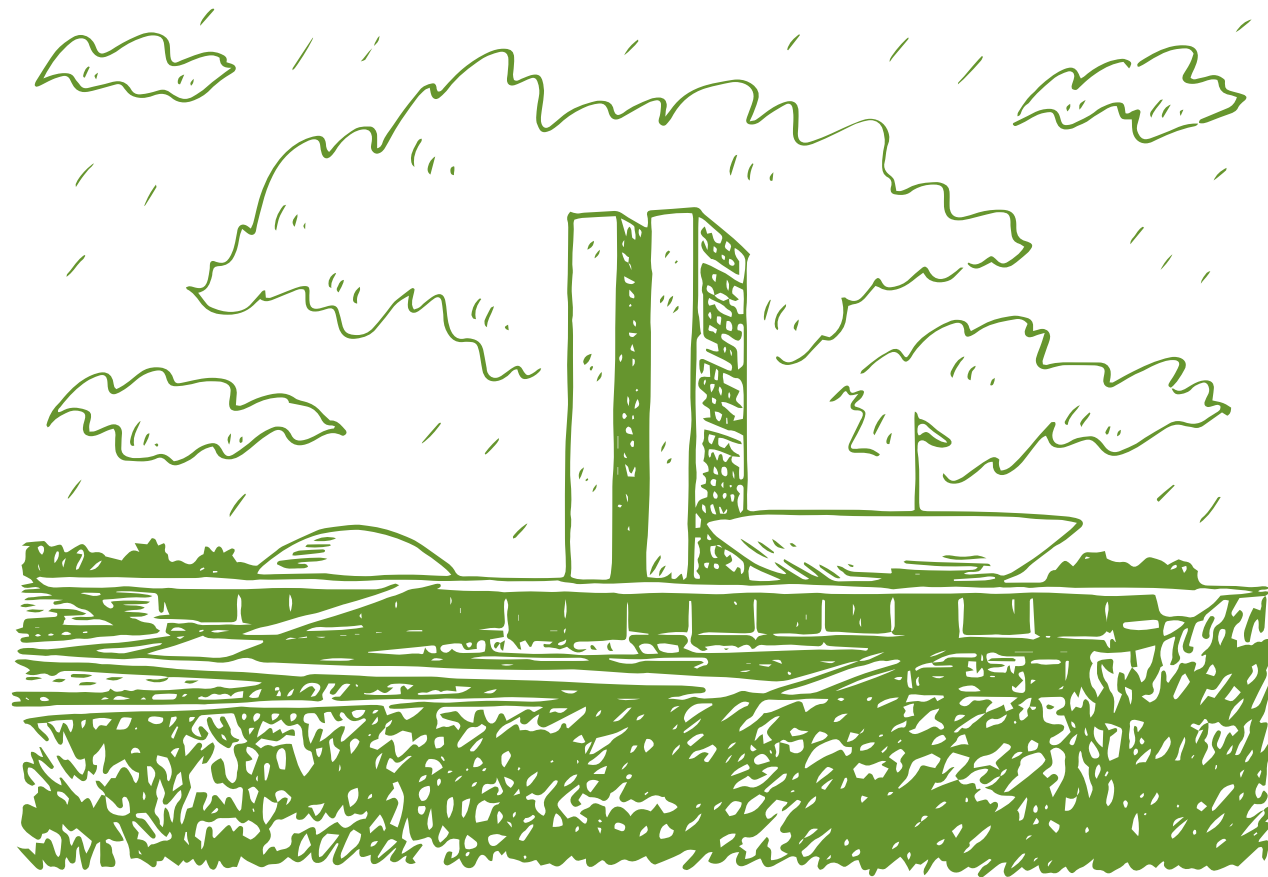
Chairman

Brazilian Chamber of Commerce in Great Britain,

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ELECTORAL REFORM IN BRAZIL

BY JAIRO NICOLAU



KING'S
College
LONDON

The debate over political reform in Brazil has been going on for more than 20 years. The starting point, in fact, was 1993.

In April of that year there was a referendum to choose the form of government (republic or monarchy) and the system of government (presidential

or parliamentary). In the debates that preceded the decision, changes to other dimensions of the political system came to be seen as a priority. The argument was quite simple: any change to the system of government would require a profound change in electoral institutions and in the rules of how political parties are organised.

Although the referendum confirmed that Brazil would continue as a republic with a presidential system, the idea that the country needed political reform remained on the agenda. The issue has been discussed in the Chamber of Deputies (the lower house of Congress) after every election since 1994, with the discussions following a familiar cycle. A special committee on political reform would be convened; it would conduct various sessions, often with the participation of experts and civil society leaders; and then eventually the commission would present a series of proposals for changing the party and the electoral legislation.

On a few occasions the Chamber of Deputies approved certain specific topics suggested by the committee, but there was never any progress on more controversial issues such as changes to the electoral system, the end of compulsory voting, or stricter requirements for the way political parties functioned. And in the wake of each failure to get a stronger agenda of reforms approved, a new committee would be convened after the next election.

