THE IDEAS OF JOSÉ SANTOS, CREATOR OF THE CONCEPT OF METANATIONAL COMPANIES

PiB

BRAZILIAN COMPANIES GO INTERNATIONAL

totum

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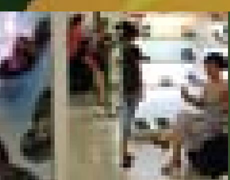
10 essential steps to win the world



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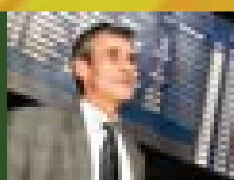
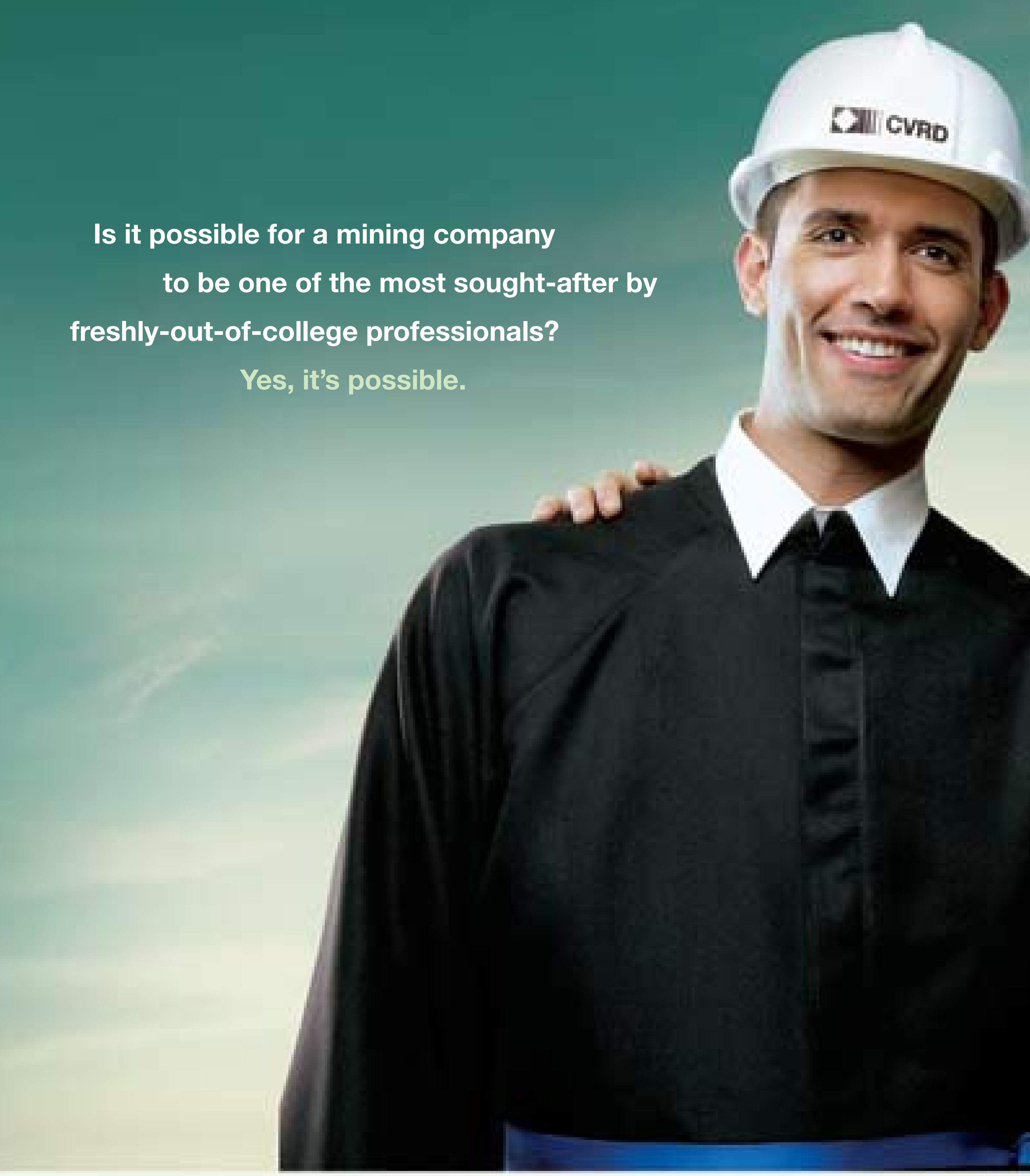


Careers: examples of how to become a global executive

ETHANOL: The sweet green power of biofuel



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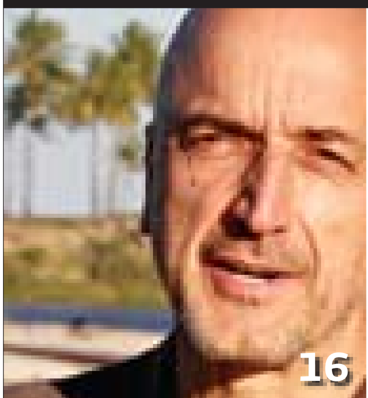
Summary

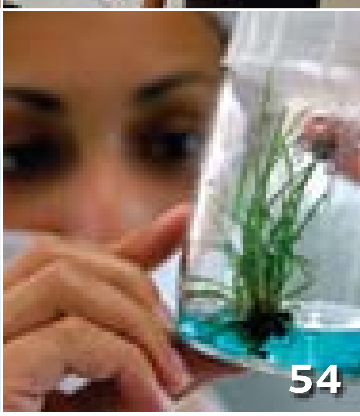
ILLUSTRATION: MARCELO CALENDA

COVER

22 Ten steps to win the world
Brazilian companies have become stronger since they lost economic protection in the Nineties, and they're happier about leaving home. Check out the 10 essential steps for any company that wants go international

By Ricardo Galuppo, with Juliana Garçon, João Paulo Nucci and Lia Vasconcelos





WELTON ARAÚJO; HUAJIAN; ILLUSTRATION: MARCELO CALENDA; PAULO LIEBERT / AE

Not just timely, but essential

It's with enormous pleasure that we bring you this, the first issue of *Brazilian Business International*, a magazine devoted to one of the most positive recent transformations in the Brazilian economy. Through the last two decades, companies born and bred in Brazil have been boldly pushing their frontiers further and further afield, launching their own operations in some of the world's most competitive markets. We're not talking small change, either. Experts estimate that the total stock of Brazilian direct foreign investment abroad now registered with the Brazilian Central Bank is close to US$100 billion. In many countries – and particularly the most developed ones – it has long been fairly commonplace for companies to look on the global marketplace as a natural extension of their own back yard. But for Brazilian businesses, this is a more recent phenomenon.

Brazilian Business International will seek to tell the story of Brazilian internationalization through successful examples. We'll be looking at the risks and rewards of leaving home, and giving space to different points of view. And finally, we aim to help and stimulate this new movement, providing it with a necessary voice.

Until the Nineties, Brazil was one of the world's most closed economies. Recently, however, as the country has developed the healthy habit of sound macroeconomic management, it has awoken to the possibility of playing an enhanced international role. Three factors are stimulating internationalization and lie behind our decision to launch a magazine dedicated to the topic – stable prices, stable economic rules, and the efforts that most recent governments have made to help Brazilian companies develop solid, lasting relationships with foreign partners.

Given the breadth and depth of support that we have received, we have no doubt that we're providing Brazilian business with an editorial product that is not just timely, but essential. It would be impossible to list all those who have helped us make *Brazilian Business International* a reality, so we have chosen to repay their encouragement in the best way possible – by producing a quality magazine, one that will always present and analyze the facts with the independence, responsibility and high standards that mark the best publications.

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TOTUM
Clayton Netz
Nely Caixeta
Ricardo Galuppo

PIB
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WILTON JUNIOR / AE

Gisele Bündchen: up 15% in three months

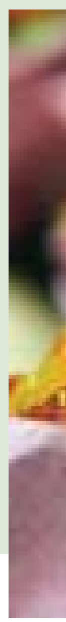
Gisele Beats the Market

GISELE BÜNDCHEN, the world's best-paid fashion model, is really a winner – and there are Excel spreadsheets to prove it. She's already stashed away a personal fortune estimated at US$33 million, according to this year's Forbes magazine survey. Now financial market analysts are composing some new vital statistics to measure the Brazilian's pulling power for companies that use her image in advertising and promotion. Key tool is the "Gisele Bündchen Stock Index", created by American economist Fred Fuld and published on the Internet at Stockerblog (http://stockerblog.blogspot.com). Companies like Victoria's Secret, Apple, Ralph Lauren, Louis Vuitton, Givenchy and C&A which use or have used Gisele saw their average stock price outpace the Dow Jones Industrial Average from the start of May through early August, rising 15% against 8.2%.

> "Everything that brings Brazil closer to the world helps the country improve as a nation
>
> AMBASSADOR RUBENS RICUPERO ON BRAZILIAN INDEPENDENCE DAY, SEPTEMBER 7^{th} 1993, IN WASHINGTON.

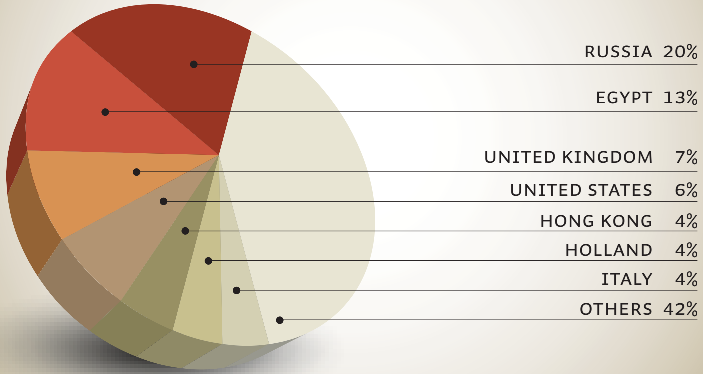
Acarajé, Cachaça and Tapioca

HOW DO YOU translate such Brazilian delicacies as acarajé, cachaça and tapioca for the foreign reader? Well, we certainly didn't even try! According to Brasília University researcher Ana Teresa Perez Costa, words like these can send even the best professional translators into a tailspin. Ana Teresa looked at how 34 common cultural references were handled in various non-Portuguese texts aimed at promoting Brazil abroad. In addition to acarajé, tapioca and cachaça, she studied angu, sambódromo, genipapo, dendê, farofa, tutu, frevo and quitute. She discovered that the same word can end up being translated quite differently in different publications. Her conclusion? That mistranslation in the description of key features of Brazilian culture could well lead target readers such as potential tourists or businessmen to form mistaken impressions.



SEE WHO'S BUYING BRAZILIAN BEEF

Leading importers (showing % of total exported)



SOURCE: ABIEC

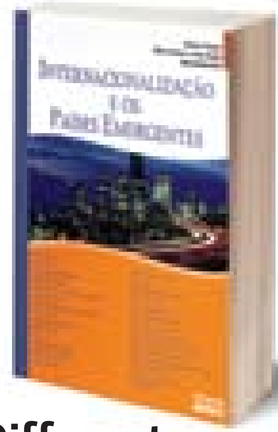
From *Churrascaria* to Office

ONE OF THE landmarks of Brazil's campaign to promote beef exports to the fast-growing Chinese market closed its doors in August. Sadia's churrascaria in Beijing stood in the way of a new avenue – one of hundreds of urban renewal works planned for the 2008 Olympic Games. Now Sadia will open a representative office in Shanghai.

BRAZILIAN BEEF exporters are hoping to reap the benefits of Britain's misfortune. The outbreak of foot and mouth disease at some farms in Southern England isn't likely to lead to any significant increase in the volume of exports to Europe, but there could be repercussions at the negotiating table. Britain, alongside Ireland, has been the strongest opponent within the European Union of importation of Brazilian beef, basing its objections on the occasional outbreaks of foot and mouth in Brazil. "That argument isn't going to cut so much ice from now on," said José Vicente Ferraz, an agribusiness expert at the FNP consulting company. *(Read more about Brazilian beef on page 33).*

Acarajé: no word for it...

AGLIBERTO LIMA/AE



Different Paths

ANYBODY WHO'S interested in the internationalization of Brazilian companies should check out *Internacionalização e os Países Emergentes*, by University of São Paulo professors Maria Teresa Fleury and Afonso Fleury. It offers some fascinating comparisons between Brazil, China and the Asian Tigers. The authors analyze the experience of Oriental nations that were virtually irrelevant within the global economy just a decade ago, but now are important players. And they look at how Guangdong Province – in the Southeast, bordering Hong Kong and Macao – was a fairly backward part of China until 20 years ago, but thanks to the influx of major companies has been transformed into the country's most prosperous region. The book also examines the presence of Brazilian companies in the Chinese market. Editora Atlas, 318 pages, R$60.

PARISCOPE

ANDRÉA FLORES, IN PARIS

HANDOUT

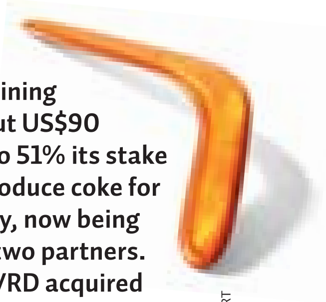
Brazil Salon: almost double the number of exhibitors, compared with 2005

Intellectual Property :: The second edition of the Brazil Salon, set for September in Paris, promises to be almost twice the size of the previous event in 2005, during the Brazilian Year in France. Then, 40 Brazilian companies and organizations showed up. Now at least 70 exhibitors are expected, promoting goods and services ranging from cosmetics and food through heavy industry and tourism. One of this year's themes shows how Brazil's posture has changed about a question that in past times hurt the country's image – pirate copies of things like CDs, DVDs and trade marks. Brazil has been clamping down on piracy for some years now, and the Salon will see the signing of an agreement to harmonize brand-name legislation in Brazil and France.

Fashion Accessories :: Just three companies from Rio Grande do Sul State, none of them very well known to the Brazilian general public, will be present at the 24th Paris Mod'Amont, a show dedicated to fashion and design accessories that takes place twice a year – in February and September. Flying the flag are Metalsinos of Araricá, Sander of São Leopoldo and Vive Bella of Novo Hamburgo, producers of buckles, buttons and other accessories. They'll be among the 282 exhibitors vying to catch the eye of the most important buyers in world fashion. Of the 19,000 visitors expected, no less than 13,000 come from other European countries, Latin America, the United States and Asia. Companies such as Adidas, Jean-Paul Gaultier, Kenzo, Moët et Chandon, Nike, Yves Saint Laurent and Paco Rabane normally close deals at the event.

Innovative Products :: Sial, the Global Food Marketplace trade fair, will debut the INNOV&VOUS show, dedicated to innovative products and new creations in the food industry. The show scheduled for Paris in November was inspired by the "Sial de Ouro" prize which is awarded at the main Sial expo to innovative products of proven success in their countries of origin. At the 2006 Sial, Brazil's Sadia was honored for three products launched in Brazil and shown in Paris – the Hot Pocket microwave snack, chicken nuggets that taste like hotdogs, and ready meals based on soy.

CVRD on Top Down Under



STOCHXPERT

BRAZIL'S CVRD is on a roll in Australia. The mining giant has paid out US$90 million to raise to 51% its stake in a project to produce coke for the steel industry, now being developed with two partners. And last year, CVRD acquired the Australian division of American Metals and Coal Industries (AMCI) for around US$740 million. The company is hoping to see an increase of around 10% in the price of coke in coming months.

Discreet but Important

EMBRAER, Brazil's high-flying maker of regional jets, has taken a final step to wiping away vestiges of its state-owned origins. The company was founded 1969 by the Brazilian federal govenrment and privatized in 1994, but the new owners retained the old logo. Now there's a discreet but important change. Embraer President Frederico Fleury Curado explained that the new logo blends past and present – the name gains prominence, while retaining the stylized bird that was created by Spanish designer Jose Maria Ramis Melquizo at the request of the company's founder president, Ozires Silva.

EMBRAER

EMBRAER

Out with the old: Embraer's new logo gives the name more prominence

Abengoa in the Land of Sugar Cane

SPANISH GROUP Abengoa, Europe's largest producer of ethanol, has bought Brazilian company Dedini Agro for – 497 million. The deal announced early August marks Abengoa's debut investment in Brazil and includes two sugar refineries in São Paulo State plus just over – 290 million of debt. It makes the Spanish company the world's only producer present in the three great ethanol markets – the United States, Europe and Brazil. Dedini Agro shares common origins with, but is no longer related to, Dedini Indústrias de Base, a major Brazilian maker of ethanol and sugar processing equipment. *(See more about ethanol on page 33)*

STEFERSON FARIA

Petrobras: investment up 66%

Black Gold

PETROBRAS announced mid-August that it is expanding its investment program for the next four years. Earlier expectations were to invest US$52.4 billion through 2011. Now that's been hiked by no less than 66% to US$87.1 billion. International investments are up even more, by 82%, to US$12.1 billion, with the focus on prospecting in Latin America, the Gulf of Mexico and East Africa. Petrobras is a world leader in deep-water prospecting and production, operating important fields off the Rio de Janeiro and São Paulo coast.

ISTOCKPHOTO

The Ongoing Question of Used Tires

BRAZIL HAS won another round, but the battle isn't over yet. The European Union said it will appeal against a World Trade Organization (WTO) decision that allows Brazil to ban the importation of used tires, where they are used for remolding. The Brazilian government says that the used tires are a threat to public health and the environment. But even in Brazil there's an argument: courts are judging various requests from local companies to allow imports to continue.

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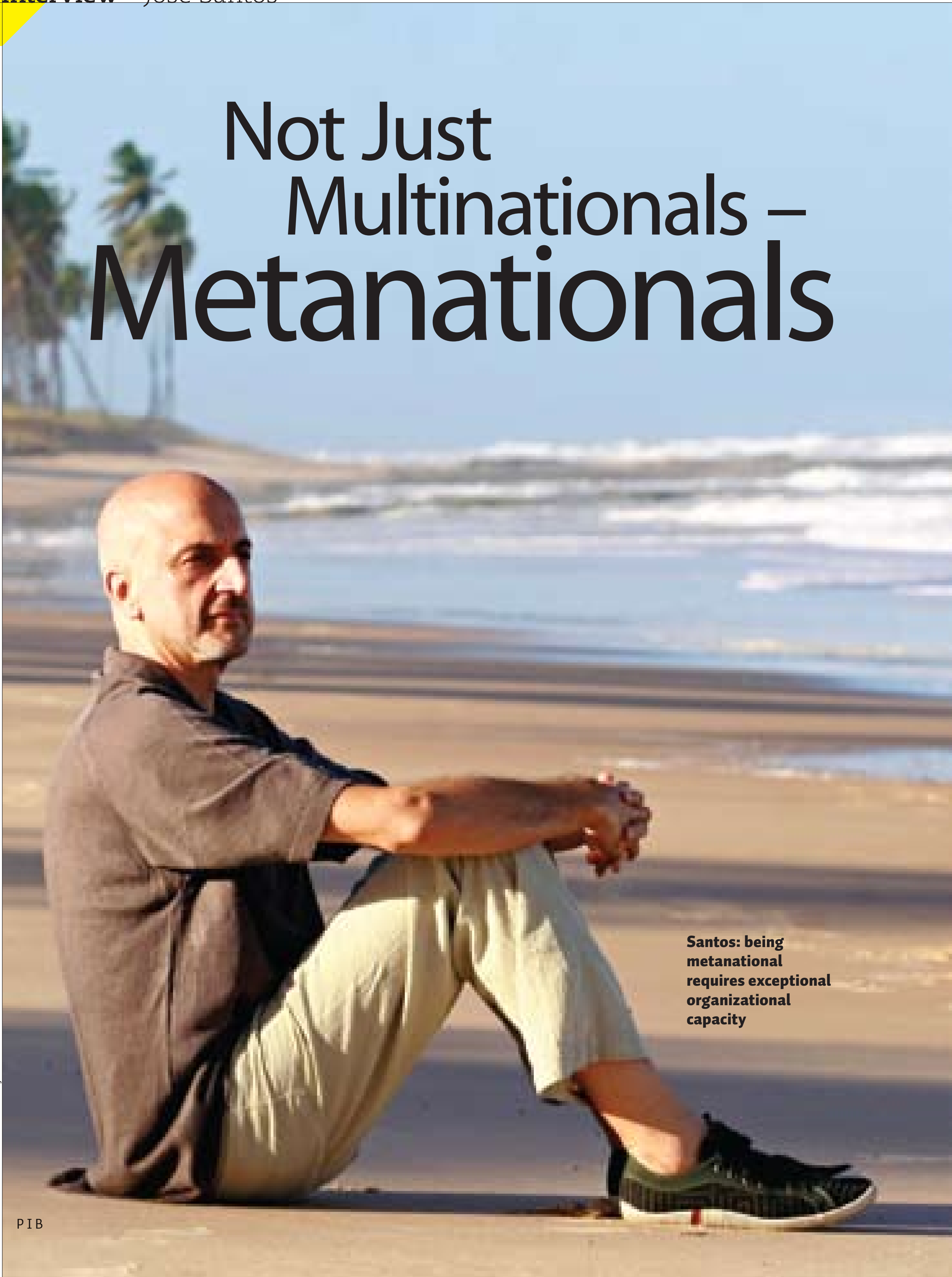
Not Just Multinationals – Metanationals



Santos: being metanational requires exceptional organizational capacity

FOTOS: WELTON ARAÚJO

Innovative management, organizational ability, access to technology and the power to multiply innovations around the world – these, says Professor José Santos of Insead, are the qualities of the companies of the future

BY NELY CAIXETA

José Santos, a Portuguese-born professor at Insead, dedicated a large part of his 56 years to running multinational companies. But just over 10 years ago Santos left Segafredo, the world-leading Italian espresso coffee company, for the prestigious French business school located at Fontainebleau near Paris. Insead rivals Harvard as the world's best place for an executive to study, but Santos went with a specific goal – to develop a more systematic understanding of the management difficulties faced by companies that operate globally.

Within the thousands of multinationals that today drive globalization, Santos detected an elite group that he came to call metanationals – companies that achieve competitive advantage through their ability to blend elements of innovation from around the world.

Santos went on to write, with two Insead colleagues, the best-selling *From Global to Metanational: How Companies Win in the Knowledge Economy*, published 2001 by Harvard Business School Press. And now, ensconced in the beach house he bought in Bahia, in the Brazilian Northeast, Santos is writing his second book.

"I love the sea here," he said, adding he planned staying three months per year. "This is where I get peace to read, think and write." It was also at his Bahia beach house that Santos took time out to discuss metanationals and the first Brazilian companies to make it into that select group.

So what – we asked – differentiates multinationals and metanationals?

The difference – Santos explained – is not in being multinational or metanational, the two concepts are not directly related. A company is multinational when it has operations in various countries, integrating people from various nationalities into its operations. A company is metanational when the essence of its competitive advantage lies in a combination of factors spread around the world, which implies exceptional organizational capacity. In other words, the competitive advantage of a metanational company comes from its capacity to manage diverse, dispersed resources and markets, be it for the innovation of products, business vision, access to technologies or relationship networks. By way of comparison, what generates competitive advantage in a national company are the local economy and the institutional and cultural environment. It makes more sense to talk about the difference between metanational and national companies.

What do you mean?

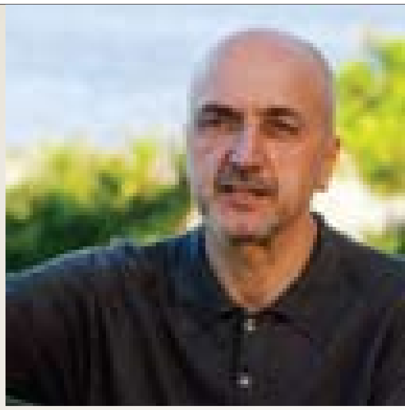
What I call national companies are those whose competitive advantages stem basically from one country, even if they have expanded their operations beyond their original borders. Even when they operate multinationally, they continue being essentially national companies because the technologies and clients in their domestic market continue to play a determinant role in their superior performance. When I call General Electric an American company it's not because it's headquartered in the US, but because the quality of the company stems from the qualities of its country of origin. Multinationals like General Electric, General Motors and Siemens draw or have drawn enormous competitive advantages from aspects of their countries of origin – scientific and technological research, the demands of an efficient market, the quality of competitors, the factors of production and so on. These were the very advantages that made them global leaders.

