

The Deloitte – Brazilian Chamber of Commerce in Great Britain Survey 2016

Increase in uncertainties and economic headwinds sharply reduce the optimism of UK companies about their short-term prospects in Brazil

Despite the unprecedented political and economic difficulties in Brazil, Deloitte and the Brazilian Chamber of Commerce in Great Britain remain optimistic about the prospects for better integration between the Brazilian and UK economies and we continue to believe the headwinds faced by the Brazilian economy are temporary.

When we published our previous survey in 2015, we expected a return to growth if the economic measures proposed at the time succeeded in rebalancing the public finances and investment was refocused in infrastructure. Furthermore, we believed it was also important that the government promoted a friendlier business environment for Brazilian and foreign companies with less bureaucracy.

More than one year later, the economic difficulties remain, even though it appears the political uncertainty has been reduced with the conclusion of the impeachment process and the results of municipal elections. The new government so far obtained good support from Congress which is essential to ensure the political and economic measures necessary to rebalance the federal budget are implemented. Within those measures, the government is proposing certain pensions and labour reforms which have been long overdue.

The second Deloitte – Brazilian Chamber of Commerce survey measuring how C-suite executives of UK businesses perceive the future prospects of Brazil confirmed that certain sectors, most notably agribusiness and communications, continue cautiously optimistic about both the Brazilian economy and the future of their financial prospects in the country. Other sectors, such as oil and gas, professional services, retail, infrastructure and aerospace were more pessimistic about the economy as well as their company's short-term prospects.

In 2016, the perception about how difficult it is to do business in Brazil significantly deteriorated as a result of the constant proposed changes in economic policies, regulations, taxation and the lack of clarity about the political future of the government and, indeed, our democracy. That resulted in not a single executive stating that they believed it was fairly easy to do business in Brazil while a quarter of those respondents had this belief in 2015. In fact, all respondents now believe it to be very/fairly difficult to do business in Brazil.

Figure 1. How optimistic do you feel about economic prospects in Brazil over the next 12 months?

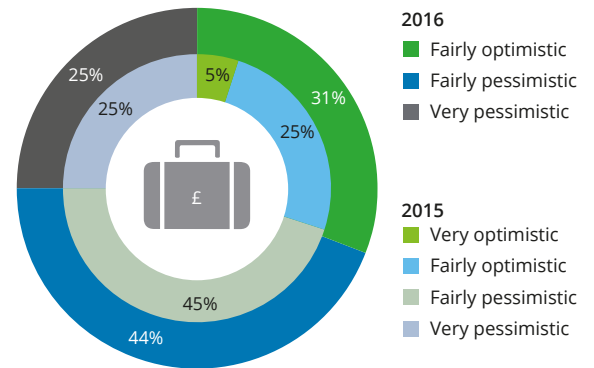


Figure 2. How optimistic do you feel about the financial prospects for your company in Brazil over the next 12 months?

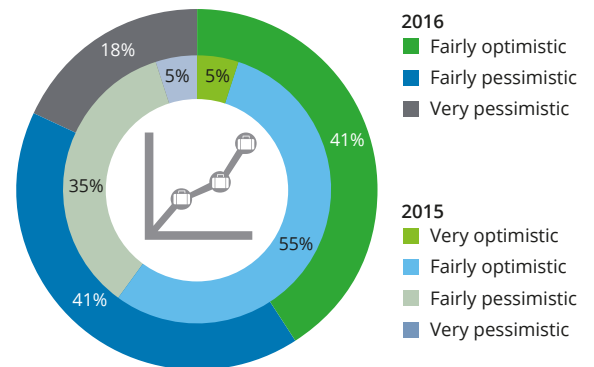
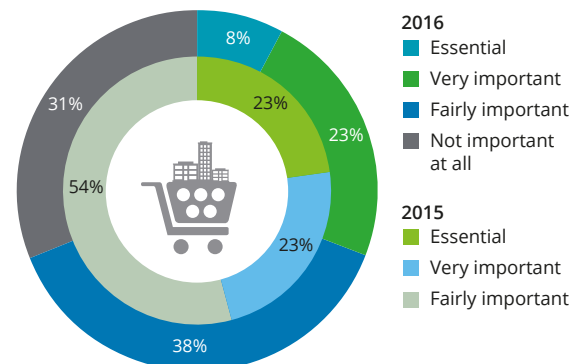


Figure 3. How important are your operations in Brazil to your organisation's future growth?



