

DOING BUSINESS IN

BRAZIL

A Guide for Canadian Exporters and Investors



ABOUT THE GUIDE

Doing Business in Brazil is designed to help Canadian companies learn about the Brazilian marketplace and how they can do business there. If you've never operated abroad but believe your company could do well in foreign markets, this guide can help you decide how – or even whether – Brazil would be a suitable destination. Or, if you're already doing business abroad and see Brazil as a place to find new opportunities, the guide will help you get started in this vibrant economy.

This Guide is a compilation of publicly available information. It is not intended to provide specific advice and should not be relied on as such. This Guide is intended as an overview only. No action or decision should be taken without detailed independent research and professional advice concerning the specific subject matter of such action or decision. While EDC has made reasonable commercial efforts to ensure that the information contained in this Guide was accurate as of Winter 2012, EDC does not represent or warrant the accurateness, timeliness or completeness of the information contained in the Guide. This Guide or any part of it may become obsolete at any time. It is the user's responsibility to verify any information contained in this Guide before relying on such information. EDC is not liable in any manner whatsoever for any loss or damage caused by or resulting from any inaccuracies, errors or omissions in the information contained in this Guide. This Guide does not constitute legal or tax advice. For legal or tax advice, please consult a qualified professional.

ABOUT EXPORT DEVELOPMENT CANADA

Who are we?

Export Development Canada (EDC) is Canada's export credit agency. Our job is to support and develop Canada's export trade by helping Canadian companies respond to international business opportunities. We are a self-financing, Crown corporation that operates at arm's length from the government.

What do we do?

We provide insurance and financial services, bonding products and small business solutions to Canadian exporters and investors and their international buyers. We also support Canadian direct investment abroad and investment into Canada. Much of our business is carried out in partnership with other financial institutions and through collaboration with the government of Canada.

How we operate

We are financially self-sufficient and operate much like a commercial institution. We collect interest on our loans and premiums on our insurance products. We also have a treasury department that sells bonds and raises money in global capital markets.

We are committed to the principles of corporate social responsibility. Our rigorous due diligence requirements ensure that all the projects and transactions we support are financially, environmentally and socially responsible. We believe that adopting and embracing these principles is good for business.

Partnership preferred philosophy

When we work on a transaction, we prefer to do it in partnership with the private sector. We let the private sector player set the terms and we add capacity and share the risk.

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UNDERSTANDING BRAZIL



The Federal Republic of Brazil occupies about half of the land area of South America. With a population estimated at close to 200 million, it is the world's fifth-largest country and the largest economy in Latin America.

Brazil is divided into 26 states and a Federal District, grouped into five regions for administrative and political purposes: the North, the Northeast, the Central West, the Southeast and the South. As the country's name suggests, it is a federal republic with a democratic government composed of an executive branch (headed by a President), a bicameral legislative branch (made up of a House of Representatives and a Federal Senate) and a judicial branch.

The country has been politically stable since its current constitution was adopted in 1988, even though the multiplicity of political parties – there are more than 20 – means that coalition governments are normal. The four major parties are the Workers' Party (PT), the Brazilian Democratic Movement Party (PMDB), the Brazilian Social Democracy Party (PSDB) and the Democrats (DEM).

Brazil's economic environment

Until the 1990s, Brazil's government exerted a great deal of control over the economy, with state-owned businesses operating in many key industries such as mining, steel, aerospace, finance, power, and oil and gas. Since then, however, a succession of governments has privatized or partially privatized many of these enterprises. Partly as a result of these measures, Brazil now boasts an expanding, diversified modern economy with highly developed agricultural, resource, manufacturing, and service sectors.

The country's economic growth remained strong from the early 1990s until 2008, when the global financial crash undermined external demand for Brazil's commodity products. By late 2009, however, the economy was recovering and, in 2010, GDP growth reached 7.5 per cent, the highest since 1985. Although global economic stagnation cut this rate to 2.7 per cent in 2011, Brazil nevertheless overtook the United Kingdom to become the world's seventh-largest economy.

Brazil's socio-economic future looks generally positive. Urban unemployment in late 2011 was at a historic low of 4.7 per cent and the country's traditionally high level of income inequality declined for the 12th year in a row. Brazil's high interest rates have also made it an attractive destination for foreign investors, although the government has recently enacted laws to decrease these rates and sovereign bond issues are attracting record low spreads.

Brazil is a member of the Southern Common Market or Mercosur, which was formed in 1991 and includes Argentina, Paraguay, Uruguay and Venezuela. The Mercosur bloc represents a combined market of well over 270 million consumers and a collective GDP of \$2.9 trillion.¹ It provides for a common external import tax rate for imports from non-member countries – imports from members are generally tax exempt – and allows the free movement of goods and people among member countries.²

Brazil is also a member of the World Trade Organization and has trade agreements with various other countries.

The Canada-Brazil trade relationship

In 2011, Canadian exporters shipped C\$2.7 billion worth of goods to Brazilian destinations, making the country our 11th-largest trading partner. Our major domestic exports were fertilizers (C\$714 million), fuels and oils (C\$686 million), machinery (C\$295 million), paper and paper products (C\$240 million) and electrical equipment (C\$140 million).

On the investment side, about 500 Canadian companies are currently operating in Brazil, and the country was the 11th-largest recipient of Canadian foreign direct investment (FDI) in 2010.

Because the Government of Canada has chosen Brazil as a priority market, Canada–Brazil relations are becoming steadily closer. The Canada-Brazil Framework Agreement for Cooperation on Science, Technology and Innovation, for example, will encourage Canadian and Brazilian partners from industry, academia and government to collaborate on joint R&D projects, scientific conferences and workshops.

Associated with this Framework Agreement is the Joint Action Plan on Science and Technology, which will draw on Canadian and Brazilian expertise to foster advances in areas such as ocean technology, clean technology, green energy, life sciences and information and communications technologies.



Export Development Canada in Brazil

EDC has maintained an active presence in Brazil since 2000. In 2011, EDC assisted 323 Canadian companies with their Brazilian trade and investment, for a total business volume of C\$2.8 billion.

¹ All dollar figures are in U.S. currency unless otherwise indicated.

² Both Argentina and Brazil are currently disregarding this agreement with respect to certain key goods.

Resources for Canadian exporters and investors

GENERAL RESOURCES

The following general resources deal with international trade in a Canadian context.

- › EDC's [Introduction to Exporting: How to Sell to International Markets](#) is a comprehensive guide to foreign trade and investment. It can help you determine whether your company is ready to do business abroad, find ways to identify and enter new markets, learn how to overcome barriers and risks, and much more.
- › [Foreign Affairs and International Trade Canada](#) (DFAIT) provides information about foreign affairs, foreign policy, the Canadian economy, international trade, travel assistance and passport services.
- › The [Canadian Trade Commissioner Service](#) (TCS) is part of DFAIT. It has Trade Commissioners in regional offices across Canada and in more than 150 cities worldwide.

The TCS provides a broad range of services to Canadian businesses in Canada and abroad. Trade Commissioners can help you prepare for international markets, assess market potential, find qualified contacts and advise on market access problems. The TCS also offers market research and country-specific trade and economic reports.

The [Virtual Trade Commissioner](#), also available though the TCS, is a personalized, web-based resource that will give you market information and leads specific to your business interests. You can register for the Virtual Trade Commissioner when you visit the TCS web site.

- › [EDC](#) is Canada's export credit agency. Its job is to support and develop Canada's export trade by helping Canadian companies respond to international business opportunities. EDC's [About Exporting](#) page leads to a wealth of export-oriented resources and information.
- › The [Canada Business Network](#) is a collaborative network of federal and provincial government services that helps Canadian entrepreneurs and exporters build their companies.
- › [CanadExport](#) is a free, online publication maintained by DFAIT. It provides news about trade opportunities, export programs, trade fairs, business missions and more.
- › [Industry Canada](#) offers market reports as well as the useful [Trade Data Online](#) research tool, which provides both historical and current data related to Canada's exports and imports.

