NEWS FROM THE
BRAZILIAN CHAMBER OF COMMERCE
IN GREAT BRITAIN

BRAZIL BUSINESS BRIEF

SEPTEMBER 2015

NEWS FROM THE BRAZILIAN CHAMBER OF COMMERCE IN GREAT BRITAIN

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EDITORS' LETTER

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Dear members and friends,

Welcome to the September 2015 edition of the Brazil Business Brief.

We hope, as always, that you'll enjoy the articles and interview.
If you have any suggestions for future articles and events,
please don't hesitate to contact us at
www.brazilianchamber.org.uk/contact-us

We hope to see you soon at one of the Chamber's events.

Kind regards,

Lena & Alex

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CHINA SHOULDN'T DISTRACT BRAZIL FROM ISSUES AT HOME

BY SILVIA PAVONI

CHINA'S ECONOMIC SLOWDOWN IS SET TO HURT COMMODITY EXPORTERS SUCH AS BRAZIL. THIS OUGHT TO GIVE GREATER IMPETUS TO THE GOVERNMENT'S EFFORTS TO IMPROVE THE LOCAL BUSINESS ENVIRONMENT AND ATTRACT FOREIGN INVESTMENT TO LATIN AMERICA'S LARGEST MARKET.

A sharp economic decline in China would affect global growth in ways that were unimaginable only a decade ago. The Asian giant has accounted for one-third of global growth over the past seven years and became the world's largest goods trader in 2013. Worryingly, recent data from analysts has showed that activity in China's factory sector in August shrank at its fastest pace in over six years. Lower demand for commodities naturally raises fears for many exporters. Among them, Brazil may be the worst hit.

Indeed, China is Brazil's largest export market, accounting for about half of the raw materials that leave its shores. Uncertainty over China's economy can already be felt in Brazil's equities markets. In August the Bovespa stock index registered its lowest closing level of the year, heavily influenced by the performance of commodity exporters.

According to private sector estimates China's growth has already slipped to 5% (rather than Beijing's official 7%), as compared with average growth of 8% between 2011 and 2014. Analysts expect Brazil's economy to contract by 2% this year.

Although alarming, a Chinese slowdown might also have a positive effect as it should add urgency to some of Brazil's much-needed policy changes. Brazil's current account and fiscal deficits together now exceed 10% of GDP – the largest collective deficit in 15 years according to analysts. Fixing such imbalances during a recession would be a herculean task. However, there are steps Brazil can take to attract investment which would not weigh on the public finances.

During a London visit in May this year, Brazil's finance minister Joaquim Levy emphasised his intention to reinvigorate international interest in the country. In particular he aims to attract foreign capital to what he promised would be a sizeable infrastructure projects pipeline. This is a promise that must be kept. Private sector financiers and capital markets will be key to the delivery of infrastructure deals in the future – particularly at times of public budget constraints. And Brazil's high-yielding projects are theoretically a great match for international long-term investors.

'The objective of the government is to put together a concession [pipeline], as well as talking to investors. [Creating a solid deals pipeline gives] a good picture of how Brazil will look, how higher investment will help us reduce [trade] costs, improve logistics and our competitiveness,' said Mr Levy.

Competitiveness is indeed another area of concern. According to the World Bank's annual Doing Business report, Brazil scores poorly on the global stage, particularly when it comes to taxation. Of the 189 countries included in the report, Brazil ranks 177th on ease of paying taxes. According to the 2015 report, based on tax practitioners' analyses and assumptions, a typical business in Brazil spends a total of 2,600 hours every year dealing with taxation issues. The complexity of Brazil's tax system also seems to hinder the growth of small companies. As one entrepreneur once told me, businesses often choose to remain small, staying 'under the radar' so as to reduce the risk of being caught accidentally failing to comply with some of the many and overlapping federal and state requirements. The government's efforts to simplify taxation must continue, therefore.

ALTHOUGH ALARMING, A CHINESE SLOW-DOWN MIGHT ALSO HAVE A POSITIVE EFFECT AS IT SHOULD ADD URGENCY TO SOME OF BRAZIL'S MUCH-NEEDED POLICY CHANGES. BRAZIL'S CURRENT ACCOUNT AND FISCAL DEFICITS TOGETHER NOW EXCEED 10% OF GDP

Financing is also a challenge for small companies, which often complain about scarce and expensive bank lending. On the other hand this opens up opportunities for non-banks, such as private equity firms, both local and international, which have already started providing mezzanine finance in the country. It is crucial that Brazil's financial centres grow further both in size and in the depth of services they offer.

In *The Banker*'s annual ranking of international financial centres, published this month, São Paulo retained its position as Latin America's top financial hub. The city is home to large, profitable and solid banks, and also has a greater number of financial-services companies than any other city in the world – about 53,000 in total, including depositary institutions, brokers and insurance agents. But there is still much scope for São Paulo to become more internationalised – looking at the stock market, for example, foreign listings represented only 3% of the total at the end of last year. More companies need to feel that raising funds in the country is a viable option.

