

MARKETING

Coffee from the Cerrado wins customers in Japan

BANKS

Challenges for Itau in Chile

TAVEX

New addition to Santista stable wants to dress Europe in denim

HISTORY

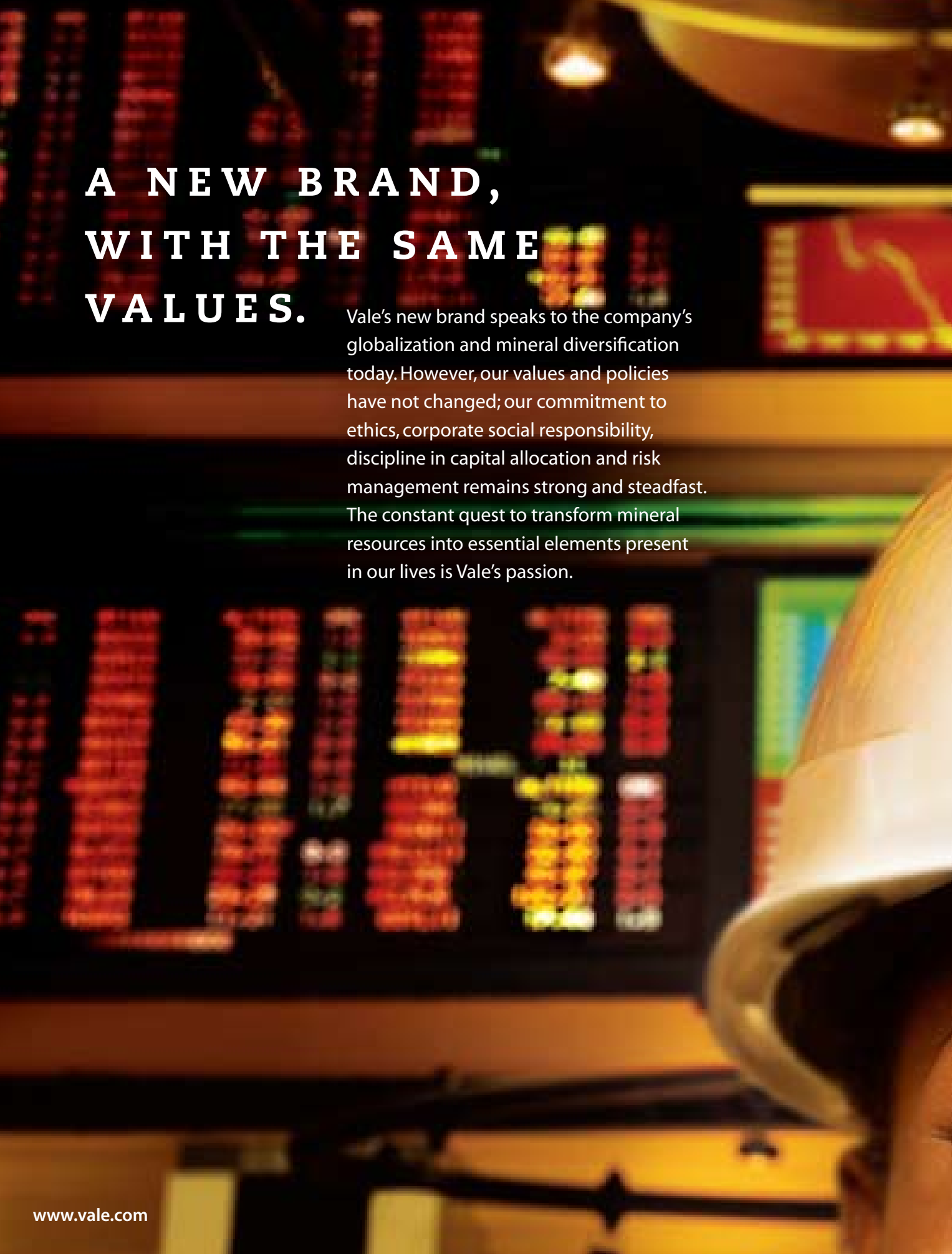
Two centuries ago, Brazil became part of the world

CAREERS

Brazilians are going to school to learn global business

The ethanol effect

Ethanol is showing the way, and Brazil leads the world in the race for clean energy. The chance is there – it's just a question of getting it right



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COVER STORY

32 A clear road for ethanol

Brazil has the chance to lead a global revolution in clean fuel, and it's got an ace up its sleeve: mastery of all stages of production technology, from high-productivity sugarcane plantations through design and manufacture of the world's most modern distilleries. Sugarcane ethanol is undoubtedly today's most efficient substitute for gasoline, new fuels are being tested and the countryside is modernizing.

By João Paulo Nucci, Marcelo Cabral, Vicente Vilardaga and Armando Mendes

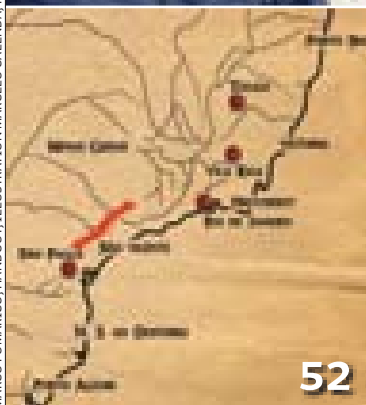


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Since moving my business to London, I'm hardly ever there

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climate depends on it. To help assure this equilibrium can continue, the Bank of the Planet Rainforest, the first partnership of its kind with the Amazonas state government, the Bank of the Planet will make concrete investments for the preservation of the Amazon investing in our planet. Bank of the Planet. One more example of Bradesco's complete thinking.



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On a Wave of Clean Energy

PIB was born with the mission of telling you what matters at the cutting edge of the Brazilian economy – where companies accept the challenge of fighting for space in global markets, and the competition grows tougher in proportion to the potential for profit. Reaction to our first edition, as measured by the quantity of letters we received, and the people who signed them, was proof that there really is space in the market for a publication such as ours. We, the editors, have had absolutely no doubts of this ever since our first edition was launched at an event in the Brazilian British Centre, in São Paulo, with the presence of the Minister of Development, Industry and Foreign Trade, Miguel Jorge; the Mayor of São Paulo, Gilberto Kassab; the Lord Mayor of the City of London, John Stuttard; businessman Marcelo Odebrecht, president of the Construtora Norberto Odebrecht; and the then Communications Secretary

of São Paulo, Hubert Alqueres, representing State Governor José Serra.

