



Doing Business in Brazil

Global Affairs Canada

Water and Waste Water Virtual Mission to Brazil

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Doing Business in Brazil

Getting Ready, Strategy Background

- Immense potential as a trade and investment partner
- One of the most promising and exciting major developing markets
- In many sectors Brazil is already a well-developed market
- Competitors are already there and that competition is fierce
- Use your competitive advantages to the full
- Important to know which competitive advantage will be the most effective in Brazil
- Research the market to identify the level of demand for your product/services
- Decide how to address the market
- Your initial research should tell you:
 - a) what is the market for your product/service in Brazil?
 - b) should you be targeting particular niches or the market as whole? and
 - c) can you be competitive in Brazil and what is your competitive advantage?



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Getting Ready, Strategy Background

Partnering with local companies

- M&A
- Joint Venture (corporate v. contractual)
- Other type of association or commercial representation
- Local knowledge and experience brings advantage that you should consider

Set-up a legal entity (vehicle for your investment)

- Type of structure (limited liability company? Corporation? Branch?)
- Tax (Canadian and Brazilian point of view. Regional Tax Incentives, Free Trade Zones)
- Intellectual property (slow process)
- Labour (high cost)
- Regulatory (highly regulated, foreign exchange controls)
- Investors (where are they? Capital cost?)
- ESG

Compliance with Brazilian legal framework (advanced planning is key)

Work together with Global Affairs Canada (both in Canada and Brazil). Canada has a strong presence in the country and can add real value to your investments into Brazil.

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What do you Need to Know About Intellectual Property in Brazil

Trademarks

- First come, first served
- Exceptions: Prior use (6 months) / CUP (6 months) / well known trademarks
- Entered Madrid Protocol in 2019 (analysis in up to 18-months)

Patents

- Novelty, inventive activity and industrial application
- 20 years for invention patents / 15 for utility models (never less than 10 and 7 after grant date)
- Software programs and commercial methods cannot be patented

Software

- Protection does not depend on registration
- Protection granted to the source code (not to the functionality)

Transfer of Technology

- As of 2017, the National Institute of Industrial Property is no longer interfering in the ability of the Parties to negotiate technology transfer agreements



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Legal overview of water & water waste management in Brazil

Water & Sewage coverage in Brazil (key data of 2018, source: SNIS)

84% of the Brazilian population is supplied with drinkable water and 53% has access to sewage collection

Water

- 65 million households (83.6%) with access to water supply
- 10.2 million cubic meters of water billed to consumers
- Water distribution losses of 38.5%

