Confederação Nacional da Indústria

Doing Business with Brazil

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Presentation

The Brazilian industrial sector invites entrepreneurs around the world to become acquainted with a new Brazil under construction. Profound changes were accomplished by the Brazilian economy in recent years, led by the process of trade liberalization and the privatization program. But the major change was due to the stabilization plan that put the country among the stable economies.

With this publication, the Brazilian National Confederation of Industry - CNI hopes to contribute towards a better understanding of the country and places itself at the disposal of foreign investors who seek an opportunity to get to know it better.

Fernando Bezerra
President

Initials used in this publication

BNDES Banco Nacional de Desenvolvimento Econômico e Social
National Bank for Economic and Social Development

IBGE Instituto Brasileiro de Geografia e Estatística
Brazilian Institute of Geography and Statistics

MDIC Ministério do Desenvolvimento, Indústria e Comércio Exterior
Ministry of Development, Industry and Foreign Trade

SECEX Secretaria de Comércio Exterior
Foreign Trade Secretariat

BCB Banco Central do Brasil
Brazilian Central Bank

Summary

General Characteris-tics

1

1.1 Geographical Features

Brazil is the fifth largest country in the world, with a total land mass of over 8.5 million square kilometers. Located in South America, it covers a full 48% of its area. The country is cut by both the Equator and the Tropic of Capricorn, spanning several latitudes and longitudes which causes a broad climatic diversity.

1.2 Historical Background

Brazil was discovered in 1500 by the Portuguese, who soon began to exploit the available natural resources. The first major economic activity was sugarcane plantations located mainly in the Brazilian northeast. As other income-generating sources began to be explored, the heart of the country's economy gradually shifted southward and made more intensive use of slave labor. Brazil became independent from Portugal in the 19th century and formed an Empire that had very close commercial ties with the British Empire.

The new nation's economy to a large extent relied heavily on coffee as its mainstay, a situation that prevailed for several decades.

At the turn of the 19th century Brazil abolished slavery and became a Federal Republic in which states enjoyed a strong degree of freedom. Meanwhile, waves of European and Japanese immigrants replaced the slaves by a new wage-earner class of workers. At the same time, the first industrial plants were built with manufacturing facilities located predominantly in São Paulo, still the country's most industrialized state.

Following World War II industrialization was stepped up, chiefly in the durable consumer goods (e.g. automobiles) and basic-inputs sectors (steel, electric power, etc). This whole effort took place under strong protectionism, shaping a tightly closed economy with substantial participation of government in the productive sector, but nevertheless achieving great success in terms of economic growth.

Throughout the '80s, both the oil crisis and the foreign debt crunch of the developing countries caused this development model to collapse, resulting in economic stagnation and runaway inflation. During the '90s, the economy underwent profound changes thanks to sweeping economic reforms that slashed inflation to manageable levels and placed the economy back on a growth pattern. The economic opening was consolidated as trade liberalization became a fact and MERCOSUR developed.

1.3 Social Characteristics

Despite its size, Brazil boasts a single language spoken across its entire territory. The immigrants from a diversity of sources (European, African, Asian) shaped a true melting-pot society of unique cultural characteristics. Yet this is a homogeneous nation free from cultural, racial or religious strife. It is an open, dynamic population that enjoys great social mobility. In spite of some social infrastructure needs that must still be addressed (e.g. low schooling rates), it is a highly dynamic and growing market.

1.4 Recent Political Developments

After two decades of limitations to political rights and freedom, democracy was fully restored and consolidated during the eighties. Democratic institutions were strengthened in the '90s. Direct and secret voting is mandatory for everyone over 18 and optional to anyone between 16 and 18 or over 65, and to illiterates. The political-administrative organization of the Federative Republic of Brazil consists of the Union (federal government), the Federal District, states and municipalities, all self-governing pursuant to the Federal Constitution of October 5, 1988. The government is headed by an elected president, with Congress and the Judiciary fully independent and extremely active in their roles. The country is made up of 27 federated units in turn consisting of municipalities (a total 5,561 county seats), each with its own government and political structure.

Brazil – Basic Data

Official Name:	**República Federativa do Brasil**
Capital:	**Brasília**
Type of Government:	**Presidential Republic**
Language:	**Portuguese**
National currency:	**Real (R$)**
Area	**8 514 215 Km^2**
Population	**169.6 million inhabitants (2000)**
Demographic Density	**19.92 inhab/Km^2**
Population growth	**1.63% (1991-2000)**
Life expectancy at birth	**67 years (1996)**
GDP:*	**US$ 595,6 billion (2000)**
Per capita GDP:*	**US$ 3,580 (2000)**

**Preliminary data*

International Comparisons

Population 1999		
1	India	998
2	China	1,264
3	United States	278
4	Indonesia	207
5	**Brazil**	**168**
6	Russian Federation	146
7	Pakistan	135
8	Bangladesh	128
9	Japan	127
10	Nigeria	124

Source: World Bank

Area km^2		
1	Canada	9,971
2	Russian Federation	17,075
3	China	9,568
4	United States	9,364
5	**Brazil**	**8,514**
6	Australia	7,741
7	India	3,288
8	Argentina	2,780
9	Kazakstan	2,717
10	Algeria	2,382

Source: World Bank

GDP 1999 - US$ million		
1	United States	9,152,098
2	Japan	4,346,922
3	Germany	2,111,940
4	United Kingdom	1,441,787
5	France	1,432,323
6	Italy	1,170,971
7	China	989,465
8	Canada	634,898
9	Spain	595,927
10	**Brazil**	**529,398**

Source: World Bank and Brazilian Central Bank

Per capita GDP 1999 - US$		
1	Norway	38,236
2	Switzerland	36,936
3	Denmark	34,856
4	Japan	34,228
5	United States	32,921
6	Sweden	26,520
7	Austria	26,022
8	Finland	25,932
9	Germany	25,755
10	Belgium	24,840
50	**Brazil**	**3,229**

Source: World Bank and Brazilian Central Bank

The structure of the Brazilian Economy 2

2.1 Recent Development

Brazil has undergone deep changes in the last decade. After a long period of severe macro-economic instability which resulted in very high rates of inflation, mediocre and intermittent growth of the GNP and stagnation of *per capita* income, a successful stabilization program has restored the country to the rank of stable economies. This enabled the country to resume growth at reduced rates of inflation. Also notable are the changes in Brazil's trade relations with the rest of the world. Between the beginning and the close of the decade, the trade flow doubled, with accentuated growth both of exports and imports. Despite the success of these changes, the two-year period of 1998-99 was marked by the successive financial crises in the emerging economies. The chief implication for Brazil in this period was the alteration to the exchange regime, from an administered to a floating system, followed by a strong devaluation of the Real vis-à-vis the US dollar throughout 1999. Nonetheless, in 2000, the country returned to a growth trajectory of the GNP with inflation on the decline.

Main Economic Indicators			
	1993-97	**1998-99**	**2000 ***
GDP	Annual Average Growth Rate		
Total	4.18	0.50	4.46
Manufacturing	4.70	-1.53	5.01
Per Capita GDP	2.71	-0.83	3.10
	Annual Growth Rate		
Inflation (Consumer)	12.17 **	5.23	5.97
	Annual Average - US$ million		
Exports	47,460	49,576	55,086
Imports	49,177	53,508	55,783

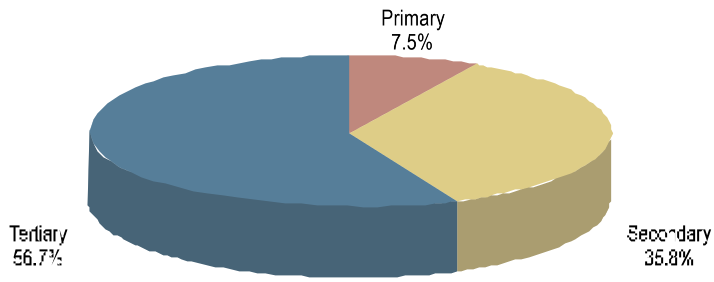
* GDP 2000 data are preliminary
** data refer to 1995-1997
Sources: IBGE and Secex

2. 2. Sectoral Structure

Brazil is a developing economy and its most outstanding feature is a widely diversified economic makeup: it has an impressive output in farming and livestock output, a broad range of industries, and a dynamic and strong tertiary sector of enormous potential for expansion.

Given its sheer size and vast tracts of tillable land, Brazil is naturally suitable for agriculture and livestock breeding, with special emphasis on farming. The primary sector accounts for a sizable share of the Brazilian foreign trade and makes the domestic market virtually self-sufficient as far as basic commodities are concerned. In terms of value-added, the primary sector makes up nearly 8% of GDP and employs roughly 24% of all the Brazilian labor force.

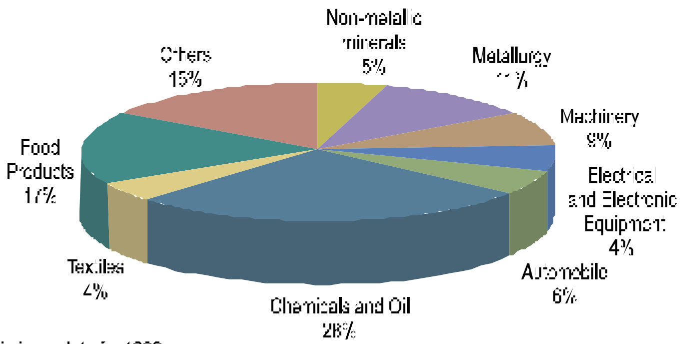
Gross Domestic Product by Sector of Activity*



*Preliminary data for 2000
Source: IBGE

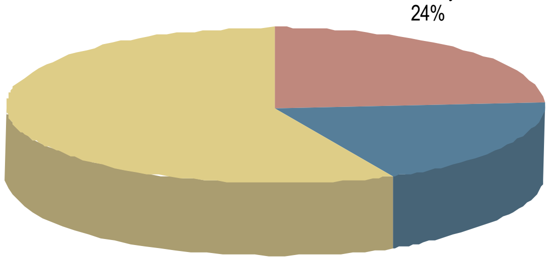
The Brazilian industry is highly diversified: it boasts plant units in nearly every class of industry identified internationally. The most significant categories both in terms of actual output and in value added by industrial processing are the chemical, food, metallurgical, machinery, automobile, electrical and communications equipment and textile. Industry overall made up 36% of GDP and employs a little over 19% of the total Brazilian working population.

Industrial GDP by Sector*



*Preliminary data for 1999
Source: IBGE

Employment*



*Preliminary data for 1999
Source: IBGE

Driven by the trade opening of the early nineties and later in response to the economic stability achieved, the Brazilian industry was compelled to change. Increasing competitiveness, lowering costs and raising the productivity of production factors became an imperative strategy in response to the threat of losing a previously captive domestic market and to the risk of losing both share and standing in foreign markets.