BRAZIL-SPECIFIC RESOURCES

The following resources are specific to Brazil and to trade with Brazil.

- › EDC's [Country Info page](#) for Brazil provides a variety of resources related to the country. Refer particularly to the guides from Ernst & Young, Price Waterhouse Coopers and Deloitte.
- › The [Brazil-Canada Chamber of Commerce](#) supports the development of business links between the two countries.

- › The World Bank Group's [Ease of Doing Business in Brazil](#) ranks the relative difficulty of operating in Brazil, from starting a company to enforcing contracts.
- › [ApexBrasil](#), the Brazilian Trade and Investment Promotion Agency, provides a variety of services for foreign and Brazilian companies.
- › [BrasilGlobalNet](#), a complement to ApexBrasil, has a wealth of information provided by the Department of Trade and Investment Promotion.
- › The TCS web site has [a section dedicated to Brazil](#).

Tips for doing business in Brazil

- › Brazilians place great importance on personal and family relationships, and this emphasis extends to business dealings in a way that isn't common in Canada. Establishing a personal side to your business relationship – frequently through social occasions – is part of building mutual trust, and without that trust it will be much harder to negotiate a sale. Most Brazilians, consequently, will want to get to know you on a personal basis before they do business with you.
- › For the above reasons, business negotiations in Brazil are strongly influenced by personal contacts and connections. Brazilian business people prefer a steady working relationship with their counterparts and may feel insulted if you or your representatives visit them infrequently and hurriedly. They also won't like changes in your negotiating team while negotiations are in progress. In addition, the emphasis on the personal means that important business deals are normally concluded face to face and not by phone, mail or email.

- › Brazilian business people are sensitive to rank. If you intend to negotiate or meet with senior decision makers in Brazil, send representatives with an equivalent level of authority.
- › Brazilians have a relaxed attitude to time, so business negotiations will progress more slowly in Brazil than in Canada. A meeting can be delayed or cancelled without warning and your schedule should be set up to accommodate this.

You, however, should always be punctual and be careful not to display frustration or impatience with delays. Because it's vital not to rush business dealings, you shouldn't insist on final decisions until your Brazilian counterparts are clearly ready to make them.
- › When you meet your Brazilian counterparts for the first time, they will expect you to address them by their titles and surnames. Brazilians often address and refer to their colleagues only by family name, but you should not do this until your relationship has reached a more personal level. In general, you should act formally until it is clear that a less formal approach will be welcomed.
- › Handshakes are the most common form of greeting between business colleagues. In informal situations, men and women may greet each other with one or two kisses on the cheek or may briefly embrace.
- › Clothing for business occasions is expected to be formal and conservative. This preference will persist even after you have gotten to know your business colleagues and the atmosphere has become more relaxed.
- › Personal distance in Brazil is closer than in Canada, so your Brazilian counterparts may stand very close to you while speaking. Brazilians frequently interrupt each other during a conversation, but this is a sign of interest and is not considered rude.
- › During a first visit to a company, it is customary to give a gift, usually promotional items without great material value. Expensive gifts can be misunderstood as bribes and are unwelcome.
- › You should be prepared to explain your strategy for providing timely and local service to your Brazilian customer, especially if you are supplying to more remote locations. Being able to provide spare parts, technical assistance and on-site after-sales service (in Portuguese) are highly valued.
- › Brazilians want to see that you are committed to the Brazilian market and to your relationship with them. Visiting them regularly or establishing a local presence should be part of your long-term strategy for the market.
- › Portuguese (*not* Spanish) is Brazil's official language, and proficiency in English varies widely. While business people of the younger generation often have some ability in a foreign language – usually English – a large proportion of senior decision makers do not. Outside the larger cities it is even more difficult to find business people who are fluent in other languages, so you should find a reputable translator who can accompany you to meetings. Note also that your product literature and business cards should be in Portuguese.
- › Business hours (including government office hours) start at 8 a.m. or 9 a.m. and end at 5 p.m. or 6 p.m., with a one-hour lunch break at noon.

BRAZIL'S MAJOR OPPORTUNITY SECTORS



Brazil provides many excellent opportunities for Canadian companies because of its size, its diverse and sophisticated economy, its role in global value chains and the number of multinational companies operating there. In recognition of Brazil's increasing economic importance to Canada, EDC has established [representative offices](#) in Rio de Janeiro and São Paulo.

Canadian companies that have done well in Brazil emphasize that a long-term commitment to the market is essential to success. Most Canadian exporters will need to spend three to five years on market development and relationship building before they begin to see any significant returns on their efforts. Often the best approach to an initial market entry is to find a good local partner or, depending on your type of business, to look into the possibility of a joint venture or the acquisition of a local company.

If you prefer not to work through a partnership, some kind of local representation will always be an advantage. While some Brazilian companies acquire goods directly from foreign manufacturers, most prefer to import such merchandise through Brazilian agents or distributors.

Major opportunity sectors

The major opportunities in the country lie in the following sectors:

AEROSPACE

Brazil's aerospace market is expanding, and its need for imported airplane and helicopter parts and components is growing along with it. [Embraer](#), formerly the country's state-owned aerospace conglomerate, was privatized in 1994 and manufactures airliners, military aircraft, business jets and agricultural aircraft.

Brazil is investing billions to improve 14 airports in preparation for the 2014 World Cup. This presents opportunities for Canadian manufacturers of products such as baggage handling systems and equipment, check-in equipment, X-ray machines and other safety and security products. In addition, Brazil has recently granted permission for the construction and operation of private, non-commercial airports.

Some of the other major organizations connected to the aerospace sector are:

- › [Aerospace Industries Association of Brazil](#)
- › [Ministry of Development, Industry and Foreign Trade](#) (Portuguese only)
- › [National Civil Aviation Agency](#) (Portuguese only)

ENERGY

Brazil is the western hemisphere's third-largest producer and consumer of electricity after the United States and Canada, and is the largest electricity consumer in South America. In 2011, the market for Brazil's power generation, transmission, and distribution equipment needs totalled about \$7.1 billion, with imports accounting for about \$500 million of this sum.

About 75 per cent of the power consumed in Brazil derives from hydroelectric sources. State-owned companies control approximately 85 per cent of power generation, while the private sector has around 80 per cent of the distribution utilities. It is estimated that Brazil will need to invest about

\$15 billion in developing smart grids to increase the efficiency and reliability of its power system. To keep up with its population and economic growth over the next 10 years, Brazil will also have to increase its electricity generation capacity by 6,000 MW per year.

The major opportunities in the sector are related to providing new generation facilities to meet the expected growth in consumption. The construction of transmission lines and the privatization of existing generating and distribution installations also offer possibilities. Canadian expertise in providing isolated communities and rural areas with decentralized energy systems can also be attractive to Brazil's power sector.

[Eletrobras](#) is the country's largest state-owned power company (52 per cent of its stock is held by the federal government) and is also the biggest power company in Latin America. Other major organizations connected to the Brazilian energy sector are:

- › [Brazilian Electricity Regulatory Agency](#)
- › [Ministry of Mines and Energy](#) (Portuguese only)
- › [Energy Research Company](#) (part of the Ministry of Mines and Energy, and responsible for the country's overall energy planning; in Portuguese only)

ENVIRONMENTAL TECHNOLOGIES

The water and wastewater subsector shows a growing demand for technologies such as advanced filtration, loss prevention, intelligent valves, water distribution and reuse, water-saving devices, rainwater systems and membrane filtration. Currently, 48 per cent of Brazilian cities have inadequate water and sewage treatment facilities or even none at all. With a few exceptions, this sector is still mostly state-owned. Some of its companies are modern and sophisticated and often give concessions for the construction and operation of parts of their facilities.

Trade fairs and conferences

Attending trade fairs and conferences is a good way of promoting your company and your products in the Brazilian market, and also of learning about the dynamics of Brazil's industrial sectors. The city of São Paulo hosts around 300 trade fairs per year, and other cities are home to major shows as well.