The process of internationalization that attracted our interest goes way beyond the expansion of Brazil's most modern and competitive companies into new markets around the world. It includes the modernization of the domestic market that comes from the day-to-day experience of working with

relevant global partners. That's what's happening, for example, in the super-strategic area of clean energy production. For the first time in its history, Brazil has a real chance of leading an economic revolution of great global importance. This opportunity isn't limited just to making ethanol, it includes mastering all stages of the production technology. And as we show in a series of cover stories in this edition, it includes leadership in the production of machinery and equipment used to produce ethanol. The intelligence that made possible the flex-fuel motor is another vital ingredient, as is the determination to make progress in production of another clean fuel, biodiesel, and with the commercialization of carbon credits. A final part of the equation is the concern that the agricultural sector should adopt labor relations as modern as the fuel it makes from sugarcane. Good reading!

THE EDITORS



TOTUM
EXCELÊNCIA EDITORIAL
Clayton Netz
Nely Caixeta
Ricardo Galuppo



PIB
BRAZILIAN COMPANIES
GO INTERNATIONAL

A TWO-MONTHLY MAGAZINE FOCUSING
ON INTERNATIONAL BUSINESS AND
ECONOMICS, FROM TOTUM

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Todo
seu



BANCO DA SUSTENTABILIDADE



Wishing you all possible success with PIB, which is being launched at just the right moment in Brazil's history, when its companies are rapidly going international.

JOHN STUTTARD
The Lord Mayor
The Mansion House
London, UK

It was a pleasure to participate in the launch of PIB. I wish you success with the new venture.

MARCELO ODEBRECHT
Construtora Norberto Odebrecht
São Paulo – SP

PIB magazine fills a new niche in a new Brazil. I'm sure it will be a success. All three of you, Ricardo, Nely and Clayton, have successful track records. This new magazine will surely be the same.

MAÍLSON DA NÓBREGA
Former Finance Minister,
partner in Tendências –
Consultoria Integrada
São Paulo – SP

PIB is excellent. It was with pride and pleasure that I read it in the reception room of the president of a company in Panama. Congratulations to all involved.

JOSÉ DIRCEU
Former Chief of Presidential
Staff, business consultant
São Paulo – SP

I was honored to receive the first edition of the PIB – Brazilian Companies Go International. It really is a great idea publishing a magazine in English, you are providing a rich source of material for research on business.

BALI MONIAGA
Ambassador of the Republic of
Indonesia
Brasília – DF

When I was present at an event in Washington, I received a very interesting magazine: PIB. Congratulations. With my best wishes,
ARMANDO GUERRA JR.
Business consultant
São Paulo – SP

I really liked the design, art, layout, and subjects chosen. The magazine will be a success, I'm sure. I wish you great professional success with this new project.

ORDÉLIO AZEVEDO SETTE
Azevedo Sette Lawyers
Belo Horizonte – MG

It's good to know that Brazil now has a publication like PIB to show people here and abroad the country's potential to conquer international markets. Congratulations for the initiative and for making it happen. Count on my support.

KIKI MORETTI AND TEAM
In Press Porter Novelli
São Paulo – SP

Thanks for sending me "PIB Brazilian Companies Go International", and congratulations. It's not only informative but also looks very good. Brazil and its companies deserve this.

LIU WEI LING KAO
Beijing – China

Please accept my best wishes for the success of PIB. You can tell from the name that it indicates ambitious plans for the future.
FRED MELO PAIVA
O Estado de S.Paulo
São Paulo – SP

You guys are stars, top line. Everything is great: text, art, choice of subject matter. Good luck with this new venture.

LUIZ GONZÁLEZ

Lua Branca

São Paulo – SP

Congratulations on the new magazine! I love the idea of PIB.

LAUREL WENTZ

Advertising Age

Nova York

The magazine is light, looks good, it's well laid out and well edited. You've got a first class team and I'm certain that you'll also be successful as entrepreneurs.

SILVANA QUAGLIO

Análise Editorial

São Paulo – SP

Lovely magazine! And with good-looking advertisers. Congratulations!

HERMES ZAMBINI

Volume 4

São Paulo – SP

I was flicking through magazines on the news stand here in São Carlos when PIB caught my eye and I checked out to see who was behind it. When I saw the names in the team, I didn't have to look any further. I bought a copy and took it home. Congratulations for the brilliant idea and content. Awesome!

Jorge Reti

Press relations

Embrapa Pecuária Sudeste

São Carlos – São Paulo

I had the pleasure of receiving a copy of the first edition of PIB, and liked it very much. I believe the market has gained a publication that fills a gap for anyone looking for a good option for information. Congratulations to all the Totum team.

Valdeci Verdelho

Vice-President

Andreoli Manning

Selvage & Lee Publicis Groupe

São Paulo – SP

Congratulations!!! PIB looks really great and the stories are excellent. I was delighted to see a publication with such a modern outlook.

Patricia Y. Malentaqui

Acting Executive Director

Brazil Information Center

Washington, USA

I really liked PIB. The interview with José Santos was very good. Paulo Sotero and Maria Helena Tachinardi are excellent names to have involved.

Plinio Mario Nastari

Datagro

São Paulo – Brazil

Congratulations for the magazine. The theme is more than opportune, you have excellent collaborators, and it looks just right. I wish your publication a long and fruitful life.

Adélia Borges

Journalist, design consultant

and former president of the Museum of the Brazilian Family (Museu da Casa Brasileira)

São Paulo – SP

I have just received PIB, which looks very nice. Congratulations to all the team.

Ricardo A. Setti

Journalist

I was delighted to see you all undertaking such a major project. Congratulations. I hope that you have all the success you deserve.