From 1993 through 2000, industry increased its output by 3.2% on average. The manufacturing industry grew slightly less at 2.8%. On the other hand, industrial productivity has increased significantly. The period from 1994 to 1997 saw an average rise in manpower productivity of 8.6%. Manufacturing industry alone improved its productivity by 8.1% a year. The pursuit of higher productivity records was the general trend in all classes of industries and caused some downsizing across the board, with the average rate of industrial layoffs staying around 4.9% a year.

Production, Employment and Productivity
Annual average growth - 1993-2000

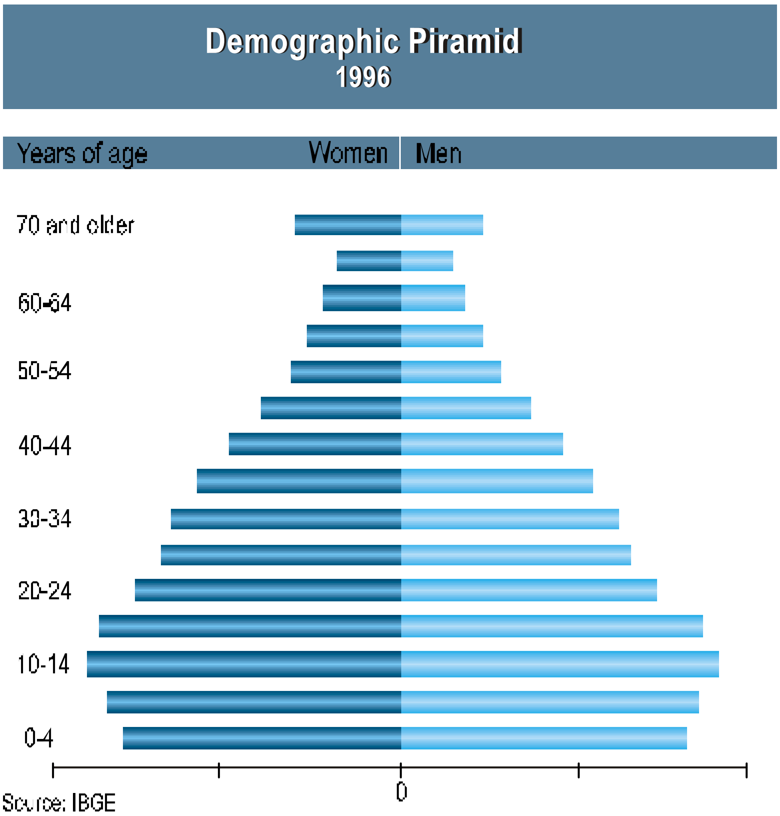
	Production	Employment	Productivity
Industry	3.23%	-4.92%	8.58%
Mineral Extraction	7.31%	-7.22%	15.66%
Manufacturing	2.84%	-4.89%	8.13%
Non-metallic minerals	2.92%	-4.61%	7.90%
Metallurgical	3.18%	-4.13%	7.63%
Mechanicals	3.66%	-6.48%	10.83%
Electric-Electronic Material	4.59%	-4.60%	9.63%
Transportation Equipment	5.35%	-4.01%	9.75%
Timber	1.22%	-3.78%	5.20%
Furniture	4.32%	0.07%	4.25%
Paper and Cardboard	3.01%	-3.97%	7.27%
Rubber	3.07%	-5.93%	9.57%
Leather and Hide	-5.21%	-3.36%	-1.92%
Chemicals	3.34%	-4.35%	8.04%
Pharmaceuticals	3.71%	-1.26%	5.03%
Toiletry	4.19%	-0.62%	4.85%
Plastics	2.97%	-3.75%	6.98%
Textile	-1.80%	-9.04%	7.96%
Clothing and Shoes	-1.38%	-8.01%	7.20%
Food Products	2.28%	-2.78%	5.18%
Beverages	3.97%	-5.63%	10.17%
Tobacco	-3.24%	-8.39%	5.62%

Source: IBGE

The tertiary sector has been by far the biggest employer, with over 55% of the Brazilian manpower. Its value-added accounts for approximately 57% of GDP. Its earnings have been impressive and the outlook in terms of growth is quite promising, considering that this sector usually grows hand in hand with the country's overall development pace.

2.3 Market Size

With a population of about 169.5 million people, Brazil constitutes a vast potential consumer market. Notwithstanding the regional discrepancies and high income concentration, this market has been very responsive in recent years to the improved credit facilities of an inflation-free and competitive market.



Source: IBGE

The Brazilian population is strongly urban, with approximately 81% living in cities and towns. The most densely populated region is the Southeast with 78 inhabitants per square kilometer, followed by the South where the ratio is 43. At the opposite extreme are the Midwest and Northern regions, respectively with 7 and 3 inhabitants per square kilometer. Females are in slightly higher numbers than males (51% versus 49%) while about 36% of the total population are under 17 years of age. The age breakdown among the Brazilian population is changing, however, as the elderly segment is on the rise. Individuals 60 or older already account for 9.1% of the total.

Illiteracy among the population 7 and older averages 13.0% in the country. Nevertheless, the growing number of children enrolled in schools has brought illiteracy down and improved schooling levels. Nationwide, most of the people 10 and older (34.2%) have between 4 and 7 years of school. On the other hand, 19.0% have spent 11 or more years in school.

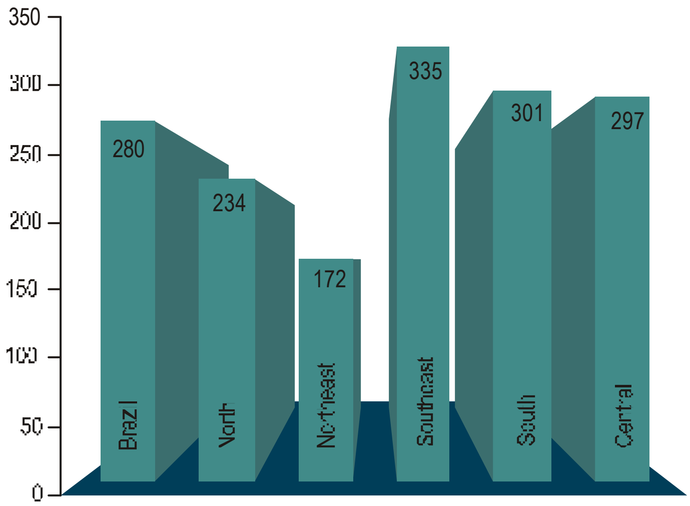
Brazilian homes are reasonably well supplied with electricity (95%) and plumbing (80%). However, telephones are found in only 38% of all homes due to the supply crunch experienced by the public telephone utilities. The rate of consumer durables has risen steadily along the past few years thanks to better credit facilities following the stability plan as well as to the lower prices driven by the stepped-up competition in the domestic market. Cooking stoves, for example, are found in nearly 100% of all homes. In the Northeast again, household appliances are present in fewer homes than in other regions, especially freezers (found only in 7.7% of family homes) and washing machines (9.0%).

The presence of durable goods in urban family units

	1992	1996	1999
Stove	94.8	98.4	98.6
Water Filters	57.0	61.5	58.5
Refrigerators	71.5	86.4	89.7
Freezers	12.3	19.3	20.8
Clothes Washers	24.0	35.3	38.0
Radios	84.9	91.9	91.3
TV sets	73.9	91.3	93.2

Source: IBGE

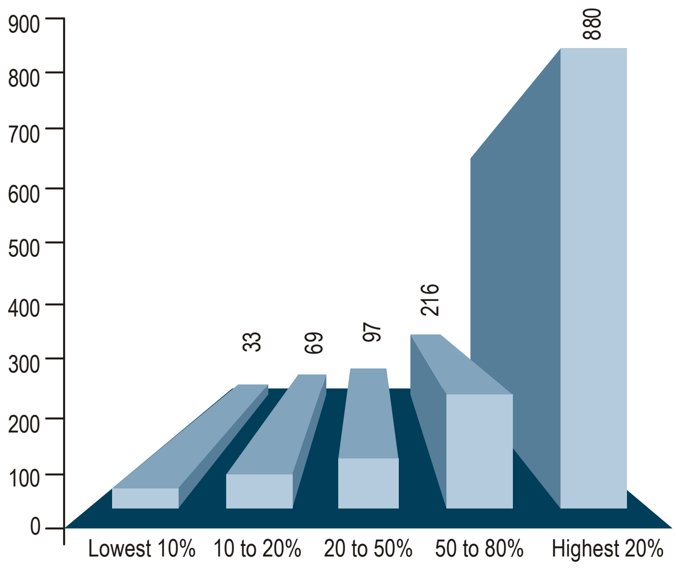
Average Monthly Income
(US$ 1999)
Regional Comparisons



Source: IBGE

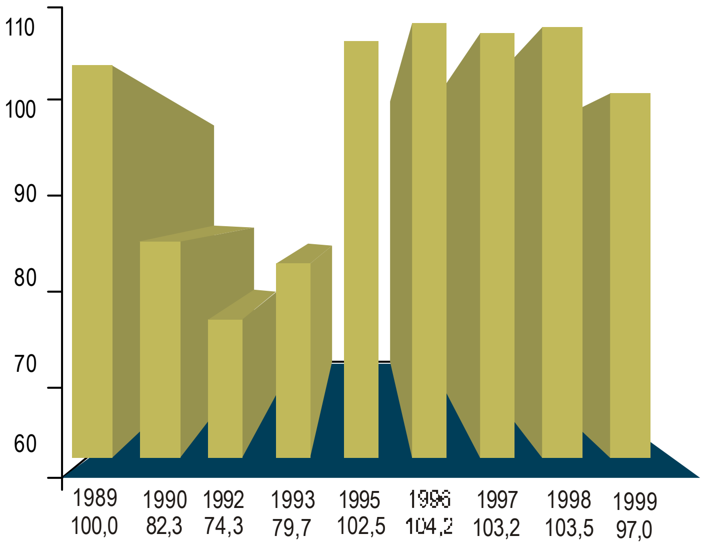
The average monthly income for individuals 10 and older, considering wage-earners only, amounted to US$ 280 in September 1999, when the latest survey on this item was performed. There are sharp differences between the regions, however, with the extremes in the Southeast where income averages US$ 335, while the Northeast records US$ 172 a month. In addition, income distribution between individual brackets is heavily skewed. The average monthly income of the 10% poorest was US$ 33, whereas the figure for the 10% wealthiest was around US$ 1,310. Still, the 50% top monthly wage earners amounted to almost 36.8 million people taking home US$ 481 a month on average. The trend in real income is clearly one of growth since 1992, peaking after the introduction of the stabilization program.

