



INTERNATIONAL BUSINESS **BRAZIL**

REPORT 2013



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This report is produced by students from the following schools:



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International Business Brazil 2013

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INTERNATIONAL BUSINESS **BRAZIL**

This report is the result of a three week field trip to Brazil, and a year spent in preparation. During our field trip we visited Norwegian companies, institutions and Brazilian educational institutes alike. We hope our work can be beneficial to you, and that you enjoy reading our report.

-The IB-team

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EXECUTIVE SUMMARY

In this report we have tried to answer the question: Is Brazil a goldmine or a potential sore spot for Norwegian companies? To do this, we have started with a presentation of the country; a more information based part, with the goal of giving you some background knowledge to understand the country's current position and state. The country is an emerging economy with increasing importance in the world market. It has experienced economic growth since the mid-1990s, and seems to be on everybody's mind regarding "where to be and operate in the world". However, there are some sore spots that a company needs to battle before Brazil becomes the goldmine it has the potential to be.

The main part of this report is focused on the potential sore spots that you may encounter when entering Brazil and how you may be able to solve them. First we start out with local *understanding and knowledge*. Before you enter Brazil it is crucial and absolutely necessary that you understand the complexity of the country and the way that it operates. We mention three common pitfalls for foreign companies when they enter Brazil. First, the cost level is usually higher than you think. Second, you may have major cultural differences when it comes to negotiation methods, and third, you must have a good entry strategy.

Next, we discuss *the political stability and institutional quality* of Brazil as a country. The qualities of political and bureaucratic institutions are crucial for investment decisions regarding whether or not and in which sectors you choose to invest. It is also widely supported that in order to achieve economic growth, a country needs good governance. Brazil scores above world average on factors such as political stability and absence of violence, voice and accountability and government effectiveness, but below world average on factors such as control of corruption and rule of law. This indicates that Brazil still has some improvement to be done when it comes to the extent to which public power is exercised for private gain and aspects dealing with the extent of property rights protection. It is also worth noting that Brazil scores significantly lower in comparison to Norway on all the reported factors.

The third sore spot is *bureaucracy* - perhaps one of the most challenging aspects of doing business in Brazil. When operating in the country, you need to have a lot of patience and understanding that things take time, and why they do. For many foreign companies, this is a major headache and seems totally unacceptable, but when doing business in Brazil this is just how things are.

"One of the main challenges for companies in Brazil is attracting sufficiently competent labor. Many of these companies are **high technology companies** specialized in a specific field"

The fourth aspect discussed is *the Brazilian labor market* and the issue of *local content, lack of qualified employees and work permits and visas*. One of the main challenges for companies in Brazil is attracting sufficiently competent labor. Many of these companies are high technology companies specialized in a specific field. Coupled with the regulations regarding local content this surge of international companies has sparked a sharp increase in demand for highly qualified labor.

Later, we debate the Brazilian *tax regulations*. To many it may seem like a cobweb of rules, unnecessarily complex and highly ineffective. Even though this might be the case, your company needs to find a way to deal with this. In order to guide you through this cobweb KPMG has written an article on this particular subject and how you ought to deal with it.

We also discuss the presence of *corruption* in the country, even though it seems to be of diminishing importance. Brazil has taken large steps in order to conquer the problem of corruption that seemed to pervade the country, but still they have a distance to go.

Infrastructure is also an important factor to consider when you enter a country. This is a major sore

spot for Brazil. Things are improving, especially in relation to hosting of the 2014 FIFA World Cup and the 2016 Summer Olympics, and improving infrastructure is put high upon the political agenda. But still, they need to improve a lot to really exploit the possibilities that the country seems to hold.

Last, but not least, we discuss the importance of *corporate social responsibility (CSR)* in a Brazilian operating company, as well as the issue of choosing the right *business model* when entering Brazil. As a Norwegian company operating in Brazil, it is expected that you engage in CSR activities. Companies are further advised to clearly communicate not only which CSR activities they engage in, but also the reason for doing so. When it comes to business models, it is crucial that you allocate enough time to choose the right business model and decide how you want to establish your corporation in the company. There are many pitfalls, especially in relation to business culture, and it is important to do a good due diligence on your partners.

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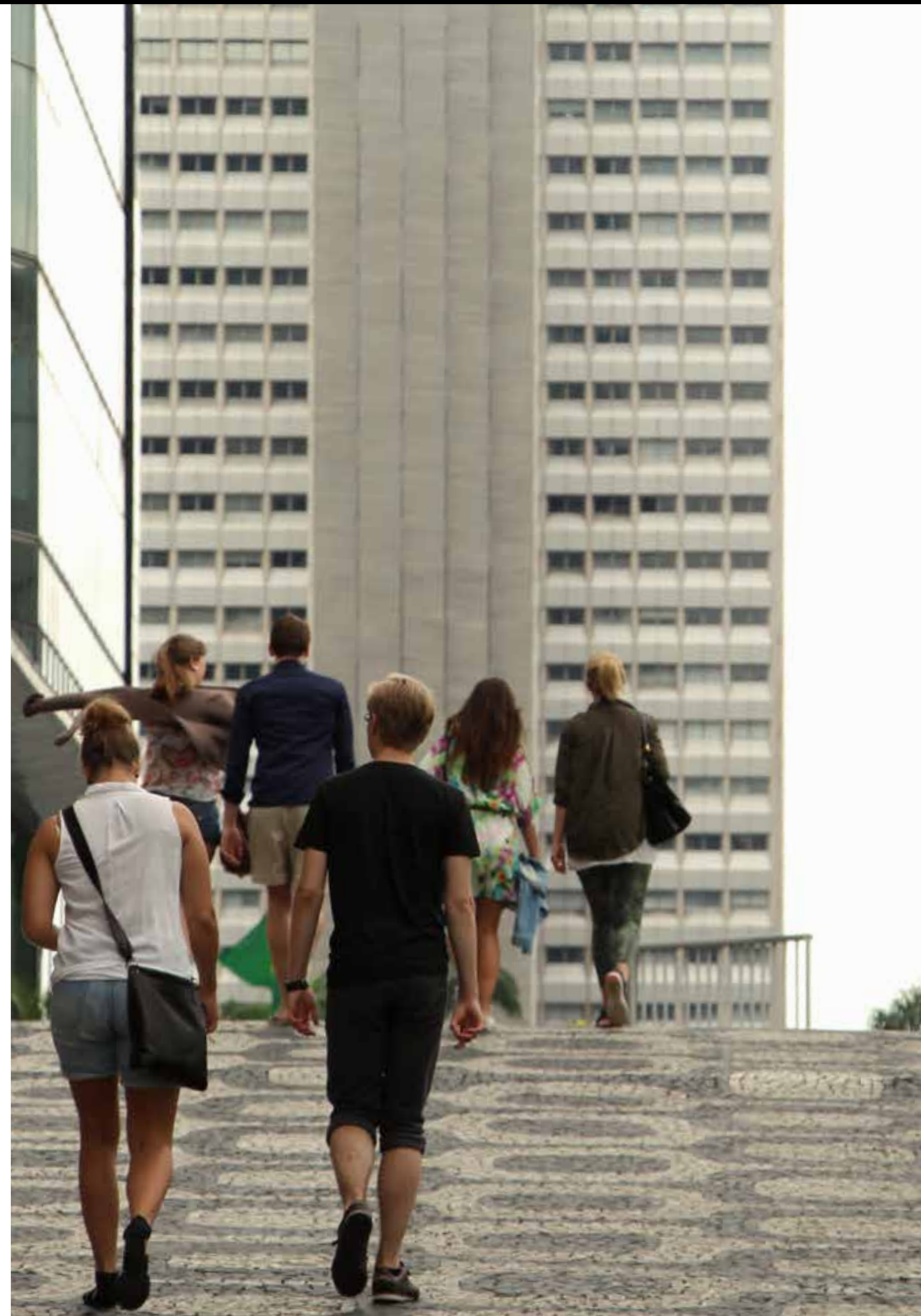
International Business (IB) is an annual non-profit project carried out by a group of 10-12 students attending The Norwegian University of Science and Technology (NTNU), The Norwegian School of Economics (NHH) and The Norwegian Business School (BI), in collaboration with Innovation Norway.

The main purpose of the project is to explore and define foreign market opportunities for Norwegian ventures, and to present companies considering entering these markets with updated and relevant information. Founded in 1984 by Innovation Norway, the project has since its inception sent teams of students to visit all continents, each year selecting a country or region of special interest for Norwegian business. The result of each year's project is a public report based on extensive research in Norway and the target region, contributing to improving the reach of Norwegian products and ideas beyond our borders. This report is based on information gathered in meetings and interviews with Norwegian as well as international companies and organizations in Brazil during January of 2013, and during interviews and extensive research conducted in Norway the preceding year. The project is fully funded through sponsorship from businesses and the project members' academic institutions.

In March of each year, a new team of students is selected by the preceding year's group, based on

applications and interviews, and the team then works on the project alongside their respective studies throughout the year before departure. The IB project provides an exciting and unique opportunity for dedicated and eager students to explore, learn, and connect as well as being a unique forum for contact between its members and the business sector. A year spent working on the IB project is valuable for a future career and an excellent chance for learning and personal growth.

This year's project focuses on Brazil, the economically leading country in South America. With large natural resources and easy access to a strong workforce, Brazil's economy has experienced major growth in recent years, and is expected to continue to grow. The oil and gas and shipping sectors are of particular interest and importance to Norwegian companies starting out or expanding in Brazil, and a significant number of Norwegian companies are already established in these and other sectors. This represents an excellent opportunity for newcomers to learn from the successes and failures of those who have made inroads into Brazil. It also gives us in the IB team a great starting point for the exciting challenge of gaining and communicating knowledge and insights about this rapidly developing and dauntingly complex economy, and we are thrilled to take on this task.



ACKNOWLEDGEMENT

GUNN OVESEN
President & CEO,
Innovation Norway

International Business has pointed Norwegian companies in the right international direction since 1984. They provide a fresh—and comprehensive—perspective on opportunities in new markets abroad relevant for Norwegian industry. Experience shows that companies speak more openly to students than to professional consultants, and that youthful curiosity helps to question established industry assumptions.

We are very pleased to note that the focus for this year's project is Brazil. With almost 200 million people and a rapidly growing middle class, Brazil is a very large and expanding market. It is still a complicated country to do business in (Brazil is ranked no. 130 on the World Bank's Ease of doing Business list), and it is Innovation Norway's pleasure to be present in the market to help Norwegian companies succeed there.

Most of the approximately 140 Norwegian companies that are in Brazil today are in the oil & gas and maritime sectors. We expect these sectors to remain dominant also in the future. For Brazilians, however, what comes to mind when Norway

is mentioned is bacalhau, which Norway has exported to Brazil since the 1840s. We are seeing increasing cooperation and business opportunities for Norwegian aquaculture companies as well.

We are pleased to support International Business in their important project to provide Norwegian businesses with up-to-date information on the Brazilian market, and we hope the report will be read thoroughly by all companies considering doing business in Brazil. A well-written report on the business climate and opportunities in a new market can for some companies be what triggers a process leading to an eventual market entry.

ACKNOWLEDGEMENT

HELLE KLEM
Consul General,
Royal Norwegian Consulate General,
Rio de Janeiro

The Royal Norwegian Consulate General in Rio de Janeiro is very pleased that the International Business Project focuses on Brazil this year. It was a true pleasure meeting with the eager and interested group of students participating in the project when they visited Rio in January this year. It was also a very timely visit due the important increased cooperation between Norway and Brazil over the last few years. This fact is recognized by the Norwegian Government through its strategy on the cooperation between Norway and Brazil launched in 2011.

As an emerging economy with positive political, social and economic development Brazil is increasingly interesting to Norway and Norwegian business. Many have already realized this, and in Rio alone you find some 140 Norwegian companies. The Norwegian businesses cover a lot of areas such as bacalhau, energy, oil/gas, offshore/supply and maritime services. In fact Norway is the 7th largest investor in Brazil and invests more here than in China.

However, doing business in Brazil is not easy, as we discussed during the visit of the International Business Project to Rio, a fact that will be duly reflected in the report. Still there seem to be a good “match” between Norwegian and Brazilian interests which makes business and development for mutual benefit possible. One evident example is relevant Norwegian technology and competence in exploring and producing oil in difficult/deep sea areas and Brazil's large investment program within this field. Brazil is also “the place to be” in order to take part in future technological development in this area.

The International Business Project and its report are important for companies and others to get better knowledge of the Brazilian market and opportunities as seen from a young, fresh and maybe different angle. The Consulate General in Rio welcomes this contribution to further expand and develop the cooperation between Norway and Brazil and hope to see more Norwegian students in Brazil and vice versa in the years to come.



ACKNOWLEDGEMENT

TROND GISKE
Minister of trade and industry

Brazil and Norway enjoy good and deep-rooted bilateral relations. From the turn of the nineteenth century, Norway has exported salted and dried cod to Brazil in exchange for Brazilian coffee beans. Today, cod remains important to our trade relationship, representing 21 percent of Norwegian exports of goods to Brazil in 2012. Yet, Brazil's diversified economy and growing middle class present a potential for trade in multiple sectors.

More than 100 Norwegian companies are now established in Brazil. The extensive Norwegian presence is partly a result of Brazil's oil and gas exploration and production. In fact, about 25 percent of the specialised ships operating on the Brazilian continental shelf, such as anchor handling, heavy lift and others for special operations, are Norwegian controlled ships. Yet, Norwegian companies have expertise in many other areas that are relevant for Brazil. Common business opportunities arise in sectors such as aluminium, biofuels, fertilizers, hydropower, aquaculture and environmental technology.

I had the opportunity to witness the extensive business cooperation while visiting Brazil, accompanied by a business delegation of more than 130 representatives from 90 companies, in 2011.

Complementing business interests explain how Norwegian exports to Brazil increased by nearly 200 percent during the last ten years. The total trade in goods between our countries has become threefold in the last ten years, and the value of total trade reached 13,6 billion NOK by the end of 2012. In addition comes trade in services which in 2009 was estimated to be 6,8 billion NOK.

There is a great potential for these figure to increase. As highlighted in the government's Brazil Strategy from 2011, Norway explores the potential for a free trade agreement with Brazil within the EFTA-MERCOSUR framework. Norway also pursues a bilateral maritime agreement with Brazil, with an aim to improve the structure of cooperation that is already taking place.

It is important that students spend time abroad during their studies in order to gain valuable knowledge of countries of interest to Norwegian companies. Projects like International Business could be useful both for the companies already present in the market and companies that consider entering the market. Today's students are key players in making the most of the Norwegian-Brazilian business potential in the years ahead. I am therefore pleased to acknowledge the work done by students from NHH, BI and NTNU in writing this report."

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PURPOSE AND METHODOLOGY

The aim of this report is to give companies and other interest groups a presentation of the opportunities and challenges that Brazil might present when entering the country, and provide first-hand experience and a behind the scenes market insight written from a student perspective. It is not meant to be exhaustive nor a complete guide, and for readers who want a broader perspective, we refer to further reading.

It is meant to provide quantitative information regarding the current state of the Brazilian economy and society. We have written the report with two reader segments in mind;

- 1) Norwegian companies that find Brazil interesting and want to identify what successful establishments in the Brazilian market have in common.
- 2) Students that want to explore how Norwegian companies operate in emergent markets and the challenges they face.

In a world that is becoming increasingly global and transparent it is no longer a problem for companies to find information. We have therefore tried to pass on useful first-hand information, put the information in the right framework and structure, and present it in a visual and informative way.

The report is based on comprehensive research and a three-week field trip to Rio de Janeiro, Brazil. When we started our work in March 2012 we knew that it could be a challenge to find interesting, unknown content on the Brazilian economy. We therefore worked out from different hypotheses we made in advance and tested them during our stay.

To provide academic depth, we are honored to have Torkjell Leira and Johannes Nymark as co-authors. In addition KPMG, Innovation Norway and Arne Corneliussen from NRCI have written three informative articles for further refinement of the content.



PART I: INTRODUCTION TO BRAZIL

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REASON FOR OPTIMISM ABOUT BRAZIL?

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"At the moment, I'm most optimistic about Brazil, not only because of its significant growth in the past decade but also because of something that simultaneously declined: its level of economic inequality".

BY JOHANNES NYMARK

These words written by the former US president Bill Clinton in Time on October 1st 2012 sum up some of the challenges of today's Brazil. In a country where there are big farms of the extension of Denmark (!) and where the social and economic differences are among the most scandalous in the whole world, it is of vital importance that economic growth does not contribute to widen the gap between rich and poor.

The enormous natural resources constitute one of the great advantages of Brazil, and even more so today with a government concerned with the welfare of the Brazilian population as well as with diversified commercial relations. Business men and women have for some years been heading for Brazil in great numbers, hoping to discover "gold mines" in this emerging BRICS¹ country, a potential superpower in the near future. Norwegian politicians have also joined the business leaders in their expectations for Brazil, especially since oil resources, new and more progressive tendencies in foreign policy and more modern trends in fighting corruption appeared to turn this South American giant into a key allied in a new global world order.

The above mentioned quotation of Bill Clinton contrasts with what should be considered as more skepticism towards Brazil among political and economic leaders in our own country. Many have now become aware of the problems that are still unsolved, of the bureaucratic procedures and of the social and ecological consequences of a relatively high economic growth during the last decade. Roughly 20 % of the households still live below the poverty limit, and the differences in income are huge.

