
BRAZIL BUSINESS BRIEF

JULY 2019

NEWS FROM THE BRAZILIAN CHAMBER
OF COMMERCE IN GREAT BRITAIN



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SÉRGIO GULLO

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MESSAGE FROM THE CHAIRMAN

Dear Members,

“Mankind’s greatest achievements have come about by talking and its greatest failures by not talking. It doesn’t have to be like this.”

Stephen Hawking

Those words could be read as a tribute to diplomacy, so they seem a good way to begin an issue of the *Brazil Business Brief* in which we are honoured to have a contribution from the Ambassador of Brazil to the United Kingdom, Fred Arruda. Both Brazil and UK are highly capable in the diplomatic arena, and the ambassador makes clear that there is a significant business agenda developing between the two countries ahead of the new Brexit deadline in the autumn.

Also against the backdrop of Brexit, Luis Correa from Integration highlights the opportunities British companies can explore in Brazil’s strong consumer market.

Our interviewee in this edition is Antonoaldo Neves, CEO of TAP Air Portugal, the European airline that now flies to no fewer than ten destinations in Brazil.

Brett Hillis and Alexander Murawa from Reed Smith have written about the current EU and UK approaches to virtual currency and anti-money laundering regulation – a timely contribution given that the countdown to the introduction of virtual currency regulation in Brazil has now begun – and Juan Vicente Martin from Telefónica describes how digitalisation and new technologies are impacting human relations.

Completing this edition is an article on the reform of higher education in Brazil, and a comparison between the Brazilian and English education systems, from three respected academics: Arthur Galamba, Glauco S. F. Silva and André Machado Rodrigues.

We hope you enjoy this latest *Brazil Business Brief* and we look forward to seeing you at one of our events soon.

Yours sincerely,

Sérgio Gullo

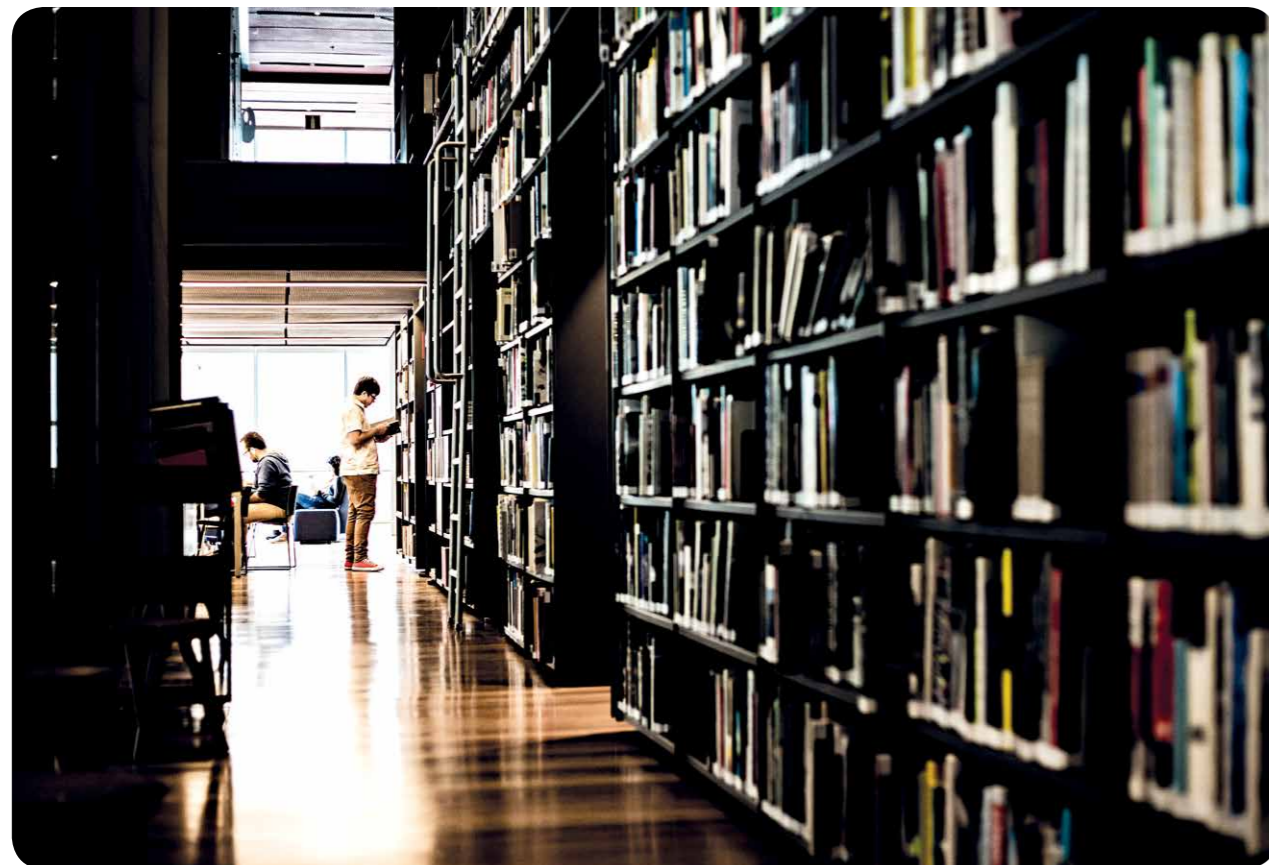
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THE REFORM OF HIGH-SCHOOL EDUCATION IN BRAZIL: A KAFKIAN METAMORPHOSIS?

BY ARTHUR GALAMBA, GLAUCO S. F. SILVA AND ANDRÉ MACHADO RODRIGUES



In Brazil, *ensino médio* (EM) – roughly equivalent to high school in the US or the final years of secondary education in the UK – is not merely undergoing the kind of changes that take place every few years when the curriculum and teaching methods are reconsidered. Instead, what is taking place is a genuine metamorphosis of

its fundamental components, inspired by neoliberal ideological roots. EM is relinquishing its traditional humanist curriculum and embracing a different one – supposedly leaner, more flexible and more technical. The reform is reducing the number of subjects studied during EM, bringing forward the stage at which students choose their specialised subjects and there-

fore making the Brazilian system more similar to the one in England. This metamorphosis might sound promising, therefore, since England performs much better than Brazil in international assessments such as PISA. However, the reform may prove detrimental to Brazilian students by implementing a Kafkaian metamorphosis in which the broad, humanistic body of EM becomes atrophied. Let us examine why that might be the case.