Brazil is also expanding its investments in solid waste treatment technologies, waste-to-energy projects for landfills, landfill replacement and the introduction of selective waste collection. There are additional opportunities in air pollution control, soil remediation, clean process technologies, environmental information systems and renewable energy.

Some of the major organizations connected to the Brazilian environmental sector are:

- › [Brazilian Environmental Institute](#) (Portuguese only)
- › [Environmental Authority of the State of São Paulo](#) (Portuguese only)
- › [Association of City Cleaning and Waste Treatment Companies](#)
- › [Brazilian Association of Solid Waste Treatment Companies](#)

INFORMATION AND COMMUNICATIONS TECHNOLOGIES

Brazil is one of the world's largest emerging information and communications technologies (ICT) markets and the largest in Latin America. The country's total annual expenditures on ICT are expected to reach \$134 billion by the end of 2014; of this, about 70 per cent will go to telecom equipment purchases, 13 per cent to information technology services and 12 per cent to hardware acquisitions. Recent developments include the mergers of some mobile carriers and the launch of the country's national broadband infrastructure plan.

Demand for broadband services is expected to increase rapidly over the next few years as Brazil's economic and consumer outlooks continue to brighten; about \$8 billion will be invested in mobile

technologies, broadband networks and digital-cities initiatives by 2015.

Mobile broadband growth has been especially strong, with more than four million subscribers as of 2011, and cellular phone services based on Long Term Evolution (LTE) technologies entered the market in late 2012. Brazilians are heavy mobile phone users; there are 250 million phones in use, or more than one per person. Even so, smart phone penetration is currently only 2 per cent.

Opportunity areas for Canadian companies include 3G network maintenance, LTE and WiMax services and applications, broadband infrastructure, application software and wireless communication networks. The broadband market subsector will be looking for cable modems, home networking platforms, IP telephones, IPTV software and video-on-demand services.

Brazil issued 4G broadcast licences in June, stipulating that at least 60 per cent of the installed hardware must be Brazilian. Operators have committed to minimum investments in their 4G networks to cover the host cities for the Confederations Cup in 2013 and for the World Cup in 2014. Increasing mobile 4G data support is expected to drive the development of high-speed, mobile video-based applications such as 3D video services for TVs, laptops, tablets and smart phones, as well as for cloud-based services.

All telecom products to be sold in Brazil must be certified by a Brazilian-authorized certification body and must be homologated (type approved) by the National Telecommunications Agency (ANATEL). Homologation can take 90 days. Note that if the foreign manufacturer's distributor applies for and receives the approval, the distributor owns the registration.

Some of the major organizations connected to the Brazilian ICT sector are:

- › [Brazilian Electrical and Electronic Industries Association](#)
- › [Telebrasil](#) (Portuguese only)
- › [National Telecommunications Agency](#)
- › [ABTA](#) (pay-TV association; Portuguese only)

TRANSPORTATION INFRASTRUCTURE

Brazil's transportation infrastructure, especially the non-air segment of the network, needs substantial upgrading to reduce bottlenecks and increase efficiency.³ The government's long-term transport plans, first laid down in 2008, proposed investments of more than \$200 billion between then and 2023 to extend highways, build ports, improve the connections among the country's regions and provide north-south ferry linkages.

By 2015, the Brazilian federal government expects to invest \$40 billion in expanding the railway network from 28,000 km to 35,000 km. By 2023, total rail investment could reach \$73 billion.

Given the logistics potential of Brazil's 40,000 km of navigable waterways and lakes, water transport is also underdeveloped. Better waterway access, terminals and storage facilities are all needed. The estimated yearly investment in this subsector is projected to reach \$4.6 billion by 2022.

The Brazilian Industry Federation also expects that more than \$75 billion will be invested in facilities for the 2014 FIFA World Cup and the 2016 Olympics, both of which will be hosted by Brazil. This includes substantial sums for improving urban transit systems in the 12 cities where the 2014 and 2016 events will be held.

³ As just one example, fewer than 10 per cent of Brazil's 1.98 million km of roads are currently paved.

In August 2012, President Dilma Rousseff unveiled her administration's Investment in Logistics Program (PIL) for upgrading Brazil's transportation and logistics infrastructure. The first phase will focus on road and rail infrastructure, with approximately \$66 billion in public funds being invested over a 25-year period. Most of the funds will be disbursed between 2013 and 2018.

The federal government is already investing in infrastructure upgrades through its Accelerated Growth Program (PAC), begun in 2007. The program provides incentives for private investment in Brazil's transportation and logistics infrastructure by offering various means of private sector involvement, such as concessions and public-private partnerships.

Roughly half of the projects that will benefit from public investment involve upgrades to the country's existing brownfield infrastructure networks. Investment will be accompanied by regulatory overhaul to ensure that the planning and integration of these networks is properly carried out. The goal is to achieve greater efficiency in transporting goods from commodity sources – such as the soy fields of western Brazil and the iron ore mines of the north – to ports from which these commodities can be exported to foreign markets.

Some of the major organizations connected to the Brazilian transportation infrastructure sector are:

- › [National Association of Public Transportation](#) (Portuguese only)
- › [National Association of Urban Transportation Companies](#) (Portuguese only)
- › [Rail Transportation Association of Brazil](#) (Portuguese only)

MEDICAL EQUIPMENT

Social and economic advances in Brazil have led to better medical and health care for the country's population. Governments have not only been building new medical facilities but have also started new health care programs, which have helped the country become South America's largest medical equipment market.

Brazil both imports and exports medical, dental, radiological, diagnostic and laboratory equipment. The country has few manufacturers of advanced medical technology, however, and about 80 per cent of Brazil's needs in this subsector are imported. With the continuing expansion of the public and private health care systems, this need is only likely to grow. For Canadian exporters, this translates into a promising market for advanced medical equipment, disposables, diagnostic devices, implants and components.

Some of the major organizations connected to the Brazilian medical equipment sector are:

- › [Brazilian Ministry of Health](#) (Portuguese only)
- › [PSI Brazilian Health Devices](#)
- › [Brazilian Association of Equipment, Products and Medical Supplies Importers](#) (Portuguese only)

MINING

Brazil is the world's fifth-largest mineral producer and is one of the world's biggest markets for mining equipment. Vale S.A., the largest Brazilian mining company, is also the world's second-largest mining firm by market capitalization.

Brazil extracts enormous quantities of iron ore, which it sells primarily to China, but is also diversifying into non-ferrous metals such as copper, nickel, gold, aluminum, zinc, lead, manganese and bauxite. It also has 94 per cent of the world's reserves of niobium, a strategic metal used in critical industries in the aerospace, automotive, nuclear power, defence, electronics, and oil and gas sectors.

There are several multinationals in Brazil that meet most of the mining industry's equipment needs, so exporting finished equipment to the country is not a competitive approach. Canadian companies can find opportunities, however, in supplying components for earth-moving machines, belt conveyors, crushers, grinders, laboratory instruments, drill bits, geological surveying equipment and specialized engineering services, particularly when products of the required quality or sophistication are not available within Brazil.

A new mining bill was recently tabled for consideration in the Brazilian senate. It proposes replacing the National Department for Mineral Production with an independent, national regulatory agency for Brazil's mining industry.

Some of the major organizations connected to the Brazilian mining sector are:

- › [Ministry of Mines and Energy](#) (Portuguese only)
- › [Brazilian Geological Survey](#)
- › [Brazilian Mining Institute](#) (Portuguese only)
- › [Professional Geologists Association](#) (Portuguese only)
- › [Brazilian Association of Machinery and Equipment Manufacturers](#) (Portuguese only)

OIL AND GAS

As of late 2011, Brazil was the world's 13th-largest oil producer and ranked 15th in proven oil reserves,⁴ but recent offshore exploration has revealed very large undersea deposits that could increase these reserves from their present 15 billion barrels to 30 billion barrels⁵ (most of Brazil's oil, in fact, comes from deep offshore fields). The state-owned oil and gas company, Petrobras – the world's fifth-largest energy company – controls almost 95 per cent of national production.