Deloitte and the Brazilian Chamber of Commerce in Great Britain remain optimistic about the prospects for better integration between the Brazilian and UK economies.

In 2015, a third of the respondents were optimistic about the Brazilian economy prospects over the next 12 months and we noted a reduction in optimism to 25% of the respondents in 2016. The difficulties also dented the executives' expectations regarding the prospects for their companies in Brazil during the next 12 months; increasing those that said they were very or fairly pessimistic from 40% of the respondents in 2015 to 50% in 2016.

As a result, we noted the expectation of revenue growth for the next 12 months was also downgraded by the executives: in 2015, 70% of the executives expected their revenue in Brazil to grow to some extent and that percentage reduced to 44%. Revenues generated in Brazil by large UK corporations still represent a relatively small proportion of their global revenues. It is worth noting that while in 2015 only 12% of the respondents believed their company's revenues in Brazil would decrease in the next 12 months the pessimism during 2016 increased that percentage to 31%.

It is also important to note that about 70% of the respondents continue to believe Brazil is an important market for the future of their organisations.

Figure 4. In the next 12 months do you expect your organisation's turnover to...

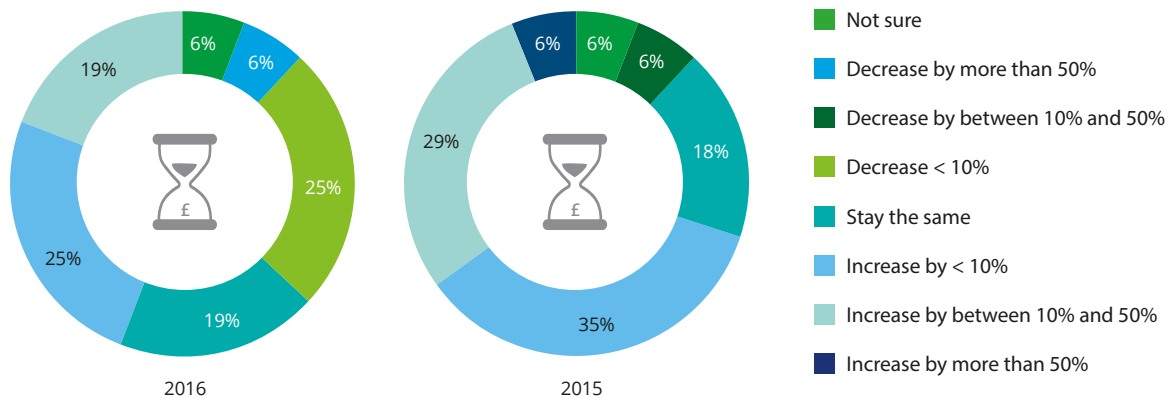
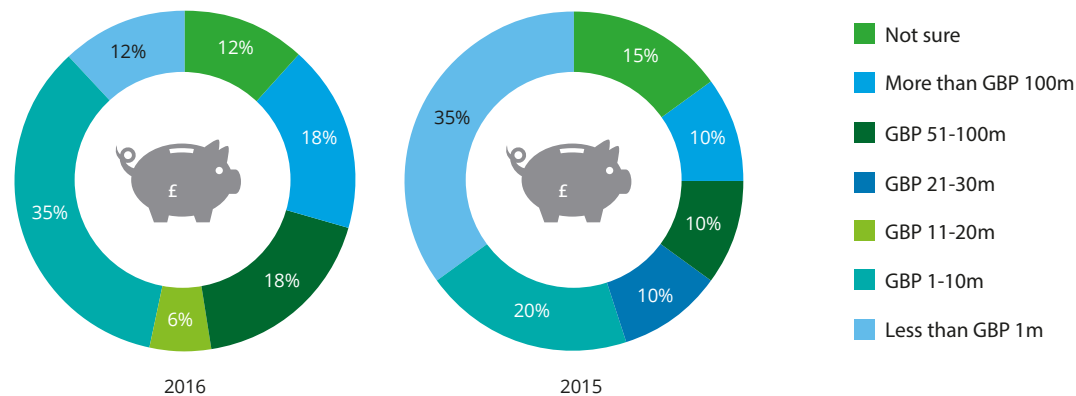


Figure 5. What revenues do you expect to generate from Brazil in the next 12 months?