The reform of the new EM was formalised through a Provisional Measure (MP) in 2016. It should be noted that never before in the modern history of Brazil had an education reform been implemented by means of an MP, which injected unprecedented speed into a process that needed intense and lengthy debate. Since 1996, in accordance with Brazil's education law (*Lei de Diretrizes e Bases*), the two stages of basic education have been *ensino fundamental* (ages 6 to 14) and *ensino médio* (15 to 17). Within this structure, one of the main purposes of EM is to ensure that Brazilian students acquire at school the knowledge that will prepare them for living in society as adult citizens.

The Ministry of Education has argued that the EM curriculum was

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too wide-ranging, fragmented and superficial, and that young people from poorer backgrounds cannot see the point of what is being taught. The ministry points out that the low scores in national assessments and high dropout rates are connected with the fact that students have to take 13 compulsory subjects that are not aligned with the world of work. However, in the words of Brazil's National Postgraduate and Research Association (ANPEd), the metamorphosis of

EM “weakens the principle of *ensino médio* as the right of every citizen to a full training for citizenship and work, [and] opens channels for the commercialisation of the public school”.

The proposed changes aim to reduce the number of subjects students will study during EM, creating “formative itineraries” (*itinerários formativos*). The idea is that students should choose only one of the sets of subjects below, dropping all of the other sets at the age of 15:

- I. languages and their applications;
- II. mathematics and its applications;
- III. natural sciences and their applications;
- IV. applied human and social sciences;
- V. technical and vocational training.

As Brazil's national high-school examination (ENEM) takes place in the last year of EM, it is clear that such a premature and prolonged (three years) specialisation of the curriculum further establishes the government's intention to narrow the scope of pre-university studies, drastically reducing young people's choice of subjects.

Although this new system is closer to the English one, it is different from the English curriculum because it

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does not offer a means of minimising the loss that the new itineraries impose. For example, in the UK, students aged 11 to 16 already have access to a science curriculum similar to the one that 15- to 17-year-old Brazilians study in EM. Those English students are already having classes with specialist teachers in the areas of physics, chemistry, biology and mathematics. English pupils finish secondary education at the age of 16 and then have the option of a further two years of study – usually focusing on only three or four subjects – as a potential preparation for higher education.

The argument is frequently heard in the UK that the curriculum for students aged 16 to 18 should consist of a greater number of obligatory subjects, so as to better meet the educational needs of the 21st century. The Royal Society, for example, points out that “jobs are going to be changed by new technologies such as artificial intelligence. Some will be lost altogether and others will be created that don’t even exist yet”, and that therefore students aged 16 to 18 should have “the opportunity to study a wide range of subjects”.

In the case of Brazil, students’ choices will be very restricted in

practice because many public schools – particularly those in poorer areas – will not have the means to offer all the formative itineraries. The lack of teachers in some subjects is one of the main reasons why Brazilian schools do not offer all the different study paths. And the main consequence of this, according to some Brazilian authors, will be an increase in social inequality.

In this scenario of delicate structural changes, there are many ways in which Brazil-UK cooperation could help avoid losses in the education of young Brazilians. In particular when it comes to science subjects, the proposed changes should cause politicians, researchers and teachers to seek new strategies so as to enable students to leave EM with adequate scientific knowledge at this level of education. For example, the following steps should be taken:

1. Establish which subjects should be compulsory in EM
2. Develop a science curriculum in *ensino fundamental* (ages 6 to 14) that gives pupils a basic and comprehensive education in science, sufficient for them to grasp the principal scientific methods and concepts

3. Ensure that teacher-training courses in Brazil take into account the learning needs of students from the age of 11 upwards. Content, teaching methods, theories of learning and assessment should be discussed in this context.

In summary, the Brazilian government has justified its reform of EM on the basis that greater flexibility will produce better results in the national exams – and that when students choose the formative itinerary that best suits them, a better connection will be created between what they study in school and the reality of their lives. But the main criticisms from associations and entities in the field of education, as well as from teachers and researchers, refer to the fact that a reform of such magnitude is being implemented quickly by means of a Provisional Measure. If the structural changes proposed for EM fail to take into account structural issues such as those discussed above, EM may indeed be undergoing a Kafkaian metamorphosis in which it will become atrophied, serving only the market rather than responding to the need for a broad education at secondary level. ●

LIFE AFTER BREXIT: SEARCHING FOR GROWTH OPPORTUNITIES AND ENTRY INTO BRAZIL

BY LUIS CORREA



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New and expanding foreign investment opportunities are one of the key ways UK companies are strategising around the effects of Brexit. Early analysis points to the majority of UK companies’ post-Brexit spending remaining concentrated in the EU,¹ but investing further afield also presents interesting possibilities, including in the Americas and

one of its strongest consumer markets: Brazil. Although Brazil is still emerging from political and economic turmoil, with slower growth in 2019 than anticipated, its government is actively promoting foreign direct investment in sectors such as agribusiness, infrastructure and logistics, information and communication technology, oil and gas, health and life sciences, and private equity.² For UK businesses,

especially those in the industries that could be hit hardest by Brexit, these Brazilian markets may be promising. There are opportunities to explore for foreign businesses already operating in Brazil and seeking new consumer segments, as well as for newcomers to the country. This article provides an overview of the three core stages required for investigating growth opportunities and the paths to be followed to take advantage of them.