These are tough times for Brazil. The fact that the country is still dealing with the Petrobras scandal, which saw billions of dollars skimmed from construction contracts signed by the state-owned oil giant, adds volatility to an already dire economic environment. But it also shows that the judicial system is taking action to tackle corruption, no matter how high-profile the perpetrators. This is something businesses and investors should welcome. More than ever, Brazil must now focus its attention and political will on offering fertile ground to those businesses, investors and financiers – regardless of whether the country's commodities will continue to be gobbled up by China in the future.

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FIFTY SHADES OF BLACK

BY IAN WALKER

Energy players are in a painful place at the moment, with companies and governments tightening their belts as the price of oil remains low. The winners in the current scenario, of course, are those who neither produce nor sell energy. But things are coming to a head and we are all likely to be affected.

The possibility of another financial meltdown constitutes a global threat. Up to one-third of US junk bonds are linked to shale gas plays where companies hedged their bets on a $100 barrel of oil. With the outlook being nearer to $50 per barrel, many of these will default. After hundreds of billions of dollars were invested in shale, there are looming fears of boom turning to bust.

Shale players are hanging in there, hoping prices will go up before their debt is due. But there is a consensus that the world has an energy glut, with less of an appetite for fuel guzzling. That is true particularly in the case of the Chinese economy, which currently resembles a supertanker struggling to change direction.

As low prices hit shale production, previous talk of the US no longer being a net energy importer by 2019 is also being revised. The possible date for that landmark in US energy self-reliance has been put back to 2030 at the earliest. That means the next four US presidents, like their predecessors, will have to keep an eye on what other energy producers are doing.

The US will continue to have an active international interest in global energy markets. It will have to say focused on the Middle East as well as watching China and its Pacific neighbours.

The good news for the Japanese is that the nuclear power plants, mothballed after the Fukushima disaster, are gradually being turned back on. Consumers and the Japanese government should benefit from lower bills. Japan had been buying heavily on global energy markets, pushing up prices, but its return to nuclear will remove that pressure.

Japan and its neighbours are becoming concerned about China building up its maritime presence near contested borders in the East China Sea, and about the airport China is building on the Spratly Islands in the South China Sea. Admiral Katsutoshi Kawano, Japan's top military man, has spoken of Japanese plans to patrol the South China Sea following a new bill allowing the Japanese military to defend other regions.

The issue feeding these tensions is energy. Staking a claim to rocky outposts makes a lot more sense if there are large energy deposits under the sea. China's so-called string of pearls – deepwater ports stretching around the world to the energy-producing Middle East – reflect the country's desire to protect its energy supply routes. India is among the countries worried by China becoming more assertive at sea.

Many energy producers are feeling under pressure. Russia is facing recession, with sanctions adding to the misery. Although Russia is talking of energy deals with China to replace falling demand from Europe, this will require infrastructure investment on a huge scale – and that in turn would allow China to play the global market to obtain the best price. Already Russia is anxious about losing influence in the energy-rich Central Asian countries, as China's new Silk Road initiative means it is investing heavily in direct energy deals with Central Asian states. The worry is that the Russian bear may lash out – either by encouraging more military action in the Ukraine or by stirring up trouble in the Baltic states.

The European Union is looking to reduce overall energy consumption and also to diversify supply given the uncertainty surrounding Russia as a result of the Ukraine situation. However, moves to set up an energy union do not suit all. France remains heavily dependent on nuclear energy while Germany is phasing it out. Some countries depend on Russian gas and have no easy alternative; others still rely heavily on coal. If the EU wants to reduce coal as part of its efforts to meet carbon targets, it might well mean having to rely to a greater extent on Russia.

MANY ENERGY PRODUCERS ARE FEELING UNDER PRESSURE. RUSSIA IS FACING RECESSION, WITH SANCTIONS ADDING TO THE MISERY

Iran is the joker in the pack. The nuclear deal holds out the hope of sanctions being lifted and the country once again becoming a global energy giant – but that will entail major investment. Doubling oil production to 5.7 million barrels a day will cost an estimated $185 billion. And finding the money to overhaul your energy infrastructure is difficult at a time of low oil prices. Such investment in Iran could therefore drain some funds away from other OPEC members – a potential source of further tension at a time when an unofficial Shia-Sunni civil war, with Iran and Saudi Arabia respectively leading the opposing sides, is getting fiercer in Yemen, Iraq and Syria. Ironically, the energy-rich eastern province of Saudi Arabia has a Shia majority while some of the richest energy regions of Iran have a significant Arab population.