Some political commentators consider the fact that Brazil will host the FIFA World Cup in football 2014 and the Olympic Summer Games in 2016 as the ultimate evidence that the country is on its way to "the club of the global super powers". However, today constantly more experts think the events come too early. While president Dilma Rousseff is performing an unparalleled process against corruption on the highest political level, corruption flourishes in the construction sector. Criticism has also appeared concerning the alleged favoritism of some middle and upper class areas when it comes to the upgrading prior to the sports events of 2014 and 2016.

1: BRICS: Brazil, Russia, India, China, South Africa.



There exist various biased ways of considering the problem of corruption. At the beginning of the new millennium the newly elected Brazilian president Inácio Lula da Silva was accused of permitting corruption in his own government while the long-lasting practice of inveterate corruption implying political leaders and the business community at all levels was silenced. The same campaign cannot be run against Lula's successor Dilma Rousseff, who has been vigorously fighting corruption from the day she assumed the Brazilian presidency, on January 1st 2011.

The prestigious French sociologist Alain Toraine has pointed out another biased way of viewing corruption that manifests itself when we reduce political crisis in a country like Brazil to a question of corruption, a point of view that does nothing but nourish our prejudices, leaving the impression that people in the South are irrational whereas the serious structural and profound crisis are localized in the North.

When Lula assumed as president in 2002 he almost immediately launched the Zero Fome (Zero Hunger) program, destined to reduce and finally eradicate extreme poverty and hunger in Brazil. Emphasis is on the right to basic food. The Ministry of Social Development and Hunger Combat

coordinates the program, that consists of direct financial support to the poorest people, the creation of low-cost restaurants, the support of subsistence family farming with access to microcredit granted, education programs aimed at healthy eating habits and procuring water supply even in the most arid areas, among many other measures.

The Zero Fome program has received varied criticism. The World Bank, who has not had particular success with its development programs in Latin America, criticized the program already in 2003, claiming that it did not have a clear focus and censuring the mechanisms for money donation and food gathering and distribution. Less vague, but perhaps also a bit premature, were the criticisms from the political opposition in Brazil when they in March 2005 cited the death of several indigenous children due to malnutrition as examples of the failure of the whole program. Some significant facts leave, however, no doubt about the improvements in the fights against poverty. Children attend school at a much higher degree than before, child labor has diminished considerably, and more than 80 % of the so-called Bolsa Família Project has actually gone to the poorest of the poor. Thus, less of a poor family's limited income is needed to pay for food – in public school children receive one or two free meals daily – and the poorest families'



incomes are reported to increase by about 25 % on the average.

This is the background and the basis on which Norwegian business men and women have to work when engaging in Brazil, one of the world's most important economies today. Although a lot remains to be done, the political, economic and social development seems to move forward in the right direction. Branches such as oil and gas, shipping, aluminum, water and infrastructure constitute common activities and common interests for Brazil as well as for Norway, and should guarantee fruitful cooperation in the future, with regard to production, import and export, investment and exchange of experience.

Let's finally return to former US president Bill Clinton when he considers how Brazil has progressed during the past decade: "Brazilians did it by creating a pile of new jobs and paying poor families to send their children to school and get annual checkups. They did it by controlling their energy destiny, not simply developing their oil resources but also maximizing their hydropower. And they did it while planning to cut by 75 % the annual rate of rain-forest destruction. Brazil certainly still has its share of challenges, but its successes have been truly astonishing".

"Although a lot remains to be done, the political, economic and social development seems to move forward in the right direction"



(Photo: Ton Hall)



BI Norwegian Business School is an internationally recognized and accredited, private institution located in Oslo, the capital of Norway. BI has one of Europe's largest and most productive academic environments in the area of business economics and administration, marketing, finance and general management.

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- BI-Fudan MBA Programme
- Executive Master of Management in Energy

Doctoral Programme

BI offers a full-time doctoral programme leading to the title PhD. The programme's objective is to develop and educate high-potential individuals to serve the society in academic, business and other working life communities through research, publication, consulting and other professional services within their field of expert knowledge.

Summer Programme

The theme of the 2013 Summer Programme will be Intercultural Management: A Scandinavian Perspective. This four-week programme runs from 22 June – 19 July, 2013. BI's Summer Programme provides extensive exposure to Norwegian shipping, software and other industries through guest lectures and company visits. Various social and cultural activities are included in the programme too.

KEY STATISTICS

Official name: The Federative Republic of Brazil

Capital: Brasilia

President: Dilma Rousseff

Population: 199,321,413 (July 2012 est.)

Population growth rate: 0.86% (2012 est.)

Major cities: Sao Paulo 19.96 million; Rio de Janeiro 11.836 million; Belo Horizonte 5.736 million; Porto Alegre 4.034 million; Brasilia (capital) 3.789 million (2009)

Ethnic Groups: white 53.7%, mulatto (mixed white and black) 38.5%, black 6.2%, other (includes Japanese, Arab, Amerindian) 0.9%, unspecified 0.7% (2000 census)

Languages: Portuguese (official and most widely spoken language)
note: less common languages include Spanish (border areas and schools), German, Italian, Japanese, English, and a large number of minor Amerindian languages

Religions: Roman Catholic (nominal) 73.6%, Protestant 15.4%, Spiritualist 1.3%, Bantu/voodoo 0.3%, other 1.8%, unspecified 0.2%, none 7.4% (2000 census)



POLITICAL AND HISTORICAL OVERVIEW

Brazil had been populated for nearly 50 000 years when the Portuguese “discovered” the country in 1500 AD. The Brazilian history is similar to its Latin-American neighbors in many ways; the social inequality, the economic dependence and the frequent military intervention in the political life. In this section we will guide you through the modern history of Brazil from the military regime until today.

MILITARY REGIME

In the beginning of the 1960's the economic situation in Brazil was critical. Inflation was high, and the government lacked support from the working class and the army. This chaotic situation led to a coup d'état in 1964. This was the start of a nearly 20 years long military regime in Brazil. The consequences of the regime where many; radical political parties were banned and the national assembly was dissolved. Despite this, the military regime boosted the economic growth throughout the 1970's, and this was mainly a result of an increase in foreign capital in the economy. Nevertheless, this did not mean that living standards were increasing for the average Brazilian. In 1974 the minimum salary represented half of the amount needed for subsistence and 70% of all children under the age of 6 suffered from malnutrition. In fact, it was the multi-national companies that benefited from the increased economic growth.

During the regime Brazil became a major arms exporter and installed nuclear power plants. The world's largest hydropower station was built in Itaipu, on the border between Brazil and Paraguay. Such projects caused a forced relocation of Native American communities. The regime also started the major deforestation of the Amazon jungle which led to an ecological disaster. The destruc-

tion of huge areas for the benefit of road building, hydro power and new colonization also led to several Indian groups being in danger of dying out. These conditions led to a strong reaction to the regime's lack of sense of responsibility towards the social tragedies that affected the population. Hunger rebellions were supported by sectors within the Catholic Church, and some bishops called for armed resistance against the regime.

The economic growth and the increase in exportation were not sufficient to equilibrate the commercial balance. In the 70's Brazil, like the other Latin American countries benefited from “easy credit” offered by banks from more developed countries. When Thatcher and Reagan imposed structural adjustment in the beginning of the 1980's, the interest rate escalated and Brazil's foreign debt grew enormously. These incidents, together with an increasing discontent among Brazilians, led to the fall of the regime.

DEMOCRACY AND ECONOMIC CRISIS

In 1984, democratic elections were held. Tancredo Neves was elected president, but died before he took office. In 1986, the government implemented the Cruzado Plan which introduced a new currency and a price freeze in an attempt to gain control over the substantial inflation in the country. After

half a year the price peak burst and inflation ran wild again. A similar attempt was again made in 1989, but this was also unsuccessful. Brazil's main problem was the country's foreign debt, which at the time was the largest in the world.

At the local elections in 1988, the Labour Party Partido dos Trabalhadores (PT) under the leadership of the trade union veteran Luis Ignacio da Silva (“Lula”) prospered and won in the major industrial cities. However, Fernando Collor de Mello from the right Liberal Party of National Reconstruction (PRN) surprisingly won the presidency with the enthusiastic support of the modern bourgeoisie in the cities. Collor implemented a comprehensive privatization and import reduction in line with IMF recommendations. His confident and dynamic style faded as Brazil's complex economic problems piled up and he began to fall victim to the culture of corruption which his voters thought he was going to fight. The accusations were soon made in public, and Collor was deprived from his presidency.

A referendum in 1993 stated that Brazil would remain a republic and have a presidential system. The presidential election in 1994 was won by the former Minister of Finance Fernando Henrique Cardoso of PSDB. Cardoso launched a major

economic plan to stabilize the economy, which quite quickly caused a positive development for the country's economy.

Cardoso was re-elected as president in 1998, as a constitutional amendment the year before allowed for re-election. His Social Democratic coalition was able to continue. In particular, measures to attract foreign investors occurred to be fruitful, but the rapidly growing economy still caused the country to be vulnerable with a budget and trade deficit. When Russia's economy collapsed and the Asian financial crisis sent shock waves in the international economy in 1998/99, Brazil was hit with full force. Speculations that the country would be the next “domino” in a global collapse led to dramatic currency flight. Interest rates ran up to 45% and the stock exchanges plummeted.

THE ERA OF LULA AND NEW HOPE

The crisis at the beginning of the new century, however, was short lived and was less serious than feared. But the basic problems of the Brazilian economy were still unresolved. The government made efforts to privatize state-owned businesses, which eventually contributed to reducing the budget deficit. In addition, Brazil got a larger loan package from the International Monetary Fund IMF in 1999, but in order to get this package





the country needed to make cuts in government expenditures. However, in 2002, the national debt had reached 330 billion dollars, and Brazil experienced severe stock market and currency fall throughout the year.

This time it was the global “tango crisis” in neighboring Argentina that caused problems to accelerate. This and instability in the financial markets were things that led to victory for the left socialist Luiz Inácio “Lula” da Silva in the presidential election in 2002. IMF agreed to give the country a new loan, the largest to that point, to prevent that Brazil went towards an economic collapse. But new and serious cases of corruption were revealed, and a general distrust of the elite sparked mass demonstrations in the country.

Lula was the first socialist to ever win a democratic election in Brazil, and he was the first president with a working class background with no formal education. Election promises involved an effort to bring balance to the economy – and a down payment on the huge foreign loans – as the basis to improve areas such as unemployment, education, health and poverty. At the start of his presidency, Lula succeeded in gathering a broad majority in parliament behind his policies, and he soon became a role model in neighboring countries.

Lula formed a new force when it came to strengthen regional cooperation in South America, and he sought closer cooperation with the EU – as part of a strategy for more equality in the relationship with the United States.

SOCIAL AND ECOLOGICAL CRISIS

The seemingly unsolvable economic problems had major social side effects. Social programs and assistance to underprivileged were all affected by the country’s poor economy, and the slums in urban areas grew explosively leaving thousands of children living on the streets. In 2002 almost one third of Brazil’s population lived below the poverty line. Lula tried to do something about this in 2003 with his “Zero Hunger Program”. Political initiatives also contributed to a steady and strong growth in exports, and the trade surplus increased to 150 billion in Lula’s first year as president. But Brazil was still high on the international statistics of skewed distribution of land and property, and 47% of all arable land was at this time owned by 1% of the population. Successive governments before had tried to implement land reforms, but this was proven to be difficult.

The crisis also reinforced ecological problems. Special international attention was devoted to the state of the Amazon. In the mid-1990s, more than

10%, or 426 000 km² of the Brazilian rainforest were cut down. This process was and is still about to destroy the world’s richest ecological area.

A SUPERPOWER IN THE MAKING

Brazil soon took place as the world’s third biggest exporter of agricultural products, which contributed significantly to the country’s economic growth during the global food crisis that pushed prices up towards the end of the first decade of the 2000s. New, huge oil and gas discoveries off the coast also pointed towards a future as the world’s sixth largest oil nation, and the state owned oil and gas company Petrobras emerged now as the fourth largest in the world. With its strong focus on hydropower Brazil takes aim at becoming a great power also in renewable energy.

In Lula’s last period as president many economic indicators pointed in the right direction. The former so burdensome foreign debt was repaid at the end of 2008, when Brazil became a net creditor in the international financial market. Unemployment had dropped significantly, and more and more people took the step from poverty to lower middle class, which now amounted to nearly half the population. Low inflation and stable currency meant that the main objective of his political program was reached. The money transfer scheme Bolsa Familia

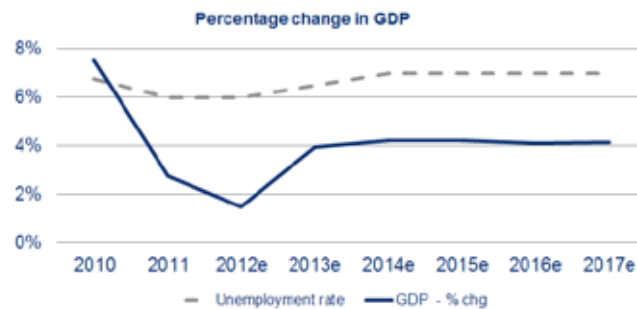
increased the purchasing power also for the poorest of the population, and the proportion living in extreme poverty had been halved, from 16% to 8%, since the mid-1990s. Tax revenues rose steeply, and before the financial crisis hit, foreign companies doubled their investments in Brazil in one year. But economic crime, corruption, mafia, violence and a murder rate which was one of the highest ones in the world, still represented a barrier for development.

THE PRESENT POLITICAL SITUATION

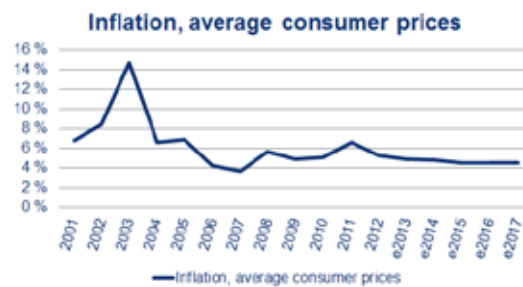
In 2011, Dilma Rousseff was elected as president, and she claims to be starting to tackle some of the abovementioned problems. Her main goal is to eliminate the fiscal deficit, and in order to achieve this she has started to cut taxes for favored industries, has invited private investors to modernize four airports and is rushing a banking oligopoly that has helped to keep interest rates up. But there are still major challenges: her effort to drive down costs is according to many too limited. She was responsible for the new protectionist oil regime, which has received criticism from many sides, and the impression is that she is prepared to settle for growth of under 4%. This could hurt Brazil, and many fear that investors soon will start looking for higher growth markets in Latin America, such as Peru, Colombia or Mexico.

ECONOMY

Since the mid-1990s Brazil has strengthened its macroeconomic framework. Helped by favorable international conditions, this has created a stable economic growth in the country. Extensive changes have occurred rapidly, and Brazil is now emerging to become one of the superpowers in the 2000s.



Source: IMF



Source: IMF

After the financial crisis in 2008-09, Brazil's economy recovered quickly, largely due to a timely policy response. In 2010, growth in GDP was the strongest in two decades (7.534 %), but this dropped to 1.474 % in 2012. Nevertheless, IMF expects an average economic growth of approximately 4 % until 2017.

The Brazilian government's main macroeconomic challenge continues to be that of maintaining a low inflation rate. Inflation is expected to diminish gradually, and will according to IMF remain in the upper part of the target range of 2.5-6.5 %, diminishing towards 4 % in the years to come.

In order to sustain strong economic growth Brazil has several major obstacles to encounter, like improving the country's infrastructure, reducing poverty, battling corruption and tackling a turbulent economy.

Investment in infrastructure is put high upon the political agenda and, if well designed, is likely to yield high economic and social returns on investments. In a report from Morgan Stanley (2010), it is proposed that Brazil needs to invest approximately 4 % of its GDP over 20 years to reach the same infrastructure level as Chile, the infrastructure leader in South America. The government has introduced a program to boost infrastructure

which indicates that the country is on the right track. In addition to this, large amounts are also invested in infrastructure development in preparation of Brazil's hosting of the 2014 FIFA World Cup and the 2016 Summer Olympics.

Since 1993, the country has experienced a substantial fall in poverty and inequality. Brazil's GINI coefficient has also dropped considerably in recent years, from 60.7 in 1998 to 51.9 in 2012 (CIA World Factbook), but still remains among the highest in the world. This coefficient, measured on a scale of 0-100, gives an indication of the level of inequality in a country, with 0 representing a perfectly homogenous income distribution and 100 representing all income in the hands of a single person. The reason for this success is mainly attributed to a good labor market performance and a successful redistribution policy. According to the Brazilian government, about 30 million people have escaped poverty since President Lula took over in 2003, and President Rousseff has followed in Lula's footsteps continuing his policies. As a tool to overcome poverty the Brazilian government has implemented the highly efficient conditional cash transfer money program Bolsa Familia, which has managed to relieve poverty at relatively low fiscal cost.

THE OIL AND GAS SECTOR IN BRAZIL

The oil and gas sector is one of the main drivers of the Brazilian economy. With estimates ranging from 50 billion to 120 billion barrels in reserves, Brazil is set to become a major player in the international energy network. Since the turn of the millennium, the production and export of oil has been growing at a steady pace, and the country is likely to rely heavily on its oil production in the future. In fact, 63% of all deep water discoveries the last 5 years were made in Brazil.