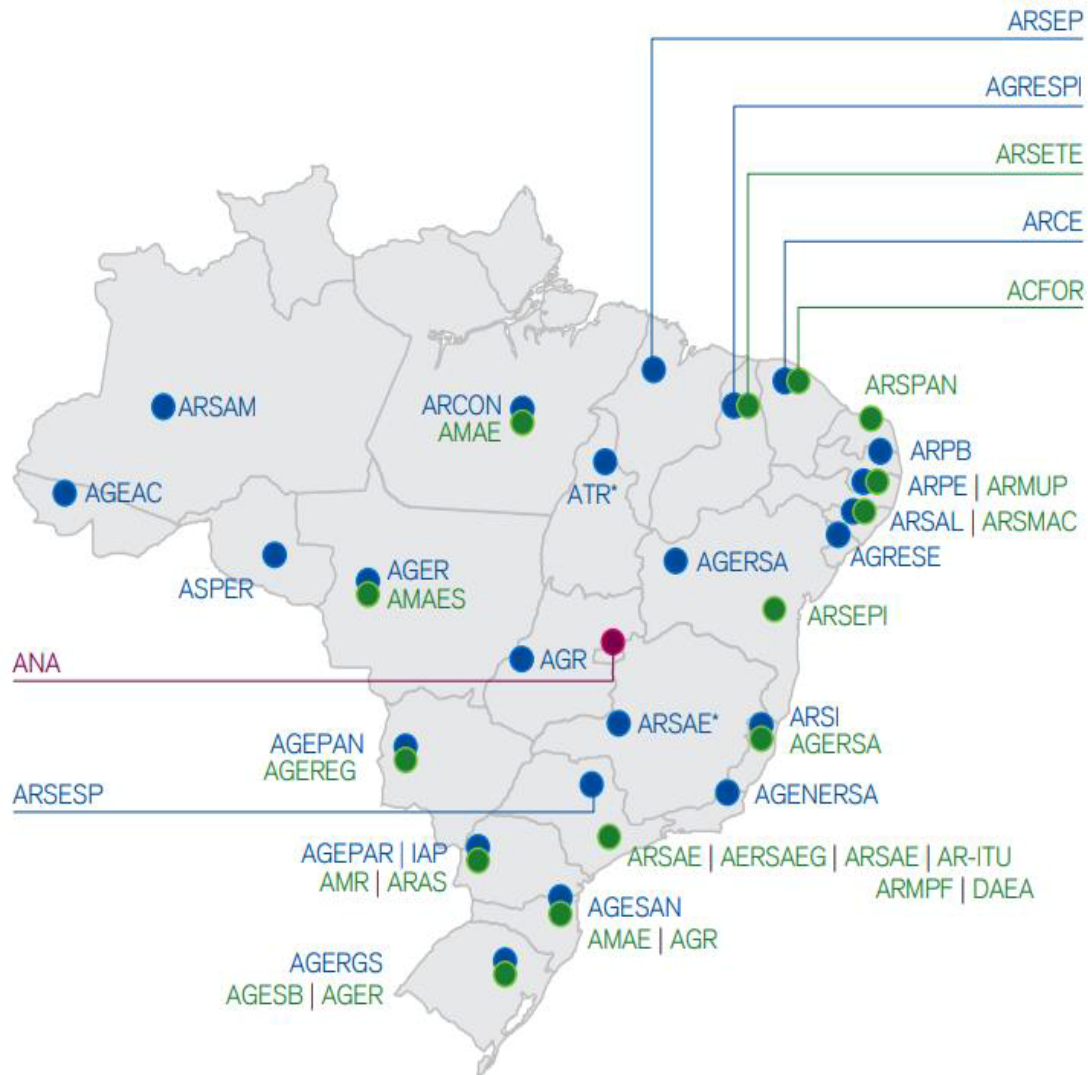
Sewage

- 40.1 million households (53.2%) with access to sewage collection
5.8 million cubic meters of sewage collected
- 74.5% of sewage collected actually treated (balance disposed of in natura)

Significant regional inequality of investment and service coverage across the country

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Legal overview of water & water waste management in Brazil



Brazil has 49 regulatory agencies that regulate services for more than 5,000 municipalities. Brazil's National Water Agency will be responsible for setting the standards and guidelines for the sector

Agência Nacional de Águas (ANA)

- Brazil's National Water Agency (ANA) is responsible for implementing the National Water Resources Management System (SINGREH), created to ensure the sustainable use of rivers and lakes
- The agency regulates the access and use of water resources and establishes reference standards for the sector, monitoring the performance of service providers and local regulatory agencies, stimulating free competition, efficiency and economic sustainability, in addition to seeking universal coverage and low tariffs
- Uniform regulation to be issued by ANA by February 2022

Sources: SNIS, IBGE, FGV and Ministry of Cities

A vertical photograph of a water treatment facility, showing several rectangular tanks with white foam on top, set against a dark, industrial background.

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Legal overview of water & water waste management in Brazil

Legal Frameworks, key aspects

- The regulatory framework introduced in 2007 (Law 14.445/2007) established regulation allowing for the economic rebalancing of concession contracts and encouraged efficiency gains
- Law 14,026/2020, passed on July 15, 2020, reformed the legal framework to increase coverage and quality, and attract private sector capital
 - All concession contracts must have targeted goals for water supply (99%) and sewage collection (90%) by 2033
 - Brazil's National Water Agency (ANA) will set the standards and guidelines for service providers
 - "Program Contracts" between municipalities and stated-owned companies which do not follow the formal administrative bidding process will be terminated
- Presidential vetos on certain aspects of bill of law 4,162/2019 remain pending review by Congress
 - Art. 16, possibility of renewal of existing "Program Contracts"

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Legal Overview about Water and Waste Management in Brazil

Concession models for private and public sector

Private sector concessions

- Competitive bid through public auction and secure fixed tariffs with a pre-determined readjustment method
- The regulatory agency establishes certain investments requirements and contractual target goals for water and sewage coverage

Public sector concessions

- Rules and guidelines for the review of tariffs
 - Specific conditions under which water and sewage tariffs may be reviewed and adjusted
 - Periodic and extraordinary tariff review processes
- A Periodic Tariff Review (Revisão Tarifária Periódica or RTP) aims to reestablish the economic equilibrium of concession contracts
 - Every 4 or 5 years
 - RTPs take into account regulatory revenue adjustments and productivity gains
 - Regulatory revenue adjustments include changes in non-manageable and manageable costs