Saudi is one of the biggest losers in the current scenario. Initially it was perceived in some quarters that the Saudis welcomed low oil prices as a means of driving the US fracking industry out of business. The reality, however, is that they are now caught in a price trap where every increase in the oil price will bring more shale back on to the market, so pulling prices back down. Saudi's reserves fell from $746 billion in September 2014 to $672 billion by the end of June this year. If they keep on taking out $2 billion a week from their reserves they can stay in the black for six more years. Another drain on revenues is the fighting in Syria and Yemen, which the Saudis are bankrolling. Domestic subsidies have risen by $130 billion, but civil unrest is likely if they are not maintained.

In Africa, Nigeria is among those worst hit by low oil prices. The country produces 1.8 million barrels a day of low-sulphur oil. However, US tight

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oil (or shale oil) is also low sulphur, a fact which is aggravating an already difficult market. The ratings agencies forecast that Nigeria will go into the red at a time when the government already has the fight against the Islamist extremists of Boko Haram on its plate.

Norway, meanwhile, has built up a sovereign wealth fund of £560 billion, the world's biggest, through investments on global markets that amount to 1.3 per cent of global stocks. However, some 20,000 oil jobs are currently at risk. If Norway raids its fund – it is permitted to take out 4% of the value every year – then global markets could also feel the pinch.

In Latin America, Brazil is better placed than other producers such as Venezuela and Mexico as it has a diversified economy and has pioneered biofuel innovations. Venezuela, in contrast, relies on oil sales for 95% of its income – and revenues have plummeted at a time when the country is facing a $15 billion bill in bond repayments over the coming eighteen months. Unrest is growing and the government is lashing out, making threatening noises towards Guyana which has just discovered large energy reserves. December's elections promise to be interesting.

IN LATIN AMERICA, BRAZIL IS BETTER PLACED THAN OTHER PRODUCERS SUCH AS VENEZUELA AND MEXICO AS IT HAS A DIVERSIFIED ECONOMY AND HAS PIONEERED BIOFUEL INNOVATIONS

The Paris climate summit in December is expected to see China and the US coming from the back of the pack to the front in setting more ambitious carbon targets. Sustainable green energies are likely to be among the beneficiaries. The biggest winners will be solar and wind power, alongside nuclear in Asia, even though countries such as the UK and Germany are cutting subsides because they are too expensive and distort local energy supply.

A growing interest in sustainable energies can be expected. Brazil, with its sugarcane ethanol programme, is already a leader in biofuels. After Paris, more countries will be looking to learn lessons, although some argue that Brazil's biofuels experience is closely linked to its climate and sheer size, and will therefore prove difficult to replicate in other countries.

Offshore oil from the Arctic, the Atlantic and the Gulf of Mexico requires prices above the present level in order for producers to break even. It is likely that there will be under-investment in upstream exploration and that eventually demand will out-strip supply. No one knows when that might be, however – and history tells us that when everyone does agree about how the oil market will behave, something then happens to upset those predictions.

Shale will be a key factor as exploration technology becomes increasingly efficient, costs are reduced, and fracking takes off in more countries. One good tip, therefore, is to watch the price of guar gum in India, as this is an important thickening agent in the fracking fluids. Indian exports of guar shot up from $200m in 2009 to $2.4billion in 2013 thanks to US shale demand. The price of one ton of guar powder dropped from $3,500 to $2,000 in the year to August – so if you see more Indian farmers with smiles on their faces, it's a sign that the frackers are back.

INVESTING IN UK RESIDENTIAL PROPERTY – UK TAX UPDATE

BY SANJVEE SHAH

Prime residential property in Central London has outperformed most other investments over the last decade. In addition to London's global appeal as the world's financial and cultural capital, such strong growth is also linked to its reputation as a safe haven during periods of political instability in various other regions across the world.

The information in this article was correct as of 15 September 2015. However, with property prices increasing, the UK government has been keen to find ways to raise tax revenues to help reduce the budget deficit. A number of significant tax changes affecting UK residential property have been introduced since 2013, including a substantive change announced by the new Conservative government in its first post-election budget in July this year, intended to take effect from April 2017.

STAMP DUTY LAND TAX

Stamp Duty Land Tax (SDLT) is payable by the purchaser of any UK property within 30 days of completion. A new, progressive SDLT structure was introduced from 4 December 2014 for UK residential property; SDLT on the purchase of UK residential property is now payable at a specified rate on the portion of the purchase price that falls within each band as follows:

PURCHASE PRICE OF PROPERTY	SDLT RATE
UP TO £125,000	ZERO
£125,001 TO £250,000	2%
£250,001 TO £925,000	5%
£925,001 TO £1.5 MILLION	10%
OVER £1.5 MILLION	12%

In the absence of any available exemptions, a 15% SDLT rate will apply for purchases of UK residential property for more than £500,000 by companies and other 'non-natural persons' such as LLPs with corporate members or collective investment schemes. If a UK residential property is acquired by a non-natural person for the purposes of UK rental property business, then it should be exempt from the 15% SDLT and instead be subject to the normal SDLT rates, but this should be confirmed for each acquisition.