One of the largest oil reserves in the world, known under the name "pre-salt", was discovered in 2007 in Brazil, and most of the country's oil reserves are found here. The "pre-salt" layer has gotten its name because the oil found here lies beneath approximately 2000 meters of salt, 1000 meters of rock, and 2000-3000 meters of sea. This makes recovery of the oil very difficult and expensive. But it also makes Norwegian companies especially well suited to the technical challenges faced by the Brazilian oil industry, as many Norwegians have relevant technical competence. There are

two major factors holding the Brazilian oil-sector back. The most important factor, discussed more extensively in relation to other subjects in this report, is requirements regarding local content. The Brazilian economy has a lack of qualified labor and competence in many fields, and the capacity of the Brazilian domestic oil-service industry is not sufficient to reach the Brazilian growth potential. This obviously hampers Brazil's growth, and represents a problem for international companies seeking to get a stake in the Brazilian oil-boom.

The local content requirements vary in respect to strictness and are decided through the E&P concession bidding rounds held by ANP, the national petroleum agency. Participants enter not only a price, but a local content percentage for all projects in relation to the concession. The requirements will then be passed down to suppliers and sub-suppliers.

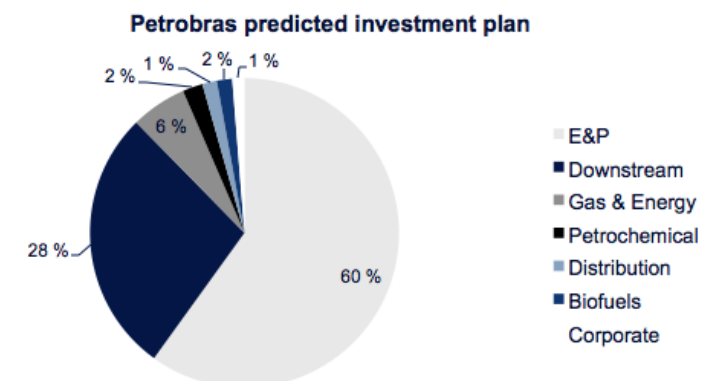
Even though local content may seem restrictive, it also offers opportunities. There is an innate shortage of local suppliers and for companies willing to invest time and resources in Brazil the market certainly exists. The trick lies in figuring out what services there is a demand for, which currently does not have an adequate supply.

The other major factor is a certain piece of Brazilian legislation. There has been an ongoing debate in Brazil concerning oil royalties, and how the tax income from oil and natural gas should be distributed. The question of distribution has effectively stopped all new bidding-rounds for concessions, and as of today there have been no new concession-rounds in pre-salt since 2007. However, president Dilma has announced that the next concessions-round is to be held in May 2013, whereas the next pre-salt round is expected to be held in November 2013. Whether this will happen remains to be seen. Brazilian authorities have made promises previously that have failed to materialize. Nevertheless, taking into consideration that Dilma herself has guaranteed the prevalence of new rounds; the issue is high upon the political agenda.



PETROBRAS

Petrobras is the most important player in the Brazilian oil and gas sector. The company has approximately 80.000 employees and was ranked as the 10th largest company worldwide by Forbes in 2012.



With planned investments of US\$ 236.5 billion over the next four years, this company generates a lot of business. Clearly, it is important for companies establishing themselves in the Brazilian oil-service industry to be able to sell their products or services to Petrobras. However, in order to participate in biddings for Petrobras' contracts, companies are required to register with Petrobras' vendor list. As all things in Brazil, this may take a significant amount of time. To register it is necessary to provide information regarding technical capacity, economic stability, HSE systems and so forth. This will then be assessed by an evaluation team at Petrobras, and if necessary a technical visit will be requested.

WHICH SEGMENTS HAVE POTENTIAL?

As previously pointed out, much of the growth in Brazil, as well as the potential of the Brazilian market, is driven by Petrobras. Consequently, it is of vital importance to get familiar with their business plan and thereby attempt to anticipate the nature of future demand. The business plan is public for those who are interested. Difficult technical challenges will certainly emerge and companies with relevant, specific technical know-how have a high potential for success in Brazil. According to Tony André Håvelsrud, Managing Director of Kongsberg Maritime do Brasil: "Kongsberg Maritime (KM) is doing well in Brazil mostly because of Petrobras' expansion plans. Their focus on exploration and production results in business

[for Kongsberg Maritime]. The more oil they find, the more ships they will need, the more equipment Kongsberg is able to sell. "

In general we find that the maritime industry is doing well. As there are only two schools in Brazil that educate merchant marine officers, there is a very high demand for this kind of competence. According to Walker Lima, General Manager of the ship management company OSM do Brasil, their main challenge in Brazil is recruitment and retain qualified officers. Yet, this may also represent an opportunity: If you are able to attract and keep the right talent, you can gain competitive advantage by being able to offer services that are very high on demand

PETROBRAS INVESTMENT PLAN

Petrobras is planning to invest a whopping US\$ 236.5 billion over the next four years, allocated as above. In order to reach their targets, Petrobras will require 48 new drilling rigs, 250 new supply and specialized vessels and 43 new production platforms (SS & FPSOs). Petrobras has a history of not being able to deliver in ordinance to their targets. Even so, the new CEO Maria das Graças Silva is more realistic in her approach, and the plans are most definitely in place. This opens up a well of opportunities for Norwegian companies seeking to leave a mark on the Brazilian oil industry, as long as they are able to overcome the hurdles along the way.

THE **TRADE RELATIONSHIP** BETWEEN NORWAY AND BRAZIL



The relationship between Norway and Brazil has long traditions – the two countries have been trading partners for over 170 years. Historically, clipfish, sugar and coffee have been the most heavily traded goods. Today, direct investments dominate the relationship, but coffee and clipfish still amount to a large share of the trade between the two countries. Furthermore, Norway is a major exporter of financial capital through the Government Pension Fund Global, and has larger investments in Brazil than in any other emerging economy. The table below shows the bilateral trade development between Brazil and Norway the last two decades. As the Brazilian market has grown, so has the bilateral trade between Norway and Brazil, sustaining the increasing importance of this relationship and urging the support for the Norwegian government's Brazil-strategy.

Brazil has a vast and diverse geography enriched with large deposits of natural resources and the country possesses substantial market power. This gives Norwegian companies strong incentives to be present in the Brazilian market. Several sectors are of particular interest, among these are the oil- and gas sector, maritime industry and metallurgical industry.

THE NORWEGIAN GOVERNMENT'S BRAZIL STRATEGY

The Norwegian government has urged that it is important to establish a good relationship with Brazil, and they are currently working with establishing better access and frameworks for Norwegian companies in the country. This is a part of the government's Brazil-strategy conducted in 2011, and the goal is that

"Noruega should be a respected brand, and that Norwegian businesses in Brazil should be associated with quality, expertise, environmental awareness and corporate social responsibility".

As a result of the growing oil- and gas industry in Brazil, the demand for shipping and maritime services is escalating. Similarly to the oil- and gas industry, Norwegian expertise gives a competitive advantage for Norwegian companies in the Brazilian shipping industry. The metallurgical industry has also potential for a Norwegian presence, because Brazil has large deposits of minerals such as iron ore, bauxite and phosphates. Norwegian hydropower expertise has also received increased attention in Brazil due to current and planned expansion within hydropower development.

BRAZIL RESUMES **PETROLEUM** AUCTIONS AFTER FOUR-YEAR ABSENCE

NORWEGIAN RISK CONSULTING INTERNATIONAL – NRCI

In May 2013 Brazil holds its 11th licensing round, the first in more than four years. Ever since the previous oil auction in December 2008, international oil companies eagerly await a chance to either join or increase their stake in one of the world's most promising petroleum markets. Meanwhile, politicians offered mostly empty promises as Congress struggled to agree on a new model for distribution of oil royalties. The lack of new oil auctions left industry actors doubting Brazil's actual potential, causing several to pursue opportunities elsewhere instead.

On January 23, however, the Ministry of Mines and Energy scheduled Brazil's 11th licensing round for May 14 and 15, 2013. Moreover, the ministry declared that the auction includes 289 exploration blocks, up from the 172 blocks previously announced. The 172 original blocks include 50 percent onshore and 50 percent offshore. The locations constitute nine sedimentary basins: Barreirinhas, Ceará, Espírito Santo, Foz do Amazonas, Pará-Maranhão, Parnaíba, Potiguar, Recôncavo and Sergipe-Alagoas. Industry experts consider the blocks along the equatorial margin, consisting of the Barreirinhas, Ceará, Foz do Amazonas,

Pará-Maranhão and Potiguar basins, particularly promising. Of the 117 additional blocks, 65 center in the Foz do Amazonas basin and the rest in the Espírito Santo, Pernambuco-Paraíba and Tucano Sul basins.

The geology along Brazil's equatorial margin, labeled one of the current global exploration hot spots, mirrors that of recent discoveries along the western coast of Africa. With blocks located over a large geographical area, the 11th auction round raises demand for both offshore and onshore drilling rigs in northeastern Brazil. Increased exploration activity off the northeastern coast also suggests the emergence of a maritime cluster in the region. The northeast remains Brazil's poorest region, but currently a rapid development narrows the gap with the south. Poor infrastructure presents a challenge, with frequent energy shortages causing blackouts. Onshore gas discoveries in the Parnaíba basin could supply energy to the northeast region, home to 28 percent of Brazil's population. However, this necessitates the construction of a network of gas treatment units and pipelines, linking the gas fields to their markets. OGX became the first company to initiate natural gas production in Parnaíba in the fourth quarter of 2012, indicating the region's potential.

Still, the pre-salt reserves discovered off the coast of Rio de Janeiro in 2007, estimated to hold more than 50 billion barrels of oil equivalent, remain Brazil's true gem. Whereas the 11th concession round features no pre-salt acreage, the Ministry of Mines and Energy also announced a pre-salt auction for 2013, currently planned for November 28 and 29. The exploration of pre-salt fields requires ultra-deepwater technology and know-how. Furthermore, the ministry scheduled Brazil's first concession round for unconventional oil and gas for December 11 and 12. According to the ANP, Brazil's energy regulator, the country's shale gas reserves remain unmapped. However, the ANP predicts the Maranhão, Parecis, Piauí, São Francisco and Tocantins basins may together hold up to 12 trillion cubic meters of unconventional gas, considerably higher than the EIA's 6.4 trillion reserve estimate. However, exploration through fracking entails a significant environmental risk. As this technique remains nearly non-existent in Brazil, environmental regulation may prevent a shale boom mirroring the United States.

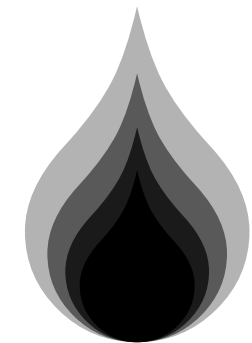
Many hope this marks the return of regular concession rounds boosting activity all across Brazil's petroleum sector. The lack of new available areas hit the service and equipment industries particularly hard, as oil companies scaled back their exploration activities. Indeed, some companies warned that without new concession rounds, Brazil's exploration activity risked drying up completely by 2015. Industry sources expect international majors such as Royal Dutch Shell and ExxonMobil to dominate the 11th licensing round, as the road from potential discoveries to production may prove too long for smaller companies. Besides, Brazil's private oil companies may lack funding to participate in the auction due to investments in ongoing projects. Private-equity companies present a source of funding for smaller private exploration companies lacking funding. Barra Energia Petróleo e Gás illustrates the potential of start-ups benefiting from private equity funding. After receiving a \$500 million investment from First Reserve Corporation in 2010, Barra Energia now holds a 10% stake in Petrobras' Carcara oil discovery.

In early November 2012, Brazil's Congress passed the oil royalties bill that held up the auctions during months of political bickering. The law aims to redistribute oil royalties from the producing states to the many non-producing states that see little of

the petroleum revenues today. Due to fervent opposition from Rio de Janeiro and to avoid regulatory confusion, President Rousseff vetoed the part of the bill that affected existing concessions. As a result, the new legislation only covers revenues from the still unlicensed fields.

Following the discovery of the pre-salt fields in 2007, then-President Lula proposed an overhaul of Brazil's oil laws to enhance the government's stake in the enormous reserves. Passed by Congress in late 2010, the new regulations include a shift from the current concession agreements to production-sharing agreements for all unlicensed pre-salt fields. The production-sharing agreements guarantee Petrobras a minimum 30 percent stake in all pre-salt projects, effectively making the state-controlled producer Brazil's sole pre-salt operator. Accordingly, several international petroleum companies could view the upcoming shale gas licensing-round as the main opportunity to operate blocks in Brazil, provided they receive the required approval from the federal environmental regulator, Ibama.

As Brazilian politicians now appear dedicated to re-engage with the oil industry, the expected increase in activity might highlight the sector's remaining challenges. While few contest the massive potential of the petroleum reserves, strict local content requirements and particularly the lack of skilled labor continue to create headaches for international oil companies operating in Brazil.



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LOCAL UNDERSTANDING AND KNOWLEDGE

One of the first potential sore spots we have encountered in our field work is the importance of having good local understanding and the right expectations before entering Brazil. As a Norwegian business leader said it: "If entering Brazil were easy, everyone would do it", and this gives a good indication of how we perceive the Brazilian market.

Brazil is not for beginners, and the Brazilian market is complex. A common mistake among Norwegian businesses is to underestimate this complexity. There are some common pitfalls to be aware of before entering Brazil, including the costs being higher than initially anticipated, the presence of major cultural differences in negotiation methods and the absence of a superior entry strategy. These issues are so important that if you fail to understand them, Brazil might not be the goldmine that you initially thought.

COST LEVEL

Compared to other emerging economies like China and India, the cost level in Brazil is significantly higher. In fact, the level is approximately that of Norway. The government claims that the high costs are attributed to currency, but it is also closely related to the vast bureaucracy. One of many examples is the tax burden, which has risen from 22% of GNP in 1988 to 36% today. In addition to taxes being high, the tax regulations are extremely complex; which is why some even refer to them as a "cobweb of rules". It is necessary and recommended that you get help from experts to handle the laws and regulations in Brazil, at least in the beginning. Furthermore, the high cost level underlines the importance of having sufficient financial muscles in order to be successful in Brazil.

BUSINESS CULTURE

Norwegians and Brazilians tend to connect easily, which might hide the fact that Norwegians and Brazilians have different mindsets. Underestimating such differences can have disastrous consequences for Norwegian companies.

Geert Hofstede's model is often a preferred tool when describing business culture. The model divides national culture into five underlying dimensions; power distance, individualism, masculinity, uncertainty avoidance and long-term orientation, which are measured on a scale from 0 to 100. Since the model makes culture quantifiable, it allows us to compare the cultural differences between Norway and Brazil. The scores presented in the table on the next page indicate to what extent each characteristic is prevalent in the respective cultures. As such, the table can be a good early indicator of which challenges Norwegian companies can expect to meet when doing business in Brazil.

The first dimension, power distance, is defined as "the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally". Brazil scores 69 on this dimension, while Norway scores 31. This means that the Brazilian business structure is significantly more hierarchi-

cal than the Norwegian one. Employees within a Brazilian business structure will generally expect a clearer division between management and other employees, than what a Norwegian is used to.

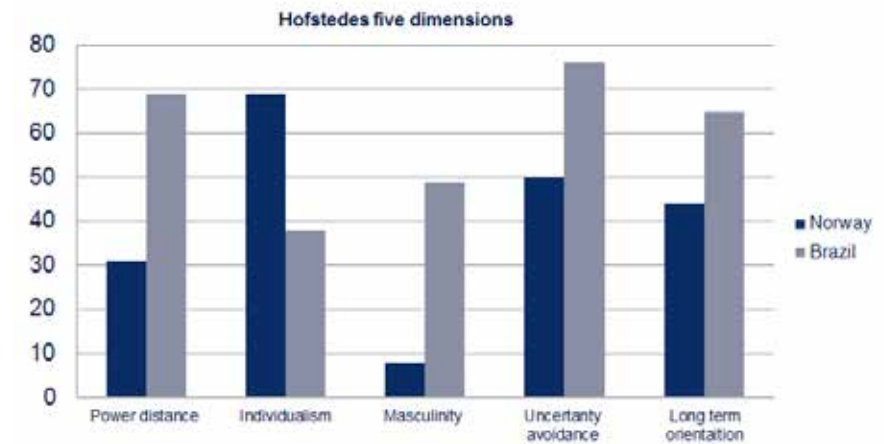
The second dimension, individualism, has to do with whether one's identity is based on a collective group or the individual itself. Brazil scores relatively low in this dimension compared to Norway. In practice, this means that Brazilians emphasize personal relationships and loyalty. Therefore it is important for Norwegian managers to establish a relationship based on loyalty in order to do business in Brazil. It is also important to note that the preferred communication style is context-rich. This means that Brazilians often do not express directly what they mean; the message must be understood by its context. This dimension represents a common pitfall for Norwegian companies, since Norwegians are more straightforward in their communication style.

The third dimension, masculinity/ femininity, refers to the importance of values traditionally held by men and women. Feminine values refer to values like compassion, care for others and quality in life. Masculine values refer to competition, success (defined as the "best in the field") and personal achievements. The essence in this dimension is to

discover what motivates the people, if it is that they like the work itself and the learning experience, or the acknowledgement/reward given to them by significant others. Brazil scores in the middle of the band on this dimension, indicating that Brazilians emphasize masculine values far more than the Norwegians, who rank as the second most feminine society in the world.

The fourth dimension; uncertainty avoidance, is defined as the extent to which members in different cultures accept ambiguous situations and tolerate uncertainty. Brazilians score high on this dimension and therefore tend to have a strong need for rules, bureaucracy and laws in order to structure life. The complicated Brazilian regulations reflect this dimension; regulations tend to cover every possible scenario, making the bureaucratic system rigid and complex. In addition, a high score in this dimension states that the Brazilians are emotionally driven, something that is evident in their body language. This fact often increases the level of enthusiasm and energy. Nonetheless, Norwegian managers must be careful; our perception of constructive criticism might be interpreted as a personal offense in Brazil.