Average Monthly Income
(US$ 1999 by income class)



Source: IBGE

Average Real Income
1989 average=100



Inflator: INPC- IBGE
Source: IBGE

2.4 Infrastructure and Deregulation

The infrastructure sector in Brazil has gone through deep changes not only as a result the resumption of economic stability but also mainly because of the transfer of provision of services to the private sector. This transfer has taken place both through privatization and concession of public services, the latter defined in Law 8.987 of 1995. Practically speaking, there exist no legal restrictions to foreign capital as regards participation in the voting capital of privatized companies, except when there is a provision to the contrary in the specific legislation of the sector to which the company belongs (as in the case of telecommunications, whose concessions are regulated by Law 9.472 of 1997).

2.4.1 Electric Power

The generating complex, with a nominal capacity of 67.7 MW in 2000, has a large hydraulic basis and exchange of power among the various regions of the country. Most of the generation companies are State-owned, whereas the distribution sector has in large measure already been privatized (80%). It is expected that the Privatization Program will advance in the electricity sector to affect not only the remaining State distributors but also the generation companies.

The National Agency for Electric Energy (ANEEL) is the regulating and controlling entity for the sector, the National Operator of the System (ONS) is responsible for handling the power stations in the interlinked system, and the Wholesale Energy Market (MAE) is where contracts are registered and spot-market negotiations take place.

The generating complex urgently needs to be expanded, and this should preferably be carried out with the participation of private agents. With this aim, the Priority Program of Thermoelectric Generation is already in operation, whereby the State, in order to make investments feasible, finances and helps to structure investment projects in the sector. The transmission network is also in need of expansion to enable the interlinked system to operate with a higher level of reliability.

In short, to sustain an economy that is growing, investments should be made that allow the generating capacity of electric energy to increase by 11,000 MW by the year 2002 to total 78 Giga Watt, which will involve the conclusion or expansion of 15 hydro-electric and more than 20 thermo-electric plants. About 7,000 km of large transmission lines should be built through concessions to the private sector.

2.4.2 Petrol

The constitutional amendments of 1995 and the institution of the National Agency for Petrol (ANP), in charge of regulation and supervision, opened up the various segments of the petrol activity to private exploitation. The Third Round of Bidding for areas of petrol research and exploration resulted in a concession of 34 blocks located in 12 sedimentary basins and covering a broad spectrum of areas: on land and sea, in shallow and deep water, from exploratory frontiers to mature basins.

It should be pointed out Petrobras will invest US$ 16,8 billion in petrol exploitation and production until 2005. At the end of 2005, the average daily production should reach of 1.85 million barrels of petrol, while the estimated consumption is 2.2 million barrels. Currently, Brazilian daily production of natural gas amounts to 35.4 million cubic meters. At the end of 2005, the demand should reach 72 million cubic meters per day. The infrastructure of transportation of natural gas will be extended with the Uruguaiana-Porto Alegre gas pipeline by 2002, and the Coari-Manaus, Urucú-Porto Velho and Cabiúnas-Tubarão gas pipelines by 2003.

2.4.3 Telecommunications

In telecommunications, the end of the State monopoly has attracted large investments both by operators and equipment manufacturers.

Private investments in this sector will reach about US$ 23 billion in the period 2000-2003. By 2003 the number of fixed-telephone accesses should reach the 40 million mark (it was less than 14 million in 1994). The number of public telephones in service (only 740,000 in 1997) will have grown to over 1.8 million. In the cellular mobile system, which was practically non-existent at the start of the present government, the number of cellular telephones will rise to 58 million by 2005. Similar figures and advances are registered in cable TV, subscription TV and radio services.

The new model for the telecommunications sector has made it possible for power and telecommunications services to converge by simultaneously using the electric networks in operation and the communication channels.

2.4.4 Transportation

Over the last few years the National Congress has approved a Constitutional Amendment and six new pieces of legislation aimed at deregulating and modernizing the transportation activity. As for transferring exploration of services to private initiative, seven important railroads were privatized, as well as more than two dozen port terminals and stretches of federal and state highways. Special mention should be made here of the program of concessions of the Federal Railroad Network to the private sector, concluded in 1997, and of the privatization of the five most important container terminals in the country, including the Port of Santos, which occurred in the same year.

Brazil's railroad network is comprised of 29,706 km of railroad distributed throughout 20 states and the Federal District. There is a great need for investments in this sector. According to the National

Association of Railroad Concessionaires, engineering work is necessary at 103 critical points (level crossings, deterioration of the line, junctions, etc.), with the total necessary resources amounting to US$ 7 billion to recuperate these stretches.

The Brazilian port system handles over 400 million tons of cargo a year, distributed approximately into 32% liquid bulk, 58% solid bulk and 10% general cargo. According to a survey by the National Association of Port Terminals, the sector requires US$ 1.6 billion to modernize loading and unloading equipment and to computerize the information systems in the ports.

The highway sector, which carries about 61% of the cargo transportation in the country, possesses a network of 1,724,923 km, including federal, state and municipal roads. Only about 9% of this total is paved.

Still with regard to investments, the "Brazil in Action" Program being developed by the Federal Government in partnership with the states and private initiative, selected 18 priority projects for investments in the area of infrastructure of highways, ports, railroads, pipelines and waterways. The overall cost of these undertakings is of the order of US$ 9.7 billion. Some of these projects are already underway, while others are in the conclusion stage. The strategic objective of all these initiatives in the areas of deregulation, privatization and investments is to improve the efficiency of the national system of transportation and bring the costs in effect in the country closer to international standards.

2.5 Trends

After years of stagnation caused by a period of hyperinflation, the Brazilian economy now boasts a remarkable outlook in terms of future development. From a closed economy where the government played a heavy hand in activities typically left to the private sector – a prime feature of the economic development model adopted till the eighties – Brazil faces the new century with a dynamic and revitalized economy. Over the past few years, the sweeping reforms made have gradually changed the structure of the Brazilian economy. Trade liberalization brought Brazil into the international market community, while the privatization program has turned the economy around, transferring to the market decisions concerning resource allocation previously left entirely to the shapers of a government-managed economic policy. Side by side with a rethinking of the State's own structure to render the government more efficient and focused on providing for the basic needs of the Brazilian population, such reforms are starting to build a new society based on allocation efficiency.

In this new setting, the prospects for economic growth are exceptionally bright. The new institutional framework will make better use of the country's potentials. Brazil is a continent-wide market, with a highly complex pool of natural resources and a size most suitable for economies of scale. Its society is remarkably dynamic and the market is continuously growing. Thanks to all these features, Brazil has the capabilities to absorb massive investments for the expected outstanding and long-term growth drive ahead.

Tributary Structure, Labor Charges and Policies to Support Economic Activities

3

3.1 Tributary Structure

Brazil's tributary system is based on the three classic tenets of taxation: income, consumption and property. It also features regulatory and transitory taxes, besides social contributions. The power to levy taxes is shared by the Union, the states and municipalities, with their respective competencies stipulated in the Federal Constitution. The configuration of the tributary system is presented below in synthetic form.

3.1.1 Income Taxes

Corporate Income Tax (IRPJ)

Corporate Income Tax is determined on the basis of presumed or arbitrated real profit over quarterly periods of verification closed on the 31 of March, 30 of June, 30 of September and 31 of December of each calendar year. The tax rate is 15%, with the portion above R$ 240,000 liable to an additional 10% of the tax rate.

Verification on the basis of real profit is obligatory for companies with a total revenue higher than R$ 24 million, financial institutions, firms that had profit, revenue and capital gains derived from overseas, joint-stock companies, and others. Companies in this regime may opt to pay the tax each month, determined on the estimated basis of calculation, by applying 8% of the verified gross revenue, with some exceptions. Companies that opt to pay by estimate must verify their real profits on 31 December each year.

The companies not obliged to have their balance profit verified may pay their income tax based on presumed profits. The basis is roughly the same as the basis of estimated profits for the quarterly period together with capital gains, revenue and net gains verified in financial applications.

Companies based in Brazil that declare profits, revenue and capital gains abroad, including profits declared through branches and controlled or affiliated agencies, must compute them to determine the real profit, but they may compensate the tax paid overseas, provided some rules are respected, up to the limit of the income tax in effect in Brazil. The tax paid abroad may also be compensated when services are provided directly, regardless of whether the basis for verification of income tax is real or presumed.

Companies may deduct, for the effect of verifying real profits, interest paid or credited individually to the holder, partners or shareholders, by way of remuneration for own capital, calculated on the net-equity accounts and limited to the variation of the long-term interest rate (TJLP).

Individual Income Tax (IRPF)

Tax on personal income with progressive tax rates in three different brackets: no tax is levied up to R$ 10,800; between R$ 10,800 and R$ 21,600 the rate is 15%, with an allowance for a deduction of R$ 1,620; above R$ 21,600 the rate is 27.5%, with a deduction of R$ 4,320.

Income Tax Withheld at Source (IRRF)

Income tax at source is considered as an anticipation of what is due when revenue is declared, in the case of companies taxed on the basis of real profits, and definitive in other cases, including individuals.

Revenue from financial application of fixed income, verified by any beneficiary, is liable to the tax rate at source of 20% (Law 9532). In the variable-income market, net gains are taxed by the income tax at the rate of 10%. Remittances abroad are liable to the rate of 15%, revenue from prizes and lotteries to the rate of 30%, and publicity services and remuneration of professional services to the rate of 1.5%.

Distribution of dividends does not entail payment of income tax. That is, these are neither liable to income tax withheld at source nor do they make up the basis for calculating the beneficiary's income tax.

Social Contribution on Net Profit (CSLL)

The adjusted net profits of companies are liable to the Social Contribution on Net Profit at the rate of 8%, which is meant to finance Social Security. This rate is to be increased by 1% by the end of 2002.

3.1.2 Taxes on Consumption

Tax on Industrialized Goods (IPI)

This is imposed on the added value throughout the production of industrialized goods and on imports of these goods, with rates varying in accordance with the essentiality of the good. Maintenance and use of IPI credit are guaranteed in respect to raw materials, intermediary goods and packaging used in the industrialization of the goods in question, and the IPI is not charged on exported goods.

Tax on Circulation of Goods and Services (ICMS)

This is levied on operations related to the circulation of merchandise – from the phase of industrialization to commercialization, including importing – and on provision of services of communication and inter-state and inter-municipal transportation. It is not cumulative on a consumption basis and does not apply to exports.

Contribution to Financing Social Security (Cofins)

This applies to the invoicing of companies, at the rate of 3%.

Social Integration Program (PIS)

This applies to gross operational revenue at the rate of 0.65%.