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RENTAL INCOME

A non-UK resident investor (e.g. a non-UK resident individual or a non-UK company) earning rental income from UK residential property is liable to pay basic-rate income tax (currently 20%) on their profits.

Certain deductions, such as debt finance costs, can be made before arriving at the net rental profits liable to tax. However, from April 2017, the amount of loan interest that may be deducted as a relievable expense against rental income from UK residential property will be restricted on a gradual basis over a four-year period. Relief will therefore be limited to the basic rate of income tax from 6 April 2021.

ANNUAL TAX ON ENVELOPED DWELLINGS (ATED)

April 2013 saw the introduction of a new annual tax on valuable UK residential properties held within companies or other vehicles (whether UK resident or non-UK resident), known as ATED. The charge is generally based on the market value of individual dwellings as of 1 April 2012 (or the purchase price of the dwelling if purchased after 1 April 2012). The current ATED charges are:

MARKET VALUE OF DWELLING	ATED CHARGE (2015/2016)	ATED CHARGE (2016/2017)
£500,001 TO £1,000,000 (FROM 1 APRIL 2016)	N/A	£3,500
£1,000,001 TO £2,000,000	£7,000	£7,000 PLUS CPI
£2,000,001 TO £5,000,000	£23,350	£23,350 PLUS CPI
£5,000,001 TO £10,000,000	£54,450	£54,450 PLUS CPI
£10,000,001 TO £20,000,000	£109,050	£109,050 PLUS CPI
£20,000,001 AND OVER	£218,200	£218,200 PLUS CPI

The ATED charges are intended to increase each year in line with inflation, based on the consumer price index (CPI). However, the UK government has overridden this, increasing ATED charges from 1 April 2015 by more than the CPI. How ATED charges will increase after 1 April 2016 remains to be seen.

The ATED does not apply where the residential property is owned by an individual or directly by a trust. There are also exemptions for ownership of residential properties for business purposes (including where a property is acquired and exploited for rent to third parties or is acquired for development and re-sale).

ATED-RELATED CAPITAL GAINS TAX (CGT)

If the ATED applies to a UK residential property, ATED-related CGT (currently levied at 28%) will be charged on any gains which are made on a future disposal of the property by the company or other ownership vehicle, to the extent that these gains represent growth in the value of the property since 6 April 2013, or from the acquisition date, or from the date on which the property fell within the ATED regime, if later. Similar reliefs and exemptions from the ATED regime are available for ATED-related CGT.

NON-RESIDENT CAPITAL GAINS TAX (NRCGT)

From April 2015, gains realised on the disposal of any UK residential property by any non-UK resident are subject to NRCGT. Non-UK resident individuals are subject to an NRCGT rate of 18% or 28%. Non-UK resident companies and non-UK resident trustees are subject to NRCGT rates of 20% and 28% respectively. For UK residential properties acquired before 6 April 2015, only gains representing an increase in market value from 6 April 2015 up to the date of disposal are within the scope of NRCGT. In the event that the gains are subject to NRCGT and ATED-related CGT, the latter takes precedence.

INHERITANCE TAX (IHT)

Any UK residential property owned personally by an individual falls within the scope of IHT upon his/her death, regardless of the individual's residence or domicile status. IHT is currently levied at 40% in excess of a tax-free exemption of £325,000 and in the absence of any other reliefs.

IT IS IMPORTANT THAT FOREIGN INVESTORS WHO WISH TO ACQUIRE UK RESIDENTIAL PROPERTY SEEK APPROPRIATE TAX AND STRUCTURING ADVICE IN GOOD TIME BEFORE THE PURCHASES TAKE PLACE, SO AS TO ENSURE THEY UNDERSTAND THE UK TAX IMPLICATIONS AND HOW BEST TO STRUCTURE THE OWNERSHIP ARRANGEMENTS TO ACHIEVE TAX EFFICIENCY

To avoid this potential IHT liability, foreign investors have tended to acquire UK residential properties via non-UK incorporated companies. However, in July the UK government announced that after April 2017, upon the death of the shareholder of such opaque entities, the underlying UK residential property will be liable to IHT as if the deceased shareholder had owned the property personally.

New rules will also be introduced from April 2017 to catch non-UK trusts which own UK residential property via non-UK companies, partnerships or other tax opaque structures.

In the light of the above it is important that foreign investors who wish to acquire UK residential property seek appropriate tax and structuring advice in good time before the purchases take place, so as to ensure they understand the UK tax implications and how best to structure the ownership arrangements to achieve tax efficiency. Investors who already own UK residential property investments should review their existing ownership arrangements to ascertain how any of the taxes outlined above impact upon their arrangements and the extent to which any restructuring options are available to reduce their UK tax exposure in the future.

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THE HARD PATH TO ECONOMIC RECOVERY

BY SONIA DELINDRO GONÇALVES

Joaquim Levy, Brazil's finance minister, isn't having it easy at the moment.