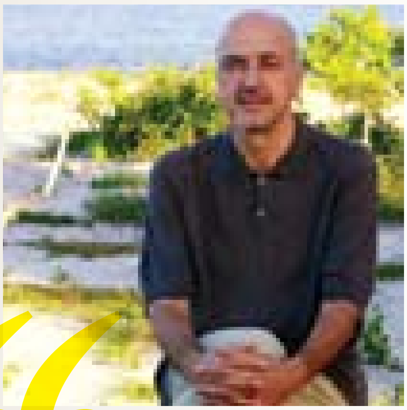
How can we identify the organizational qualities that make a company metanational?

It's very difficult to say if a company is or is not metanational, we have to study it and understand where its competitive advantage comes from. Perhaps just 1% of multinational companies today are truly metanationals. To identify them, the first step is to discover if they have real international or global worth. We must see if the company has any competitive advantage at the international level. We have to show that a company performs better than its global competitors. It doesn't need to be the largest company, because we're not talking about size, but it does have to excel in terms of quality of performance.

Which companies are clearly metanationals?

I can only talk about those that we studied during the research that ended up producing the concept of the metanational company, and those





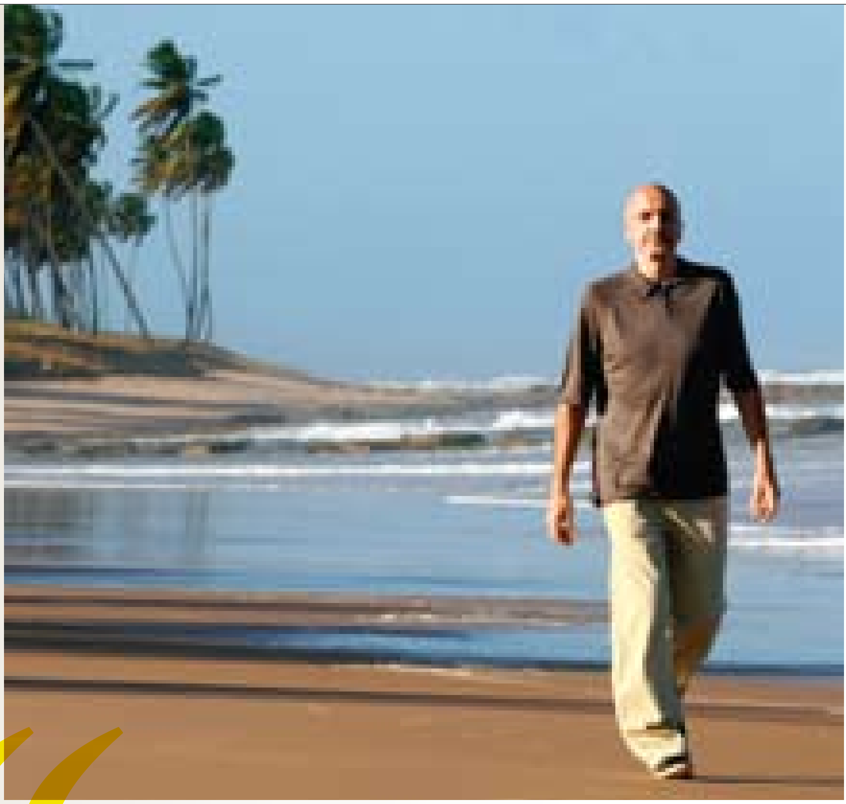
To cater for a demanding market, AmBev has developed into a unique business enterprise. It is anything but Brazilian

that I have looked at since. I'm talking about companies such as STMicroelectronics, Nokia, Polygram, Logitech and in particular Acer, which we could take as an example. The fact that Acer is from Taiwan is important but not decisive, what made Acer such an important company in the field of personal computing in the Nineties was its ability to use some of the intangible assets available in Silicon Valley, in California. For example, it could get close to Intel, which meant that it could be ahead of even IBM in launching a computer with what was then the quickest processor available, the 386, which was one of the predecessors to the Pentium. What's more, Acer saw the potential importance of personal computers for small companies and less developed economies. When you factor in the priority that Acer gave to access to technology and the ability to develop a product in California but make it in Taiwan, you end up with a business model that was very different from the one then favored by IBM.

What other examples did you identify in your studies?
Nokia is a rare case of a company with national origins transforming itself into a metanational. Nokia was a conglomerate of companies with a history going back over 100 years, and until the end of the Eighties it was virtually unknown outside of Finland and neighboring countries. However, when we compare the performance of Nokia at the end of the Nineties with that of the mobile phone division of Motorola, we can see that the competitive advantage that helped make Nokia the global leader really had nothing to do with Finland. It was much more related to the company's innovative management structure that was able to combine and multiply technologies and markets spread around the world. That was how Nokia beat Motorola. The American company was focused on its customers and on the technologies that were available in the United States, which were different from those available in Europe. In other words, Motorola was stuck in its geographical origins, while Nokia was able to break free of its Finnish roots.

The case of Logitech, also described in your book, is equally interesting...
Right. Technically speaking Logitech is a Swiss company, but it traces its origins to the chemistry of three young engineers, two Italians and one Swiss, who had the bright idea of producing a mouse combining abilities from various parts of the world. They blended Swiss precision technology and initial market demand in the United States with production in Ireland and Taiwan. Effectively, Logitech was born a metanational. Right from the start it had commercial headquarters in one country, development offices in another two and factories in yet another two. I think we'll see more and more companies like this.

Why do you say that?
Well, 30 or 40 years ago General Motors was world leader in automobile production, but now it's struggling. The industry is being led by Toyota, Honda and Nissan. Think back to Michael Porter's book *The Competitive Advantage of Nations* – he's talking about countries, not companies. The United States has been losing competitiveness in the automobile sector but General Motors has remained rooted in its US origins. Even though GM has had operations around the world for a long time, nothing that happens in GM Brazil, Europe or Japan was in the essence of its competitive advantage. This is a deficiency that will become more and more serious because everything suggests that the factors of competitive advantage are becoming more and more dispersed, rather than being concentrated in any one country, no matter how big it might be.



Which sectors are most likely to produce metanational companies?
The likelihood increases where intangible assets are more important, and where use of knowledge is more intensive. That's because in a globalized world, knowledge is spread around. In the Nineties and the start of this century, mobile telephony specialists discovered that the markets with the most innovative customers were Japan and South Korea, so it should be no surprise that Samsung, which is a South Korean company, has become a leader in cell phone technology. Frequently, a company can draw advantage from factors other than just technology and production.

Which, for example?
Well, more frequently than we might imagine, competitive advantages can stem from the quality of a company's customers. I impress on people that one of the great disadvantages of companies in the so-called emerging markets like Brazil comes not from their lack of technology but rather the low quality of their markets. The problem in these countries is that customers are generally not very demanding or exposed to innovation.

How do you rate Brazilian consumers behavior?
In general, I'd say they are not very demanding about what they consume. However, they do tend to be very aware and demanding consumers of cell phones. You can see that by looking at the great availability of models and operators in the country. Brazilians are also demanding consumers when they watch TV. There's no doubt that Globo is a world-class company, even if its presence outside Brazil is not very great.

"Nokia became a metanational company by combining and leveraging technologies around the world

Which Brazilian companies are metanationals?
I've studied Ambev and Embraer. Ambev was the first case I found of a company transforming itself into a metanational while producing just in Brazil. That makes it effectively a domestic metanational.

Why do you say that?
Ambev was transformed by the management technology, innovations and strong pressure for results that the company acquired in the United States and Japan. In this sense Ambev is not so "Brazilian". The company owners transferred what they had learned in the American financial sector to Brazilian industry. They built a unique company to serve a demanding market. The Ambev culture is anything but Brazilian. This country was irrelevant in the world beer market but Ambev became one of the leaders in the sector, thanks to global competitive advantages that led to its merger with Interbrew shortly after.

And Embraer?
Here we have a company that designs planes without thinking of the Brazilian market, but rather its customers around the world. Much of the technology is not Brazilian, it comes from suppliers in the United States, Europe and Japan. But Embraer had the competence to develop a model of organization and shared business that allows it to act as an integrator to develop new airplanes using technologies supplied by its foreign partners. In this sense, Embraer is not a company with Brazilian roots, but rather a metanational that was created in Brazil. ∎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10 wining steps for companies which want to conquer the world

In recent years, many Brazilian companies have lost the "fear of believing in themselves" and have set off in pursuit of new markets abroad. The methods they have adopted can serve as a lesson for others which want to follow the same path **RICARDO GALUPPO, with Juliana Garçon, João Paulo Nucci and Lia Vasconcelos**

Not one of the dozens of Brazilian companies which have conquered the world in recent years has used the country´s most popular sport as an inspiration for its international expansion. Some even feel uncomfortable about having their image associated with football and other brands registered in Brazil, such as the samba, Carnival and caipirinha. They think this link could compromise their seriousness. Without going into the reasons which lead some companies to think like this, it is worth making a comparison with football to recognize that a group of companies is undergoing an experience to that enjoyed by the Brazilian team after the World Cup in 1958.

Until that particular world championship — the first ever won by Brazil — Brazilian football suffered from "the fear of believing in itself", in the words of one of Brazil´s greatest writers and sports columnists, Nelson Rodrigues. Even worse was that until then the country suffered from a grave syndrome - a "stray dog complex." What does all this mean? Let Rodrigues explain: "By 'stray dog complex' I mean that willing way in which the Brazilian has regarded himself as being inferior to the rest of the world".

The team won the Cup final held in Sweden and the country started to became self-confident as a result. The following victory, in Chile, strengthened this

ILLUSTRATIONS: MARCELO CALENDA

feeling and the rest is history. What does the era of Brazilian football stars playing on pitches all over the world have to do with the current movement of companies? Plenty. It was not so long ago that Brazilian companies were also afflicted by the "fear of believing in themselves." Many were afraid of the possibility of finding foreign competitors ahead of them. This scenario changed with the opening of markets in the early 90s. Some companies changed hands and others shut down but, generally speaking, the quality of Brazilian companies has improved a lot since that time.

They are stronger and feel sufficiently confident to become internationally oriented and this has made them even stronger on the home market. "The companies which survived the opening of the economy and the greater international competition launched Brazil abroad," says Maria Tereza Fleury, a professor at the Economics and Administration Faculty of the University of São Paulo.

Cultural diversity

The story of Brazilian companies becoming international has hardly begun to be written. A study produced in 2006 by the Dom Cabral Foundation of Belo Horizonte, evaluated the companies by their level of exposure to the international market. It showed that some Brazilian companies and groups have strengthened their presence abroad and are now consolidated as Brazilian multinationals. These include Gerdau, Odebrecht, Vale do Rio Doce, Petrobras, Marcopolo, Sabó, Andrade Gutierrez, Weg, Embraer and Tigre — to mention only the 10 top names in the ranking. Generally speaking, the internationally active companies are held up as being among the best in the country.

No-one is saying that the decision to open an office abroad means a great breakthrough will be made in the blink of an eye. "You need to study the prospects, get to know the details and take into consideration the advantages and disadvantages of each market," says lawyer Ordélio Azevedo Sette, one of the most highly respected specialists in international trade law in Brazil. "A simple mistake can lead to the loss of all the planning and invested capital."

This is certainly true. Décio Oddone, International Executive Manager of Petrobras for the Southern Cone, reinforces lawyer Sette´s words. "You need to understand cultural diversity and the behavioral patterns of the people in every region in the relationship with clients, suppliers and employees," he says. When he worked for Petrobras in Angola some years earlier Oddone had an interesting experience which shows the importance of being aware of the cultural details of every country. When Petrobras began exploration off the African coast, it only allowed employees to leave the platforms during their shifts in emergencies, such

A GLOBAL MENTALITY HAS TO BE DEVELOPED THROUGHOUT THE COMPANY as the death of a child, as was the case in Brazil. Later it also began allowing employees who had lost a nephew to leave the rig. This was because many of the African workers came from matriarchal tribes in which the father was not the dominant figure whereas the nephew played an enormous role within the family structure. Understanding this fact made a great contribution to reducing strikes and labor conflicts in the company´s operations in Angola.

Regardless of the motive which leads a company to set foot outside Brazil, the fact is that the process of becoming international brings with it a series of positive collateral effects. "Globalized companies are better," claims economist José Roberto Mendonça de Barros, of MB Consultores Associados in São Paulo. ""It is a proven fact that companies which have gone international are more flexible and carry less risk, since they operate in more than one market." Another side of this same story is that the complexity of managing operations in different cultures requires pursuing new skills. "A shoe company which decides to produce abroad will have to reinforce its executive staff," says Victor Prochnik, professor of the Economics Institute of the Federal University of Rio de Janeiro (UFRJ). "The presence of companies on the foreign market means that they are there to stay," claims researcher Álvaro Cyrino of the Dom Cabral Foundation, in a study published last year entitled *Benefícios, Riscos e Resultados do Processo de Internacionalização das Empresas Brasileiras*, (Benefits, Risks and Results of Brazilian Companies Operating Abroad.

So far, so good. Going international is an extremely advantageous process. When everything goes well, the company acquires self-confidence and is ready to run around the field in such a way as, to quote Nelson Rodrigues once again, needs "at least 10 to win". The question is how to get there? How can it be done?

To answer these points PIB heard from more than a dozen specialists, consultants and students on the issue of going international. The result is a list of at least 10 steps which, once followed, greatly enhance a company´s chances of successfully establishing its own operations abroad. Check out these steps and get to know some examples of companies which can provide a lesson in what happened in each individual case. Some are already completely consolidated on the market while others are still enjoying the first conquests. They all deserve respect.

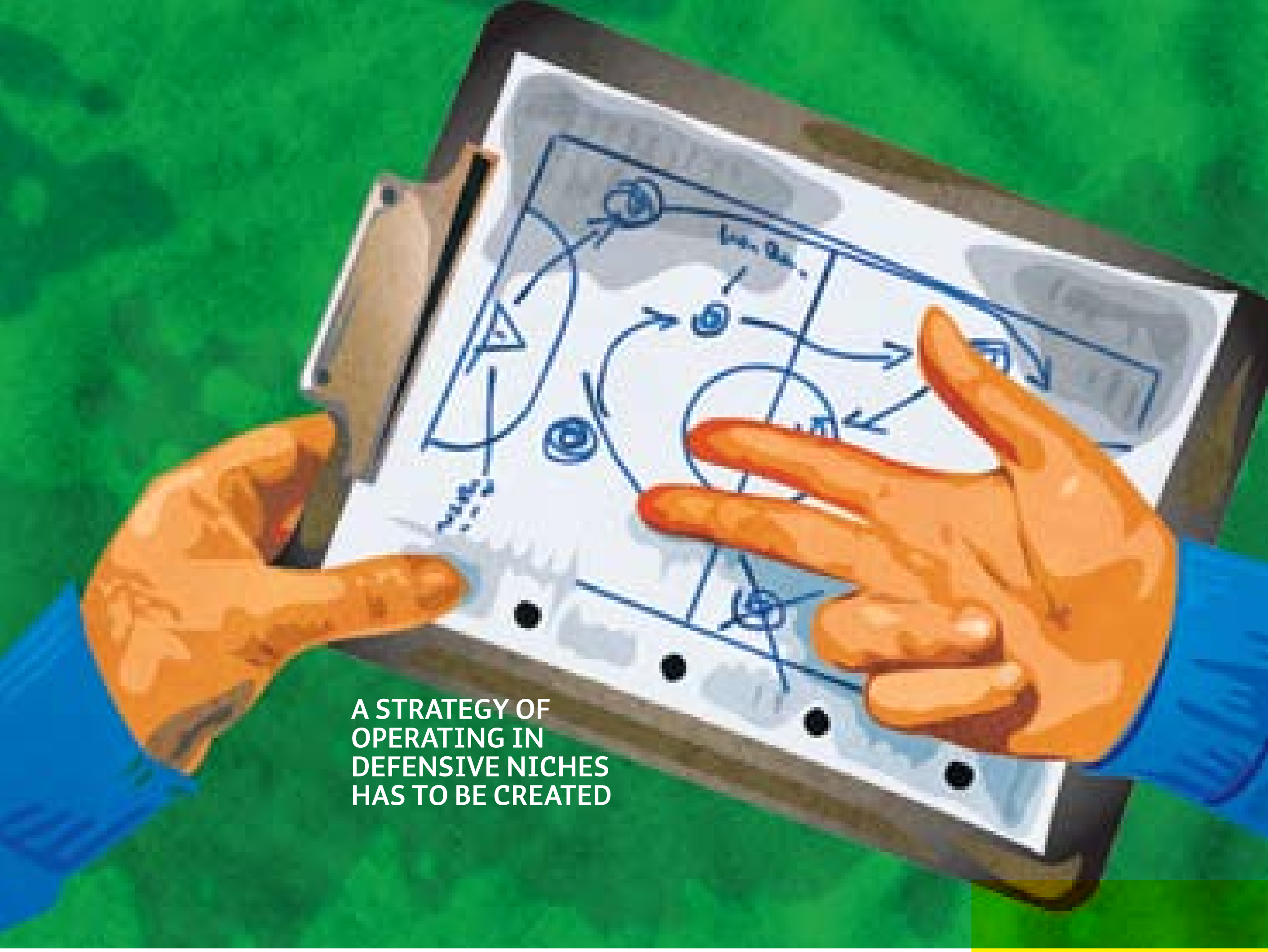
You need to understand cultural diversity and the behavioral patterns of the people in every region

Décio Oddone, Petrobras

1 **Going international needs to be on the agenda of the company´s top management.** The process demands planning, preparation and a firm strategic decision in order to implement it.

Researcher John Stopford, emeritus professor of the London Business School, hailed the strategy adopted by Embraco – a producer of compressors for refrigerators founded in the town of Joinvile, in Santa Catarina, in 1971 – as an example of efficiency. Stopford made the comments to a group of executives during a lesson at the Dom Cabral Foundation in São Paulo in September last year. "This company is recognized worldwide for what it does, not because it is Brazilian," he said. Stopford´s comment refers to the fact that in the places where Embraco operates, no-one asks whether it is Brazilian, Chinese or Italian. Its clients know perfectly that they are dealing with a reliable supplier of quality products with the right business approach. This only occurred because the decision taken by the management to go international spread throughout the company in such a way that nowadays Embraco gives the impression that it adopted this creed at a tender age. The company has a 22% of world production. Since 1998, it has been owned by the American company Whirpool. However, all the surveys continue to show it is regarded as Brazilian since Brazil is where the decisions are still made and products developed. All the plants operate in line with the management model defined by the head office in Brazil.

Embraco´s international mentality began being outlined in 1994. At that time, the company was a big exporter and decided to buy a compressor plant in the Turin region in Italy. "We knew that a plant in Europe would give us an advantage in serving local clients," says John Richter, corporate director of the Brazil-China operation. From then on, the company has continued to expand on the external market. In 1998, Embraco constructed a refrigerator and freezer for industrial refrigeration plant in Slovakia. It then turned its attention to Asia. Since 1995, Embraco has maintained a joint venture with the Snowflake group, a



Chinese manufacturer of electro-domestic appliances. It was the first Brazilian company to enter China. The Chinese arm now employs 1,100 workers and has annual production capacity of 4.5 million compressors.

2 **Develop a global mentality throughout the company.** This is valid even for sectors and employees which deal exclusively with the domestic market.

Visitors to Embraer´s headquarters in the town of São José dos Campos, in São Paulo state, soon notice they are in an international company. The entry to the plant always has dozens of flags from different countries flying. These show the nationality of the people who are visiting the plant at that moment. It could not be otherwise. An efficient high technology company, capital intensive, in which the projects take years to mature with orders for a small number of units (each of which costs millions of dollars) can only survive with a global mentality. "You cannot think of working in this market regionally," says Horácio Forjaz, Embraer executive vice president.

Obviously not all these countries can rely on professionals to serve the clientele. Whenever necessary, an executive leaves São José dos Campos for Paris or Fort Lauderdale, in Florida, to attend them. (Embraer has had subsidiaries in these two cities since the days when it was a state-owned concern.) "The same model of plane which operates under the rigorous conditions of a Scandinavian winter must be able to support the high humidity and temperature of the southern United States," Forjaz says. "Everyone in the company is ready to deal with this diversity."

The company has been concerned about clients from other countries since it was founded in 1968. However, it was only when Embraer was privatized in 1994 that it began operating as a global company. It selected sales staff to roam the world in pursuit of buyers wherever they were. The engineering area, which had always been the company´s pride, started receiving information on the details which clients wanted included in the planes. In 2002, Embraer inaugurated Harbin Embraer Aircraft Industry (HEAI) in China, a joint venture with the Chinese government in which the Brazilian company has 51% of the voting shares. "It was Embraer´s first industrial plant outside Brazil and is located in a market which is of absolute strategic importance."

3 Make an effort to be a worldwide benchmark with the aim of creating an operating strategy in defensible niches. It is not enough just to be among the best in your own country. You need to raise your sights and measure yourself against the best in the world.

Sabá is the Brazilian market leader in armatures for automobiles and began exporting to Germany in the 1970s as a supplier for Opel, the European division of General Motors. It exported the same parts it sold to the Brazilian affiliate of the American carmaker. At that time, Sabó made an in-depth study of its competitors´ products and, as a result, managed to solve a technical problem in the parts which Opel was buying in Europe itself. It was in this way that the name of the Brazilian company came to be respected on the world autoparts market. In 1993 – a time when the main Brazilian autoparts companies were being bought up by international groups – Sabó began consolidating its international operations. It acquired control of Kaco, a German company which was almost 100 years old, with three plants in Germany and a fourth in Austria.

Through its European experience, Sabó learned the need to always keep one eye on the competition and another on the clients. "The decision-making center of the car manufacturers is highly concentrated," explains Luiz Gonzalo, Sabó´s general director. Today the company has become a benchmark in screening systems and innovation material. It owns 200 patents for autoparts valid throughout the world and has another 199 projects under development. "It is important to accompany the work closely to understand the specific need of the project," Gonzalo says. The decision not to give room to competitors on the European market led the company to construct a new plant in 1996 close to the Audi factory in Hungary. In January this year, it decided to start the construction of a plant in the US state of North Carolina.

4 Choose where to invest very carefully. In some cases, the best alternative is to start international operations in Latin America since the geographical and cultural proximity provides advantages.

Tigre, a company from Santa Catarina which is well known for its pipes and connections made of PVC, was one of the leaders in the Brazilian construction materials market when in 1995, the then industrial director, Amaury Olsen, became CEO. Olsen, who has been with the company for 37 years, assumed command at a delicate moment. The company needed to grow but Brazil´s civil construction sector was treading water. How did he resolve this question? "With new products and new markets," he said.

As CEO, he oversaw the creation of an action plan which led to a vigorous expansion which began in 1997 when the company bought Fanaplas, a Chilean manufacturer of PVC pipes. Over two years Tigre got to know the local market intimately and concluded that it needed more muscle to gain scale. As a result, the management decided it was time to buy up another three Chilean companies in the sector. By doing so, Tigre ended up with a 41% share of the local market.

