

The many similarities between Australia and Brazil give exporters the opportunity to explore and build their business in this burgeoning South American market.

# BUILDING BUSINESS WITH BRAZIL

STORY DAVID THOMAS

**O**f all the four BRIC (Brazil, Russia, India and China) economies, Brazil is the country that, in my view, is the closest to Australia from a cultural and social perspective. Brazilians share many of the same passions as Australians—the beach, sport, football, the great outdoors and a warm, sunny climate—and this provides a great start for those looking to engage with a country of 180 million people, which is rapidly growing in confidence as an emerging economic power.

Brazil's traditional strengths are in mining and agribusiness and in some ways resembles Australia as a leading exporter of commodities—notably orange juice, coffee, soy, beef, and chicken—and resources, particularly iron ore. I remember last year standing on the quay of China's largest steel producer Baosteel in Shanghai watching the large tankers arriving from Australia and Brazil full of iron ore, wondering whether we should view Brazil as a friend or competitor.

My answer to this is that our opportunities to engage with Brazil, a country that will during this century dominate the global economy, far outweigh any competitive threats.

## NEW EXPORTERS

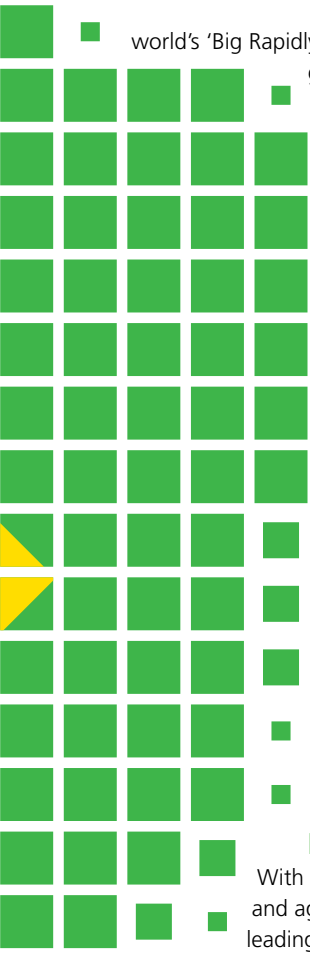
As with all of the BRIC countries, future economic growth in Brazil depends on strong local domestic consumption, as opposed to exports to the cash-strapped developed world, and the Brazilian Government has introduced measures to boost domestic spending via lower interest rates, an easing of capital requirements to Brazil's banking system, designed to stimulate housing and car loans, and reduce unemployment via a range of spending initiatives.

Brazil's population of more than 180 million is the sixth largest in the world, and the largest in Latin America, growing at approximately 1.3 percent per year. Its population is young, with 42 percent under the age of 20, and they have a strong appetite for Western-style consumer goods, brands, fashion labels, technology and gourmet foods.

The population is 80 percent urban, with approximately 30 percent living in 10 principal metropolitan areas including São Paulo and Rio de Janeiro, which have populations of around 19 million and 12 million respectively. Some 14 other metropolitan areas have populations of more than 1 million. This makes it relatively easy to access retail markets due to high levels of concentration in urban centres.

Also, Brazilians are generally keen to spend rather than save, as evidenced by the large numbers of new shopping malls, outlets, hypermarkets, supermarkets and convenience stores offering the usual wide range of services—restaurants, coffee shops, fitness centres, beauty parlours, shoe repairs, post offices, bank services and dry cleaners—and providing entertainment with cinemas, internet cafés and play areas for children.

There is also a rapid rise in the middle class, with a growth rate of more than eight percent of people per annum becoming increasingly affluent and upwardly mobile. Being one of the



world's 'Big Rapidly Industrialising Countries', Brazil's growing, aspirational middle class presents opportunities across the board for Australian retailers, from food and beverage, cosmetics and clothing, to some of our more premium products, notably gourmet food and wine. The exports of Australian wine to Brazil lags our success in other countries and represents only one percent of our total wine exports. While strong, traditional and tariff-free competition exists from Brazil's South American neighbours, particularly Argentina and Chile. Australian winemakers can and must compete in the more prestigious, high value, niche sectors of the market where there is a strong appetite for our premium labels.

While virtually every Australian winemaker is currently focused on the burgeoning Chinese wine market, some unique and lucrative opportunities exist in Brazil for those brave enough to cast the net.