The country plans immense investments in both existing and new fields. According to the Brazilian Petroleum Institute, long-term equipment and service procurement and operational expenses throughout the entire industry could exceed \$1 trillion by 2020. Multinationals such as FMC Technologies, Cooper Cameron, Marine/Oceanering, National Oilwell Varco, Weatherford, GE Vetco Grey, ABB and Aker Kvaerner have plants and service facilities in Brazil and hold a significant market share in their respective subsectors.

These companies will require equipment and services that include pipeline alloy coatings, turbo compressors, mooring cables and mooring systems, drilling pipelines, well control systems, oil and gas metering systems, offshore drill rigs, drill bits, steam generators and electrical cabling.

Some of the major organizations connected to the Brazilian oil and gas sector are:

- › [Ministry of Mines and Energy](#) (Portuguese only)
- › [Petrobras](#)
- › [National Petroleum, Natural Gas and Biofuel Agency](#) (Portuguese only)

- › [Brazilian Petroleum, Gas and Biofuel Institute](#) (Portuguese only)
- › [National Petroleum Industry Organization](#)

[Brasil Energia magazine](#) has a listing of Brazilian and multinational oil and gas companies (in English; by subscription only.)

SAFETY AND SECURITY

Brazil's market for safety and security equipment was worth \$29 billion in 2010 and is showing an annual growth rate of around 15 per cent, making it the world's fifth-largest security market. It is estimated that security for the 2014 World Cup and the 2016 Olympics will require additional spending of about \$3 billion.

Planned Brazilian military acquisitions include Embraer's KC-390 heavy-lift aircraft (\$1.3 billion); 36 fighter jets (\$10 billion, but recently delayed); the ProSuper Shipbuilding Program; the Prosub Submarine Program; and the Sisfron border monitoring program (\$6 billion).

Half of all the security products used in Brazil are imported. This may provide opportunities for Canadian firms in several subsectors, including financial institutions, port and airport security, vehicle surveillance and alarms, and security systems for private homes and small businesses. Products in demand include access control equipment, CCTV systems, alarm systems, surveillance technology, drug and explosive detectors, metal detectors, fire prevention and detection systems, biometrics and home security equipment.

While Brazil seeks to assert its role both regionally and internationally, its National Defence Strategy aims to develop a modernized industrial defence base that includes expanding its export capacity

and reducing its long-held dependence on foreign suppliers. Research and development, technology transfer and innovation will be of crucial importance throughout this process.

The umbrella group for the sector is the [Brazilian Association of Electronic Security Companies](#) (Portuguese only).

SELLING TO THE GOVERNMENT

Foreign companies bidding on government procurement contracts must do so through a Brazilian representative, so you will need a local partner to enter this segment of the market. Simply establishing your own company in Brazil isn't enough, in particular for local tenders, since this affiliate won't be considered "local" for procurement purposes unless it has a majority of Brazilian capital participation and Brazilian operational control.

Brazilian federal law lays out the procurement process that the federal and state governments must follow when purchasing supplies and services. This process uses public tenders, which can be open to international bids, to ensure competitiveness. The procurement law states that price is the primary (though not necessarily the only) factor when choosing a supplier.

The Brazilian government is not allowed to distinguish between domestic and foreign-owned companies during the tendering process, provided the bidder is incorporated in the country. When the purchasing decision is made, however, there is a "Buy Brazil Act" that allows preferential treatment for domestic suppliers over foreign firms in selected sectors, even if the Brazilian company's prices are up to 25 per cent higher (this is partly why would-be Canadian bidders need to partner with a local firm).

⁴ According to the CIA World Factbook, September 2012.

⁵ According to a January 2012 estimate by Brazil's National Petroleum, Natural Gas and Biofuel Agency.

INVESTING IN BRAZIL



Brazil is already the largest FDI recipient in South America and has ambitious long-term plans to invest billions in its infrastructure and its oil, gas and power sectors. Its domestic financial resources, however, cannot meet the cost of achieving these goals, so the country will need to attract substantial FDI over the long term.

Brazil's investment climate

Brazil is a generally friendly environment for FDI. Its government does not distinguish between domestic and foreign investors, its financial system is robust, inflation has been under control for a decade and its large, diverse economy offers many opportunities in both the manufacturing and service sectors. Brazil also imposes few restrictions on ownership or on the transfer or conversion of funds associated with foreign investments. Investor rights are well protected and there are no recent examples of Brazil expropriating foreign-owned investments.

Very few FDI transactions require government approval, although there are some sectors where foreign investment is restricted. These include radio, television and newspapers; the aviation industry; coastal and freshwater shipping; nuclear power; mining; and hydroelectricity. In addition, foreign ownership of land within 150 km of Brazil's national borders is prohibited unless approved by Brazil's National Security Council.

Foreign exchange controls

Foreign investments must be registered with the Brazilian Central Bank (BACEN) through the bank's electronic registration system known as RDE-IED/SISBACEN. This must be done within 30 days of the date on which the investment was made. Remittance of funds out of the country must be made using prescribed arrangements as set out by the International Capital and Foreign Exchange Market Regulation (RMCCI).

The basic rules for various types of remittances are as follows:

› Remittance of dividends and profits

There are no restrictions on the amount of dividends or profits that can be distributed to non-resident shareholders as long as the investment was properly registered with BACEN. Before making a shareholder distribution, however, a foreign-owned sociedade anônima (a form of business entity described on page 19) must allocate 5 per cent of its annual net income to a reserve until the reserve total equals 20 per cent of the company's capital.

› Remittance of interest

There are no restrictions on interest paid to a foreign lender, provided the loan was consistent with market conditions and was registered with BACEN.

› Remittance of royalties

Royalty payments are allowed as long as the property generating them was registered both in the country of origin and in Brazil.

› Repatriation of capital

Repatriation of share capital is not restricted if the investor registers the original investment and any capital increases or capitalized earnings with BACEN.

Investment incentives

While Brazil's federal government does not offer direct tax incentives for foreign investment, it does operate programs designed to encourage economic development in specific regions, primarily the Northeast and the Amazon. Two such programs are the Superintendência de Desenvolvimento do Nordeste ([SUDENE](#)) and the Superintendência de Desenvolvimento da Amazônia ([SUDAM](#)).⁶ State-owned financial institutions such as [Banco do Nordeste](#) offer preferential financial terms on loans to support

investment in the region. Other federal-level incentive programs cover the oil and gas sector, infrastructure, port development and the semiconductor industry.

In addition to the federal incentives, many state and local governments offer reductions in indirect taxes to encourage FDI in their regions. These include deferment or reduction of the state-based VAT, free land or building leases and exemption from municipal service taxes.

The Manaus Free Trade Zone

Brazil has one large free trade zone, the Manaus Free Trade Zone (MTFZ). Located at Manaus in the state of Amazonas, the MTFZ offers tax incentives intended to attract both domestic investment and FDI to the underdeveloped Amazon region.

Foreign goods used in the MFTZ for consumption, manufacture or assembly, and goods imported for storage and re-export, are exempt from import duties, social contributions and federal VAT. The state of Amazonas may also grant exemptions to the state VAT. Businesses wishing to set up projects in the MFTZ must obtain approval from the [Superintendência da Zona Franca de Manaus](#) (SUFRAMA).

The principal advantages of operating in the MFTZ include:

- › an import duty exemption for products destined for internal consumption in the MFTZ;
- › an import duty exemption for certain products destined for the Western Amazon region;
- › an import duty reduction of up to 88 per cent for raw materials imported via the MFTZ and subsequently used to manufacture products for the Brazilian market;

⁶ As of mid-2012, both SUDENE and SUDAM were set to expire at the beginning of 2014 and it is not certain how or whether they will be extended.