Unlike during the preceding 20 years, however, the issue of political reform has taken centre stage in the

THREE SPECIAL COMMITTEES HAVE BEEN SET UP TO ADDRESS THE ISSUE, AND THE DEPUTIES HAVE VOTED ON MORE THAN 20 PROPOSALS FOR ALTERATIONS TO THE PARTY AND ELECTORAL LEGISLATION. DESPITE THIS EFFORT, THE TWO MAIN PROPOSALS FOR CONSTITUTIONAL CHANGE ADVOCATED BY THE CENTRE-RIGHT MAJORITY GROUP (CENTRÃO) WERE NOT APPROVED

Chamber of Deputies since 2015. Three special committees have been set up to address the issue, and the deputies have voted on more than 20 proposals for alterations to the party and electoral legislation. Despite this effort, the two main proposals for constitutional change advocated by the centre-right majority group (*Centrão*) were not approved. The first was the adoption of the single non-transferable vote, known in the Brazil-

ian political milieu as a *distritão*. The second proposal was for the creation of a fund in order to finance election campaigns, using money from the federal government budget (the initial forecast was that R\$ 3.6 billion would be allocated).

Nevertheless, Congress has in fact approved a series of changes to Brazil's electoral legislation. The three most important changes are described below.

Between 1994 and 2014, Brazilian legislation allowed corporations to finance election campaigns, and the period saw a steady increase in the amount of money spent in that way. In the general elections of 2014, for example, total official corporate donations to candidates and party committees reached R\$ 3.4 billion.

In September 2015, the Supreme Federal Court (STF) ruled that corporate donations to parties and electoral campaigns were unconstitutional. The local elections of 2016 took place with the ban on corporate financing already in place. For the political elite, however, it would be impossible to run campaigns for president and for positions decided at state level (federal deputy, state deputy, governor and senator) on the basis only of dona-

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tions from citizens and the use of the traditional party fund.

As Congress was unable to approve the constitutional amendment that would have created the election fund, the alternative was to approve, by ordinary law, a less ambitious fund for the financing of campaigns. It is estimated that the new electoral fund will contain about R\$ 1.7 billion in 2018. The parties will share it out according to a series of criteria, but in the end the three largest parties – the PT, PMDB, and PSDB – will get far more than any of the others: R\$ 632 million, or 37 per cent of the total.

The new law has established specific spending limits for different campaigns: a presidential candidate, for example, can spend a maximum of R\$ 70 million; and a candidate for state governor can spend between R\$ 2.8 million and R\$ 21 million, depending on the number of voters in their state.

The second important change to Brazil's electoral legislation was the introduction of the electoral threshold (*cláusula de desempenho*). From now on a party has to receive a minimum percentage of the votes in the elections for the Chamber of Deputies in order to receive money from the party fund and the election fund, and to

THE THIRD IMPORTANT CHANGE APPROVED BY CONGRESS WAS AN END TO THE FORMATION OF COALITIONS (*COLIGAÇÕES*) IN PROPORTIONAL ELECTIONS, WHICH WILL COME INTO EFFECT ONLY AFTER THE MUNICIPAL ELECTIONS OF 2020.

receive free TV and radio airtime for its political broadcasts. The threshold for 2018 is 1.5%, so any party falling short of that figure will not receive money from the party fund between 2019 and 2022, and will compete in the local elections of 2020 and the general elections of 2022 without campaign funds or free advertising.

It is important to note that the 1.5% threshold does not have the same effect as the electoral threshold has in other democracies. In Brazil, an individual deputy will not be obliged to relinquish their seat if they were elected when standing for a party that

failed to attain the minimum threshold share of the vote. But overall it is expected that the new rule will promote a reduction in the number of parties. Lacking resources, politicians in small parties will probably move to join larger ones.

The third important change approved by Congress was an end to the formation of coalitions (*coligações*) in proportional elections, which will come into effect only after the municipal elections of 2020. The coalitions, by allowing two or more parties to unite so as to put forward candidates for the positions of federal deputy, state deputy and councillor, ended up favouring the smaller parties. Indeed, this practice was a very significant factor in making Brazil's party system the most fragmented in the world.

Together, the three changes point towards a reduction in the number of political parties in Brazil. There should be a move away from the situation in 2014, when 28 different parties ended up being represented in Congress and the largest of them, the PT, received only 14% of the total votes cast. It is expected that from 2019 the phenomenon of extreme party fragmentation will give way to a more "moderate" multiparty system. ●

HEDGING CURRENCY RISK IN BRAZIL IS BECOMING LESS EXPENSIVE

BY ROBERTO ARON



After more than three years of double-digit interest rates, July 2017 marked Brazil's return to a rate below 10%. At the time of writing, Brazil's interest rate stands at 7.0% p.a. This would be unusually high for most countries, and indicative of a contractionary monetary policy, but for Brazil it is significantly low in comparison to the very high rates of the past.