3.1.3 Taxes on Property

The Rural Territorial Tax (ITR), the Residential Building Tax , the Urban Territorial Tax (IPTU), the Property Tax on Automobiles (IPVA), and the Tax on Transmission of Property (ITBI).

3.1.4 Regulatory Taxes

Tax on Imports (II), Tax on Exports (IE)

The basis of the import tax is the value in currency of merchandise that enters the national territory, on which is applied a rate included in the Common External Tariff (TEC) (see section 4.2). The taxable event of the export tax is the emission of certain national or nationalized goods from the national territory, these goods being listed by the Federal Executive Power.

Tax on Financial Operations (IOF)

This is charged on five different types of operation:

(a) Credit operations – effected by financial institutions at the rate of 1.5% a year in the case of corporations and 15% in the case of individuals. It should be noted that the rate is reduced to 0 when the operation refers to export activities or when it involves resources from Finame through the BNDES, or when it refers to an advance on an exchange contract or acquisition of shares or participation in a company within the sphere of the National Privatization Program;

(b) Exchange operations – the rate is 25%. In exchange operations meant for application in fixed-income funds or carried out between financial institutions abroad and banks authorized to operate with exchange in Brazil, or to constitute short-term availabilities in Brazil for residents abroad, the rate is 2%. The rate is 0 when the operation is linked to importing services, exporting goods and services and related to other financial transfers from and to abroad. Exempt for payment of imported goods;

(c) Insurance operations – the rate is 2% in operations related to life insurance and the like, personal and work accidents, and 7% in other operations on the value of the premiums paid. The rate is reduced to 0 in operations related to insurance of export credit and international transportation of merchandise, in re-insurance operations and in rural insurance;

(d) Operations related to securities – the rate is 0 for most of these operations;

(e) Operations involving another financial asset or exchange instrument – the rate is 1% of the purchase price.

3.1.5 Transitory Taxes

Provisional Contribution on Financial Transactions (CPMF)

This is charged on the financial movement of current account, and more specifically on current-account debit, at the rate of 0.38% of the value of the entry. Due to remain in effect until the middle of 2002.

3.2 Labor Charges

3.2.1 Guarantee Fund for Length of Service (FGTS)

Employers must pay 8% of the salary paid to make up the Guaranteed Fund for Length of Service. In the case of dismissal without just cause, the employer also pays 40% of the FGTS by way of indemnization for dismissal.

3.2.2 Social Contribution on Salaries (CS)

Employers contribute to the welfare of their employees at the rate of 20% of the contribution salary, in addition to the contribution of the insured employees themselves.

3.2.3 Other Contributions on the Payroll

Other contributions also apply to the payroll for the purpose of lending assistance to the worker, training him and supporting micro and small companies. There is also a contribution to the National Institute for Land Settlement and Reform (INCRA), the "education-salary" and insurance against work accidents.

3.3 Policies to Support Economic Activities

Brazil adopts a series of measures in support of economic activities, in the fiscal, credit and customs sphere both on the national and regional level. The following points are worthy of note in tributary terms:

The Program of Industrial Technological Development and the Program of Agricultural and Livestock Technological Development – Programs created to stimulate research and development activities. The incentives consist of:

➲ reduction of 50% of the IPI due on equipment, machines, apparatuses and instruments, as well as the accessories, spare parts and tools that accompany these goods intended for technological research and development;

➲ deduction up to the limit of 4% of the income tax due, of value equivalent to the application of a rate of income tax appropriate to the sum of expenses in activities in respect to technological industrial and agriculture/livestock research and development;

➲ credit of 30% of the income tax withheld at source applied to the values paid, remitted or credited to beneficiaries residing or domiciled abroad by way of royalties, technical or scientific assistance and specialized services provided for in contracts of transfer of technology;

➲ deduction, as operational expense incurred by industrial and/or agriculture/livestock, leading-edge or non-serial capital goods companies, of the sum of payments by way of royalties, technical or scientific assistance, up to the limit of 10% of the net revenue from the sale of produced goods as a result of the application of this technology;

➲ reduction of 25% of the IOF applying to the values paid, remitted or credited to beneficiaries residing or domiciled abroad by way of royalties, technical or scientific assistance and specialized services provided for in contracts of transfer of technology.

Machinery and Equipment

➲ exemption from the Import Tax (II) on machines and equipment, as well as their spare parts and components, meant for scientific and technological research acquired by the CNPq or State company authorized by the CNPq. The II is reduced by 80% in the case of imported machines, equipment, apparatuses and instruments for use by the television and radio importing company;

➲ exemption from the IPI applied to importing machines, apparatuses and instruments, as well as their spare parts and components, meant for scientific and technological research.

Special Customs Drawback Regime – Companies qualified to operate in foreign trade may request the concession of drawback for suspension of the levying of the II, IPI, ICMS and AFRMM in importing merchandise to be used in the process of industrialization of goods to be exported or exemption in the case of importing for replacing previously imported merchandise used to industrialize exported goods.

Promotional Material – Merchandise meant for consumption on the premises at conferences, fairs, international expositions and similar events, by way of promotion or sampling, assembly or conservation of stands, or to demonstrate equipment on display, are exempt from the II and IPI linked to imports.

Fiscal Incentives for the Northeast – These are designed to stimulate development in the region. The IR is reduced, as are non-returnable additions to agricultural and industrial projects installed in the region or projects that expand, modernize or diversify, provided they are considered by the Executive Power as priority for regional development. Such incentives cannot exceed 10 years and expire at the end of 2013. Also in this area, the possibility was given to deduct 30% from the income tax owed for application in re-investment, provided there was an additional 50% of own resources. Exemption of the IOF is given to projects that set up, modernize and expand in the Northeast and are considered to be of interest to the development of the region.

Fiscal Incentives for the Amazon – These are meant to stimulate the development of the region, with incentives similar to those offered for the Northeast.

Manaus and Western Amazon Free Zone – There is a series of benefits in the sphere of the Import Tax and the IPI, as well as in the scope of the ICMS, the IPTU and the service tax for public cleaning and conservation and the tax on licenses to function. There is also the Special Export Program for the Western Amazon, which is a mechanism of incentives that allows for imports of raw materials, input materials and components for industrialization of goods meant exclusively for exports, with exemption from the II, IPI and ICMS, among other incentives, and which do not require compliance with the Basic Productive Process.

Free-Trade Areas – These are as follows: Tabatinga – AM, Guajará – Mirim – RO , Pacaraima and Bonfim – RR, Macapá/Santana – AP and Brasiléia and Cruzeiro do Sul – AC. The benefits consist in exemption from the Import Tax and the IPI on a series of goods when these are intended for internal consumption and sale, processing of fish, mineral resources and agricultural or forest raw materials, among others.

Micro-companies and Small Companies – The IR rate is 0 for micro-companies with a gross annual revenue equal to or below R$ 120,000, and reduced for small companies with a gross annual revenue above R$ 120,000 and equal to or below R$ 1.2 million. The companies that adhere to SIMPLES (the Tax and Contributions Payments System for Micro-companies and Small Companies) and contribute to the IPI have their tax rate reduced to 0.5% and rates zeroed/reduced in the case of the CSLL, Cofins and PIS/Pasep.

It should be stressed that the concession of benefits to workers, more specifically adhesion to the Program of Meals for Workers and the concession of Transportation vouchers, donations or sponsorship of cultural projects, investments in audiovisual projects, contributions to the Fund for the Rights of Children and Adolescents, donations to Teaching and Research Institutions and to non-profit civil entities receive incentivized treatment for the effect of calculating their income tax. The last two benefits listed also reduce the Social Contribution on Net Profit.

As far as sales tax is concerned, mention should be made of incentives to vessels (II and IPI – operations and internal), airplane and vessel components (IPI - linked to imports) and art objects (II). Free shops are exempt from the II up to the value of US$ 500, as is baggage brought in from a dry-border area up to US$ 150, and baggage brought in by air up to US$ 500.

There are many fiscal benefits in the state and municipal sphere. By way of illustration, mention can be made of extending the deadline dates for paying the ICMS and using the deferment mechanism, among others. In addition to this, many state banks operate lines of financing for payment of the ICMS.

Foreign Trade 4

4.1 Institutional Organization

Brazilian foreign trade is primarily managed through the Ministry of Industry, Commerce and Tourism (MICT), the Ministry of Finance (MF), and the Ministry of Foreign Relations (MRE). To coordinate the several agencies directly or indirectly involved in foreign trade the Foreign Trade Chamber (CAMEX) was established as a collegiate body reporting directly to the President's office.

4.2 The Import Policy

The import policy shifted drastically in the 1990's, with a new focus on trade opening instead of the former tight protectionism exercised in foreign trade. A sweeping trade-opening program set in motion in 1990 eliminated non-tariff barriers to imports and was followed by a gradual tariff reduction completed in July 1993, bringing the average 32.2% tariff applied in 1990 to 14% from 1993 on, while the top tariff rate fell from 105% to 40% over the same period. Additional tariff reductions took place later on, with the average tariff reaching 12.4% in December, 2000.

The Common External Tariff (TEC) negotiated under the MERCOSUR Agreement has been in force since January 1st, 1995. Additional tariff reductions will proceed up to the full enforcement of the TEC, scheduled to be accomplished by 2006.

Thanks to the Brazilian trade opening initiative plus the new TEC agreement, the protection structure adopted in Brazil became more transparent and streamlined, with tariffs again playing a key role in the country´s protection policy.

The Common MERCOSUR Nomenclature (NCM) is based on the Standard International Trade Classification System. The TEC tariff levels have been set according to the tariff escalation principle where higher rates are attributed to those goods of higher value-added. Tariffs are charged *ad valorem* on the CIF price of imports. The following charges are also payable on imports:

· Value-added Tax on manufactured products (IPI): variable rates computed on the CIF price plus the Import Duty (II) payable.

· Circulation of Goods and Services Tax (ICMS): variable rates computed on the CIF price plus the amounts payable for II and IPI

· Freight Surcharge for Renovation of the Merchant Marine (AFRMM): 25% of the import freight charges.

Most Brazilian imports are under a licensing system pursuant to the WTO Import Licensing Procedure Agreement. Since January 1st, 1997, when the Integrated Foreign Trade System (SISCOMEX) for imports came into force, import licensing has been automatic for the most part and is performed by the system itself when the goods undergo regular customs formalities. SISCOMEX has replaced the old import licenses, the exchange contracts and import statements by electronic records, generating a single document at the end of each transaction and thus simplifying the whole administrative processing of imports.

The prohibition of certain goods for import into Brazil arises either from legal provisions or international agreements entered into by the country, with emphasis on:

- farming chemicals and certain processed animal feeds not qualified under Brazilian regulations;
- certain pharmaceuticals banned for safety, health or moral reasons;
- used consumer goods;
- non-biodegradable detergents.

