
BRAZIL BUSINESS BRIEF

SEPTEMBER 2014

NEWS FROM THE BRAZILIAN CHAMBER
OF COMMERCE IN GREAT BRITAIN



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EDITORS' LETTER



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Dear Members,

Welcome to the September 2014 edition of the Brazil Business Brief. Once again we are very grateful to our guest writers and hope you will enjoy reading the articles they have contributed.

Readers are always very welcome to make suggestions for future events or articles: you can contact us at www.brazilianchamber.org.uk/contact-us

We hope to see you soon at one of the events.
Kind regards,

Lena & Alex

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and BNDES – Brazil's national development bank – provide much of the financing for the Brazilian operations and projects in the region. BNDES opened an office in South Africa and has specific lines of credit to promote Brazilian exports to the African Continent. BTG Pactual also recently announced a \$1 billion Africa fund. Brazil is expected to further expand its economic influence in the region by leveraging the newly established BRICS Development Bank.

Brazilian businesses in Lusophone Africa also have a unique advantage in the "special relationship" between Brasilia and the Lusophone community, formalised during President Lula's administration (2003–2011). In an impressive example of "presidential diplomacy", Brazil's executive branch and foreign ministry have relied heavily on a strong sense of linguistic, cultural and historic solidarity with the region to promote cooperation on a host of humanitarian, educational and technical engagements (Mozambique is the single largest foreign recipient of technical cooperation assistance from Brasilia). Brazil has shared many of its innovative social policies and human-development programs modelled on its own development

BRAZIL HAS SHARED MANY OF ITS INNOVATIVE SOCIAL POLICIES AND HUMAN-DEVELOPMENT PROGRAMS MODELLED ON ITS OWN DEVELOPMENT INITIATIVES: BOLSA FAMILIA, FOME ZERO, MAIS ENERGIA AND MAIS ALIMENTOS, AMONG OTHERS. AS ONE BRAZILIAN OFFICIAL NOTED, "FOR EACH AFRICAN PROBLEM, THERE IS A BRAZILIAN SOLUTION."

initiatives: Bolsa Familia, Fome Zero, Mais Energia and Mais Alimentos, among others. As one Brazilian official noted, "For each African problem, there is a Brazilian solution." Brazil is creating strong geopolitical allies in the Global South, especially amongst its Portuguese-speaking brethren, and that is producing significant returns for its businesses and overall economic agenda. The South Atlantic region, with its growing role in petroleum

exploration, maritime traffic and security concerns binds Brazil to many West African countries and provides new opportunities for public, private, military, and academic interaction. Though Brazil maintains bilateral relations with most African countries (its diplomatic footprint on the continent is now larger than that of the UK), it also plays an important role within the CPLP – the Community of Portuguese-Speaking Countries – as well as with the African Union and African Development Bank.

In short, Brazil's commercial and diplomatic ties to Africa provide exciting opportunities for the UK and Brazil to work together to promote economic growth, good governance and economic and political stability in the region, perhaps building on earlier examples of collaboration regarding food security, agricultural productivity and resource management. Such ties also provide UK businesses and investors with new opportunities to enter or expand their operations in these markets. While some leading British businesses have seen success in the region without Brazilian help, plenty more would do well to hitch a ride with the Brazilians. After all, they're practically locals. ●

IS THE SUN RISING FOR SOLAR ENERGY IN BRAZIL?

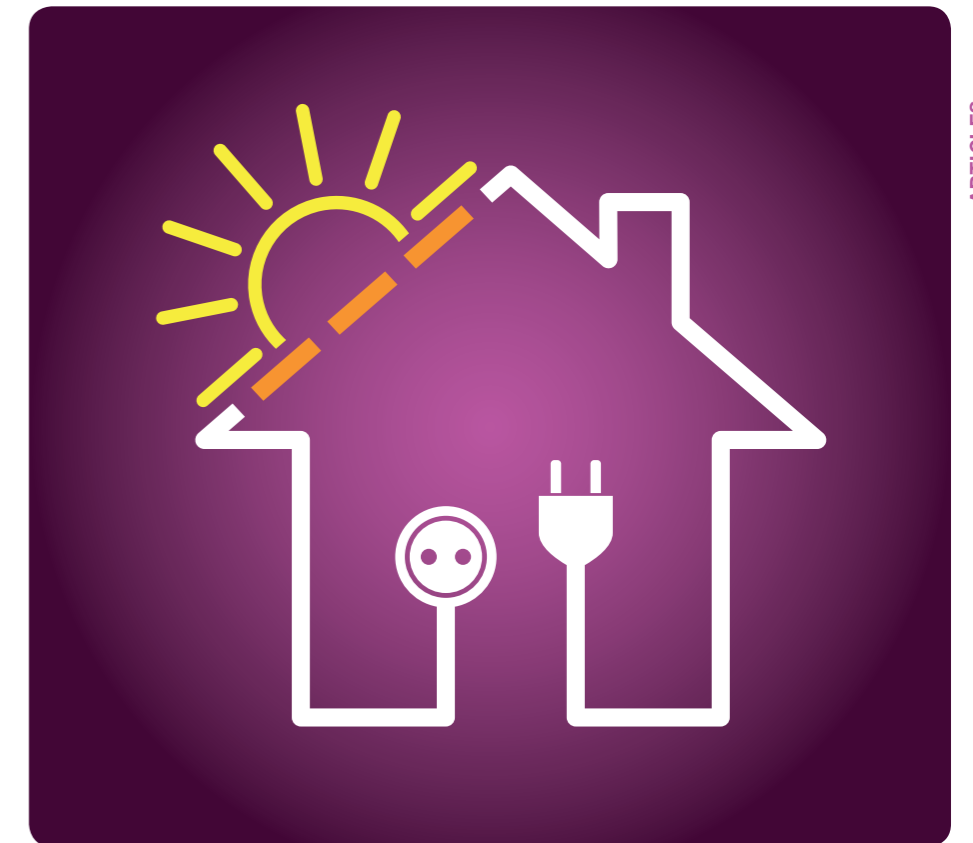
BY DANIEL ROSSETTO

Brazil is a global renewable energy giant. According to the International Renewable Energy Agency, around half of the country's primary energy supply comes from renewable sources. Perhaps equally impressive, renewable sources last year made up 81% of Brazil's total installed electrical power generation capacity.