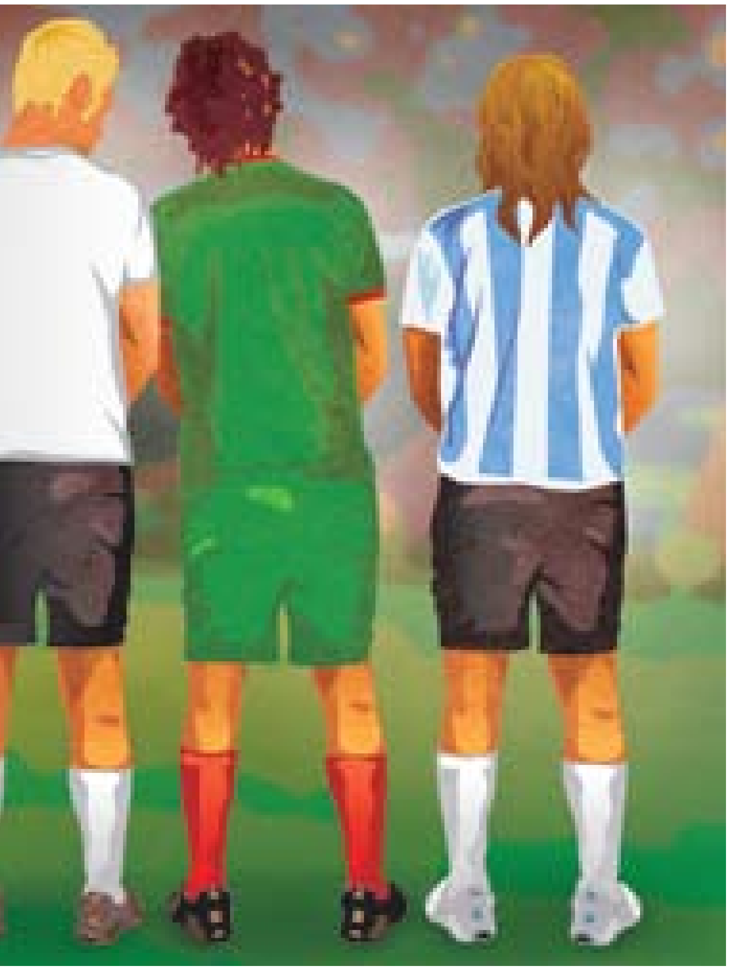
At this time, Tigre extended its talons in the direction of a closer neighbor. In 1998, it inaugurated a plant in the town of Pilar, in Argentina. The following year, it bought another company, Santorelli, and gained 27% of the market. In 2000, Tigre bought the then leading

ALLIANCES AND JOINT VENTURES MUST BE FORMED WITH LOCAL PARTNERS

Bolivian company, Plasmar, which had 70% of the local market. The choice of Latin American countries was a deliberate one. "They are closer to us in terms of culture, behavior and way of doing business. This was a case of thinking global and acting local," says Olsen. The company is opening a plant in Ecuador and another in the United States. "All our biggest competitors are on the US market," Olsen added. "It is a very competitive market and we intend entering it very gradually."

5 **Form alliances and joint ventures with local partners.** This reduces the cost of learning to operate in countries with their own habits, preferences, laws and business practices.

Around 30 years ago Brazil underwent the final spurt of the "economic miracle", the development cycle produced by the military government. The main construction companies pursued projects abroad and many tried their luck. None was as successful as Norberto Odebrecht from Bahia. "Civil construction was going well in Brazil but at that time the company understood the need to pursue clients abroad to achieve the growth it wanted," says Fernando Reis, one of the directors of Odebrecht´s international area. The company began looking for clients in other countries and has not stopped since then. Its latest conquest was a US$ 5 billion contract to expand the Panama Canal as the leader of an international consortium. Odebrecht is working in 20 countries today and has the same approach everywhere it is present: to be a construction company and investor in infrastructure.



> It is a proven fact that companies which have gone international are more flexible and carry less risk, since they operate in more than one market
>
> José Roberto Mendonça de Barros

The other side of this story is as follows: Odebrecht´s international range requires it to fit in with two dozen different kinds of legislation and cultures. In the United States, it is working on the reconstruction of dikes in New Orleans which were damaged by the floods during hurricane Katrina in 2005. In Venezuela, it built a hydro-electric plant and two lines of the metro system in the capital, Caracas. In Iraq, it is taking part in the reconstruction works in Baghdad. Wherever it operates, Odebrecht gives priority to Brazilian suppliers of input and equipment, such as cranes and diggers. "Exporting services is different from exporting goods. You have to be on the spot to experience the situation," Reis says. To orient itself in such a complex situation, Odebrecht chose to form partnerships and joint ventures with local companies. In New Orleans, for example, it has an association with Johnson Brothers, a local construction company.

6 **Speed in acquiring new skills and abilities.** The bus chassis manufacturer Marcopolo, founded in 1949 in Caxias do Sul, in Rio Grande do Sul, entered the international market step by step. However, with every step it took care to learn everything it could about the new markets it had conquered. The company has been exporting parts since 1960 and reinforced its position abroad in the 1980s when it

opened a plant in Portugal and from 1994 when it entered a joint venture with a Mexican company. It began producing chasses for the American market.

To learn about the new markets and serve them with the speed they required, Marcopolo took a decision to learn the best production techniques with the best producers in the world. Incidentally, learning is an old habit at Marcopolo. In the 1980s when the companies all over the world, were overawed by the efficiency of Japanese working methods, it had already sent its directors to Japan to learn the new systems which would be incorporated into its production line. This was only the start. To attend the US market, the company had to submit to the requirements of the US Transport Department. These are regarded as the most demanding in the world and the company took advantage and applied most of them to buses produced for other markets. The company learned with the world but knew how to guard its knowledge. "Marcopolo concentrated the entire innovation process in Brazil where it could depend on a team of more than 500 employees in the engineering area," says Professor Ângela da Rocha, of the Federal University of Rio de Janeiro who has made an in-depth study of the company.

Like every other large company, Marcopolo also keeps its eyes open for opportunities in Asia. To get to know the market, Marcopolo opened a commercial office in China. Creating a close relationship with the consumer, understanding the local system of supply and the political environment are among the goals set for this office. The company´s history suggests that it will have no difficulties in achieving them.

A GLOBAL BRAND HAS TO BE CREATED

7 **Construct world-class operating standards, management model and technology at home before going abroad.** Brazil´s biggest steelmaker, Gerdau, already had a vast experience of Brazil when it made its first cautious step in the process of becoming international in 1980. That year the company bought a small plant in Uruguay. Gerdau held a very strong position in the finished steel products sector and had a good reputation for the excellent quality of its products. The group, which originated in the south of Brazil, knew how to turn the main disadvantages of working in Brazil into advantages in its favor. It relied heavily on the its management model and experience during the years in which, like all Brazilian companies, it had faced the harsh economic reality of uncontrolled inflation, high interest rates and one of the most complex tax system in the world. The management system applied in all its units throughout the world is published in a document known internally as the GBS (Gerdau Business System). The results show that the learning process was consistent. Today the company has a secure position among the 15 largest steel producers in the world. Most of its plants are located outside Brazil. Last year alone, it acquired Sidertul in Mexico, Inca in the Dominican Republic, Sizuka in Venezuela and SJK in India. It expanded its presence in the United States with the acquisition of Chaparral Steel.

8 **Openness to new ideas and willingness to correct mistakes.** In the 1990s, Companhia Vale do Rio Doce was still a state-owned mining concern when it decided to intensify the diversification of activities started some years earlier with the production of aluminum and other businesses. It acquired large stakes in big steel companies put up for sale by the government, such as Usiminas and CSN. The companies were being transferred to private initiative but CVRD also decided to invest in these operations. In 1997, when Vale itself was put to auction, the consortium led by one of these companies, CSN, won the auction and assumed control of the mining company. This caused a confusing situation as CVRD was one of the owners of its parent company. Many of those involved with CVRD wanted to know whether, at the end of the day, it was a mining or a steel company.

In 2001, only four days after the privatization, in a process directed personally by the current CEO of Vale, Roger Agnelli (who at that time had been defending the interests of Bradespar, CSN´s main partner in the mining company), the shares were separated. CSN followed its path as a steel producer and Vale went its way as a mining concern. "At that moment the partners took a strategic decision," said Guilherme Stoliar, the company´s planning director in a recent speech in Rio de Janeiro. For those who did not know what Vale actually was, the company launched an international campaign to attract new shareholders and made it quite clear in the words of its presentation that: *"We are a global mining company"*. There could be no more doubts. The company had made the option clear by becoming one of the most diversified mining companies in global terms. The purchase of almost 76% of the capital of the Canadian nickel miner, Inco, transformed Vale into the second-largest mining company in the world after the Anglo-Australian group BHP Billiton.

> **"Studying the prospects and getting to know the details of each market is essential**
>
> Ordélio Sette, lawyer

9 **Develop global talents and take pains in training employees before starting operations abroad.** This is definitely one of the most important steps and should be handled carefully. When Tigre was preparing itself to move into other markets, it invited its own workforce to apply for the selection process for the international positions. Of the 4,350 staff who applied, 19 passed the battery of tests which evaluated linguistic ability and the technical and administrative skills required to assume such positions. "Our philosophy is to invest in our in-house assets," says CEO Olsen who added that the company´s policy is to keep a Brazilian in command of the international subsidiaries.

It is same with the largest companies. The construction group Odebrecht, which has a battalion of almost 1,000 Brazilian spread around the world, regards professional training as one of its main challenges. "When a professional moves from the working environment in Brazil he has to change the software but when he moves countries, he has to change the operating system," says director Fernando Reis.

10 **Create a global brand.** This is perhaps one area where Brazilian companies have made less progress in the process of going international. Natura cosmetics, Havaianas sandals, Sagatiba cachaça and some others are rare examples of firms which have gone abroad with their own brand. In the case of Natura *(see more on the company in the box on page 82)*, the strategy to become recognized abroad was outlined in 1999 when it developed an international strategy with the creation of the South America division and the start of operations in Argentina. "We took one of our best executives to Buenos Aires and made a heavy investment in recruitment, marketing, consultants and communication," says Rodolfo Gutilla, Natura´s director of corporate affairs and government relations. The driving force in the company´s international expansion is the Ekos line which has 80 items, including oils, foam products, gels and creams. The line gains its value from the image of Brazil, combining colors, fragrances and textures. Its differential lies in the sustainable use of the riches of Brazil´s biodiversity and the knowledge of the people who have inhabited the forests for centuries. In other words, the company is discovering that when it comes to selling Brazil abroad, nothing helps more than the image of the country itself. ▮

Chasing the Chinese El Dorado

By linking up with Hong Kong-based Prime Success, Brazilian footwear company Arezzo is smoothing its entry into the Chinese market. But it will still need competence to face chronic legal, labor, supply and bureaucracy problems **BY JULIANA VALE, IN BEIJING**

There's a pretty common impression that China is a dragon just waiting to breath fire at the world, but some Brazilian businessmen are discovering that it can be an excellent ally. It's a remarkable change, given the fright that Chinese manufacturing efficiency has given everyone. After all, who can compete with a country where labor costs are just half the pay-rate of Brazilian factories, and the working week lasts 56 hours? As the panic subsides, however, the logical answer tends be one of pragmatic acceptance: "If you can't beat them, join them." And what more and more Brazilian businessmen are discovering is that setting up a factory in the Asian giant can generate significant advantages. China, today the world's great manufacturing hub, is also emerging fast as the most promising of all consumer markets. Every day, there's a larger and larger army of people desperate to throw off the decades of isolation and standardization imposed by the communist government and just buy, buy, buy.

Some Brazilian footwear makers have heard and understood the message. Hunkered down at home under an avalanche of cheap shoes made on the other side of the world, companies decided to go on the offensive. Azaleia closed a factory in Rio Grande do Sul State in December 2005 and opened up in Dong Huan, southern China. Now, they're being followed by Arezzo, which announced it would open not just a footwear factory in China but also 300 shops, under a franchise agreement with the Prime Success International Group of Hong Kong, currently one of the sector leaders in the Chinese market.

"Any company that plans on having a global presence simply has to be in China," said Arezzo founder Anderson Birman. And not only be there, he stressed, but also be prepared to keep step with the frenetic growth of the market. The figures give a hint of the size of the project. In ten years, Arezzo plans to be billing US$150 million with its brand positioned at the top of its Chinese market segment, selling for a unit price greater than that currently practiced in the Brazilian market – in stores in São Paulo, Rio de Janeiro and Belo Horizonte, Arezzo shoes currently sell for around US$150, on average.

At the same time, Birman is betting that other opportunities will

Chinese consumer window-shopping in Shanghai: brand is the most important factor when choosing shoes


HUAJIAN

arise to speed up the company's internationalization. "At first, our shoes will be available in China as imported products, but the idea is that within two years they will be made locally," he said. "This means we will also be able to supply other markets where the import tariff for products made in China is lower than for the Brazilian-made equivalent."

Softening the blow

Arezzo's future partner, the Prime Success International Group, is one of the best associates that the Brazilian company could have wished for in China. The Hong Kong company holds exclusive rights in the Chinese market for top international brands such as Adidas, Daphne and Shoebox. However, in line with local custom, Prime Success declined to comment on its new partnership. The silence is market-driven and can be traced to the fact that as a company listed on the Hong Kong stock exchange, it must respect conditions of confidentiality.

Anyone who knows China will be aware of the long road ahead for Arezzo. "Only people who work here really understand how the Chinese do business," said Sergio Ribas Câmara, assistant manager of the Banco do Brasil in Shanghai for the last five years. It can take two to three years to close a deal between Chinese and foreign partners, depending on just how ambitious the project is.

Having a local intermediary is fundamental for success. This explains the proliferation of "China entry" companies that help foreign investors get started. The Oping Group of Shanghai, for example, seeks to smooth the way in by offering newcomers legal, fiscal and administrative advice. Sit Sei Wei, a partner at Oping, said that Arezzo is starting with an advantage: "As the design of Brazilian footwear is amply recognized internationally, the Chinese consumer – who tends to copy foreign trends – may well be open to accepting the product rapidly."

Additionally, while the Arezzo product is priced above the average for the Chinese market, it nevertheless sells for just a tenth the cost of the most prized brands like Spain's Manolo Blahnik or Italy's Bruno Magli. "This means that Arezzo will target the middle class, which would like to consume style and brand, but today only has access to style without brand," Sit said.

For Zhang Hua, veteran editor of the Chinese fashion magazine Rayli, Arezzo will also gain from its "fast fashion" strategy of bringing out novelties weekly. "For the high-income Chinese consumer, brand is the first and most important factor when choosing shoes," Zhang said. However, the most exclusive brands don't tend to offer a great variety of models in their collections. This means there's a good chance Arezzo can win customers through its constant flow of new designs, she said.

While it's true that China has a population of 1.3 billion, today "just" 350 million of them can buy shoes. "You can forget about the rest for now," Zhang said. The number able to buy shoes will grow, of course, but it will take time. Arezzo will target a segment of consumers who are basically young, urban and interested in new products, and who look on consumption as a confirmation of status. "On average they buy one or two pairs of shoes per season. But people who are more attuned to fashion might buy 20 pairs a year," Zhang said.

In China, as in the world's other large consumer markets, the big spenders are in the 20 to 30 age range. The difference is that in China the number of consumers in that bracket is huge, 11 times larger than in Japan, for example. The previous generation was more or restricted to products made in China, with no imports and no idea about fashion in other countries. Clothes were ubiquitous gray tunics – virtually uniforms. Following the economic reforms and the invasion of foreign brands, the Chinese elite has become just as fashion conscious as the well-heeled of New York, London or Paris. The rhythm is such that Ernst & Young, a US consultancy, predicts that in 2015 China will represent 29% of global consumption of luxury items, ahead even of the United States. Certainly a market to be part of. ▮

THE FASTEST WAY TO CHINA

CHINA HAS SEEN a constant flow of Brazilian businessmen interested in sniffing out deals and seeking to get rich quick. "Many end up frustrated because they aren't prepared to operate in a country with enormous bureaucracy, where laws change constantly, labor is underskilled and suppliers neglect delivery dates and quality," said Pei Liang, secretary-general of the Franchising Association of China. Following are Pei's ten key recommendations of what the foreign businessman who wants to unlock the mysteries of the Chinese market should do before starting:

1. **STUDY THE MARKET** in detail and define a niche. Don't fall into the trap of trying to sell to 1.3 billion people.
2. **INVEST HEAVILY IN MARKETING.** High-income Chinese consumers pay more attention to a well-known brand than to price.
3. **CLOSELY CONTROL EVERY STEP OF PRODUCTION** to ensure products have the required quality.
4. **INNOVATE IN DESIGN** and use advanced technology to avoid being swamped by pirates.
5. **FOR FOREIGN BRANDS** and products, choose Chinese names that are easy to pronounce and have positive connotations.
6. **USE A COMBINATION OF CHEAP LOCAL LABOR** and specialized man-power, normally expatriate.
7. **BE PATIENT.** Expect negotiations to last years.
8. **PARTICIPATE PERSONALLY** in key negotiations and cultivate social relations.
9. **CONTRACT LOCAL INTERMEDIARIES** who can provide consultancy in various areas during the start-up period. Be aware that China is a different world. Don't try to understand it by yourself.
10. **BE AWARE** that, if you decide to take the plunge, you must think big. When a product goes well, the demand is always measured in millions and millions. Make sure you can handle the volume.

VIVI ZANATTA / AE

Beef cattle: the world is discovering the Brazilian way of producing beef

A Stampede for Major Markets

Brazilian meat packers are pulling out all the stops in a billion dollar bet to conquer the world. Success relies on an efficient home base and an aggressive strategy of international M&A to gain market access **BY MARCELO CABRAL**

Some years ago Sadia, Perdigão and other leading Brazilian poultry producers launched an onslaught on the global market for chicken and chicken cuts. Now the country's meat packers are following firmly in their footsteps and introducing the world to the flavor and quality of Brazilian beef. Exporters notched up international sales worth almost US$4 billion in 2006, making beef Brazil's second ranked agricultural export just behind the soy complex – beans, flour and oil – and recent months have seen major Brazilian beef producers take the next great step with an impressive series of international acquisitions. Market leaders JBS-Friboi, Bertin and Marfrig all now have significant operations outside of the country.

Brazil's *rodizio* or "all you can eat" barbecue restaurants have spread like wildfire in recent years and are introducing the international public to the Brazilian way of meat-eating. Now, the expansion by producers will demonstrate how Brazilian meat packers do business.

The transformation in the sector shows every sign of being definitive. Essentially, buying foreign assets represents a well-planned strategy on the part of the companies to overcome the biggest hurdle they face in their international expansion, namely the simple fact that they are Brazilian. While Brazilian grazing lands offer exceptional productivity, they are subject to sanitary restrictions that hamper meat packers' access to the United States, Canada, Mexico and other important world markets. Foot and mouth disease is a constant threat in Brazil, and whenever there's an outbreak, meat packers face new restrictions. The Brazilian Beef Export Industries Association (Abiec) calculates that a series of embargoes still excludes Brazil's meat packers from more than 50% of the global market.

"This is our Achilles Heel, the country needs to invest urgently in sanitary defense against foot and mouth disease," said Ricardo Cotta Ferreira, technical superintendent at the National Confederation of Farming and Ranching (CNA).

The situation may still be far from perfect, but it's getting better. A little over a decade ago, when the Brazilian meat industry was struggling even to offer a regular, reliable supply for domestic demand,

HANDOUT

none of the meat packing companies was capable of competing internationally. The sector exported some US$400 million a year, or not much more than one tenth of the current amount.

Today, Brazil boasts the world's largest commercial beef herd, with over 200 million head, and holds a dominant position in some major markets for fresh (non-processed) meat, not least of them Europe.

"Brazil enjoys two key competitive advantages over other producing countries," said Álvaro Cyrino, a professor in the Internationalization Nucleus at the Dom Cabral Foundation, a business think tank in Belo Horizonte. "The greatest of these is having the world's lowest cost for beef production," he said, citing factors such as widely available low-cost labor, low-cost grazing land and a climate that favors large scale ranching. Overall, Brazilian beef is around 40% cheaper than the world average.

The second advantage, Cyrino said, is what Brazilian producers call the "green cow" – *boi verde* – by which they mean cattle that are 100% pasture-fed.

Strange as it might sound, given the problem of commercial barriers imposed by rich countries through fears of foot and mouth disease, Brazil has become the world's top meat exporter in part because of a much more serious sanitary problem – Mad Cow Disease, or bovine spongiform encephalopathy (BSE). In countries such as the United Kingdom, where the disease was first detected in 1986, cattle was fed ration containing products of animal origin. This was a great factor in spreading BSE. The disease led to the wholesale slaughter of European herds but left Brazil untouched, and the fact that Brazilian herds are fed only with vegetable protein makes the meat perfectly safe.

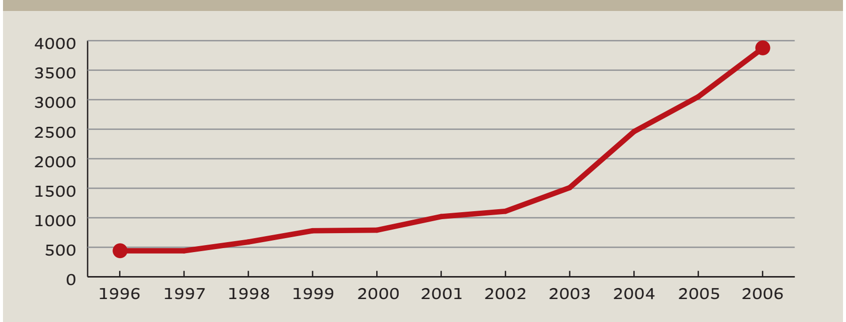
Pioneering example

This advantage was fundamental in helping the Brazilian meat industry reach the point it's at today. From here on, though, the challenge will be to move into the choicest parts of the world market. Meat packers are now doing essentially what Sadia, Brazil's largest meat processor, started doing last year. The Santa Catarina-based company, a 1960s pioneer in the chicken export business and today selling into over 100 countries, became the first Brazilian food company to set up a production unit outside Brazil, in Kaliningrado, Russia, in partnership with local company Miratorg. Not to be left behind, Sadia's major Brazilian competitor Perdigão this year acquired British firm Plusfood whose hamburgers, nuggets and grilled meats enjoy a wide market in various European countries.

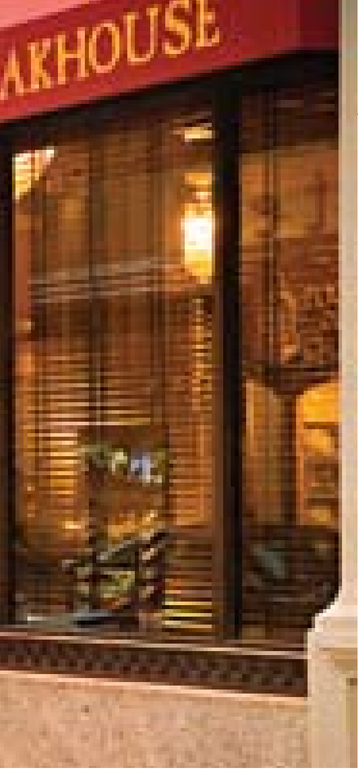
The two Brazilian poultry giants are driven by the common desire to expand their markets. And the meat packers? "Two factors make this form of internationalization an inevitable step," said CNA's Ferreira. "First, our domestic market has now reached consumption levels that are pretty close to those of countries which are more economically developed than Brazil. This means that to

Prime meat

Growth of Brazilian meat exports – US$ millions



SOURCES: CNPC E SECEX



EPITÁCIO PESSOA / AE

Global success: first it was Brazilian barbecue restaurants, now Brazilian meatpackers are conquering the world

keep on growing, companies must look abroad for new customers." But if Brazil is already top exporter to the majority of world markets, where can it seek new business?

The answer of course lies in countries that currently place restrictions on Brazilian beef. "This is the second factor," Ferreira said. "It implies buying companies in places that can export to Asia and the United States."

Money to finance acquisitions has been no problem. Over the last year JBS-Friboi, Marfrig and Minerva, another major Brazilian meat packer, have all gone public. Money raised on the stock market has been devoted to expanding abroad. And recent indications are that rival packer Bertin, headquartered at Lins in upstate São Paulo, will follow suite.