The macroeconomic impact of the current interest rate can already be

seen, with GDP growth expected to be positive in 2017 and 2018 at around 1% and 3% respectively.

In the financial markets there have been important behavioural changes resulting in a growing appetite for long-term financing, including fixed-rate loans. Added to this, the reduced amount of lending on the part of BNDES, Brazil's development bank, allows room for the capital markets to increase their participation. Individual investors are allocating more resour-

es to riskier assets, since on average people believe that a monthly return of less than 1% is not enough to remunerate their investments despite the fact that real interest rates (nominal rates minus inflation) are positive and still very high.

For companies with liabilities in hard currency there has been an important change. The reduction in interest rates, a key component of the so-called cost hedging, is enabling companies to protect themselves from

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a devaluation of the Brazilian real at cheaper levels.

To illustrate this, imagine a company decides to buy a forward rate on the BRL to the USD to protect itself from a devaluation of the currency, which is known in the local market as a *termo de moedas*. The forward rate will be more favourable (or lower) for the client depending on the difference between the local rates in USD (indexed locally) minus the one in BRL. The rate in USD is known as the *cupom cambial* and the one in BRL is the fixed rate (pre).

The *cupom cambial* changes depending on the demand for USD-indexed transactions locally, and it is always very significant. But the biggest change to have taken place concerns the local interest rate: at 7.0% p.a. the overnight rate is now less than half of what it was at the beginning of the easing cycle (14.25%).

This reduction was made possible by the improvements in the inflation numbers (IPCA index). With a slower economy in 2015 and 2016, the Central Bank has been able, in responsible fashion, to bring down the overnight rate (Selic Target) to unprecedented low levels. The market is endorsing this move by pricing the one-

LOOKING AT THE FOCUS SURVEY OF THE CENTRAL BANK OF BRAZIL PUBLISHED AT THE END OF NOVEMBER, MARKET PARTICIPANTS EXPECT THE BRL TO UNDERGO A MODEST CORRECTION BY THE END OF 2018

year fixed rate at even lower numbers, based on lower inflation expectations. At the end of November the one-year fixed rate in BRL was around 7% p.a. At the same time the *cupom cambial* was close to 2.5% p.a. The resulting difference was 4.4%. This means that a company that enters into this type of hedging transaction will be better off if the BRL loses 4.4% of its value compared to the initial BRL level. In the last five years the same calculation had a record high of 12.4% (at the end of 2015), with an average of 9.11% in the same period.

Is this a good transaction? Despite the lower cost of hedging, the key point to consider is whether the current level of the BRL is high or low.

Looking at the Focus Survey of the Central Bank of Brazil published at the end of November, market participants expect the BRL to undergo a modest correction by the end of 2018, which means there is less urgency to close a hedging transaction.

What might change this scenario? The fiscal adjustment and general elections in 2018 are the two most significant factors to consider in the near future. After the approval of the cap on public spending, pension reform is considered vital in order for there to be a profound positive impact on the public finances. And no less important, the proposals of the principal presidential candidates, once the final line-up has been decided, will affect the risk appetite of investors and have a corresponding impact on prices.

Last but not least, despite the positive economic scenario for developing economies – with faster growth, higher interest rates and moderate inflation – it is always the case that new concerns may arise in the geopolitical arena.

Given all the uncertainties presented above, from the perspective of the cost of hedging, or for companies that need to implement and execute a hedging program, this is definitely a time for careful consideration. ●

CRISIS EQUALS OPPORTUNITIES HOW CORRUPTION IN BRAZIL HAS LED TO GREATER COMPLIANCE AND A FRIENDLIER BUSINESS ENVIRONMENT

BY MÁRCIO FERNANDES



Corruption, regrettably, has been deeply entrenched in Brazil for much of the country's history, and the fact that the problem remains serious is reflected by Brazil's position in the annual corruption index compiled by Transparency International. Indeed, the scourge of corruption is sadly familiar to everyone who has done business in the country.

Thankfully, however, the situation is now beginning to change for the better, with Brazil experiencing a process of social transformation similar to those that other emerging markets have undergone. In that respect the country has benefited greatly from increased transparency, access to information, and also the role of social media.

Social change in Brazil is taking place in the context of a young democracy and a legal framework

that is now becoming more efficient. It is worth bearing in mind that it was only in 1988 that the current Brazilian constitution was created, ensuring the rule of law and free elections. And it was only at the turn of the millennium that important enforcement institutions such as the Federal Police and the Public Prosecutor's Office began to gain the strength necessary to perform their roles effectively.

After ratifying the OECD Anti-Bribery

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Convention in the first decade of the new millennium, Brazil amended many federal laws regarding the prevention and punishment of corruption, incorporating bribery offences committed abroad into the Brazilian penal code and, for example, amending the anti-money laundering legislation so as to broaden the definition of that particular crime. After that, additional legislation was implemented such as the “Access to Information” Law, which facilitates access to public information; the “Clean Record” Law, whereby a person can be barred from standing for election if they have been previously involved in corruption; the “Criminal Organisations” Law; and, in 2013, the “Brazilian Clean Company Act”.