So far the country's renewable energy story has been dominated by hydropower, solid and liquid biofuels, and more recently wind power. Solar energy has found it rather more difficult to gain a foothold, last year accounting for less than 1% of total supply. And yet Brazil, of course, has abundant solar energy resources. Some states have 6 kilowatt-hours of solar irradiance per square metre per year – about double the nationwide average in the United Kingdom.

The investment climate for renewable energy in Brazil is also favourable. The country was awarded the highest composite score and ranked number one in the region in the two most recent Climate Scope surveys of the Caribbean and Latin America.

Overall, therefore, it's difficult to understand why solar energy is not



already big business in Brazil. But the most plausible explanation probably lies in the nature of the domestic and international support policies for renewable energy which have been in place until now.

Over the past decade the Brazilian government has run a number of highly successful renewable energy incentive programmes, including the PROINFA feed-in tariff initiative and

more recently a national system of renewable energy auctions. However, these programmes have targeted technologies such as wind, small hydro and biomass. Meanwhile, solar energy usage has been growing rapidly in many other markets outside Latin America.

Financial support through carbon finance, which involves payments for the creation of internationally

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tradable carbon emission reduction certificates, has also been available from international sources through the Kyoto Protocol's Clean Development Mechanism (CDM). But the boom years for the international carbon market in Brazil were also a period when solar energy costs were much higher than they are today. As a consequence, most of the 300-plus registered CDM projects in Brazil have delivered wind, hydro and biomass projects but almost no solar energy installations.

All things considered, solar energy continues to offer a number of very important advantages for Brazil. The times of the day when solar produces most power are also those when consumers in cities and elsewhere need it most. Moreover, intermittent solar output in grid-connected situations can be managed very effectively in combination with the large amount of hydropower already in the system in Brazil. Additionally, as has been seen in other parts of the world with high solar penetration such as Europe, Australia, China and the United States, solar energy industries create regional employment opportunities. In comparison with the traditional technologies for generating electric-

INVESTMENT IN SOLAR ENERGY TENDS TO BE SPREAD OVER A HIGH NUMBER OF RELATIVELY SMALL INSTALLATIONS, MAKING IT LIKELY THAT THE NEW JOBS CREATED WILL BE MORE EVENLY DISTRIBUTED IN GEOGRAPHICAL TERMS. SUCH BENEFITS WOULD BE VERY WELCOME IN BRAZIL

ity, investment in solar energy tends to be spread over a high number of relatively small installations, making it likely that the new jobs created will be more evenly distributed in geographical terms. Such benefits would be very welcome in Brazil.

It is therefore unsurprising that policies supporting solar energy are gradually beginning to emerge in Brazil, which might encourage the sector to grow in the medium term. As reported recently by Bloomberg, the state of Pernambuco has agreed to buy electricity from two new solar photovoltaic plants with a combined installed capacity of 96 megawatts,

which will become operational in mid-2015. In October this year the federal government also plans to hold its first ever auctions specifically for solar power. The average contract price of Pernambuco's 20-year power purchase agreements was reported to be just over \$102 per megawatt hour. This is higher than for other renewable technologies in Brazil, probably due to the fact that there is little domestic solar energy industry infrastructure and that most equipment currently still needs to be imported. This scenario would more than likely change, however, if a significant local market for solar energy were created.

A lot of international attention will focus on the federal solar energy auction in October. If successful, it might encourage further auctions in 2015 and beyond – and might finally give the solar energy industry in Brazil the platform it needs to develop on a large scale. ●

HOW TO SUCCEED IN BRAZIL? SELL YOUR PRODUCTIVITY

BY IGOR TASIC



Brazil, so they say, is the country of the future. But for businesses in Brazil, unfortunately, the future is taking rather a long time to arrive. Why is this the case? And how might a British entrepreneur use this situation to their advantage?

We don't have to delve very far into the hard data to find unflattering comparisons between Brazil and Britain. The UK, for example, is among the top 10 countries in the world in terms of productivity; Brazil ranks 60th. Ok, but

is that significant for a potential British investor in Brazil? Yes, it certainly is.

The fact that Brazil lags behind the UK in this way is a result of underinvestment in three areas: education, technology and infrastructure. To improve its business environment Brazil must find ways to improve labour productivity – and that's where UK businesses can play a role.

As a consultant I have been able to identify a number of typical mistakes foreign companies make when trying to do business in Brazil. The first lies in trying to sell directly to Brazilian

companies. The truth is, many Brazilian companies might have the money and inclination to buy your product or service, but they probably can't use it to its full potential.

Let's imagine you're selling an excellent 'software as a service' for inventory or cash management. You've already sold it in other foreign markets (say the US, Germany or Singapore), you know you have a top product at a good price, and your research tells you that no comparable product exists in Brazil. So, you pack your demo and buy the first plane

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ticket to São Paulo.