Cláudia Vassallo

Newsroom director

EXAME magazine

São Paulo – SP

I read your magazine, which is top line. Congratulations, and keep it up!

Ricardo Arnt

Communications advisor

to the presidency

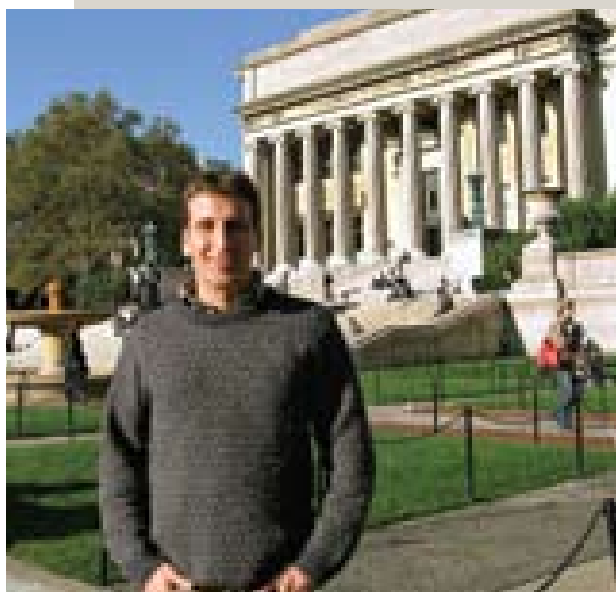
Natura

São Paulo – SP

I received a copy of PIB during a meeting of the Arab-Brazil Chamber of Commerce in São Paulo, and read it back in Brasília where I live. I liked it very much.

Liliane Oliveira

Brasília – DF



FROM READER TO WRITER

AMONG THE VARIOUS letters we received about the first edition of PIB, one stood out. It was from Bruno Koltai Reis, who is from São Paulo but is currently in New York, participating in a program at Columbia University where he is a visiting scholar. Working under the supervision of Albert Fishlow and other professors, Reis is studying the internationalization of Brazilian companies. Reis, 30, is studying for a Ph.D. at FEA-USP, and holds a master's degree in international relations from the Université de Paris I Sorbonne. He suggested collaborating with PIB, for example with articles, research and interviews with people connected to the academic and business world. We jumped at the suggestion, and his first article is published on page 74 of this edition.

A Fashion-Made Man

TALK ABOUT RIO resident Oskar Metsavaht and it's quite OK to use the worn old phrase about "the right man in the right place." Metsavaht has never stopped chasing his two great passions – surfing and seeking adventure in the planet's snow-covered mountains – but he's also built up one of Brazil's most successful international brands – Osklen. The secret was to mix the latest trends of the fashion world with the best of Brazilian style, using slogans such as "Brazilian soul" or "cool and Brazilian".

There's no denying the international success of his sports clothes – or the brand owner. In 1997, Chrysler invited Metsavaht to design a limited number of off-road vehicles. That was the start of the Jeep Cherokee Osklen Series. Four years later, the Andy Warhol Foundation asked him to create a summer collection inspired by the pop-art master. After being feted by Cartier, Metsavaht was contacted by jeweler H. Stern to create the concept and style of a line of sports watches. He already met the designer Valentino backstage at one of his fashion shows praising his brands to anyone and everyone around. Calvin Klein said he's a fan and a regular customer. And last year, when Mick Jagger disappeared from Rio de Janeiro after the Rolling Stones show on Copacabana Beach, who was he with? With Metsavaht, of course. Just a dinner amongst friends.

It all started in 1986 when, aged 25, Metsavaht was just a doctor who specialized in sports medicine. By chance, he designed a snow jacket for an expedition to Mount Aconcagua. Two years later Osklen was born, with a store in Buzios, up the coast from Rio. His first project outside of Brazil was inaugurated in 2002 in Chiado, the fashionable neighborhood of Lisbon. Now there are seven stores: three in Portugal, one in the United States, one in Switzerland and two in Italy, his most recent bet.

This year should still see two other important steps: opening a store in Tokyo and another space in Milan, this time for Royal Label, which is Osklen's luxury label. If it depends on the Italian press, success looks guaranteed – *Il Giornale* called Metsavaht "the Ralph Lauren of Brazil". There's no indication that the US designer climbs mountains or surfs the beaches of the world, but without a doubt the business touch is the same. (Rachel Verano, from Valencia)

Metsavaht:
building an
empire without
stopping surfing

LÉO PINHEIRO/VALOR/FOLHA IMAGEM

I don't believe in the possibility of resolving complex problems of harmonizing social, environmental and economic policies simply through the interplay of market forces

IGNACY SACHS, HONORARY PROFESSOR AT THE PARIS SCHOOL FOR ADVANCED SOCIAL SCIENCE STUDIES AND CREATOR OF THE CENTER FOR STUDIES OF CONTEMPORARY BRAZIL

The Sneaker that Caught the French by the Feet

A REAL BRAZILIAN took the limelight at the Ethical Fashion Show, an October event in Paris for brands that practice fair trade. Star of the show was the Veja, a sports shoe made in Brazil that has won the hearts and minds of France's fashionable crowd since it was launched in February of 2005, and has sent fans crowding into the most "in" stores in the country.

The "Veja", as the French call it, is a hit even before appearing in the country where it was born.

they learned into the Juste Planet project (www.justeplanete.org) and soon looked for ways to put their ideas into practice.

Veja is made from ecological cotton produced by small family farmers in Ceará, wild rubber from the Amazon and sheep skin from Rio Grande do Sul. The brand buys four tonnes a year of raw material produced in ways that preserve the environment. They make 50,000 pairs a year at a cost of €1 million. A pair costs US\$85 because the raw material price



The Veja:
fair trade and
fashion flair

"Because of the (Brazilian) news magazine of the same name, we still cannot sell it in Brazil," said Aurélie Dumont, responsible for Veja communications. "We must change the brand."