After growing impressively for many years, Brazil's economy is now bordering on technical recession, characterised by two consecutive quarters of GDP contraction. This gloomy situation did not catch Mr Levy by surprise: the economy had been limping along for a while before he took office in January this year, with sluggish growth, a rising budget deficit and mounting inflationary pressures. Indeed, he arrived armed with an austerity package intended to put the public accounts in order, restore investors' confidence and boost growth. His remedies, however, don't seem to be producing the expected recovery. What was supposed to be a short period of economic adjustment now appears, alarmingly, to be the beginning of a longer and deeper crisis. The most recent data show a sharp deterioration in economic indicators across the board. GDP is forecast to contract by approximately 1.8% this year (the worst performance since 1990); year-on-year inflation reached 9.6% last month (the highest since November 2003, and way above the

central bank ceiling of 6.5%); the fiscal deficit has risen to more than 8% of GDP; and the seasonally-adjusted unemployment rate has hit 6.5%, with 735 thousand jobs disappearing from the formal economy in the last 12 months. Confidence among both consumers and businesses is plumbing unprecedented depths. To make things worse, Brazil's credit rating – a key determinant of businesses' confidence and hence investment decisions – has just been downgraded to the lowest investment-grade level by two leading rating agencies [and subsequently to 'junk', or non-investable, by Standard & Poors'].

This downgrade reflects not only the deeper economic woes but also the increasing political troubles Brazil has faced over the past months. Political satisfaction has hit rock bottom, with the latest polls showing an astounding 80% disapproval rate for Dilma Rousseff's administration, up from 40% in September 2014, with about two-thirds of those interviewed saying they are in favour of the President's impeachment.

The bleak economic picture would have been sufficient on its own to explain lower levels of approval for the President, but the uncovering of the allegedly multi-million-dollar Petrobras corruption scandals, directly or indirectly involving several members of the ruling coalition, has certainly exacerbated discontent with Rousseff and her administration.

So what solutions have the government put forward to counteract the downward spiral? On the economic front Mr Levy has implemented textbook policies. To combat inflation the SELIC interest rate has been raised to 14.25% per year (the highest rate since October 2006). Fiscal adjustment has been initiated through cuts to various areas of public expenditure (to the extent that the rigidities of the current federal budget allow) and proposals for increases in various taxes (although so far Congress has only approved higher import taxes) in an attempt to reach the new fiscal target. In the face of this monetary and fiscal tightening it is hoped that the weaker real (now trading at about 3.50 to the US dollar) will provide a compensatory economic stimulus.

These are certainly important and necessary steps, but they please no one. From the point of view of the government's (ever-shrinking) support base the measures are neoliberal and stray too far from the national-developmentalist ideal. For those with more orthodox viewpoints, meanwhile, the measures are simply insufficient.

Fundamentally, Mr Levy's and the current administration's efforts are insufficient in the sense that no textbook short-term monetary or fiscal tool can solve Brazil's longstanding bottlenecks: the overcomplicated and distortionary tax system, underfunded basic education, rigid and inefficient labour market regulation, cumbersome bureaucracy, and inadequate infrastructure. These problems can be addressed only by time-consuming and costly structural reforms.

The government has indicated its commitment to addressing at least some of these bottlenecks and has put forward proposals, but so far in 2015 very little has been done in practice. This may be due in part to the executive's lack of competence and skill when it comes to delivering the necessary reform packages – as claimed by the political opposition and by many of the protestors who have been taking to the streets across Brazil in anti-Dilma, anti-government rallies. However, it is also certainly due to a complete lack of cooperation from Congress which, fuelled by the executive's plummeting popularity, has become increasingly hostile to the latter's initiatives, thereby undermining the long-term fiscal adjustment and hampering the necessary discussions regarding broad reforms.

In fact, given the current scenario, the biggest threat to investors' confidence and economic recovery may not be the few percentage points by which inflation or fiscal targets have been missed, but instead the lack of political consensus and stability. Without that, it might be the case that no currency depreciation, interest-rate hike or tax increase will be enough to put the Brazilian economy back on track. This is not a situation in which 'worse is better' ('quanto pior, melhor' in Portuguese), as some parts of the Brazilian political class and the electorate seem to believe. On the contrary, as things stand, the political and economic crises will simply continue to feed off each other, making the path to economic recovery even longer and harder.

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‘NON-DOM’ STATUS IN THE UK: CHANGES ON THE HORIZON

BY HERMAN SANTIAGO

Immigration-related issues were of great importance to many British voters during the campaign that preceded the May 2015 general election, and the tax status of non-domiciled UK residents – so-called ‘nom-doms’ – came up in many debates. After the Conservative victory, George Osborne, having retained his position as chancellor, unveiled plans to make some changes to the current rules, but there will be little impact on foreign non-doms in the short term.