In fact, the Bertin Group already operates internationally in the leather sector with a tannery in Guandong Province, China, held in partnership with a local company.

The first international foray by a packer as such came in August of 2005 when JBS-Friboi bought three plants from Swift Armour, the largest beef exporter in Argentina. Then, the company bought another two plants from the *Companhia Elaboradora de Produtos Alimentícios* (CEPA), so becoming the leading company in Argentina, a country known worldwide for the quality of its meat.

Marfrig was next to join the hunt with a series of foreign acquisitions, snapping up in the space of just a few months Argentine Breeders & Packers and Uruguayan meat packers Tacuarembó, Elbio Perez Rodriguez e La Caballada. Overnight Marfrig became the largest company in Uruguay in terms of slaughter and exportation. Bertin is also active in Uruguay, following its 2006 acquisition of the Canelones meat packing company. Lying behind these acquisitions is the fact that all these countries are licensed to export fresh beef to markets in North America.

Acquiring companies in Mercosul also allows for breeding of European cattle, which are more suited to the colder weather. "In Brazil, the majority of cattle are Zebu, while in Argentina and Uruguay ranchers can work with European breeds. These produce marbled meat (where more fat is interlaced with the muscle tissue) so improving texture and flavor," explained José Vicente Ferraz, director of the FNP consultancy. "Meat of this type sells for a far better price on the world market."

A final advantage is that companies located in these countries enjoy much larger Hilton quotas than their counterparts in Brazil – Hilton quotas determine the volume of prime cuts that can be shipped to Europe at a reduced tariff. Argentina for example has a total annual Hilton quota of 29,000 tonnes, while Brazil has just 5,000 tonnes. This means that acquiring companies in these countries represents guaranteed profit for the Brazilian packers.

World leader

The same logic applies when analyzing the largest and most recent JBS-Friboi acquisition, paying US$1.4 billion in May for US company Swift Food to create the world's largest beef company with operations in the United States, Brazil, Argentina and Australia. Together, these countries represent almost half of the beef produced in the world.

"From the strategic point of view, this was a far-sighted move," said Dom Cabral's Cyrino. "The company now controls direct access to the American market, the largest in the world, where previously it had no way of direct entry." According to one food industry executive, the implications go much further. Before the end of last year, JBS-Friboi bought SB Holdings, an American distributor of processed beef products, thus gaining access to wholesale and retail distribution channels in the US market. This means that the group will control all the links in the chain – production, processing and sales. An extremely well-thought-out strategy, undoubtedly. ▮

India shows the way

Brazilian IT companies will need to hire at least 100,000 English speakers per year just to match potential growth of the market, currently dominated by Indian companies **BY LIA VASCONCELOS**

Stefanini IT Solutions is nothing if not ambitious. Just consider the goal this business management software producer has set for itself – growing from 2006 billings of US$150 million to no less than US$750 million by 2011. In other words, a five-fold increase in turnover in just five years. At first sight that might seem excessively ambitious, and if we factor in that the company took 20 years to reach its current size, it looks even bolder. Can Stefanini reach that new target? Judging by the company's track record, and by the market opportunities it faces, the answer is yes.

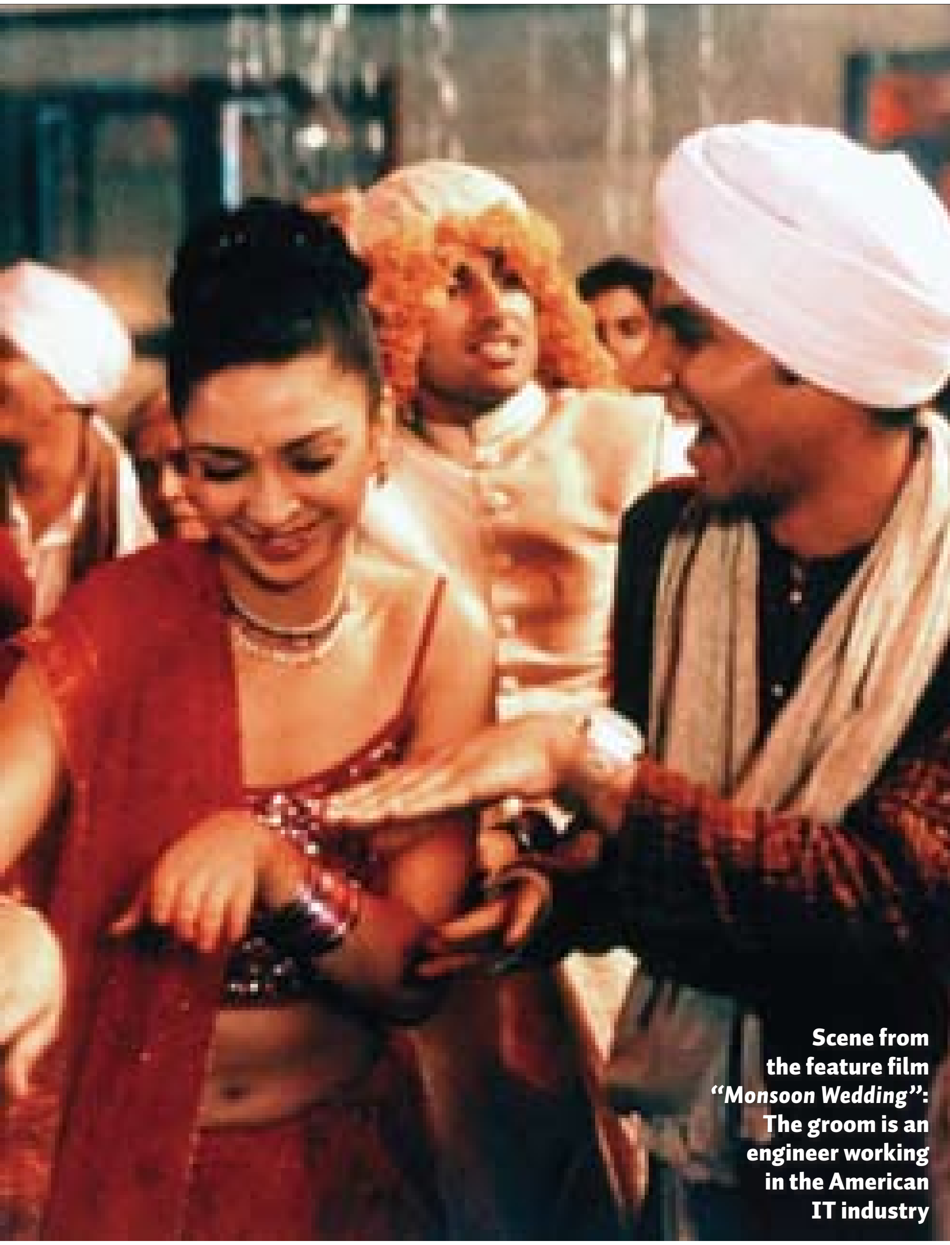
The company has never stopped growing since founder Marco Stefanini set up shop in 1987, working out of a spare room at home to service his first few clients. Today the client portfolio boasts 420 companies, with 4,500 collaborators spread throughout Brazil. Moreover, Stefanini has expanded into Argentina, Chile, Colombia, Peru, Venezuela, Mexico, the United States, Spain, Portugal, Italy, the United Kingdom and India. But there's only one way to keep on growing so quickly, and that's by continued concentration on international markets. And that's exactly what the company plans doing.

Cases like this are still pretty rare in the Brazilian IT sector, but it's for that very reason that they attract so much attention. A recent study showed that 46 of the 50 largest Brazilian software companies draw at least 90% of their revenue from the domestic market. Just four had international billings above the 10% level. The study, carried out jointly by the Association of IT, Software and Internet Companies (Assespro), IT sector research specialists MBI and the São Paulo Software Technology Institute (ITS), points to good news and bad news for the Brazilian market, where annual billings now stand at around US$7.7 billion, making it the seventh largest in the world alongside China and India. The bad news, according to the study, is that Brazilian companies still have a only paltry presence in global IT markets. The flip side of the coin is just how much space they have to grow.

Brazilian companies must work hard if they are to improve their showing in international markets, and one of the first tasks is to change global perceptions of Brazil. Too many people still think of the country as basically an exporter of raw materials, principally food and minerals. The challenge is to win recognition as an IT supplier.

To grow and to expand abroad is not an option but a must

"Brazilian companies have got to prove that they have what it takes to compete in this field, and that implies substantial investment," said Luis Cláudio Kubota, a researcher at Brazil's prestigious Institute for Applied Economic Research (Ipea). For Antonio Gil, president of the Brazilian Institute for Digital Convergence (IBCD) and the Brazilian Association of Software & Service Export Companies (Brasscom), it will require coordinated action to convince the world of Brazilian competence. "We have to mobilize



Scene from the feature film *"Monsoon Wedding"*: The groom is an engineer working in the American IT industry

the sector around the common objective of selling Brazil as a global brand," he said.

In addition to promotion campaigns, Antônio Gil dreams of the day when Brazilian TV soap operas might include characters who work in IT companies. After all, this already happens in Indian "Bollywood" films. "India is one of our major competitors, and the films that are made there always feature people working in this sector. So why can't Brazil have soap opera stars who are successful in the world of software?" Gil asks, perhaps not unreasonably, given that Brazil now sells TV soaps to dozens of countries.

In the 2001 Bollywood hit *Monsoon Wedding*, for example, which won director Mira Nair the Golden Lion at the Venice Film Festival, bride-to-be Vasundhara Das is due to marry an Indian engineer who lives in the United States.

Following the Indian example and enlisting the support of soap opera stars could be a big help, but Gil himself recognizes that it will take more than that. Promotion must go hand in hand with major investments in training to build the workforce that can supply the market. Projections suggest that the Brazilian IT sector could be exporting US$5 billion a year by 2010, but that this will only happen if at least 100,000 fluent English speakers can be trained per year. "The fundamental question is whether Brazil wants to be a truly global player or just watch from the sidelines," Gil said.

It's a fair question. After all, missing out on a business sector that is daily more important within the global economy means letting slip a golden opportunity, at the very least. Data from the Organization for Economic Cooperation and Development (OECD) suggests that the world software market grew from US$90 billion in 1997 to around US$300 billion in 2001, and is heading for around US$900 billion in 2008. Cross border IT outsourcing is also tipped to grow exceptionally fast. In 2004, according to AT Kearny, a consultancy, global outsourcing of IT services was worth US$607 billion with growth predicted at 6% a year through 2008. The global IT market as a whole could reach no less that US$1.2 trillion in 2008, the study said.

This is the size of the market that awaits companies with the competence to compete on the global stage. And this is the big picture that lies behind Stefanini's expansion plans.

"We must become more and more global if we are to survive in a market where our main competitors are global companies," explained Ailtom Barberino do Nascimento, director of cross border outsourcing for Stefanini. "We want to become just as competitive as our leading competitors." According to Nascimento, the mere fact that a company is taking steps to face off as an equal against rivals that already enjoy global presence and standing means that the company is concerned about growing and becoming more mature. This also makes sense. "There are many impediments to Brazilian companies that are seeking to internationalize. First, they have to sell Brazil as a country with technical competence in IT. Next, they must build their brands. And only then can they start to sell services," said Nascimento. Today, just 20% of the company's revenues are generated outside of Brazil. The goal is to increase this to 50% of billing by 2011.

A quick survey of Brazilian companies shows that they have more than one path to international markets. Datasul, for example, which also produces business management software, has chosen to use franchising to allow interested companies to sell its products outside Brazil. During 10 years of international activity the company has entered into 41 partnerships, with a subsidiary in Mexico and development and distribution units spread throughout Argentina, Chile and Colombia. The Joinville, Santa Catarina-based company today has clients throughout Latin America, the United States and Canada, with international operations generating US$95 million in 2006, representing 5% of total

Antônio Gil: "We need a concerted effort to promote Brazil as a brand"

HANDOUT

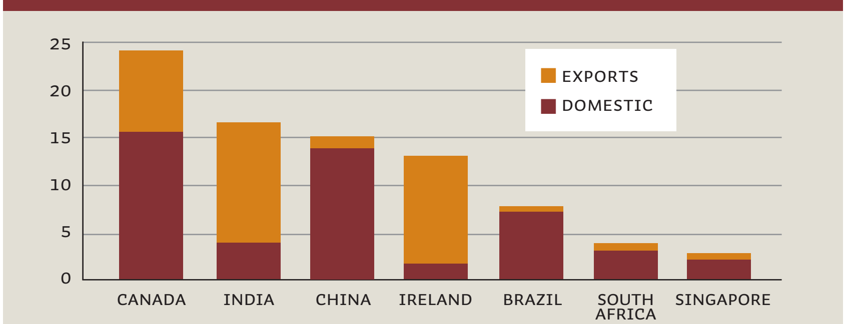
company revenue. According to studies by the Dom Cabral Foundation, which measures the competitiveness of Brazilian companies *(see story on page 37)*, Datasul ranks 19th among Brazilian companies in terms of its international presence. "For a company that has just recently floated its capital (on the São Paulo stock market), or for any company that wants to grow, going international is not an option. It's a requirement," said Paulo Caputo, director of New Business at Datasul.

One mistake that Datasul made in the early days of its internationalization process was to select only Brazilian executives to operate as salesmen in foreign countries. It simply didn't work. Professionals from the countries concerned don't face linguistic or cultural barriers, and so tend to be more efficient for an operation of the kind run by Datasul. The Totvs Group – previously known as Microsiga – came to the same conclusion. It set up its first international operation in Argentina using only Brazilian staff, but results were disappointing and the company learned its lesson. "It's essential to think globally but act locally," explained José Rogério Luiz, the group's financial vice-president and director for investor relations. Totvs, a company known for its management systems, today employs just five Brazilians among the 140 staffers in its Mexico operation.

Understanding cultural differences is the key to success for any company with international ambitions. That, at least, is how Humberto Luiz Ribeiro, business vice-president at Politec, sees the world. The company, headquartered in the federal capital of Brasilia, notched up 2006 billings of US$250 million. Today present in the United States, Japan, China, France, Germany, the United Kingdom, Belgium and India, the company understands that negotiating with partners requires different tactics in each of these countries. In Japan, for example, deals come to maturity slowly and will be done only after a long process of confidence building. "The Japanese visited our offices various times and repeated the same questions," recalled Ribeiro. "Our first deal with them took a year and a half from the first contact through to closing." In the United States, things are different. "The Americans look for the bottom line. If that's favorable, then the deal can be closed quickly," he said. In other words, different tactics for different markets. But always with the same company identify. ▮

Big-League Competition

Size of the main markets for software and IT services – 2003, US$ billions.



SOURCE: AT KEARNEY

With the World in Their Sights

Braskem wants to be a global petrochemicals player. Venezuela is the starting point

COSTÁBILE NICOLETTA

The moves that Braskem, the powerful petrochemical arm of Brazil's giant Odebrecht group, is planning for the next few years should leave no one in any doubt: the company aims to become a leading player on the global stage. What's the secret weapon beyond this strategy? South American partners with a wealth of natural gas, one of the sector's most important raw materials. The company's main target is Venezuela, where it has announced a series of projects. Brazil's northern neighbor has natural gas reserves so large that it has every chance of becoming one of the world's most competitive producers of polymers. But the factors that led Braskem to look to Venezuela don't stop there. Besides having a domestic market large enough to absorb a good part of what is produced with this raw material, the country also enjoys a privileged geographical location to export to the United States.

Under a partnership with Petroquímica de Venezuela (Pequiven), Braskem plans to pour US$3 billion in investments into Venezuela. The money will be directed into two projects, both in the natural gas segment. The first, slated to come on stream in 2009, is the installation of an industrial chemical unit with an installed capacity to produce 450,000 tonnes of polypropylene, a resin with multiple applications that serves as raw material for products ranging from disposable plastic cups to auto parts. Slated for 2011, the second project is the construction of a petrochemical complex that will have as its nucleus a basic inputs center, with an installed capacity for 1.3 million tonnes of thermoplastics including polyethylene, a product widely used in packaging.

According to Jose Carlos Grubisich, president of Braskem, plans don't stop at that. The projects with the Venezuelans also entail a complex of plastics companies that would be installed next to the petrochemical complex to produce polypropylene and polyethylene. "Many Brazilian companies that are already our clients have shown an interest in participating in the plastics complex," the Braskem president said. This group of companies would meet local Venezuelan demand and also compete for the coveted US market, today supplied largely by Chinese producers. By Grubisich's estimates, when its two partnerships with Pequiven are on stream as of 2011, the United States will be major importers of plastic

JEFFERSON COPPOLA/FOLHA IMAGEM

Braskem's Grubisich: In search of natural gas reserves

products. "With cheap raw materials and cutting-edge technology, we will be able to offer products of an excellent quality at competitive prices," he said.

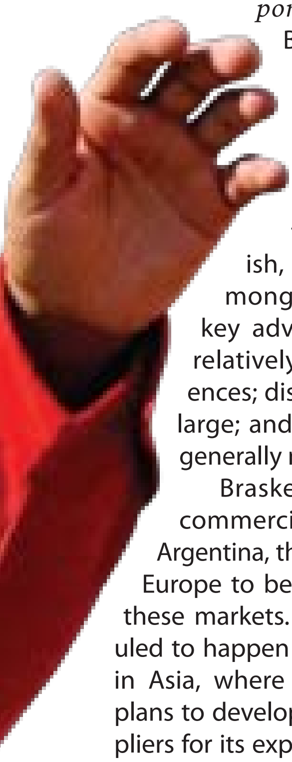
No fear of Chavez

When the subject is Venezuela, it's impossible to completely ignore the "Hugo Chavez factor". The unpredictability of the Venezuelan leader has led many companies to think twice before setting up in the country. But Braskem chose to see things differently. For Grubisich, the political turbulence in Venezuela has not jeopardized the plans made with the government in that country. "We have a very positive relationship with Pequiven," he explained. "Furthermore, these projects have financing from the Brazilian National Development Bank (BNDES) and multinational organizations that will invest only if it's secure." Another point worth noting is that the Venezuelan government is also very interested in maintaining the security of these investments, which are part of the country's long-term strategy to substitute exports of crude oil and gas for sales of higher added value goods derived from these inputs, initially in the form of resins, but later as manufactured plastic items.

Nevertheless, when it comes to planning new production units, Braskem's sights are not set only on Venezuela. The company is also in talks with Bolivia and Peru, although in neither case have negotiations reached such an advanced stage as those with Brazil's northern neighbor. Both Bolivia and Peru

Hugo Chavez: investments are based on a long-term analysis, not just the present situation

CHICO SANCHEZ / EFE / EPA / CORBIS / LATINSTOCK have large reserves of natural gas, the same input that will be used in the partnership with Pequiven. Grubisich lists several advantages to internationalization in Latin America, that go way beyond simple economics. The first is the language, which is one less barrier for expatriate executives. "It's possible for people to communicate without great difficulties even using just a bit of *portunhol*," explains Braskem's president, referring to the *lingua franca* of South America that blends its two principal languages, Portuguese and Spanish, into a widely-used mongrel. Among other key advantages: there are relatively small time differences; distances are not very large; and cultural habits are generally not too dissimilar.



Braskem has installed commercial subsidiaries in Argentina, the United States and Europe to be closer to clients in these markets. The same is scheduled to happen by the end of 2007 in Asia, where the company also plans to develop capital goods suppliers for its expansion in Brazil and abroad. Since it was created in 2002, through the merger of the petrochemical units of the Odebrecht and Mariani groups, Braskem has been preparing to step up its international performance. This includes optimization of installed capacity at factories and buying petrochemical assets like Brazil's Ipiranga in mid-2007. In 2002, the company's exports totaled US$350 million, but had leapt to US$1.4 billion last year. In 2007, they should reach US$2 billion. Certainly a solid starting point for bolder adventures on a global scale. ■

BETTING ON BIOPLASTICS

AT THE END of June, Braskem announced the discovery of new type of polyethylene, a plastic that has been widely used for decades to produce several types of packaging. The new polyethylene is made from sugarcane ethanol, rather than from petroleum derivatives like today's regular variety. Besides being made from a renewable and less polluting raw material, the new material can be used in the same machines that plastic producers currently utilize to manufacture polyethylene articles. The new technology has already been approved by Beta Analytic, one of the most reputable testing labs in the world. By 2009, Braskem plans setting up an initial industrial unit with installed capacity for 200,000 tonnes a year of this "green plastic", and the investment could reach US$100 million. Location of the factory has not yet been decided.

Braskem estimates that the new ethanol-based polyethylene could fetch a price 15% higher than the conventional commodity, given the current world demand for products made from renewable inputs. The automobile, food packaging, cosmetics and personal hygiene sectors are among the main potential clients, according to the Brazilian company. In addition to the profit from "green plastic" prices, the company also stands to benefit from the low prices of Brazilian sugar-cane ethanol – the world's cheapest – to further reduce the costs of inputs. The Odebrecht group, Braskem's main shareholder, announced at the end of June that it will invest R$5 billion to become the largest sugar and ethanol producer in Brazil within eight years.

However, a guaranteed ethanol supply for Braskem does not mean that the company will necessarily reign alone in this segment. US giant Dow Chemical is following the prevailing market tendency to try to cut back its petroleum dependency reign and recently announced a partnership with Crystalsev, a large Brazilian company in the sugar and ethanol sector. The deal involves investments of US$1 billion to create an integrated ethanol-chemicals complex, producing chemical products from a sugar-cane ethanol base. When fully operational in 2011, it will have an installed capacity for 350,000 tonnes of polyethylene annually.

Dow's ethanol-chemical complex will produce 350,000 tonnes of polyethylene when it becomes fully operational in 2011

During the 80s, Brazil developed a vibrant and cutting edge ethanol chemical industry as part of a program called Proalcool, in which the government promoted ethanol as a fuel for cars. The major advantage over the traditional petroleum sector was the lower cost of sugar cane compared to the raw materials such as naphtha that are derived from petroleum. However, with the decline of the program in the early 90s, the sector ceased to be financially viable. The new boom in ethanol now promises to change all this, and several chemical or petroleum companies like Oxiteno and Petrobras are currently conducting feasibility studies to resume plastic production using "green fuel".

The Courage of Inexperience

In the 70s and 80s, Brazilian companies ventured around the world in search of the dollars that repeated oil crises had drained from the country **BY ARMANDO MENDES**

Some crises bring benefits. Most Brazilian companies had long been timid, withdrawn and somewhat averse to running risks far beyond the country's well protected borders. But they were forced to change as of the 1970s and 80s, and one of the reasons was oil. At the end of 1973, the OPEC oil exporters' cartel cut production and raised prices. The cost of a barrel shot up from US$2 to US$12. Brazil, which at the time imported 80% of its oil consumption, saw its national coffers depleted.

To reduce the growing gap in its foreign accounts, the country needed to increase its hard-currency income, so the first Brazilian companies set off to do business around the world. The most obvious clients were the oil exporters themselves, countries in the Middle East and Africa which combined great needs with treasuries stuffed full of petrodollars. Brazil could offer products ranging from buses through machinery and services in heavy engineering through telecommunications – new technologies that Brazil had only recently come to dominate in a period of marked growth and major investments in infrastructure.

Mauá: a pioneer of globalization

"We had the courage of inexperience," recalls businessman Roberto Giannetti da Fonseca, who in the 1970s and 80s helped many Brazilian companies get started in Africa via joint ventures with local firms. "In the beginning of the 80s, we had over 100 young Brazilians in their 30s working in Lagos and Kaduna, our bases in Nigeria."

Although they had little tradition of doing business in foreign countries, and without a multinational culture in their company, the Brazilians of Cotia Trading – the company created by Giannetti and his partners for global adventures – took part in what he now calls the "pre-history of internationalization." The Nigerian joint-ventures were not, however, a permanent production base abroad. Investment decisions took advantage of the opportunities opened up through export contracts and the needs of partners.