The opportunities

The perceived opportunities were consistent with the results in 2015 with the exception of the opportunities related to the Rio 2016 Olympic Games which became less relevant as expected. The respondents continue to see a lot of opportunity in providing products and services to the Brazilian middle class despite the economic and political headwinds.

The majority of the respondents continue to believe that investments or operations in Brazil can help them become more competitive not only in Brazil but also across Latin America. Part of the attraction is the potential to obtain subsidies and tax incentives. Import taxes in Brazil and other Latin American countries are relatively high when compared to OECD countries and the costs to import products per container in Brazil can be twice as much as the average cost in OECD countries per estimates from the IFC, World Bank Group.¹

The reduction in oil prices and the wave of corruption scandals in Brazil involving the oil & gas and infrastructure sectors appear to have motivated a reduction in the number of companies wishing to operate in the energy and resources sectors in Brazil from 45% of the respondents in 2015 to 30% in 2016. Interest in the infrastructure sector however appears to have remained the same (15% in both years). We believe these sectors continue to be a major opportunity in Brazil and extremely important for the economic recovery of the country and therefore we hope the federal and state governments will continue work on alternatives to make these investments more attractive to foreign investors.

The respondents continue to see a lot of opportunity in providing products and services to the Brazilian middle class despite the economic and political headwinds.

Figure 6. The Top Four opportunities 2016 and 2015

What do you see as the main opportunities for your organisation in Brazil in the next two years?

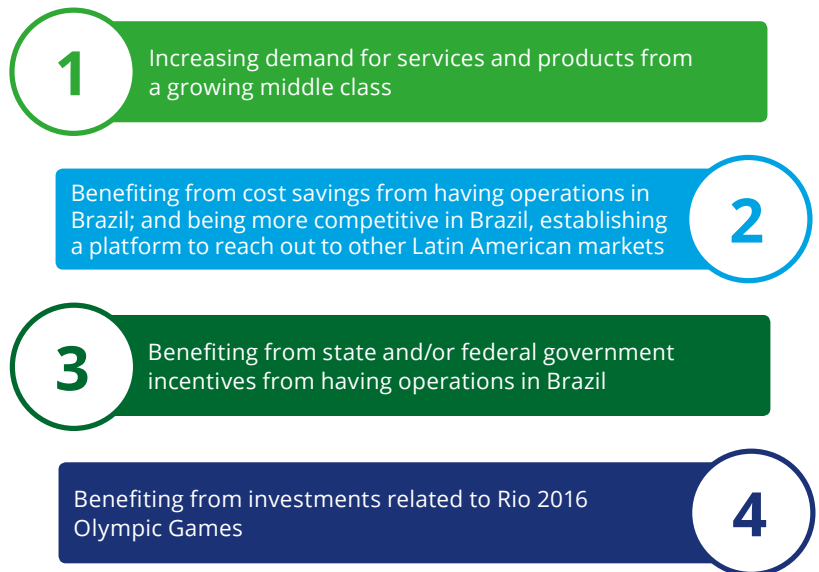
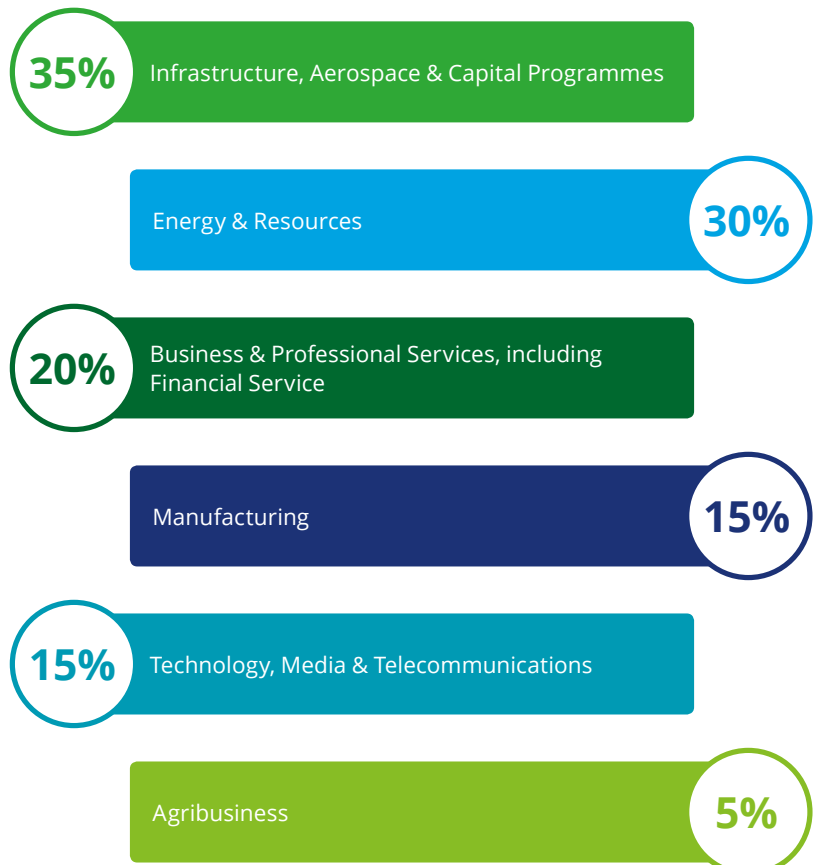


