Lessons learned on business in Brazil

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Petrolink Serviços Ltda
28 years in the oil and gas industry – 15 of them in Brazil

Brazil track record

1997 – opened first local limited company

2000 – opened Brazil branch of EIC Trade Association

2001 – sold local company to Petrolink Serviços Ltda and assumed directorship

2000-2008 Inside and outside EIC assisted directly in more than 40 UK company start ups in Brazil

2008-present - heavily focussed on IT/drilling sector with Petrolink.

Continue to provide assistance and advice to UK companies through Global Scot programme and UKT&I

Non-executive director and advisor to various Brazilian subsidiaries of UK companies.

Brazil experience

Diverse and hands-on - company setup, tax, contracts, Petrobras CRCC, importation, labour, visas, fabrication, local content, property
Established in Aberdeen in 1990 – telecoms and data distribution of drilling data

**1990-2005** Gradual international expansion and focus on IT – becoming international benchmark for secure data interchange between operators and partners in E&P

**2006** – Released real-time data system *PowerStream*

**2012** – 400+ employees spread over 14 countries. Largest independent provider of real-time services to drilling industry worldwide. Still in hands of the original owners.

*Heavy focus on R&D and self-financed opportunistic expansion*

*Principal clients – Exxon, BG, Aramco, Pemex, Petrobras, Total….*

*Brazilian subsidiary is truly local* – ISO9001, CRCC, 99.6% local content for key services.
Lessons learned - Business issues in Brazil

- Cultural differences
- Market information
- Language
- Visas
- Competition
- Local content
- Import
- Supplier approval
- Costs
- Tax
The Brazilian market is diverse and varies geographically. You will face different issues with businesses in the south of Brazil than you will in the north.

Petrobras dominates the oil and gas sector. Their aggressive on-going and programmed investment is sucking new suppliers into the supply chain at a rapid rate. However, their rate of investment has resulted in cash-flow challenges – so there is a strong case to mitigate risks of new investment into Brazil by adding IOCs into your client base as much as possible.

Brazil is principally a mature, first-world market, but don’t assume it is like Europe – there are differences

Getting accurate information on the market remains a major challenge. The better informed you are the better – but it is hard to uncover the critical information that will determine the success of a new venture – pricing/competition etc.
• Portuguese is the preferred language for all activities, except technical.

• English is widely understood, but an inability to sell and build client relationships in Portuguese will have a significant impact on your rate of penetration into the local market.

• Countering this, the ability to communicate in English is a major benefit when dealing with technical and purchasing teams headed by ex-pats.

*It is vitally important to have access to Brazilian Portuguese speakers in any serious attempt to do business in Brazil, whether they be agents, employees or venture partners.*
CONTACT WITH CUSTOMERS

• Similar to many Latin cultures, Brazilian business draws heavily on personal relationships.
• Incoming UK companies do not have the inherited family and career contacts in the market that local companies benefit from.
• Giving the Brazilian market enough personal attention by UK-based staff is difficult – and costly in terms of money and time.
• Nothing happens quickly in Brazil. If your company is not regularly presenting to clients in Brazil and tracking their activities and needs in detail, then the likelihood of quick sales and growth diminishes drastically.

*A good venture partner, local employee/company is almost impossible to do without*

KEEP THE CONTACT GOING

• Be focussed – ensure dialogue is regular.
• Brazilians need to feel they are taken seriously – listen to them.
• Things are different in Brazil – remember that.
Develop a strategy for local content as an integral part of your business plan. Assess carefully the cost needed to achieve required local content levels and the impact on your local competitiveness by client.

It is critical to understand the extent to which local content matters to each client and project. The approach will vary and shape your optimum business strategy.

You will need expertise in this field, and so look for a good advisor or experienced local hire. This is one area where knowing the theory is only half the story, and experience in applying the regulations matters as much as knowing what they are.

_Shop around among certifiers – their costs vary widely_
• Most of your clients in Brazil will have a supplier approval process – some more rigorous than others.

• Note that not all products and services will require approval, nor bidding, to win contracts.

• Address the question of approvals early in your market development, to ensure that you have the time and capability to meet the requirements.