4.3 The Export Promotion Policy

Brazilian exports are exempt of indirect taxes. Additional mechanisms used are the drawback and temporary-entry facilities, whereby inputs utilized in the production of goods slated for export may be imported under exemption or total lifting of the tariff and other taxes normally due on imports.

Brazilian exports are also entitled to two credit-assistance facilities granted by the government:

- the BNDES-Exim Program managed by the BNDES (National Bank for Economic and Social Development). This program provides financing for production and foreign sale of manufactured goods.
- the Export Financing Program (PROEX) offered by the Banco do Brasil S.A. This program involves financing the foreign sale of goods and services.

Export-credit insurance is also available to cover both the exporter and the financial institution involved in export financing against trade, political and unforeseen risks. This mechanism is offered by Seguradora Brasileira de Crédito à Exportação S.A., a partnership between Banco do Brasil S.A., the National Bank for Economic and Social Development (BNDES), the Companhia Francesa de Seguro para o Comércio Exterior (COFACE) and four other Brazilian insurers.

A new initiative was taken to expand the universe of exporting companies – the export policy has given special emphasis to micro, small and medium companies through the following programs: the Guarantee Fund to Promote Competitiveness (FGPC) – managed by the National Bank for Economic and Social Development (BNDES) and directed to guarantee loans extended via the BNDES System to boost the investments and exports of smaller companies – and the Export Promotion Agency (APEX), whose purpose is to help these companies improve their access to business opportunities.

4.4 Recent evolution of foreign trade

After registering a series of superavits since the early's 80s, Brazil's trade balance began to present continuous deficits after 1995. In the period from 1994 to 2000, imports had an average growth of 10.9% a year, while exports expanded at the rate of 4.3% a year. In the period 1995-96 the deficit was the result of a slowing of the exports growth and the strong increase of external purchasing after trade liberalization and appreciation of the actual exchange rate. In 1999, devaluation of the national currency failed to invert the negative balance but nonetheless significantly reduced the size. In 2000, exports reached the figure of US$ 55.1 billion, an increase of 14.7% against 1999, while imports, totaling US$ 55.8 billion, grew 13.2% during the same period of comparison.

Brazil finds itself among the 30 leading exporter countries, ranking

Brazilian Trade Balance

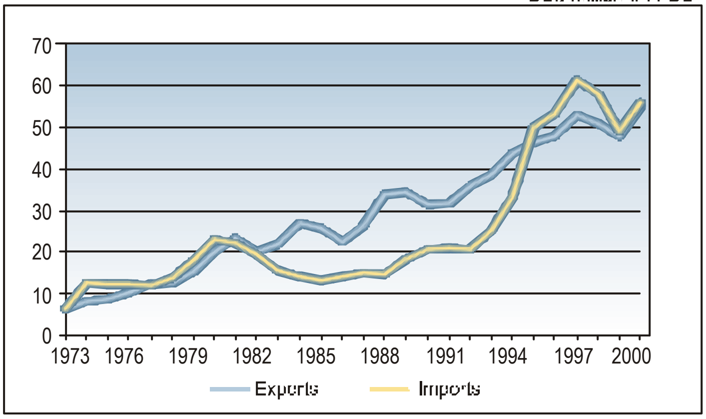
US$ million FOB

Period	Exports	Imports	Trade Balance	Trade Flow
Average 80-84	22.501	18.757	3,744	41,258
Average 85-89	28,477	15,023	13,454	43,500
Average 90-95	37,906	28,427	9,478	66,333
1995	46,506	49,972	-3,466	96,478
1996	47,747	53,301	-5,554	101,048
1997	52.986	61.358	-8,372	114,344
1998	51,119	57,706	-6,587	108,825
1999	48,011	49,186	-1,175	97,197
2000	55,083	55,660	-577	110,743

Source: MDIC/SECEX

Brazilian Trade Balance

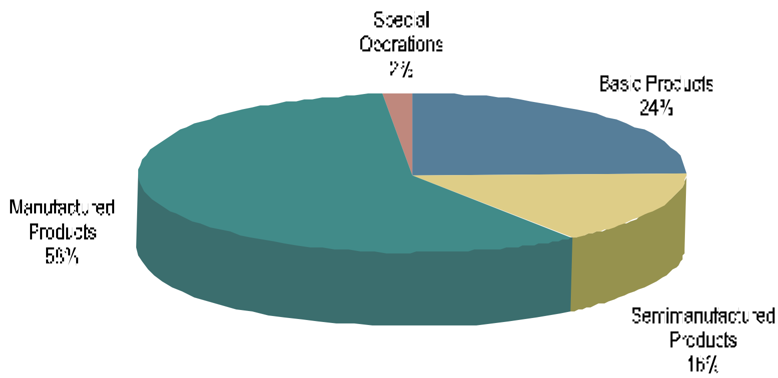
US$ million FOB



Source: MDIC/SECEX

28th in 2000 according to the WTO. The list of Brazilian exports is quite diversified, being comprised mostly of manufactured goods. Considering the average for the period 1998-2000, manufactured goods accounted for 58% of the country's total exports. Although the basics accounted for only 24% of Brazil's exports in this same period, some of these goods are in prominent positions in the ranking of the principal goods exported by the country.

Brazilian Exports by Group
% Share - Average 1998-2000



Source: MDIC/SECEX

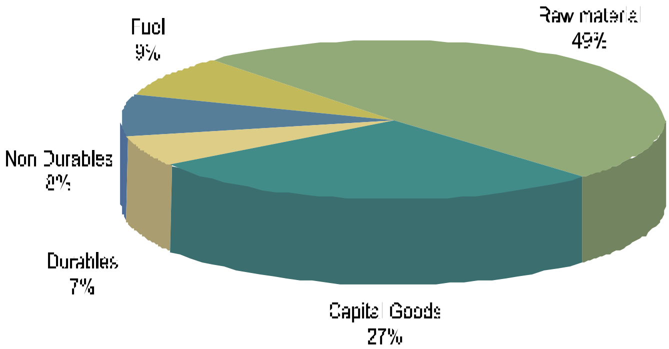
Brazilian Exports – Main Products
Average 1998-2000*

Products	Value	Share (%)
	US$ million FOB	
1. Coffee, not roasted, not decaffeinated	2,040	4.0
2. Other soya beans, broken or not	1,967	3.8
3. Non-agglomerated iron ores and concentrates	1,893	3.7
4. Oil cake and other solid residues from extraction of soya bean oil	1,634	3.2
5. Chemical woodpulp, soda, or sulfate	1,228	2.4
6. Orange juices, frozen, not fermented	1,172	2.3
7. Agglomerated iron ores and concentrates	1,122	2.2
8. Raw cane sugar	1,006	2.0
9. Other turbojet airplanes etc.>7,000Kg.<= 15,000kg., unladen.	1,006	2.0
10. Other footwear of natural leather	952	1.9
11. Aluminum, not alloyed, unwrought	895	1.7
12. Other semi-finished products of iron /steel, < 0.25% of carbon.	859	1.7
13. Other airplanes/powered aircraft. >2,000Kg.< =15,000kg., unladen	727	1.4
14. Motor cars, spark ignition IC, piston engine cylinder	706	1.4
15. Other sugars, of cane, of beet and sucrose.	677	1.3
16. Tobacco, unworked, stemmed.	630	1.2
17. Crude soybean oil, whether or not degummed	525	1.0
18. Meat and edible offal chicken, fresh, chilled or frozen	416	0.8
19. Non-alloy pig iron, containing by weight =< 0,5% of phosphorus	408	0.8
20. Compressors for refrigerating equipment	401	0.8
Sub-Total	20,265	39.4
Other Products	31,140	60.6
TOTAL	51,405	100.0

*Products ranked by the period values average.
Source: MDIC/SECEX

Brazil's imports have shown increasing diversification over the last few years, with raw materials and capital goods accounting for 49% and 27% of the imports list, respectively, considering the average for the period 1998-2000. Imports of consumer goods in turn had a 15% share in the same period. In this category, the imports of durable consumer goods are led by automobiles, which are prominent in the ranking of the main products imported by the country.

Brazilian Imports by Group
% Share-Average 1998-2000



Source: MDIC/SECEX

Brazil is a global trader with a highly diversified overseas trade both in respect to the final markets for exports and those where imports originate. Brazil's major trading partners are the industrialized nations – the European Union (EU), the United States and, on a smaller scale, Japan – which account for over 50% of all Brazilian exports and imports.

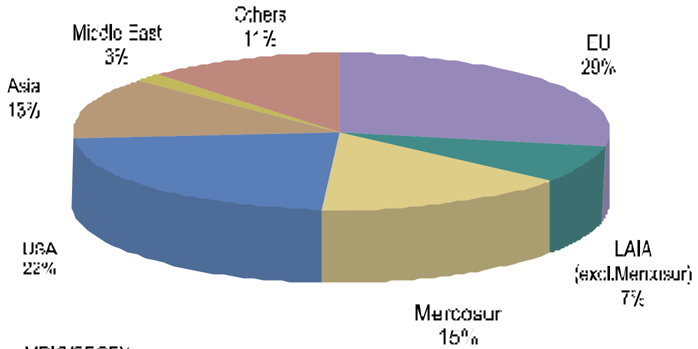
Brazilian Imports – Main Products

Average 1998-2000*

Products	Value	Share (%)
	US$ million FOB	
1. Crude petroleum	2,442	4.5
2. Motor cars, spark ignition IC, piston engine cylinder	1,151	2.1
3. Gas oil (diesel)	853	1.6
4. Other wheats, wheat and meslin mixtures	829	1.5
5. Other naphthas	760	1.4
6. Other parts and accessories for tractors and motor vehicles	651	1.2
7. Naphthas for petrochemicals	542	1.0
8. Other machines and mechanical appliances w/ specific functions	508	0.9
9. Other parts of airplanes or helicopters	498	0.9
10. Other potassium chloride	464	0.9
11. Other non agglomerated coals, in powder or not	430	0.8
12. Other motor vehicles w/ diesel engine, for the transport of goods,<=5T	413	0.8
13. Turbo-jets of a thrust>25kN	352	0.6
14. Transmission/reception apparatus for celular telephony	339	0.6
15. Other medicaments of products for therapeutic purposes, doses	329	0.6
16. Other airplanes & powered aircraft unladen weight>15000kg	293	0.5
17. Crude propane, liquefied	289	0.5
18. Other cottons, neither carded nor combed	250	0.5
19. Motor cars w/ spark ignition IC, piston engine cylinder cap.<=1000cm3	234	0.4
20. Copper refined, in the form of cathodes and its sections, unwrought.	231	0.4
Sub-Total	11,858	21.9
Other Products	42,325	78.1
TOTAL	54,183	100.0

*Products ranked by the period values average.
Source: MDIC/SECEX

Brazilian Trade Flow - Main Partners
Average 1998-2000



Source: MDIC/SECEX

The trade flow between Brazil and the other members of Mercosur represents an average 15% of the country's foreign trade flow for the period 1998-2000. In 2000, trading with Mercosur totaled US$15.5 million, having already registered US$ 18.7 billion in 1997. Brazil's exports to Mercosur countries are chiefly composed of manufactured goods, with a strong participation of the transportation material sector, including automobiles and cargo vehicles. Prominent among Brazil's imports from Mercosul countries, besides transportation material, are products of vegetable and animal origin, mineral products, textiles, and machines, mechanical and electrical apparatuses.