A non-dom is a UK resident whose official permanent home, or domicile, is another country. Those who have non-dom tax status must pay UK tax on UK earnings, but they do not have to pay UK tax on foreign income or gains unless that money is brought into the UK.

Mr Osborne has promised to close loopholes which allow individuals owning property in the UK though offshore countries not to pay taxes. The changes are simple: British citizens born to British parents will no longer be able to claim non-dom status. However, in the case of foreign non-doms, Mr Osborne is not going to alter their tax status for the time being, taking the view that they already make a significant contribution to the UK economy both in terms of tax revenue and more generally.

The current political and economic situation in Brazil has prompted a significant number of high-net-worth Brazilians to move out of the country and live abroad as part of a strategy to limit their personal tax liabilities. Many of them are coming to the UK, and London in particular. There are strict requirements when it comes to obtaining non-dom status under the UK tax regime, however, and if they are not strictly adhered to it can result in further tax liabilities being incurred.

In explaining the situation, first we need to define terms. ‘Residence’ and ‘domicile’ have different legal definitions. Residence denotes the place where an individual is *currently living*; their domicile is the place where they wish to *settle permanently*. Therefore, for a limited period of time, a foreigner might be deemed to be resident in a country but not necessarily domiciled there.

Citizens of other countries who wish to qualify as non-doms in the UK will be required to declare their intention to HM Revenue & Customs (HMRC), the UK tax authority. Currently, non-dom status is not subject to any time constraints, meaning an individual can benefit from it indefinitely. As part of Mr Osborne’s future plans, however, those who have been living in the UK for at least 15 consecutive years would no longer be able to claim non-dom status.

Foreigners moving to the UK are permitted to bring ‘clean capital’ with them – funds for the purpose of starting a new life in the UK which are not subject to UK taxation. When that person is working in the UK and they need to submit their annual tax return, an accountant will make a clear distinction between what is clean capital and what is income earned in the UK.

CITIZENS OF OTHER COUNTRIES WHO WISH TO QUALIFY AS NON-DOMS IN THE UK WILL BE REQUIRED TO DECLARE THEIR INTENTION TO HM REVENUE & CUSTOMS (HMRC), THE UK TAX AUTHORITY. CURRENTLY, NON-DOM STATUS IS NOT SUBJECT TO ANY TIME CONSTRAINTS, MEANING AN INDIVIDUAL CAN BENEFIT FROM IT INDEFINITELY

Under the non-dom rule, the foreigner is taxed only on their income earned in the UK: income that was earned in other countries is excluded from UK taxation, as long as it is kept abroad. But as time goes by and the individual continues to enjoy non-dom status, the details of their tax liabilities do begin to change. Specifically, non-doms become subject to an annual charge if they wish to continue benefiting from the regime.

Under the current system, non-doms who have resided in the UK for at least seven of the previous nine tax years become subject to an annual charge of £30,000. As part of the proposed changes, those non-doms who have lived in the UK for 12 out of the previous 14 years will face an increased annual charge of £50,000. And, as mentioned above, there is the future prospect of those who have been living in the UK for more than 15 consecutive years losing their non-dom status altogether.

Overall, therefore, high-net-worth individuals seeking to move to the UK would be well advised to consult a solicitor or tax adviser, so as to have the fullest picture of whether or not it would be sensible to apply for non-dom status.

INTERVIEW

CARLOS OTAVIO DE VASCONCELLOS QUINTELLA

BY IEDA GOMES
BRAZIL BUSINESS BRIEF

EXECUTIVE DIRECTOR, FGV ENERGIA

Can you tell us a little about the history and current activities of the Getúlio Vargas Foundation (Fundação Getúlio Vargas – FGV)?

The Fundação Getúlio Vargas is a higher-education institution dedicated to promoting Brazil's economic and social development, and it was founded in 1944. It has eight schools, two research institutes, and a long tradition of excellence in research and innovation in areas such as administration, economics, law, social sciences and applied mathematics. It enjoys an international reputation and undertakes joint ventures and student-exchange programmes with various partner institutions abroad.

What were the reasons behind the creation of the energy studies centre (FGV Energia)?

The FGV had wanted to set up the centre for quite a while, and in 2014 we felt the right moment had arrived because there were obvious signs of change in global energy production. Given the vast knowledge at its disposal, FGV Energia will be able to stimulate debate around the theme of energy, combining innovation with impartiality and credibility.

What are the main goals of FGV Energia?

To put the FGV at the forefront of analysis and research in the energy debate in Brazil, supporting the development of public policy with a geopolitical, sustainable vision. And to contribute to the FGV becoming internationally recognised as one of the leading think-tanks in the field of energy.

Brazil's energy sector has been in the headlines during the last year and is going through a hard time. What are your views on this? What are the impacts on doing business in Brazil?