The most important change, however, is that the Brazilian authorities now have the legal tools to act against the most common forms of corruption and money-laundering, as well as against other, less common forms such as influence peddling.

The main legal driver in this arena is the Brazilian Clean Company Act, which is comparable with US and UK anti-corruption legislation in the sense that it also has extraterritorial effects. Unlike the Foreign Corrupt Practices Act (FCPA) in the US, however, the

THE MOST IMPORTANT CHANGE, HOWEVER, IS THAT THE BRAZILIAN AUTHORITIES NOW HAVE THE LEGAL TOOLS TO ACT AGAINST THE MOST COMMON FORMS OF CORRUPTION AND MONEY-LAUNDERING, AS WELL AS AGAINST OTHER, LESS COMMON FORMS SUCH AS INFLUENCE PEDDLING

Brazilian Clean Company Act covers acts of bribery involving government officials. On the other hand, compared with the UK’s Bribery Act, it also establishes the strict liability of legal entities for acts of corruption committed against national or foreign public administrations. The Brazilian Clean Company Act also accepts that if a company has in place a robust integrity programme it constitutes a “due diligence” defence, and it also accepts plea-bargaining deals. In most of the current corruption cases in Brazil, the senior executives of the companies involved have personally been charged;

and therefore, as tends to be the case in western countries, the option of the plea bargain has been widely used.

This legal background, combined with stricter enforcement by the Brazilian authorities, has contributed to a new approach regarding anti-corruption measures and led companies operating in Brazil to adopt more stringent compliance programmes, focusing on anti-corruption policies and self-enforcement.

In 2017, KPMG published the second edition of its report regarding compliance “maturity” in Brazil, based on information relating to the compliance sectors of 250 companies doing business in the country, 19% of which have a turnover of more than R\$ 5 billion (approx. £ 1 billion). The report demonstrated that the proportion of companies investing in the compliance sector is growing significantly every year.

Encouragingly, there is no doubt that a more compliance-oriented environment is creating more business opportunities. The most obvious example is the very feasible prospect of taking part in a public bid without the looming shadow of illicit pay-back arrangements. A few years ago, that was only a remote possibility.

Furthermore, anti-corruption certification can become a very positive differentiator for companies in Brazil. In that context the Office of the Comptroller General (CGU) has published non-binding Compliance Guidance in which it sets out its expectations for compliance programmes. In so doing, it is acting in a similar fashion to the US Department of Justice when it publicised the hallmarks of effective compliance programmes in its “Resource Guide to the FCPA”.

The CGU’s guidance describes five pillars that should form the basis for the development and implementation of companies’ integrity programmes, but it recognises that each programme must be developed and tailored to meet a company’s needs in accordance with the characteristics of the specific area of the economy in which it operates. The basic pillars are:

- i. commitment and support from the legal entity’s senior management (“tone from the top”);
- ii. an internal department responsible for the integrity programme;
- iii. profile and risk analysis;
- iv. structuring of rules and instruments; and
- v. continuous monitoring strategies

FINALLY, NEW BUSINESS OPPORTUNITIES ARE ARISING AS A DIRECT RESULT OF THE IMPLEMENTATION AND MAINTENANCE OF INTEGRITY PROGRAMMES BY NUMEROUS COMPANIES

There is also a tripartite initiative on the part of the Ministry of Transparency, the CGU and representatives of the private sector, aimed at combating corruption by encouraging the implementation of measures that promote ethics and integrity. Once a year the CGU analyses the compliance programs of many private entities and divulges a list of companies recognised as being committed to the prevention, detection, interruption and remediation of fraud and acts of corruption. In 2017 the list of 23 organisations deemed to be “Pro-Ethics” included ABB, Alubar, Chiesi, Ernst & Young, Itaú, ICTS, Natura, Siemens, Souza Cruz and 3M.

Finally, new business opportunities are arising as a direct result of the implementation and maintenance of integrity programmes by numerous companies. These new opportunities are related to technological solutions and services for third-party screening; due diligence and risk assessment; whistleblowing management and recording; and internal communication platforms.