It was following this path that led Cotia to create another company in Nigeria to build a network of refrigerated cold stores exported from Brazil. The aim was to improve conditions for food conservation, including Brazilian meat exported by the Cotia meatpacking company based at São Roque in São Paulo State. This was the business that first gave rise to the group's interest in establishing operations in the African market.

Brazilian engineering prowess: the Lisbon subway, built by Andrade Gutierrez

The Brazilian meatpacker followed Muslim *Halal* standards for slaughtering animals and shipped the beef to Lagos on Varig Airlines


HANDOUT

freight planes. A total of 525 flights were made on this route. But on arrival, the cargo ran the risk of spoiling for lack of refrigeration. Given the problem, the company began work building cold stores at 79 different construction sites around Nigeria, a country almost twice the size of Spain, for example.

In the end, it all worked out. But the Brazilians who traveled the country to supervise the construction faced various alarming situations. Two engineers were left stranded at a roadside gas station in the desert during a refueling stop when their driver made off with the car, their bags, their documents and their money. The pair arrived back at base after two days hitchhiking, getting hungrier and hungrier. But the driver and car, of course, were never seen again.

Another joint venture with 60% local capital brought Brazil's favorite soft drink *guaraná* to quench Nigerian thirst. A factory was built in Kaduna, in the north of the country, a predominantly Muslim area where alcoholic beverages are rejected. Brazil's Brahma drinks company, now part of Ambev, provided the syrup to make the drink and everything necessary for the operation – machinery, bottles, trucks and technology – was sent from Brazil.

"It was an enormous success," recalls Giannetti. "It was our first big business in Africa." But success was not enough to consolidate the brand in Nigeria. A coup d'état in the 1980s soured the political climate and led Cotia to divest, selling its stakes to local partners. The factory ended up closed and abandoned. But at least one Brazilian stayed in Nigeria: a secretary who converted to Islam and married one of Cotia's Nigerian partners. They had two children and she stayed in Kaduna when the partnership was ended.

Africa was also a testing ground for Marcopolo, a manufacturer of bus bodies located in Caxias do Sul, Rio Grande do Sul State. Marcopolo had been exporting since 1961, when it began selling into Uruguay, a nearby neighbor in South America, but in 1972 the company went a very big step further: it set up a temporary assembly line on the other side of the South Atlantic, to fill an order in the African nation of Ghana.

Nine years later, Marcopolo was exporting to over 20 countries and decided to set up its first permanent foreign factory. "We wanted to sell to the whole world," explains general director José Rubens de la Rosa. "We already had a strong presence here in Brazil and our target was to grow at a faster rate than the organic growth that the Brazilian market could offer."

There was also a fear that the large economic blocs being formed at the time, among them the European Union, would become closed off to trade with countries outside them. The company thus decided to get a foothold in Europe and opted for Portugal, the European country closest to Brazil, both geographically and culturally. Since then it has set up new units in Argentina, Mexico, Colombia, South Africa and most recently Russia and India.

In looking at the world as their market, companies like Marcopolo had to overcome the mentality that Brazil could only be an importer of capital. "We had to get over the notion that as a huge country all investment using Brazilian capital ought to be made here at home," explained Luiz Carlos Carvalho, coordinator of the Dom Cabral Foundation's International Studies Center.

The instability of Latin American countries has traditionally caused some headaches. In what was probably Brazil's first regional capitalist incursion, investor Irineu Evangelista de Sousa, the Baron of Mauá, opened the Mauá y Cia Bank in Uruguay in 1857. But just 11 years later it was liquidated, battered to death by the coups and countercoups of local military commanders.

Back in the 20th Century, the Mexican "Tequila Crisis" of the 1990s rocked Marcopolo's first investment in that country; a technology transfer contract agreed in 1992 with a local firm. The company returned to Mexico in 1999 via a joint venture with Daimler-

Odebrecht: a hydro-power project in Angola

HANDOUT

Chrysler producing 3,000 buses per year. Meanwhile the roller coaster continued in Argentina, where the company arrived in 1997-98 when the dollar/peso fixed parity regime was in place. "We arrived at a good moment and had a couple of great years," recalls Rosa. But the good times disappeared along with exchange parity and the disastrous fall of the La Rua administration early 2002. Marcopolo suffered new losses in the ensuing wave of defaults and without financing, the Argentine factory ground to a halt and did not resume operations.

But all companies suffer ups and downs. Putting that on one side, how were Brazilian investors received when they started hammering on the doors of markets that were traditionally the preserve of rich-country multinationals? The short answer is "with mistrust". Once during talks with directors of Iveco (part of the Fiat Group) over a bus deal for China, a Marcopolo executive overheard one negotiator asking another in Italian, "but why do we have to buy bus bodies from these Brazilians?"

"He didn't know that I understood the language," laughs de la Rosa. "But this type of problem can be resolved in a day. We do it by inviting the foreigners to visit our factories in Brazil."

For Carlos Carabetti, the director of international engineering at the Minas Gerais-based contractor Andrade Gutierrez, there's a golden rule: "You have to put your foot in the door and show that you know what you're doing."

Andrade Gutierrez is another company that was thrust into global markets by the oil crisis and shrinking demand for infrastructure works in Brazil. It began internationalizing in the Congo in 1983, where it built a 135 km highway in a tropical region similar to the Amazon. "We used the experience we gained on the Manaus-Porto Velho highway to carry out this project," Carabetti recalls. But every where it went, the company always found stiff competition. In Africa, French and Belgian companies often dominated the markets of their former colonies. "You have to sleep with one eye open," he said.

Abreu Sodré: adventures in Africa

JUCA VARELLA / FOLHA IMAGEM

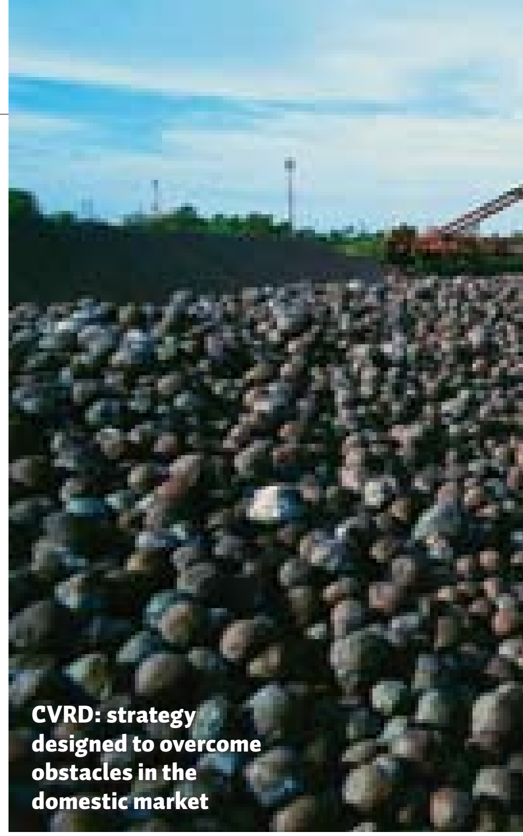
In its first excursions abroad, the contractor learned two important lessons: always enter a new market through partnerships with local companies and always pay attention to cultural differences. Anyone going abroad has to forget how things are "back in Brazil" and learn to live with different habits – like the fact that it is customary for two men to walk holding hands in some African countries. "No one can act strangely if an African grabs a male engineer by the hand while visiting a construction site."

Another Brazilian contractor, Norberto Odebrecht, entered Africa in adverse political conditions. During the Cold War in the 1980s, Odebrecht built the Capanda hydroelectric plant in Angola in a partnership with a consortium from the Soviet Union. The country was governed by the Marxist MPLA, which had fought the Portuguese colonial regime.

The Brazilian company handled the construction works while the Soviets provided the project design and equipment. Cuban troops, allied to the MPLA, fought against invasions by South Africa (still under apartheid) and Unita soldiers, who were attempting to depose the Angolan government with U.S. support. The war twice brought work to a halt. During a visit to an Odebrecht camp in Luanda, Brazilian Foreign Minister Abreu Sodre was reportedly startled by the sound of a fighter plane breaking the sound barrier. "Is it a Mig?" he asked, referring to Soviet fighter planes that equipped the country's air force. "Thank God it is!" responded the vice president of the company. "Because if not, it's an *enemig*."

Wired Into the World

The youngsters now entering the jobs market are just as Brazilian as ever, but they're also global citizens – despite resistance in a country where some people still talk about the world as being "out there" **BY PAULO SOTERO**



CVRD: strategy designed to overcome obstacles in the domestic market

When a group of international relations students from various Brazilian universities visited the Woodrow Wilson International Center for Scholars in Washington last June, I was struck by how different they were, in many fundamental ways, to the group of university students with whom I visited the United States 36 years ago. Coming from cities around Brazil – São Paulo, Campinas, Franca, Brasília, Rio de Janeiro, Goiânia and Teresina – they all spoke fluent English.

More importantly, at no time did they seem cowed by the circumstances or by the people they met in Washington. For over two hours they talked with a correspondent from the Reuters news agency, a well-known specialist in international relations, a representative of the Brazil Information Center and two former officials of the American government who are now working in the private sector. Their questions were perceptive, precise and to the point, leaving one in no doubt that here were young people who – while remaining 100% Brazilian in their outgoing friendliness – looked on life and their personal and professional possibilities as citizens of a global world. A world into which, I might add, they were totally wired.

The 14 young people in the group had been chosen for an intensive program of two weeks in New York, Washington and Boston by Interaction Times, a small company in São Paulo, with help from the Brazilian Council for Foreign Relations (Cebri) in Rio de Janeiro. A few years from now, various of these young people will probably be helping drive forward an ongoing and historic change that started in the Nineties and is transforming the insular Brazil of the past into a country that is more and more integrated with international reality. This is happening despite the resistance, which is natural in a continental nation that developed in an introspective, autarchic manner – a nation where even today people refer to the rest of the world as something "out there".

It is "out there" that many of today's Brazilian students of international relations and similar subjects will look for – and probably find – jobs and opportunities for professional and personal advancement, especially if they round out their education with post-graduated courses in subjects that are relevant to business. For such young people, the global workplace is constantly expanding. Multinational companies are constantly looking to hire qualified professionals from all parts of the world, and in recent years they've been joined by the rapidly growing number of Brazilian companies that are going international in a search for new markets.

Companies understand the significance of the "shock of competition" that comes through globalization

It's broadly accepted that Brazilian companies of all sizes have been expanding internationally for reasons that go way beyond a simple perception that this is a natural course of action in a globalized economy. There are also negative reasons, as President Luiz Inácio Lula da Silva recently summarized candidly when he said that "investing in Brazil is punishment." Lula was referring to the fiscal monster that Brazil has created to satisfy the needs a poor-quality, over-priced public sector that never stops growing in size or inefficiency.

Professor Yoshiaki Nakano of the Getúlio Vargas Foundation, a Brazilian business school, has studied the internationalization of non-

HANDOUT

The global generation: Brazilian students visiting the United States

PERSONAL ARCHIVE

financial Brazilian companies. His conclusion? That giants like CSN, CVRD, AmBev, Gerdau and Votorantim have deliberately accelerated their internationalization as a strategy to "get round obstacles to growth in the Brazilian domestic market." With smaller companies following in their footsteps, they comprise a mosaic of 60-plus companies that understand the significance of the "shock of competition" that comes through globalization and have successfully adjusted to the new demands of the global economy.

For those who still lament the decision of Brazil's new multinationals to invest and create jobs "out there", the consolation lies in the old saying that it's an ill wind that blows no good. In this case, the greater good might be the instructive example these companies provide, ensuring that the Brazil that still resists change is kept in touch with the world's most dynamic countries and regions, and is exposed to 21st Century global imperatives – the need know more about the realities of the world; to train polyglot professionals and executives and to understand the crucial role of innovation in the economy in the information era. Innovation, after all, transforms knowledge into new products, new processes, jobs and wealth.

For those who remain optimistic, who continue to see a promising future for Brazil despite the current mediocrity and feeling of lack of direction that dominates national life, the effect of the international expansion by Brazilian multinationals must give cause for celebration. History shows that Brazil tends to respond positively and better as a country when exposed to external pressures. Brazilian multinationals' overseas activities lead them to demand better education and health, greater agility and competence at home. This is surely a powerful influence. It's also a permanent reminder of Brazil's need to face up to and remove obstacles that today limit economic growth, that preserve the perverse mechanisms that reproduce existing social inequality and perpetuate the destructive national culture of corruption and impunity.

Those who might harbor doubts about the positive impact of the internationalization of Brazilian companies should talk to the young people who recently visited the Wilson Center. They're intelligent, fluent in English, unafraid of the world "out there" and will soon be entering the labor market. ▮

Paulo Sotero is director of the Brazil Institute at the Woodrow Wilson International Center for Scholars, in Washington.

(*)Ana Carolina Monteiro de Almeida, Júlia Moreira Porto and Lucas Stort Bueno (Facamp); Ana Roberta Fávaro and Giovana Araújo (Católica de Goiás); Christian Cerciari, Larissa Karen Matos Gonçalves, Mariana Bonadia Abibe and Marina Rodrigues da Silva Santos (PUC-SP); Fernanda Salles de Mello, Juliana Barroso Bechara and Pâmella Behisnelian (Faap); José Joaquim Gomes da Costa Filho (UnB) and Leonardo Queiroz Leite (Unesp).

The Brazilian J

Brazil seems to win international recognition more for its performance in specific sectors, such as airplane production, ethanol and mining, rather than for its overall progress. Why might this be? **BY LUIZ FELIPE D'AVILA**

ILLUSTRATION: MARCELO CALENDA

igsaw Puzzle

Sometimes it seems like Brazil is completely off the international radar – simply irrelevant. I was lucky enough to spend a year at Harvard's Kennedy School of Government in Boston, with two hundred students from over 40 countries debating and sharing their experiences in the public area. It's more or less ground zero for anyone studying global questions and their relation to public policy. One of the university's best-attended events was the Forum, where political leaders from around the world debate key topics of the moment: global warming and sustainable economic growth; international efforts to curb nuclear weapons proliferation; the war and reconstruction in Iraq; and the challenge facing governments, the market and companies to work together against poverty and social inequality. And sadly, neither Brazil nor Latin America ever figured amongst the Forum's subjects of interest. Whenever this country did merit a mention, it was as a footnote to illustrate some case of corruption, violence or bad government. My distinct impression was that you could have sunk Brazil, perhaps even Latin America, into the ocean and nobody would notice until the next World Cup soccer competition.

Much as Brazil might seem irrelevant as a nation, it's now one of the world's ten largest economies, selling the world jet airplanes, cars and iron ore. It's a top exporter of soy, beef and coffee, and a pioneer in ethanol. Brazilian agribusiness is a global leader. Brazilian multinational companies such as Embraer, CVRD and Imbev are known around the world for their product quality, competitiveness and excellent management, the same characteristics that can be seen in those sectors of the economy that have had to face up to international competition in the Brazilian domestic market. Local banks such as Itaú, Bradesco and Unibanco are successfully fighting for space with global financial giants such as HSBC and Citibank, while national chains such as Pão de Açúcar and Casas Bahia are competing for customers against no less than the two giants of global retailing, Wal-Mart and Carrefour.

Years ago, the fall of a finance minister would have triggered capital flight. Now, markets know the Brazilian economy grows in spite of government inefficiency

The basic truth is that "Brazil business" has moved ahead of "Brazil nation" – the former has become known, competitive and respected while the latter remains irrelevant. This gap was clearly visible in the reaction of financial markets to the political scandals during the first administration of President Luiz Inácio Lula da Silva, 2003-06, when a seemingly endless succession of embarrassing revelations involving government ministers, senior figures in Lula's Workers Party (PT) and even members of the president's family did nothing to stem private sector investment, the growth of exports or the inflow of foreign capital. Two decades ago, the fall of a finance minister or Senate president would have triggered market panic and capital flight: today, investors and markets understand Brazil's economy and companies grow in spite of scandals and government inefficiency.

This gap between the public and private sectors is reminiscent of the adolescent who has the body, voice and appearance of an adult but retains childish attitudes. The general lack of interest in politics and the lack of preparation of many public figures reflects the disdain of Brazilian society for political activity. Lula learned this lesson well, retaining the economic policies he inherited from his predecessor President Fernando Henrique Cardoso while opting for what we might call a populist-PT government in the political-institutional area. The fruits of sound economic policy are now appearing, while the thorns left by the dilapidation of political institutions will be felt only slowly by society. A recent World Bank study showed Brazil slipping back in key governance indicators: since 2000 corruption has worsened, the ability to

impose law has diminished and there has been little progress in reforms to open up the economy, reduce the tax burden and promote infrastructure investment.

Whenever anyone questions the lack of national policies, it's normal to hear indignant voices asking: "If the economy is doing well, what do we need national policies for?" Brazil continues to attract foreign investment, the economy is growing reasonably and the country should shortly achieve investment grade rating for government bonds. But is this gap between "Brazil business" and "Brazil nation" sustainable? The short answer is "no". The cost of administrative inefficiency, corruption, impunity, wasteful government and high taxes prevents Brazil attacking the very problems that condemn it to trail other major emerging countries in the economic growth tables.

History shows that a strong economy is not enough to drive political reform. The Real Plan, which ended hyperinflation in 1994, enjoyed the support of most Brazilians – except Lula and the PT. It paved the way for privatization, foreign exchange reform and the Fiscal Responsibility Law, which prevents politicians from overspending, but it failed to generate sufficient political momentum to move ahead with welfare and tax reform. Modernizing the state requires statesmen who can define and set priorities and fight for the national interest. But politicians focus on reelection, bureaucrats on job security and businessmen on overcoming competitors and government irrationality. Very few Brazilians worry about institutions and national governance.

Brazil needs less state and more statesmen, but the career of public administrator is structured to frighten off talented candidates. Public officials are underpaid, their performance is not subject to evaluation and there are no criteria for measuring the effectiveness of government programs.

Brazil could save hundreds of millions of reals per year by ending public programs that lack minimum levels of performance. However, just mentioning ideas like "competition", "meritocracy", performance" and "results measurement" causes confusion and revolt in a professional group that detests the idea of applying such "capitalist" criteria in the public sector. It's interesting to note, though, that they have been adopted by most fast-growing countries. China, South Korea, Colombia and Chile all have criteria similar to those used in the United States and Europe for measuring performance and results in public administration.

No developing nation has become an economic power by destroying domestic savings and eroding the credibility of its institutions. While Brazil remains incapable of reforming the state and eliminating barriers to economic growth – for example the lack of domestic savings, excessive taxation and insecurity with respect to regulations and the enforcement of laws and contracts – it will remain vulnerable to the volatility of global markets. A company's greatest challenge is to attract, foster and retain talent, and this same criterion should be applied to the public sector. It is extremely regrettable that the mantra of "investing in people" is still ignored in the very organization to which all Brazilians belong – the Brazilian state. Just as a company cannot survive without good systems of control and incentives to attract good employees, so the state cannot make progress without reliable institutions and talented people. Globalization shows that a nation's competitive advantage depends on the performance of its public sector. It seems that Brazil has yet to learn this lesson. ∎

China, South Korea, Colombia and Chile all have criteria for evaluating public administration, similar to those used in the United States and Europe

International Image Begins at Home

Experience shows that the way the world sees a country is, in the last resort, an imperfect translation of how that country sees itself **BY PAULO MOREIRA LEITE**

No one should harbor any illusions about Brazil's image around the world. Contrary to what many people might think it starts at home in Brazil in the bar talk, TV programs, universities, company boardrooms and the pages of newspapers. The parrots that inspired Disney's 1940s cartoon character José Carioca were not from Hollywood, they have been associated with colonial Brazil ever since Portuguese square-riggers plied back and forth across the Atlantic and amazed the royal courts of Europe with New World exotica. Parrots became such a hit that there were soon specialized smugglers. And as birds that could imitate human speech, they were sometimes treated as sacred.

Experience shows that a country's external image is essentially a translation – imperfect, as all translations must be – of how it sees itself. This holds agood for both the world of entertainment and the tough realities of economic and political life. The last years of the 1964-85 military regime created an image that became pure folklore, fueled by raging inflation and political instability. We can see the country's image gaining consistency and credibility in the Nineties, when Brazilians themselves started to regard economic stability as a basic necessity in their lives. And the exceptionally cordial way that former President Fernando Henrique Cardoso and current President Luiz Inácio Lula da Silva are treated is a reflection of this.

Most students of Brazil associate the country with concepts of youth and sports prowess, an image that makes sense given the global fame of Brazilian soccer stars, who are undoubtedly the country's greatest international goodwill ambassadors. The rise of Brazil's green and yellow soccer squad to World Cup dominance coincided with the period when TV discovered soccer as the perfect vehicle for mass publicity. Simon Anholt, an English branding consultant, reckons that youth is the strongest element of Brazil's international image, and as such is coveted by labels that target the youth market, for example soft drinks and sneakers. The demographic reality of recent years undercuts the image of a "young country" but that doesn't matter, the key driver is not the age of the population but a question of culture. The foreign image of Brazil as a "young country" is a translation for the rest of the world of "the country of the future," one of Brazil's most enduring self-images.

After studying over 150 films – 88 American, 43 French, 19 Italian

JOEDSON ALVES / AE

President Lula at the Court of St James's: a more than cordial welcome

Samba school in Rio de Janeiro: standard image of the country was built upon models

and 16 British – Professor Antonio Carlos Amancio da Silva of the Fluminense Federal University in Rio de Janeiro wrote his Ph.D. thesis on "Searching for a cliché – panorama and landscape in international cinema". Amancio showed that the standard image of the country is composed of models that Brazilians themselves have created and adopted. The letter of Portuguese sailor Pero Vaz de Caminha, the first textual description of Brazil, written 1500, is an exercise in wide-eyed admiration for a verdant tropical paradise and its native people, a rough draft of what was to become Brazil's image around the world. These first impressions spread throughout Europe, stimulating inquiring minds, inspiring literary works and encouraging economic ambitions – and they also returned to Brazil for new and mutually enriching refurbishment.

This process can best be described as a dialogue between two worlds, the local and the foreign, where information of all origins was built up over the centuries, frequently blending fact and legend without distinction. Along with the parallel visions, there emerged a culture with strong local roots but open to external influences.

Few situations make Brazilians more indignant than the international image of their country as a sexual paradise. It's a valid reaction. The vision of an eroticized country can even be detected in the writings of Caminha, although that's certainly not how the natives – who welcomed the ships of Portuguese discoverer Pedro Alves Cabral, on which Caminha was travelling – saw themselves. Here, however, we have the old truth that communication is not what you say, it's what your listener hears. And over the centuries, the image gained currency and confirmation among Brazilian authors.

This vision is present in the writings of Gilberto Freyre, one of the greatest interpreters of Brazilian culture, and in various behavioral manifestations of the population itself. Come Carnival, matronly mothers may shed more than just their inhibitions and take to the streets in the skimpiest of garb. In the clothing industry, the Brazilian bikini is an international symbol of daring. In the same way, only the Brazilian cinema makes humorous soft-core pornographic movies, and no other country has such sexually explicit TV soap operas.

Among the significant movie scenes collected by Professor Amancio, not all deal with sex. He noted other recurrent themes, for example various dialogues in which foreign characters question ethics and impunity in Brazil. In the 1986 movie *The Money Pit*, actor Tom Hanks asks a typical question: "Don't they have any laws in Brazil?" It's easy to suggest that the origin of this vision lies in Brazil's innumerable scandals, which gain a certain coverage in the international press. But Amancio believes that there is an original source, born of the memory of exiles and castaways during Portuguese colonization, a vision of a land where anything goes.