- › suspension of the federal VAT on imports entering the MFTZ until they leave the MFTZ;
- › exemption from the federal VAT for goods leaving the MFTZ if they have undergone the legally required minimum basic production process;
- › exemption from the federal VAT on products manufactured outside the MFTZ and destined for the MFTZ;
- › an income tax reduction of up to 75 per cent on certain income;
- › special rates on social contributions, depending on the activity and the transaction;⁷
- › various credits on the state VAT; and
- › various municipal tax exemptions.

Labour

Brazil has signed a large number of International Labour Organization conventions concerning the prohibition of child labour, forced labour and discrimination on the basis of race, sex, age, colour or marital status.

Note that at least two-thirds of a company's employees must be Brazilian. This ratio also applies to the company's payroll, so that two-thirds of the company's compensation spending must go to Brazilian citizens. Non-Brazilian specialists hired because no Brazilians are available are excluded when calculating this proportion.

Domestically, Brazilian employment conditions are governed by the Federal Constitution, the consolidated labour laws and any collective bargaining agreements in force. About 19 per cent of the labour force belongs to unions, which are well organized and vigorous in defending workers' wages and working

conditions. Unions in some sectors engage in industry-wide collective bargaining as mandated by federal regulations.

All Brazilian workers, not just union members, have specific rights that include:

- › protection against arbitrary dismissal;
- › a minimum wage;
- › unemployment insurance;
- › maternity and paternity leave; and
- › occupational accident insurance.

The major provisions of the labour codes cover the following areas:

› Daily and weekly hours

For employees working in the private sector, the maximum working day is eight hours and the maximum working week is 44 hours. More than this is considered overtime and employees may be asked to work up to two hours' overtime per day. The overtime pay rate is 1.5 times the normal hourly rate.

› Vacations

After one year of service in a company, every employee is entitled to 30 vacation days to use throughout the next year. At the time they take their vacation leave, employees must receive a bonus payment equal to one-third of their normal monthly wage.

› Salary bonus

The employer must pay each employee a salary bonus (often known as the "13th salary") equal to the employee's monthly wage. Of the total due, 40 per cent is paid in November and 60 per cent in December.

› Termination

If the company terminates an employee without cause, it must either give the employee 30 days' prior notice or indemnify the employee for this period.

› Employee severance fund

Under the employee severance fund system, the employer must deposit the equivalent of 8 per cent of each employee's compensation for the previous month into a bank account set up in the employee's name. Additionally, a contribution of one half of one per cent of each employee's compensation for the previous month must be paid to the government.

› Employer obligations

Based on the employee's monthly salary, the employer must contribute to various employee-related government programs, such as social security and labour accident insurance.

Corporate social responsibility

Most Brazilian companies, both private and state-owned, are strongly aware of their corporate social responsibilities, and Brazilian citizens expect local businesses to show such awareness. As a result, many corporations support education, health and other programs in the communities where they operate. Brazilian governments at all levels also support sustainability as a combination of good social, economic and environmental practices.

Political risk

Brazil is a stable democracy and the levels of political risk are much lower than they were a decade ago. There have been no expropriations of foreign assets in the recent past and it is unlikely that any will be undertaken in the foreseeable future. While political and labour demonstrations occasionally occur in urban areas, they do little but interfere (temporarily) with public transportation.

⁷ These social contributions are examined in more detail on page 23.

ESTABLISHING YOUR PRESENCE IN BRAZIL



Foreign companies are permitted to establish and own Brazilian businesses, subject to the restrictions mentioned on page 16. Brazilian law does not distinguish between foreign and domestic companies or individuals when businesses are being set up.

Establishing a Brazilian business entity can be a complex undertaking. The government is trying to simplify the process, but you'll definitely need legal guidance and advice to smooth your way.

Establishing a Brazilian company

There are two major types of Brazilian companies, the sociedade limitada and the sociedade anônima (S.A.). Most foreign-owned businesses fall into one category or the other.

SOCIEDADE LIMITADA

The sociedade limitada, commonly called a “limitada,” is the most widely used business entity in Brazil because it is easier to set up than an S.A. and is very flexible. Because its management and other requirements are relatively straightforward, the limitada is a good choice for making direct investments in Brazil.

The limitada’s key characteristics are as follows:

- › There are no minimum capital requirements and there is no requirement for a capital reserve.
- › Its capital is divided into quotas, rather than shares.
- › It must have at least two partners, called quota holders. Neither has to be Brazilian but at least one must reside in Brazil.
- › It provides its quota holders with limited liability.
- › It does not need to publish annual financial statements.
- › It can be converted to an S.A. if necessary. The procedure is easy and there are no tax penalties upon conversion.
- › It is simple to form and operate.

Once operating, the business has to be managed by someone resident in the country – not necessarily a quota holder – but the resident manager need not be a Brazilian national. If the manager is a foreign national, he or she must have a Brazilian work permit. In ideal circumstances, setting up a limitada takes about 40 to 60 days.

SOCIEDADE ANÔNIMA

The S.A. is more complex to set up than the limitada. It can be privately held or publicly traded; if the latter, it can issue shares to be traded on the stock exchange.

The S.A.’s key requirements are as follows:

- › It must have at least two shareholders, who may be foreign or Brazilian individuals or legal entities. Non-resident shareholders must be represented by a resident Brazilian national.
- › If an S.A. is to be formed by issuing public shares, it must register the issue with the Securities Exchange Commission (Comissão de Valores Mobiliários or CVM) before the public offering. This will require the involvement of a financial institution.
- › For publicly traded S.A.s, at least 10 per cent of the issue price of shares subscribed for in cash, or in kind such as machinery and goods, must be deposited in a bank authorized by the CVM.
- › A registration application and a copy of the company’s articles of association or bylaws must be filed with the local Commercial Registry. Depending on the S.A.’s intended activities, additional registrations might be needed.
- › The S.A. must publish its documents and certificate of registration in the Official Gazette (Diário Oficial) and in another major newspaper within 30 days of registration. It cannot begin to operate until this has been done.
- › Publicly traded S.A.s must be audited every year. This is not required for privately held S.A.s.

SETTING UP A COMPANY

The following general procedure applies to establishing both limitadas and S.A.s. There are additional registrations specific to each kind of business, which your legal advisers will explain to you.

1. Register your company’s articles of association or bylaws with the Commercial Registry in the state where the company will have its headquarters. This establishes your company as a legal entity, although it can’t yet begin to operate. The major documents for this registration are:
 - › three copies of the articles of association or bylaws, signed by the partners and possibly by witnesses and a lawyer;
 - › a power of attorney, granted by foreign shareholders or quota holders to a lawyer resident in Brazil;
 - › documentation proving the existence of a foreign entity holding shares or quotas;
 - › certified copies of the identity and taxpayer cards of all shareholders, quota holders, directors, partners and managers;
 - › completed forms containing data on the company and its shareholders, quota holders, directors, partners and managers; and
 - › receipts for payment of the application fees.
2. Register with the Internal Revenue Service. This allows you to open bank accounts and make purchases, but does not allow you to make sales or issue invoices. The major documents for this registration are:
 - › a copy of your incorporation documents;
 - › a copy of the corporate resolution approving the issue of the power of attorney to a resident of Brazil, and
 - › a declaration identifying your company’s controlling shareholders.

3. Register with state and municipal registries. The major documents for this registration are:
 - › a copy of your registration with the Internal Revenue Service; and
 - › a copy of the latest real estate tax bill for the property where your company has its headquarters.
4. Register with the local Municipal Taxpayers' Registry, which is responsible for granting business licences and ensuring compliance with local regulations.

JOINT VENTURES

Joint ventures may be set up as S.A.s, limitadas or consortium agreements. They are subject to the same tax rules as S.A.s and limitadas and are used mainly for large infrastructure projects.

PARTNERSHIPS

There are four basic types of partnership:

- › **General partnerships (sociedade em nome coletivo)**
These are associations of two or more individuals operating under a collective name. All partners participate actively in the business and each bears unlimited liability for the partnership's debts.
- › **Limited partnerships (sociedade em comandita simples)**
At least one partner is fully liable for the company's obligations, while the others are liable only to the extent of their investments.