**EXISTING EXPORTERS**

With Brazil's primary strength as a resource and agricultural based economy, similar to ours, leading Australian companies offering high value-adding services to the agribusiness and resource sectors, including technology, software, engineering and consulting services, are highly sought after by Brazilian producers looking for greater efficiency, increased production and yields from their existing activities.

Brazil has a larger landmass than ours, and most of its arable land is available for farming activities; there are also new sites under exploration for mining. Australia has much to offer Brazil as it seeks to modernise and upgrade its land economy.

In addition, while Brazil's construction industry has been hit by the global economic slowdown, the government's Growth Acceleration Program launched in 2007 is committed to supporting investment in infrastructure projects. With Brazil's large fiscal stimulus package—US\$254 billion, representing a significant 19 percent of gross domestic product—there is widespread activity across many infrastructure projects including road, rail, power and the construction of low-income housing.

Housing, commercial and tourism construction is also set to receive a sizeable boost from the preparations for the 2014 FIFA World Cup, which is estimated to inject a further US\$43 billion into the infrastructure sector. With Australia's Olympic experience in designing, constructing and fitting out sporting venues, opportunities exist in many areas for Australian architects, builders and landscapers.

**BRAZIL PROFILE**

- CAPITAL:** Brasilia
- GOVERNMENT:** Presidential Federal Republic
- LANGUAGE:** Portuguese
- CURRENCY:** Real
- TIPPING CUSTOM:** A 10 percent service fee is included on bills at restaurants and bars; tip a hotel's concierge or porter R\$5-10, for beach equipment rentals R\$5 or more per day. For taxis, round up fee to nearest real.
- VISAS:** Australian passport holders will need a visa when travelling to Brazil
- RELIGION:** Main religion is Roman Catholicism
- SEASONS:** Brazil has a tropical climate. Spring is from late September to late December; summer is from late December to March; autumn runs from late March to June and winter arrives at the end of June.

Source: FCM Travel Solutions ([www.au.fcm.travel](http://www.au.fcm.travel))

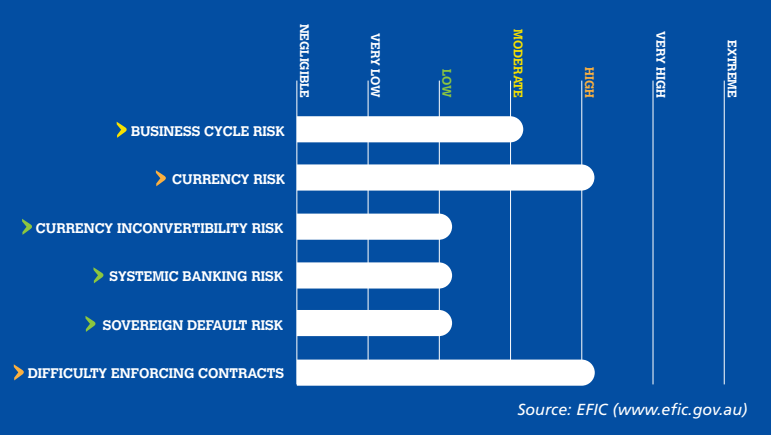
**ADVANCED EXPORTERS**

For many decades, Brazil has led the world in the development of alternative energy sources, notably ethanol and other biofuels, and 45 percent of Brazil's energy is already drawn from renewable sources, according to the National Bank for Economic and Social Development, compared to only six percent from developed countries. In 2008, ethanol made from homegrown sugarcane outsold gasoline, and 90 percent of new Brazilian cars and light trucks can run on biofuel, petroleum or both!

Australian cleantech companies, product providers, consultants and suppliers should go to Brazil to research the significant progress and commitment being made to the renewable energy sector, not just in ethanol and biofuels but also in hydroelectric power, solar and wind farms, and look for opportunities to compare notes, collaborate and export products, services and technology to the Brazilian market.

The Brazilian financial services industry offers a wide range of products, services and opportunities that attract numerous new entrants each year. Having survived the Latin American debt

**RISK PROFILE CHART**



- ▶ crisis of the 1970s and the Mexican devaluation in 1995, Brazil's banking and finance sector has been under the microscope of the International Monetary Fund and the World Bank for many years, and is now among the most well regulated in the world.