The fifth dimension; long-term orientation, refers to the extent to which a society shows a pragmatic



future-oriented perspective rather than a conventional historical short-term point of view. Brazil scores 65 and therefore places itself in the category long-term oriented. Norway is more short-term oriented with a score of 44 in this dimension. For Norwegians, quick results are expected and there is often a larger focus on the bottom line from day one. This is different from the Brazilians, implying that Norwegians need to be more patient when doing business in Brazil.

HOW DOES THIS AFFECT DOING BUSINESS IN BRAZIL?

Before entering Brazil you need to have a good understanding of their culture and how they do business. Compared to Norwegians, doing business with Brazilians can be more complicated. While Norwegians do not need much time to decide whether or not they want to do business with you, Brazilians need to have more personal contact, get to know you and most importantly trust you.

This could be a potential pitfall for Norwegian business leaders, and many who lack an understanding of the Brazilian business culture are left with an impression that Brazilians are almost impossible to do business with. It is quite typical for Norwegians that have never been in Brazil, and who are not used to the way business is done

here, to be stressed out and complain that things take more time than necessary. According to Helle Moen, Director of Innovation Norway in Brazil, the only solution is to relax: "After you have been operating in this country for a while, you understand that delays are perfectly normal and plan accordingly. By some manners, most things gets solved in the end."

As mentioned earlier, Hofstede states that Brazil has a low score on individualism. This signifies the importance for Norwegian managers to establish a relationship based on loyalty and trust in order to do business in Brazil. Compared to Norwegians, Brazilians have a greater mistrust of society. As a consequence, relationships are necessary in order to achieve success in the market. Nevertheless establishing a relationship is a time consuming process, and business managers have to keep in mind that transactions usually take longer time in Brazil than in Norway.

During the first meeting with potential business partners, you can expect a great deal of small talk before the meeting properly starts. This process is crucial, as the tone you set here might impact further development of your relationship. As such, one should take the time to interact with business partners at a personal level before getting





into business. According to Consul General Helle Klem, “Brazilians often have a different perception of time”, which implies that things may take longer time than we are used to in Norway.

It is also important to note that the preferred communication style is context-rich. This means that Brazilians often do not express directly what they mean; it must be understood by its context. This dimension represents a normal pitfall for Norwegian companies since Norwegians are more straightforward in their communication style. It is not uncommon that Brazilians appear extremely emotional during a meeting, particularly from a Norwegian point of view where one expresses as little feelings as possible. It is important to understand that emotions are merely an expression of commitment and interest and do not indicate a lack of control or anger. You should also be careful when expressing criticism, because this could often be taken the wrong way.

The Director of Innovation Norway, Helle Moen, said the following: “You rarely have a bad meeting in Brazil, because Brazilians prefer not to say no”. This underlines the importance of understanding how Brazilians communicate: even though you get the impression that they are positive to doing business with you, and that you are not far from closing

a deal, this is not necessarily the case. When you have arrived back in Norway after a successful meeting with a potential Brazilian partner, ready to set up a contract, you may actually learn that your counterpart do not share the same impression. As such, you might have to return to Brazil to re-negotiate, or start looking for another business partner. It is therefore important to never interpret “yes” by its literal meaning.

As previously mentioned, Brazilians need to establish a personal relationships before entering into an agreement. You may come across situations where they choose business partners based on personal relationships, rather than criteria such as cost or efficiency. Examples of business that have made success in this respect are found within the Norwegian sector of fish export, where the focal companies have forged relationships based on trust. This has resulted in 170 years of trade.

In business meetings there is also less emphasis placed on absolute punctuality, and if an agenda is produced, do not expect it to be followed. The relationship is seen as more important than time related issues, and all issues on the agenda will eventually be covered, but not necessarily in the intended order. While western companies treat deadlines very seriously and try their best to stick

to them, deadlines are almost never considered in the same serious manner in Brazil.

Employees are seen as nothing more than employees. They are not seen as partners, like in the west, where employees act more instinctively and are more proactive. In Brazil employees need to be told how to do their jobs. Persuasion, negotiation, equality and democratic leadership are all characteristics that describe the way western companies are used to operating, while Brazilian companies are better described by characteristics such as control, monitoring, directing and obedience.

ENTRY STRATEGY

One of the managers we have talked to during our field work said: “My impression of Norwegians is that they operate less aggressively compared to other nationalities when entering Brazil.” This quote implies that Norwegian companies must “take a bigger first step” into the Brazilian market in order to succeed. This is because of the high cost level and the general high complexity in the market, and implies that you need a good pre-entry strategy for entering Brazil.

For instance, small companies can generally maneuver with relative ease compared to bigger companies, especially in Norway. This is not necessarily

the case in Brazil. To be able to succeed, a certain level of preparation, long-term commitment and financial strength is vital. Hence, the export model might be a better solution than investing directly in Brazil for small businesses.

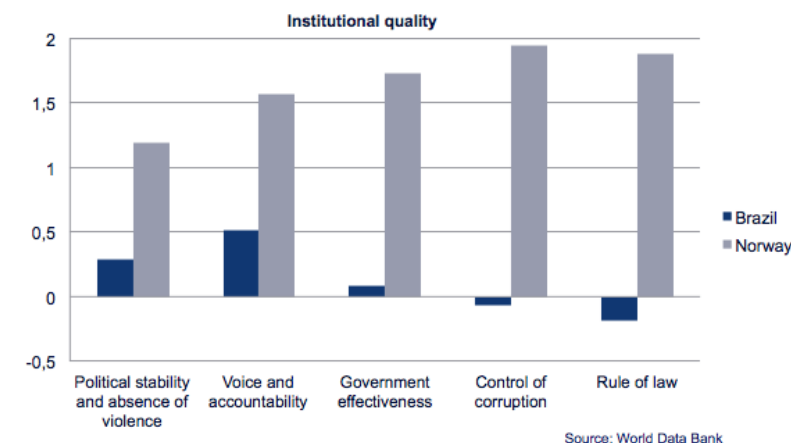
Another complicating factor is the requirement for local content. Since this is a regulation imposed by the government it also applies to Norwegian companies. Rules for local content raises the labor costs and makes it more difficult to find skilled employees. This represents an obstacle that some companies may have problems to overcome, and that one should be aware of and equipped to meet. Having a strategy to meet the challenge may prove to be critical.

Due to the cultural differences, you cannot expect that a Norwegian relatively flat business structure will be efficient in a Norwegian company operating in Brazil. The power distance is much higher in Brazil, and you need to respect this when establishing your business. Brazilians prefer to have clear hierarchical command lines to relate to, otherwise they will get confused. Hence, it is important to choose a structural form for your company which fits the Brazilian culture and values. The Norwegian leadership style, which is more feminine, is probably not the right choice neither.



POLITICAL STABILITY AND INSTITUTIONAL QUALITY

It is widely supported that in order for a country to achieve economic growth, good governance is necessary. Otherwise, the country will not attract factors that are necessary for economic development, such as foreign direct investments from other countries.



The qualities of political and bureaucratic institutions are crucial for investment decisions, both when deciding whether or not to invest in the country, and which sectors to choose. The graph above compares Norway and Brazil in terms of various indicators of governance: The index ranges from 2.5 and -2.5, implying that a value of 0 represents the average of the world sample. Further, the higher the score is, the better the expected governance of the focal country on a worldwide basis.

The variables *Political stability* and *Absence of violence* represent the likelihood that the government will avoid being destabilized or overthrown by unconstitutional means, including political violence and terrorism. Norway has a score of 1.19, whereas Brazil scores substantially lower with a score of 0.29. This implies that Norway is considered as more politically stable than Brazil; yet, both countries are above average of the world sample.

Voice and accountability refers to the extent to which a country's citizens are able to participate in selecting their government. It also encompasses the degree of freedom of expression, freedom of association and free media. Norway has a score of 1.57, whereas Brazil scores 0.51. Both are substantially above the world wide average of 0, but Norwegians are considered to have more influence than Brazilians.

Government effectiveness gives an indication of the quality of public services, quality of civil service, degree of independence from political pressures, quality of policy formulation and implementation, in addition to credibility of the government's com-

mitment to such policies. Brazil is approximating the world average with a score of 0.08, while Norway ranks significantly higher with a score of 1.73. This indicator is especially important for Brazil, as it combines many of the available indicators related to bureaucratic red tape in an aggregate index. This issue is discussed in the next article in this report.

Control of corruption refers to the extent to which public power is exercised for private gain, and includes both trivial and grand forms of corruption. With a score of -0.07, Brazil scores below the world wide average, supporting the general anticipation that corruption is more outspread. Norway seems to have this aspect under control, with a score of 1.94.

Rule of law measures the extent of property rights protection, enforceability of contracts, independence of the judiciary and effectiveness of the legal system. With a score of -0.18, Brazil scores below the world average, indicating that the effectiveness of the legal system needs to be improved. This is the lowest score for Brazil out of the five parameters, and indicates that this is perhaps, compared to the rest of the world, a point where Brazil needs to improve substantially to attract foreign investors. Norway has a score of 1.88, indicating that there is a huge difference in how the rule of law is enforced in Norway versus Brazil and is something that one needs to be aware of when entering the country.



THE LABYRINTH OF BUREAUCRACY

“Get a good lawyer and accountant!”

One of the most common challenges for companies in Brazil is navigating through an endless labyrinth of rules and legislations. To illustrate; 40% of businesses did not survive more than two years after establishment, and bureaucracy is the most common reason for this problem. However, in spite of the complexity and effort associated with bureaucracy, there is light in the tunnel if you steer your company through the proper steps.

THE “DOING BUSINESS” RANKINGS

The annual global report Doing Business ranks countries in terms of the ease with which business regulations, protection of property rights, dealing with construction permits, registering property and paying taxes are handled. In 2013, the report

ranked Brazil as 130th out of 183 participating countries. This signifies a slightly drop from 2010 when the country ranked as 120th, thereby implying an increased difficulty of doing business in Brazil.

According to the report, the amount of paperwork needed to start a business in Brazil is shocking: on average, you need to go through 13 separate procedures and 119 days of work to set up a company. Further, a construction permit averagely requires 17 procedures and 469 days to finally get authorized.

The report also suggests that there are certain cross-regional differences in Brazil. For instance, dealing

with construction permits, property registration as well as getting electricity takes longer time in Rio de Janeiro as compared to São Paulo.

BUREAUCRACY AND TAXES

The bureaucracy also affects the amount of time spent while paying taxes, where the time to comply taxes in Brazil is the highest of all participant countries (The Paying Taxes Results 2013). The same report showed that it takes on average 2.600 hours to comply taxes in Brazil. To put this in a perspective; the South American average is 619 hours, which is significantly less.

WHEN IN BRAZIL, DO AS IN BRAZIL

Norwegian companies expecting a similar bureaucracy system as in Norway will get a cold shower. However, it is perfectly possible to get the right competence to be able to deal with these issues. According to business managers in Brazil, the best advices are to employ a “damn good lawyer”, as well as learning the language. The simple explanation behind this is that Brazilians know their way around Brazil. A good lawyer who knows how the bureaucracy in Brazil works could save your business a lot of time in the future. In addition, it could save you from making mistakes that in the worst case is illegal. As one of our interviewees stated: “We tried to follow each rule accordingly and did our best. However, when we realized that we were missing a crucial document, that in fact made our previews steps illegal, we decided enough was enough. This needed a professional”.

The Norwegian system consists of processes that are most often sequential. While applying for a construction permit there are a few documents needed. In Norway you do not get any further without having “step 1” correct, while in Brazil you may continue to the final steps, without even having completed the first ones. This often leads to frustration; even fees, if it is discovered and they choose to take legal actions. Building your company under a construction permit given for the service industry while it is a manufacturing company is in fact illegal. Furthermore, to get the right document, you might have to hand in another five additional documents with their own requirements. This results in a process that may end in an endless amount of documents.

According to Erik Hannsidal in Inventure Management, there are certain dangers with not doing

things properly:

“If Norwegian companies are not careful enough in the certification and licensing process they might encounter major problems along the way. Being careful will therefore be a key to success in Brazil. However, it is costly to have people to follow up all the different processes.”

THE BUREAUCRACY CAN LEAD TO CORRUPTION

The high level of bureaucracy is highly connected to the lush environment for corruption. Not having the right document at the right time can cause situations where it might be tempting to accept or offer bribe to speed up the process. One of the ways to make sure you do not get trapped in corruption is to be sufficiently prepared when entering Brazil. Doing enough research on the legal requirements could be your company’s key to successful market entry. There are plenty of available articles on the topic, in addition to the possibility to ask Innovation Norway for advice. When entering Brazil it is important to not underestimate the complexity of the bureaucracy. Hiring a lawyer and a tax accountant that is familiar with the system can save you a lot of time and frustration. In addition, it can keep you from proceeding to actions that might end up having legal consequences.



THE BRAZILIAN LABOUR MARKET

One of the main challenges for companies established in Brazil is attracting a sufficient amount of competent labor. In essence, this is a problem of supply and demand.

Since the Brazilian government opened up the oil and gas sector to foreign investment in 1997, the economy has witnessed a surge of international companies establishing themselves in the country. Many of these companies are high technology companies specialized in a specific field. Coupled with the regulations regarding local content, this surge of international companies has sparked a sharp increase in demand for highly qualified labor.

On the supply-side of the equation, the Brazilian educational system has not been able to cope with the increasing demand. The main reason frequently mentioned is the Brazilian government's continuous underinvestment in education. In the UN education index Brazil ranks as number 83, behind countries such as Colombia, Gabon and Mongolia. We shall not go further into details, but the important takeaway is that the supply of qualified labor is not sufficient to meet the increasing demand. This is the case especially with respect to technicians and engineers.

Another issue is the ever overhanging presence of the state-controlled oil giant Petrobras. The company has a great reputation, and was recently ranked as the 4th best reputed company worldwide. This, amongst other things, makes the company the most attractive employer in Brazil. A former execu-

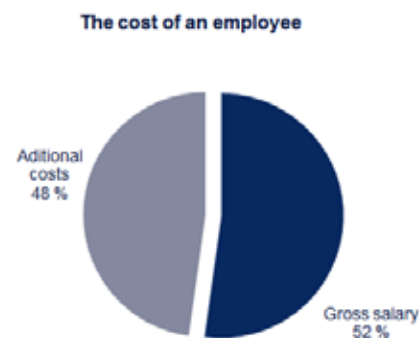
tive of Petrobras told us that the company once announced 150 jobs and received more than 110.000 applications. This example goes to show how popular Petrobras is among Brazilian employees.

LOCAL CONTENT

In order to avoid a case of the "Dutch disease" in relation to the oil-reserves in Brazil and to facilitate growth in the Brazilian industry, the Brazilian government has adopted a policy of local content. This means that companies have to employ Brazilian workers and use Brazilian-made parts in their production. Such policies, though often very frustrating to non-Brazilian companies, have been applied in other countries to great avail. Norway is one example, and the Norwegian approach and success is often referred to as a benchmark.

Oil-concessions come with requirements concerning local content that license holders have to abide by. As these are contractual commitments, the local content requirements naturally extend down the supply-chain from the license holders to all contractors and suppliers. There will however be a difference as to the degree of local content requirements. As Brazil still lags behind in terms of certain competencies, technology-intensive products and services will typically be subject to a lower percentage of local content requirement. Providers

| Two examples of cost of employees | | |
|-----------------------------------|------------|-------------|
| | Monthly | Annual |
| Gross salary | BRL 20 000 | BRL 240 000 |
| Gross salary + 13e + 1/3 vacation | BRL 22 222 | BRL 266 664 |
| Net salary | BRL 14 944 | BRL 179 331 |
| Net salary + benefits | BRL 19 549 | BRL 234 591 |
| Total cost for company | BRL 38 319 | BRL 459 823 |



of other products and services will obviously have to deal with a higher percentage of local content.

The local content policy brings with it several consequences. One of the most important is with respect to the demand of qualified labor, which there already is a shortage of. This, coupled with large investments, creates a significant pressure on the labor market. Petrobras alone is planning investments close to 174 billion USD in 2013.

COST OF LABOR

A common misconception among Norwegian companies is that the level of costs concerning employees is relatively low in Brazil. This is not the case. In Brazil, employers must take into consideration several costs related to their employees in addition to their wage. One such cost is that of educating employees. As there is a shortage of qualified labor, many companies find they have to take the matter into their own hands. Educating employees obviously comes with costs in terms of reduced efficiency, wages to instructors, facilities etc., but can often be necessary to reach sufficient standards in terms of competence. In addition, the exceedingly high demand for highly qualified labor causes an upward shift in wages.

Another problematic issue is the costs related to

mandatory benefits that companies have to pay. It is often said that the cost of an employee is in the area of 180%-200% of his salary. The table above illustrates this with an example of a management position. This makes labor in Brazil very expensive, certainly more expensive than many Norwegians believe.

The judicial system in Brazil is complicated, and it is important to be aware that certain things might be extremely time-consuming. When the Consolidation of Labor Laws (CLT) was issued in 1943, the conditions in Brazil were quite different. The population in general was significantly poorer than today, and it was more common for employers to take advantage of their employees. As a consequence the main concern of the policymakers was to protect employees from further abuse. This has resulted in a labor law that is relatively speaking rigid and biased in favor of employees. Describing or explaining the labor laws in detail goes well beyond the scope of this report, but we would advise companies to be aware that the cost may arise if the regulations are not adhered to as they should.