Brazil still faces an economic crisis, amplified by high-profile corruption scandals, and much remains to be done in terms of cultural changes and political reforms. It is still the case, therefore, that foreign companies might be faced with instances of corruption. And yet it is undeniable that in recent years Brazil’s business environment has changed very positively, because of the adoption of an overall compliance mindset. This is part of an ambitious and indeed admirable effort by the Brazilian government to restore the country’s credibility and increase confidence in its public policies and institutions. As a consequence of this courageous determination to eradicate corrupt practices, Brazil can expect to see an even greater increase in foreign investment in 2018 – which will lead, vitally, to further business opportunities. ●

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A UK-BRAZIL LOGISTICS GUIDE – WHAT TO KNOW AND WHEN TO KNOW IT

BY JON MORGAN



“ Logistics and shipping between Brazil and the UK are not as daunting as is sometimes assumed, and indeed represent a wealth of opportunities across a wide variety of markets and sectors. Once the initial care has been taken to ensure the right preparatory steps are taken on both sides of the Atlantic, Brazil-

UK logistics and shipping become cheaper, easier and more efficient. To avoid disappointment for both exporter and importer, the initial work should consist of making sure that all aspects of the logistics are as expected – including the timescales for customs clearance in both countries; the freight costs themselves; and regulations that are occasionally over-

looked, such as packaging restrictions. Once the hard work has been done to ascertain the tariff codes for each product, to organise the necessary licensing in each case, and to register as an importer/exporter, the logistics transaction remains much the same but with a considerable reduction in complexity and cost.”

	BRAZIL (TO/FROM UK)	UK (TO/FROM BRAZIL)
Customs clearance documentation	RADAR registration	EORI number
Customs clearance documentation registration	http://portal.siscomex.gov.br/	https://www.gov.uk/eori
Customs clearance (Air) (import and export)	About 10 days	Up to 1 day
Customs clearance cost (Air)*	\$250-320 USD	About £5-50 (depending on complexity)
Airfreight transit time	3-5 days	3-5 days
Airfreight costs average per pallet**	\$750 USD	\$750 USD
Customs clearance (Sea) (import and export)	7-14 days	1-5 days
Customs clearance cost (Sea)*	\$250-320 USD	About £35-75 (depending on complexity)
Seafreight costs average 20'*** average 40'	\$500- 1,000 USD \$700-1,200 USD	\$500- 1,000 USD \$700-1,200 USD
Seafreight transit time	21 days	21 days
Tariff code verification pricing. (Price varies depending on quantity and complexity).	\$20-50 USD per code	£1-£20 per code
Taxes and Duties (Note that figures serve as information only. Accurate figures can only be obtained by using the correct tariff code)	<ul style="list-style-type: none"> • IPI - (Duty for industrialised goods), • II - (Regular import duty), • ICMS - (from 12% to 18% depending on Brazilian State Tax – a tax similar to VAT), • PIS - (Duty for social integration programme), • COFINS - (Duty for contribution to social security financing). 	20% VAT (where applicable) 10% approx. duty (where applicable)
Tax & Duty tool	http://www4.receita.fazenda.gov.br/simulador/	https://www.trade-tariff.service.gov.uk/trade-tariff/sections
Cost-effective carriage	<ul style="list-style-type: none"> • Imports of samples into Brazil are subject to import taxes and duty in Brazil. • Less than 1 cmb – likely to be cheaper by airfreight, • Between 1-2 cmb – Airfreight & seafreight costs possibly similar • Above 2 cmb – likely to be cheaper by sea-freight, 	<ul style="list-style-type: none"> • Imports of samples into the UK are exempt from tax and duties in the UK but must not be sold on, • Less than 1 cmb – likely to be cheaper by airfreight, • Between 1-2 cmb – Airfreight & seafreight costs possibly similar • Above 2 cmb – likely to be cheaper by sea-freight,
Consider	Ensure products containing wood and packing (including pallets) have been treated to required standards.	Ensure products containing wood and packing (including pallets) have been treated to required standards.

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BRAZIL TO ENTER THE COMMON REPORTING STANDARD IN 2018

BY AMIT RAMNANI



The OECD has taken major steps to reduce tax evasion by implementing the Common Reporting Standard (CRS), which employs the automatic exchange of account information of financial institutions between 100+ participating countries. The aim is to identify inconsistencies in tax declarations and move towards global tax transparency. During 2017, exchanges commenced between 49 “early-adopter” countries.

Brazil, as a “late adopter”, will join the CRS in September 2018 and has all the necessary laws in place to implement the automatic exchange of information with data relating to 2017. Over 60 other late-adopter countries – including Chile, Panama and Uruguay – will also join the CRS in 2018.

From this year, the Brazilian tax authorities (Receita Federal do Brasil – RFB) will have access to information on overseas accounts held by Brazilian residents, including overseas

citizens and expatriates who are resident in Brazil. All Brazilian residents are required to declare overseas asset holdings in their annual tax returns.

From September we expect the RFB to start notifying individuals identified as having undeclared bank accounts, financial assets, real estate and shareholdings in private companies. Inevitably this will be followed by legal procedures, the frequency of which is likely to increase as the CRS evolves in terms of scope and efficiency.

Brazil has existing bilateral agreements in place which run parallel to the CRS. Brazil and the US signed an agreement in 2015 to automatically exchange information. In 2017 Brazil agreed with Argentina to share information dating back to 2012.

Individuals, who believe they are in an irregular fiscal position are advised to seek professional tax advice immediately instead of procrastinating or merely hoping that they will be not be identified via the information exchanges. Inaction is only more likely to result in more severe penalties being imposed in the future, with many tax lawyers believing that the RFB will impose fines ranging from 80% to 225% on the total value of an individual’s undeclared overseas assets. Certain individuals will be fully or partially exempt depending on whether overseas assets were held prior to acquiring residency status in Brazil.