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1. SCAN THE MARKET

- **Where to play:** The starting point for any new or growing venture is a market scan: establishing the size of potential opportunities relative to your desired scope and the competitive arenas in which you can win. The challenge is to size market segments correctly. For categories or niches with little available information (more common in Brazil than the UK), creativity is vital: combine data sources and leverage local experts to create bottom-up estimates of consumption.
- **Who to play against:** With market segments in place, it's time to analyse the value propositions of your competitors and think about how your offer stacks up. Then you can begin to ascertain the factors that determine your 'right to play'. However, veteran investors and newcomers to Brazil must consider different facets.
- **For newcomers, some of the top questions to answer include:**
 - ✓ **Consumer preferences.** Does your product or service fundamentally fit the market? For example, a doughnut company that intended to compete

in the Brazilian breakfast segment quickly found that its offering was so foreign to consumers that it ended up having to screen *pão-de-queijo* (traditional cheese-bread) manufacturers to achieve its expansion strategy.

- ✓ **Regulations.** Like many countries, Brazil has its own restrictions. Some large cities have banned outdoor ads, and certain industries (e.g. tobacco) have undergone dramatic changes in point-of-sale laws, requiring manufacturers to completely rethink trade marketing strategies.
- ✓ **Geography.** Brazil is large and diverse, with business impacts ranging from logistics and infrastructure barriers to complex tax implications. Underestimating these factors can easily undermine a company's ability to play in the market.
- ✓ **Taxes and duties.** The landing price and positioning of your offering will change based on the taxes and duties on imported goods. It's important to be able to anticipate how your company will stand up

against its competitors in this environment.

- **For veterans:** If you're already operating in Brazil, now is the time to deepen your knowledge of the market and evaluate your current capacity to expand into new categories, segments or regions. Baseline questions should cover:
 - ✓ Do I have the manufacturing capacity and capabilities to be competitive in a new category?
 - ✓ Can I leverage my existing sales and distribution networks to reach a new category, or new geographies and customers?
 - ✓ How likely is it that I can transfer my brand equity into a new segment or category?

2. CRACK YOUR ROUTE TO MARKET

Once you know your target segments and competitors, understanding the local value chain will help you determine where to sell your products or services; how to reach those channels; and whether intermediaries are necessary to push your offering to market, and if so, at what cost. Never assume that any two countries are similar. For example, the consumer goods, sales and distribution network

ONCE YOU KNOW YOUR TARGET SEGMENTS AND COMPETITORS, UNDERSTANDING THE LOCAL VALUE CHAIN WILL HELP YOU DETERMINE WHERE TO SELL YOUR PRODUCTS OR SERVICES; HOW TO REACH THOSE CHANNELS; AND WHETHER INTERMEDIARIES ARE NECESSARY TO PUSH YOUR OFFERING TO MARKET, AND IF SO, AT WHAT COST

in Brazil is very different from in the UK and Europe. While retail chains have grown in Brazil over the past 20 years, much of the market is still concentrated outside of organised systems and key accounts. Few players can guarantee national coverage, so a combination of distributors and wholesalers is required to reach consumers at scale, plus advanced skills in indirect channel and commercial policy management to avoid conflicts across sales channels.

3. ESTABLISH AN ENTRY STRATEGY

The final step is to build scenarios that simulate how different degrees of investment and aggressiveness can capture your priority market segments.

On top of financial modelling, this phase may include refining your value proposition and positioning. Newcomers must consider:

- ✓ What in-country operational model to use, e.g. a master distributor or local subsidiary.
- ✓ Building an entry battle map that determines whether to enter the country with a 'bang', focusing on all markets at once, or testing and gradually scaling up. (In a country the size of Brazil, full coverage comes with a hefty price tag.)

SEEK ACCELERATORS

Some market entries can be accelerated through the acquisition of strategic assets and partnerships. Brazil is no different. Consider a consumer-goods player with intensive distribution needs, and a local sales-and-distribution operator with a network across several Brazilian states. It just so happened that the distribu-

tor's footprint was well matched to the consumer-goods company's needs, and regulatory changes motivated the distributor to sell. In the end the consumer-goods company was able to purchase a mature network and quickly boost their market entry and scale.

LOOKING AHEAD

The extension of the Brexit deadline to the end of October has done little to alleviate the concerns of UK businesses, which are now preparing for a multitude of impacts. If the post-Brexit world includes these businesses making increased investments throughout the EU and further afield, Brazil offers interesting possibilities. The leap to Latin America certainly means committing to different operational, consumer and regulatory realities from those in the UK, but the same fundamental steps apply: a solid tactical approach is needed to confirm the value of growth opportunities, while accounting for local differences will help optimise – or even accelerate – your entry strategy. ●

1. <http://cep.lse.ac.uk/pubs/download/brexit13.pdf>
2. <http://www.apexbrasil.com.br/uploads/Investment%20Guide%20to%20Brasil%202018.PDF>

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VIRTUAL CURRENCY AND ANTI-MONEY LAUNDERING REGULATION – CURRENT EU AND UK APPROACHES

BY ALEXANDER MURAWA AND BRETT HILLIS

In Brazil, the regulatory landscape in relation to virtual currency is subject to change, with federal deputy Rodrigo Maia having requested the creation of a special commission to deliver an opinion on bill 2303/2015 (which specifically aims to regulate virtual currencies in Brazil) as recently as 30 May this year.¹

As the countdown begins to the introduction of virtual currency regulation in Brazil, below we set out some of the latest developments in relation to virtual currency and anti-money laundering regulations in the EU and the UK.

THE REGULATORY RESPONSE TO VIRTUAL CURRENCY

For a number of years, policymakers across the globe have raised concerns about the risk that virtual currencies may pose to investor protection and market integrity. There is also a significant concern about the money-laundering and terrorist-financing risk associated with the virtual currency / cryptoasset market.

These concerns have sparked numerous different responses from global regulators, including outright bans, tweaks to existing financial



regulations so that they cover virtual currency, and the drafting of new regulations to foster and appropriately regulate this dynamic sector.

Within the EU, policymakers have sought to:

- clarify the circumstances in which existing EU rules can apply to virtual currencies;²
- identify gaps and issues in the current EU financial regulatory framework that EU legislators need to consider;³ and
- amend existing EU regulations so as to bring certain virtual currency services within the scope of the existing regulatory landscape.