As an example, one Norwegian company had contracted a cleaning agency. The agency deployed a cleaner to clean their offices. After some time, the cleaning agency ran into economical trouble

and was not able to pay her wages. She came to the management of the Norwegian company with her problems, and they decided that they would pay her wages, while still honoring the contract with her agency. Eventually, the agency went bankrupt, which resulted in a lawsuit from the agencies employees who had not been paid wages. The result? According to Brazilian law the Norwegian company was liable to pay the wages that the cleaner had not received from her agency, in addition to the extra wages they had paid her and the contract they had with the agency. The main rule is: "Pay once and pay correctly. Otherwise you will end up paying a lot more than you should."

There is an ongoing debate concerning the CLT,

and many advocate a revision of the laws. Main arguments are that the situation in Brazil has changed significantly and that the labor laws are outdated and too rigid. Even though revisions are sorely needed, our impression is that there is not enough political will to improve the situation. There are many other important issues the current president Dilma and her administration have to face, and seem to prioritize.



ARNE BLYSTAD AS

VISAS AND WORK PERMITS

Currently, Brazilian authorities maintain a strict immigration policy in defense of Brazilian workers and the Brazilian economy. By setting local content restrictions upon all international companies, the government is able to control the inflow of labor to the country.

Norwegians automatically receive a 3-month visitor's visa on arrival to Brazil. The maximum allowed stay is an accumulated 6-month per 12-month period. Business meetings, workshops and clients visits can be conducted during this time, but this visa is not intended for any work activities. Foreigners intending to work in Brazil need to apply for a visa, and there are two types of visas that may be issued: temporary and permanent visas.

TEMPORARY VISA

Provided there is an employment contract with a Brazilian company, temporary visas may be granted for a maximum of two years. To obtain this visa, the foreigner must prove that his/her previous professional experience is in accordance with the work to be done in Brazil.

The visa is renewable for an additional two-year period or as long as the contract regarding the holder's permanence in the country is valid. Foreigners are deemed employees of the Brazilian company, entitled to all labour rights and subject to the Brazilian Social Security System.

Without a contract, the visa may be issued for foreign individuals involved in specific projects that lead to the effective transfer of know-how/technology to Brazil. The remuneration must be paid through foreign sources. In this case, the foreigners are not considered employees of the Brazilian company and are thus not entitled to labour rights and/or subject to the Brazilian Social Security System.

PERMANENT VISAS

Permanent visas are issued to administrators, managers and directors of professional or business corporations, who are already employed by the company and are moving to Brazil on intra-company transfer. The visa is valid for five years. There is a minimum requirement for the parent company to invest at least BRL 600.000 per visa in the Brazil-based subsidiary, and to provide evidence that they are bringing value to Brazil in the form of increased productivity, technology transfer or social benefits. The investment can be reduced to BRL 150.000 if the company generates at least 10 direct jobs during the period of two years following the foreigner's appointment. Visas are also issued to administrators, managers or directors of start-up companies, who are not required to meet

the minimum investment or job creation criteria, which apply to established companies. Researchers or other high-level specialists employed by Brazilian research institutions may also be granted a permanent visa. In this case, the individuals are usually not entitled to labour rights, but are subject to the Brazilian Social Security System.

AN EXTENSIVE PROCESS

The most challenging part with visas is the process of obtaining it. It involves a substantial amount of forms and attestations, as well as extensive interaction with relevant authorities. After all the correct documentation has been submitted, The Ministry of Labor processes a work visa in 30-60 days. A realistic time frame is 3-4 months for the whole process. The consular processing fees amount to around USD 500, but it is highly recommended to let a specialized company handle the visa process, which will charge around USD 2000 per visa. Because of this time demand and complicity of the process, companies often need to secure themselves against potential unpredicted complications that can happen during operations, e.g. offshore. One way of doing it is to have experts in the parent company in Norway with valid visas, so they can be quickly allocated to Brazil in case they would become needed.

HOW TO ATTRACT AND RETAIN TALENT IN A HEATED LABOR MARKET

As previously discussed, the Brazilian labor market definitely is of the tricky sort. Local content regulations coupled with large investments and ambitious growth plans create a talent vacuum wherein competence is a scarce resource. In the following section we shall discuss various strategies concerning how companies can attract and keep skilled employees.

| Norway | Brazil |
|---|---|
| 1 Professional training and development | Professional training and development |
| 2 Leaders who will support my development | Leaders who will support my development |
| 3 A creative and dynamic work environment | Good reference for future career |
| 4 Challenging work | Recognizing performance (meritocracy) |
| 5 A friendly work environment | Leadership opportunities |

Source: Universum

Many of the strategies successfully applied by companies in Brazil have universal validity, but hold special relevance in Brazil due to cultural and historical issues. We will also look at some of the measures you can take in order to become more attractive for potential employees.

CLASSIC/TRADITIONAL MEASURES TO INCREASE ATTRACTIVENESS

Benefits

As in many other parts of the world, it is common in Brazil to offer your employees additional benefits aside from direct economic compensation and the minimum benefits required by law. The most common are health benefits and insurance,

dental plans, meal allowance, day care allowance etc. Many employees in Brazil are willing to accept a lower wage if they receive sufficient benefits instead. Be sure to offer benefits that are not inferior to your competitors, although it will not be necessary to go far beyond what your competitors offer. Focus instead on non-economic factors that can make your company attractive. Aris Tsikouras of McKinsey says “The real question to recruiting people in Brazil is: how do you find the non-monetary things that people value?” For a comprehensive overview over which benefits are commonly offered, we recommend taking a look at the Benefit Plan survey done by Towers Watson.

Job security

In order to understand how the Brazilian culture works, it is important to have some knowledge of the country’s history. As previously mentioned, Brazil has experienced considerable instability and uncertainty. With frequent changes in government, military coups, hyperinflation etc., the Brazilian people have learnt not to trust easily. This statement is also backed up by Hofstede in his aforementioned theory of cultural differences. Brazil receives a score of 76 in the Uncertainty Avoidance dimension, compared to 50 in Norway. This clearly indicates that job security can be a critical factor for workers in search of a job. Always make sure that you are perceived as a trustworthy company with a long-term commitment.

INVEST IN YOUR EMPLOYEES

A study by the Sao Paulo Business School finds that the most common reason for Brazilians leaving their jobs is that they don’t feel they have enough prospective for professional growth. Another survey performed by Universum finds the following factors to be the most critical drivers for choice of employer: These two surveys indicate that career development is very important in Brazil, even more so than in Norway. It is therefore critical for companies to include career development plans and frequent performance reviews of their employees in their strategies regarding attracting and retaining employees.

The problem with investing in your employees’ education is that you never know how long you will be able to keep them. The high turnover rate and the prospect of possible career enhancement can make this a risky investment. The key here is to make sure that your employees are satisfied with the career opportunities you can offer within the company, while also feeling that you invest enough in their education. Obviously, proficiency in the English language is important for employees seeking an international career, and investing in English courses should be considered. One company we spoke to said they have a program in which the company covers 90% of the tutoring costs for English lessons.

GIVE YOUR EMPLOYEES GROWTH OPPORTUNITIES WITHIN THE COMPANY

As indicated by the Universum survey, leadership and growth opportunities within the company is considered important. Career planning as well as

making your employees feel valued is obviously important no matter where you are in the world.

REPUTATION/INTERNAL PRIDE

Several of the companies we have spoken to report that for Brazilians, it is important that they can take pride in their employer. Mauro Andrade of Statoil do Brasil mentions CSR as an important tool in their efforts to build internal pride, a view he has in common with Izeusse Dias Braga Jr. of Petrobras. Braga goes as far as stating that Petrobras reputation is one of the main reasons for the company’s success in recruiting and retaining employees. Incorporating CSR into your business culture in accordance to your company’s values can therefore be a powerful tool in order to build up internal pride and a strong reputation among employees.

Another important factor concerning the company’s reputation is obviously the values incorporated into the business culture. Having strong values that are clearly communicated and demonstrated can have positive effects not only on day-to-day operations, but also on a company’s reputation and by extension a company’s ability to attract and retain valuable employees. According to Walker Lima of OSM, incorporating transparency into the business culture can increase the capabilities to retaining employees. They feel more valued, and a significant portion of the problems that occur due to communication issues may potentially be avoided.

MINI CASE: STATOIL

Statoil has several CSR-projects going in various fields. One thing Statoil has done which we found quite interesting is what they call the Corporate Volunteer Program. It began a few years ago when the spouses of expats wanted to take part in Statoil’s CSR work. This activity then spread to Statoil employees, and after a while the company developed it into a comprehensive program. Now all employees, as well as partners and contractors, are encouraged to take part, and work directly with the CSR-projects. Statoil even donates R\$100 to the relevant project for every hour’s work by employees in the program. Nara Borges of Statoil claims that this is a relatively affordable measure that helps build internal pride as well as allowing for networking within the organization.

BRAZILIAN TAXATION FROM A NORWEGIAN PERSPECTIVE

As one of the world's leading commodity and natural resources producers, Brazil has become one of the most attractive countries for investments in the oil & gas sector. Despite these bright prospects, however, Brazil is considered as a complicated place to do business for foreign-based companies with a highly complex and expensive tax environment. This article intends to provide a brief overview of the Brazilian tax environment from a Norwegian perspective.

BY KPMG

1. BACKGROUND

Brazil has developed into a very strong oil and gas regime, with a current production of about 3 million barrels per day, expected to increase to above 5 million barrels per in 2019. The projections show that the sector in Brazil may double its size on every five or six years. Needless to say, this also means that the country has a significant reserve basis which will create the need for major investments in the years to come.

Within this scenario, Brazil has become one of the most attractive countries for investments in the Oil & Gas sector and a number of large investments have been already announced by major players, including Statoil.

A major part of the reserves can be found in deep-water and sub-salt reserves which open for foreign companies with leading technology and resources within the oil and gas area, including upstream companies as well as oil service companies. As Norway and Norwegian companies is recognized as world leading within the area of oil and gas, this gives great opportunities for Norwegian companies.

2. USE OF SUBSIDIARIES

Developing business opportunities in Brazil will often require establishing a local subsidiary or branch in Brazil. In general, foreign investors tend to incorporate a subsidiary rather than set up a branch in Brazilian territory due to the following reasons: (i) the shareholders are not responsible for the Brazilian subsidiary's debts, except for specific provisions set forth by corporate, tax, labor and bankruptcy rules, and (ii) the process of establishing a subsidiary in Brazil is fairly simple and much less time consuming compared to establishing a branch.

Further, laws regulating the formation of legal entities in Brazil are applicable to foreign and Brazilian entities or individuals in substantially the same manner.

Nonresident individuals or legal entities may adopt any type of legal entity recognized by Brazilian legislation. The most common type of structures is the Limitadas (Limited Liability Companies) or SAs (Corporations).

Branch structures are not very common, and for upstream companies seeking oil and gas concessions it is a requirement to have a local subsidiary. Interestingly, there is no clear definition of perma-

nent establishment (PE) under Brazilian domestic law. However, branches, agencies and representatives of non-domiciled taxpayers are treated as domiciled legal entities and subject to Corporate Income Tax.

3. INTRODUCTION TO TAX REGIME IN BRAZIL

The tax regime in Brazil is complex and represents many challenges for foreign investors. Therefore, a careful review and planning of the tax situation should be done prior to entering and investing in the country. The Brazilian tax system is based on the principle of strict legality and its main principles are defined by law i.e. constitutional tax system. Three jurisdictions and tax collection levels are defined by tax legislation. Thus, taxes may be levied by the federal, state and municipal governments. The taxes varies from more ordinary income taxes, to taxes on gross revenues, and taxes on incoming and outgoing services.

OVERVIEW

Corporate taxpayers are subject to two taxes on income, namely the corporate income tax (IRPJ) and the social contribution on net profits (CSLL), both hereinafter referred to as CIT. Profits, income and capital gains earned worldwide are subject to Brazilian corporate income taxes. The different rates are normally 15% for IRPJ in addition to 10% on yearly taxable profit exceeding BRL 240,000, and a rate of 9% for CSLL. Therefore, it is common to say that CIT is imposed at a maximum aggregate rate of 34%.

In addition to the CIT, Brazilian tax laws also impose two social contributions on gross revenue, namely the contribution to the Social Integration Programme (PIS) and the contribution for the financing of social security (COFINS). PIS and COFINS are imposed, in general, on gross revenues of the corporate taxpayer.

The federal government levies taxes on foreign trade (import and export taxes), a value-added tax on industrial production (IPI) and a tax on financial transactions (IOF).

ICMS (Imposto sobre Circulação de Mercadorias e Serviços) ICMS is a state tax levied on the import of products and transactions involving the movement of goods, inter-municipal and interstate transportation services and communication services. In many aspects, it operates like a



JAN SAMUELSEN



PER DANIEL NYBERG



JULIO CEPEDA

value-added tax.

Imposto sobre Serviços (ISS) is a municipal tax levied on the revenues derived from the provision of services. The tax base is the price of the service and the rates vary from 2% to 5% depending on municipality.

IOF is generally assessed on financial operations carried out by the Brazilian taxpayer, such as insurance, currency exchange, securities, loans, etc. The tax rates and calculation basis depends on a number of aspects (mostly type of operation and maturity).

As a starting point, Brazilian entities rendering services to Norwegian affiliates (export) are normally exempt from PIS, COFINS and IOF and there should be no withholding taxes. However, should a Norwegian entity render services to its Brazilian affiliate the Brazilian tax payer would be subject to PIS, COFINS, CIDE and IOF, however, such taxes should be tax deductible in the computation of the CIT basis depending on specific circumstances. CIDE social contribution is triggered on the payment abroad in consideration to royalties and technical services rendered by a non resident. The Norwegian entity would be subject to ISS (2% to 5%) and withholding tax at a rate of 15%..

TAX REGIMES

Tax payers may select (on an annual basis) between (1) the actual profit regime (lucro real), and (2) the presumed profit regime (lucro presumido) and There are also a third option of less relevance (small businesses only). As the name indicates the actual profit regime is based on net income, e.g. with deductions for most relevant costs. For large business operation the actual profit regime is mandatory. Presumed profit regime is a simplified tax method under which the company chooses to calculate its taxable base by applying a percentage of its total gross income earned during the quarter (presumed profit). The tax rates will vary for different sources of income.

The Brazilian tax system is complicated and time-consuming. The World Bank calculates that it takes a typical limited liability company that is domestically owned with 10 to 50 employees nearly 2,600 hours per year to comply with tax regulations in Brazil, compared to 187 hours in the U.S. And the average Brazilian company pays about 69% of its

net profits to the government, compared to a total tax rate of 46.8% in the U.S., according to the World Bank.¹

TAX LOSSES

Under the actual profit system, companies may accrue tax losses to offset with its future taxable profits. In this regard, it is important to outline that there is no tax consolidation in Brazil and, therefore, it is not possible to offset tax losses from other group companies. The main aspects in connection to tax losses that should be considered are that tax losses may be carried forward indefinitely. However, the offset is limited to a maximum 30% of annual taxable income and no carry back of losses is allowed.

TRANSFER PRICING

Brazil is not a member of the Organization for Economic Co-operation and Development (OECD), but it has its own regulations on transfer pricing. Although Brazil is not a member of the OECD, guidelines issued by that organization were observed by the Brazilian legislature when drafting the Law. However, there are important differences between the OECD Transfer Pricing Guidelines and the provisions under Brazilian law, for example the following:

Brazilian transfer pricing rules does not follow the arm's length principle. Instead, transfer pricing calculation are generally based on pre-fixed presumed profit rates;

Brazilian law does not allow the use of the profit split method or the transactional net margin method (TNMM) set forth in the OECD Transfer Pricing Guidelines; and contrary to the OECD TP Guidelines, Brazilian transfer pricing rules do not apply to imports of royalties or technical assistance services (on the other hand, more restrict deductibility requirements may apply).

WITHHOLDING TAX

In most cases, the withholding tax is a repayment of income tax on the individual or entity's final tax return. However, in some cases it is considered a final taxation. Also, withholding income tax is due on most non Brazilian tax residents' income that has a Brazilian source of payment (e.g., royalties, service fees, capital gains, interest, etc.).