Inspired by Brazilian volleyball shoes of the 1970s, with a touch of classic Adidas and Puma, the Veja was created by French design duo François Ghislain Morillion and Sébastien Kopp. After finishing university the young men – both then 28 – travelled the world studying sustainable commerce. They put everything

is deliberately higher to allow a good return for producers.

Plentiful marketing has propelled Veja beyond the ecological community and into the world of fashion. Its debut involved a gigantic party at the Palais de Tokyo, a top Paris hotspot, and even participation in famous fairs such as Bread & Butter, in Barcelona. There was also an invitation from designer Christine Phung to sign a collection. After all, even if the soul is organic, marketing is still the heart of any business. (Adriana Setti)



AmAZônia BrASil
New York City - 2008

The Amazon for Americans

BETWEEN APRIL and July of next year, the world's greatest metropolis will be home to a representative sample of the world's greatest tropical forest. Amazônia Brasil, sponsored by Alcoa, will take over some of New York's most famous spots including the UN plaza, Pier 17 and the Smithsonian museum. Organizers aim to show visitors the cultural diversity of the peoples who live in the Amazon forest and to warn about the threat of climate change for its ecosystem. Pier 17 will house the main pavilion where there will be reconstructions of a typical riverside village and an Indian dwelling. The event is being organized by the Center for Advanced Studies and Social and Environmental Promotion, based in Santarem, Para, a body that groups hundreds of NGOs in the North of the country. Last year a similar exhibition in German attracted 120,000 visitors.

Kátia Ferreira - Grife Apoena
Exporter project run by Apex-Brasil/ABIT



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Ministry of Development,
Industry and Foreign Trade



At the Forefront of Internationalization

THE STEEL SECTOR is leading the pack when it comes to the internationalization of Brazilian companies. Gerdau and Vale (formerly CVRD) both now have huge operations in North America, and they head a new ranking of Brazil-based multinationals that has just been released by the Dom Cabral Foundation, a business school and think tank in Belo Horizonte. The study was partnered by Columbia University of the United States. It was the second time the ranking has been published, and the second time that Gerdau appears in top slot. The 2006 study, however, followed a different methodology, so the results can't be compared directly. "We have refined our study to make it compatible with 12 other emerging nations that are preparing similar rankings," said Prof. Luiz Carlos Ferreira de Carvalho – popularly known as "Lical" – coordinator of the Nucleus for International Business at the FDC.

The Brazilian study, based on 2006 data, was the first to publish results within the project being coordinated by Columbia which will generate an international ranking of transnational companies by 2010. "Each country faces its own problems to complete the work. Getting information in China, for example, is extremely difficult," said Lical.

In Brazil, the method used was to collect information directly from the companies, given that the universe of companies in the country obliged to publish balance sheets is still quite small. Questionnaires were sent to 90 of the roughly 800 Brazilian companies which have some form of foreign activity. The 32 that replied are included in the ranking. Of these, the top 25 are listed here.

Ranking criteria for internationalization include sales volume, asset value and the number of employees that each company has overseas. The index, of course, is proportional to the size of each company. This means that Artecola, a mid-sized company from the chemicals sector, appears between giants Andrade Gutierrez and CSN.

Although the ranking excludes companies in the financial sector, one striking fact about the results is the

diversity of the sectors represented. In addition to steel, there are companies from the vehicle industry like Sabó (autoparts), Marcopolo (bus bodies) and Randon (truck trailers), major constructors like Odebrecht, Camargo Corrêa and Andrade Gutierrez, and companies using cutting-edge technology like Embraer (jet aircraft) and Itautec and Totvs, both of them in IT. "There's a great diversity of top-level sectors," said Lical.

Perhaps the biggest absence in Brazilian internationalization, the professor noted, is smaller companies, although one honorable exception is Bematech, in the commercial automation sector. "Small and medium companies have yet to discover that going global is a path to growth and conditions for this are much more favorable these days," he said, adding that today's exchange rate made investment abroad much easier. Moreover, both official and private banks have specific credit lines for foreign investment. "It's a great window of opportunity that people should take advantage of," he said. "Conditions won't always be so good." (João Paulo Nucci)

In the global arena

The most internationalized Brazilian companies, according to the Dom Cabral Foundation

| | Company | Index of internationalization* |
|----|--------------------------|--------------------------------|
| 1 | Gerdau | 0.464 |
| 2 | Vale | 0.292 |
| 3 | Sabó Autopeças | 0.285 |
| 4 | Marcopolo | 0.274 |
| 5 | Odebrecht | 0.273 |
| 6 | Embraer | 0.233 |
| 7 | Weg | 0.218 |
| 8 | Tigre Tubos e Conexões | 0.202 |
| 9 | Camargo Corrêa | 0.190 |
| 10 | Duas Rodas | 0.176 |
| 11 | Andrade Gutierrez | 0.172 |
| 12 | Artecola | 0.169 |
| 13 | CSN | 0.162 |
| 14 | Metalfrio | 0.158 |
| 15 | Itautec | 0.149 |
| 16 | Portobello | 0.146 |
| 17 | Natura | 0.135 |
| 18 | Petrobras | 0.119 |
| 19 | ALL | 0.117 |
| 20 | Perdigão | 0.110 |
| 21 | Método Engenharia | 0.086 |
| 22 | Lupatech | 0.069 |
| 23 | Aracruz Celulose | 0.067 |
| 24 | Votorantim Participações | 0.060 |
| 25 | Totvs | 0.042 |

* Average of the ratios of assets, employees and sales overseas (excluding exports from Brazil) to total assets, employees and sales for the whole group.