Once on Brazilian soil, you have several coffees with potential clients and receive great customer reviews. But then you come back to London having agreed no firm deals whatsoever. You console yourself with the fact that the Brazilians you spoke to were all really nice and they promised to get in touch. But six months down the line, still nothing.

SO WHAT WENT WRONG?

Well, there were probably a few things you failed to grasp. To start with, did you take into account how many of your potential client's employees actually speak English? Did you consider that your great solution might actually have represented a threat to the manager you spoke to? Your solution is so advanced that maybe the client realized it would immediately expose his department's inefficiency.

So, do we conclude that to succeed in Brazil you should be selling lower-quality products and services? No. But you should be aware of the potential consequences of introducing a high-level product or service into a working environment far removed from those you are used to in the UK. Think of

yourself as a partner for your potential client rather than merely a seller.

LET'S TAKE EDUCATION AND TECHNOLOGY AS EXAMPLES:

- Can you show your prospective client some process benchmarks that are relevant to their working environment? You might know lots of companies in the UK that could serve as inspiration for process improvements in Brazil
- Could you perhaps even train some of your prospective client's best employees in new technologies, including your product/service, thereby demonstrating how things get done in the UK and how that could improve the Brazilian business in question? Bringing a couple of your prospective client's managers to the UK for a week might also have very positive consequences
- Would you be willing to introduce your Brazilian client to your existing or potential clients in the UK or elsewhere in Europe?
- Simplify, simplify, simplify. Divide your product/service into manageable parts or stages, while still ensuring there are progressive gains as it is introduced

BRAZIL STILL HAS BIG GAPS WHEN IT COMES TO THE TRAINING AND QUALIFICATIONS OF ITS WORKFORCE, SO IT'S YOUR JOB TO THINK ABOUT HOW PRODUCTIVITY CAN BE IMPROVED WITHOUT CAUSING TOO MANY GROWING PAINS

In summary, be sensitive. Brazil still has big gaps when it comes to the training and qualifications of its workforce, so it's your job to think about how productivity can be improved without causing too many growing pains.

As a British company you're probably well placed to help Brazilian companies improve their operations. Ultimately, however, the key to success lies more in how you approach those Brazilian clients than in the intrinsic qualities of what you want to sell to them. ●

HELPING SMES GO PUBLIC

BM&FBOVESPA IS FOCUSED ON EXPANDING THE ACCESS MARKET

BY CRISTIANA PEREIRA

The project to encourage small and medium enterprises (SMEs) to enter the Brazilian capital markets began in June 2012 when BM&FBOVESPA led a working group – including representatives from CVM, BNDES, Finep and ABDI – to the United Kingdom, Poland, Spain, Canada, Australia, South Korea and China. The aim was to gain a better understanding of how the access market works in those countries and then to propose ways of developing and facilitating the listing of SMEs on the Brazilian stock exchange.

The working group's travels brought to light several important points, including the need to create a local investor base for offerings by SMEs. It became clear that it was also crucial to allow small offerings to have a simplified prospectus and to waive the requirement of registration with the regulator. Tax incentives for investors were relevant in some cases, and intermediaries specialising in smaller offerings are often key to the success of IPOs in this segment.

Based on these points, BM&FBOVESPA's newly-created Small Offerings Technical Committee prepared a set of measures designed

to make the market more accessible to SMEs, for example by facilitating the preparation of IPOs and ensuring cost-effectiveness. The committee considered changes that would benefit not just issuers but also final investors, intermediaries, and the funds industry.

The proposals made progress and became concrete measures. On 16 June 2014 the Brazilian government announced the long-awaited package of incentives for the capital markets. Provisional Measure 651 now ensures exemption from capital gains tax for investors who buy shares in eligible companies, for example.

This exemption remains in place until December 2023 and applies to investors who buy shares in eligible companies. To be eligible a company needs to meet a number of requirements, including the following: list on a special corporate governance segment of the exchange (BOVESPA MAIS or Novo Mercado); issue only voting stock; issue at least 67% of its total share capital in the primary market; have a market value of less than R\$700m (currently US\$316m) on the date of the IPO, or less than R\$700m as the weighted average of the previous 30 days' share prices for already listed companies; report annual

gross revenue of less than R\$500m (US\$226m) in the year prior to the IPO; undertake to comply with best practices in corporate governance, including arbitration and tag-along for 100% of shareholders; and hold a tender offer in the event of delisting or withdrawal from the segment.

The tax benefit is valid not only for individual investors who buy shares directly in these companies but also for those who invest in equity funds with at least 67% of net asset value comprising shares in eligible companies and a minimum redemption period of 180 days. This measure is very important as it ensures the fund management industry is aligned and engaged with the project of developing and facilitating access to the Brazilian equity market for SMEs.

Another significant aspect of Provisional Measure 651 is the exemption from the obligation to publish annual financial statements, or minutes of AGMs and EGMs, in an official journal for companies classed as eligible for the tax incentive. Instead they are required to publish these reports on their own website, that of the exchange, and also via a system operated by CVM, the securities and exchange regulator. What this means

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in practice is a significant cost reduction for SMEs.

Brazilian finance minister Guido Mantega visited BM&FBOVESPA in June to announce the package of incentives for the capital markets, of which Provisional Measure 651 was the most important.

Other measures that have also advanced and are now concrete include CVM Instruction 549, which provides for the creation of closed equity funds dedicated to investment in eligible companies, and CVM Instruction 540, which allows private equity funds (FIPs) to hold up to 35% of NAV in eligible issuers or when disinvesting without the obligation to participate in management.