Figure 7. Sectors of focus for growth



¹ Source: World Bank website, Doing business project data 2014.

The challenges

In 2016, the perception about how difficult it is to do business in Brazil significantly deteriorated. While in 2015 a quarter of the respondents believed it was fairly easy to do business in Brazil, we noted that no one stated this view in 2016. In fact, 45% of the respondents now believe it to be very difficult (compared to 20% in 2015).

Bureaucracy, constant changes to regulations combined with complex tax and labour laws continue to be the biggest negatives of doing business in Brazil for 90% of the respondents. The number of hours a company spends in complying with tax, labour and legal requirements in Brazil² is estimated at 2,600 hours per year. The average in the OECD is 186 hours and 382 in Latin America. Unfortunately, corruption and bribery as well as the threat of high inflation now represent strong/slightly negative concern to 90% of the respondents (up from 65% in 2015).

Furthermore, 80% of respondents continue to say that the unpredictability of government behaviour and concern over changes to rules and regulations have a strong or slightly negative impact on doing business in Brazil. This high level of negative impact is consistent with the view that investors need a stable tax, legal and regulatory environment in order to plan for long term investments.

In addition to the factors above, perceived limitations in finding a skilled workforce and local competition were also stated as reasons why it is difficult to do business in Brazil.

Figure 8. Ease of doing business in Brazil

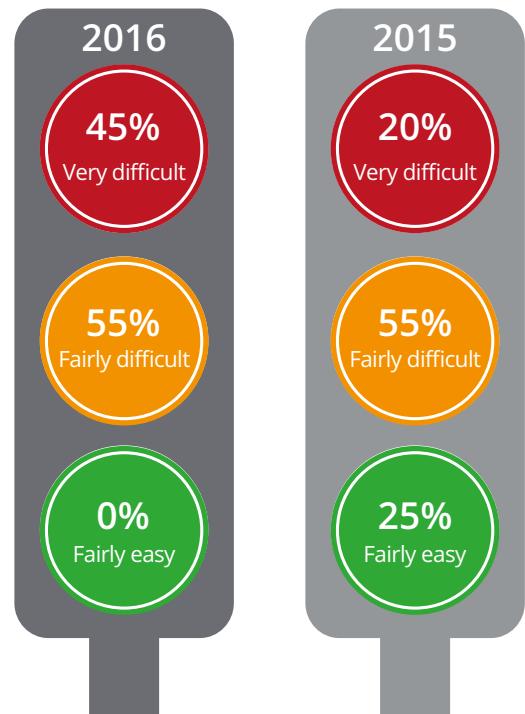
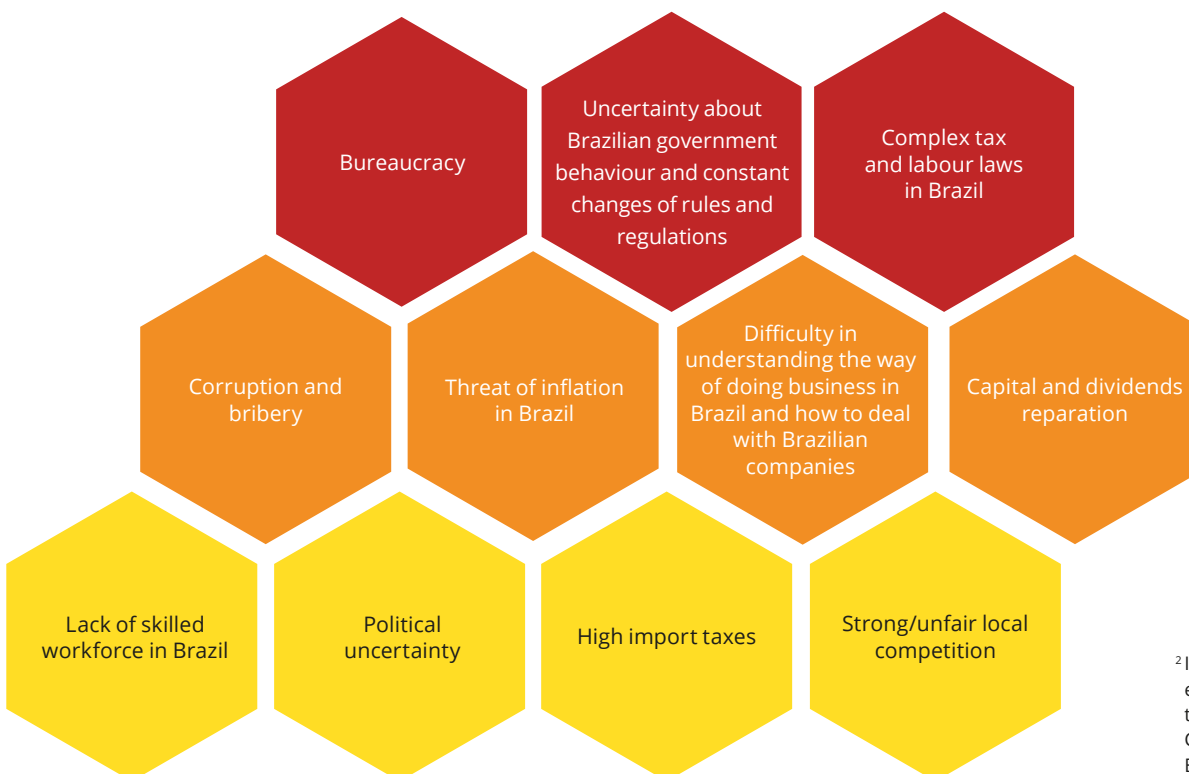


Figure 9. Key challenges of doing business in Brazil



²In accordance with estimates prepared by the International Finance Corporation (IFC) World Bank Group.

Conclusion: Brazil as an international destination for investment

In both 2015 and 2016, the Deloitte and Brazilian Chamber of Commerce survey targeted respondents that already operate or have investments in Brazil (65%) and those that do not currently have operations or invest in the country but intend to do so in the near future (35%).

Despite challenges, we noted that 63% of respondents who do not currently have operations in Brazil intend to establish their own operations, acquire a Brazilian company or establish a partnership with Brazilian company, which is approximately equal to the 2015 results. There was, however, an increase in the number of respondents that do not believe Brazil will be an important market for their companies in the near future to 31% of the respondents. In 2015, all respondents believed Brazil represented a significant growth opportunity for their companies.