4.5 International Agreements

Brazil is a member of several international organizations such as the United Nations Organization – UN, the International Monetary Fund – IMF and the World Bank. A GATT signatory since its beginning in 1948, in April 1994 Brazil signed the Marrakesh Act that brought to a close the Uruguay Round negotiations and created the World Trade Organization – WTO. Brazil is also part of the Organization of American States – OAS, and of the Inter-American Development Bank – IDB.

Brazil has been a member of the Latin American Integration Association – LAIA[1], since it was established in 1980. Brazil has several preferential trade agreements signed with other Latin American member countries.

On March 26, 1991, Brazil, Argentina, Uruguay and Paraguay signed the Asuncion Treaty formalizing the Mercosur, a market involving 200 million people and a GDP of US$ 1 trillion.

Mercosur has been negotiating a series of preferential trade agreements with the other South American countries. For this purpose, free-trade agreements have already been signed with Chile and Bolivia, while negotiations are under way with the Andean Community.

In December 1995, Mercosur and the European Union signed an agreement in Madrid making a commitment to develop trade and economic cooperation between the two regions. Since 2000, negotiations are under way for the creation of a free-trade area between the two blocs.

Brazil has also taken an active part in negotiations to the formation of the Free-Trade Area of the Americas (FTAA). During the Americas Summit held in Miami in December, 1994, the presidents of 34 American countries agreed to complete negotiations to create the FTAA by the year 2005. The eventual hemispheric integration initiative will preserve all existing subregional agreements as a foundation for the integration effort.

Brazil is a member of the Global System of Trade Preferences –

[1] Argentina, Brazil, Bolivia, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela.

GSTP, an agreement that grants preferential trade terms among developing countries (there are currently 48 signatory states), and is part of the Cairns Group of 14 developing food-commodity exporters established to pursue more satisfactory terms and conditions for the international trade in food commodities.

Useful Addresses

Exports Promotion Agency
Agência de Promoção às Exportações - APEX
SBN Quadra 01 – Bloco B – 10º andar – Edifício CNC.
70.041-902 - Brasília – DF
Phone: (5561) 426 0202 / 426 0203
Fax.: (5561) 426 0222
http:// www.apexbrasil.com.br

Brazilian Bureau for Micro and Small Enterprises - SEBRAE
Serviço Brasileiro de Apoio às Micro e Pequenas Empresas - SEBRAE
SEPN 515 - Bloco C – loja 32.
70.770-530 - Brasília - DF
Phone: (5561) 348 7100
Fax: (5561) 347 4120
http://www.sebrae.com.br

National Bank for Economic and Social Development - BNDES
Banco Nacional de Desenvolvimento Econômico e Social
Av. República do Chile, 100 - 18º andar
20.139-970 - Rio de Janeiro - RJ
Phone: (5521) 2277 7001/ 2277 7447

Fax: (5521) 2533 1665 / 2533 1538
http://www.bndes.gov.br

Banco do Brasil S.A. (Unidade de Negócios com o Governo)
SBS, Quadra 4, Bloco A, Edifício Sede 3 , 12º andar
70073-901- Brasília - DF
Phone: (5561) 310 5060 / 310 5065
Fax: (5561) 310 2484
http://www.bancobrasil.com.br

Brazilian Export Credit Insurance Company
Seguradora Brasileira de Crédito à Exportação S.A.
R. Senador Dantas, 105 / 30º andar
20.031-201- Rio de Janeiro – RJ
Phone: (5521) 2220 2002
Fax: (5521) 2262 8672

Ministry of Foreign Affairs
Departament on Latin American Integration
Ministério das Relações Exteriores
Departamento de Integração Latino-Americana
Esplanada dos Ministérios, Bloco H – Anexo II – Sala 16
70.170-900 - Brasília - DF
Phone: (5561) 411 6254 / 411 6927 / 411 6013 / 411 6223
Fax: (5561) 223 1758
http://www.mre.gov.br

Ministry of Foreign Affairs
International Acts Division
Ministério das Relações Exteriores
Divisão de Atos Internacionais

Esplanada dos Ministérios, Palácio do Itamaraty – Anexo I - 4º andar – sala 423
70.170-900 - Brasília - DF
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Fax: (5561) 411 6905
http://www.mre.gov.br

Ministry of Development, Industry and Trade – MDIC
Foreign Trade Secretariat - SECEX
Ministério do Desenvolvimento, Indústria e Comércio Exterior
Secretaria de Comércio Exterior
Esplanada dos Ministérios - Bloco J / 8º andar
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Foreign Investments in Brazil 5

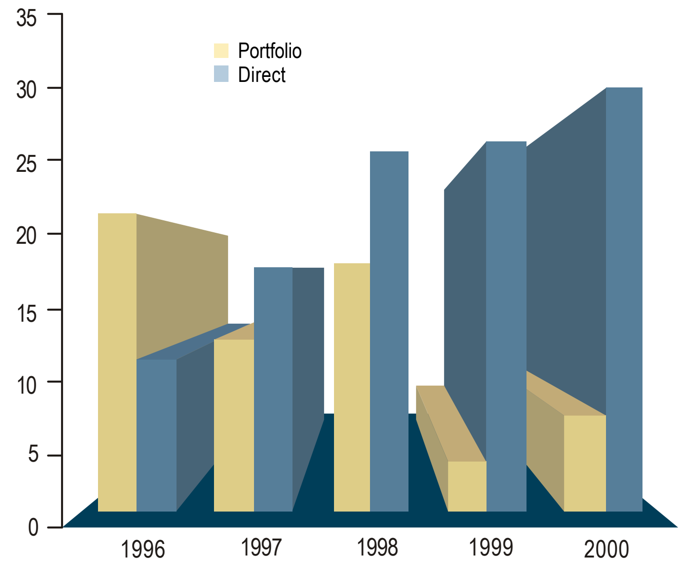
The presence of foreign capital in the Brazilian economy is quite significant and wide-ranging, both on the level of the different economic activities and in relation to the countries where the invested resources originate. The participation of foreign companies has played an active role in building up a large, diversified and vertically integrated industrial complex.

According to data in the UNCTAD *World Investment Report* 2000, over the last few years Brazil has occupied an outstanding position among the 20 leading countries that receive foreign direct investment (FDI) all over the world. Among the emerging economies, Brazil has become the second principal destination of FDI flows since 1996, second only to China. This position in the ranking of recipient countries of foreign direct investments is connected not only to the macro-economic environment characterized by internal price stability but also to the structural changes in the Brazilian economy, especially the policies of trade opening and privatization, and to a more flexible policy in respect to foreign capital.

As a result of this scenario, two facts stand out in the recent evolution of FDI in the country: the improvement observed in the composition of net flows of foreign investments, with the increasing participation of direct investments in the total, and the changes observed in how the flow of direct investments is channeled among the different sectors of the economy.

From 1994 onwards, the net flows of foreign direct investments began to present a trajectory of strongly rising growth in contrast with what was observed with portfolio investments. Between 1996 and 2000, net direct investments presented a growth of 273.6% and reached US$ 30.8 billion in 2000.

Foreign Investments Net Inflow in Brazil
1996 - 2000 Period
US$ billion



Source: Central Bank of Brazil

With regard to the destination of the flows of direct investments, the services sector began to absorb the biggest share of the incoming resources from 1996 onwards. This movement, associated with the process of privatization, especially in the areas of infrastructure and public services, contrasts with what was seen before, when the transformation industry was the leader sector to receive foreign direct investments. According to data from the Central Bank, the services sector absorbed on average 78.6% of the overall value of inflow of direct investments after 1996, whereas only 19.4% was destined to the industrial sector.

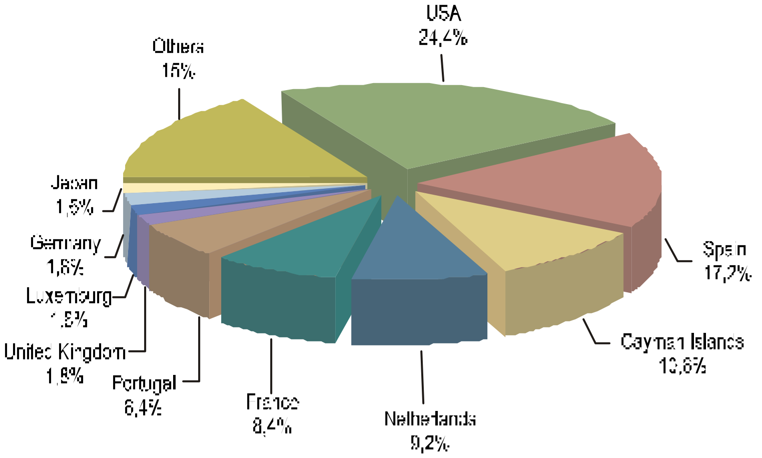
Foreign Direct Investments Inflows in Brazil*
Breakdown by Activity – Share (%)
1995-2000

	1995**	1996	1997	1998	1999	2000
Agriculture, livestock and mineral extraction industry	1.6	1.4	3.0	0.6	1.5	2.2
Industry	55.0	22.7	13.3	11.9	25.4	17.0
Services	43.4	75.9	83.7	87.5	73.1	80.8

* Investments above US$ 10 million by enterprise.
** Stock
Source: Central Bank of Brazil

As far as the leading investors are concerned, the United States, Germany, Netherlands and France remain in a prominent position in the ranking of the countries that most invest in the Brazilian economy. Nevertheless, the process of privatization and concession of public services has contributed to other countries being upgraded in terms of investment flow, this being the case of Spain and Portugal. After 1996, these two countries began to figure among the ten leading foreign investors, occupying the second and sixth places, respectively.

Foreign Direct Investiments in Brazil
Main Investor Countries
Average Share % - 1996-2000 period



Source: Central Bank of Brazil

Treatment offered to foreign investment in Brazil – main aspects

The treatment given to foreign capital in Brazil is quite liberal. The legislation makes no distinction between national and foreign companies, the basic principle being that juridical treatment must be granted to foreign and national capital in exactly the same terms.