With regard to the final work stream, on 9 July 2018 the Fifth Money Laundering Directive (MLD5) entered into force in the European Union.⁴ This directive brought certain virtual currencies within the scope of the European anti-money laundering framework. In accordance with article 4 of MLD5, EU member states have until 10 January 2020 to implement the directive into national law. The

1. <https://cointelegraph.com/news/brazil-establishes-committee-for-cryptocurrency-regulation>
2. <https://www.esma.europa.eu/file/49978/download?token=56LqdNMN>
3. As above
4. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018L0843>

UK's approach to the implementation of MLD5 is discussed below.

THE EU APPROACH – VIRTUAL CURRENCY EXCHANGES AND CUSTODIAN WALLET PROVIDERS

In response to the growing concerns over terrorist financing, MLD5 aims to increase transparency in newly developed payment methods and clarify and harmonise enhanced due diligence measures. The new language consequently expands the existing money-laundering directive to cover customer due diligence requirements applicable to 'virtual currency exchanges' and 'custodian wallet providers'.

It is worth noting that MLD5 limits the definition of 'virtual currency exchanges' to include providers engaged in exchange services between virtual currencies and fiat currencies. However, a pure virtual currency exchange, which only offers a crypto-to-crypto exchange service, will be beyond the scope of the current EU regulations. This is an important distinction for Brazilian companies to be aware of.

Compliance with MLD5 is likely to mark a significant change in business models, and in on-boarding processes specifically. The cost (in both time and money) involved in

IN RESPONSE TO THE GROWING CONCERNS OVER TERRORIST FINANCING, MLD5 AIMS TO INCREASE TRANSPARENCY IN NEWLY DEVELOPED PAYMENT METHODS AND CLARIFY AND HARMONISE ENHANCED DUE DILIGENCE MEASURES

regulatory compliance should not be underestimated. Brazilian companies looking to use these services in the EU should be prepared for a rigorous on-boarding process.

'VIRTUAL CURRENCY'

MLD5 also codifies the first pan-European definition of 'virtual currency'. It defines virtual currency as:

'a digital representation of value that is not issued or guaranteed by a central bank or a public authority, is not necessarily attached to a legally established currency and does not possess a legal status of currency or money, but is accepted by natural or legal persons as a means of exchange and which can be transferred, stored and traded electronically'.

Under MLD5, a token that (i) is not accepted by any merchant or individual as a means of payment for goods or services, and (ii) may only be exchanged on a limited number of virtual currency exchanges, will fall under this definition. It therefore appears that this definition was created to cover any coin or token issued through an initial coin offering (ICO), notwithstanding its inherent features.

It will be interesting to compare this definition with the equivalent definition under the developing Brazilian virtual currency regulations.

THE UK APPROACH

As noted above, EU member states have until 10 January 2020 to implement the directive into national law. On 15 April 2019, HM Treasury published a consultation on how the UK should transpose MLD5 into UK law (the 'Consultation').

The Consultation seeks stakeholder views on how to transpose MLD5 into UK law; the controls virtual currency exchanges and custodian wallet providers should put in place; and, crucially, whether MLD5 should be gold-plated in UK law. The Consultation closed on 10 June 2019, and we now await the outcome.

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WHAT IS GOLD-PLATING?

The EU produces two main types of legally binding legislation: directives and regulations. Regulations are binding in their entirety and are directly applicable in all EU member states. On the other hand, directives set a minimum standard, with the exact legal measures to achieve the minimum standard left to the discretion of each EU member state. This requires the transposition of each directive into national law through a separate, domestic legal act

'Gold-plating' is a term used to describe the scenario where the national implementation of an EU directive goes beyond the minimum necessary to comply with it.

Brazilian companies looking to trade virtual currency on a European exchange (or hold virtual currency in a wallet provided by a European provider) should follow the implantation of MLD5 across the EU very carefully, as there is potential for different levels of gold-plating across the EU.

WILL THE UK GOLD-PLATE MLD5?

The Consultation explains that the UK government will only gold-plate 'where there is good evidence that a material money laundering/terrorist financing risk exists that must be addressed'.

'GOLD-PLATING' IS A TERM USED TO DESCRIBE THE SCENARIO WHERE THE NATIONAL IMPLEMENTATION OF AN EU DIRECTIVE GOES BEYOND THE MINIMUM NECESSARY TO COMPLY WITH IT.

The Consultation has acknowledged that there are risks associated with the entities and activities that are not covered by MLD5. As a result of this, the UK government has said that it is inclined to go beyond the provisions set out in MLD5 to ensure that the UK continues to fully address these risks.

The UK government is therefore seeking stakeholder views on whether the following activities should be brought within the scope of the UK's implementation of MLD5 in order to curb such activity:

- crypto-to-crypto exchange service providers;

- peer-to-peer exchange service providers;
- cryptoasset ATMs;
- issuance of new cryptoassets, for example through ICOs; and
- the publication of open-source software.

'VIRTUAL CURRENCIES' AND 'CRYPTOASSETS'

The UK government has asked whether the definition of 'virtual currencies' in MLD5 should encompass all three types of cryptosassets identified by the UK's Cryptoassets Taskforce ('the Taskforce') and, if not, whether this definition should be broadened to capture all three (as set out below).⁵

The Taskforce defines a cryptoasset as a:

'cryptographically secured digital representation of value or contractual rights that uses some type of distributed ledger technology and can be transferred, stored or traded electronically'.

The Taskforce has established a framework of the following three types of cryptoassets:

TERM	TASKFORCE DEFINITION
EXCHANGE TOKENS	These are often referred to as cryptocurrencies, such as Bitcoin, Litecoin and equivalents. They utilise a distributed ledger technology ('DLT') platform and are not issued or backed by a central bank or other central body. They do not provide the types of rights or access provided by security or utility tokens but are used as a means of exchange or for investment.
SECURITY TOKENS	These amount to a 'specified investment' under the UK Financial Services and Markets Act 2000 (Regulated Activities) Order 2001. These may provide rights such as ownership, repayment of a specific sum of money, or entitlement to a share in future profits.
UTILITY TOKENS	These can be redeemed for access to a specific product or service that is typically provided using a DLT platform.

The Consultation further questions whether some assets would fall within the scope of the MLD5 definition but not within the Taskforce's three types of cryptoassets. Again, it will be interesting to see how the Brazilian policymakers approach these key questions.