Panama: the financial center is driving economic growth

HARVEY LOYD/GETTY IMAGES

Brazil Creates Channels in Panama

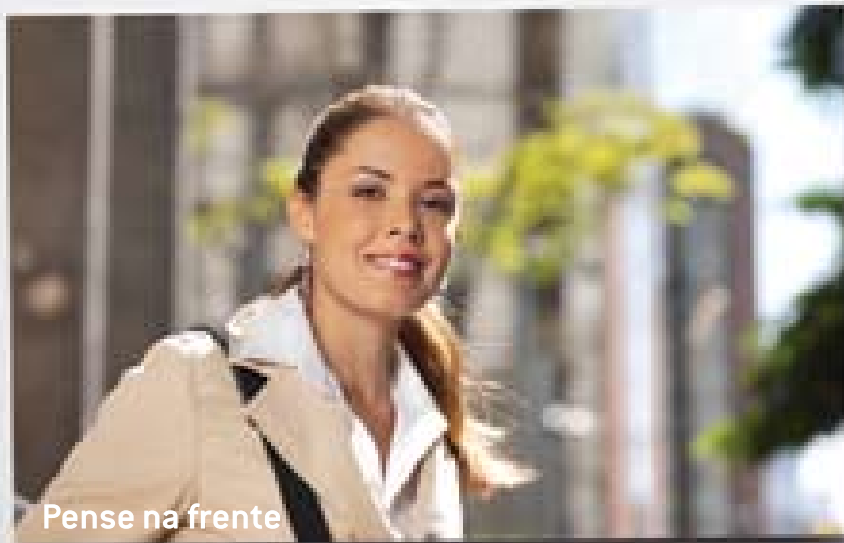
EXPANSION OF THE PANAMA CANAL, due to start work 2010, looks set to involve Brazilian companies. Major constructors like Camargo Corrêa, Andrade Gutierrez, Queiroz Galvão and Odebrecht are gearing up to participate in the consortium that will undertake the boldest infrastructure project in Latin America in the next two decades. Work involves construction of a third set of locks and building of a petroleum refinery, with the total cost estimated at US\$15 billion.

In addition to the construction giants, a series of small and medium Brazilian companies are likely to take part in the project. Ambassador Paulo Tarso Flecha de Lima and Latinlink Consultoria President Ruy Coutinho are looking for service companies that can give support to the construction companies in various tasks.

The project comes at a good moment for Panama, which has been experiencing rapid economic growth. In recent years, the country has been chosen as location by various global financial institutions, and the financial center is growing at a rate of 18% a year. (Renata Penna Franca)

Pensar em Pós-graduação é pensar no Senac.

EURO RSCG



Pense na frente

Bruna Nagata - aluna da Pós-graduação Lato Sensu do Centro Universitário Senac.

“A Pós-graduação em Gestão de Comércio Exterior do Senac prepara *traders*, analistas e empresários por meio da imersão em comércio internacional e foco na formação de empreendedores.”

Gestão de Comércio Exterior

Objetivo

Preparar *traders*, analistas e empresários por meio da imersão em comércio internacional e foco na formação de empreendedores.

Público-alvo

Profissionais da área de comércio exterior, empreendedores que possuam empresas e que pretendam iniciar ou aumentar a atuação internacional e interessados que desejem se aprofundar na área internacional.

Mercado de trabalho

A área de comércio exterior exige cada vez mais profissionais especializados. O profissional que se forma neste curso terá uma visão internacional dos negócios, com capacidade de aproveitar as oportunidades e empreender projetos ligados ao seu setor de atividade; dominará as técnicas de negociação internacional, as técnicas específicas do comércio internacional e executará de forma segura as operações de exportação e importação.

Metodologia

Durante o curso, os alunos participarão de aulas teóricas, estudos de caso, pesquisa e visitas técnicas.

Trabalho de Conclusão de Curso

Desenvolvimento de um projeto com aplicação dos conceitos apresentados durante o curso.

DURAÇÃO: 18 MESES

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London Eye:
Bradesco
arrives in the
British capital

PHOTOS: HANDOUT

Feet in London, Eyes on the Middle East

BRADESCO IS JUST waiting for an OK from Brazil's Central Bank to open a brokerage in London. This will allow it to start operations in the first quarter of 2008, after getting the go-ahead from British regulators. The bank's New York brokerage, Bradesco Securities, has operated since 2002.

The goal in London is to expand the placement of stocks and bonds of Brazilian companies and gain access to investors not just in Europe but also the Middle East. "London is today one of the world's principal financial centers," said Luiz Galvão, director of Banco Bradesco de Investimento (BBI). "An important number of major funds are established in the city." The operation will consume initial investments of US\$5 million.

In addition to this European base, the bank is building up its presence in Chile. An agreement with the Banco do Chile will allow it to manage funds and develop investment products. The main goal is to catch the eye of the rich local pension funds. (Lucianne Carneiro)

Virtual Contact

DENTAL RIO BRANCO faced problems in exporting the medical and hospital equipment and surgical materials that it sells in Brazil. The company is located in Rio Branco, the capital of Acre State, 250 km from the frontier with Bolivia, and accepted foreign orders only if they were pre-paid. But the foreign customers didn't feel too happy about sending money for something without being certain that they would receive their orders. The solution for Dental

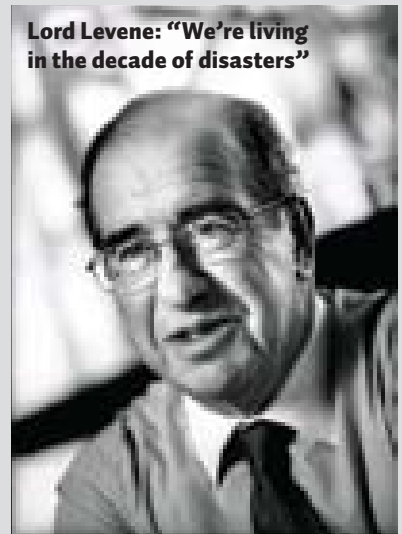
Rio Branco has been displaying its wares on the Foreign Trade Counter ("Balcão de Comércio Exterior"), a service created by the Banco do Brasil on the Internet to bring Brazilian companies closer to possible partners in other countries. The company's first major deal using this system was the sale to a Bolivian hospital of an intensive care unit costing US\$3.6 million. In addition to acting as a showcase for Brazilian products, the Counter offers consulting and various other services. (Juliana Garçon)

A Less Safe World

GLOBAL WARMING and its major catastrophes – the most recent are the floods in Mexico and the fires in California – are already provoking a direct impact in the global insurance business, according to Lord Peter Levene, president of Lloyd's of London, the world's principal insurance and reinsurance market. While assets are becoming more vulnerable, policy prices are falling. "The current decade can already be defined as the decade of disasters," he said during a speech in São Paulo at the end of October. "There's a growing range of scenarios that can generate losses in the order of US\$100 billion."