Also contributing to the simplification of the process and to cost reduction, CVM Instruction 548 waives the requirement to publish mandatory notices relating to IPOs, while CVM Instruction 547 stipulates the conditions in which the requirement to advertise all material events in major newspapers can be waived for any company regardless of size.

It should be stressed that BM&FBOVESPA, through a partnership with ABDI and Fundação Dom Cabral, is supporting the development

of a training programme for owners of unlisted companies. The aim of the initiative is to offer content and information to Brazilian entrepreneurs on how to take a company public.

BM&FBOVESPA is also playing its part in this process of improvement by introducing measures that cut costs, stimulate education and help business owners prepare to go public. For example, companies that list on BOVESPA MAIS are exempt from paying annuities and IPO settlement fees. For two years the exchange also sponsors an equity research report to ensure that a newly listed company receives coverage and is familiar to market stakeholders.

Finally, in line with the goal of expanding the number of listed SMEs, CVM has held a public hearing to discuss a draft rule (Instruction 476) that establishes the conditions for restricted-effort offerings of shares. Previously, restricted-effort offerings were allowed only for fixed-income securities. Open solely to qualified investors, they are designed to be faster and less costly for SMEs. CVM is expected to issue the finalized instruction in due course.

In light of the progress made in recent months we take the view that

tax exemption widens the base of potential investors in SMEs and is therefore highly positive. We also believe, however, that no single measure will be sufficient to drive growth of the capital markets in Brazil or to facilitate access to the stock exchange for SMEs: instead this will require a combination of successful measures. The exchange certainly wants to see growth in the number of IPOs but this depends on other factors such as market conditions and the economic outlook. According to surveys conducted by BM&FBOVESPA, more than 50 companies would be eligible to access the market in compliance with the new rules.

There is no doubt the future is promising for SMEs in Brazil, and BM&FBOVESPA is working to create an improved environment in which to expand the access market. The exchange knows how important it is as an alternative and efficient means of raising capital to finance the development of SMEs. With the delivery of these concrete measures offering incentives for the capital markets, we have taken one more important step in the right direction. ●

ACQUISITION AND LEASING OF RURAL PROPERTIES IN BRAZIL BY FOREIGN INVESTORS

BY FABIO APPENDINO

The following is an updated overview and legal interpretation of Opinion 01/2008 from Brazil's Federal Attorney General (AGU), published on 23 August 2010, regarding the regulation of the acquisition and leasing of rural properties by Brazilian legal entities controlled by foreigners.

Law 5,709, passed in 1971, had imposed various restrictions on the acquisition and leasing of rural properties in Brazil by foreign individuals and entities, stipulating that Brazilian legal entities controlled by foreigners should be treated in the same way as foreign individuals and legal entities.

This law was in accordance with the Brazilian Constitution of 1967, which was itself the reflection of an era when protectionism was very much in fashion in Brazil. The new Constitution of 1988, however, was rooted in a new reality based on democratic values and free enterprise.

Section 190 of the 1988 Constitution originally established that a specific Statute would regulate and limit the acquisition and leasing of rural properties by foreign individuals and legal entities. The new Constitution made no ruling, however, concerning



the acquisition and leasing of rural properties by Brazilian legal entities controlled by foreigners.

The 1988 Constitution, moreover, drew a distinction between a 'Brazilian company with foreign capital' and a 'Brazilian company with national capital'. Section 171 of the Constitution granted the latter certain benefits which were not applicable to the former.

Opinion 22/1994 from the Federal Attorney General (AGU), aimed at interpreting Section 171 of the 1988 Constitution, ruled that Brazilian legal entities controlled by foreigners were authorised to acquire or lease rural

properties in the country, just like any Brazilian individual or legal entity was. The interpretation was that the 1988 Constitution did not impose any limitation on the acquisition and leasing of rural properties by Brazilian legal entities controlled by foreigners.

The following year, 1995, Constitutional Amendment no. 6 revoked Section 171 of the 1988 Constitution, eliminating the difference between a 'Brazilian company with foreign capital' and a 'Brazilian company with national capital'. Law 5,709/1971, therefore, was no longer compatible with the 1988 Constitution. Later the Federal Attorney General issued Opin-

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ion 181/1998, ratifying the understanding of Opinion 22/1994.

In 2008, however, against the backdrop of an ongoing crisis in world food market, the increased cultivation of biofuels as an important alternative source of energy, and an increase in the number of rural properties acquired by Brazilian legal entities controlled by foreigners, the Federal Attorney General issued Opinion 01/2008 which surprisingly adjusted the position expressed in the two previous Opinions.

In Opinion 01/2008, the Federal Attorney General understood that Law 5,709/71 was actually not in conflict with the 1988 Constitution, since the restrictions imposed on the acquisition and leasing of rural properties by Brazilian legal entities whose majority shareholder is foreigner were intended to 'protect national economic sovereignty and national independence, such as the promotion of national development'.

It would appear to be the case, however, that the imposition of discriminatory restrictions on rural property acquisitions by Brazilian legal entities controlled by foreigners does conflict with the 1988 Constitution. In this context Opinion 01/2008 shall be

considered unconstitutional.

Opinion 01/2008 also appears to infringe Law 4,131/1962 in the sense that the latter requires foreign capital invested in Brazil to receive the same legal treatment as Brazilian capital, expressly prohibiting any discrimination.

Furthermore, Section 190 of the 1988 Constitution imposes restrictions only on the acquisition and leasing of rural properties by foreign individuals or legal entities: it does not extend such restrictions to the acquisition or leasing of rural properties by Brazilian legal entities controlled by foreigners.