An imaginary creation may be rooted in reality, but there are moments when it gives the impression of having a life of its own. Many works of Brazil's New Cinema in the Sixties and Seventies helped consolidate a portrait of Brazil as an agrarian country governed by ignorant and quasi-feudal landlords, completely out of touch with the modern world. The cinema was

MARCOS D'PAULA / AE

embodied by the Brazilian people themselves

portraying a way of life already virtually extinct, and the movies were divorced from reality. While Brazil's New Cinema was criss-crossing the country, camera in hand and a fixed idea in the head, the country was rapidly urbanizing and the economy becoming increasingly industrial, the lawless Northeast cowboy giving way to field workers and laborers. The moviegoer saw a Brazil frozen in time – an aesthetically impressive allegory no doubt, embodying unshakable critical effort, but a far from adequate description of current reality.

While Brazilian cinema portrayed a rural society dominated by ignorant and quasi-feudal landlords, the country was in fact urbanizing and industrializing

A country's efforts to improve its international image must include concrete, specific actions. Locked in a commercial war to export to the United States, the Japanese government hosted dozens of events for American journalists, including all-paid trips to Japan. When Mexico wanted to overcome protectionist tendencies in the US Congress and win approval for Nafta, the North American Free Trade Agreement, Mexican officials and businessmen assembled an army of a thousand diplomats, journalists, businessmen, PR executives and others with a single aim – to make opening up the frontier an acceptable idea for US voters who were threatening to kick out any congressmen who put US jobs at risk. And while José Serra was health minister in Brazil, 1988-2002, the government conducted a successful campaign aimed at major US newspapers to win support for Brazil's right to impose compulsory licensing of HIV/AIDS medicines. Various US newspaper articles showed the merits of Brazil's AIDS treatment, highlighting the country's research in the area, and the AIDS program won widespread praise.

Experience shows that the impact of such campaigns is directly proportional to the real consistency of the message. The campaign for compulsory licensing was successful and received a positive vote at the United Nations because the Brazilian public health system guarantees AIDS victims treatment better than that available in many developed countries. Japanese industry was able to establish a massive presence in the US market because it sells products of better quality than their American equivalent.

Building a self-image is part of a country establishing its cultural identity, a sinuous and contradictory process. It involves a kind of reconciliation between a people and their own history, incorporating a realistic vision that can understand and evaluate the past without losing the critical stance that is essential to detecting change and new possibilities. There's a kind of psychological diplomacy involved in the process, because a country can be admired by others only when it has learned how to hold a good impression of itself. ▮

Paulo Moreira Leite is a journalist.

Sweet Times for Sugar Cane

Brazil produces 16 billion liters of sugar cane ethanol a year, and plans to increase that to 66 billion liters by 2030. Some people think there won't be a market for so much of the environment-friendly fuel. Others think it's just a fraction of what the planet needs **BY COSTÁBILE NICOLETTA**

Anybody who regularly travels North or West out of São Paulo City, taking major turnpikes such as Castelo Branco, Washington Luís and Anhangüera or any of the dozens of other highways that run towards Mato Grosso do Sul State, the north of Paraná State or the west of Minas Gerais State can't help but notice that the landscape is becoming strangely monotonous. Not so long ago you would see a mix of soy fields, orange groves, tall waving signal grass and the last coffee plantations still remaining in upstate São Paulo. But now, sugar cane seems to be spreading everywhere. More than 60% of all Brazil's sugar cane is grown in São Paulo State, and naturally the country's biggest ethanol distilleries are there as well.

This is the ethanol heartland, where the transformation being driven by the revolution for clean, renewable fuel is most visible.

Today, Brazil produces a little over 16 billion liters of sugar cane ethanol per year, earning the industry more than US$6 billion. The federal government has announced plans to boost production to 66 billion liters by 2030, from which we can draw two conclusions – first, that the São Paulo landscape risks becoming even more boring, and second, that the sugar and ethanol sector stands to make a lot of money.

"You people could end up selling 80% of the world's ethanol," Daniel Yergin, president of Cambridge Energy Research Associates (Cera), told Brazilian producers at the recent São Paulo Ethanol Summit. The huge event was hosted in June by the São Paulo Sugarcane Agroindustry Union (Unica), a trade association representing Brazil's largest ethanol producers.

Some might say that these 66 billion liters represent just a fraction of what the world will demand, in coming years. Other might argue that not even the global market will absorb such a quantity. Which of these two points of view turns out to be correct will depend on how the market moves in the coming years. Judging solely by the speed at which the São Paulo landscape is changing, the federal government's target looks to be easily beaten. One eloquent example of the changes can be seen in the city of Bebedouro, some 400 km from the São Paulo state capital. Famous in the early Nineties as the world's largest producer of oranges, Bebedouro is now rewriting its own history. According to February 2007 data from the Brazilian Institute of Geography and Statistics (IBGE), orange groves occupy just 21,000 hectares of Bebedouro's roughly 60,000 hectares of arable land while sugar cane – virtually unknown there 10 years ago – now marches confidently across 27,000 hectares of local land. The same phenomenon can be seen in neighboring municipalities such as Taiaçu, Terra Roxa and Viradouro.

> **"The clean energy revolution compares in impact to changes brought about by the personal computer and the Internet**
> Vijay Vaitheeswaran

There's a simple explanation for the changes sweeping the country-


Sugar cane: the government plans a fourfold increase in Brazilian ethanol production by 2030

UNICA

GERMANO LÜDERS / ABRIL IMAGEM

The Biagi family: at the forefront of ethanol internationalization

side: the number of producers willing to rip out everything and plant sugar cane has grown because the financial terms offered by the mills are extremely attractive. And this happens only because more and more people are willing and anxious to buy fuel that is clean, renewable and less harmful to the environment. More than just a consumer trend, the biofuels boom is a necessity. This is the central thrust in arguments such as those offered by Vijay Vaitheeswaran, energy specialist for the *Economist* magazine and author of the book *Power to the People*, speaking at Unica's Ethanol Summit in São Paulo: "The cleaner energy revolution coming from countries like Brazil can be likened to that sparked by the personal computer and the Internet."

Vaitheeswaran wasn't talking just about the positive environmental impact of using clean and renewable biofuels like ethanol on a global scale. He was also referring to the social benefits that can come from using Brazilian technology in poor nations in Africa and Central America, where climatic conditions are similar to those in Brazil. Sugar cane has a real chance of spreading in other parts of the world. In just the same way that an increasing number of international investors are showing interest in Brazilian ethanol production, so cane mills and ethanol distilleries set up and managed with Brazilian technology are starting to spread internationally *(see details page 61)*. In such cases, rather than selling ethanol Brazil is teaching the world to grown sugar cane, selling industrial equipment and technology, and sharing its decades of experience in mixing ethanol with gasoline for vehicle fuel. "The aim is not so much to export ethanol as to sell the complete package," said former Agriculture Minister Roberto Rodrigues. Himself a sugar cane grower in upstate São Paulo, Rodrigues is enthusiastic about the new possibilities that ethanol is creating for Brazil in various sectors – agriculture, industry, commerce, research and services.

> **“The aim is not so much to export ethanol as to sell the complete package**
>
> Roberto Rodrigues, former minister

The first link in the chain is foreign investors interested in producing ethanol in Brazil – starting with no less than George Soros. He holds a significant stake in the AdecoAgro company that has invested over US$1 billion to set up a complex of ethanol plants in Mato Grosso do Sul. At the other end of the chain are companies that can spread Brazilian technology to the four corners of the globe, companies like Crystalserv and Coimex that have set up distilleries in El Salvador and Jamaica.

Should we judge from all this that ethanol will definitely feature among

the fuels fighting to replace petroleum? Once again, the answer depends on what happens going forward, on how the world resolves an emerging showdown about the participation of ethanol in an energy matrix that can substitute petroleum and, more importantly, reduce the emission of atmospheric pollutants. Many countries including the United States, France and Japan have started producing and selling cars equipped with flex-fuels engines that can run on gasoline, ethanol or a mixture of the two. Developed by engineers at Brazilian car companies, the flex-fuel motor is today standard equipment in around 80% of automobiles sold in Brazil.

There are obviously grounds for optimism, but there are also reasons for caution. Brazilian ethanol faces numerous obstacles, the first of which is the tariff advantage that the United States offers under bilateral agreements to competitors in Central American and the Caribbean. While Brazilian ethanol faces a surcharge of US$0.54 per US gallon in the American market, ethanol from those countries gets in tariff-free. This, of course, helps explain the presence of Brazilian companies in El Salvador and Jamaica, two countries that enjoy the possibility of selling into the world's largest market on favorable terms. "There's a paradox between the super-supply of ethanol in Brazil and the customs barriers imposed on the product by the United States and the European Union," said George Soros. "It's very much in their own interest for these markets to buy Brazilian ethanol."

The market for ethanol certainly exists. According to calculations by São Paulo State Governor José Serra, himself an economist, to substitute just 10% of the petroleum consumed in the world today the global production of ethanol would have to be increased 22 times. If Brazil meets the goal set for 2030, it will be able to match just one fifth of the total demand. "The market for gasoline is so great that no matter how much ethanol production expands, it won't make much of a dent in the petroleum industry," said Eduardo Pereira de Carvalho, former president of Unica and now in charge of sugar and ethanol at the Odebrecht Group. Anyway, there now seems to be a general acceptance among the more enlightened sections of world opinion that it's essential to take action against global warming. The penalty for doing nothing would be to place at risk the chances of survival of future generations, and adding ethanol to gasoline is a proven way to reduce emission of pollutants.

The bottom line is that ethanol production can expand, and the market is there, but nothing is guaranteed. Various hurdles remain, and most of them stem from a lack of good information about the risks and advantages associated with the Brazilian ethanol in-

PAULO LIEBERT / AE

Research: sugar cane shoots in the Canavialis laboratory, part of the Votorantim group

dustry. Many people around the world think Brazilian ethanol is produced by companies that wreck the environment, exploit their workers and are willing to spread hunger around the planet. Following, a discussion of some points:

MYTH #1 Production of ethanol in Brazil is devastating the Amazon and other eco-systems.

Fact With respect to the Amazon, the mistake is phenomenal. The main concentration of São Paulo sugar plantations lie at least 1,800 km (some 1,100 miles) south of the southernmost edge of Amazon vegetation, and expansion is heading west into Mato Grosso do Sul State, and even southwards. Brazil could in fact multiply its sugar cane acreage three-fold without going anywhere near the Amazon, and anyway most new plantations are on land that was formerly farmed with other equally-extensive crops. The sugar cane around Bebedouro, for example, covers land that was formerly used for orange groves which, for their part, replaced coffee that had been present in the region since the mid 19th Century. In other words, it's land that lost its natural vegetation cover well over a century ago. There have of course been some cases of inadequate behavior – some farmers for example ignored the law that requires 20% of all rural property to be left untouched as a nature reserve, or the requirement to protect river banks and water catchment areas – but such practices have been strictly policed by the São Paulo State government. It's also important to note that a significant part of Brazil's ethanol expansion has been the result of productivity gains. In 1975, São Paulo plantations produced around 40 tonnes of cane per hectare per year. Today, that's around 70 tonnes, and likely to rise still further thanks to improvements from ongoing genetic research in sugar cane.

MYTH #2 Ethanol production increases world hunger.

Fact This point of view was put forward by Josette Sheeran, the executive director of the United Nations' World Food Program. Speaking to the Financial Times, Sheeran said that the change in harvest patterns could potentially make food even more expensive, on top of the recent rise caused by increased demand from China. Sheeran – whose main responsibility is to distribute donations of excess food production – told the British newspaper that she feared there could be a drop in resources flowing to her program. In Spain, the ABC newspaper suggested that the prospect of producing more biofuels has stimulated an increase in the price of petroleum and its derivatives. The logic, according to the newspaper, is that with Europe, the United States and Brazil all betting on biofuels, some petroleum producing countries have held back on investment in petroleum prospecting and production in a bid to tighten up supply and keep prices high. However, the International Energy Agency reports that biofuels are likely to substitute just 2% of global petroleum consumption in the period 2007-09.

All this indicates that the question must be treated with caution. In Brazil, converting grazing land to sugar plantations has led to a slight increase in the price of milk and dairy produce. Some other products have risen in price in the domestic market, but for other reasons. Bread and pasta, for example, have gone up in price in Brazil because Argentina has restricted wheat exports. The central issue is that Brazil has an abundance of land. Much of it is suitable for growing sugar cane, but other areas are better used for grains or as grazing land, and could be more efficiently used if there was a greater commercial stimulus. Reducing commercial barriers that Brazilian foodstuffs face in the United States and the European Union could represent a greater stimulus to reducing hunger in the world than any restriction on sugar cane planting.

MYTH #3 Brazilian ethanol is produced by slave labor.

Fact This is a problem to be faced. Talking about "slave labor" as such is a misleading exaggeration, but there's no doubt that working conditions in the sugar cane plantations can and should be improved. In many places, laborers hired on a temporary basis to plant or harvest cane must endure inadequate working conditions. According to judicial labor officials in São Paulo, 17 cane cutters died from exhaustion in the last three years in the state. And of course, even just one such death should be more than enough to provoke a general wake-up call. The expectation within the industry is that working conditions will improve as ethanol ceases to simply a part of the Brazilian energy matrix and becomes part of the global energy solution. ▮

INFLOW AND OUTFLOW OF INVESTMENTS

IN ADDITION TO 88 PROJECTS for ethanol plants currently in phase of implementation by domestic companies, there are another 189 projects in phase of study, at least half of them by foreign groups.

WHO IS COMING

▮ A number of projects have already been announced, including one by the Japan's Mitsui, which plans on building **40 plants** in partnership with Petrobras.

▮ Dedini, which supplies equipment for ethanol plants, reckons that foreign investments in this industry in Brazil may exceed **US$9 billion** in the coming years, if all projects on which it has been consulted move ahead.

▮ Grupo Farias, in Pernambuco, has signed a letter of intent with Chinese investors for the construction of ethanol producing plants and the processing of up to 10 million tonnes in each crop. The cost for this project will be **US$ 600 million**

▮ Grupo Albertina, in Sertãozinho (SP), has established a partnership with 29 Norwegian investors to expand their interests in the sugar and ethanol industries in Brazil.
The initial investment will amount to **US$170 million**.

WHO IS GOING

▮ Cosan, largest ethanol producer group in Brazil, is planning a **US$2 billion** IPO to finance projects aimed at expanding the company – including in foreign countries.

▮ Brazilian group Odebrecht is getting ready to invest in plants abroad. Africa and Latin America are the targets, especially in the Caribbean region, in partnership with local investors. The company has infrastructure in operation in **16 countries** where it already provides services.

▮ The São Paulo-based company Crystalserv has partnered with the American group Dow Chemical to develop an ethanol-chemical complex. It also has a partnership with the American Cargill group to start business in El Salvador, in association with a local partner.

▮ A similar business model has been implemented by the Espírito Santo-based Coimex group, which initiated activities in Jamaica to build an ethanol dehydration plant in association with state-owned Petrojam. The goal is to double the production capacity to **360 million** liters per year.

The Moment to Shake Hands

Chile is trying to attract Brazilian investment by emphasizing its free trade agreements that offer privileged access to over 60 countries. Why can't Brazil do the same?

BY MARIA HELENA TACHINARDI

Chile may be a relatively small country, with a population of just 16 million, but it boasts average economic growth of 6% a year between 1987 and 2006, inflation of 2.6% and a uniform import tariff of 6%. Now Chile is making a tempting offer to Brazilian businessmen: it wants them to invest there, in part to use that country as an export base. The principal advantage Chile offers is privileged access to the 60 countries with which Santiago maintains a network of over 20 trade agreements. What has led Chile to this position?

The answer is simple: by seeking new investment, Chileans hope to reap the fruits of efforts they have put in over the last three decades, principally that of ensuring continuity for a series of norms and the macroeconomic conditions they have achieved after three decades of reforms. One of the central pillars is protection for foreign investment: all Chile's commercial agreements offer guarantees to their international partners. The free trade agreement signed 2003 with the United States contains an "Investor-State Dispute Settlement Article" that guarantees the foreign investor the right to invoke international arbitration tribunals against the Chilean state.

It is more and more common for bilateral or regional agreements to deal with questions that go beyond the purely commercial. They establish, for example, how foreign capital shall be treated and create mechanisms that define competition rules, protection of intellectual property, environmental questions, labor relations and so on.

Until the start of the Eighties, the foreign investor's nightmare was expropriation of his assets by the host state. From the Nineties onwards, however, worries have focused more on regulatory concerns. "National rules regarding taxation, or environmental and cultural protection, can have a disastrous impact on investment, from the point of view of the international investor," said Eugenia Zerbini, a specialist in international law. "In the 21st Century, agreements have come to offer the investor different protection from that which was given in the past," she said.

Another aspect of how commercial negotiations influence a company's process of internationalization is the question of preferential access. "The proliferation of bilateral and regional free trade agreements is provoking a gradual deterioration in the margins of preference for countries outside these areas," said Ambassador Rubens Barbosa, president of the Superior Council for Foreign Trade at the São Paulo State Federation of Industry (Fiesp). "Internationalization via the sharing of opportunities and risks with partners in these countries represents a good alternative for getting round import barriers and improving access to markets."

For this reason, Barbosa is in favor of expanding Brazilian productive investment in countries in the region that have free trade agreements with the United States. That


ABSOLUTVISION

means Chile, but it also includes other Andean countries and those in Central America.

One typical example of the advantages accruing from free trade agreements is the preference enjoyed by Caribbean nations in exporting ethanol to the United States (see story page 54). These countries can export the equivalent of 7% of US consumption free of tariff – 2.5% *ad valorem* plus a specific duty of US$0.54 per US gallon. Exports of Brazilian ethanol to the American market via the Caribbean enjoy tariff exemption.

Another example of internationalization linked to geographic location is that created by Nafta, the North American Free Trade Agreement, which has stimulated the installation of automobile *maquilador* factories in Mexico. The free trade agreement between the United States and South Korea, hailed by many as the most important free trade agreement for the US since Nafta but still not ratified by the US Senate, will hurt Japanese exports into the world's largest market. Korean automobile builders located in the United States will be able to import autoparts from Korea at zero tariff, and Japanese companies want Tokyo to negotiate a similar commercial deal with Washington.

Brazil signed 14 bilateral investment treaties in the Nineties. None was ratified

While regional and bilateral free trade agreements are forging ahead, there seems to be little chance of the World Trade Organization's Doha Round of trade talks reaching any conclusion this year.

To what extent are bilateral investment treaties (BITs) important to attract foreign capital? Brazil signed 14 BITs during the 1990s but failed to ratify any of them. Basically the understanding was that Brazilian laws are sufficient to protect foreign investment. In fact, even without BITs the country has remained one of the leading destinations for foreign direct investment. However, internationalization is picking up speed among Brazilian companies, and there are signs that the government will start to look again at the importance of negotiating such agreements.

"Brazil needs to decide what kind of rules relating to investments are acceptable," said Rabih Ali Nasser, a partner at the Albino Advogados Associados law firm and a law professor at the Getúlio Vargas Foundation. "New agreements could substitute those that were not ratified and be part of commercial agreements that Brazil is negotiating, for example between Mercosul and the European Union."

The world is living a moment of agreements. For Brazil to turn its back on this trend would be to miss a great opportunity.

An Obstacle Race

Going international can bring clear benefits to any company. But to make it happen, a company must overcome a series of hurdles **BY JOÃO PAULO NUCCI**

Getting established overseas is a significant accomplishment for any Brazilian company. But to get to the point where it can really be called global, a company must address a significant series of risk factors. Success is not a question of fancy footwork and fast talking – these could even be counterproductive. What's needed is a well-thought-out and detailed business plan, a substantial dose of perseverance and above all a considerable investment. All of these will be fundamental if the attack on foreign markets is to bear fruit.

Companies that have been accustomed to doing business in what was until recently one of the most protected markets in the world will come up against substantial problems when setting off along the path to internationalization. The main difficulties, according to Victor Prochnick of the Institute of Economics at the Rio de Janeiro Federal University, fall into three broad categories:

- **The Brazilian business environment** with its bureaucratic rituals and shortage of credit – or, in the best of hypothesis, a lack of knowledge about ways of getting access to money;
- **The company itself** may be interested in going global but must face its own "internal demons" and make preparations to pursue its goal;
- **The target country** will present its own peculiarities – a different language and judicial system or maybe a very harsh winter could be just some of the adaptation problems that a Brazilian company must learn to deal with.

"With today's easy transportation and communication, it's very much easier to open a subsidiary anywhere in the world," Prochnick said. "But even so, internationalization is a process that requires significant internal preparation." All areas of the company must be adapted to face the world. The le-

Achievement: Brazilian companies face difficulties in adapting to the world market gal department, for example, will be used to dealing with Brazilian law. But now it will have to unravel legal mysteries in other languages.

Marketing personnel will probably hit snags if they simply try to apply in other cultures the formulas that have worked well in Brazil. "In Argentina, the woman dances around the man. But in Brazil it's the other way round, in a samba school the woman carrying the flag stays more in the middle and the man moves around her. The cultural differences from country to country can be very great," Prochnick said.

ARNALDO CARVALHO / JC IMAGEM

Finally, the human resources department – which already wrestles with Brazil's confusing web of labor law – must become familiar with the legislation of other countries.

Learning by Doing

For Brazilian companies that have traditionally relied just on the domestic market, the first step towards internationalization must be one of self-examination. "All the studies show that internationalization is not a single step, it's a process with a learning curve," said Maria Tereza Fleury, a professor in the Economics and Administration Faculty at São Paulo University. The experience of companies that have taken the plunge suggests that results may not come immediately. Natura, a major cosmetics company, took several years to discover that the cornerstone of its successful Brazilian model – a huge network of direct selling agents known as consultants – would not necessarily work so well in other Latin American countries. Today, the company has established a strong presence throughout the region, but using other forms of distribution. "They had problems at the start but were able to make the necessary course changes," Fleury said.

The greatest obstacles lie in internal support, in the target country and within the company itself

Such moments will test a company's investment capacity and the determination of its executives. If a project is slow to get off the ground, there can be a real temptation to pack up and go home. "It's a great help if a company recognizes this risk and understands that there may be setbacks along the way," said Fleury, editor of *Internacionalização dos Países Emergentes* (Internationalization of Emerging Countries), a collection of articles published by Editora Atlas. Companies must learn from experience and know how to administer the information they are accumulating. "Once I had to tell a division of a company that another area of the same company had tried and failed to do what they were planning to do abroad," Fleury said.

Brazilian companies should also be aware, before getting their feet wet, that their government does not yet have a agency specifically devoted to promoting internationalization in the way that the United States, France and China have, for example. The Apex-Brasil Trade and Investment Promotion Agency has in recent years worked extensively to increase Brazilian exports, but experts say the country still needs a coordinated effort and well-defined public policies to help companies start overseas operations.

Companies that have established an international presence have done so in spite of macroeconomic conditions that didn't always help. Votorantim for example was viewed with a certain skepticism when it acquired cement factories in Canada, but having a group of Canadian employees visit its Brazilian operations helped overcome doubts about the proposed changes and get everybody on board and pushing in the same direction.

Brazil's international image can sometimes cause problems, but that can be administered. "There's a myth around the world that Brazil is an exporter of soccer players, bananas and beautiful women," said

Professor Luiz Carlos Carvalho, coordinator of the International Studies Nucleus at the Dom Cabral Foundation, a business think-tank (see story page 25). “But this has not prevented the country from becoming the world’s largest producer of regional jets, with Embraer, or the largest producer of compressors, with Embraco. Nor has it prevented Gerdau from buying up steel companies in the United States and making them profitable and more productive. And there are many more examples.”

Specialists agree: Brazil needs a better-defined public policy

Behind every case of Brazilian success lies a detailed and thorough process of a company investing in its image – a process that would be unnecessary for, say, a South Korean technology company or a Swedish consumer goods maker. Unlike Brazil, which has an international image related to other values, countries like South Korea and Sweden are already internationally perceived as capable producers of state-of-the-art products.