Furthermore, the Brazilian Government is run by a sophisticated technocracy of top economists and international bankers, many of whom held top positions in leading international banks, and has allowed Brazil to develop a financial services sector, which is thriving in the post-global financial crisis environment. Opportunities exist across the board for Australia's financial services sector to participate in the growth of Brazil's banking, wealth management, funds management and insurance sectors.

### BARRIERS

Brazil offers many challenges for Australian exporters and this would explain, to some extent, the reticence of Australian companies to make the long flight across the Pacific Ocean to engage with a country that has for many years been associated with the burdens of Latin American debt, hyperinflation, military dictatorships, extreme violence, and poverty.

## Brazil will lead the world in many sectors that complement, enhance and offer opportunities for Australian business

Furthermore, with high tariffs, onerous red tape, bureaucracy and language challenges—unlike most other Latin American countries, Brazilians speak Portuguese rather than Spanish—Brazil continues to offer many challenges for Australian exporters.

However, Brazil is committed to a program of structural reform, including a raft of changes to labour, taxation and infrastructure programs, which will alleviate some of the current challenges over time. In the meantime, Australian exporters should be prepared for

### BEYOND BRAZIL

As well as being a lucrative market in itself, doing business in Brazil also has greater follow-on effects for exporters interested in other South American markets.

Mercosul (or 'Southern Common Market' in English) is a regional trade agreement between Argentina, Brazil, Paraguay and Uruguay, designed to promote free trade and a flow of people and currency in the region. Founded in 1991 by the Treaty of Asunción, Mercosul was developed largely to lower tariffs between the countries gradually, where they will reach zero on almost all tradeable products.

Venezuela has applied for full membership, and associate members Bolivia, Chile, Colombia, Ecuador, and Peru have special trade agreements with the member countries.

Mercosul represents a market of more than 260 million people with a combined gross domestic product of more than US\$2.7 trillion. If you can set up operations in Brazil, you can benefit from Mercosul's regional reach. Conversely, if you are able to set up operations in another Mercosul country, you will find it easier to sell into Brazil.

—Adeline Teoh

### TRADE LINKS

**Australia Brazil Chamber of Commerce:** [www.australiabrazil.com.au](http://www.australiabrazil.com.au)

**Australia-Latin America Business Council:** [www.alabc.com.au](http://www.alabc.com.au)

**Brazilian Association for Social Development and Integration in Australia:** [www.abrisa.org.au](http://www.abrisa.org.au)

**Brazilian Community Council of Australia:** [www.bracca.org](http://www.bracca.org)

**Brazilian Embassy in Australia:** [www.brazil.org.au](http://www.brazil.org.au)

complex and onerous export documentation and customs clearance issues, which calls for advice, support—and patience!

### THE FUTURE

This century, Brazil will become one of the largest economies in the world, taking its place behind China, the USA, India and Russia as the dominant markets for business, trade and investment.

Brazil will lead the world in many sectors that complement, enhance and offer opportunities for Australian business, particularly in agriculture, resources and renewable energy. Leading Australian businesses can't ignore the chance to gain a foothold in this large and significant long-term market. My advice would be to:

- **Do your research.** A good place to start is the Brazil section on Austrade's website ([www.austrade.gov.au](http://www.austrade.gov.au))
- **Talk to Greg Wallis,** Austrade's senior trade commissioner in Sao Paulo.
- **Meet with Brazil's ambassador to Australia, Fernando de Mello Barreto** who I have found to be extremely personable, approachable and supportive in all my dealings with Brazil.
- **Talk to other Australian companies** doing business in Brazil.
- **Join the Australia Brazil Chamber of Commerce** ([www.australiabrazil.com.au](http://www.australiabrazil.com.au))
- **Get some advice** on how to develop a market entry strategy for Brazil; Think Global can help.
- **Go to Brazil.** Start in Sao Paulo and Rio de Janeiro, target companies in your sector and develop relationships with local business leaders and centres of influence. With much of

Brazil's commerce tightly held by a small group of influential families and high net worth individuals, you may find it easier than you think to develop important connections.

- **Get started.** Do something small, gain a foothold and then build up slowly and progressively. Create business targets and milestones, gain confidence and move forwards. You'll be rewarded over the long term! **DB**

—David Thomas is CEO of Think Global Consulting ([www.thinkglobal.com.au](http://www.thinkglobal.com.au)) and a BRIC expert, highly respected for his experience, credibility and passion for identifying, building and facilitating business and investment relationships between developed and emerging countries.