In 2016 the estimated value of undeclared overseas assets held by Brazilian residents was a staggering R\$ 400bn. The RFB has one of the most technologically advanced cross-referencing systems in the world – and so the government, suffering from a severe budget deficit, can depend on the sheer might of the RFB machinery

IN 2016 THE ESTIMATED VALUE OF UNDECLARED OVERSEAS ASSETS HELD BY BRAZILIAN RESIDENTS WAS A STAGGERING R\$ 400BN. THE RFB HAS ONE OF THE MOST TECHNOLOGICALLY ADVANCED CROSS-REFERENCING SYSTEMS IN THE WORLD – AND SO THE GOVERNMENT, SUFFERING FROM A SEVERE BUDGET DEFICIT, CAN DEPEND ON THE SHEER MIGHT OF THE RFB MACHINERY TO IDENTIFY TAX EVADERS AND PULL IN ADDITIONAL REVENUE

to identify tax evaders and pull in additional revenue.

Camilla Arno Sant’Anna, an international lawyer at Norton Rose Fulbright, reinforces the point regarding RFB’s technology: “While we are not certain how quickly and effectively the RFB will be able to take advantage of the information exchanged, they have a

great set of tools in hand. Taxpayers who are non-compliant in any jurisdiction need to adapt to this new reality.”

Since 2016 the Brazilian government has offered two voluntary disclosure schemes, known as the Special Regimes for Monetary and Tax Regulation (RERCT 1 & 2). These were not available to politically exposed persons and their relatives, nor those involved in serious crimes such as drugs and money laundering.

The first amnesty (2016) imposed a penalty of 30% of the total value of undeclared overseas held on 31/12/2014. RERCT 1 resulted in the total declaration of almost R\$160bn and receipts of R\$ 46.8bn, involving approximately 25,000 declarants.

In the second amnesty (2017), RERCT 2, the penalty was increased to 35.25% based on the value of assets held on 30/6/2016, with a less favourable exchange rate to the dollar than during RERCT 1. Total receipts were a disappointing R\$1.6bn, with approximately 2,000 declarants – way below the initial target of R\$13bn.

In our opinion the number of declarants and the total receipts would have been much greater if the voluntary disclosure schemes had conveyed a more definitive message regard-

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ing the application of the penalties. Many potential declarants decided not to participate given the ambiguity regarding “photo or film”, i.e. whether RFB would impose further fines based on historic account data or simply impose the one-off penalty based on the specified balance dates. Furthermore, the penalty rates were higher than in other Latin American tax amnesties, which discouraged many individuals from entering the Brazilian amnesty. This reluctance was exacerbated by a widespread feeling of resentment due to the prolonged recession and widespread corruption in the government and several large companies.

Argentina, in contrast, managed to get a high level of participation in its 2016 amnesty and collected about US\$10bn in penalties, even at an extremely generous rate of only 10% of undeclared assets. The tax amnesty in Mexico, meanwhile, provided the incentive of an even lower penalty rate (8%) for those who repatriated their undeclared assets and invested the amount for a two-year minimum term in specific domestic assets.

In Brazil, many declarants chose to retain their funds overseas and pay the RFB from domestic accounts, which resulted in the reduction of deposits

across many private banks. Many declarants raised concerns about the direction of the Brazilian economy and potential currency volatility prior to the presidential elections in 2018. In our opinion Brazil should have offered an incentivized penalty rate for repatriated funds, invested into sustainable projects like clean energy or start-up funds. This could have provided a welcome stimulus during a challenging economic scenario.

There are mixed predictions as to whether there will be a “last chance” amnesty before Brazil joins the CRS. To have any credibility the penalty would have to be greater than 40%, which may act as a further disincentive given the low participation rate in RERCT 2.

Individuals who are thinking about closing an undeclared account should be aware that the RFB will have access to historical account information from the beginning of 2017. In any case the vast majority of global financial institutions require a proof of residency and a Tax Identification Number (CPF in Brazil) in order to open a new account and conform to the CRS. ●

Disclaimer: This article does not constitute tax advice and we recommend that individuals should seek bespoke and qualified tax advice in their relevant jurisdictions.

THE BRITISH CHAMBER OF COMMERCE AND INDUSTRY IN BRAZIL

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BRAZIL ECONOMIC DATA



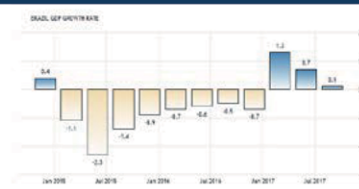
BRAZIL QUICK FACTS

GEOGRAPHY	5 th largest country in the world
POPULATION	211 million
ECONOMY	7 th largest in the world
OVERALL GDP	USD 1,772,591 million
FOREIGN INVESTMENT INFLOW	USD 78.9 billion
TOTAL EXPORTS	USD 225,098 million
TOTAL IMPORTS	USD 229,060 million

SOURCES: BRAZILIAN INSTITUTE OF GEOGRAPHY AND STATISTICS & BANCO CENTRAL DO BRASIL (2016)

BRAZILIAN ECONOMIC DATA

GDP GROWTH RATE



The Brazilian economy expanded 0.1% over the third quarter of 2017 (below market expectations of 0.3%) and 1.4% versus the same period last year.