CROSS-BORDER RISKS

Firms based outside the UK would theoretically avoid UK regulatory standards and would therefore not be compelled to conduct customer due diligence (although, as noted above, they may be subject to it as a customer of virtual currency exchanges and custodian wallet providers).

The UK government is therefore

seeking views on these cross-border risks, and potential regulatory solutions, posed by cryptoassets and associated service providers based outside the UK. This is a key concern as the global, borderless nature of cryptoassets (and the associated services outlined above) raise various cross-border concerns regarding their illicit abuse, including around regulatory arbitrage itself.

The UK government is also consulting on whether to address the potential cross-border risk of regulatory arbitrage by requiring firms based outside the UK to comply with these regulations when providing cryptoassets or cryptoasset services to UK

customers. The outcome of this will of course be of great interest to Brazilian companies looking to carry out these activities in the UK.

In addition, the UK is actively engaging in international discussions to ensure a global response to the risks posed by cryptoassets. As an example of such international discussions, the Financial Action Task Force (FATF), the global standard-setter on anti-money laundering, has agreed to update its standards to apply to cryptoassets.⁶ The standards – which are expected to be published on 21 June 2019 – may very well have a bearing on Brazilian anti-money laundering regulation in this regard.

NEXT STEPS

Brazilian companies looking to set up virtual currency exchanges or offer virtual wallets to European customers will need to stay abreast of these developments, particularly the outcome of the Consultation (and equivalent implementation processes across Europe), in order to ensure compliance with the potentially varied implementation of MLD5. ●

6. <https://www.fatf-gafi.org/publications/fatfrecommendations/documents/regulation-virtual-assets.html>

5. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/752070/cryptoassets_taskforce_final_report_final_web.pdf



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MAKING THE WORLD MORE HUMAN BY CONNECTING LIVES

BY JUAN VICENTE MARTÍN



NOT AN ERA OF CHANGE, BUT A CHANGE OF ERA

Across the world, economies, societies and businesses are being fundamentally transformed at an unprecedented rate by digitalisation and new technologies. The digital revolution is changing the art of the possible. It is changing society's mindset, needs and expectations.

Today's digital world is defined by connections; connections between people and 'things', all enabled by technology. People today expect to be connected at all times, with the high-

est speed and best quality, and the same seamless experience no matter where they are.

This expectation has driven an explosion in the number of connections, bringing with it exponential growth in data traffic. As a result, a new and important platform has emerged, driving the dramatic progress of the Internet of Things and Artificial Intelligence, resulting in a rich world of new digital insights.

All of this opens up new challenges and possibilities for enterprises of all sizes, and drives the need for the busi-

ness community to adapt to this wider paradigm shift and augment our strategies accordingly, in order to embrace this digital disruption and ensure that everyone benefits.

CONNECTING YOUR WORLD

As a leading global provider of integrated communication solutions, we at Telefónica are at the heart of the digital revolution, and more than 5 million businesses trust us every day to deliver high-quality connectivity, digital platforms and a wide range of innovative, end-to-end solutions.

This places us in a privileged position to leverage new waves of opportunity and enable our business customers to face the challenges that lie ahead. We bring together an extensive international network with cutting-edge infrastructure and a global footprint, and we understand that the modern telecommunications company has to be wherever its customers need it to be, providing the services they expect.

We recognise that the pressures for business transformation are omnipresent in all sectors, driving change in Banking, Media, Manufacturing, Retail, and our own sector of Telecommunications. Like all businesses, we have had to evaluate our strategic path, having first evolved from a long-established historic voice-services company into a technology company, and most recently to become a data business moving towards an all-digital model. During the last few years we have embraced this change and immersed ourselves in a deep period of transition with the end goal of meeting the needs and expectations of our customers and accompanying them on their digital transformation journey, as their trusted digital partner. This change of mindset has led to the creation of an ecosystem of infra-

LIKE ALL BUSINESSES, WE HAVE HAD TO EVALUATE OUR STRATEGIC PATH, HAVING FIRST EVOLVED FROM A LONG-ESTABLISHED HISTORIC VOICE- SERVICES COMPANY INTO A TECHNOLOGY COMPANY, AND MOST RECENTLY TO BECOME A DATA BUSINESS MOVING TOWARDS AN ALL- DIGITAL MODEL

structure, technology, platforms and services that allow carriers, operators, enterprises and entrepreneurs to enhance their businesses and benefit from this revolution.

END-TO-END SOLUTIONS

The first of these platforms to consider is a company's physical assets such as networks and data centres, while the second platform relates to operations and the commercial and IT management systems that support

the network. The third platform is about delivering the best products and services, while the fourth focuses on leveraging the real value of customer data and knowledge, closely linked to Big Data and Artificial Intelligence.

The increase in network users and connected mobile devices across every size of business, driven by the availability and expansion of LTE networks, growth in bandwidth consumption, and the explosion of roaming are all drivers that are changing the way we do business. The next step in this journey is the forthcoming 5G technology. This journey is being defined by principal standardisation forums and the development of industry agreements with key vendors, including Telefónica, in order to develop innovative activities and test new network technologies.

The network of tomorrow is digital, flexible, programmable, software-based and future-proof. Today's businesses demand automation, virtualisation and softwarisation in order to accelerate how they can both leverage new communication services in terms of deployment and management, but most importantly how they themselves engage in new and diverse ways with their customers. This trend is driving

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our journey towards becoming a true all-IP network which is enabling our organisation to transform its transport and core infrastructure in all countries, and orchestrate services and processes in a more dynamic way. This improves communication capabilities for customers, enabling them to access a virtualised platform that is available worldwide, in order to extend their own infrastructure and products globally.

The integration of new technologies such as the Internet of Things, Big Data, Cloud, Security and Artificial Intelligence enables businesses to take this transformation even further, offering a future full of achievable potential, and our technological platforms allow us to capture these new waves of opportunity and drive real value for our customers.