Federal Taxes

- Corporate Income Tax (25%)
- Social Contribution of Profits (9% or 15%)
- Social Contribution on Revenues – PIS and COFINS (9,25% or 3,65%)
- Withholding Income Tax
- Economic Intervention Contribution– CIDE (10% and variable rates)
- Federal Tax i industrialized Products – IPI (variable rates)
- Import Tax – II (variable rates)
- Tax on Financial Transaction – IOF

State Tax

- State Value – added Tax – ICMS (variable rates)

Municipal Taxes

- Tax on services – ISS (2% to 5%)

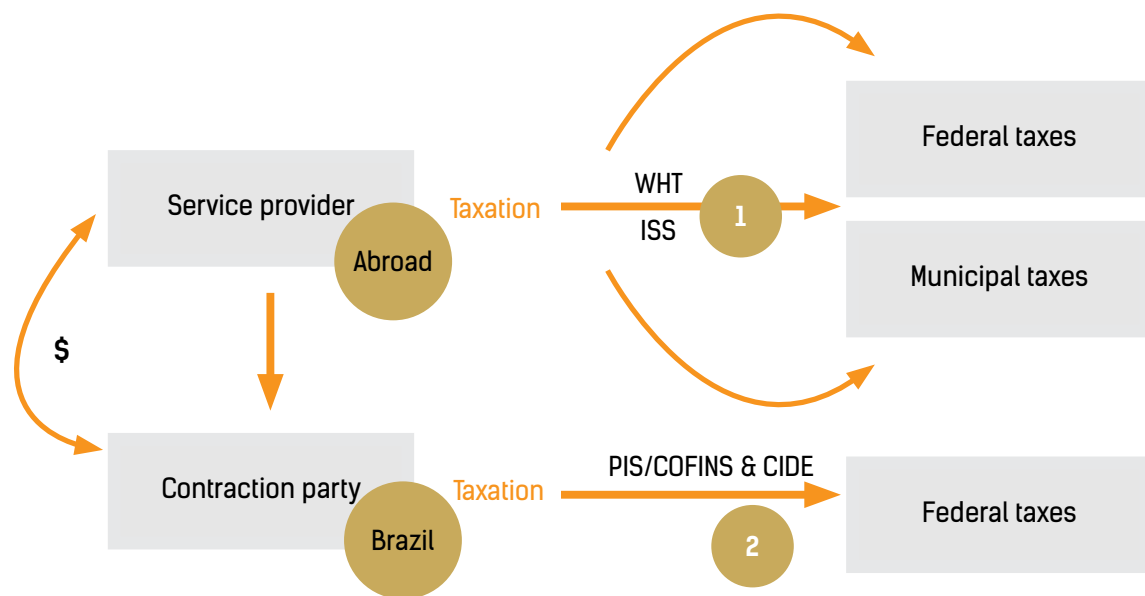
The rates depend upon the nature of the payment, the residence of the beneficiary and the existence of tax treaties between Brazil and the country where the beneficiary is located. The withholding tax rate for a Norwegian entity with Brazilian source income is normally 15%. As a general rule, income paid to beneficiaries located in low tax jurisdictions is subject to 25% withholding tax.

TREATY RELIEF FROM DOUBLE TAXATION

Generally, Brazilian tax treaties provide for the ordinary credit method to relieve double taxation; however, a few treaties provide for the exemption method. Brazil taxes not only foreign-source income derived by resident companies (whether directly or through a branch), but also the income

derived by foreign controlled or affiliated companies in proportion to the ownership percentage held by the Brazilian parent.

Norway and Brazil has entered into a convention for the avoidance of double taxation of income and capital with effect from 1981. The existing tax to which the convention applies is the federal income tax in the case of Brazil. The convention applies the ordinary credit method to relieve double taxation i.e. taxes paid in Brazil on income or capital by a Norwegian-resident taxpayer may be claimed as a credit against the domestic tax liability. The convention provides that the treatment of technical services follows the treatment of royalties and is therefore subject to withholding tax in Brazil.



There are no special provisions for offshore activities are provided under the convention.

DIVIDENDS

Dividends paid by a Brazilian entity to Norwegian shareholders are exempt from withholding tax. Dividends may be paid out of net accounting income (after taxes) for the year or profit reserves.

INTERESTS ON NET EQUITY

Another option for remitting income from a Brazilian entity to a Norwegian shareholder is the Interest on Net Equity, which is a hybrid remuneration with characteristics resembling both interest and dividends.

INTERESTS

Remittances of interest from a Brazilian entity to foreign parties are subject to 15% withholding tax (or 25% for recipients in low tax jurisdictions). It should be noted that Brazil has thin capitalization rules (generally 2:1, or 0.3:1 for low tax jurisdictions, for the debt to equity ratio) and transfer pricing rules. Both rules may apply on interest payments, and in this case, the non-deductible excess amount is added back for corporate income tax purposes (disallowed) and may not be carried forward.

CAPITAL GAINS

Non Brazilian residents' capital gains deriving from a sale of an asset located in Brazil, including shares in a Brazilian company, are subject to withholding income tax at 15% (25% if the seller is located in a listed low tax jurisdiction). In case of a sale between two non-residents of an asset located in Brazil, the representative of the non Brazilian resident buyer is responsible for withholding and paying the Brazilian tax on capital gains.

PENALTY TAX

Brazil has a very strict penalty tax regime with a 75% penalty of all incorrect tax payments, irrespective of the reason behind the adjustment, and it does not help to flag the issue as a part of the tax return like companies may do in Norway. A tax year is closed after 5 years, unless brought up as an issue by the tax authorities.

4. OIL AND GAS EXPLORATION AND PRODUCTION – GOVERNMENT TAKE REGIME

As a general rule, oil and gas (O&G) contracts in Brazil are usually based on concession agreements, which require industry players to incorporate a local entity to carry out activities in Brazil. However, it has been opened for use of production sharing contracts (PSC) in certain pre-salt and restricted areas. It has not been set any fixed profit oil level,

Actual Profit

- Tax calculated on a quarterly or annual basis
- Taxable income: Company's profit adjusted by some tax inclusions and tax deductions
- Utilization of tax attributes (NOLs, amortization of premium, etc.)
- PIS and COFINS – Non-cumulative system
- Requires more support documentation

Presumed Profit

- Taxes calculated on a quarterly basis
- Taxable income: Application of a deemed profit margin on gross sales
- No tax attributes
- PIS and COFINS – Cumulative system

Presumed Profit is optional

- To be eligible, some requirements must be met (e.g. maximum annual revenues of R\$ 48 million)
- Tax efficient for some activities

and this may be subject to a bid process. Use of PSC will generally increase the risk for the tax payer, as the project will be taxed on a ring-fenced basis, and an unsuccessful project will therefore always be for the tax payer's sole risk and cost. This is contrary to standard concession agreements where it will be possible to use exploration costs against income from other concessions or other business activities within the same legal entity.. Our understanding is that there are currently no PSC's, and the terms and conditions, including the issue of ring fence, have not yet been finally set.. A transition towards a PSC regime should not have any effect for concession agreements already entered into.

Companies with concession agreements pay the same tax as any other companies and there is no ring-fence within one legal entity, neither between different offshore projects, nor between offshore and onshore business activity. It is important to mention that Brazilian tax legislation imposes a social contribution (CIDE - imposed to foster R&D in Brazil) over the sale of oil, gas and other products derived from petroleum. However, the tax rate of CIDE was reduced to zero in 2012.

It is, however, to be aware that companies involved in O&G contracts are subject other government

take elements. There is a royalty varying from 5% to 10%, calculated based on each month's market value of produced petroleum. The royalty is deductible when calculating the 34% CIT. There is also a system for signature bonus paid based on bids in the concession rounds. As royalty signature bonus is deductible but has to be amortized over the license period.

For high producing/high profit margin fields there is a type of windfall profit tax ranging from 10-40% of the produced value less certain specified deductions. This is also a deductible item when calculating CIT.

Further there is an Area Retention Tax due by field concessionaires for the exploration and production of oil & gas. Amounts due are determined by the Agência Nacional do Petróleo (ANP) on the bid and vary depending on field size and geological characteristics. This area retention tax is generally deductible for income tax purposes. Finally, ANP has been imposing on concession agreements a clause obliging O&G companies to carry out R&D investments. This measure aims to foster the technological research and development of new technologies, products and processes for the oil & gas industry, as well as to encourage the creation of O&G centers of excellence and development of



national R&D institutions. The amount destined to R&D may be deducted in the calculation of the Special Participation and on the income tax computation as well. Other tax benefits may also apply to such R&D expenses.

The Brazilian tax legislation does not expressly define how exploration and development costs should be treated for income tax purposes in the O&G industry. The general income tax rule determines that exploration and development costs should be capitalized for further amortization (when production starts).

Abandonment costs when incurred or paid are generally deductible for income tax purposes. Provisions for abandonment costs are not deductible.

With all the different tax elements it difficult to get an overview of the overall government take in Brazil, and this will also vary between different fields. However, it can be concluded that the government take will be on the high side.

REPETRO TAX INCENTIVE

The REPETRO tax regime is a special benefit that applies to the imports and exports of goods destined to the exploitation of oil and gas in the

Brazilian territory. As a general rule, the import of goods is subject to a high taxation, which may be suspended under the Repetro regime. In this regard, it is important to note that the equipment and machines must be imported to Brazil without currency exchange coverage, i.e. the ownership must remain with the non-resident.

REPETRO grants the suspension of some Federal Taxes such as II, IPI, PIS, COFINS, and in some cases, the State Tax (ICMS) during the import of certain goods and machinery to be used in the research and/or the extraction of oil and natural gas reserves by way of the utilization of the following regimes: (i) Fictitious export, (ii) Drawback, (iii) Temporary admission.



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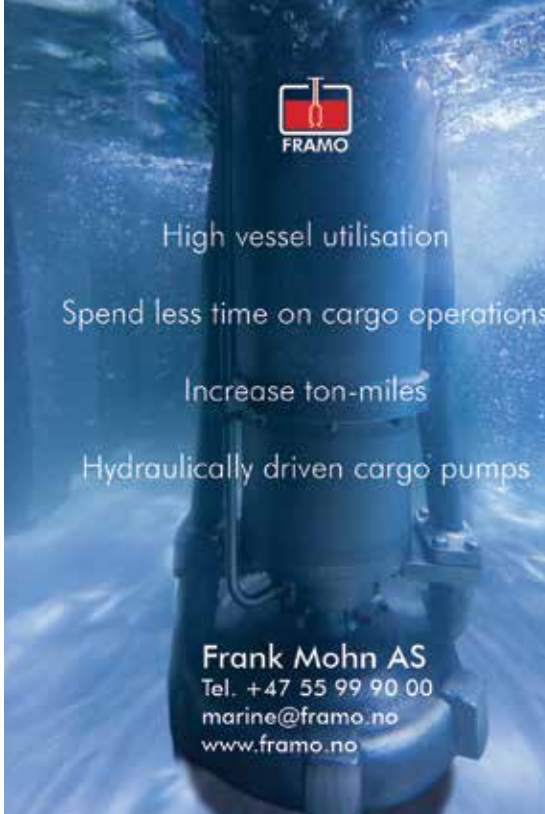
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CORRUPTION

In a bureaucratic society with low wages for public servants, there is always someone who accepts something to make things move smoother, or closes their eyes in case of illegal actions. When the average salary of a police officer is R\$1,700 a month (or around 4,800 NOK), it is easy to pay yourself out of a problem, especially feeling that you are backed up by the social acceptance of the phenomenon.

Which guidelines should be followed, the ones set up by the norms of social acceptance or the ones uttered by the ethical standards of doing business? What is the situation regarding corruption in Brazil and what is done to combat it?

BRAZIL'S RANKING ON THE CORRUPTION PERCEPTION INDEX

The Transparency International's Corruption Perceptions Index (CPI) ranks countries and territories based on how corrupt their public sector is perceived to be. A country or territory's score indicates the perceived level of public sector corruption on a scale of 0 - 100, where 0 means that a country is perceived as highly corrupt and 100 means it is perceived as very clean. A country's rank indicates its position relative to the other countries and territories included in the index. In 2012, Brazil ranked 69th (among 174 countries) in the CPI, doing best among other BRIC countries. However, when compared to other major emerging economies such as Turkey or Chile, the country has a long way to go. A comparison between Brazil and some selected countries is displayed in the table on the next page

A SUBSTANTIAL CHALLENGE

Brazil is a signatory to the Organization for Economic Cooperation and Development (OECD)

Anti-Bribery Convention. The country has laws, regulations and penalties to combat corruption, but their effectiveness is inconsistent. The recent implementation by the Federal government of anti-corruption initiatives might not translate the situation in the country's 27 states and 5,651 municipalities. The difficulties of fighting corruption in Brazil are compounded by the country's high degree of decentralization, which provides local authorities wide discretionary powers. Moreover, oversight mechanisms at these levels are characterized by questionable efficiency, which has paved the way for several cases of corruption.

COSTS OF CORRUPTION

For Brazil, the costs of corruption are big. According to a survey carried out by FIESP (Federation of Industries of the State of Sao Paulo) in 2008, corruption accounts for at least 2% of Brazil's GDP every year (equal to a loss of 49.6 billion US dollars to corruption in 2011). This money could be sent to infrastructure projects, schools or hospitals, which are in a sore need of improvement.

DISTINCTION PUBLIC/PRIVATE

A particular problem regarding corruption in the country is the poor distinction between public and private. In spite of laws and regulations, most Brazilian politicians use public funds for their private

benefit. Irregular use of "governmental payment cards", official cars, airplane tickets, etc. is often reported in the media. One typical example of the poor distinction between private and public is the widespread practice of nepotism among politicians and officials who frequently employ their relatives in well-paid positions. Although governmental reforms of the last decade have brought some changes to the constitution, and among others the prohibition of the aforementioned governmental nepotism had been legislated in the judiciary, first in 2005, and in 2008 extended to the executive, legislative, and judicial branches of the government, some cases of it are still found today.

INITIATIVES TO FIGHT CORRUPTION

There are several different institutions located in different regions and states of Brazil with mandates to tackle corruption, though none of them have this specific task. The General Comptroller's Office (CGU), which is responsible for internal control, The Federal Police, which has conducted numerous operations against criminal organizations as well as politicians and public officials involved in corruption and fraud, the Court of Auditors, and the Public prosecutor's office have all contributed on this front.

The government has also been working on im-

provement of the transparency of public spending and allowing social control by opening access to citizens. Establishment of the Transparency Portal in 2004, Administrative Agreement Portal (Portal dos Convênios) in 2008 and integration of the SIAFI (Integrated System of Financial Administration of the Federal Government; the main tool used for recording, monitoring and control of budget execution, financial and property of the Federal Government) to expand its access to citizens, have all contributed to improve the transparency. At least, the media has made extensive use of the information published on the 'transparency portal', and it has been very active in denouncing irregularities.

Public procurement is also an area susceptible to corruption, sometimes in the form of technical specifications favoring a specific supplier in a tender process, or related to payments in order to obtain contracts/concessions or licenses/permits. According to a report made by "A Transparencia Mexicana initiative (Aug. 2012)", there are no organizations in Brazil that systematically work towards the reduction of corruption in public purchases. In addition, data at the state level is not easily accessible. However, the international market is taking proper action to decrease the level of corruption as the international companies strictly

| Country | CPI Score | Country Rank 2012 |
|-----------|-----------|-------------------|
| | 2012 | |
| Norway | 85 | 7 |
| Chile | 72 | 20 |
| Turkey | 49 | 54 |
| Brazil | 43 | 69 |
| China | 39 | 80 |
| India | 36 | 94 |
| Argentina | 35 | 102 |
| Russia | 28 | 133 |



keep distance from this sort of things, and the level of punishment is increasing as the new generations gradually change the general mindset and ethical expectations.

PROSPECTS FOR THE FUTURE

The anti-corruption strategies carried out by the governmental institutions are playing an important role in the fight against corruption. But even though important steps are being taken to improve the situation, the results will take time to come. It is further important, in a country with the dimensions of Brazil, to mobilize the general public, as the former President Lula once emphasized: “I think the Brazilian society needs to understand once and for all, that we are only going to be able to truly fight corruption when the civil society, with the instruments made available, can act as a watch dog”. The leading role in this development is to be played by the middle class, since it is the one paying great part of the taxes and benefiting less from social policies. Considering the positive effects of the improving economy in the country, we clearly observe the increasing growth of the middle class, and the more people emerge from poverty and join the middle class, the less corruption tends to be accepted.

ADVICES FOR NORWEGIAN COMPANIES

Although examples of corruption practices within the Brazilian public administration are not very hard to find, it is perfectly possible for a Norwegian company in Brazil to run business without having to pay bribes or commit other illegal acts. In fact, paying a bribe would in many cases only create further complications in future. As Walker Lima, general manager at OSM office in Brazil, quoted: “In Brazil, if you pay correctly, you pay only once. If not, you may pay twice”.

Public procedures are complex, and it is not uncommon for a foreign company to discover it has made a mistake or skipped a step in a procedure. It might seem tempting to resolve the problem by buying oneself out of the situation in order to save time and avoid the headache. However, in the longer term, this kind of actions is unadvised since it conflicts with ethical standards of doing business, and since it may catch up to you in the future.

Most of the companies we have been in contact with indicated that they have not experienced any sort of corruption. Only a few of them have had one or two insidious approaches, but in all cases these had been gently refused without any harmful consequences. This implies that the problem of corruption is of a manageable character.



The best way to avoid corruption in Brazil is generally to pay close attention to all requirements and follow all necessary steps when dealing with authorities. Even a small typo in a document can have big consequences. For instance, in customs clearance, if the shipping documents of imported goods have any minor mistakes, the shipment would be stalled for several weeks or in worst case sent back. Innovation Norway also advises all Norwegian companies not to use any middlemen or agents offering shortcuts for an extra fee, which is a common practice in Brazil. The “despachantes”, as they are called, deal with practical issues of the bureaucracy on your behalf, but have a different attitude towards corruption and bribery. Further, if you do not pay your taxes or fees correctly, it will catch up to you and you will have to pay the double in addition to risk coming under scrutiny. The unanimous opinion among all the Norwegian companies is that you should be thorough in paying everything correctly, including taxes, wages and potential fees. This way you will be 100% sure of your finances and can easily undergo audits with confidence and without risking to get any further fees.

As Walker Lima, general manager at OSM office in Brazil, quoted: “In Brazil, if you pay correctly, you pay only once. **If not, you may pay twice**”.

INFRASTRUCTURE AND INTERNATIONAL TRADE

Brazil is facing vast infrastructural challenges, and infrastructure is cited as the second most problematic factor for doing business, according to the World Economic Forum's Global Competitiveness Report 2012-2013.

| BRAZILIAN INFRASTRUCTURE | VALUE/7 | WORLD RANK/144 |
|---|---------|----------------|
| Quality of overall infrastructure | 3.4 | 107 |
| Quality of roads | 2.7 | 123 |
| Quality of railroad infrastructure | 1.8 | 100 |
| Quality of port infrastructure | 2.6 | 135 |
| Quality of air transport infrastructure | 3.0 | 134 |
| Quality of electricity supply | 4.9 | 68 |

Source: The World Economic Forum – The Global Competitiveness Report 2012-2013

Combining this fact with Brazil's problems concerning corruption, bureaucracy and taxation, you start to get the picture as to why importing a container comes at twice the cost compared to the OECD average. For a Norwegian company in Brazil the challenges in the area of international trade range from coping with this to unpredictable financial framework.