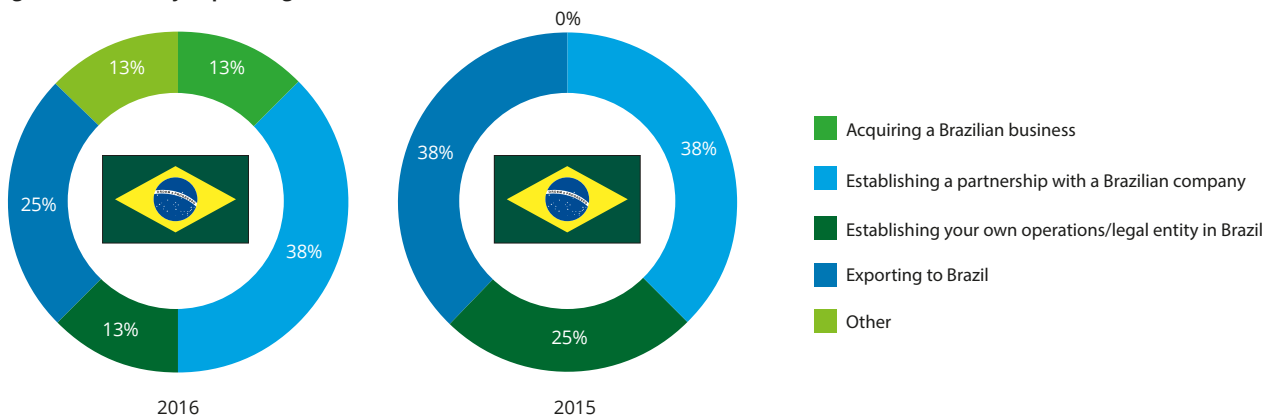
On balance, we believe this is still a positive result in a period of uncertainty, when the Brazilian economy is undergoing significant adjustment to many of its economic policies.

We also asked respondents how business in Brazil compares to other Latin American countries. There were very few differences in comparison to 2015, with a significant improvement in Colombia and a small improvement in Chile and a noticeable deterioration of perceptions in regards to Mexico and Argentina.

Finally, we must acknowledge the limitations of this survey. The respondents continue to represent a very small, although stable, percentage of the UK economy – a sign that there are still a lot of companies that do not intend to invest or export to Brazil. Many of these companies are focusing on other emerging markets like China and India but also many of them do not understand the opportunities that a Brazilian strategy could bring to them or believe Brazil is “just too complicated”. While Brazil does have its challenges, our survey shows those are not a barrier to pursuing worthwhile opportunities.

At Deloitte and the Brazilian Chamber of Commerce we are proud to help UK companies understand both the opportunities and challenges.