AT THE HEART

What is clear is that technological innovation must be embedded at the core of any business looking to maximise the opportunities presented by digitalisation, and it is key for meeting today's business needs. For

us at Telefónica, this means developing multi-product digital solutions that help companies to expand the possibilities of their business, to drive innovation and efficiencies, to revolutionise customer experience and to make security and compliance a key differentiator, all with the end goal of growing and optimising the business, staying relevant and building trust.

At the same time, companies must take responsibility for the impact of technology on our lives, with a duty to ensure that business is value-driven and contributes adequately to societies in order to make digitalisation sustainable. At Telefónica we believe that digitalisation must be human-centric, placing people at the heart of this revolution as the primary beneficiaries, to ensure that it is an inclusive, ethical process that leaves no one behind and offers fair, non-discriminatory digital services to all. We are putting ourselves at the forefront of this revolution to generate long-term value for society and ensure that the benefits of digitalisation are made available to everyone. ●


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BRAZIL-UK: A STRONG AGENDA FOR A PROMISING FUTURE

BY FRED ARRUDA, AMBASSADOR OF BRAZIL TO THE UNITED KINGDOM



IMAGE BY GERALDO CANTARINO

I am very grateful to the Brazilian Chamber of Commerce in Great Britain for the invitation to contribute to this *Brazil Business Brief*. The Chamber is an extremely valuable partner in the promotion of Brazilian interests in the UK. This is a good opportunity to outline some of our priorities in the economic sphere – which is but one dimension of a rich, varied and fluid relation that spans through a myriad of areas.

It should not come as a surprise that one priority is Brexit. As the UK prepares to leave the European Union, it is only natural that a number of question marks arise – and many of them will only be answered once the terms of the divorce are revealed. Uncertainty still surrounds Brexit at this stage. It is our duty, however, to be as well prepared as possible.

For this reason the Embassy and the Chamber joined efforts to create the Brazil Brexit Watch (see [http://](http://www.investexportbrasil.gov.br/)

www.investexportbrasil.gov.br/). BBW is an online platform that helps the Brazilian exporter navigate the Brexit waters. It contains an explanation of Brexit, its driving forces and possible impacts. Since we do not know the exact terms of Brexit, BBW focuses on the most extreme scenario: a no-deal breakup, in which Britain no longer belongs to the customs union with the EU.

For that scenario, the British government has released more than one hundred technical notes on different topics related to trade, investment, agriculture, etc. The Embassy has

studied them, identified those aspects that are most relevant to the Brazilian exporter, and fed this information into the BBW platform. Brazilian entrepreneurs will find, therefore, a tailor-made tool, suited to their interests and potential.

As part of this exercise, we were also in contact with more than 2,000 companies to which we sent communications aimed at testing their appetite in the British market. After all, we know Brexit will impose challenges, like understanding the new rules applicable to our trade with Britain, but it may also offer opportunities. Together with the

private sector, we want to transform these opportunities into business, by making sure our entrepreneurs have all the necessary information to increase their market share in Britain.

Another important priority is the promotion of our agribusiness. Brazil is a top supplier of high-quality, affordable and sustainable agricultural products to the whole world. We have managed to become the world's leading net exporter of agricultural products and we are proud to maintain 66% of our territory in native vegetation. It is no exaggeration to say that we feed the world while respecting the environment. Yet this effort is not getting proper recognition from our partners. We are fully engaged in talks with multiple stakeholders to address this perception challenge.

The Embassy is in constant dialogue with the British government and with British importers to clarify doubts and address concerns. While we should not deny that there is always space for improvement, the hard facts demonstrate that our agribusiness is sustainable, that our sanitary authorities are highly professional, that our legislation is strict, that our institutions are strong. There is an information gap among the wider public

ANOTHER IMPORTANT PRIORITY IS THE PROMOTION OF OUR AGRIBUSINESS. BRAZIL IS A TOP SUPPLIER OF HIGH-QUALITY, AFFORDABLE AND SUSTAINABLE AGRICULTURAL PRODUCTS TO THE WHOLE WORLD

that must be appropriately addressed.

We are also organising a series of seminars and meetings to reaffirm, in an objective and clear manner, the sustainability of our producers. A digital platform, currently under development in our headquarters in Brasilia, is another example of initiatives aiming at supplying all relevant technical, sanitary and environmental information to the British and international public.

Finally, another important priority is to attract British investments to Brazil, especially in infrastructure. The UK is already the most important origin of investments in the Brazilian Programme of Investment Partnerships

(PPI), totalling around 8 billion pounds (42 billion Brazilian reais). These investments are concentrated in the oil and gas sector, in which British companies are particularly competitive. We have been exploring ways to promote even more business in this area. For that purpose we organised a seminar last April, bringing together over 130 key players in oil and gas from Brazil and the UK.

We also wish to expand British investment to other areas in the PPI portfolio. Particularly promising is the financial sector. The City can and should be part of our effort to bring more investment to Brazil. UK firms might be interested, for instance, in joining groups of companies that participate in international biddings under the PPI, adding their considerable expertise in financial arrangements, insurance, legal matters and other services.

Brazil and the UK have many avenues to pursue. Ours is a relationship based on shared values and converging interests. It has a solid past and a promising future. Together with the Brazilian Chamber of Commerce in Great Britain, the Embassy of Brazil in London is determined to seize the many opportunities before us. ●

INTERVIEW



ANTONOALDO NEVES CEO OF TAP AIR PORTUGAL

BY IEDA GOMES
BRAZIL BUSINESS BRIEF

Antonoaldo Neves, 42, was born in Salvador, Brazil. Following an engineering degree at the University of São Paulo, an MBA from the Darden School of Business and a Master's in Business Finance from the Catholic University of Rio de Janeiro, his career path before TAP included Odebrecht, McKinsey, Infraero and Azul.

Antonoaldo is married and has three children. Away from work he enjoys spending time with his family, playing football with friends, and cycling.

Can you tell us a little about the history of TAP Air Portugal and

also how business is going at the moment?

TAP Air Portugal is an airline with 74 years of history. With its hub in Lisbon, TAP has been able to take advantage of its geographical location, exploring routes from Europe to Africa and the Americas.

We recently received our hundredth aircraft. This is the first time in our history that we've had a fleet of 100 planes, flying to 92 destinations in 35 countries.