The World Economic Forum ranks Brazil 107th out of 144 when it comes to overall quality of infrastructure. Especially transportation infrastructure is in a bad state, which seriously affects the movement of goods. There are plans to build a high-speed train link between Rio de Janeiro and São Paulo, but this project is suffering from delays. Although the Brazilian government plan to spend 1% of GDP on infrastructure from 2011-14, critics like Morgan Stanley argue that this is far from enough, and there is also plenty of reasons to think

that private capital will not rush to fill the gap. Port infrastructure is vital when it comes to international trade, but unfortunately Brazil ranks 135th out of 144 in this area. The government has announced extensive investments to improve the situation, but infrastructure is only part of the problem. As an example, pilots guiding ships into ports are among the best paid personnel in Brazil, due to demand. Corruption also adds to the bill in some cases, and the high costs are also hurting Brazilian exporters. Still, most Norwegian companies do not identify corruption as the main challenge when importing goods.

Tony André Håvelsrud of Kongsberg Maritime cite tariffs around 80-100%, customs clearance time and bureaucracy as major challenges. Terje Heimly from Aker Solutions has experienced having goods with customs for several months. A very small detail in the import documentation can cause huge



problems, and generates a lot of extra work for international buyers. "The solution to this problem is simple", says Heimly, "Do it 100% correctly. Always. It is very important to have good internal procedures to avoid these customs issues." All monetary transactions in Brazil must be done in Real (BRL), and Brazilian companies are not allowed to hold accounts in any currency, except if they are involved in international trade. Having to operate in an environment with a volatile Real is one of the biggest challenges for many companies, according to Arne-Christian Haukeland of DNB. The strict currency regulations prevent international cash pooling. Inter company loans are common, but cannot be used in connection with cash pooling, which is common in other countries.

Ways around this is out of scope for this report, and for more information we advise you to contact for instance DNB.

Haukeland also mentions that financial directors will find it difficult to do long-term planning, as rules and regulations can change over night. An example is the tax on financial operations (IOF), intended to reduce the inflow of short-term, speculative foreign currency. The definition of short-term has varied greatly over the past years, jumping up and down from one to five years.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

"Any company committed to CSR will be recognized in Brazil"
- Petrobras

This is one of the answers from Petrobras' representative when being asked how to make success in Brazil. The statement certainly indicates the importance of being perceived as a socially responsible company, attaining local acceptance and building a good reputation in both business sectors and communities alike. In fact, it is expected from Norwegian companies that they engage in CSR activities when operating in Brazil. Companies are further advised to clearly communicate not only which CSR activities they engage in, but also the reason for doing so. If a company gets in some kind of trouble, they might actually meet a better response from local authorities if they can refer to a continuous record of stakeholder engagement.

CSR: FROM THE HEART AND CORE OF THE COMPANY

CSR is by no means a new phenomenon in Brazil, and the tradition has its roots back to the 1960's. The concept has however developed from being a matter of philanthropy to concern activities for which sustained effects can be clearly demonstrated- both for the company and the community within which the company operates.

This notion is also supported by a former manager of Petrobras, who argued that CSR should not be confused with philanthropy. Rather; the concept is equivalent to building new markets to facilitate growth and provide for a positive development; thereby proving tangible benefits for both parties involved. For instance, if Petrobras had not invested in education to give people the competence required to develop edge technology, the company would not have been able to operate offshore; which constitutes 85 % of their present total activity.

It is thus considered important to implement CSR as part of the company's core business, thereby making money while promoting sustainability. This emphasis might be one of the reasons why Brazil generally is perceived as highly competent and sophisticated when it comes to CSR. They intend to take the position as Latin-American leader within the area, and are one of the world's fast-growing nations most committed to global sustainability-practices. Some even say that Norway has a lot to learn from them, which is important to keep in mind for Norwegian companies planning to enter Brazil. Be humble, and try to learn.

HOW TO DO CSR IN BRAZIL

For larger companies, many of which are often found within the oil and gas sector, CSR may require a substantial amount of resources. For instance, most major companies in Brazil have a designated CSR officer –or department through which their CSR-efforts are funneled, whose main objective is to link their social and environmental responsibilities to their core businesses. As such, CSR often requires focused and strategic planning over the long term in order to achieve sustained effects.

A study conducted by students from Copenhagen Business School found that whereas Latin-America is more focused on its own social progress, Scandinavia is focused on global issues such as environmental care and poverty in developing countries. This becomes evident when comparing Norwegian Statoil with its Brazilian counterpart Petrobras. Whereas both focus on sustainable development, Petrobras has an outstanding political role in terms of the social programs designed to assist local communities in Latin America. The dissimilar approaches may be a result of different levels of economic and political stability. That is, companies operating in Brazil face different challenges relative to Norway when establishing their CSR strategy. One striking difference is attributed to the differential responsibilities of the respective public welfare programs, as they are less extensive in Brazil as compared to Norway. In Norway, Governmental institutions are in charge of matters related to professional training, social assistance and social-cultural activities aimed at employees. Conversely; whereas in Brazil, the State has been unable to meet this demand efficiently, leading to Brazilian companies taking the responsibility to prepare workers for the market and assist them with some of their social needs. Consequently, CSR-projects in Brazil are often associated with social projects at a local level.

Health, infrastructure and education constitute the main challenges emphasized by the Brazilian Government, of which education is the number one priority for development initiatives. A variety of measures have been taken to keep children and youngsters at school, navigating the country into the right direction. Nevertheless, the school system has not reached a sufficient level of quality, and the country faces major challenges related to this area. In Brazil, government therefore puts a special

If a company shows commitment to **CSR** he will achieve addition points, and be able to win this process of being a supplier of Petrobras. Any supplier that decides to be committed by CSR he will be recognized by Petrobras.

emphasis on initiatives taken to improve the conditions of children and adolescents. This includes getting them into organized activities, improving their English language skills and preventing them from “being captured by the Favela”. The construction of new schools, as well as improving the general infrastructure, is also considered important activities in a CSR perspective. A final subject to consider is that the corruption levels are higher in Brazil than in Norway; hence, training staff on handling corruption becomes an important part of being a socially responsible company.

OTHER GOOD-TO-KNOW-FACTS ABOUT CSR

In Brazil, approved CSR activities are deductible with an amount up to 10 % of various taxes. The law is applicable for both private Brazilian companies as well as subsidiaries of foreign companies. Further, according to national legislations, Brazilian companies are required to allocate 1 % of total revenue to R&D; 50 percent of which allocated by the Government and the remaining part allocated to initiatives selected by the company itself.

MINI-CASE: PETROBRAS

In order to maintain the pipelines, Petrobras needs to use a special protection. Traditionally, the materials used were produced by the industry in Sao Paulo. However, they discovered that if they take some special leafs from a special tree in the northern region of Brazil they will obtain an equally good protection as the one produced by

the industry. To produce the leaf-protection, 200 local women in the northern region were engaged. Initially, the women did not possess the resources required to make a living; however, today they are suppliers of Petrobras. As such, local people were given the opportunity to raise new businesses instead of contracting major companies to do the same job. According to a former manager of Petrobras, there is a substantial social risk associated with not giving people in rural areas the appropriate conditions necessary to provide for their own living. They will eventually migrate to larger cities without having the necessary education for getting a job. As such, they might end up in the favela dealing drugs (Petrobras).

“If a company shows commitment to CSR he will achieve addition points, and be able to win this process of being a supplier of Petrobras. Any supplier that decides to be committed by CSR he will be recognized by Petrobras.”

MINI-CASE: DREAM, LEARN, WORK

The Norwegian Ministry of Foreign Affairs has supported a CSR project called “Dream, Learn, Work”. The project is established by Norwegian companies in Rio de Janeiro, and the objective is to provide qualified labor for the maritime sector while at the same time offering education and work to underprivileged adolescents. For more information about the initiative, visit www.dream-learnwork.com.

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FRIELE- A GOOD CASE PRACTICE

The trade relationship between Brazil and Norway has for almost two centuries consisted of coffee, sugar and fish. The ships that first docked in Brazil were filled with fish and they brought coffee and sugar back to Norway.

Friele is the largest coffee producer in Norway, and has imported coffee directly from Brazil since 1854.

Today, coffee is one of our most treasured consumer goods and if you ask an average Brazilian of their associations to Norway, they will probably say “Bachalaou”. This illustrates the important role that coffee and “Bachalaou” play in the trade relationship between Norway and Brazil.

Friele is the largest coffee producer in Norway, and has imported coffee directly from Brazil since 1854. This long tradition explains why the Brazilian market is so important for Friele. As many other companies in Brazil, Friele has acknowledged the importance of taking social responsibility in the Brazilian market. Their approach is a good example of how CSR can be successfully implemented in a company’s business strategy.

“With more than 210 years in the coffee market, our experience is that **responsible** passion is a key ingredient to produce good quality coffee”

- quote friele.no

For Friele, quality and responsibility go hand in hand. The passion for coffee stems from farmers with a sustainable production. This explains why Friele set requirements to their suppliers in terms of environmental and social standards.

The UTZ certification is one of their approaches to fulfill their CSR strategy. This certification method has the main goal of ensuring that all parts of the production chain are profitable and sustainable. In practice, the UTZ organization has an overview of the conditions of the farms and assists farmers aiming to produce sustainably. This includes helping farmers to operate eco-friendly and improving their social conditions. The UTZ certified coffee that the consumer buys can also be traced back to the farm where it was produced.

Brazil is one of the countries with largest inequalities in the world; this is an obstacle Brazil has to overcome in order to fulfill the potential of the country. The UTZ certification that Friele is engaged in is a good way of helping Brazil take steps in the right direction.

“By working according to the UTZ Code of Conduct farmers get better crops. Not only do the farmers produce more, they achieve better quality at lower costs. Because of this, their income increases. Farmers are trained to be good business people. This way they are able to invest in their families, a sound business, the people who work there and in their futures. UTZ certified farmers work with respect for the environment and in better harmony with nature. Animals, plants and nature reserves are protected. Water, raw materi-

als and natural resources are preserved and pollution is reduced. That’s better for all of us and means farmers are able to use their land better and longer. All in all we can say that thanks to the UTZ program more and more farmers and workers feel healthy, motivated and respected. They get more chances to achieve their ambitions and so do their families. Their children go to school and are able to grow up in a safe and healthy environment.”

- Interview with representative from UTZ certified

In addition to the UTZ certification they also support two social projects in Brazil; a cultural center and a housing project. One of the effects the CSR strategy has is the improved living conditions in the country. Let this be an inspiration to other companies who consider entering the Brazilian market.





HOW TO CHOOSE THE RIGHT **BUSINESS MODEL** WHEN ENTERING BRAZIL

When entering Brazil, it is crucial that you allocate enough time to choose the right Business model and decide in “what form” you want to enter the country. There are many examples of companies who have failed to do this, not thinking it enough through and overlooking the effect that it might have for the company's performance.

The definition of a business model is that it describes the rationale of how an organization creates, delivers, and captures value. According to the Business Model Generation, written by Alexander Osterwalder and Yves Pigneur, there are 9 specific building blocks that you need to have control over when starting your business.

The first one is your customer segment, which defines the different groups of people or organizations your company aims to reach and serve. For whom are we creating value, and who are our most important customers? A company has to identify which customers it wants to serve in order to build an effective business model, and there are different types of customer segments to evaluate. Do you want to follow the mass market, or do you want to establish yourself in a niche market, where your customer segment is based on specialized needs and characteristics of its clients?

The second building block is value propositions, which describes the bundle of products and services that create value for a specific customer segment. What value do we want to deliver to our customers and which customer needs are we satisfying? According to Osterwalder, (2004), a company's value proposition is what distinguishes itself from its competitors. Value propositions could be either quantitative, like price and efficiency, or qualitative, like overall customer experience and outcome.

The third one is what channels you are going to use, and describes how you want to communicate with and reach your customer segments. How

are we reaching our customers now and through which channels do our customer segments want to be reached? A company can reach its clients either through its own channels (e.g. store front), partner channels (e.g. major distributors), or a combination of both.

The fourth, customer relationships, describes the types of relationship your company establishes with specific customer segments. What type of relationship does each of our customer segments expect us to establish and maintain with them, and how are they integrated with the rest of our business model? To ensure the survival and success of any businesses, companies must identify the type of relationship they want to create with their customer segments and what is expected of them. This building block is especially important in Brazil where the business culture is much more built on relationships and trust than in other countries. This may require that you get more personally involved with your customers than what you normally would in other situations. In addition, most companies operating in the oil-service sector will to a certain extent be dependent on Petrobras. This relationship may be crucial to success.

The fifth, revenue streams, represents the income the company makes from each customer segment. For what value are our customers really willing to pay, and what do they currently pay? Should we focus on asset sale, maybe the most common, meaning selling ownership rights to a physical good, or should we take a usage fee and generate revenue streams from the use of a particular service?



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The sixth and seventh building blocks are what kind of key resources and key activities are required to offer and deliver our products and services. These two building blocks represent the most important thing your company must do to make its business model work. What key resources are necessary to create value for the customer, and what key activities are the most important activities in executing your company's value proposition? Examples of activities could be to create an efficient supply chain to bring down costs. Key resources are considered as assets for the firm, and could be human, financial, physical and intellectual. A problem with respect to resources is the lack of qualified employees in Brazil. You have to follow regulations regarding local content which creates boundaries for what employees you are allowed to hire, and many companies that we have talked to find this problematic. The offshore industry especially struggles with this, where there is a high demand for qualified employees.

Number eight is key partnerships, and describes the network of suppliers and partners that make the business model work. Who are our key partners, and who are our key suppliers? In order to optimize your operations and reduce risks of your chosen business model, you should nurture your buyer-supplier relationships so they can focus on their core activity. A common issue in Brazil is that you often run the risk that your suppliers cannot deliver. This applies first and foremost to smaller suppliers, but also large companies have been known to default on contracts. Complementary business alliances also can be considered through joint ventures, strategic alliances between competitors or non-competitors. We would however like to stress the importance of knowing who you are in business with. Setting up a joint venture, or merging with a Brazilian company can expose you to other risks, and there are several stories of companies who have done this unsuccessfully. Make sure to do a thorough due diligence.

And last, number nine is cost structure, which describes all costs incurred to operate a business model. What are the most important costs associated to our business model, and which key resources and activities are most expensive? Is a cost-driven approach the best solution, or can a value-driven approach be more successful? For companies reliant on Petrobras, a cost-driven approach is likely to win more contracts as Petrobras

is required by the government to choose the bids with the lowest price, regardless of the quality of services rendered. It is also important to be aware of the relatively high costs in Brazil in relation to employees, bureaucracy, taxes and so on.

PITFALLS WHEN CHOOSING YOUR BRAZILIAN BUSINESS MODEL

This framework can help you organize your business model to meet the Brazilian market, but adapting a business model to a Brazilian reality may be a challenge.

As discussed earlier in this report, there are major cultural differences between Norway and Brazil. These are all aspects that you need to consider and be aware of when choosing your business model and way of creating value. There are several success stories about companies doing this extremely well, and one common factor among these is that they adapt to the Brazilian way of doing things. They do not try to change things or "westernize" them. They all have the same goal: become Brazilian, or as Brazilian as possible.

There are also examples of companies that have not done this as well. One example of a pitfall when choosing a business model is overestimating your employees and co-workers ability and proactivity. Employees must be told how to do their jobs, and they are used to a control-based system. Assuming that this will not be a problem and ignoring the Brazilian way of doing things, may lead your company to suffer under poor performance. In addition it can be difficult in relation to management. Having Brazilian management can eliminate a lot of problems, but it is important to be clear on what you want to accomplish. Finding middle ground between Norwegian straightforwardness and Brazilian ad-hoc management can prove difficult, and transparent communication is important.

This is particularly important when engaging in a joint venture or M&A processes. There are several examples of how malpractice in management and/or among employees hurt business. "Caixa dois" is one example of such malpractice where wages are paid off the books so as to avoid taxation. It is important to do thorough research on prospective partners and to be very clear on what you wish to accomplish.

TESSED FOR SUCCESS

In the outer edge of Macaé, the oil and gas capitol of Brazil, a Brazilian business adventure has barely begun. The adventure was initiated by the Norwegian company Tess, simply by adhering to their very mission: "Follow your customers". With a considerable part of the customer base operating in Brazil, the decision to extend the business overseas became evident.

Tess is a Norwegian and nationwide supplier of hoses, couplings and other system solutions with corresponding services to the engineering, manufacturing, maintenance, repair and operations market. In 2010, as a consequence of their expansion plans and the strategy of getting closer to their customers, Tess decided to enter the Brazilian market. The pre-entry planning process was relatively short, and did not require considerable resources in terms of time and effort. After having carried out some desk-research in order to confirm the market potential, it was decided to acquire 50 % of a Brazilian company instead of establishing a subsidiary in Brazil. The reason was simple, according to the Director of Tess International; Knut Jølberg:

- We wanted to do it the Tess-way, which is equivalent with easy and rapid market-entry and immediate return on investment. If we were to establish a new subsidiary, the process would have been longer and more complicated. By only acquiring 50%, we would also be able to keep local knowledge and get even faster into the market.