If legal restrictions are to be imposed on foreign investments it has to be done explicitly, as in the case of the restrictions on foreign investment in areas such as journalism, broadcasting, air transportation, healthcare and banking.

Furthermore, Opinion 01/2008 does not have the power of a law. Nor does it have the power to restore Law 5,709/1971, which was revoked in 1995 by Amendment no. 6.

Finally, Opinion 01/2008 also appears to violate the following Brazilian constitutional principles:

I. Morality: due to the abrupt break with the previous Opinions issued

by the Federal Attorney General (AGU), without there being any new law to justify the new understanding expressed in Opinion 01/2008;

- II. Rule of Law: an Opinion cannot establish a rule of conduct, as nobody is allowed to do or refrain from doing anything except by the force of law;
- III. Free Enterprise: to the extent that Opinion 01/2008 restricts Brazilian legal entities in their business operations on rural properties, for example affecting agribusiness, mining, power plants and logging;
- IV. Private Property: insofar as it prohibits Brazilian legal entities from acquiring rural properties;
- V. Isonomy: because Opinion 01/2008 discriminates between Brazilian legal entities based on the geographical origin of the capital.

Quite apart from Opinion 01/2008 apparently being unconstitutional, it has impacted negatively on the investment environment in the sense that it creates a climate of uncertainty among potential foreign investors.

The good news is that Interministerial Ordinance 04/2014, of February 2014, has regularised the acquisition

and leasing of rural properties contracted before 22 August 2010. This Ordinance has been welcomed by investors as it partially restores legal certainty in relation to the acquisition and leasing of rural properties by Brazilian legal entities controlled by foreigners. It has only solved part of the problem, however, as it does not apply to acquisitions and leases of rural properties contracted after 22 August 2010, which remain subject to the restrictions imposed by Opinion 01/2008.

As long as Opinion 01/2008 remains in force, the alternatives for the acquisition of rural properties by Brazilian legal entities controlled by foreigners are the following:

- I. The use of other legal instruments, such as easements (mining or civil), rights of use, usufruct or surface rights;
- II. The acquisition of shares in Brazilian legal entities that own rural properties and are controlled by foreigners as of 22 August 2010;
- III. The incorporation of a Brazilian legal entity in which the foreigner does not hold control either directly or indirectly;
- IV. For the foreign individual who controls the Brazilian legal entity

to obtain Brazilian residence or nationality;

- V. To challenge Opinion 01/2008 in the courts;
- VI. To obtain authorisation from the Agrarian Institute (INCRA) to acquire or lease the rural property in question. ●

INTERVIEWS



JOÃO BATISTA DE REZENDE

BY IEDA GOMES

PRESIDENT OF ANATEL

João Batista de Rezende is the president of Anatel, the regulatory body for Brazil's telecommunications sector. His previous positions include chief of staff of the Ministry of Planning, Budget and Management. He recently approved terms for the proposed auction of the 700MHz spectrum for 4G mobile services, expected to take place in September.

Could you give a brief overview of the telecommunications sector in Brazil?

If we add together the four main services – landlines, mobiles, fixed

internet and pay TV – we currently have 362 million active telecommunications connections. In May this year there were 275 million mobile phone subscriptions in Brazil, with a density of 136 lines per 100 people. And the market is growing: during May alone, for example, there were a further 1.85 million mobile subscriptions.

There are interesting quirks in this market. Prepaid subscriptions account for 77% of the total, which shows the customer preference for a system that allows greater control over monthly expenses. In May this year there were 123 million hits on

high-speed internet of which 2.8 million were on 4G terminals that operate in the 2.5 GHz range.

The mobile market is dominated by four major players: Vivo (29% of market share), TIM (27%), Claro (25%) and Oi (18%).

Pay TV has grown in recent years due to factors such as stable incomes and low unemployment. At the end of May there were 18.8 million pay TV subscribers – which means, based on average household size, that pay TV was available to about 62 million people. The major players are Telmex (Claro/Embratel/NET), with 54%

market share, and SKY/DirectTV, with 30%. Recently Anatel reduced the price of licenses and simplified the rules on services, enabling other companies to enter the market with more competitive products – especially Oi, Vivendi (GVT) and Telefonica (Vivo), which now have market shares of 4.6%, 4.2% and 3.3% respectively.

In the fixed broadband market there is fierce competition between Telmex and Oi. At the end of May there were 23 million fixed-broadband subscribers: 30.2% with Telmex and 28.5% with Oi, followed by Telefonica (19%) and Vivendi (12%).

At the end of 2013 there were 44.6 million landline subscriptions. The density of the service remained at 22.5 hits per hundred people. Subscriptions from authorised companies totalled 16.1 million, accounting for 36.1% of the subscriber base. Concessionaires under the public service system are responsible for 63.9% of landline subscriptions, and the total number of subscriptions declined by 4.6% between 2012 and 2013.

Landlines are often one of the items of the combo packs that include the joint offer of various telecommunications services such as broadband, pay TV and mobile

telephony. The expansion of landlines, therefore, stems from convergence with other services rather than from direct demand for the service itself.

RECENTLY ANATEL REDUCED THE PRICE OF LICENSES AND SIMPLIFIED THE RULES ON SERVICES, ENABLING OTHER COMPANIES TO ENTER THE MARKET WITH MORE COMPETITIVE PRODUCTS

What are the prospects for the telecoms sector in Brazil over the next 5 years, and what is Anatel doing to facilitate growth?