As Brazil is off the route for hurricanes and far from earthquake zones, Lord Levene came because of the long-awaited liberation of the reinsurance market in Brazil. "There is already strong local interest in working with London," he said. So far, Lloyd's is active in Brazil guaranteeing insurance in sectors such as petroleum, shipping, automobiles and aircraft.

Lord Levene: "We're living in the decade of disasters"



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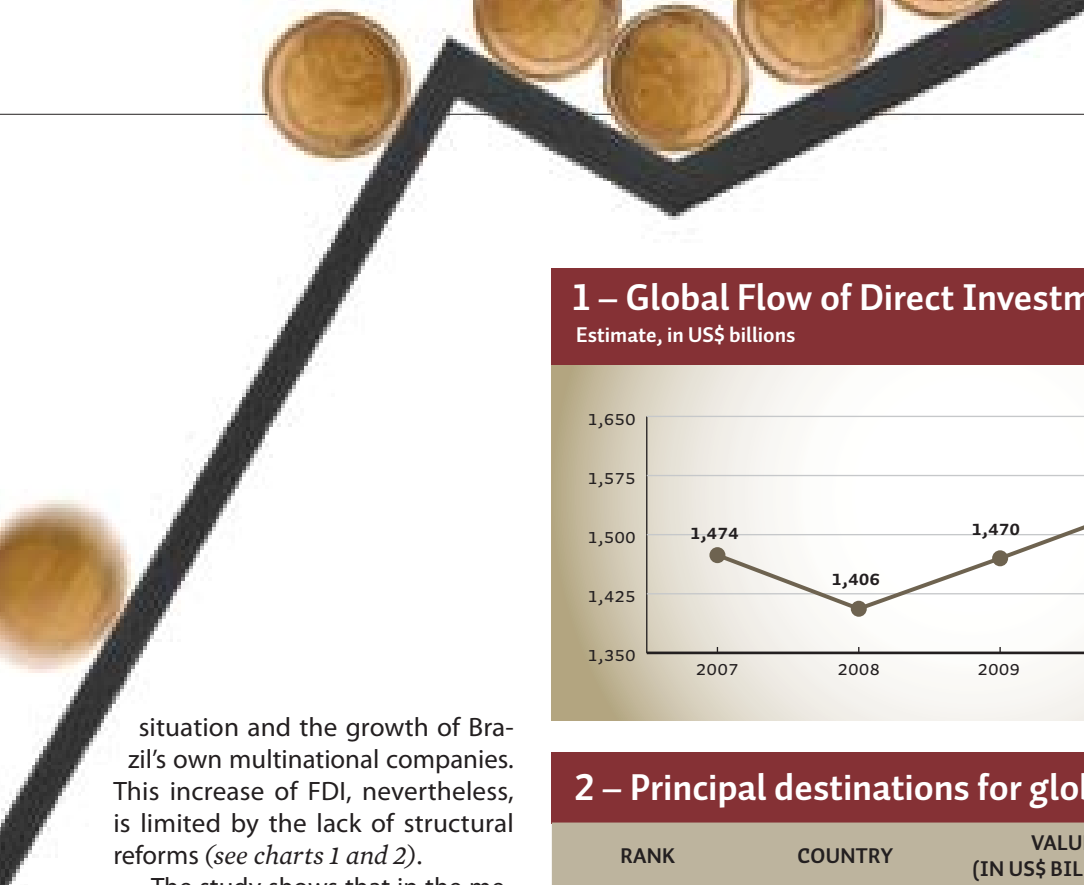
A study by economists Jeffrey Sachs and Karl Sauvant points to increasing global investment flows, despite the current financial turbulence **BY MARCELO CABRAL**

During 2007 the Economist Intelligence Unit, a consultancy, worked on a study seeking to predict the tendencies through 2011 for global flows of Foreign Direct Investment (FDI), money that companies, banks and investment funds steer into projects in various countries. Carried out in partnership with Columbia University professors Jeffrey Sachs and Karl Sauvant, the study was published in September of 2007 and predicts a fall in the level of investment in 2008, due above all to the recent turbulence in the international financial markets imme-

diately following a cycle of rapid expansion. But the tendency thereafter is for things to settle on a smooth upwards path.

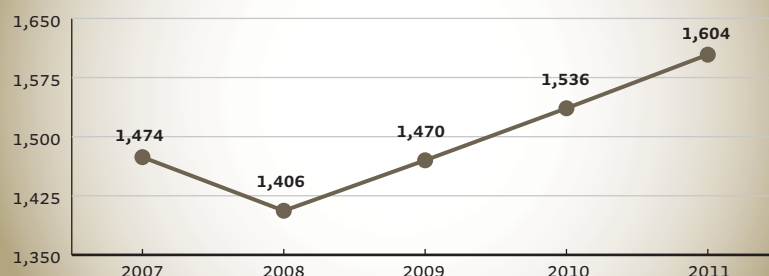
Among the reasons for growth are the investments in companies in developing countries, seeking cheaper labor, and the increase in offshoring of services. The pressures of competition and for improvement in the business environment in most countries are also relevant. In the case of Brazil, which ranks 14th in the world as a destination for FDI, the study recognizes the existence of positive factors which have contributed to increased FDI flows. Among these are the good macroeconomic





1 – Global Flow of Direct Investment

Estimate, in US\$ billions



situation and the growth of Brazil's own multinational companies. This increase of FDI, nevertheless, is limited by the lack of structural reforms (*see charts 1 and 2*).

The study shows that in the medium term, however, protectionist measures, cases of political violence, geopolitical tensions and governmental instabilities can compromise the global flow of FDI, and the sector most at risk is energy. With the barrel of petroleum now at sky-high prices, some countries are insisting in renegotiating contracts and renationalizing their natural resources. The flow of investments to some of these – for example Bolivia and Venezuela – saw a marked decrease in 2006. This situation will tend to worsen in coming years.