The hundredth aircraft was a new Airbus A330-900Neo, one of 71 new Airbuses that is going to be added to the fleet by 2021.

So we're in the midst of a significant fleet-renovation process, but also a process of modernising the airline as a whole, improving our product and customer service. This process began with privatization in 2015. Since then we've enjoyed growth of 50% in terms of total number of passengers carried.

And the expansion continues, in fact. In 2019 TAP will have inaugurated 13 new routes: Tel Aviv, Dublin, Basel, San Francisco, Chicago, Washington, Tenerife, Naples, Conakry and Banjul – all from Lisbon; and also Brussels, Lyon and Munich, from Porto.

How big is TAP in Brazil and the United Kingdom? Do you have

strategic alliances with British and Brazilian airlines?

TAP is the leading European airline flying to Brazil. We currently have ten destinations in Brazil: Belo Horizonte, Belém, Brasília, Fortaleza, Natal, Porto Alegre, Recife, Rio de Janeiro, Salvador and São Paulo.

And the UK is also one of our most important European markets.

What are the key challenges the airlines business is currently facing?

Air-traffic-control issues in Europe are a major concern. We look forward to the European 'single sky'. Also, airport infrastructure limitations are reducing some airlines' capability to grow faster. That's the case with TAP and our Lisbon hub.

Do you see more industry consolidation coming over the next few years?

We prefer not to speculate about consolidation activities or expectations in the sector.

Airlines' fossil-fuel consumption has been blamed for contributing to climate change. Do you see a move towards using renewable energy?

For TAP the continuous improvement of environmental performance is a priority. Our fleet renovation will

certainly contribute to greater efficiency. Our new aircraft will enable us to save over 20% in fuel consumption, which also demonstrates our environmental commitment.

TAP's profits started to turn around in 2017. What improvements were made by the shareholders group?

We are transforming and developing our airline in multiple aspects. It's a work in progress but with visible results. The improvement in our customers' satisfaction level shows us that we are on the right path.

Earlier this year, it was on a TAP flight to São Paulo that an Airbus A330-900neo was operated for the first time by an all-female crew. Do you have current programmes to improve gender equality at boardroom level within the company?

Well, I'm able to say that 39% of TAP's management and senior positions are occupied by women.

What are your future plans for Brazil, do you see travel increasing in 2019?

We plan to keep investing in Brazil, but for competitive reasons we are not able to say anything more about that.

Do you think Brexit will have an impact on TAP's business in the UK?

It's too early to say, as there is still so much uncertainty around Brexit – even about whether it will actually happen. All we can promise is that, whatever happens, we will always be committed to providing British customers with the best options for travel to Portugal and Brazil.

What are your principal messages to the business community in Brazil and UK?

We want to assure both communities that they can count on TAP, as our plan is to reinforce our routes and services both to Brazil and the UK.

On a personal level, what are the main lessons you have learned since you have become TAP's CEO? What is your main goal for the future?

I have learned many lessons. As for goals, I would like to have achieved the following in five years from now: 20 million passengers per year; TAP as a global benchmark when it comes to customer service; growth in network and capacity – with 25 more destinations than we have today; Lisbon as a seamless transfer hub; a renovated fleet with new aircraft and products – more than 100 state-of-the-art aircraft; and also engaged and dedicated employees – a target of more than 12,000 direct employees. ●

BRAZIL ECONOMIC DATA



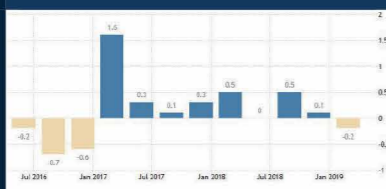
QUICK FACTS

GEOGRAPHY	5th Largest Country in the World
POPULATION	209 Million Inhabitants
ECONOMY WEIGHT	World's 9th Largest Economy
OVERALL GDP	2,055,506 million US\$
FOREIGN INVESTMENT INFLOW	88.3 billion US\$
TOTAL EXPORTS	218 billion US\$
TOTAL IMPORTS	151 billion US\$

SOURCES: IBGE, World Bank and WTEa (2019)

BRAZILIAN ECONOMIC DATA

GDP GROWTH RATE



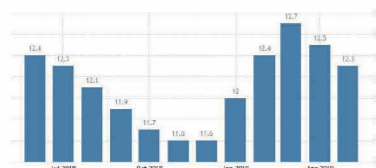
The Brazilian economy shrank 0.2 percent on quarter in the first quarter of 2019, slowing from a 0.1 percent expansion in the previous period and in line with market. It was the first contraction since the last quarter of 2016, as household consumption rose at a softer pace and fixed investment continued to shrink while government spending rebounded.

GDP GROWTH PER CAPITA PPP



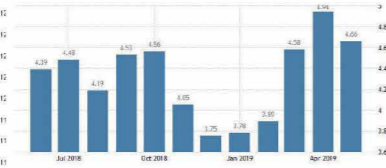
The Gross Domestic Product per capita in Brazil was last recorded at 14282.70 US dollars in 2018, when adjusted by purchasing power parity (PPP). The GDP per Capita, in Brazil, when adjusted by Purchasing Power Parity is equivalent to 80 percent of the world's average.

UNEMPLOYMENT RATE



The unemployment rate in Brazil fell to 12.3 percent in the three months to May 2019 from 12.4 percent in the December-February period, matching market forecasts. In the corresponding period of 2018, the jobless rate was higher at 12.7 percent.

INFLATION RATE



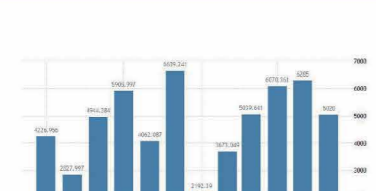
The annual inflation rate in Brazil fell to 4.66 percent in May 2019 from 4.94 percent in the previous month and below market expectations of 4.72 percent. The slowdown was mainly driven by cost of food and non-alcoholic beverages and transport.