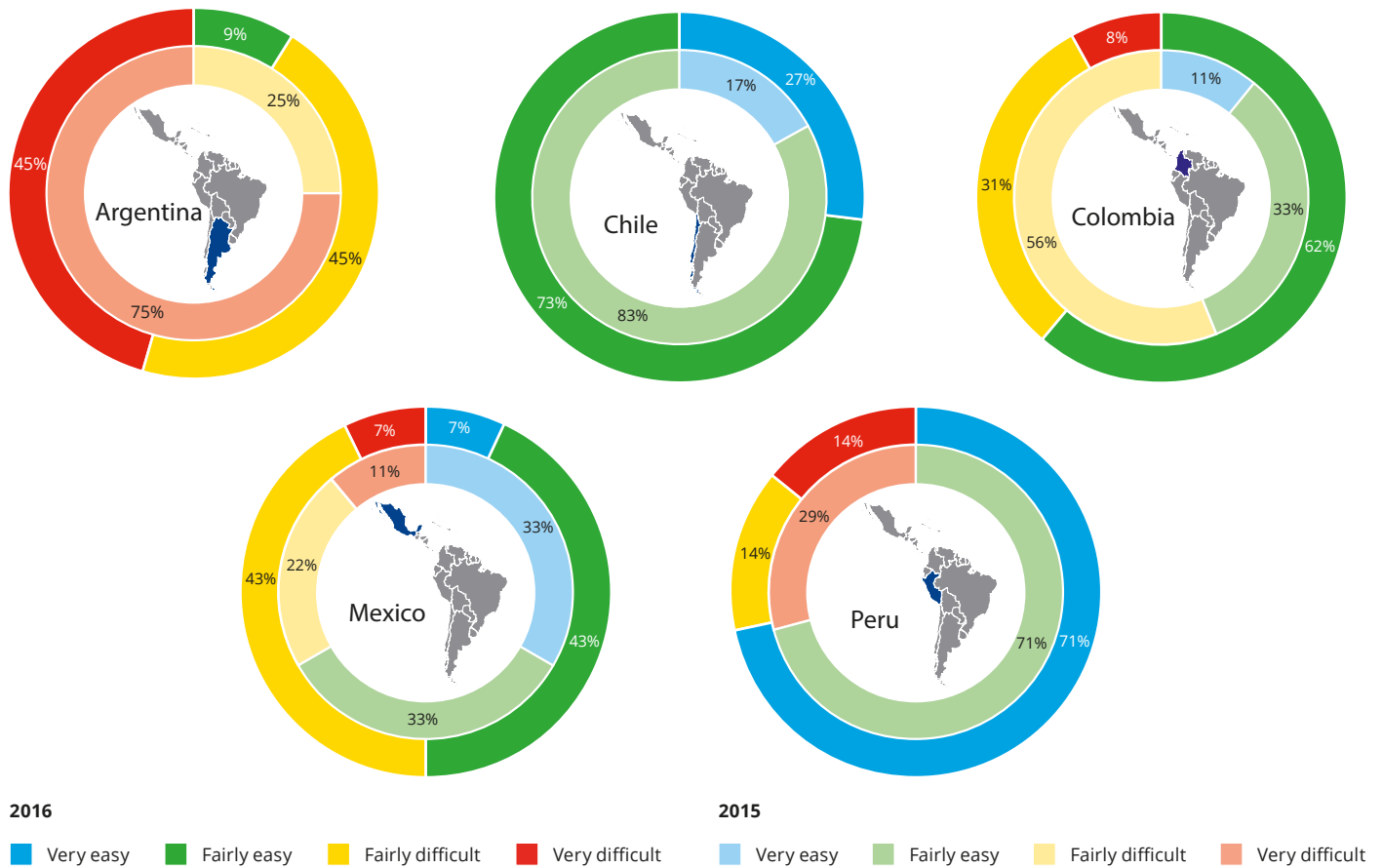
Figure 10. How are you planning to enter the Brazilian market?



“Brazil still is a relevant destination for FDI amid the challenges imposed by the political and economic scenario. It is positive to learn from the survey that the Foreign Investors perceived the opportunities available in various sectors of the economy”

Sérgio Gullo, Chairman Brazilian Chamber of Commerce in Great Britain

Figure 11. How difficult is it to do business in ...



The majority of the respondents continue to believe that investments or operations in Brazil can help them become more competitive not only in Brazil but also across Latin America.

“The survey shows again the short term challenges and long term opportunities which Brazil presents for British business. Post Brexit, Brazil will be an even more important commercial partner for the UK and for British companies. The British diplomatic network in Brazil is here to help manage the difficulties and open the opportunities.”

Alex Ellis, HM Ambassador to Brazil

Contacts

Deloitte

Brazilian Chamber
of Commerce in
Great Britain



Leonardo Ferreira
Author and UK Lead Partner,
Brazil Services Group
Vice Chairman, Brazilian
Chamber of Commerce in
Great Britain

leferreira@deloitte.co.uk
+44 20 7303 3975



Valeria Villa Duque
Director
Brazil Services Group

vavilladuque@deloitte.co.uk
+44 20 7007 7874



Luis Oroval
Director
Brazil Service Group

M&A Latin America Specialist
+44 20 7007 1352



Sérgio Gullo
Chairman

chairman@brazilianchamber.org.uk
+44 20 7321 0085

“Brazil continues to be among the countries with the largest inflow of foreign direct investment. And we have been able to pass legal reforms in 2016 that will ensure the fiscal stability and the economic foundations the country needs to address its current challenges. We strongly believe that in 2017 the economy will resume its path of sustainable economic growth with social inclusion where foreign investment will continue to play a key role.”

Mr Eduardo dos Santos, Ambassador of Brazil to the United Kingdom of Great Britain and Northern Ireland



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