GDP GROWTH PER CAPITA PPP



Brazil's GDP per capita was last recorded at USD 10,826 in 2016. This represents about 86% of the global average figure.

UNEMPLOYMENT RATE



The unemployment rate in Brazil fell from 12.4% to 12.2% in the three months to October 2017 – the lowest rate of the year.

INFLATION RATE



Consumer prices in Brazil increased 2.8% year-on-year in November 2017 – the biggest increase since June but marginally below market expectations. In August Brazil had achieved its lowest inflation rate since 1999: 2.46%.

INTEREST RATE



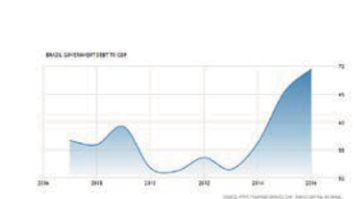
On 6 December 2017 the Central Bank of Brazil slashed its key Selic rate by 50 basis points to 7.00%. This was the tenth consecutive cut, bringing borrowing costs down to the lowest level in modern history amid plunging inflation and the slow recovery.

BALANCE TRADE



Brazil's trade surplus decreased to USD 3.55 billion in November of 2017, from USD 4.76 billion a year earlier. This was below market expectations of USD 5.25 billion.

GOVERNMENT DEBT TO GDP



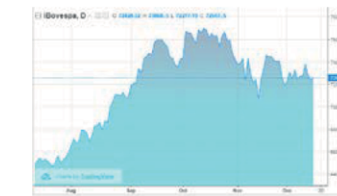
In 2016 Brazil recorded a government debt equivalent to 69.5% of GDP in 2016. The debt-to-GDP ratio averaged about 57% during the period 2006-2016.

CURRENCY



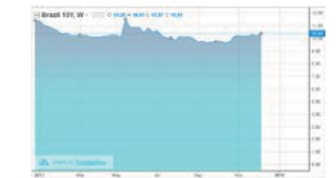
On 15 December 2017 the USD/BRL exchange rate was 3.30. The real's all-time low against the dollar was in September 2015 (USD-BRL of 4.18).

STOCK MARKET



On 15 December iBovespa increased 179 points (0.25%) to 72608. In October the Brazil Stock Market (BOVESPA) had reached an all-time high of 76989.79.

BRAZIL GOVERNMENT BOND 10Y



On 15 December 2017 the Brazil Government Bond 10Y increased 0.06% to 10.41. The all-time low had been 9.11 in January 2013; the all-time high, 17.91 in October 2008.

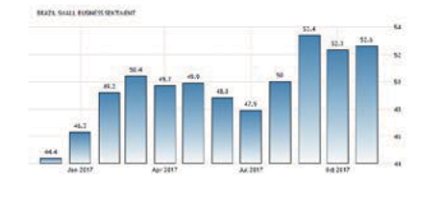
BRAZILIAN MARKET DATA

BUSINESS CONFIDENCE



In November 2017 the Industrial Entrepreneur Confidence Index rose to 56.5, from 56 in October. It was the fourth straight increase in business confidence, mainly due to an improvement in current conditions.

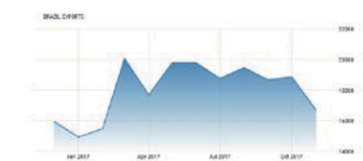
SMALL BUSINESS SENTIMENT



In November 2017 Small Business Sentiment index in Brazil increased to 52.6, from 52.3 in October. The average over the previous seven years had been about 50.9, with an all-time high of 65.4 in January 2010 and an all-time low of 34.5 in October 2015.

BRAZILIAN BUSINESS DATA

EXPORTS



Exports from Brazil rose 2.9% year-on-year to USD 16.69 billion in November 2017, following a 37.6% jump in the preceding month.

IMPORTS



Imports to Brazil surged 14.7% to USD 13.14 billion in November 2017, mainly boosted by purchases of fuels and lubricants.

BRAZILIAN TRADE DATA

NEWS FROM OUR MEMBERS

BRAZILIAN STARTUP ROUND PEGS WINS LATAM EDGE AWARD 2017

NEWS FROM OUR MEMBERS

Round Pegs, a Brazilian digital consulting company, won the LatAm Edge Award 2017 for Latin-American startups seeking to expand their operations into the United Kingdom, Europe and Asia.

The company provides a white label, scalable business platform specialised in designing and building startup innovations within enterprises, and has enabled four new digital businesses for enterprises, which represents more than \$30 million in non-profit value.