The goal was to enter into partnership with a small local company operating within the same business area. After having scanned the market and contacted several owners to check whether they would consider selling 50% of the company, 4

companies were identified as potential partners. It was decided to make some field trips to Brazil to visit the selected companies, examine their manufacturing facilities and make an overall assessment of factors such as QHSE. The value chain of the companies was also examined closely. Erik Jølberg participated at the first trip, and was accompanied by the technical director of Tess; Ansgar Karlsen, at the second trip.

After these two trips to Brazil, Tess had identified a potential new partner: Bic Borracha, a small family-owned company located in Macaé. The company was established in 1979, and had built the position as one of the major suppliers of hydraulic hoses for the Brazilian offshore industry. The company was also included on Halliburton and Schlumberger's vendor lists, which is a long and demanding process. According to Knut Jølberg, it was of particular interest that they shared some of the same customers:

- Several of our customers in Norway had operations in Brazil with Bic Borracha as one of their suppliers. The company was also selected on the criteria of being more similar to Norwegian companies in terms of business culture, additionally to having a simple management structure, which hopefully should facilitate communication and understanding.



Already in July 2010, only months after they decided to expand to Brazil, an informal intention agreement was entered into between the parties. The succeeding negotiation process was mainly focused on establishing a close relationship with the owners of Bic Borracha, which is an important part of doing business in Brazil. This involved inviting them to Norway, bringing the family when visiting them in Brazil and making relationships across generations. In March 2011, a formal agreement was signed, and the acquisition was finally realized. The family owned Bic Borracha had now transformed into the commonly owned BicTess.

PROBLEMS ARISE

In the following year, almost everything seemed to proceed according to plans. The partners communicated frequently; Knut Jølberg traveled to Brazil every second month for meetings and supervision, and it was arranged for weekly phone conversations between the partners. Some new initiatives were also taken in order to improve storage capacity, HES and QA-routines and customer strategy. However, in March 2012, after approximately one year of formal partnership, something unexpected happened. The Brazilian partners had changed their mind concerning partnership. Obviously, there had been some significant differences be-

tween the parties concerning their views on future strategy. Whereas Tess had ambitious goals for growth and expansion in the Brazilian market, the initial owners of Bic Borracha was satisfied with how things were today. The different standpoints were likely attributed to different business cultures between Brazilian and Norwegian companies, and the partners were not able to come to an agreement. As such, the initial owners of Bic Borracha gave Tess the ultimatum to either sell back all of the shares, or acquire the remaining shares of the company. After a long and expensive negotiation process that required considerable resources in terms of time, money and effort, the parties finally came to a settlement. In October 2012, Tess acquired the remaining shares of BicTess, and was thus a 100 % owner of the company. BicTess was now operating as a subsidiary of Tess.

EXPANDING INTO THE FUTURE

According to Jølberg, the problem with the acquisition approach in Brazil has mainly been attributed to cultural differences:

- Some issues should obviously have been considered more thoroughly before jumping into a partnership, especially those concerning how to collaborate with a Brazilian company. This has introduced more challenges along the way than initially anticipated. Yet; if



we had chosen to do things differently, we might not have been able to realize our plans of rapid expansion. The market entry in Brazil has also been more successful than that of many other foreign companies, and the financial results indicates a lucrative business.

In August 2012, Tess employed a new county manager in Brazil; Håkon Bringsverd, who has solid experience from the Brazilian market. This has facilitated coordination and communication between Tess in Norway and their Brazilian employees. Eventually, BicTess will take the name Tess Brazil, and the plan is to expand their business by establishing service centers in close associate to their customers. Changing the company name introduces some trade-offs. On one hand, Tess has a credible brand name which can be used to strengthen their position in Brazil, whereas on the other hand, employing their company brand requires that they are able to deliver according to Tess' high quality standards. At present, they are operating as a Brazilian company with a business culture quite different from the Norwegian one, and there are still some areas where they need to make improvements. This requires changing the mindset of the organization, which is a challenging task. Yet, Knut Jølberg is confident that Håkon is the right man to do the job. According to Jølberg, the receipt to success in Brazil is overly simple: - If

you want to do business in Brazil, you have to pass the examination. The examination is simply to behave. If you behave, the success will ensue.

TESS' KEY TAKEAWAYS FROM BRAZIL:

Challenges:

- Implementing corporate culture (leadership, attitudes, behaviors, etc.)
- Creating common systems, procedures and management practices
- Differences related to business culture and leadership style
- Communication and language barriers.
- Implementing an understanding of long-term strategy and responsibility
- Communicating and delegating information to employees in Brazil, which is done in a different fashion to Norway
- Different recruitment systems in Brazil and Norway.
- Meeting the deadlines, as Brazil has a different time perspective

Key factors for success:

- Hands-on management
- Recruitment of a well-experienced Norwegian country manager in Brazil with knowledge related
- Brazilian culture and language
- Creation of long-term relationships

- Implementation of "Tessification" inch by inch
- Clear common objectives that are communicated and evaluated on a monthly basis
- Regular video meetings between representatives from Norway and Brazil
- Implementation of a fixed set of procedures for reporting

Lessons learned:

- Include a "non-competition"-clause in the contract. The partner can quickly become a competitor!
- Clarify common strategies, responsibilities and goals in advance of signing the contract.
- Provide sufficient internal information when the agreement is signed, and communicate clearly the implications for employees
- Develop and implement a continuous integration plan as soon as possible with focus on common systems, procedures and practices for supervision, control and management.
- Closer supervision in the initial phase (consider weekly video meetings).

"At present, they are operating as a Brazilian company with a business culture quite different from the Norwegian one, and there are still some areas where they need to make improvements"

GATEWAYS FOR NORWEGIAN COMPANIES ENTERING BRAZIL

Since the time when coffee was exchanged for codfish, Brazilians and Norwegians have been good commercial partners. The two nationalities have extensive differences when it comes to culture, climate and language, yet cooperation has been present in several sectors, such as Oil & Gas and Maritime.

BY GUILHERME MENDES,
INNOVATION NORWAY – RIO OFFICE

Back in 2006, there were around 60 Norwegian companies in Brazil. Today, the number has doubled, not taking into account those businesses operated by agents (approx. 50 companies), and most of them are concentrated in the Oil & Gas and Maritime sector.

For these companies, it could be very risky, not to say naive, to step in Brazil without any kind of advice or support. The local market is very complex, and small Norwegian businesses would not be competitive enough to survive on their own throughout the first years, which are considered to be the phase of highest risk rate.

Norwegian companies have some sources for support, such as financial support, market advice, cultural understanding and networking. Institutions like Innovation Norway, INTSOK, Eksportkreditt and GIEK can provide the necessary helping hand, and some of these organizations are based in Brazil.

INNOVATION NORWAY

Innovation Norway has offices in all Norwegian districts and in over thirty countries. The offices abroad have wide knowledge of both local and Norwegian markets, and the local teams know how to overcome the specific challenges that Norwegian companies may face. Therefore, Innovation

Norway helps reducing the risk of entering a different market. Norwegian companies have access to financing solutions, public funds for innovative businesses and a wide network.

Innovation Norway's office in Rio de Janeiro cooperates closely with Petrobras, and there is a Memorandum of Understanding (MOU) fostering innovative Norwegian technology to supply the needs of the Brazilian state owned E&P Company. Another MOU was signed by Innovation Norway and BG Group aiming to identify new technologies and promote collaboration on Research and Development.

INTSOK

Another source for support is INTSOK, present in Rio de Janeiro. The organization can assist Norwegian companies in several ways, such as market information, local advisory, workshops, seminars and market entry projects. The Brazil Entry Program is a very successful initiative by INTSOK, aiming to assist selected Norwegian companies in mapping the potential of the Brazilian market. The program involves workshops in Norway about how to do business in Brazil, in addition to business strategy, market screening, partner surveys and a week in Brazil meeting potential partners and clients. The program is concluded by a strategy work and a business plan. In 2012, five Norwegian companies composed the agenda of the program.

NBCC

The Norwegian Brazilian Chamber of Commerce (NBCC) is promoting network within the business community through events, luncheons, seminars and presentations, being as well a communication channel for the Scandinavian business community in Brazil. For instance, members are entitled to contribute with articles for the magazine Nordic Light, a joint initiative by SwedCham and NBCC.

Innovation Norway, INTSOK and NBCC have been working closely in cooperation, together with the Ministry of Foreign Affairs (MFA), aiming to create a better structure for the Norwegian businesses in Brazil and following up the Strategy for Cooperation published by the MFA.

FINANCING OPPORTUNITIES

Concerning financing solutions, Garanti-Instituttet for Eksportkreditt (GIEK) can offer safe export credits on behalf of the Norwegian government. The exporters are thus able to offer credit or finance without bearing the entire risk alone. Recently, GIEK and Petrobras signed a Memorandum of Understanding that allows for up to US\$ 1 billion in credit guarantees to cover exports to Petrobras, as part of the company's financing strategy for projects included in the 2012-2016 Business Plan.

One more gateway for funding is Eksportkreditt, previously owned by a consortium of banks operat-

ing in Norway (85%) and the Norwegian government (15%), now fully owned by the Norwegian government. The organization provides long-term financing for the Norwegian export sector, and the guarantee may come from GIEK or a commercial bank.

A NETWORK OF GATEWAYS

Norway has developed a series of door openers for companies with international potential. In Brazil, this formula has worked very well. The Norwegian presence has increased significantly within the past years, mainly in Rio de Janeiro.

Experience assisting Norwegian companies in a market abroad leads to the conclusion that Norway is pioneer when it comes to the provision of support for companies to grow internationally. 70% of Innovation Norway's customers claimed they would not have carried out their projects without the support from IN.

In such a complex market as Brazil, Norwegian companies have several ways for being one step ahead of the international competition, and for each market entry bottleneck, there is some institution able to give them the right support.

BRAZIL BEYOND 2014: POLITICAL PERSPECTIVES IN THE B OF THE BRICS

The last decade has been a boom for Brazil. Due to high economic growth, massive discoveries of petroleum, successful poverty reduction and lower deforestation in the Amazon, Brazil has become one of the major global powers.

BY TORKJELL LEIRA*

As the world is looking forward to the 2014 football world championships to be hosted by Brazil, the Brazilian political agenda is concentrating on the presidential elections in October that year. Although the re-election of president Dilma Rouseff is the most likely outcome, new actors might complicate the picture. Rouseff's coalition might also suffer changes. That could bring on modifications in trade and economic policy, possibly with substantial consequences for international business and Norwegian companies.

THE CANDIDATES

As I predicted in 2010, the most likely trio to compete for the presidency in 2014 is Dilma Rouseff, Aécio Neves and Marina Silva.

Dilma Rouseff, from the Worker's Party (PT), was elected in 2010 on a wave of support for former president Lula. She has continued to pursue Lula's project, economic growth combined with better distribution, and has achieved the same high levels of support in the population. PT was originally a socialist party, but governs Brazil with a combination of orthodox macroeconomic policies, extensive state interventions in economic policy and huge social programs for the poor.

Aécio Neves represents the Brazilian social democratic party (PSDB), the main opponent of the Workers Party the last 20 years. Senator, former governor of the important Minas Gerais state, and grandson of the first civil president elected after the military dictatorship (1964-1985), Neves is a highly respected politician. His party, though, is having trouble uniting behind his candidacy. PSDB is also struggling to present a credible alternative to the popular PT government. PSDB is traditionally more right of centre, and more liberal in economic policy, than its Scandinavian cousins.

Marina Silva, Minister of Environment in president Lula's government, ran for president in 2010 on an agenda for sustainability. Representing the Green party (PV), she got a surprising 20% of the votes in the first round. She and her followers left PV last year after disappointment with its lack of renewal, but they are, as we speak, constructing a new party to participate in next year's elections. The name of the party will probably be Rede (network) and until October they need 500.000

signatures to be able to register for national elections. The political project will most likely focus on sustainability, ethics and the environment, the issues that brought her so many votes in the last elections.

THE JOKERS

No party can govern Brazil alone. The country is a federation of 26 states plus the Federal District, and is home to a multitude of political parties. In the House of representatives (Câmara) alone, there are no less than 25 parties. Any president will have to govern on the basis of a broad coalition of parties with a high degree of conflicting interests.

The main regional political power in Brazil, and accordingly the most attractive partner in Congress, is the Party for the Brazilian democratic movement (PMDB). The party has no clear ideological agenda, but it seeks power. PMDB has been a part of the last five Government coalitions, two with PSDB (1995-2002) and three with PT (2003-present). The support of PMDB in the presidential elections will be crucial. Aécio Neves and the social democrats are trying to convince them not to link too closely to PT before the elections. However, PMDB president Michel Temer is Dilma Rouseff's vice president and it will be a big surprise if the party does not support PT and Rouseff in 2014.

A rising political star in Brazil is Eduardo Campos. Governor of the influential state Pernambuco, he represents the Brazilian socialist party (PSB), which made huge progress in last year's local elections. At current, PSB is a part of the governing PT coalition, and has said that it will maintain loyal through 2013. Next year, though, is open for discussion. PSB might continue supporting PT and Dilma Rouseff, the party might present Eduardo Campos as an independent candidate, or support Aécio Neves and PSDB. The last alternative is president Dilma's nightmare, and her people are now trying to convince the PSB to stay within the governing coalition.

THE RESULT

In Brazil, a presidential candidate needs 50% of the votes, plus one, to be elected. The 2014 elections will almost certainly, as the last three, go to a second round between the two candidates with most votes. That will probably be a run-off



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between PT president Dilma Rouseff and PSDB challenger Aécio Neves. Marina Silva will come third, but with less support than last time.

The power-hungry PMDB will stay loyal to Dilma from the start. That is almost a guarantee for Dilma's victory. Facing that scenario, Eduardo Campos and the growing PSB will probably support Dilma from the beginning as well. PSB might, though, detach itself from the PT and launch Eduardo Campos as an independent candidate in the first round, in an attempt to trade support to Dilma in the second round for more influence and more ministerial posts than otherwise.

In the second round, the chance for a re-election of Dilma Rouseff is very high.

THE CONSEQUENCES

Brazilian politics will be business as usual until after the 2014 elections. At present, there are no threats to Dilma's coalition. The last six months before a presidential election are usually a political standstill, when all attention is drawn to the upcoming elections.

As in the U.S., a president has more liberty in a second term. Given a re-election of Dilma Rouseff, we should expect some changes in economic policy

in 2015. The rigorous macroeconomic policy aiming at low inflation, partly compromising growth, might be adjusted, as may the strict and increasingly expensive regulations applying to local content in the oil sector. The overall political project, though, will continue the same: Economic growth and poverty reduction.

Given an unlikely PSDB victory, Aécio Neves will have to construct a new coalition in Congress to govern. PMDB will easily jump from one side to another, as will several of the smaller parties to the right. There will be no major changes on macroeconomic policy or social programs like Bolsa Família, but industrial and trade policy will become more liberal. The state will become less present in the economy, more state companies and services will be privatised, and regulations of both market and labour forces will become weaker.

Conclusion: Business as usual until the elections, changes in a more liberal direction in 2015.

AFTERMATH

During our research, we found that the most critical requirement of doing business in Brazil is to obtain a thorough understanding of local business culture. The average Brazilian manager will operate in significantly different ways than a Norwegian one. As such, knowing the differences between Norwegian and Brazilian management philosophies becomes an important aspect of having a local presence in Brazil.

"In Brazil, it is not enough to sit down and delegate work. You need to be on top of the issues." – Henry Ritchie, Principal of McKinsey's Rio de Janeiro Office)

A common advice offered by the Brazilian managers we interviewed was fairly simple: be humble. Overestimating your own management experience, while not giving Brazilian business culture adequate merits, is a potential mistake as Norwegian processes do not necessarily apply in Brazil.

"Whether a company has a Norwegian or Brazilian management is not of significant importance. Rather, it is vital to obtain an understanding of the Brazilian culture, as well as building the culture of the organization."
– Mauro Andrade, Vice President Public Affairs, Statoil Brazil

In the end, there is no consensus regarding leadership styles. Most of the companies we interviewed experienced benefits with both Norwegian and Brazilian management ideologies. Through experimentation and processes of learning, they were able to find a balance; thereby promoting an open and collegial communication environment while at the same time meeting Brazilian employees' expectations of structure. It is also worth noting that you should learn the local language. Learning Portuguese is absolutely necessary for expats stationed in Brazil, and this is especially true for those in management positions.

Second, you need to be aware of the challenges related to Brazilian bureaucracy. If you do things properly and in the right order, things will likely sort out in the end- even though it might take longer time than expected. A valuable advice is to get help from experts when dealing with Brazilian legislation and tax regulations.

Last but not least: Brazil is not for beginners. For most companies, it is strongly recommended to take a large first step, have a good entry strategy and be well prepared for potential challenges. If you are able to do this, Brazil is likely to be the goldmine that it has the potential to be.

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PREVIOUS IB PROJECTS:

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| 2009/2010: Mexico | 1996/1997: India | 1984/1985: Singapore |
| 2008/2009: Malaysia | 1995/1996: South Africa | |
| 2007/2008: Vietnam | 1994/1995: Chile | |
| 2006/2007: Brazil | 1993/1994: Hungary | |
| 2005/2006: India | 1992/1993: Mexico | |
| 2004/2005: China | 1991/1992: Portugal | |
| 2003/2004: Russia | 1990/1991: Russia and the Baltic States | |
| 2002/2003: Turkey | 1989/1990: Thailand | |
| 2001/2002: Poland | 1988/1989: China | |
| 2000/2001: South Korea | 1987/1988: Italy | |
| 1999/2000: Brazil | | |

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