Anatel has acted to simplify the procedures for obtaining authorisation to provide services and to reduce costs for those interested in entering the market. Currently it is possible to pay as little as R\$9,000 to get a license to provide services nationwide. Anatel also aims to standardise rules and to encourage competition. Some initiatives, such as the creation of an online system for the provision of wholesale in the telecommunications

industry, will certainly rationalise the use of resources and infrastructure, allowing prices to come down for the use of the networks' capacity as well as in the use of towers and other supply contracts.

Are there opportunities for foreign investors?

The telecoms market is extremely dynamic and regularly throws up surprises. There are major changes underway, such as the convergence between the technologies involved in the development and manufacture of equipment that make up the physical infrastructure necessary for the provision of telecommunications services and technologies typically belonging to other sectors such as information technology, network computing and consumer electronics.

In this context there are many opportunities – one of which is the auction of the 700 MHz band, considered to be high quality because it allows multiple applications and also the possibility of wide territorial coverage. There are also other market niches which could be exploited.

Virgin, for example, is preparing to work in Brazil as a mobile virtual network operator (MVNO) under the name of Virgin Mobile. The regula-

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tions allow for MVNOs from outside the telecoms sector to become providers of mobile telecoms services if they sign contracts to use the existing structure of companies in the sector, such as Vivo, TIM, Claro, Nextel and Oi. This is an example of the kind of deal that might be done. Virgin has already received a license from Anatel to operate in Brazil.

The market for telecoms infrastructure in Brazil is also going through an interesting phase, moving from a period when the owner of the infrastructure owned the business to a new situation in which the owner of networks sells their capacity to other companies, earning significant revenue.

For example, small broadband providers interested in acquiring important products at lower prices, such as high-speed internet links, can be accredited for free from the Supervisory Authority Offers Wholesale (ESOA) established by Anatel.

Offers are available online on the platform Trading System Offers Wholesale (SNOA). The main highlight is the offer of interconnection, which is basically the sale of high-capacity links to internet broadband providers.

In deals approved by Anatel, interconnection fees have been approxi-

FIXED INTERNET AND PAY TV ALSO PRESENT OPPORTUNITIES BECAUSE SO FAR THEY HAVE ARRIVED IN ONLY A LIMITED NUMBER OF BRAZILIAN HOUSEHOLDS, DESPITE IMPRESSIVE GROWTH IN RECENT YEARS. AT THE END OF 2013, 35% OF HOUSEHOLDS HAD FIXED INTERNET AND 29% HAD A PAY-TV SUBSCRIPTION

mately 60% lower. The most attractive prices are in São Paulo, where the average price per MB is around R\$34. In other regions the average price per MB varies between R\$96 and R\$100. Besides interconnection, SNOA also offers sharing of the access network (full unbundling and bit stream), passive infrastructure (ducts, towers, etc), national roaming and mobile termination.

Fixed internet and pay TV also present opportunities because so far they have arrived in only a limited

number of Brazilian households, despite impressive growth in recent years. At the end of 2013, 35% of households had fixed internet and 29% had a pay-TV subscription.

Brazilian satellite orbit is also an opportunity for investors. Brazil has attracted satellite operators interested in offering broadband via satellite. At least three companies – O3b Networks, Hughes and Yahsat – are interested in offering it through the Ka band, which ensures greater data transmission capacity and lower response time. Satellite internet can be used not only in remote corners of the country but also to the major metropolitan areas.

Brazil's mobile phone market has more than doubled in size in six years but unreliable coverage means the industry doesn't enjoy a good reputation among consumers. How does Anatel's plan to address that?

Significant investment is needed in order to meet customers' expectations. Not just to fund infrastructure expansion – such as the acquisition of spectrum, expanding the fibre-optic network, installing more antennas – but also to invest in the customer relationship channels. There are some failings in the work of the after-

market providers, although in purely technical terms the quality of the service itself is within the parameters of regulation.

The best solution is to encourage competition – such as through number portability. If the customer got tired of problems with their provider they could just transfer their number to another provider.

In fact, a measure has recently been approved which establishes consumer rights in the telecoms sector. It includes the right to break off a relationship with a provider through a central automatic cancellation system, via Internet or telephone. In a fiercely competitive environment this will certainly push companies to improve.

What investment obligations will there be for the winners of the upcoming 700MHz 4G auction, and is it going to be a game-changer for the telecoms sector?

The winners will be required to share all the costs of migration from analogue to digital TV, including all stations between channels 1 and 52. They will also be adopting measures to encourage the digitization of broadcast TV – for example through an obligation to provide digital TV converters for all Bolsa Familia recipients.

A MEASURE HAS RECENTLY BEEN APPROVED WHICH ESTABLISHES CONSUMER RIGHTS IN THE TELECOMS SECTOR. IT INCLUDES THE RIGHT TO BREAK OFF A RELATIONSHIP WITH A PROVIDER THROUGH A CENTRAL AUTOMATIC CANCELLATION SYSTEM, VIA INTERNET OR TELEPHONE. IN A FIERCELY COMPETITIVE ENVIRONMENT THIS WILL CERTAINLY PUSH COMPANIES TO IMPROVE.

Are there any other auctions on the horizon?

Anatel will continue to implement measures to encourage competition and to stimulate improvements in the quality of telecoms services. There will definitely be auctions of rights for new satellites and radio frequencies, for example. ●

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LUIZ LARA

CEO OF LEW'LARA\TBWA

BY IEDA GOMES

Luiz Lara is the CEO of Lew'Lara\TBWA, one of Brazil's biggest advertising agencies. During his career he has been involved in the advertising strategies of major brands such as Nokia, Banco Real, Natura, Friboi, Tim and Gatorade.

