A view to Brazil

Six commentators address the key aspects of the UK's relationship with one of the world's fastest-growing economies

British firms operating in Brazil face bureaucracy and protectionism – but UKTI can help, says **Margot James**

Last December I co-led a trade mission to Brazil with Dr Neil Bentley, former deputy director of the CBI. The mission comprised twenty SMEs in sectors identified as priorities in Brazil: energy, defence, infrastructure and consumer goods. We came away inspired by the huge opportunities that exist in a country as big as the USA, but with our reality glasses on given the scale of the challenge.

Access to Brazil is relatively straightforward for large companies. They have the resources to play the long game and meet the challenges. They will also be able to access UKTI's tailored support under the High Value Opportunities programme. The complexities of doing business in Brazil make it a more challenging market for small to medium-sized companies (SMEs).

The Chancellor visited Brazil last month and announced more funding to UKTI operations in Latin America, and more funding for Lord Livingston's programme of tailoring more support to medium-sized companies. Much of this money will be used to expand UKTI operations in Brazil and other South American markets, to provide more support for SMEs who are trying to navigate the opportunities that undoubtedly exist in Brazil.

There is significant political risk to doing business in Brazil. The process of authorizations, licenses and other regulatory requirements take longer than is the case in many other markets. Regulators are powerful, especially agencies responsible for the environment. The agencies are also under-resourced, and this accounts for much of the delay accepted as part of doing business in Brazil.

According to OECD research, starting a company takes an average of 119 days and involves 13 procedures, versus an average for other OECD countries of 12 days and five procedures. The finance director of BP Brazil told us that a typical project – from conception to delivery – which takes nine months in the USA, would take at least two years in Brazil.

Brazil is also at the more protectionist end of the trade spectrum. Tariffs on imported goods are high, and strict local interest laws oblige companies to recruit local staff, use local suppliers and transfer technical knowhow.

Brazil's determination that the Brazilian people will enjoy the fruits of economic development is laudable. But there is a downside, as evidenced by the rising costs of production.

“The complexities of doing business in Brazil make it a more challenging market for SMEs”

The Boston Consulting Group (BCG) has just published a fascinating analysis of the shifting cost competitiveness of the world's top 25 exporting economies. Countries were assessed on the basis of productivity, wage costs, electricity and natural gas costs and exchange rates. BCG found that Brazil has seen a dramatic decrease in global manufacturing competitiveness over the last decade. The costs of manufacturing in Brazil today are in the bottom quintile of the top 25 exporting nations globally.

Brazilian business leaders are fond of saying “Brazil is not for novices”. True, a company has to be serious, do its homework, visit the market (several times); ultimately the companies who do best set up shop in one of the major cities, although establishing a joint venture can be a useful stepping stone. This is where the FCO and UKTI can provide an invaluable door-opening and intelligence-gathering service. How useful is this service?

Four months after I returned from my trade mission to Brazil, I contacted the companies who participated in the mission to research the impact of the visit on their business. The results of my survey confirmed my view of the UKTI operation there as being ‘pretty good’.

The FCO and UKTI are very well-connected in São Paulo and Rio. All the companies were impressed by the quality and range of the Brazilian business and political representation at the receptions. Several companies made excellent contacts at these receptions with whom they are now doing business, either directly or indirectly.

A systems supplier to the waste management and defence industries › has quoted for contracts with a value exceeding £10m; they expect this figure to rise to £50m in the next few months. UKTI arranged meetings for them that they found "very informative, useful and ultimately productive".

A technology company that was already doing business in Brazil found that although the meetings arranged by UKTI seemed a bit last-minute, which didn't allow enough time for planning properly, real and worthwhile business will come from their visit.

Despite the huge challenges of doing business in Brazil – brought into focus by the reports of stadiums for the World Cup being well behind schedule – British companies are doing very well there. BG is the largest foreign investor in the oil and gas industry, and BP is a major player. At the end of last year, JLR announced the opening of a new plant in Rio and Pearson announced the acquisition of the biggest English language school in Brazil.

The Brazilian government are starting to bring in the private sector via a series of 'concessions' (privatisations in all but name). There is a huge need for improved transport, education and healthcare services. Big companies are bidding for the right to invest in and manage airports, hospitals and other essential services for 30 year contracts. There are huge opportunities for medium-sized companies in the supply chains for these contracts.

Britain is coming from behind in Brazil; we are playing catch-up to competitor countries in Europe and the Far East. But we have advantages nonetheless: Britain is the previous and successful host of the Olympic Games; British companies have worldwide reputations in Brazil's priority sectors; and our integrity, and the quality of our products, commands respect.