Disadvantages of Being New

Once a company has overcome questions of internal organization and the difficulties imposed by the Brazilian economy, it must start getting to grips with the realities of the country where it is investing. Researcher Álvaro Cyrino, also at the Dom Cabral Foundation, has identified two specific disadvantages facing an incoming investor from the moment he steps off the plane – being new and being foreign. “Any company that’s setting up in a new place, no matter if it’s foreign or not, must face the costs of entering a new market,” Cyrino wrote in Fleury’s book *Internacionalização dos Países Emergentes*. The company must build physical installations, hire specialized workers, set up a distribution network, prepare advertising and attract clients. Local competitors have already done all this, but the newcomer will necessarily face all the start-up costs.

The distance between markets is not just geographic, it’s also administrative, cultural and economic. To show how management formulas cannot simply be applied universally, Cyrino cites in his article the example of Gerdau, a company that never faced significant labor conflict in Brazil but had to deal with a strike lasting months at an US subsidiary.

There’s also evidence to show that start-up difficulties can affect the investing company’s results, at least at the beginning. “Economic and financial results of companies that go international demonstrate a pattern of behavior similar to an S-curve,” Cyrino said. High initial costs push the bottom line into the red, but the company soon gets over this phase and starts earning money. The curve can then dip down again when the increasing degree of internationalization and its attendant management complexities start to drive up costs. “This suggests that there is an upper limit, beyond which the degree of internationalization starts to generate negative results,” Cyrino said. But this can be seen as a good problem – companies that have successfully taken on the world must learn how to administer their success. ∎

High jump: working on the country’s image, to show that Brazil offers more than just soccer

ARNALDO CARVALHO / JC IMAGEM

Capitals that attract capital

Aerial view of Shanghai: the Chinese metropolis has almost twice as many investment projects as London

LIU LIQUN / CORBIS / LATINSTOCK

The West is falling behind. The new Mecca for global investment is located in Asia and the Middle East **CLAYTON NETZ**

Which are the most attractive cities for world investors? To find the answer to this question, OCO – a consultancy based in Belfast, the capital of Northern Ireland – carried out an extensive survey. It examined Greenfield projects, i.e. setting up new businesses from scratch, around the world between 2003 and 2006. The results give an excellent presentation of the recent movement in the global movement of productive capital in the direction of the emerging markets, particularly in the Far East, led by the Chinese dragon. It was not by chance that Shanghai, the most populous metropolis and China´s main commercial and industrial center, was outstanding and came first in the ranking of the Top 50.

In the period under consideration, the New York of the Pacific, as Shanghai is also known, received 1,462 Foreign Direct Investment projects. This is almost double the amount received by its closest rival, London, which had 790 projects. The study also revealed another phenomenon: the attraction of city-states for FDI. Singapore figures third in the list, Dubai is fifth and Hong Kong sixth.

On the other hand, the performance of the rich countries highlights their difficulties in keeping up with the rate of growth of the emerging markets. Of the 20 top places in the ranking, only five belong to the industrialized group. Furthermore, with the exception of New York, American cities are not even on the international investors´ map. The explanation for this is the very power of the American market itself which can generate the capital needed for its growth. At the same time, American companies are large global providers of direct investment and are responsible for no less than 25% of the ongoing projects around the world. One of the main points of the Northern

Ireland consultancy´s findings is the comparison between the factors of attraction of the five outstanding cities – Shanghai, London, Bangalore, Dubai and Singapore – showing the differences among them and the kind of FDI they receive.

Rich countries' performance points to problems in matching the pace of emerging nations' progress

■ Shanghai: with its 17 million inhabitants and a dizzying annual rate of economic growth of 12%, Shanghai can be regarded as a global industrial power. Almost a quarter of the FDI projects based there are in the manufacturing area while one-fifth involve sales and marketing operations.

■ London: the UK capital is one of the most promising places for the services area. It offers an abundance of highly qualified professionals and few rivals for the status of being a global city. London is the biggest European financial center, houses the largest asset management funds and world-scale insurance companies, as well as the representative offices and branches of 480 foreign banks. It holds an important place in equity trading, thanks to the weight and tradition of its stock exchange, and is still responsible for most international metal trading through the London Metal Exchange. "Foreign companies come to us because of our financial expertise, not to start a new business," says John Stuttard, lord mayor of the City of London, the financial district. *(See interview with him on page 67)*.

■ Bangalore: the Indian city can be regarded as the favorite center of knowledge and technology for FDI. One third of the investment projects undertaken in Bangalore were directed at design, development and testing. One in every six projects involves research and development while another 12% concern client attendance, technical support and shared service centers.

■ Singapore and Dubai: Singapore and Dubai are two regional hubs of attraction for FDI for the Asia-Pacific and Middle East, respectively. They specialize in attracting the command and control operations in terms of sales and marketing, services, central offices and logistics and distribution operations.

As well as identifying the main s destinations of the FDI, the survey examined the sources of this investment (see table). The result was qualitatively different from that obtained in relation to the destination of the capital, with cities in industrialized countries leading the way among the Top 50. Only five cities in emerging markets appeared in the ranking. By matching the rankings of the cities which receive and are sources of FDI, the researchers arrived at a definition of what can be called the eight main world cities. This list is headed by London, the city with the best placed industrialized market in the two rankings, followed by Paris, Moscow, Tokyo, Mumbai, Hong Kong, New York and Dubai. ▮

The destination

The cities which most attract Foreign Direct Investment

CLASSIFICATION	CITY
1	Shanghai
2	London
3	Singapore
4	Beijing
5	Dubai
6	Bangalore
7	Hong Kong
8	Moscow
9	Paris
10	Tokyo
11	Mumbai
12	Bucharest
13	Guangzhou
14	Suzhou
15	Budapest
16	Chennai
17	New York
18	Dublin
19	Shenzhen
20	Hyderabad
35	**São Paulo**

The origin

The cities which send most Foreign Direct Investment

CLASSIFICATION	CITY
1	Tokyo
2	London
3	Paris
4	New York
5	Munich
6	Seoul
7	Hong Kong
8	Stockholm
9	Düsseldorf
10	Helsinki
11	Vienna
12	Osaka
13	Moscow
14	Mumbai
15	Toronto
16	Dubai
17	Vancouver
18	Amsterdam
19	Milan
20	Detroit
21	Santa Clara

SOURCE: OCO CONSULTING

The City vs. Wall Street

New York has long been traditional favorite, but now London wants to be first choice for Brazilian companies seeking to raise cash to go international **BY NELY CAIXETA**

They say that the best perfumes come in the smallest bottles, and the same might be said of cities. The Vatican, for example, is the smallest country in the world, just 0.44 square kilometers, but the Vatican's head of state, the Pope, leads a global flock of over one billion faithful. The City of London is slightly larger, some 2.6 square kilometers, but is also globally important. It's the largest financial center in Europe and handles 43% of the world's capital markets. The City generates 10% of British GDP and pays 25% of the country's tax.

Just like the Vatican, the City also has a chief representative in the form of John Stuttard, a 62-year-old Englishman who is no less than the 679th Lord Mayor. Stuttard reckons he spends at least 80 days a year on the road, encouraging companies around the world to use the magnificent network of support services that has grown up around the London Stock Exchange.

Ahead of his visit to São Paulo this August, Stuttard explained how London's sophisticated financial services can help Brazilian companies expand internationally.

John Stuttard, Lord Mayor of the City of London: just two Brazilian companies on the London stock market

HANDOUT

Investors have an appetite for any company in an important emerging market like Brazil

PIB: Why should a Brazilian company use London as a springboard to do business in other parts of the world?
JOHN STUTTARD: London has become the international financial center of the world and this has happened gradually over a period of about 20 years. We have over 600 foreign companies listing on the London Stock Exchange and about one fourth of the financial sector is working here. So companies come to London because of the financial expertise, not necessarily to set up in business.

Why does London attract so many foreign companies?
First of all, we have a form of regulation in the UK which based on principles of risk. That makes it easier for companies to list in London than in, say, New York, where they have a very rules-based approach to their regulatory env• ironment. America is a very litigious place in which to do business and to raise money.

How does London treat foreign companies and investors, for tax purposes?
We have a competitive fiscal situation, but the real competitive advantage lies in access to finance and financial instruments. For example in the last few years we have developed innovative products like Forward Freight Derivatives (FFD) that help companies reduce the risk of transport costs. In the area of climate change we have very interesting instruments. I think the current total of carbon emission allowances is around US$40 billion, and Certificates of Emission Reduction (CERs) for Clean Development Mechanism (CDM) projects can bring great benefits for companies in Brazil – certainly a topic during my visit.

What is London's Alternative Investment Market (AIM)?
This is for small developing com-

The Bank of England (left) in the heart of the City – only two of the 600 foreign companies listed on the London Stock Exchange are Brazilian

HANDOUT / GOV UK

panies that have not yet reached maturity. It's like making venture capital finance available for them. They can come and list on the AIM without the same sort of regulations that they have to comply with (on the traditional stock market). The AIM is very attractive for (companies from) emerging countries. At the moment we have 63 Chinese companies listed on the AIM, and 51 Indian companies, but only two Brazilian companies – Clean Energy Brazil and Infinity Bioenergy.

What does it take for international investors to become interested in Brazilian companies that are currently unknown abroad?

First, investors have an appetite for any company in an important emerging market like Brazil. Everyone has heard of the BRICs countries – Brazil, Russia, India and China – so in London there's an appetite to invest in companies in those countries. We're not talking just about British money, it's Chinese money, Indian money, money from the Middle East all flowing through London to invest in emerging markets and other countries. The other question would be which companies, and that's a matter for the companies themselves to work on with investment banks and communications strategists in the UK and Brazil. They could prepare for a listing in London or for a dual listing together with the São Paulo Stock Exchange.

What's your opinion of the ethanol market?

Given the efficiency of using sugar cane to produce biofuel, there's no doubt that Brazil is very well placed to be a leader in a sector that will become one of the largest in the world. However, it's a process that's going to need more work and more technological development. But there's absolutely no doubt that companies with the right ideas will find willing partners in London.

Are there other Latin American companies listed on the London Stock Exchange?

Not as many as we would wish. I believe Latin American firms have been attracted by New York. But it has not always been like that. If we recall the time around 1900, and even in the wake of the First World War, we will see that there was a close link between South America and the United Kingdom. By the way, I myself have a not too distant relative who spent 17 years in Recife as a missionary. So I myself have a very close link with Brazil. ▮

The World Isn't So Far Away

Individual experiences are starting to show that, different to the common perception of many small and medium sized Brazilian companies, the international market isn't at all hostile or frightening **BY ALINE LIMA**

For the great majority of Brazilian companies, the international market still looks like a hostile, unfriendly place.... The proof of this, according to data from the Ministry of Development, Industry and Commerce (MDIC), is that just 4,500 Brazilian companies – less than 0.1% of the roughly five million in the country – are regular importers or exporters. And while Brazil now ranks among the top 15 sources of foreign direct investment abroad, it still places behind similar countries such as Mexico, China and India. Reasons for this relative lack of integration are well known, and start with the myth that foreign commerce is "just for the big boys". Many companies still feel a certain fear of the challenges represented by the global arena. Next comes the lack of familiarity with foreign languages, and the lack of knowledge about relevant legislation and the workings of the international marketplace. If all this is enough to stop many larger Brazilian companies from venturing into exporting, just imagine how small and medium companies must feel about the idea of actually setting up shop abroad. So does this mean that no smaller companies operate internationally? Not at all.

HANDOUT

Shiba of China in Box: first venture in Argentina netted a US$400,000 loss

A great business

The China in Box fast-food chain, predicted to bill R$50 million in 2007, is one company already heading abroad. Through the next two years, the home-delivery and take-out Chinese Food company expects to open 23 outlets in Mexico and to launch European operations via Spain and Portugal. The plans sound ambitious, and they are, but what might surprise many people is that they are based on the experience of an initial, unsuccessful bid to break into the international market. In 1998, when China in Box was just six years old, owner Robinson Shiba decided to open an outlet in Argentina in partnership with a Brazilian friend who lived there. It was, said Shiba, a venture based "more on brawn than brain."

Three years later, the Argentine outlet folded during a widespread economic crisis. "There was a parallel currency, people resorted to barter and a large part of regular commerce simply became impossible," Shiba said. Even though his venture was caught off-balance by a national crisis that took a good number of companies with it, Shiba is today the first to recognize that he ignored the basic ground rules for going international. He didn't research his market adequately, or seek to develop his local partners – to mention just two of what he sees as his more glaring errors. "We weren't professional or technically competent," he said. "At the end of the day, it was a very expensive MBA." China in Box invested – and lost – roughly US$400,000 in Argentina.

Learning his lesson, Shiba tried again in Mexico, in 2002. This time, however, he took all the right steps. He hired a market research company and selected the city of Guadalajara as his test location, setting up tasting groups to sample the chain's products. He discovered that he needed to adapt his dishes to suit Mexican tastes, adding pepper and local vegetables to create new mixtures. And this time, he started operations as a franchise, not as his own outlet.

One step at a time

Shiba supervises and seeks to support the operations of his Mexican unit by sending a team from Brazil every three months. He is also currently investing in a billboard campaign to promote his brand, and is working with projections that his Mexican outlet can achieve 7% of total company revenue. Plans call for three wholly-owned outlets in Guadalajara in 2008, adding a further 20 franchise units nationwide during 2009. "With 20 outlets, the return via royalties will start to overtake costs," he said. Investments to date in Mexico are US$200,000, "but we're moving ahead carefully, taking it one step at a time."

The truth is that a company can't be too careful when it comes to internationalization. The investments tend to be high and the return, slow. This means that for manufacturers, the first step will normally be exporting. "For the manufacturer who is going international, it's common that the first partner will be a distributor or even a client that the exporter has dealt with before," said Leonardo Sherban Cretoiou, a professor at the Dom Cabral Foundation, a business think-tank and teaching institute. Even so there are many challenges, especially for the smaller companies that constitute 74% of all Brazilian exporters but represent just 8.6% of exports by value, according to a study by Sebrae, the federal government's Small Business Support Service and Funcex, the Foundation Center for Foreign Trade Studies.

"When a company has to do everything alone, it becomes even more difficult," said Maria de Fátima Sprogis, a foreign trade consultant at Sebrae. In fact, she said, one of the major dramas for companies seeking to expand abroad is the lack of credit. Small and medium companies find it much more difficult than larger ones to negotiate credit lines or built up sufficient reserves to underwrite expansion by themselves.

Getting together

One way out of this dilemma is for a company to internationalize

Granite production in Espírito Santo: partnerships with trading firms to enter foreign markets

its brand. Franchises such as the Fisk language-teaching schools or the Nobel bookstores have been achieving great success in this way. The goal is to reduce costs and risks, even if that means accepting a lower profit margin. “Franchising is the area that has grown fastest among small and medium sized businesses seeking to expand their businesses abroad,” Cretoiou said.

For companies that do not operate via franchising, the solution is to join forces and divide costs. “We encourage joint action by companies in the same sector by means of an export consortium, so that costs can be reduced and business risks diluted,” Sprogis said. This line of action is supported by APEX/Brasil, the country’s Trade and Investment Promotion Agency. One way for associations of small and medium companies to market their products is by using one or more trading companies that can group together various small producers into a common project and so gain economies of scale.

Franchising, trading companies and consortiums are options to reduce risks and investment costs

FÁBIO MOTTA / AE

This solution has been put into practice, for example, by a group of roughly 40 granite producers in Espírito Santo State. Sab Company, a trading company specializing in international trade, helped the sector bill US$580 million in 2006. The Sab Company won approval from the Brazilian Development Bank (BNDES) to act as anchor for a granite exportation project and received a US$5 million credit line to get things moving. This means the trading company can pay the Brazilian producer cash for his merchandise and resell it abroad for term payment, naturally earning a margin on the process for its efforts.

João Batista de Paulo, the president of Sab Company, said it had not been easy to convince granite producers about the work of the trading company. “Many of them initially saw us as middlemen taking an unwarranted cut, rather than as someone who could make things happen,” he said. After several meetings, where he explained in detail how his company works and even revealed his profit margins, Paulo won the confidence of the producers. “It was a long learning process,” he said, but the rewards should be quick to come. The company expects to close out this year with deals of US$7 million in granite, counting those that use BNDES financing and others using the company’s own funds. The internationalization strategy will be completed by setting up an operation in Miami, Florida to carry out final processing of the granite.

The figures involved in such examples may still be relatively small, but they’re big enough to show that the international market can offer excellent opportunities for companies that do things properly. One piece of advice from the specialists is that small and medium companies should make the most of their advantage of having more nimble management than their bigger competitors, so making them able to innovate more easily.

The trend in coming years will be for other small and medium companies to discover the secrets of internationalization and the potential it offers to create opportunities for profit. For companies that take the proper precautions and use good advisory services, the international market need be neither hostile nor unfriendly. ∎

The World at Their Feet

Any company that wants to expand internationally needs executives who are imbued with its culture and can work abroad. For rising young Brazilian professionals, this can be the opportunity of a lifetime **BY LIA VASCONCELOS**

ILLUTRATION: MARCELO CALENDA

Bravely, and putting her best face forward. That was how 31-year-old Camila Lott decided she would take on the biggest challenge of her life. Almost two years ago Lott, 31, gave up her position as environment manager for CVRD in Brazil and packed her bags for Mozambique where the mining giant had just won a concession to dig coal. Many people might question the wisdom of swapping a career that was just taking off in Brazil for an adventure in Africa, but Lott is not alone in preferring to play on the global stage. In fact, she's part of an ever-larger group of Brazilian executives who are choosing to seek professional experience outside of their country.

"Professionally speaking, this is an excellent opportunity, full of challenges," said Lott, who is due to stay in Mozambique through 2010. "I'm gaining experience that nobody else has."

In 2006, researcher Betânia Tanure of the Dom Cabral Foundation, a business think-tank, surveyed 200 Brazilian companies about the importance of foreign experience for their executives, with in-depth interviews focusing on 25 of Brazil's leading "young multinationals" – companies like CVRD, WEG, Gerdau and Natura. Tanure found that 80% of Brazilian companies plan increasing their number of executives with global experience over the next five years, with many companies reporting they could increase the number of senior staff posted abroad by up to 50%.

What's the secret to becoming a global executive and winning selection for the international vacancies that appear daily? First step is to broaden your horizons and start looking on the world as your oyster. Then comes the hard work of getting prepared. Languages are an obvious requirement, but becoming really prepared implies much more. The would-be 21st century cosmopolitan executive has to accompany, understand and learn to interpret what's happening in other markets. He – or she – has to know what motivates consumers in other parts of the world. Also required are sensitive antennae that can detect profitable and lasting business opportunities in foreign countries with the same ability that led to initial success at home.

"To become a global executive, a person must have more than just solid technical knowledge, he needs to accept diversity and have a taste for what's different," said Rolando Pellicia, director in Brazil of the Hay Group, an international consultancy that specializes in human resources, management and remuneration. Most import is attitude, he said. "A person cannot arrive in another country as a *conquistador*, he'll simply generate resentment and resistance." For Pellicia, the globe-trotting executive must understand the reality of the place to which he is being transferred. But a whole host of other qualities are needed at such critical moments.

One essential, for example, is for the executive to have some idea of what awaits him in his new home and functions. That said, he must remain sufficiently open-minded to avoid imposing a preconceived work plan on people of a different culture. "If the newcomer integrates with the local people, he will win respect," said the Hay Group director.

Another key for success lies in the successful adaptation of the executive's family to the new circumstances, explained Beatriz Lacombe, human resources professor at the Getúlio Vargas Foundation (FGV) business school. The majority of international executives are married men, and many end up going back home before their scheduled time because of family problems: "It's something that's difficult to prepare for," Lacombe said.

Dialogue and preparation are fundamental for success. "It's essential that the executive reads up well on the new country and its culture before leaving home, he's got to keep an open mind, be persistent and be aware that living and working abroad is a major career step," said Lacombe. Another worrying problem for many professionals is the fact that many must leave Brazil without any guarantee that their previous position will remain open, should they choose to return. This, however, is a situation about which not much can be done – the executive has to weigh things up and make a decision. However, it can help knowing that while international experience might not guarantee the option of returning to an old job, it certainly opens wide new windows of professional opportunity and advancement.

> **"Working in Mozambique will give me a unique background**
>
> CVRD's Camila Lott

Intensive preparation

One thing is for sure – these days, the majority of ambitious young executives are willing to accept the challenge of international experience. The demand for global education and training has led to the creation of courses that expose executives to foreign business environments. Target students are professionals within companies that are internationalizing their operations. The FGV offers an MBA that brings together 100 students from five countries – Brazil, Holland, the United States, Mexico and China. During the 21-month program, students undergo residential sessions in cities on four continents. They visit companies, mix with students from other business schools and have lectures given by leading businessmen. Total cost of the course is R$90,000. Other institutions are also promoting direct contact with foreign cultures and business environments. Spanish business school IESE, for example, part of the Navarra University, offers a course for 32 students from 20 countries with modules in Madrid, Barcelona, Shanghai and the Silicone Valley in California.

None of this is a substitute for hands-on global experience. Those who have taken the plunge are unanimous in advising young hopefuls not to hang back, but to be pro-active and make opportunities happen. Celso Vili Siebert, the international director for the Americas of WEG, a world-leading Brazilian electric motor maker, did just that. Trained as an electrical engineer, Siebert went to the United States in 1991 to set up a new division, WEG Electric Motors, in Fort Lauderdale. "When I arrived in Florida there were only two people working in the office – me, as general manager, and the sales manager who was from Uruguay but who had spent most of his life in Brazil," Siebert recalled.

His decision to try and work in the United States was initially sparked by a 1988 visit, and as he accumulated information about the country's dynamic economic, he became more and more convinced about the opportunities it offered for his employer. "From that moment, I started preparing myself. I learned English and studied foreign trade," he recalled. Soon he was acting as the contact in Brazil for American clients and assumed responsibility for adapting WEG products to that market. When the company finally decided to open a US office, he was the obvious choice to head the operation.

Six years later the office moved to Rochester, in New York State, and then finally to Atlanta, Georgia. "I went to the United States with my wife and two daughters, who were 10 and 12. We started in the South of Florida, so the culture shock wasn't too great, and by the time we moved to Rochester we were well adapted," he recalled. But there were other problems. "At that time, Brazil had a very stereotyped image abroad, nobody really knew the country." A decade later, the US office comprised 100 employees, 90 of them Americans, and was billing US$60 million a year.

With his task consolidated, Siebert decided that it was time to return home. "My agreement (with the company) was to prepare my substitute and to wait for an opening in Brazil, which took two years to appear. I returned to Brazil with various advantages including fluency in the language, a multicultural understanding and solid knowledge of the American business environment," he said. Obviously, these are very valuable assets for the career of any executive.

ENHANCING EXPERTISE

Courses offering specialized training for executives aiming for global exposure

MBA INTERNATIONAL EXECUTIVE

Institution: Getulio Vargas Foundation Business Administration School in São Paulo
Current class: 100 students from five countries – Brazil, Netherlands, United States, Mexico and China.
Duration: 21 months
Program: Professionals attend classes in cities in four continents.
Price: US$45,000

MBA GLOBAL PARTNERS

Institution: Rio de Janeiro Federal University (UFRJ), in partnership with the Georgia State University's Robinson College of Business, and the Sorbonne University's Institut d'Administration des Enterprises, in Paris.
Class: 50 students
Duration: One year, full-time.
Program: Four to five months duration modules taught in several cities, including Atlanta, Washington, Paris, Shanghai, and Rio de Janeiro.
Price: US$45,000

MBA GLOBAL EXECUTIVE

Institution: IESE (University of Navarra's business school, in Spain)
Current class: 32 students from 20 countries
Duration: 16 months
Program: During the course, students participate in two-week modules in Madrid, Barcelona, Shanghai and the Silicon Valley, in California.
Price: €89,500

An international team

Another requirement for the executive seeking to build an international career is the ability to understand and administer multinational teams. This was one of the major challenges facing Camila Lott, the CVRD executive who made a career move to Africa. "The Mozambicans speak Portuguese, as do Brazilians, but in a manner which is much more similar to the way it's spoken in Portugal, and this led to some moments of hilarious misunderstanding," she recalled. "They watch Brazilian TV soap operas, so that helps a lot because they are more used to our culture. The countries share a common identity stemming from Portuguese colonization."