How well is Brazil's advertising sector doing at the moment?

The annual turnover of the advertising industry in Brazil is approximately R\$38bn, with R\$30bn invested in media and R\$8bn in production. The main TV channels still account for 62% of the advertising budget, followed by newspapers

with 18%, magazines with 6%, cable TV with 6%, radio with 4% and digital media with 4%. A recent poll found that 87% of the population likes and indeed admires Brazilian advertising. They identify with its creativity, including its humour and its emotive storytelling. The same applies to advertising on the social networks. In fact there are now 85 million internet users in Brazil and on average they spend almost 6 hours per week on social networks, making Brazil the world's fourth largest market for Facebook and the second largest market for Twitter.

Has the expansion of the middle class in Brazil changed the focus of advertising and created new opportunities for the sector?

The Brazilian advertising market grew significantly in the first decade of this century, gaining 40 million new consumers. Thanks to access to credit and to higher incomes there are now 100 million people in the social strata which are generally regarded as making up the middle class. So we now have a strong domestic market, and this has attracted global brands which have developed products and services which appeal to Brazilian consumers.

But those brands are also respecting the habits and attitudes of the country's different regions and adopting a more localized form of communication – still in line with their global approach but identifying more closely with Brazilian characteristics.

Why is it that Brazilian advertising receives worldwide acclaim and wins international prizes?

Several Brazilian agencies have been big winners at the Cannes Festival and other worldwide advertising competitions. This is due to the Brazilian model for advertising agencies which brings professionals together under the same roof in the areas of client services, planning, creation, media and production, thus allowing the integrated creation of communication platforms. The fact that we have media inside our agencies makes it possible to develop ideas with the active participation of all the professionals. Great ideas begin in the planning and media areas, as well as the creation area, with the development of storytelling for new channels like YouTube, interactive experiences on the social networks, TV commercials, printed media pieces, radio, and out-of-home advertising that are truly integrated and position the brands and connect with millions of people.

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Do you foresee more consolidation and mergers in the sector?

What would be the consequences? Does working for big international groups dampen Brazilian advertisers' famous creativity?

At the present time, 27 of the 30 largest Brazilian advertising agencies are multinational. Yes, Brazilian agencies have taken part in many mergers

and have been the target acquisitions by major international communications groups such as WPP, Omnicom, Publicis, Interpublic, Havas, and Dent-su. This is because Brazil has become a strategic market for those multinational groups – they are already over here and investing heavily. But all of those agencies have Brazilian partners and executives – local professionals who know the reality of our market and know how to take the pulse of our consumers. These acquisitions have created opportunities for Brazilian advertising professionals in many cities around the world. Brazilian creative talent and the strengthening of our domestic market have accelerated the consolidation of our advertising market, with a greater presence of multinational groups which bring with them investment, tools and technology, which in turn stimulates our media and platform integration practices to evolve even further.

What is your advice for young people looking for opportunities in the advertising industry in Brazil?

The main piece of advice I always give to young advertising professionals is to be curious. Always be open to new technologies that will facilitate new interactions and points of contact

INTERVIEW

INTERVIEW

between consumers and brands. Always attempt to think of a new way to connect people with brands. And be prepared for the volatility of a rapidly changing market where technology is reorganizing the relations between industry, commerce and consumption. Never forget that everything comes down to starting with a great idea, telling a good story, connecting people's feelings, using humour, enhancing the attributes and values of a brand, and positioning it in the minds and hearts of consumers.

Do you see opportunities for British companies in Brazil?

Of course there is space for British companies in our market. We have room for professionals, for agencies and for advertisers who want to develop their messages for our market. Brazilians are open people who like free enterprise, love entrepreneurship, and enjoy brands' new products and services. We already have British brands in our market. Brazilians have already perceived that to enter the world market they need to learn English, and they admire the values, music, fashions, and football created by the British.

How do you see Brazil in 2015, after the presidential elections?

NEVER FORGET THAT EVERYTHING COMES DOWN TO STARTING WITH A GREAT IDEA, TELLING A GOOD STORY, CONNECTING PEOPLE'S FEELINGS, USING HUMOUR, ENHANCING THE ATTRIBUTES AND VALUES OF A BRAND, AND POSITIONING IT IN THE MINDS AND HEARTS OF CONSUMERS

No matter who wins in the elections the new government will probably work through the necessary adjustments in our economy, perhaps with monetary tightening and the readjustment of fuel and electricity prices. And it will put together a new agenda in pursuit of greater productivity and competitiveness for our economy. We are coming to the end of a cycle of social inclusion and of growth in credit and consumption which has effectively brought our economy up to a new level, with low unemployment. There has been social inclusion through expanded consumption. Now

people are demanding better-quality public education and health services, improved public safety and better infrastructure – especially in terms of urban transport. The expanded middle class in Brazil doesn't want to lose any of its recent gains. And this new middle class sees education as the way for its children to continue this social ascension. Advertising will respond to these demands in our society, creating campaigns that disseminate these new values, connecting brands to this new behaviour, and producing more inclusive and interactive advertising that fully respects the rights of every citizen. ●



PICTURES BY RONALDO BATALINI // SMILE PHOTOGRAPHY

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Brazilian Chamber
of Commerce in Great Britain

EVENTS ROUND-UP

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EVENTS ROUND-UP

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3RD SUGAR & ETHANOL SUMMIT – BRAZIL DAY

18 JULY 2014

Jointly organised by DATAGRO and the Brazilian Foreign Ministry, the 3rd Sugar & Ethanol Summit took place on July 18th at the Institute of Directors in London, once again bringing together key players in the ethanol sector in Brazil and worldwide.