Furthermore, the Constitutional Reform approved in 1995 promoted a more flexible state monopoly in the sectors of petrol, gas and mining

Privatization[1] in Brazil by sector
1996-2000

					(US$ million)
	1996	1997	1998	1999	2000
Electric Sector	1,760	3,079	1,927	1,020	693
Telecommunications	544	433	4,167	6,659	2,289
Gas	0	574	0	1,106	295
Others [2]	341	1,163	27	0	3,774
Total	2,645	5,248	6,121	8,785	7,051

[1] Includes payments of privatizations undertaken with resources obtained from converting debts into investments.

[2] In 1996 this refers to privatizations in the railroad sector, in 1997 in the mining sector, in 1998 in the ports sector, and in 2000 in the sanitation and banking sectors.

Source: Central Bank of Brazil

to allow research and exploration of these natural resources and opened the possibility of exploration (direct or by concession, authorization or permission) for private companies active in telecommunications services, radio, and sound and image in the area of telecommunications. In addition, the constitutional restrictions on foreign companies operating in coasting trade were abolished. The Law of Public Services Concessions began to admit the participation of private capital in generating and transmitting electric energy and in exploring customs stations and terminals, highways and dams.

However, certain activities are still closed to foreign capital (nuclear energy, health services and concession of domestic airlines) or subject to restrictions (financial institutions and purchase of rural property).

Foreign investments can be made by purchasing shareholder participation or subscribing to capital in companies already established in Brazil or by setting up a new company. In practice, the most common ways for foreign capital to participate in Brazil are corporations and limited liability companies. In these two cases the authorization of the Federal Government is not required, all that is necessary is to apply for registration in the Commercial Board of the State where the company has or plans to install its main office. In the case of foreign companies opening up branches, special authorization is required from the Federal Government.

Foreign capital that enters the country, whether in the form of currency or goods, must be registered in the Department of Foreign Capital (FIRCE) of the Brazilian Central Bank in its original currency within 30 days from entry of the resources in the country. This registration represents the official recognition of the investment and allows for remittance of profits and dividends, repatriation of the invested capital and re-investment of profits at any time and without applying for any further authorization.

The income tax rate on revenue obtained by individuals and corporations residing or domiciled abroad is 15%. The distribution of profits and dividends is exempt from income tax withheld at source and is not part of the basis for calculating the income tax of the beneficiary, whether he is domiciled in Brazilian or abroad. There are no quantitative limits to remittance of profits or dividends resulting from capital duly registered in the Central Bank.

Brazil has agreements with 23 countries in order to avoid double taxation: Germany, Argentina, Austria, Belgium, Canada, China, Korea, Denmark, Ecuador, Spain, the Philippines, Finland, France, Netherlands, Hungary, India, Italy, Japan, Luxembourg, Norway, Portugal, Sweden and the Czech and Slovak Republics.

Repatriation of foreign capital invested in Brazil is not conditioned to deadlines or volumes, with the financial capacity of the company being duly respected, and is exempt from income tax. Profits re-invested in augmenting company capital is also exempt from paying income tax and may be included in the value of the capital registered in FIRCE.

Foreign investments in Brazil's capital market may be made by subscribing and purchasing participation in investment companies that are duly authorized and specifically established for this purpose. These investments may be made through three forms of funding: investment societies, investment funds and diversified portfolio of shares.

Another way of investing in the Brazilian stock market is through Depositary Receipts, which allow one to purchase abroad certificates of shares in Brazilian open-capital companies. These securities are emitted overseas when a foreign investor buys the shares of a Brazilian company and releases them for custody in a local bank, which then grants the depositing bank abroad the right to issue the corresponding Depositary Receipts in foreign currency.

It should also be remembered that Brazil passed a new legislation on intellectual property, Law No. 9.279, which came into effect in May 1997. This law incorporates new clauses in line with modern international practices and is consistent with the WTO Trade Related Aspects of Intellectual Property Rights Agreement (TRIPs). This legislation guarantees internationally recognized rights to foreign investments and transference of technology. In addition to the TRIPs Agreement, Brazil is also co-signer of the Paris, Bern and Universal Conventions and member of the World Intellectual Property Organization (WIPO).

Central Bank of Brazil
Banco Central do Brasil
SBS - Edifício Sede do Banco Central - 7º andar
70074-900 - Brasília - DF
Phone: (5561) 414 1380
Fax: (5561) 414 2410
http://www.bcb.gov.br

National Institute on Industrial Property - INPI
Instituto Nacional de Propriedade Industrial - INPI
Praça Mauá, 7 / 18º andar
20083-900 - Rio de Janeiro - RJ
Phones: (5521) 2206 3117 / 2224 1114
Fax: (5521) 2263 2539
http://www.inpi.gov.br

Useful information 6

Visas

Entry visas are required of all foreigners wishing to visit Brazil, except for citizens of Mercosur member countries. Passports must be valid for at least six months after the date of entry into the country. Tourist visas (valid for 90 days) or transit visas (valid for 10 days) are generally issued within two working days.

Documentation required

- passport valid for at least six months after the data of entry into the country;
- a recent photo in the standard size required internationally for passports;
- filling out the proper form available at all Brazilian diplomatic offices;
- round trip ticket.

Work Permits

Foreigners wishing to work in Brazil must obtain permanent or temporary business or residence visas. A work contract is not necessary in order to obtain a temporary business visa. This visa is valid for 90 days and may be renewed for another equal period.

Temporary residence visas are valid and renewable for two years. Nevertheless, they may also be based on the length of the work contract. A permanent visa is necessary for a foreigner to act as a director of a Brazilian subsidiary of a foreign company.

In order to register as an employee in Brazil, a foreigner must have an identification card - obtainable at local Federal Police Authority – and get a work card from the Ministry of Labor.

Customs

In addition to clothing and personal effects, tourists entering Brazil may buy up to US$ 500 worth of goods at local duty free shops.

Vaccines

For information on vaccines, it is advisable to consult with the Brazilian diplomatic representation.

What to wear

➲ Jackets and ties and the equivalent female attire are the norm for business meetings. Most restaurants and night clubs do not require men to wear jackets.

➲ Climate varies depending on latitude and altitude. The country covers three different climate zones: equatorial (north and upper part of northeast region), tropical (southeast, central and meridional northeast regions) and subtropical (south). Throughout the country temperatures are cool to warm, with mean annual temperatures of 28º C (82º F) in the north and 20º C (68º F) in the south. Winter months (June, July and August) may be much cooler in the south. However, most of the territory is within the tropical zone, where temperatures may reach high levels during the summer (December, January and February).

Credit cards

- Major Credit Cards Accepted

National holidays

- January 1st: New Year's
- February / March: Carnival (floating date)
- March / April: Easter Holidays (floating date)
- April 21: Tiradentes Day (a hero of Brazilian independence)
- May 1st: Labor Day
- June: Corpus Christi (floating date)
- September 7: Independence Day
- October 12: Our Lady Aparecida (religious holiday)
- November 2nd: All Souls' Day (religious)
- November 15: Proclamation of the Republic
- December 24: Christmas Eve (half-day holiday)
- December 25: Christmas
- December 31: New Year's Eve (half-day holiday)

In addition, there are local holidays. Some companies also close on Jewish holidays like Rosh Hashanah and Yom Kippur, both floating dates (September). The month of February and the first two weeks in March should be avoided for business trips (school holidays and carnival).

Time zones (relative to mean Greenwich time):

- minus 4 hours:
- Boa Vista, Cuiabá, Campo Grande, Manaus, Porto Velho, Rio Branco.

- minus 3 hours:
- Brasília, Aracaju, Belém Belo Horizonte, Curitiba, Florianópolis, Fortaleza, João Pessoa, Macapá, Maceió, Natal, Porto Alegre, Recife, Rio de Janeiro, Salvador, São Paulo, Vitória.

noon in Brasília is:	12:00 noon	in:	Buenos Aires
	12:00 noon		Montevideo
	11:00 a.m.		Asuncion
	09:00 a.m.		Mexico City
	04:00 p.m.		Geneva
	05:00 p.m.		Johannesburg
	03:00 p.m.		London
	01:00 a.m.		Melbourne
	10:00 a.m.		New York City
	12:00 midnight		Tokyo

To save energy, some states of the country go into daylight savings time from mid-October to mid-February (summer) and clocks are moved forward one hour.

Business Hours

- Banks: 10:00 a.m. to 4:30 p.m. Monday through Friday.
- Government offices: 9:00 a.m. to 6:00 p.m. Monday through Friday.
- Business 8:30 or 9:00 a.m. to 5:30 or 6:00 p.m. with one-hour break for lunch. Monday through Friday.

  At some locations, especially the North-Northeast, business hours start earlier at 8:00 a.m., with a longer lunch break.
- Industry: 8:00 a.m. to 5:00 p.m. Monday through Friday. Some factories are open on Saturday morning.
- Stores: 9:00 a.m. to 7:00 p.m. Monday through Friday. 9:00 a.m. to 1:00 p.m. on Saturdays. In major cities several stores are open all day Saturday and many shopping-centers stay open until 10:00 p.m., including Sunday.

Telecommunications

The whole country is served by telegraph and telephone systems. Fax transmissions are extensively used in both domestic and international business communications.

To call Brazil from abroad dial:

- country code: 55
- local city codes (state capitals):

Aracaju (79)
Belém (91)
Belo Horizonte (31)
Brasília (61)
Campo Grande (67)
Cuiabá (65)
Curitiba (41)
Florianópolis (48)
Fortaleza (85)
Goiânia (62)
João Pessoa (83)
Macapá (96)
Maceió (82)
Manaus (92)
Natal (84)
Niterói (21)
Porto Alegre (51)
Porto Velho (69)
Recife (81)

Rio Branco (68)

Rio de Janeiro (21)

Salvador (71)

São Luiz (98)

São Paulo (11)

Teresina (86)

Vitória (27)

Voltage

Brasília and a few other cities, including the Northeast, operate on 220 volts, 60 cycles, AC current; Rio de Janeiro and São Paulo and all other southern locations operate on 110 or 120 volts; Salvador and Manaus use 127 volts. Most hotels have outlets for both 110 / 220 volts.