• Approval is no different than in the rest of the world – companies will require data on technical, financial, legal, HSE and so on.

• BEWARE! With Petrobras this process will be slow. Petrobras have thousands of companies in backlog. Assessment can take 6 months+.

• In all cases try and find a “champion” inside the client company to push your cause and get you to the top of the pile.
Brazil is notorious for difficulties and delays in importing goods.

Goods attract IPI tax, ICMS tax and Import Duty.

Customs delays are the norm (but vary by location)—storage charges can be high.

Temporary tax-free import exists for oil exploration but is complex to administer. Standard temporary import may be easier—especially for your client. Note that depreciation on a lot of equipment is 10 years—so temporary import is attractive.

Consider bonded warehousing and the use of favourable import regimes and locations (eg Vitoria FUNDAP).

Consider a local Trading Co. They handle the paperwork and assume delay risk.

Always get the documentation right before shipping (try to pre-clear).

Running stock in bonded facilities is feasible for some businesses where premium prices for rapid delivery apply.

Thorough research of importation alternatives is crucial. Your customs agent must be selected carefully.

Exchange rates still make imported UK goods very competitive where local content is not an issue.
Visas are essential for any UK worker going into Brazil. There is a certain amount of time, paperwork and inconvenience in the UK involved in successful issue of visas.

- Contract a visa specialist “despachante” as this is a constantly changing area and professional assistance (in all its forms) is needed.
- Cost around $500-1200 per visa (working visas, technical visas or crew visas). 90 day (+90) working visas or 1 year (+1) visas are most typical. Visas are based on contracts, either with client or between local subsidiary and parent company.
- An INPI registered technical services contract can serve as the basis for visas for multiple employees or multiple client jobs.
- Genuine “Emergency” temporary working visas are can be issued with 2-3 days lead time, valid 30 days, but increasingly hard to get.
- Currently, working visas are taking 4-8 weeks for approval.

Note that vigilance at the airports is always high and entry is regularly refused. Embarkation on helicopters will require presentation of visa paperwork.
Tax planning must be one cornerstone of your strategy for Brazil. The tax regime as a whole in Brazil is high, at around 35% of GDP. For profitable service businesses however, corporate tax levels will be lower than those in the UK

Goods - sales taxes – ICMS 18% (varies by state), IPI (varies) 5%

Services - ISS 5% (or less in some municipalities or concessions)

Also “turnover” taxes PIS+COFINS 4.65% of gross (3.65% for PPR)

Basic profit tax is 15%, with additional 9% social tax, plus additional 10% on income of over R$240k p/a – ie 34% total

Direct payments abroad attract 25% withholding tax

Company dividends are not taxed, even if remitted abroad

*No way round this one. Critical is to get the tax planning right and ensure your tax-inclusive pricing accommodates them all.*
Local competition is present in all energy sectors, even high-tech, fostered by local content regulations. However, imported goods and especially imported labour is very competitive on price, notwithstanding quality issues. If local content is not an issue to a client, direct supply from UK will be competitive.

Local companies always have competitive advantage - they know how to work with the contracting and bidding system, and know how to handle corruption as it arises. Recognize that corruption does exist in Brazil, though you should no longer expect to encounter it.

Local labour taxes, labour law regulations, high wages (driven by a shortage of suitably trained personnel) and a strong R$ make specialist local labour expensive compared to expats. Likewise locally manufactured goods are often unable to compete on price with imported goods of equivalent quality.

The expansion of the energy sector means that there is almost always room for new suppliers – but displacing long term suppliers is difficult.
Brazil is not a cheap country. Everything now costs more in Brazil than in UK

• Expensive logistics and high cost of qualified labour have particular impact.

• Business in Brazil also demands higher levels of administration effort than is normal in most markets. Company administration, accounts-tax administration, currency movements, stock administration and payroll administration all consume large amounts of time and cost.

• It often takes much longer to break into the market in Brazil than in other countries – which means start-up in Brazil is costlier than in other markets.

• Be aware of this long lead time, and the costs involved.

Reducing this lead time using a well planned local partnership or acquisition is clearly a strong strategy

Experience shows that major investment, without first securing contracts, is often a risky strategy.
I am happy to hear from you and help answer any questions you may have

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