The opening remarks were delivered by Ambassador Marcos Pinta Gama, Permanent Representative of Brazil to

International Organizations in London, and José Orive, Executive Director of the International Sugar Organisation, who both highlighted Brazil's status as the world's largest producer of sugar, second biggest producer of ethanol, and biggest exporter of both.

The speakers this year included Dr Plinio Nastari, CEO of DATAGRO; Luis Roberto Pogetti, Chairman of COPER-SUCAR; Dr Elizabeth Farina, President

of UNICA; José Gerardo Fontelles, Executive Secretary of the Ministry of Agriculture; Alexandre Figliolino, Director of Banco Itaú BBA; Flavio Castelar, President of APLA; André Rocha, President of SIFAEG; and Pierluigi Londero of the European Commission.

Brazil has 40 years' experience as a major producer and consumer of ethanol. It has huge tracts of land available for the cultivation of sugarcane and almost 40 thousand petrol stations where the final product, hydrous ethanol, can be bought. In 2013, 94% of the automobiles sold in Brazil were flex-fuel, meaning they can run on ethanol, petrol, or any mixture of the two. However, the sector is suffering a prolonged crisis which has so

far caused the closure of 58 ethanol plants and losses totalling billions of dollars.

Dr Nastari, CEO of DATAGRO, focused on the key factors affecting the industry's performance over the last five years, namely adverse weather, the financial crisis of 2008-09, the operational and economic impacts of the rapid mechanisation of planting and harvesting, and the distortive consequences of the Brazilian government's fuel price policy.

According to Dr Farina of UNICA, a support programme for biofuels will only be successful if it brings greater predictability to the market and also acknowledges biofuels' positive externalities. Uncertainty regarding the



regulatory framework – as in the US, Brazil and the EU – tends to inhibit both investment in biofuel production and technological development. Positive externalities need to be incorpo-

rated into the price system either via consumption taxation or via a tax differential which favouring renewable fuels over the fossil-fuel alternatives.

Alexandre Figliolino of Banco Itaú discussed the need for long-term public policies to define the role of hydrous ethanol in the liquid fuel matrix, and proposed that the blend level of anhydrous ethanol in the petrol mix should be increased from 25% to 30%. He also called for the reinstatement of the Contribution for Intervening in the Economic Domain (CIDE), a tax previously levied on petrol and diesel which was used as a buffer to neutralise the price volatility of imported fuels in the domestic market. ●



Dr Nastari and Ambassador Pinta Gama

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EVENTS ROUND-UP



GALA DINNER AND PERSONALITY OF THE YEAR AWARDS

13 MAY 2014

The Gala Dinner and Personality of the Year awards, our biggest annual event, took place for the sixteenth consecutive year. Its success, as always, was due to support from the Chamber's members and friends. This year's award winners were Andre Esteves, chairman and CEO of BTG Pactual, and Lord Bamford, executive chairman of JCB. ●



BRAZIL: ECONOMIC OUTLOOK AND CAREER OPPORTUNITIES

28 MAY 2014

Jointly organised with the Brazil Institute at King's College London, this workshop looked at the prospects for the Brazilian economy and highlighted career opportunities in key business sectors. The event was chaired by Anthony Pereira of the Brazil Institute; the speakers were Cristina Bruce of Anglo American, Leonardo Ferreira of Deloitte, Andre Chieffi of Proctor and Gamble, and Vera Dantas of Noronha Advogados. ●

SUMMER NETWORKING BARBECUE

27 MARCH 2014

For the fourth consecutive year our barbecue took place at Dartmouth House in Mayfair. Warm weather and live Brazilian music contributed towards a very enjoyable occasion. More than a hundred members and friends of the Chamber came along, so the event was also a useful networking opportunity. ●



EVENTS ROUND-UP

DATES FOR YOUR DIARY

2 SEPTEMBER

RECEPTION IN THE HOUSE OF COMMONS
HOUSE OF COMMONS, 7.00PM

18 SEPTEMBER

WHAT'S NEXT FOR BRAZIL: THE PRESIDENTIAL ELECTION OF 2014
FRESHFIELDS BRUCKHAUS DERINGER, 8.30AM

25 SEPTEMBER

**BRAZILIAN DEBT CAPITAL MARKETS –
PRESENTATION BY MARINA NAKANO, ITAÚ BBA**
NORTON ROSE FULBRIGHT LLP, 8.30AM

23 OCTOBER

**BRAZIL, THE NEXT 4 YEARS, AND WHAT IT MEANS FOR YOUR
BUSINESS: PRESENTATION BY GEERT AALBERS, CONTROL RISKS**
VENUE: TBC, 8.30AM

19 NOVEMBER

BRAZIL'S ELECTION: NEW OPPORTUNITIES OR BUSINESS AS USUAL?
THE LAW SOCIETY, 8.30AM

4 DECEMBER

CHRISTMAS RECEPTION
HERBERT SMITH, 6.30PM

FOR MORE INFORMATION PLEASE VISIT OUR EVENTS PAGE AT
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EDITORIAL

BRAZIL BUSINESS BRIEF, SEPTEMBER 2014

NEWS FROM THE
BRAZILIAN CHAMBER OF COMMERCE
IN GREAT BRITAIN

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BRAZILIAN CHAMBER OF COMMERCE
IN GREAT BRITAIN
PRESENTS

GALA DINNER
**PERSONALITY
OF THE YEAR
AWARDS 2015**

12 MAY 2015
AT THE LONDON HILTON
ON PARK LANE
7.00PM



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