I'd say the hard time we've been enduring is a consequence both of poor decision-making and some unforeseen events. The electricity distribution companies' cash flow was adversely affected by the MP 579 energy bill in 2013. Between 2008 and 2013 there was a lack of oil and gas licensing rounds which, along with other regulatory choices, hindered competition and the development of certain energy markets, leading to a more centralised and less diversified energy sector. It wasn't a good way to prepare for the events that followed. But also, almost unprecedented drought conditions have limited Brazil's hydroelectric power production. There have been environmental licensing issues for new hydroelectric projects. Oil prices have been falling and then we've also have the Petrobras scandal, resulting in investment cut-offs from the oil and gas sector. All of these count as unforeseeable events.

The main question, however, is what lessons we draw for the future. Government planning needs to be clear from the point of view of the whole energy sector, and public policy needs to become more coherent. There are plenty of interesting and profitable business opportunities in Brazil – but they still require significant interaction with the government. That's why it's essential to set clear guidelines for all energy sources, so that businesses and the government can start pulling in the same direction.

> GOVERNMENT PLANNING NEEDS TO BE CLEAR FROM THE POINT OF VIEW OF THE WHOLE ENERGY SECTOR, AND PUBLIC POLICY NEEDS TO BECOME MORE COHERENT. THERE ARE PLENTY OF INTERESTING AND PROFITABLE BUSINESS OPPORTUNITIES IN BRAZIL – BUT THEY STILL REQUIRE SIGNIFICANT INTERACTION WITH THE GOVERNMENT

It's clear that there really is an energy crisis in Brazil. The electric energy sector has problems with high prices and with maintaining supply. The low prices of petrol, meanwhile, affect not only the oil sector but also ethanol. Both Eletrobras and Petrobras have cash-flow problems that are jeopardising their investment programmes.

The electric energy crisis has been aggravated by low rainfall in the last two years but it was caused by policy decisions that stimulated households' energy consumption at a time when production costs were high, bringing about risks and losses. It's not impossible that Brazil will find it difficult to supply the energy necessary for economic growth – and the situation could be worsened by the current low level of the reservoirs used by the hydroelectric plants. It's been necessary to operate thermoelectric power stations at full capacity to partially compensate for the fall in supply of hydroelectricity. However, using the thermoelectric plants for long periods is an expensive option, and it depends on the supply of gas being sustained and on the continued generation capacity of the plants themselves.

Overall it's a scenario which has heightened the perception of risk, postponed investment, and been bad for business. Concerns about supply, along with the increased cost of energy, have had a negative impact on economic activity and on the competitiveness of Brazil's energy sector.

What should Brazil be doing to solve the energy crisis?

The different parts of Brazil's energy sector – including oil, natural gas, renewables and electricity – have

INTERVIEW

different problems. Overall, however, one of the underlying factors is the National Energy Policy, exposed by the flaws of the Petroleum Law (Law 9478/1997). This piece of legislation is very broad and doesn't provide precise indications of the way ahead for the Brazilian energy matrix. Moreover, on many points the law is even contradictory and doesn't state what the priority should be when conflicts arise. The first step, therefore, should be to review and clarify the National Energy Policy.

In the short term, to deal with the crisis in the energy sector there needs to be a sharp adjustment to bring demand and supply closer into line – and that's happening through the fall in consumption, pushed down by high prices, with obvious repercussions for the level of economic activity.

There's a pressing need to reorganise the oil and gas industry, affected as it has been by institutional decisions which failed to produce the necessary levels of investment.

Certain things need to be done so that in future the country can avoid getting into the kind of problems we've seen in recent months. With the role of the thermal power plants increasing, if there's still a policy of

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not building more reservoirs it will be important to establish clear policy with regard to thermal power generation. The energy matrix needs to be diversified; long-term planning needs to be improved, as does the business environment in the energy sector; and there needs to be greater investment in transmission lines. There's also the problem that the expansion of nuclear energy has been on hold since the accident in Japan, while in relation to Brazil's energy needs there's been little progress on wind or solar energy, or biomass. There's a tough job that needs to be done in revising the rules of the institutional model. The system of using a mathematical model as the basis for dispatching the power plants and for setting short-term prices hasn't been working well.

FGV Energia is leading a study on local content for the oil and gas industry. What have been the key findings?

The local content requirements in the concession contracts for the exploration and production of oil and natural gas are designed to increase the participation of domestic industry in the projects. In so doing, the aim is to encourage technological development, workforce training and job creation in the sector.

This mechanism isn't supposed to play the role of an industrial policy: instead it's a tool, part of a broader policy which also includes several other sectors apart from oil and gas.

In the first rounds of the ANP [Brazil's oil and gas regulator] auction of blocks, the local content percentages served as a stimulus to the shipbuilding industry, whose development had been prioritised but which was in the doldrums at the time. This initiative strengthened new shipyards, attracted international partners who had technological expertise, created jobs, and boosted regional development.