Asian dragons

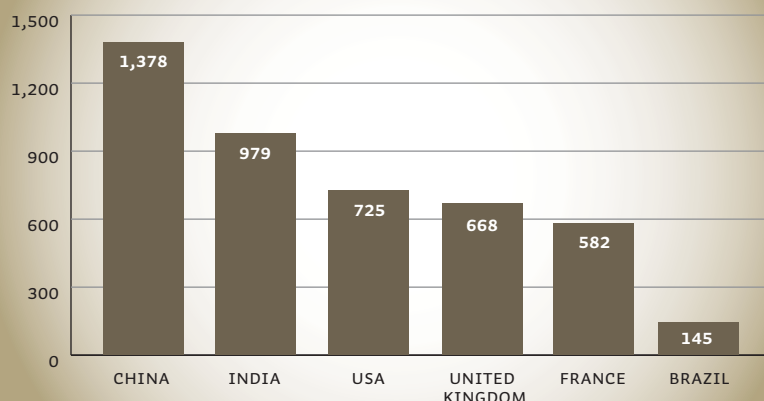
While developed nations are still the principal recipients of FDI, the Asian countries stand out as having the greatest number of new investment projects. As a story in the last edition of *PIB* showed, seven of the 10 cities that received most new FDI are in Asia. The rule holds good for countries as well. China and India hold top spots in the ranking for new investment projects, while Brazil lies in just 21st place, with 145 projects (*see chart 3*).

2 – Principal destinations for global investments

| RANK | COUNTRY | VALUE (IN US\$ BILLIONS) | PERCENTAGE OF GLOBAL TOTAL |
|------|----------------|-----------------------------|-------------------------------|
| 1 | USA | 251 | 16.7% |
| 2 | United Kingdom | 113 | 7.5% |
| 3 | China | 87 | 5.8% |
| 4 | France | 78 | 5.2% |
| 5 | Belgium | 72 | 4.8% |
| 6 | Germany | 66 | 4.4% |
| 7 | Canada | 63 | 4.2% |
| 8 | Hong Kong | 48 | 3.2% |
| 9 | Spain | 45 | 3.0% |
| 10 | Italy | 42 | 2.8% |
| 14 | Brazil | 27 | 1.8% |

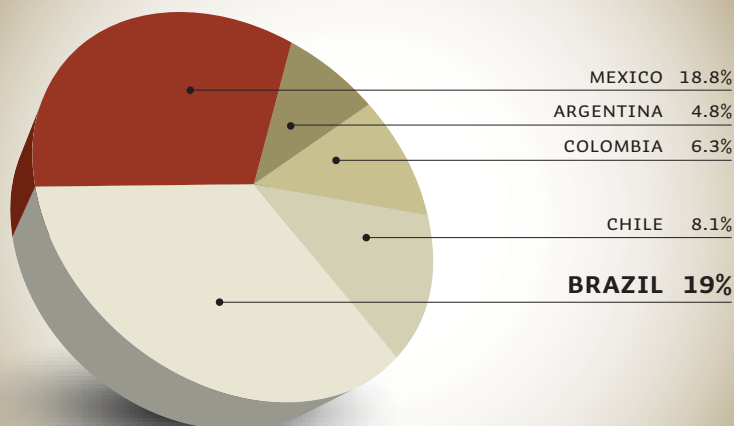
3 – Investment in new projects in 2006

In number of projects



4 – Flow of investments to Latin America in 2006

In US\$ billions



China looks set to lead the tables for several years to come. The country is the preferred destination for most companies and is committed to achieving the commercial standards laid down by the World Trade Organization. What's more, the price of Chinese products should remain very competitive. India on the other hand faces difficulties. While it has great potential to attract FDI, there are problems with the busi-

The search for cheaper labor in emerging nations is driving company internationalization

5 – Foreign investment in Brazil

In US\$ billions



ness environment, for example the political resistance to privatization programs, inflexible labor laws and obsolete infrastructure. This means that the government goal of reaching US\$25 billion in FDI in 2008 looks hard to achieve.

Latin engines

Latin America is set to notch up a 20% increase in FDI this year, led of course by Brazil and Mexico. In fact, the study shows strong acceleration of investment destined for Brazil, spurred by the country's strong macroeconomic performance, the growing capital market and the significant investments in sectors such as mining. In addition, various important deals have been concluded, such as the purchase of Arcelor Brasil by Arcelor Mittal of Holland for US\$4.5 billion, and of Sersa by Experian of Great Britain, for US\$1.2 billion (see chart 4).

6 – Countries with the best business environment

| RANK | COUNTRY | MARK |
|-----------|---------------|-------------|
| 1 | Denmark | 8.76 |
| 2 | Finland | 8.75 |
| 3 | Singapore | 8.72 |
| 4 | Switzerland | 8.71 |
| 5 | Canada | 8.70 |
| 46 | Brazil | 6.69 |

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As for Brazil, the study shows that the reforms of the last decade have placed the country on the path to sustained albeit moderate growth. The forecast is that the second mandate of President Luiz Inácio Lula da Silva will not succeed in overcoming the limitations of the country's infrastructure or be able to resolve the problems of the excessive tax burden. These deficiencies mean that the flow of FDI will not expand further, in addition to hampering the government's goal of having GDP grow by 5% a year (see chart 5).

The study shines a light on some well-known problems, ones that certainly reduce Brazil's attractiveness for foreign investors. Among them: anachronistic labor legislation, the changeable political environment and the lack of clarity in tax rules. For this reason, Brazil appears in just 46th position in the global rank of attractive business environments, behind countries such as Cyprus, Estonia and Costa Rica (see charts 6 and 7).