Margot James is MP for Stourbridge, PPS to Lord Livingston and Chair of the All Party Parliamentary Group on Trade & Investment

Helping UK-based SMEs gain a foothold in the Brazilian market will be key to securing growth for Britain, says **Simon Moore**

As the football-mad nation of Pele gets ready to host the FIFA World Cup, 2014 has been heralded by many as the year of Brazil. With continuing delivery challenges and a sometimes difficult political environment, however, some are beginning to wonder if this pronouncement was not slightly premature.

But when in December the CBI and UKTI teamed up for our third joint trade mission, to São Paulo and Rio de Janeiro, we saw that beyond these concerns there are great opportunities for British business.

> **"British exports to Brazil continue to lag well behind other international competitors like Germany and Italy"**

From infrastructure to science and creative industries, Brazilian businesses and consumers are eager to get their hands on British goods and services. The UK is already the fourth-largest foreign investor in Brazil, with companies like BG Group, BP, Shell, Rolls Royce and JLR all contributing heavily to this.

These and others are undoubtedly great success stories, but it remains true that British exports to Brazil continue to lag well behind other international competitors like Germany and Italy. Whilst UK trade with Brazil has increased by over 50% in the past four years, it still makes up only 1% of total UK exports.

If the UK is to succeed in pursuing export-led growth, countries like Brazil – which have a growing middle class, expanding economy and growing demand for UK goods and services – are essential destinations for exploration. And we need to see more small & medium-sized firms, alongside the big companies, tapping into this. Fortunately, the UK government has recognised this need and is working hard to help businesses succeed in the market.

On the Chancellor's recent visit to Brazil, announcements around export finance and UKTI underscored the importance the Government is placing on Brazil. During the visit, the Chancellor also announced that UKTI would expand its presence in Latin America with a £2m budget increase.

Part of this investment will focus on building on the legacy of the London Olympics in 2012. As Rio steps up its preparations for the 2016 Games, the UK has experienced businesses that are keen to help deliver all aspects of the preparation.

Other investments would go towards supporting British businesses vying for

part of the £1.5bn in infrastructure projects around Brazil.

In a country geographically larger than Western Europe, whose largest city alone – São Paulo – has an economy the size of Poland, it is sometimes difficult to navigate the opportunities available. With tough local content laws and a multi-layered tax system, the challenges facing businesses trying to break into the market can be daunting. For many who succeed in Brazil, it takes years – if not decades – of effort to become established.

The key lessons the delegates from our trade mission took home were the need for persistence, patience, and partnerships. With these attributes, firms can be confident in taking further strides into the Brazilian market.

Simon Moore is International Director for the CBI

The Brazilian marketplace represents a potentially lucrative opportunity for the UK aerospace industry, says **Mark Tami**

Air travel in Brazil has more than doubled since 2000 and shows no sign of stopping. Driven by increased consumer spending, a World Cup, an Olympics and a booming tourism industry, the Brazilian air travel market is forecast to grow at 6.8% annually to 2032. This growth will confirm Brazil's position as the largest and fastest growing market in Latin America, requiring 1,324 new aircraft to meet the demand. The trading opportunities for UK aerospace are clear.

The industry is well placed to harness that growth, as the largest in Europe and second only to the US globally. The UK generates some £24.2bn of revenues annually, 75% of which is exported. The sector employs over 230,000 highly skilled people in high value jobs, across 3,000 companies throughout the UK. In my constituency, Airbus produces over 1,000 wings a year, employing over 6,000 people at a state-of-the-art £1.9bn facility. Aerospace is a UK manufacturing success story, exporting high value products to the globe.

Yet in 2010, just 0.6% of total UK civil aerospace exports were to Brazil. By 2013 this had dropped to 0.3%, valued at only £34m and significantly less than our German counterparts, who listed £2.2bn. This is remarkable given the importance attributed to trading with BRIC countries in the 'global race'. If the UK is to remain a world leader in aerospace, it is crucial it receives the necessary support to capture growth in emerging markets.

Brazil has an added strategic importance as home to Embraer, the third largest aircraft manufacturer in the world. An emerging producer, it is set to grow

quickly over the next 10 years building $45bn worth of aircraft - more than COMAC and other Chinese competitors combined.

This global competition is strong and growing, and the UK aerospace sector needs to differentiate itself. The Aerospace Growth Partnership – which brings together government and industry to secure the long-term future of UK aerospace – will help to achieve this, but more needs to be done. At present there is an unequal playing field for research and development in Europe – for every £1 invested in the UK, France spends €10 and Germany €15. Innovation will ensure the UK is best able to offer the right products and services to the globe, ahead of the competition.

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A greater focus on the Brazilian market should help to increase the export opportunities for UK aerospace. Continued government support is vital to access market knowledge, overcome economic and cultural barriers, and make Brazil a realistic future market for UK businesses. With British content making up only 2% of Embraer aircraft currently, there is a real opportunity to integrate the UK supply chain. Supporting Airbus and Bombardier sales campaigns, where new aircraft already contain significant UK content, will prove vital in boosting exports. The UK aerospace industry is well placed to compete in Brazil but the correct government support will be critical to maximising this trading opportunity.