Weights and measures

- Weights: the basic unit is the kilogram: (kg)
  1 kg = 2.205 lb.
  1 lb. = 0.454 kg

- Measures: the metric decimal system is used:
  1 centimeter = 0.394 inches (1 inch = 2.542 centimeters)
  1 meter = 3.281 feet (1 foot = 0.305 meter)
  1 kilometer = 0.621 miles (1 mile = 1.609 kilometer)

Hotel Accomdations:

There are hundreds of hotels of different classes throughout the country. For information on hotels, please contact the Brazilian Tourist Office :

- EMBRATUR - Rio de Janeiro
  Phone: (5521) 2509 6720
  Fax: (5521) 2509 7381 / 7429
  http://www.embratur.gov.br
  Rua Uruguaiana, 174 – 8º andar
  20050-090 – Rio de Janeiro – RJ

- EMBRATUR - Brasília
  Phone: (5561) 429-7777
  Fax: (5561) 429-7910
  webm@embratur.gov.br
  Setor Comercial Norte Qd 2
  bloco G 70712-907- Brasília - DF

Useful Addresses

CNI - National Confederation of Industry

http://www.cni.org.br

SBN - Quadra 1 - Bloco C - Ed. Roberto Simonsen
70040-903 - Brasília - DF
Phone: (5561) 317 9000 Fax: (5561) 317 9500

Rio de Janeiro
Rua Mariz e Barros, 678 - 2º andar - Maracanã
20270-002 - Rio de Janeiro - RJ
Phone: (5521) 2204 9500 Fax: (5521) 2204 9600

International Integration Unit - INTER
Rua Mariz e Barros, 678 - 3º andar - Maracanã
20270-002 - Rio de Janeiro - RJ
Phone: (5521) 2204 9613 Fax: (5521) 2204 9615

Federal Ministries

➲ Ministry of Foreign Affairs - MRE
http://www.mre.gov.br

Trade Promotion Department
Esplanada dos Ministérios, Bloco H – Anexo I – 2º andar
sala 220 – Palácio do Itamaraty
70170-900 – Brasília – DF
Phone: (5561) 411 6240 / 6241 Fax: (5561) 411 6007 / 223 2392

➲ Ministry of Development, Industry and Foreign Trade

http://www.mdic.gov.br

Departament of International Negotiations - DEINTER

Esplanada dos Ministérios – Bloco J – 7º andar – sala 724
70056-900 – Brasília - DF
Phone: (5561) 329 7618 Fax: (5561) 329 7385

Departament of Commercial Defense - DECOM

Praça Pio X, 54 / 6º andar
20091-040 - Rio de Janeiro - RJ
Phones: (5521) 3849 1336 / 1288 Fax: (5521) 3849 1141

Departament of Foreign Trade Policy - DEPOC

Esplanada dos Ministérios – Bloco J – 8º andar
70056-900 – Brasília – DF
Phone: (5561) 329 7081 Fax: (5561) 329 7075

➲ Ministry of Transportation

http://www.transportes.gov.br

Aquaviarian Transport Secretariat

SAN, Q. 3, Ed. Núcleo dos Transportes – Bloco N/O – 1º andar
70040-902 – Brasília – DF
Phone: (5561) 315 8100 Fax: (5561) 315 8112 / 8209

Merchant Marine Directorship

SAN, Q. 3, Ed. Núcleo dos Transportes – Bloco N/O – 2º andar
70040-902 – Brasília – DF
Phones: (5561) 3158 103 / 8104 Fax: (5561) 315 8209

➲ Ministry of Mining and Energy

Esplanada dos Ministérios – Bloco U
70065-900 – Brasília – DF
Phone: (5561) 319 5555 Fax: (5561) 321 5547

➲ Ministry of Communications

Esplanada dos Ministérios – Bloco R
70044-900 – Brasília – DF
Phone: (5561) 311 6201 Fax: (5561) 311 6731

Government agencies

➲ Central Bank of Brazil

Banco Central do Brasil
SBS – Edifício Sede do Banco Central – 20º andar
70074-900 – Brasília – DF
Phone: (5561) 414 1380 Fax: (5561) 225 1965
http://www.bcb.gov.br

➲ Bank of Brazil.

Banco do Brasil S.A
SBS – Quadra 4 – Bloco A – Lote 25 – 14º andar
70070-100 – Brasília – DF
Phone: (5561) 310 2000 Fax: (5561) 310 2470 – Deptº Comunicações
http://www.bancobrasil.com.br

➲ National Bank for Economic and Social Development

Banco Nacional de Desenvolvimento Econômico e Social - BNDES
Av. República do Chile, 100
20139-970 – Rio de Janeiro – RJ

Phone: (5521) 2277 7001 Fax: (5521) 2533 1665
http://www.bndes.gov.br

➲ Securities and Exchange Commission

Comissão de Valores Mobiliários - CVM
Rua Sete de Setembro, 111 / 26º a 34º andar
21059-900 – Rio de Janeiro – RJ
Phone: (5521) 2212 0200 / 2221 6798 Fax:(5521) 2221 6769
http://www.cvm.gov.br

Stock Exchanges

➲ Commodities & Futures Stock Exchange

Bolsa de Mercadorias e Futuros – BM&F
Praça Antônio Prado, 48
01010-901 – São Paulo – SP
Phone: (5511) 311 92000 Fax: (5511) 232 7559
http://www.bmf.com.br

➲ Rio de Janeiro Stock Exchange

Bolsa de Valores do Rio de Janeiro - BVRJ
Praça XV de Novembro, 20
20010-010 – Rio de Janeiro – RJ
Phone: (5521) 2514 1010 Fax: (5521) 2242 8066
http://www.bvrj.com.br

➲ São Paulo Stock Exchange

Bolsa de Valores de São Paulo - BOVESPA
Rua XV de Novembro, 275
01013-001 – São Paulo – SP
Phone: (5511) 233 2000 Fax: (5511) 233 9099
http://www.bovespa.com.br

Institutes

➲ Brazilian Institute of Geography and Statistics

Instituto Brasileiro de Geografia e Estatística - IBGE
Av. Franklin Roosevelt, 166 – 10º andar
20021-120 – Rio de Janeiro – RJ
Phone: (5521) 2256 286 Fax: (5521) 2220 5943
http://www.ibge.gov.br

➲ National Institute on Industrial Property

Instituto Nacional da Propriedade Industrial - INPI
Praça Mauá, 7 – 18º andar
20081-240 – Rio de Janeiro – RJ
Phone: (5521) 2206 3000 Fax: (5521) 2263 2539
http://www.inpi.gov.br

➲ Brazilian Institute for the Environment and Renew-ble Natural Resources

Instituto Brasileiro do Meio-Ambiente e dos Recursos Naturais Renováveis - IBAMA
SAIN – Av. L 4 Norte – Edifício Sede
70818-900 – Brasília – DF
Phone: (5561) 316 1032 Fax: (5561) 316 1262
http://www.ibama.gov.br

➲ National Institute of Metrology, Standardization and Industrial Quality

Instituto Nacional de Metrologia, Normalização e Qualidade Industrial - INMETRO
Rua Santa Alexandrina, 416 – Rio Comprido
20261-232 – Rio de Janeiro – RJ
Phone: (5521) 2502 7002 / 1009 ou 2563 2800
Fax: (5521) 2293 0954
http://www.inmetro.gov.br

Business Confederations

➲ National Confederation of Commerce

Confederação Nacional do Comércio - CNC
Av. General Justo, 307
20021-130 – Rio de Janeiro – RJ
Phone: (5521) 23804 9200 Fax: (5521) 2524 7111 / 2524 5916
E-mail: sdi@cnc.com.br
http://www.cnc.com.br

➲ National Confederation of Agriculture

Confederação Nacional da Agricultura - CNA
SBN – Quadra 1 – Bloco F – 2º ao 4º andares
Ed. Palácio da Agricultura
70040-908 – Brasília – DF
Phone: (5561) 326 3161 Fax: (5561) 326 2421
http://www.cna.org.br

➲ National Confederation of Transportation

Confederação Nacional dos Transportes - CNT
SAS – Quadra 6 – Lote 3 – Bloco J – Edifício Camilo Cola
70070-916 – Brasília – DF
Phone: (5561) 315 7012 Fax: (5561) 226 3550
http://www.cnt.org.br

Business associations and other organizations

➲ Brazilian Bureau for Micro and Small Enterprises - SEBRAE

SEPN 515 – Bloco C – lote 3 – Loja 32
70770-900 – Brasília – DF
Phone: (5561) 348 7100 Fax: (5561) 347 4120
http://www.sebrae.org.br

➲ Brazilian Technical Standards Association - ABNT

Av. 13 de Maio, 13 – 28º andar
20031-000 – Rio de Janeiro – RJ
Phone: (5521) 2210 3122 Fax: (021) 2532 2143 / 2240 8249
http://www.abnt.org.br

➲ Brazilian Foreign Trade Association - AEB

Av. General Justo, 335 – 4º andar
20021-130 – Rio de Janeiro – RJ
Phone: (5521) 2544 0048 Fax:: (5521) 2544 0577
http://www.aeb.org.br

➲ Federation of Foreign Trade Chambers - FCCE

Av. General Justo, 307 – 8º andar
20021-130 – Rio de Janeiro – RJ
Phone: (5521) 3804-9200 ext. 286 Fax: (5521) 2524 7111 / 2524 5916
e-mail: sdi@cnc.com.br

➲ Brazilian Association of Trading Companies - ABECE

Rua da Candelária, 9 – sala 1001
20091-000 – Rio de Janeiro – RJ
Phone: (5521) 2253 1225 Fax: (5521) 2253 7278

CONFEDERAÇÃO NACIONAL DA INDÚSTRIA - CNI
Brazilian National Confederation of Industry
http://www.cni.org.br

Presidência
President's Office
Brasília
SBN – Quadra 1 – Bloco C – Ed. Roberto Simonsen
70040-903 – Brasília – DF
Phone: (5561) 321-7788 – Fax: (5561) 224-2292

Rio de Janeiro
Rua Mariz e Barros, 678 / 2º andar – Tijuca
20270-002 – Rio de Janeiro – RJ
Phone: (5521) 205-9500 – Fax: (5521) 204-9600

Unidade de Integração Internacional - INTER
International Integration Unit
Rua Mariz e Barros, 678 / 3º andar – Tijuca
20270-002 – Rio de Janeiro – RJ
Phone: (5521) 204-9614 – Fax: (5521) 204-9615
e-mail: inter@mail.cni.org.br

Normalização Bibliográfica
Standard Bibliographic
CNI/UPET/Núcleo de Informação

Supervisão Gráfica
Graphic Production and Desktop Publishing
CNI/ADM

Projeto Gráfico Original
Original Graphic Project
Conceito Comunicação Integrada

SAC - Serviço de Atendimento ao Cliente
Customer Service
RM/Unidade de Relações com o Mercado
R. Mariz e Barros, 678 – 2º andar
20270-002 – Rio de Janeiro – RJ
Phone: (5521) 204-9513 / 9514 Fax: (5521) 204-9522
e-mail: sac@cni.org.br
home page: http://www.cni.org.br