However, with the changes in the rules for setting the local content percentages established in the contracts, stimulating the competitiveness of the supply chain for the oil and gas industry is now only of secondary importance.

With the local content percentages becoming a major factor in deciding the winners in the bidding round, and in the absence of a clearly defined industrial policy, we're heading towards a situation which could be seen as protectionist and which doesn't necessarily encourage greater competitiveness or technological development – which are the precisely factors that would lead the domestic suppliers to become sustainable and to not need new incentives.

The heavy weight of the local content percentages in the bidding rounds caused a sudden increase in demand for goods and services, but the domestic supply chain has not developed the capacity necessary to meet that demand. So the results fell short of what had been agreed and led to heavy fines, which the oil and gas operators are either paying or legally challenging.

The current rules still require operators to provide a great pile of certificates which need to be recognised by certifying agents, thereby increasing costs for the local suppliers.

So, the studies that have been carried out point to a need to review in the local content rules, as well as to the need for a more comprehensive industrial policy that focuses on competitiveness as the basis for the sustainability of the domestic oil industry.

What are the currently the main barriers to doing business in Brazil?

One barrier is the ancillary obligations – the bureaucratic processes companies are obliged by the government to go through. Eliminating them would certainly create a better business environment in Brazil. Also, there are infrastructure bottlenecks which limit the country's growth capacity. And then there are the institutional and regulatory weaknesses in the energy, transport and communications industries, among others, which have hampered investment and heightened investors' perception of risk.

What business opportunities does Brazil offer? Are there opportunities for British companies in particular?

One of the most promising areas in the Brazilian energy sector is the expansion of wind power, with a large number of wind farms coming into operation every year. Last year Brazil came fourth in the world in terms of the additional wind capacity it installed. And the UK's experience in the area of wind power is well known internationally, so Brazil's wind power sector could present a good opportunity for British companies.

The consumer market at the moment is in a period of stagnation, affected by the exhaustion of the government's macroeconomic model and by the subsequent need for adjustment measures. But the growth potential of that market is very significant in the medium term. When the recovery comes, well-positioned companies should certainly be able to take advantage of it. Brazil is a country of continental proportions and a leader in South America; a country whose riches have hardly been exploited so far. That's why it's important, above all, to keep believing.

EVENTS ROUND-UP

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

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IN THE EYE OF THE STORM: POLITICS IN BRAZIL TODAY

8 APRIL 2015

Murillo de Aragão, political scientist and founder of Arko Advice, presented an analysis of Brazil's current political landscape, focusing on the difficulties the country currently faces and the key issues arising in their wake. Specific topics included the relationship between Brazil's president and congress, the corruption allegations and subsequent investigations, the street protests, and the outlook for the coming years. ◉

MINAS-RIO: COMPLETING A MEGA-PROJECT IN BRAZIL

24 APRIL 2015

Anglo American's Minas-Rio project is one of the world's largest iron ore developments, involving a 529km pipeline and 20,000 employees and contractors. Paulo Castellari, CEO of Iron Ore Brazil at Anglo American, shared his experiences of the challenges faced, the milestones already achieved, and the lessons learned regarding the key components of successful long-term investments in Brazil. ◉

GALA DINNER

12 MAY 2015

The 17th annual gala dinner and Personality of the Year awards took place at the London Hilton on Park Lane. Long established as the centrepiece in the social calendar of the Brazil-UK business community, the event again attracted an audience of more than 400, including entrepreneurs, politicians and ambassadors. The Brazilian recipient of the Personality of the Year award was Marcos Molina, founder and chairman of Marfrig Global Foods; the British recipient was Sir Martin Sorrell, founder and chief executive of the WPP conglomerate. Brazil's finance minister, Joaquim Levy, was the guest of honour and keynote speaker. ◉

BRAZIL: THE ADJUSTMENT EXPOSED

10 JUNE 2015

Dalton Gardiman, chief economist and head of fixed income research at Bradesco Corretora (Bradesco BBI), led a discussion of Brazil's economic situation. He talked about the conflicting perspectives on the fiscal adjustments currently taking place, the challenges encountered in implementing them, and the possible future outcomes. ◉

SUMMER NETWORKING EVENT

14 JULY 2015

This year's summer party was hosted by Norton Rose Fulbright on their beautiful terrace by the Thames, with fabulous views of the City and beyond. About 120 members and friends of the Chamber attended. ◉

EDITORIAL

BRAZIL BUSINESS BRIEF, SEPTEMBER 2015

NEWS FROM THE
BRAZILIAN CHAMBER OF COMMERCE
IN GREAT BRITAIN

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THE BRAZILIAN CHAMBER OF COMMERCE
IN GREAT BRITAIN
PRESENTS

GALA DINNER
PERSONALITY OF THE YEAR AWARDS 2016

10 MAY 2016

AT THE LONDON HILTON
ON PARK LANE
7.00PM

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