Mark Tami is Labour MP for Alyn and Deeside and Opposition Assistant Chief Whip

In spite of foreign policy disagreements, there is scope for closer UK/Brazil ties, says **Victor Bulmer-Thomas**

Diplomatic relations between Brazil and the United Kingdom have a long history. Indeed, they can even be said to have begun before Brazilian independence when, in 1808, the British government helped the Portuguese king to escape the Napoleonic invasion of the Iberian peninsula and move the royal court to Rio de Janeiro (his son, Dom Pedro I, declared independence in 1822 rather than return to Lisbon).

During the subsequent two centuries diplomatic relations between the two countries have had their ups and downs. The low point was the conflict over the suppression of the slave trade in the middle of the 19th century, while relations were very good in the decade before and after the First World War when trade was booming and Brazil relied on the London financial markets to a high degree.

Diplomatic relations today can be categorised as ‘correct’. At many levels they work very smoothly. Postings to London and Brasilia are highly prized and the quality of diplomats is good. There are no visas required by either side. Increasing trade and inward investment (into Brazil) is important for both governments. There are strong links in higher education, renewable energy and public health. British aid to Brazil may be negligible, but the two countries work well on assistance to sub-Saharan Africa where Brazil is very active.

At the same time, there are significant obstacles to closer diplomatic relations between the two countries. The Coalition Government sees Brazil primarily as a gigantic market offering opportunities to expand and diversify British exports.

> **“Brazil would like a Britain that is more engaged in the European Union and less close to the United States”**

It is less interested in supporting Brazil’s ambitions to be more than a regional power, although it does favour a permanent seat for the country at the United Nations Security Council. It is not happy with some of the foreign policy initiatives of the Brazilian government and is distinctly uncomfortable with the strident anti-American rhetoric voiced by President Rousseff following the revelations that she was being spied on by the US National Security Agency (she even cancelled an official visit to Washington DC following the leaks).

Brazil, for its part, would like a Britain that is more engaged in the European Union and less close to the United States. It does not have the same lofty ambitions for trade growth, although it strongly welcomes British investment in Brazil. It was disappointed that Britain did not support the Brazilian candidate to head the World Trade Organisation (fortunately for the bilateral relationship this did not stop him being elected). It would much prefer a resolution of the dispute with Argentina over the Falkland Islands, as this puts Brazil in an awkward position with an important neighbour.

None of these obstacles to closer relations are going to disappear quickly, so the diplomatic relationship is not going to be very close. However, there are things that can be done to make it better. The two countries have much in common when it comes to resolving the difficulties encountered over reaching a free trade agreement between the European Union and Mercosur (negotiations started 20 years ago!). The Brazilian government, after the elections later this year, could reverse some of the creeping protectionism that has made it difficult for British firms to increase exports as fast as hoped (there are, of course, plenty of other reasons for the relatively disappointing results). Both countries will have to play a leading role if there is to be a binding international agreement on the global reduction of greenhouse gases at Paris next year. Whatever happens, we can be sure that the diplomatic agenda between two such important countries will always be full.

President Dilma Rousseff with Jose Manuel Barroso [left] and Herman Van Rompuy in Brussels

Professor Victor Bulmer-Thomas is an Associate Fellow at Chatham House and Honorary Professor at the UCL Institute of the Americas

Inequality and exploitation persist on the mean streets of Brazil’s cities, warns **Anthony Steen**

Last week, a boy was shot dead by an off-duty police officer whilst hijacking a motorcycle on the streets of Rio de Janeiro. Sadly, this has become a familiar occurrence in a city where the World Cup will be staged next month.

Indiscriminate shooting by military, paramilitary and police is part of a wider crackdown by a government trying to exercise control over what has become an unequal society, where many live in cardboard boxes on Rio’s streets; where domestic and sexual violence is rife; where the scale of trafficking is just one indicator of a dysfunctional culture and where pimps traffic girls as young as 11, and dress them up to look older.

One estimate is that 600,000 additional tourists will be attracted to the World Cup, bringing with them millions of pounds. But few living in the favelas will benefit. If the UK wants to protest such inequalities, let’s suggest the Foreign Secretary (an authority on William Wilberforce and slavery) make the strongest representations to his counterpart in Brazil; but then what? Do we just throw our hands up in horror at the scale of human abuse in Brazil, hoping to attract fleeting media interest, even though unscrupulous gangs will, no doubt, continue to prosper, largely unnoticed?