Lott's experience in Africa is the result of CVRD winning an international tender to develop a major mine in Moatize, in the North of the country. Experts describe Moatize as having perhaps the world's largest undeveloped coal deposits, estimated at around 2.4 billion tonnes, good for production of coke and coal. The project was a CVRD landmark, a major international expansion and the company's first as an operator in this segment of mining – the same year CVRD entered into two associations to develop coal projects in China, but as the minority partner. Total CVRD investment in the Mozambique project will be around US$1 billion, including cost of the concession, mine development, construction of a terminal to load ocean freighters and social investments.

For Lott, Africa has been an extremely rewarding experience: "Mozambique has had a complicate history, marked by war, and it is trying to recover. I feel that I am helping contribute to national development, and that gives me additional personal motivation for being here," she said. "Being single made it easier to take a decision like coming here, I was engaged to be married but that fell through before I was due to move." Who knows, maybe that has been the price of success on the global stage. ■

Where's the Money?

It's still not the norm, but some companies have obtained financing in Brazil for their foreign expansion. The Brazilian Development Bank (BNDES) is the principal local source **BY COSTÁBILE NICOLETTA, JULIANA GARÇON E MARCELO CABRAL**

Brazilian Development Bank headquarters in Rio: funds from abroad to finance Brazilian internationalization

HANDOUT

The opportunity to go shopping in a foreign market doesn't come along every day. For companies, the chances are even less frequent. And the more zeros on the price, the tougher it gets to obtain credit to acquire or set up operations abroad. The question then becomes: how does one obtain money to finance such an undertaking? This problem is especially dramatic in a developing country like Brazil where the interest rate has been around 11.5% per year. Putting that in perspective, it's more than double U.S. rates, currently hovering at around 5.25% per annum.

In this scenario, it's not surprising that most large commercial operations of this type are conducted using resources raised abroad. It was this type of operation, for example, that enabled mining giant CVRD's purchase of Canada's Inco at the end of 2006, for a colossal US$18 billion. This type of financing is possible only because companies like the Brazilian behemoth have achieved "investment grade" – the highest category of credit rating possible for countries and companies. With this type of ace up their sleeve, these companies are courted and coveted by the world's leading international banks which allow them not only to deal the cards, but also to determine the name of the game when it comes to negotiating loans and the terms thereof.

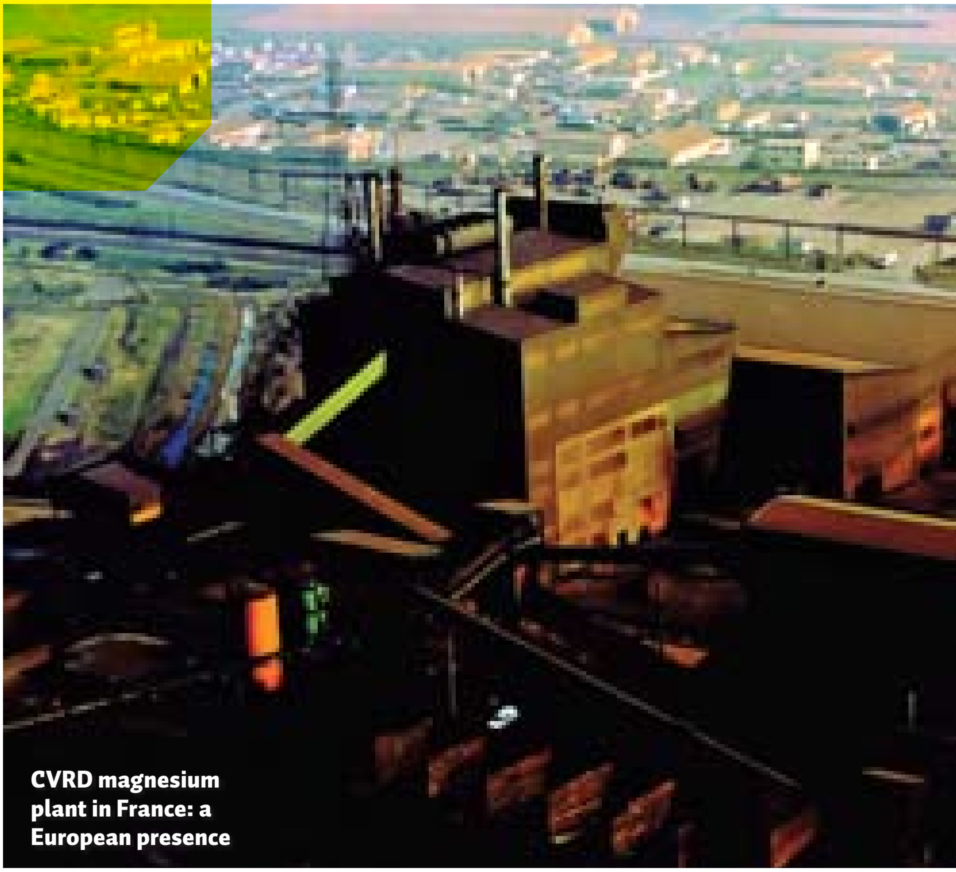
However, if a company is small or has little name recognition beyond its national borders, the story is entirely different. In fact, many companies believe they can expand outside the country's borders only with their own capital resources. But that's not always the case. The Brazilian Development Bank (BNDES) and some private banks – albeit very few – have created special credit lines for companies, big and small, that are interested in going international.

The importance of internationalization for developing countries and their companies is undeniable. According to the United Nations Conference on Trade and Development (Unctad), just 420 multinational companies are responsible for over half of the world's industrial output. Unctad also reports that transnationals account for 75% of global trade. One thing is therefore abundantly obvious: expanding production lines beyond national borders could be so advantageous that it would be more than worth the inherent risks. Nevertheless, very few Brazilian companies have actually taken out credit lines for internationalization operations.

One that did is Iochpe-Maxion, which recently contracted a loan from the Itaú BBA Bank to completely finance construction of a factory in China. In 2008, the factory will have an installed capacity to produce 600,000 wheels per year. The project is budgeted at US$15 million, repayable over five years, and will generate an estimated US$30 million in revenue for the company. In this first phase, production will be slated entirely for export from China to nearby markets. In 2006, according to study

CLIFF SPICER / CVRD

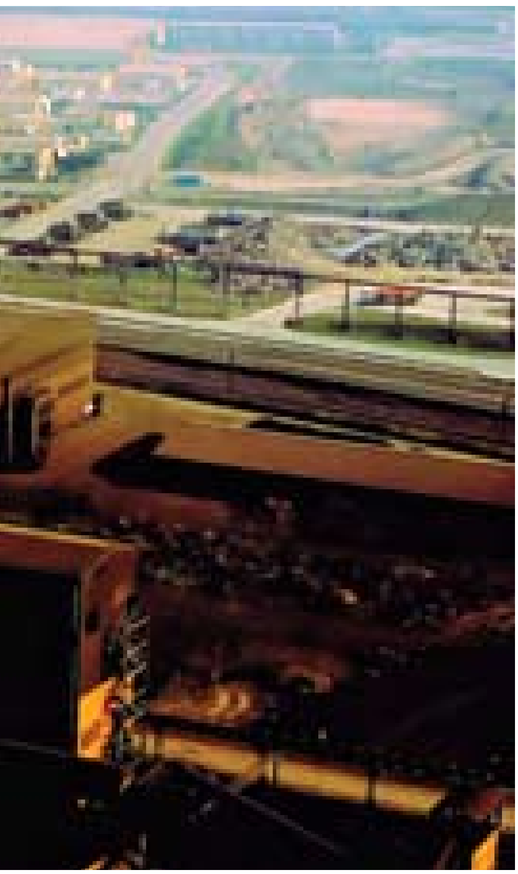
CVRD's Roger Agnelli (left) announced the US$18 billion purchase of Canadian company Inco


HANDOUT / CVRD

CVRD magnesium plant in France: a European presence released by the Brazilian Association of Investment Banks (Anbid), Brazilian companies' acquisitions of foreign concerns totaled US$29 billion, a remarkable expansion of 543% against the previous year. One operation alone, CVRD's US$18 billion Inco deal to be precise, represented over 60% of the total.

Meat Paves the Way

The Brazilian Development Bank has granted loans to foreign companies interested in investing in Brazil since 1995. This program has above all been dedicated to companies wishing to purchase state-owned companies during the major privatization programs launched in the Nineties. Nevertheless, it was only in 2002 that changes to the bank's statutes allowed the BNDES to finance projects for the internationalization of Brazilian companies. The first contract supporting direct investment abroad was signed three years later. The contract was for an US$80 million loan granted to meatpacker Friboi to acquire Swift Armour, which at the time was the largest meatpacker in Argentina.



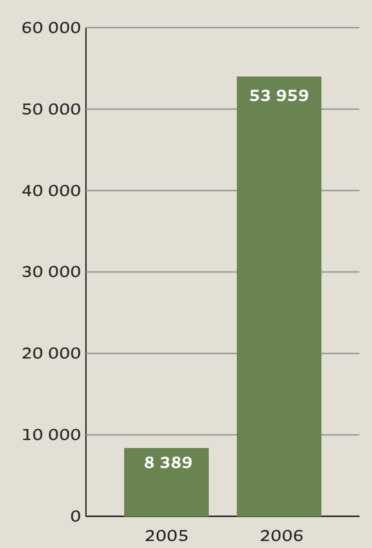
At the end of June 2007, Friboi once again turned to the BNDES with a view to becoming one of the world's largest meat processors. The company received a US$750 million capital injection from BNDESPar, the development bank's equity arm. The resources were part of a US$950 million capital increase in JBS, Friboi's controlling company. JBS shareholders injected the other US$200 million. The development bank's role in this capitalization gave Friboi part of the resources necessary for its US$1.4 billion purchase of Swift Food, the third largest beef and pork company in the United States. Swift Food also has a strong presence in other important markets, not least of them Australia. The deal made Friboi one of the world leaders in the sector, with the capacity to slaughter 47,000 head of cattle daily. It also gave the company access to highly coveted markets like the United States and Canada *(read more about the strategy of meat processing companies on page 33.)*

Company Homework

Companies must comply with a series of demands before receiving the development bank's financial support for internationalization. Among these is remaining under Brazilian shareholder control for the duration of the operation and taking strides to increase company exports from Brazil. The resources for these types of loans – which are not subject to limits – are raised

Global Investing

Brazilian Acquisition of Foreign Companies (in R$ million)



SOURCE: ANBID

in the foreign marketplace. The fact that these loans are made by possible by a repass of external financing has tended to attenuate criticism from some quarters that a government-run development bank should not be providing any funding whatsoever for operations that help create jobs in other countries, rather than in Brazil. But there are, nevertheless, plenty of other arguments that defend the favorable aspects of this credit line.

"The fact that the installation of a company's production units in a foreign market could momentarily reduce exports from the headquarters does not impede an increase in the company's exports from Brazil in the medium to long term," write BNDES analysts Ana Cláudia Alem and Carlos Eduardo Cavalcanti in a study entitled *The BNDES and Support for the Internationalization of Brazilian Companies*. This increase in exports will tend, in turn, to generate more jobs at headquarters through intracompany commerce – trade between the HQ and its subsidiaries. "This increases the export expansion potential for the country of origin and stimulates the development of suppliers in this same country which, in turn, subcontract to a series of small and medium sized producers," the study said. In other words, internationalization tends to promote a virtuous circle whose beneficial effects will gradually spread through the economy.

Private Services

Success is far from guaranteed upon arrival. Routine tasks like management of receivables, paying bills, controlling cash flow, analyzing documentation and financial control can become much more complex when the operation is far from headquarters and depends on a whole new set of rules that are entirely different from those practiced in Brazil. It is exactly in this type of scenario that private banks come to the fore.

Rodrigo Caramez, director of receivables financing and cash management at HSBC, says that services related to international negotiations have been growing by double digits in recent years: "HSBC's portfolio for these operations has been expanding by between 30% to 40% per year, and this performance should continue for some time." Thanks to its global presence, with operations in 83 countries world-wide, HSBC has been seen as a preferred partner for companies that embark on the wave of internationalization, Caramez said.

The most simple and traditional services, geared towards export processes, are used by large exporters and medium-sized companies – those with revenue over R$50 million. But there are other mechanisms that can facilitate management of subsidiaries. "A large Brazilian company that buys a factory in Argentina, for example, does not need to transfer all of the human resources structure necessary to control its financial resources there," explains Caramez. If the company has two plants in the neighboring country, it will have to maintain a separate bank account for each, but can evaluate the numbers globally, with consolidation of the two capital flows. Information on legislation, regulations and deadlines, opening accounts abroad and assistance with documentation are also on the bank's menu of services. "The foreign currency exchange legislation is very complex. One must analyze documentation, report and communicate with the Central Bank. It is a hefty task that can detract attention from the actual business," explains the HSBC director.

The fees for these packages vary by country, business volume and the number of requested activities. The banks also offers services such as helping conclude mergers and acquisitions, raising capital and structuring finance operations. But the battle for clients is stiff and investment banks have been keeping one step ahead of the pack when it comes to preparing and conducting debt or stock issues.

In general, analysts agree that the credit lines available for internationalization will be used more frequently in the future. For this year, representatives of institutions linked to Anbid estimate that the number of foreign acquisitions by Brazilian companies could total as much as US$15 billion. They hope to finance the better part of these transactions and say they will be helped by the current scenario of longer financing terms on international markets and the drop in interest rates, principally for investment grade companies. In short, it's reasonable to expect that Brazilian companies will have more and more opportunities to go shopping on foreign markets.

WHO'S USING THE BRAZILIAN DEVELOPMENT BANK?

FRIBOI: The company took out a loan of US$80 million to buy control of Swift Armour in Argentina. The BNDES also underwrote US$750 million in shares of JBS (Friboi's controller) to acquire the U.S.-based Swift Food.

ITAUTEC: The company received R$142.6 million in financing for product research, development and innovation and to increase production capacity. The value also allowed the company to acquire Tallard, a U.S. distributor of technology brands such as IBM, Avaya and Apple for Latin America.

CPM: The company received R$9.7 million in financing for investment in studies, projects, quality and to create commercial and sales structures abroad, especially the United States where the company has subsidiary.

COOPERATIVA AGROINDUSTRIAL LAR: The company contracted a R$6 million loan to set up two storage units for agricultural products in Paraguay in the municipalities of Mariscal Francisco Solano López and Yguazú.

Brazilian festival: Top quality music and film

Brazilian culture on show for Catalans

FORGET THE GYRATING BUTTOCKS, plumed headgear and shaking tambourines – the upcoming Seventh International Festival of New Brazilian Art will shrug off Brazil's enduring international stereotypes in favor of another round in the uphill battle to promote the country's contemporary culture. "Our mission is to present the Brazil of today, not necessarily the vanguard but certainly cultural manifestations that go way beyond soccer, mulattas and bossa nova," said Robério Pitanga, general director of Brasil NoAr which runs September 5 through 30 in Barcelona, Spain.

Casa NoAr, the cultural NGO that organizes the festival on a budget of 150,000 euros, is proud to have attracted 6,000 people to the festival's last edition in venues such as La Paloma, a legendary hall that has hosted great names of international music. Organizers described the audience as "the thinking public" comprising roughly two thirds European and one third "homesick Brazilians". Attractions included the Mombojó band from Pernambuco State in the Brazilian Northeast and the São Paulo band Jumbo Elektro, which has roots in the same eclectic big-city cauldron that gave birth to the international phenomenon Cansei de Ser Sexy – Tired of Being Sexy – which won a huge following in Europe and the United States last year.

"We've had the biggest electro-rock bands in the world playing here, but this was the best show I've seen of this kind of music," the artistic director of La Paloma said after a Jumbo Elektro performance complete with lyrics sung in pseudo Japanese and pseudo English – proof indeed that Brazil can make music without a tambourine in its hand.

The musical part of this year's festival will be moved to the Sala Apolo, another landmark in the Catalonian city. Among confirmed participants are music producer Plínio Profeta, winner of a Grammy for the Falange Canibal recording; Pernambuco singer Lenine; and Bahian guitar player Lucas Santtana who has recorded with Gilberto Gil and Caetano Veloso and whose first solo record made it onto the New York Times list of best independent albums.

The festival program also includes a series of conferences with journalist Dominique Dreyfus, former chief editor of the French edition of Rolling Stone and author of documentaries such as A Revolução Tropicalista – The Tropicalist Revolution – which will be shown following her address on the history of Brazilian Popular Music. Other attractions include an exhibition of the Coletivo Audiovisual LaBorg of São Paulo and presentations by the Obra Social Mestres da Obra, shown recently in the Memorial of Latin America, in São Paulo. There will also be dance lessons and a cinema festival.

Adriana Setti, from Barcelona

Recommendations of a Road-Warrior

IF YOU WANT TO KNOW how Angela Hirata spends her time, just check out her pile of old passports. In the last two years she has stamped her way through three complete passports, checking in and out of some of the world's most far-flung destinations – Afghanistan, Vietnam, China, Thailand, Australia and even the Fiji Islands. It's all in a day's work for this Brazilian executive whose mission has been to transform the once-humble Havaiana rubber sandals into a global fashion statement.

Hirata: three passports in two years

PERSONAL ARCHIVE

Nowadays, Hirata has a range of tools – video conference, Skype, her Blackberry and even the regular telephone. "I keep up with the latest gadgets, but there's nothing like personal contact, looking the other person in the eye," she said. "That's how you do business."

Over the years, Hirata has collected a cupboardful of weird experiences and humorous anecdotes. Once, happening to be in a city near Lahore, in Pakistan, she was somewhat taken aback by the stream of virtual mud that spewed from her hotel-room tap. "But I didn't think twice," she said. "I just went straight ahead and cleaned my teeth with Coca-Cola."

Learning to cope with stress on the road is half the battle. Some tips:

■ **Make your time count.** Say you're flying from Brazil to Beijing and have an important meeting right after you land. How do you avoid turning up all crushed and crumpled? "I normally take advantage of the airport changes on these long flights to take a shower," she said. Frankfurt for example offers good facilities for the business traveler. Then, shortly before landing, Hirata changes aboard plane into a fresh set of clothes that she has brought in her hand luggage. That way, she turns up for her meeting looking and feeling like she's slept overnight in a local hotel.

■ **Also, be ready to trust local professional people.** In Prague for a key meeting, she went to pick up her case in the airport and wrenched her back. A quick call to the Brazilian embassy and she was on her way to a respected specialist in the city. "He was a really nice old man, but I was terrified when he started piercing my back to sort out my spine," she said. "He told me it was a technique he'd learned in the war and I had to trust him. I just didn't dare ask which war."

■ **Another secret is to take problems in your stride.** Imagine you've just landed in Israel – one of the most security-conscious places in the world – and as you approach immigration you realize your visa has expired. Angela didn't panic, and the problem was quickly solved. She managed to obtain a 24-hour permit, more than enough to take care of business.

ISTOCKPHOTO

Caipirinha: coast to coast in USA

Local Impressions

WE ASKED Brazilian diplomat Evaldo Freire, who has just moved from the Brazilian Consulate in New York to the one in San Francisco, to list the Brazilian brands that he sees gaining ground in the United States, and to offer suggestions for visiting Brazilians.

■ Brazilian churrascarias or barbecue restaurants offering the all-you-can-eat rodízio system have been spreading rapidly in the US, and that certainly suggests strong demand. I recently dropped by Fogo de Chão in Los Angeles and I was impressed by the quality of service being offered, although the lack of Brazilian music detracted a little from a real "made in Brazil" atmosphere.

■ In New York the Plataforma

Herchcovitch: Sarugakucho where?

Style at a Price in Tokyo

ALEXANDRE HERCHCOVITCH has a new address, though it may be a bit difficult for Brazilians to remember. The street is called Sarugakucho and the neighborhood is Shibuya-Ku. Easier just to remember it's in Tokyo. The boutique offers creations by the 35-year-old São Paulo designer, and the architecture is nothing if not innovative – when it's closed it looks like a box. The outside is in Formica covered with adhesives of the prints of the collection, which will be changed from time to time. Inside, the air of modernity comes from fluorescent parrots covered with acrylic and tiles that "open" to become supports for products. One problem perhaps is that customers are complaining about the prices. Each dress is around US$1,000, enough to buy one from Channel. It's the same problem faced in Japan by stylist Isabela Capeto, whose embroidered designer vests cost US$400.

Isabela Capeto's boutique: embroidered vests for US$400

HANDOUT

now has two excellent venues, the more traditional one on the corner of 49th Street with 8th Avenue, and a more modern setting in Tribeca. Both are very good. The 49th Street restaurant is in its third year and was a worthy winner of the Golden Apple award given by City Hall to restaurants that run "impeccable" kitchens. And just over a year ago, Porcão opened a really nice restaurant at South Park Avenue with 27th Street that's attracting Brazilian and New York customers who like a good rodízio.

■ Talking of Brazilian products, it's worth checking out Beleza Pura cachaça – sugar cane rum – which is becoming increasingly popular in several New York bars and restaurants as a basis for caipirinha – a Brazilian specialty made with cachaça, sugar and lime. Early August there was a Beleza Pura promotion at the Cantina restaurant on Sutter Street in San Francisco, and it was packed.

■ A tip for anyone thinking of travelling inside the United States – Virgin America has just started operations inside the US and is offering some great promotions. A direct flight between New York and San Francisco can be had for between US$130 and US$170, whereas before it was always more than US$300. Nothing like a bit of competition to make the consumers happy. Maybe Brazil should do the same.

A Brazilian in Paris

Natura is an example – albeit fairly uncommon – of a Brazilian consumer goods company gaining international space under its own brand

NATURA, THE LEADER in the Brazilian market, is fighting for a place in the sun in the Mecca of the world cosmetics industry. By opening its store in Paris, in the Saint-Germain-des-Prés district, the company has set itself a challenge in which the promotion of the brand is the soul of the business. The point is a bridgehead for this company which originated in São Paulo and is now spread throughout Brazil and has operations in Argentina, Chile, México, Peru, Colombia, Venezuela and France. It had sales of almost US$ 1.8 billion last year, an increase of 17% over 2005. The company has almost 60, 000 representatives abroad who, like their 617,000 Brazilian colleagues, take the Natura concept of quality of life from door to door. Compare the differences between Natura´s operations in Brazil and France.

Natura at Saint Germain Boulevard: €16 million more through 2008

HANDOUT

NATURA IN FRANCE...

...HAS HAD A STORE in Paris since 2004 and began operations in other French cities the following year.

... SELLS ONLY the Ekos line, which has around 80 items, and has just launched the Mamãe e Bebê (Mother and Baby) line.

... PROMOTED THE BRAND before selling the products.

...PLANS TO INVES T around € 16 million between 2005 and 2008.

...OPENED A research laboratory in 2006.

NATURA IN BRAZIL...

... HAS 617, 000 self-employed retailers who have been selling door-to-door since 1974.

... IS THE LEADER in the cosmetics sector (22.8%).

... PRODUCES 16 LINES and has a total of 600 items.

... WAS COMPLETELY unknown when it began selling its products in 1969.

... DOES NOT REVEAL the investments it is making.

... IS CONSTRUCTING a research center in Campinas which should be opened next year.

Ekos line: chasing a place under the globalized sun


Bradesco. The largest private bank in Brazil's export and import exchange market.
The leader in export for more than 14 years.
Named best Brazilian bank by The Banker magazine.
NEOGAMA/BBH
Bradesco is one of the principal partners of companies seeking to increase their foreign trade. It is Brazil's largest private bank. Due to its solidity and great ability to generate low risk business, The Banker magazine named it the best bank in Brazil. In addition to its active role in Brazil's economic development, Bradesco also contributes to social development through its free education program, the largest private one in the country. Because our commitment to Brazil is complete.
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