- › **Share-limited partnerships (sociedade em comandita por ações)**
This type of partnership issues certificates of transferable shares representing the partners' ownership interests. Partners in this type of business entity include both individuals with full liability for the partnership's debts and those whose liability is limited to the extent of their investments.
- › **Participation in a partnership account (sociedade em conta de participação)**
This arrangement has a silent partner who is not responsible for the partnership's obligations. This type of partnership is not considered a corporate entity for legal purposes but is often established for specific projects.

SALES REPRESENTATIVES

Assuming you don't want to set up a company in Brazil, it will be easier to sell to Brazilian customers if you use local representatives such as agents and distributors. In this case, your firm doesn't have a business presence in the country so it's not subject to Brazilian corporate taxes or other levies that apply to resident companies.

When you hire a sales representative, you should always set up a written agreement to define the scope of the relationship. The basic provisions of this agreement should cover areas such as:

- › the goods that the representative will sell and/or distribute on your behalf;

- › the length of time the agreement will be in effect;
- › the Brazilian territory (such as a state) where the representative is authorized to represent you;
- › whether the representative has the exclusive right to represent you in the specified territory;
- › restrictions on the use of your intellectual property, such as trademarks;
- › the methods used to pay the representative;
- › how the representative will be indemnified if you terminate the agreement without legal cause; and
- › the term of the agreement.

It is best to avoid hiring individuals as sales representatives. Under some circumstances, they might be considered employees of your firm and would be protected by Brazilian labour laws, which could involve you in legal disputes. Instead, use a company that specializes in providing sales representation services.

Acquisitions and mergers

Brazil does not impose any restrictions on mergers or acquisitions, even when a foreign company is involved in the deal. Some special procedures apply if the Brazilian company being acquired or merged with is publicly rather than privately owned.

Brazilian accounting standards

Accounting standards are established by Brazilian corporate law based on the International Financial Reporting Standards (IFRS). Required financial statements include a balance sheet and statements of income, cash flows and changes in shareholders' equity.

Don't bother with branches

Very few foreign companies open branches in Brazil. Setting one up requires a decree from the Ministry of Industry and Commerce and it is very difficult to obtain such authorization. Moreover, since a branch is subject to the same tax requirements as a limitada or an S.A., it offers no real business advantages.

FINANCE AND TAX SYSTEMS



Brazil's financial system is robust, sophisticated and highly efficient. It is also quite diversified and includes not only commercial banks but also investment banks, finance companies, savings and loan institutions, and insurers.

The country's tax regime treats domestically owned firms and foreign-owned businesses in exactly the same way. It is complex, however, and has a multitude of regulations.

Brazil's currency is the Brazilian real (BRL), which is subdivided into 100 centavos. In mid-2012, one Canadian dollar was worth 2.04 reals.

The financial system

Brazil's financial system is overseen by the National Monetary Council (CMN). The CMN establishes monetary and credit policies, which are administered by BACEN. BACEN also sets the base interest rate for the economy, which in mid-2012 was 8.5 per cent.

The country has about 180 banks with almost 17,000 branches among them. Some are state-owned, such as the Banco do Brasil, and some are private, such as the Itaú/Unibanco. The Caixa Econômica Federal is the Brazil's biggest savings institution and is controlled by the central government. Several foreign banks operate in Brazil, including HSBC (the U.K.), Santander (Spain) and Scotiabank (Canada).

Trade and investment financing

For Brazilian businesses, the banking system is the major source of credit for periods of less than 180 days. Because Brazil has a history of inflation, obtaining long-term financing from local sources can be problematic, and most credit instruments are restricted to short or medium terms. It is possible, however, for Brazilian companies to obtain longer-term loans from government financial institutions or foreign banks operating in Brazil.

If you have set up a Brazilian Limitada or S.A. that sells goods outside Brazil, you may be able to obtain export financing from:

- › the Agencia Especial de Financiamento Industrial (AEFI), which makes funds available to non-Brazilian buyers for the purchase of capital equipment produced in Brazil;
- › the Adiantamento sobre Contrato de Câmbio (ACC), which provides advances on export transactions;

- › the Adiantamento Sobre Cambiais Entregues (ACE), which provides advances on a previously made ACC transaction, after the goods have been shipped;
- › the Programa de Financiamento às Exportações (PROEX), which provides long-term financing for export transactions; and
- › the Banco Nacional de Desenvolvimento Econômico e Social (BNDES), which provides long-term financing for exports of manufactured products and for long-term investments and locally produced equipment.

FINANCING FOR YOUR BUYER

Proposing a competitive financial package to a potential Brazilian buyer can be a crucial part of making a sale. You can take advantage of this through EDC's [foreign buyer financing](#) programs, which can provide financing directly to your foreign customer for an export sale of your capital goods and related services. In effect, you get an immediate cash sale because EDC assumes the risk of non-payment and disburses the funds directly to you.

BONDING AND GUARANTEES

During contract negotiations, your Brazilian buyer may ask you for a bond. This is a sum of money held in trust as a guarantee that you will meet the terms of the sales contract. These bonds are issued by a bank or a surety company on your behalf.

Obtaining a bond can have a major impact on your working capital, since your issuer – normally your bank – will want 100 per cent collateral for each dollar of bonding it issues. You can provide this either as cash or from security pledged from your line of credit. In both cases, however, issuing the collateral eats into the financial resources you use in your business operations.

Bonds, moreover, are payable on the demand of your buyer. If a buyer decides that you have not met the contract conditions, he can “call the bond” – that is, demand that the financial institution pay out the value of the bond. When this happens, your bank does not judge the validity of the buyer's claim or whether you are actually at fault – it simply pays out the bond and takes your collateral in restitution. If you have not, in fact, violated the contract terms, this is known as a “wrongful call,” but it may be very difficult to get your cash back even when you prove you were not at fault.

EDC can provide you with a variety of solutions to help you with your bonding requirements, including [Account Performance Security Guarantees](#), [Surety Bond Insurance](#) and [Performance Security Insurance](#).

Paying taxes

Companies resident in Brazil pay corporate taxes on operating profits derived from worldwide sources. The Brazilian tax year is the calendar year, and businesses can choose to be taxed on the basis of either:

- › actual income or *lucro real*, based on the firm's actual annual or quarterly income; or
- › estimated income or *lucro presumido*, based on the firm's projected income for the year or quarter.

For more detail on taxes, you can refer to Ernst & Young's *Doing Business in Brazil* or Price Waterhouse Cooper's *Doing Business and Investing in Brazil*. Both are available through EDC's [Country Info section](#) on Brazil.

CORPORATE TAX

The tax code defines tax jurisdictions and the federal, state and municipal levels. For businesses, there are two basic federal taxes: the corporate income tax/surtax and the social contribution tax. Rates as of 2012 are as follows:

- › 15 per cent corporate income tax on net taxable income;
- › 10 per cent surtax on net taxable income over BRL 240,000; and
- › 9 per cent social contribution tax on net taxable income.

EXCISE TAXES

There are also two major excise taxes:

- › The State Value-Added Tax (ICMS) is a state-level VAT applied to the import of certain products and to a variety of goods and services transactions. Rates vary according to the state and whether the transaction takes place between different states or occurs within one state.
- › The Federal Excise Tax (IPI) is a federal VAT applied to the import and manufacture of goods. Tax rates depend on the Harmonized System code (HS code) that is applied to the product.

Avoiding double taxation

Canada and Brazil have a [tax treaty](#) that allows Canadian companies to avoid double taxation when operating in Brazil.



SOCIAL CONTRIBUTIONS

In addition to the above, there are two federal-level, mandatory social contributions based on a business's gross revenues:

- › The combined Social Integration Program/Civil Service Asset Formation Program (PIS/PASEP) Contribution helps fund unemployment insurance, child benefits and allowances for low-paid workers. The 2012 rate was 1.65 per cent.
- › The Social Security (COFINS) Contribution helps fund social security, health care and social care. The 2012 rate was 7.6 per cent.