Trafficking in South America is big business. It is big in Brazil; big in Mexico; and even bigger in the United States. Slavery, as it should be called, is now ten times the size of what it was in Wilberforce’s day, netting over $40bn annually and involving 21 million people – the second-fastest growing criminal activity in the world after drug smuggling. That is why we must be sure that the Modern Slavery Bill, to be included in the forthcoming

Brazilian nationals discovered inside a tractor-trailer by US Customs and Border Protection

Queen's Speech, is not limited to law enforcement and threatening traffickers with life imprisonment, when in each of the last three years less than a dozen traffickers have been specifically convicted in the UK.

If we are to drive modern-day slavery out of Britain then we need to enlist the help of victims. They are the key to discovering the whereabouts of traffickers. They must feel safe and secure enough - without fear of retribution either for themselves or their family - for them to 'spill the beans'. Their welfare and ongoing support must be at the centre of the new legislation. Additionally, there is no evidence that stiffer penalties will deter traffickers. They won't. But the ability to seize and sell their assets will. As the Public Accounts Committee pointed out recently, "poor implementation has meant not enough confiscation orders are being made and not enough is being done to enforce them".

Data from the 2010 World Cup in South Africa and the 2012 Olympics in Britain confirm that major sporting or athletic events don't necessarily increase the number of slaves. Compared to 2012, the number of victims found in the UK in 2013 rose by 47%, arriving from 112 countries. Most of them came to light through the work of non-government agencies, church groups and voluntary organisations, as well as the Border Agency, rather than through law enforcement.

Modern-day slavery has now become so commonplace, it hardly excites comment. Yet increasingly, it exists all around us, with slaves hidden from sight, but probably living no more than a mile away from where we are.

It is commendable and appropriate that the Government has decided to take action. We applaud the Home Secretary's commitment, and the Prime Minister's unwavering support. But let's make sure the legislation is world-class, fit for purpose and not just tinkering at the edges. Let this year's World Cup in Brazil show that Britain is not just taking the moral high ground, but once again leading the war against modern slavery worldwide, as it did in abolishing the trade in slaves some 207 years ago.

Anthony Steen is Chairman of the Human Trafficking Foundation

Brazil stands to reap huge benefits from its hosting of the World Cup and Olympics, says **Mark Hendrick**

Sport has always been a catalyst for peace and cooperation. In Brazil this summer 32 nations will come together to compete for the most prized trophy in world football, and in 2016 over 200 nations will assemble to compete for medals in all the major sports from around the world. The World Cup and Olympics bring together peoples and cultures that would otherwise rarely come into contact, and provide economic and political benefits for the host nation.

The first benefit is the ability for the host country to increase investment in the development of infrastructure. This includes transport links, stadiums, sporting facilities, schools and health centres, commercial buildings, and apartments. Brazil is already investing R$500bn (£133bn) in modernising existing infrastructure. The Olympics and World Cup will see the Brazilian government invest a further R$36.6bn (£9.6bn), with particular benefits for regions that have traditionally had poor transport links. For example, Manaus will receive R$5bn (£1.3bn) for an airport upgrade, improved transport, and better connections to the national grid.

> “Brazil should look to London’s legacy for inspiration”

Brazil will benefit from an increase in international trade, as foreign companies bid for major construction contracts. British businesses have already won £70m worth of contracts for the World Cup and Rio, after our own successful Olympics. It’s a great opportunity for Britain to increase our trade with Brazil, one of the BRIC countries with the world’s seventh largest economy. Currently only 1.5% of Brazilian imports come from the UK compared to 14% from China and 6.8% from Germany.

Brazil will raise its international profile and highlight its unique culture. Look at the Beijing Olympics in 2008, which China used to redefine itself to the world as a modern and diverse country. London 2012, similarly, gave us an opportunity to showcase our rich culture which caught the international imagination. The increased international profile has widened respect for Britain and China, and has led to greater political engagement which wouldn’t have been the case without the Olympics. Brazil will also benefit from this politically as well as economically.

The World Cup in Brazil will be one of the greenest ever. New stadiums have been built using sustainable materials, have recyclable features, and will be powered by renewable energy. The aim is to show that Brazil is a world leader in sustainable environmental policy. What every host nation needs to ask is what the infrastructure will be used for after the sporting event, i.e. the legacy. Brazil should look to London’s legacy for inspiration: since 2012, the Olympic Village has been turned into affordable housing, the Olympic Stadium is set for use by local football team West Ham, and the upgrading of transport links has increased London’s transport capacity.

A wider legacy also includes the development of present and future athletes. 2012 saw Britain have its best medal haul. Brazil is already a well-developed football nation, but I believe Rio 2016 will see success for a raft of South American athletes and inspire a generation of athletes to come. In addition, success by a nation’s athletes brings a wider interest in sport which can help tackle health problems in young people and older people alike. It is clear that the economic, political, social and health benefits of hosting the World Cup and the Olympics can bring immense rewards to any nation, but in particular a developing nation such as Brazil.

Mark Hendrick is Labour MP for Preston and a former chair of the Brazil APPG