Pipeline of new concessions

Cedae (4 blocks), Amapá and Acre expected for 2021

Corsan, Agepisa, Porto Alegre and Porto Velho expected for 2022/2023

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Brazilian Tax Law in a Nutshell

	Foreign Direct Investment (Law 4,131)	Capital Market Investment (Res CMN 4,373)	FIP (Private Equity Fund)
Description	Foreign direct investments in Brazilian entities	Investments in the Brazilian financial market (i.e., listed stock)	A closed-end fund intended for the investment in shares, debentures, subscription bonus and other securities
Funding of Investment	Debt and/or equity 0.38% IOF/FX on equity contributions 0% IOF/FX on loans with maturity over 180 days	0% IOF/FX	0% IOF/FX
Repatriation Strategy	Dividends are tax exempt Payment of Interest on Net Equity, deductible for CIT and subject to WHT of 15%	Dividends are tax exempt	0% WHT rate provided the non-resident investor does not hold 40% or more of the quotas of the FIP and is not entitled to more than 40% of the income generated by the FIP, among other requirements
Exit Strategy	Capital gain is taxed at a progressive rate from 15% to 22.5%	Capital gain is tax exempt on transactions at stock exchange. A 15% WHT apply on other cases	

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Brazilian Tax Law in a Nutshell

Long-term Debentures

- A non-resident investing in long term securities (“Long-Term Debentures”) negotiated within Brazilian financial and capital markets may benefit from a more favorable tax regime
- Any interest earned by non-Brazilian investors in connection with Long-Term Debentures benefit from a zero percent withholding rate, provided that certain requirements are fulfilled: (i) maturity greater than 4 years; (ii) remuneration based on pre-fixed interest rate – price index or referential rate (“TR”); (iii) periodical payment of income shall have a time lapse of at least 180 days, among others

Other Tax Incentives

- **Regional Corporate Income taxes incentives (SUDENE/SUDAN)** – Entities developing projects in specific locations in Brazil may be entitled to a reduction in corporate taxes up to 75%. Any amount of tax reduced should be used on the company’s activities and cannot be distributed to shareholders
- **REIDI** – Eligible infrastructure projects may be afforded with the exemption of the PIS/COFINS (gross revenues taxes) levied on the acquisition of services and goods destined to their fixed assets
- **State VAT (ICMS) and Municipal Service tax (ISS)** – Benefits regarding State and Municipal taxes must be available depending on the location in which the entity is established or engaged in business, as well as the nature of its activity

A person's hand is pointing at a tablet screen. The background is dark and out of focus.

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Quick Tips About Doing Business in Brazil

- Long Term Commitment (plan, plan & plan)
- Personal Relationships matter
Know the language & Understand the culture
- Brazilians are not as punctuals as Canadians
- Don't get right down to business. Take time to greet and say good-bye to each participant
- Touching is more common than in Anglo-Saxon countries. Times are transitioning, but it is not uncommon for women to kiss on the cheek (once in São Paulo, twice elsewhere)
- Brazilians like **foreigners**, but be nice to them. No arrogance allowed!
- Be prepared to be interrupted when you are talking. It is not rude in Brazil
- Verbal communication. Eye Contact. Be careful with some gestures (Ok!)
- Emails are not always answered on the same speed as in North America
- Appearances count
- Make sure you are dealing with decision maker

Doing Business in Brazil

Quick Tips About Doing Business in Brazil

Business

- Do not plan to make a business visit or schedule any appointments during holidays or festivals
- Make appointments 1-2 weeks in advance (not a month or two)
- If you meet a colleague during the weekend, make sure to greet your colleague
- Gifts are not important in establishing a business relationship, and people won't expect it

Social/Business

- Always entertain in a prestigious restaurant. Be prepared for lengthy meals
- Brazilians always wash their hands before eating and rarely touch food with their hands
- When inviting Brazilians to lunch/dinner or a party:
 - do not suggest that your guest bring food or drink
 - do not expect them to arrive on time (15 minutes late in lunches/dinners, 30 or more in parties).
 - do not indicate at what time the party will end
- Brazilians are extremely casual about time
- Send flowers before or after visiting someone's home for dinner or lunch
- Football, family, Brazil's beautiful beaches and the country's rapid growth are appropriate conversations (be careful when talking about politics and religion).

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