Other taxes are levied at various levels, such as state vehicle taxes and municipal real estate taxes.

Harmonized System Codes

Most countries use HS codes to determine the duties, tariffs and taxes on imported goods. These standardized numeric codes provide a precise way of classifying products for customs purposes. Your goods will need to have HS codes before they can enter Brazil.



THE LEGAL PERSPECTIVE



In Brazil, civil and commercial litigation fall under the jurisdiction of either the federal courts or the state courts. Most of the lawsuits submitted to the federal courts involve Brazil's federal government. Business disputes between private parties, by and large, fall under the domain of the state courts.

Dispute settlement

The state courts are overburdened and contract disputes can take years to settle, so it is almost always preferable to avoid litigation. Even if you appear to be unquestionably in the right, legal action may not be worth your while.

The alternative to litigation may be international commercial arbitration. Also called alternative dispute resolution, this process is intended to deal with business disputes by using independent arbiters to find a solution. Arbitration requires that both parties agree to it, so this agreement is usually established by an arbitration clause in the contract.

Brazil has ratified several international arbitration conventions, and Brazilian law stipulates that arbitration awards are to be recognized in Brazil in conformity with these conventions. For Brazil-specific arbitration, there is the [Arbitration and Mediation Centre](#), based in São Paulo and operated by the Câmara de Comércio Brasil-Canadá (CCBC). The CCBC was a pioneer in Brazil in terms of arbitration and has a very good reputation.

For general information on international arbitration, you can refer to the web sites of the [Canadian Arbitration Association](#) or the [American Arbitration Association](#).

Intellectual property protection

Brazil has ratified the Agreement on Trade-Related Aspects of Intellectual Property Rights and has signed the Bern Convention on Artistic Property, the Patent Cooperation Treaty, the Convention on Plant Variety Protection, and the Paris Convention on Protection of Intellectual Property. Unfortunately, intellectual property (IP) theft remains an ongoing problem in Brazil, so protecting your IP is crucial when you are doing business in the country.

Note that registering trademarks, patents and industrial designs in Canada does not protect them in Brazil. To secure your IP rights under Brazilian law, you have to register them with the [Brazilian Industrial Property Institute](#) (INPI). It is best to do this with the help of local legal counsel.

All the major types of IP can be registered, including the following:

› Trademarks

Brazil's Industrial Property Law protects distinctive signs that identify and distinguish goods and services. Once a trademark application is filed with the INPI, it is published in the Official Gazette; if no one opposes the application, the INPI examines it further and may accept or reject the mark. Assuming the mark is accepted, the applicant pays the fee and receives a certificate of registration. The company must begin using it in Brazil within five years. Registration is for 10 years and is renewable.

› Patents

Patents are granted for new inventions such as processes, machines and manufacturing techniques, or new and useful improvements of existing inventions. They are intended to prevent people or businesses from making, using or selling these inventions or improvements without the patent owner's permission.

In Brazil, patents can be obtained for either an invention or a "utility model." The former must fulfill the requirements of novelty, inventiveness and industrial applicability; the latter requires a practical function for the item, its industrial applicability and an inventive step resulting in a functional or manufacturing improvement.

If a patent is granted, the validity period is 20 years for an invention and 15 years for a utility model.

› Industrial designs

Under Brazilian law, industrial design refers to the features that give a product a unique appearance. Once an application is filed, the INPI carries out a formal examination of the design. Registration is automatically granted if the design complies with requirements.

› Copyrights

Copyrights cover both published and unpublished works. If you own the copyright to a work, you alone are allowed to produce, reproduce, perform or publish the work, or to permit anyone else to do so. Copyrights apply to original works of authorship, including books, films, music, sound and video recordings, dramatic works, magazines, artwork and computer software.

Registering a Canadian copyright, unlike patent, trademark and industrial design registration, does protect your work in other countries, provided they have signed the Berne Copyright Convention or the Universal Copyright Convention. Brazil has signed the Berne Convention, so your works are protected in Brazil.

Copyright is considered to arise from the creation of the work itself. Consequently, your work is (in theory) protected under the Berne and other copyright conventions, even if you never register a copyright for it in Canada or elsewhere. Even so, registration is a good idea for any significant IP of this nature. You can register your copyright in Canada at the [Canadian Intellectual Property Office](#).

Corruption

Bribery is illegal in Brazil and a bribe by a local company to a foreign official is a crime. The effectiveness and enforcement of the anti-corruption laws is inconsistent, however.

You may never encounter corrupt behaviour while doing business in Brazil. If you do, needless to say, your company should never become involved in it. Note that Canadians who become embroiled in corrupt activities, such as bribery of foreign government officials, can be prosecuted in Canadian courts under Canada's Corruption of Foreign Officials Act. For more information, you can refer to EDC's brochure, "[Keeping Corruption Out](#)".

DELIVERING YOUR EXPORTS



Delivering goods to a Brazilian customer is inherently more complicated than delivering them to a Canadian buyer. Distances are greater, transit risks are higher and the paperwork is much more complex.

Even if you use a freight forwarder (see page 28) to handle your logistics, it's a good idea to have someone in your company who understands how international shipping works and who has researched the best way to deliver your products to Brazil.

Transportation

When negotiating a sale, it is inadvisable to agree to deliver your goods to the Brazilian buyer's door. If you do, you'll have to cope with the Brazilian logistics network, which is very expensive – the U.S. Commercial Service estimates that about 31 per cent of the cost of a product in Brazil is related to logistics, including administration, warehousing, inventory and transportation. You should agree to deliver the shipment as far as the Brazilian port of entry and no farther. Once the goods have been landed, your buyer should assume the responsibility of moving them to their final destination.

Using freight forwarders

Because international shipping is complicated and time-consuming, you may save trouble and expense if you use a freight forwarder. You can hire these agencies merely to negotiate a rate with a carrier, or have them do everything from arranging insurance to finding a customs broker. Some forwarders

specialize in shipments to certain countries, while others concentrate on particular types of goods. Check the [Canadian International Freight Forwarders Association](#) web site for more information.

Customs and customs clearance

Brazil's Customs Authority falls under the jurisdiction of the Federal Revenue Secretariat of the Ministry of Finance. All goods entering and leaving the country are tracked by the automated SISCOMEX system, which (among many other functions) calculates the tariffs and taxes to be paid by the importer on imported goods. All imports must be cleared using the services of the importer's customs broker.

DOCUMENTATION

When your shipment reaches Brazil, customs agents at the port of entry will inspect it using the import declaration that your buyer has registered with SISCOMEX. This declaration must include the complete names and addresses of the importer

and exporter, a description of the goods with their HS codes, the unit price and total value by product, and the origin of the goods.

To complete clearance, the following additional documentation is needed:

- › the bill of lading or air waybill;
- › the commercial invoice, signed by the exporter;
- › a packing list; and
- › other documents if required (such as import licences for certain types of goods).

The importer is responsible for most of this paperwork, but you can help speed up the clearance process by working with the importer to ensure that all the documentation is in order. If any information is missing or incorrect, your goods may be held at Customs and be subject to high storage fees. Worse, Brazilian Customs may confiscate goods that are inaccurately documented.

Note that some goods, such as foods, pharmaceuticals, and medical products and devices, require special import licences. The importer is responsible for obtaining these documents.

LABELLING AND MARKING

Brazilian regulations require that all product labels and marks provide accurate and readily understandable information about the product's quality, quantity, composition, price, guarantee, shelf life, origin, and health or safety risks. Imported products should bear a Portuguese translation of this information. Since Brazil uses the metric system, product weights and volumes should appear as metric measures. You should work with your buyer to ensure that the labelling and marking of your shipments meet all Brazilian requirements.

