



Doing Business in **BRAZIL**

Understanding the Market

Since 2004, Brazil has enjoyed continued growth that yielded increases in employment and real wages. The three pillars of the economic program are a floating exchange rate, an inflation-targeting regime and tight fiscal policy, initially reinforced by a series of IMF programs. The currency depreciated sharply in 2001 and 2002, which contributed to a dramatic current account adjustment; from 2003 to 2006, Brazil ran record trade surpluses and recorded its first current account surpluses since 1992.

Distribution and Sales Channels

DIRECT SALES

Not highly recommended. It may suit industries of heavy equipment or very specific products. The U.S. company must provide specialized technical support.

U.S. DISTRIBUTOR

Brazilian firms generally prefer to deal directly with the manufacturer or with a Brazilian distributor rather than through U.S. distributors.

BRAZILIAN MANUFACTURER

This is the best option to decrease import taxes and duties. If a U.S. company signs an agreement with a Brazilian manufacturer, it can add value domestically to the U.S. product. This will allow a more competitive price for the product in the market due to the lower taxes.

BRAZILIAN DISTRIBUTOR

- Most recommended for U.S. firms.
- Allows the manufacturer to build on the expertise and client base of an established Brazilian firm.
- U.S. company must register its products at the indicated Industry Agency in Brazil.

AGENT/REPRESENTATIVE

Efficient for reaching smaller cities and remote locations. Usually sells different products to different industries. Due to the size of the country, it is recommended to have one agent for each of the different regions of the country (North/ Northeast/South/Southeast/Central).

WHOLESALE

Efficient for consumer products along with business and industrial consumables.



FRANCHISING

No barriers to the franchising of any product or service in Brazil. But it is a really tough market due to cultural differences, pricing and lack of major franchisors.

Opening an Office in Brazil

U.S. companies wanting to establish a presence in Brazil should carefully select the appropriate type of corporation, as this determines the operations they are allowed to perform in Brazil and their tax obligations among other liabilities.

To start doing business in Brazil, the new branch of the U.S. company will take approximately 6 months to 1 year to finalize the opening process, due to the amount of paperwork, registration and government requirements.

Due Diligence

Due diligence is essential before entering any type of agreement in Brazil. Keep the following points in mind when choosing a Brazilian business partner:

- Product and industry knowledge, track record, enthusiasm and commitment should be weighted heavily.
- Personally interview potential candidates at their home offices.
- Provide appropriate training, product support and timely supply of spare parts.
- Obtain information from a local consulting firm.
- Hire a local law firm to help with import taxes, product registration and agreements.
- Establish clear performance goals with your Brazilian partner in writing, officially translated to Portuguese and English.
- The Brazilian legal system differs significantly from the U.S. system and even differs from state to state.

Pricing a Product

- Look carefully at import duties, brokers' fees, transportation costs and taxes to determine if the product/service can be priced competitively.
- Payment terms and financing costs also make a difference in the pricing structure.

Essential Factors for Success

- High quality products at competitive prices
- Financing, delivery, brand name recognition, before and after sales support and customer service
- Efficient business culture
- Strong personal relationships in all business transactions

Import Requirements

In Brazil, imports are subject to a number of taxes and fees, which are usually paid during the customs clearance process. There are three main taxes that account for the bulk of importing costs: the Import Duty, which is currently 5 percent; the Industrialized Product Tax (IPI); and the Merchandise and Service Circulation Tax (ICMS).

The IPI is a federal tax levied on both domestic and imported manufactured products. In the case of domestically produced products, it is assessed at the point where the manufacturer sells the product. In the case of imports, it is assessed at the point of customs clearance.



The ICMS is a state government value-added tax, also levied on domestic and imported products. The ICMS on imported products is assessed ad valorem on the Cost, Insurance and Freight value (CIF refers to the landed cost of a consignment), plus IPI. The ICMS rate varies among states, and in the case of São Paulo it is 18 percent. On interstate transactions, the tax is assessed at the rate applicable in the state of destination.

In order to be successful in Brazil, U.S. manufacturers must have a well-informed local representative. It is also important to have a distributor or dealer that can offer after sales services, replacement parts and repair and maintenance services. The representative must be familiar with the nationwide market and import legislation to guarantee continuous sales and stay abreast of changes in import requirements.

When signing an agent or distribution contract with a Brazilian firm, it is important to use the services of law firms that are familiar with Brazilian legislation. Commercial distribution contracts are regulated by general Brazilian commercial law and not by specific legislation. However, there is specific legislation regulating the relationship between the foreign company and the Brazilian agent or sales representative. Contract clauses are freely negotiated between the U.S. company and the local agent, but the monetary compensation payable to the agent in case the contract is broken is established by law and is usually very favorable to the Brazilian agent.

BUSINESS AND CULTURAL PRACTICES IN BRAZIL

- Brazilians do not consider themselves to be Hispanics, and they resent being spoken to in Spanish. Be sure all your documentation, including business cards, is printed in both Portuguese and English.
- Brazil is Latin America's largest and most populous country. Be certain to understand the cultural background of your Brazilian client—it is a hugely diverse nation, and an individual's ethnicity, language, and belief systems can range from Portuguese to Japanese to Egyptian to German.
- Brazilians are sensitive to real or perceived theft of their natural resources. Today there is new emphasis placed on Brazil's proprietorship of the biodiversity of the Amazon.

Punctuality, Appointments and Local Time

- The lack of punctuality is a fact of life in Brazil. In big cities like São Paulo (18 million people) traffic can be really bad. If you are late to an appointment, call the Brazilian counterpart to explain you are on your way and confirm if he will still be available to meet with you.
- Avoid any business transactions around Carnival, which is celebrated for up to a week before Lent and ends on Ash Wednesday. The most spectacular festivities culminate on Fat Tuesday.
- Make appointments at least one week in advance. Never try to make impromptu calls at business or government offices.
- Be prepared to commit long-term resources (both in time and money) toward establishing strong relationships in Brazil. Without such commitments, there is no point in attempting to do business there at all.
- Brazilians conduct business through personal connections and expect long-term relationships. Before you invest in a trip, hire an appropriate Brazilian contact in your industry to help you meet the right people.

Negotiating

- Be patient. It will usually require several trips to get through a bargaining process. During negotiations, be prepared to discuss all aspects of the contract simultaneously rather than sequentially.



- Seemingly extraneous data may be reviewed and re-reviewed. Try to be as flexible as possible without making definite commitments.
- Sometimes Brazilians find aggressive business attitudes offensive; do not expect to get right to the point. Avoid confrontations and hide any frustrations.
- Brazilians value the person they do business with more than the firm name. If you change your negotiating team, prepare a new trip to visit your counterpart in Brazil, present your new team and enforce the contract.
- Make sure you have a local accountant or lawyer for contract issues. Brazilians may resent an outside legal presence.
- It is normal for a conversation to be highly animated, with many interruptions, many statements of “no” being interjected, and a great deal of physical contact.
- Brazilians are enthusiastic soccer fans. Soccer is always a lively topic for conversation.
- Avoid deep discussions of politics and any topics relating to Argentina (Brazil’s traditional rival).
- Brazilians use periods to punctuate thousands (e.g., 5.550 = 5,550).
- Brazil is also part of the Americas. Do not use the phrase “in America” when referring to the United States of America.

For more information on doing business in Brazil or how to export to Brazil, contact your Trade Specialist in Atlanta or the State of Georgia Brazil office:

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