Overall the competition attracted about 60 startups, with total turnover of more than US\$1 million.

The prize, worth £125,000, comes in the form of a support network designed to help the winning company accelerate operations in the UK. It includes two hot desks at a WeWork



co-working office in London, accountancy services from Blick Rothenberg, legal support from the Joelson law firm, new business development in the UK by Trade Horizons, marketing and PR from GrupoCASAUK, digital campaigns by Eydos Digital, coaching from Sapovalova Coaching and market research by Talent Capital.

Round Pegs CEO Pedro Donati said: "Coming to London as a finalist in such a prestigious competition has been an amazing experience. Since its inception Round Pegs has been designed to have an international footprint and we are happy to have been given the opportunity to set up in a country which has a true global mindset."

The creator of the award and

CEO of GrupoCasa, Sandra Sinicco, said of Round Pegs: "Their proof of concept was incredibly strong and there's a huge market opportunity for them in the UK."

Ms Sinicco has actually created a similar network in order to take The LatAm Edge Awards to Brazil, where they will be launching in January 2018. It will be the mirror image of the awards here in UK: giving British startups the opportunity to expand into Brazil with a similar prize made up of various support services. This competition will be open only to UK startups and scale-ups that can demonstrate innovation and potentially have a positive social impact by improving Brazilians' quality of life. ●

EVENTS ROUND-UP

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

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



EVENTS ROUND-UP

CHRISTMAS DRINKS

7 DECEMBER 2017

The Chamber's end-of-year drinks event took place in the offices of Herbert Smith Freehills in the City. Around 100 members and friends gathered to kick off the festive season with networking and socialising fuelled by caipirinhas, Brazilian canapés and some excellent live music. ●



EVENTS ROUND-UP

EVENTS ROUND-UP



TALK: “XI JINPING’S PATH FOR CHINA”

5 DECEMBER 2017

Jonathan Fenby CBE, China Chairman of the TS Lombard research service and author of eight books on the country, gave a very interesting talk that explored how China is set to change and the global implications of those changes for Brazil and other nations. ●

PANEL DISCUSSION: “BRAZIL PROS AND CONS”

23 NOVEMBER 2017

Brazil is of course emerging from the worst recession in its history, a wave of corruption scandals, and a deep political crisis – and yet throughout this turbulent period the flow of foreign investments into the country has never abated and there are now signs of recovery with inflation down, interest rates at historical lows, unemployment falling, and economic growth picking up. Analysing this scenario in a lively panel discussion were Richard Lapper, Associate fellow at Chatham House and former Latam editor at the Financial Times; Dr. Peter J. West, Economic advisor at EM Funding; and Roberto Aron, a founding partner with BRL Advisory. ●



DISCUSSION: “TWO MARKETS IN A GLOBAL WORLD”

13 NOVEMBER 2017

This informative discussion focused on the two markets of greatest interest to Chamber members: Brazil and the UK. The main questions addressed were what exactly is happening on the Brazilian economic front, and how Brexit might

affect the international currency market. The speakers were Reinaldo Le Grazie, Deputy Governor for Monetary Policy at the Central Bank of Brazil, and Conrad Stoneham, a Foreign Exchange Specialist working at Rational FX. ●

EVENTS ROUND-UP

EVENTS ROUND-UP

EVENTS ROUND-UP



GALA DINNER AND PERSONALITY OF THE YEAR AWARDS

4 OCTOBER 2017

This continues to be the flagship event in our calendar – held last year at a new venue, the London Marriott Hotel Grosvenor Square, with an audience of around 280 people including senior figures from business, government and diplomacy. The award recipients were both major players in the oil and gas sector: Pedro Parente, CEO of Petrobras, and Ben van Beurden, CEO of Shell. The guest of honour and keynote speaker was Brazil’s deputy finance minister, Eduardo Refinetti Guardia. There was a distinctly upbeat tone to the speakers’ analyses of Brazil’s economic prospects, and a sentiment throughout the evening that there is much to look forward to in the field of Brazil-UK business relations. ●

TALK: “BRAZIL: POLITICAL CRISIS, LEGAL ENVIRONMENT AND BUSINESS PROSPECTS”

6 SEPTEMBER 2017

Senior partners Tito Andrade and Marcos Verissimo from prominent Brazilian law firm Machado Meyer looked at the many implications of the *Lava Jato* scandal for Brazil’s political, legal and business landscapes, with a particular focus on the risks involved in the acquisition of assets related to the affected companies. ●



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EVENTS ROUND-UP

EDITORIAL

BRAZIL BUSINESS BRIEF, JANUARY 2018

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 20 EVENTS ANNUALLY AND ALSO PROVIDES INFORMATION ABOUT OTHER BRAZIL-RELATED BUSINESS EVENTS IN THE UK. TO FIND OUT MORE, SEE WWW.BRAZILIANCHAMBER.ORG.UK.



Brazilian Chamber
of Commerce in Great Britain