Canadian export controls

Some products – including military and nuclear technology, firearms, certain softwood lumber products and goods of U.S. origin – are deemed to be controlled or restricted goods and require export permits before they can be sent out of Canada. Be sure to check into this before you ship your products. Some Canadian goods cannot be sent to certain countries at all.

The Canadian government agency responsible for regulations of this type is the [Trade Controls and Technical Barriers Bureau](#). The bureau's website provides a variety of resources, including lists of controlled and restricted goods. The Canadian Border Services Agency also provides a guidebook where you'll find more detail about issues such as controlled exports and reporting requirements. Refer to [Exporting Goods From Canada: A Handy Guide for Exporters](#).

CUSTOMS TARIFFS AND FEES

All imports in Brazil are subject to a number of tariffs and fees, which are paid during customs clearance. Your buyer is responsible for paying these tariffs, but you should be aware of them since they will affect your pricing and thus your competitiveness in the Brazilian market.

The charges are calculated automatically by the SISCOMEX system based on the value of your goods in BRL. Brazilian Customs will not release your goods to your customer until all the charges have been paid.

The major tariffs and fees are as follows:

› Merchant Marine Renewal Tax (AFRMM)

This tax applies only to seaborne imports. It is calculated as 25 per cent of the ocean freight charges plus the port handling charges for the shipment.

› Import Tax (II)

This is the basic import tariff and varies from zero to 35 per cent depending on the product. It is assessed on the customs valuation of the goods, which includes the price of the merchandise, the insurance covering it during shipment and the freight charges.

› Industrialized Products Tax (IPI)

This tax is applied according to the type of product. It varies from zero to 20 per cent and is calculated on the customs valuation of the goods plus the value of the Import Tax.

› Merchandise and Services Circulation Tax (ICMS)

This is a state-level VAT applied to all foreign and domestic goods. It varies from zero for essential products to 25 per cent for luxury goods, depending on the state.

› PIS/PASEP Contribution

As described on page 23, this helps fund unemployment insurance, child benefits and allowances for low-paid workers. The 2012 rate was 1.65 per cent.

› COFINS Contribution

Also described on page 23, this tax helps fund social security, health care and social care. The 2012 rate was 7.6 per cent.

There are also a number of other fees such as brokerage fees, warehouse taxes, handling charges and port taxes.

TEMPORARY ADMISSION OF GOODS

Temporary admission allows goods for personal or professional use to enter Brazil for a specified period with no duties, provided that the goods are not to be sold in Brazil. To take such goods into Brazil, you must sign a declaration that the goods will leave the country within the specified time. You also need to provide an itemized list of the goods (in Portuguese) with a customs valuation in U.S. dollars. Valid reasons for temporary importation include using the goods for trade fairs, exhibitions, scientific events, marketing promotions and cultural events.

Standards and conformity

Brazil's [National Institute of Metrology, Quality and Technology](#) (INMETRO) is responsible for product certification and for the licensing of test laboratories. Tests to support the certification of a product must be performed by a licensed Brazilian laboratory, except when the necessary facilities are not available within the country. The [Accreditation](#) section of INMETRO's web site provides more detail.

GETTING PAID



At some point in the negotiation of an export contract, your Brazilian buyer will want to know what credit terms you are willing to offer – essentially, how long he can wait before paying you for your goods. This question has implications beyond the obvious, because your answer may help determine whether you make the sale.

This is because Brazil’s interest rates on commercial loans have historically been very high. Consequently, if you’re a Canadian exporter selling into the Brazilian market, you should be aware that it can be very expensive for a potential buyer to obtain credit to buy your goods. This, obviously, can affect the Brazilian company’s decision about doing business with you.

Forms of payment

Brazil's high-priced credit means that your buyers will look closely at the payment terms you're offering, and if the sale involves costly financing on their part, you may lose the sale to a competitor who offers more lenient terms. When arranging terms with a Brazilian firm, therefore, you will have to balance your need for secure payment against the financial needs of your buyer.

You have three major payment options, each with advantages and disadvantages to either party: documentary letters of credit (documentary LCs), unsecured open account and open account with receivables insurance.

DOCUMENTARY LETTERS OF CREDIT

Documentary LCs are handled through Brazilian banks that have correspondent banks in Canada. This form of payment is very secure for both parties, provided the LC has been confirmed⁸ by both the local bank and the Canadian bank.

Unfortunately, high local interest rates mean that obtaining an LC can be very expensive for your Brazilian buyer. As a result, the buyer will normally prefer to pay you on an unsecured open account basis. Few Brazilian companies use documentary LCs to pay for imports.

UNSECURED OPEN ACCOUNT

In this arrangement, your Brazilian buyer agrees to purchase a quantity of goods from you and contracts to pay for them within 30 to 90 days of receipt. In effect, you are providing the Brazilian business with unsecured credit at zero interest so it can buy your merchandise.

This is ideal for the Brazilian company, since it receives the goods before paying for them and does not have to obtain expensive credit from its bank. However, it is also the riskiest form of payment for you since you lose control of the goods before you receive payment for them. A willingness to be paid on this basis can help you secure a sale, but be very sure that the buyer's credit and payment reputation are good before you agree to these terms.

OPEN ACCOUNT WITH RECEIVABLES INSURANCE

This could also be called "secured open account." In this form of payment, a financial institution such as EDC provides you with accounts receivable insurance (ARI) so you'll get your money even if your buyer

fails to pay. At the same time, because the financial institution secures your payment, you can offer your customer all the benefits of open-account payment with minimal risk to your bottom line. This form of payment is an excellent option for both buyer and seller and is discussed further on page 32.

Checking your buyer

Non-payment is a risk in any business deal, but it tends to be higher in international transactions than in domestic ones. To reduce this risk, you should check your Brazilian buyer's overall reputation and credit status very carefully before committing to a sales agreement.

This due diligence includes investigating the firm's creditworthiness, its financial record, the quality of its management, its business history and its reputation in the local and international marketplace. Local legal or consulting firms may be able to help you do this, and you may be able to obtain assistance from the Canadian Trade Commissioner Service offices in Brazil and from EDC.



Checking your buyer through EDC

With EDC's **EXPORT Check**, you can quickly obtain vital information on many foreign companies. For a modest fee, an EDC Opinion Report will provide key credit and financial information about the firm and an opinion as to whether it is insurable. A D&B Business Information Report, also available for a fee, will furnish detailed corporate information including company history, credit and financial information, and any legal issues involving the firm. In a related area, EDC's **Credit Management Processes that Pay Off** will give you practical advice about setting up your own credit management system.

⁸ LCs can be confirmed or unconfirmed. For example, a Canadian bank can confirm an LC issued by a foreign bank, thus guaranteeing that the Canadian bank will pay you even if the foreign bank doesn't. This kind of LC is obviously much better for you than the unconfirmed one.

Insuring against payment risk

Even the most meticulous due diligence may overlook a financial weakness in an apparently solid Brazilian customer, and you may unexpectedly discover that the company has gone bankrupt or become insolvent before paying you. Or the buyer may simply refuse to pay your invoice, or cancel the contract after you've shipped the goods.

There are several forms of insurance that will protect you against such risks. EDC offers a full suite of these products, including the following:

ACCOUNTS RECEIVABLE INSURANCE

[Accounts Receivable Insurance](#) (ARI) protects you for up to 90 per cent of your losses resulting from payment default due to a wide range of risks, including a customer's bankruptcy, insolvency or refusal to accept the goods as contracted.

SINGLE BUYER INSURANCE

[Single Buyer Insurance](#) insures unlimited export sales to the same foreign customer over 180 days. It covers up to 90 per cent of your losses from a variety of risks, including non-payment due to the customer's bankruptcy or insolvency.

CONTRACT FRUSTRATION INSURANCE

[Contract Frustration Insurance](#) insures you for up to 90 per cent of your eligible losses resulting from a variety of risks including contract cancellation by the customer or the customer's bankruptcy or insolvency.

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You'll find a complete listing of our international offices on our [International Representatives](#) page.

To learn more about EDC's products and services, visit
www.edc.ca/solutions

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