INTEREST RATE



The Central Bank of Brazil voted unanimously to hold its key Selic rate at a record low of 6.50 percent on 19 June 2019, as widely expected. The Committee underscored that recent data on economic activity indicate a halt in the process of economic recovery in the past quarters. The economic recovery is still taking longer than expected, with recent negative data.

BALANCE OF TRADE



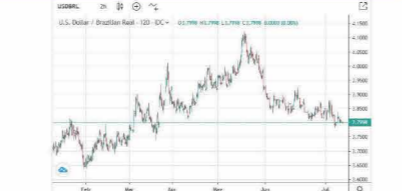
Brazil's trade surplus narrowed to USD 5.02 billion in June 2019 from USD 5.88 billion in the same month of the previous year and below market consensus of a USD 5.4 billion surplus. Exports fell 10.3 percent year-on-year and imports dropped at a softer 9.1 percent.

GOVERNMENT DEBT TO GDP



Brazil recorded a government debt equivalent to 77.22 percent of the country's Gross Domestic Product in 2018. Government Debt to GDP in Brazil averaged 58.45% from 2006 until 2017.

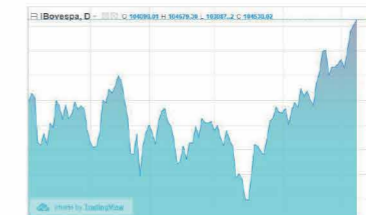
CURRENCY



The USDBRL decreased 0.0063 or 0.17% to 3.8000 on Tuesday July 9 from 3.8063 in the previous trading session. Historically, the Brazilian Real reached an all time high of 4.21 in September of 2018 and a record low of 0.01 in January of 1993.

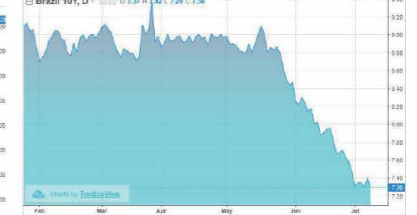
BRAZILIAN MARKET DATA

STOCK MARKET



The iBovespa increased 13518 points or 14.85% since the beginning of 2019, according to trading on a contract for difference (CFD) that tracks this benchmark index from Brazil. Historically, the Brazil Stock Market (BOVESPA) reached an all time high of 104530.22 in July of 2019.

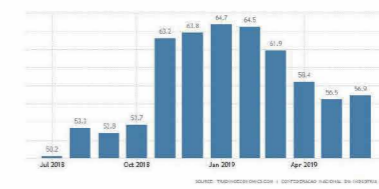
BRAZIL GOVERNMENT BOND 10Y



Brazil 10Y Bond Yield was 7.30 percent on Monday July 8, according to over-the-counter interbank yield quotes for this government bond maturity. Historically, the Brazil Government Bond 10Y reached an all time high of 17.91 in October of 2008 and a record low of 7.30 in July of 2019.

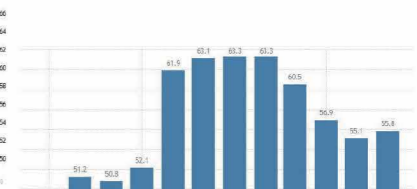
BRAZILIAN BUSINESS DATA

BUSINESS CONFIDENCE



The Industrial Entrepreneur Confidence Index in Brazil rose to 56.9 in June 2019 from 56.5 in the previous month. Expectations over the next six months rose to 61.7 from 60.8 in May, namely regarding the company's situation (63.1 from 62.2) and the country's economic situation (58.7 from 58). Meanwhile, the assessment for current conditions deteriorated (47.6 from 47.8), of which the country's economic situation (44.9 from 45.6) and the company's situation (at 49, the same as in May).

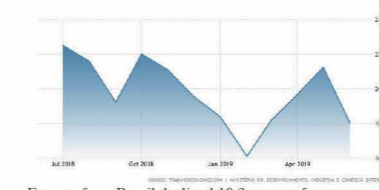
SMALL BUSINESS SENTIMENT



Small Business Sentiment in Brazil increased to 55.80 in June from 55.10 in May of 2019. Small Business Sentiment in Brazil averaged 51.74 from 2010 until 2019, reaching an all time high of 65.40 in January of 2010 and a record low of 34.50 in October of 2015.

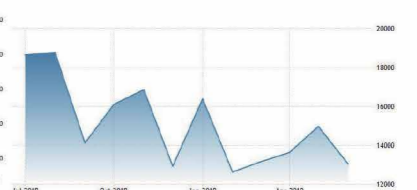
BRAZILIAN TRADE DATA

EXPORTS



Exports from Brazil declined 10.3 percent from a year earlier to USD 18.05 billion in June 2019, mainly due to lower sales of manufactured goods (-16 percent), in particular airplanes (-58.7 percent), autoparts (-32.4 percent), iron & steel products (-31 percent), motorvehicles & parts (-27.6 percent), cargo vehicles (-21.4 percent) and light vehicles (-18.4 percent).

IMPORTS



Imports to Brazil went down 9.1 percent year-on-year to USD 13.03 billion in June 2019, mostly due to lower purchases of consumption (-20.5 percent); intermediate (-9.8 percent); and capital goods (-0.2 percent). Meanwhile, purchases of fuels & lubricants advanced 2.4 percent.

ACKNOWLEDGEMENTS



On 11 June at the Embassy of Brazil, Tiago Couto Berriel, the then Deputy Governor for International Affairs and Corporate Risk Management at the Central Bank of Brazil, gave a highly informative talk about the current economic outlook in Brazil.

The talk and ensuing discussion ranged over subjects including welfare and fiscal reforms, consumer index trends and interest rate predictions in Brazil, along with the current international economic situation.

The audience of about 70 included a significant number of emerging market investors along with asset managers and also representatives from governmental institutions, the Foreign and Commonwealth Office, international organisations and legal firms.

The Chamber is very grateful to the sponsors of this event – BB Securities, Itau BBA, Bradesco and B3 – and would like to emphasise that our corporate members will have numerous opportunities to support similar events in the near future. ●

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Brazilian Chamber
of Commerce in Great Britain

EDITORIAL

BRAZIL BUSINESS BRIEF, JULY 2019

NEWS FROM THE
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IN GREAT BRITAIN

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