The net result is that Brazil's strongest point is the international operation of its companies. In fact, the study identifies the growth of multinational companies from Southern Hemisphere countries as an important phenomenon. There

7 – Business environment in Brazil

| SECTOR | MARK (0 to 10) | POSITION IN WORLD RANKING |
|---------------------------|----------------|---------------------------|
| Political environment | 6.2 | 40 |
| Macroeconomic environment | 8.0 | 25 |
| Market opportunities | 7.1 | 18 |
| Pro-market policies | 6.5 | 41 |
| Policy towards FDI | 7.3 | 39 |
| Foreign trade | 7.8 | 51 |
| Taxation | 4.7 | 78 |
| Financing | 7.0 | 43 |
| Labor market | 6.5 | 48 |
| Infrastructure | 5.8 | 52 |
| OVERALL AVERAGE | 6.69 | 46 |

Study shows that reforms of the last decade have led to moderate but sustained growth of the Brazilian economy

are still relatively few of these companies on the lists of biggest business deals, particularly global

mergers and acquisitions, and the volume of their operations is still small when compared to the giants of the Northern Hemisphere. But the number has been growing significantly in recent years, especially amongst Brazilian and Mexican companies. The purchase of the Canadian mining firm Inco by Brazil's Vale (formerly CVRD), for example, was the fourth largest operation of its type registered in 2006. More than ever, Brazil's companies are its spearhead in the globalized world (see chart 8). ■

8 – Largest M&A deals in 2007*

| BUYER | COUNTRY | COMPANY ACQUIRED | COUNTRY | VALUE OF DEAL (IN US\$ BILLIONS) | SECTOR |
|---------------|----------------|------------------|----------------|----------------------------------|-----------------|
| Iberdrola | Spain | Scottish Power | United Kingdom | 28,9 | Energy |
| KKR | USA | Alliance Boots | United Kingdom | 24,2 | Consumer goods |
| Japan Tobacco | Japan | Gallaher Group | United Kingdom | 19,5 | Consumer goods |
| Vale | Brazil | Inço | Canada | 16,7 | Mining |
| Astrazeneca | United Kingdom | Medimmune | USA | 14,7 | Pharmaceuticals |

* THROUGH JUNE

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4

Since more people are purchasing building materials, sector retailers such as Luiz Antônio of Brasília are increasing their sales.

2

The lower taxation is also helping small builders, like Pedro in São Paulo.

3

Denise and Gustavo from Bahia will be spending less on their new home thanks to reduced taxes on building materials.

1

Challenges Ahead for the Denim Giant

The merger between Brazil's Santista Têxtil and Spain's Tavex has created one of the world's largest producers of denim, the cloth used to make jeans. Controlled by the Brazilian company, the new venture is firming up its management systems and fine-tuning its strategy to launch a major attack on markets in Asia and the United States

ADRIANA SETTI, IN CASABLANCA

During the month of Ramadan, which this year ran from mid October through mid November, the Muslim world fasts through the day and spends the night in reflection and improving family relationships. But this period did not prevent employees at the Tavex factory in the Moroccan city of Settat continuing to work flat out, apparently immune to the pangs of hunger and thirst. At the Settat factory, which belongs to Santista Têxtil, part of the São Paulo-based Camargo Corrêa group, the workers were hard

at it amidst a frenetic confusion of threads in the looms and gigantic machines that carry out the finishing of the denim, the cloth that is the principal input used for making the most important piece of clothing in the modern world – jeans. And all the hurry was for a reason. “November 15th was the date set for starting our new operations,” said Said Messal, the Moroccan technical director at the factory. “By January 1st we must be running at 100% of capacity.”

Messal was describing a considerable challenge. After expansion, the factory will produce 20 million meters per year of





Without stopping:
Moroccan factory
works flat out even
during the month
of Ramadan

denim, an increase of no less than 54% over the current level of 13 million. This huge amount of cloth will help meet burgeoning demand in a global market that currently consumes 4.5 billion meters a year, enough to make 1.7 million pairs of jeans. Once the work is concluded, the dimensions of the baroque golden frame that surrounds the figure of King Mohammed VI, hanging in the factory reception area and measuring some 2 meters by 1.5 meters, will at last find more fitting new surroundings.

The ambitious undertaking is just a foretaste of what is to come, but it clearly shows the current situation of the company. The Moroccan factory is one of

14 production units of the world's largest producer of denim – the company currently holds 3.5% of the global market, measured by billings, and plans to raise that to 10% or 15% by 2011. Such numbers are the result of the merger between Spain's Tavex and Brazil's Santista Têxtil, controlled by Camargo Corrêa. The marriage between the two giants was one of the fastest and most conclusive yet announced. Initial overtures came from the Brazilian side, driven by the prospect of expanding their presence in the textile markets of Europe and the United States where the Spanish have concentrated sales from their factories in Spain, Morocco and Mexico. Following an initiative by Camargo Corrêa, the first



**Growing: Denim
production at the
Tavex factory in
Settat should expand
by 54% in 2008**



Two worlds: the Moroccan factory is just a "short step" from Europe

talks took place in the Spanish capital in November of 2005. Just a month later a team from Tavex was packing its bags to visit São Paulo to get better acquainted with its suitor.

Marriage of heavyweights

In March of 2006, the two companies signed a merger protocol, which was then ratified by Tavex shareholders in Madrid on June 20th. Immediately after this process, Camargo Corrêa became the owner of 59% of the capital of the new company. This share has now dropped to about 54.5% and, according to the initial agreements, it will fall to 50% in the coming months.

Headquartered in Madrid and trading as Tavex, using Spanish (and "Portunhol") as the official language for internal communication, this textile powerhouse has the capacity to produce 160 million meters a year of denim, in addition to 40 million meters of other cloth for sports and work apparel. The company has almost 6,000 employees and an enviable client list, including international fashion giants like Levi's, Diesel, Miss Sixty, Blue Cult and Zara, plus major Brazilian names such as Forum and Zoomp.

"The first results are starting to be seen, but the greatest impact will be felt as of 2008," said Herbert Schmid, the Swiss businessman who has spend a lot

160

160 million meters of denim per year: Tavex production capacity

of time in Brazil as president of Santista, and who now presides the new Tavex. "But the process of adaptation will take three years to conclude."

In the first semester of this year, the company generated net profit of R\$600,000, compared with losses of R\$1.7 million in the same period 2006.

In practice, the integration is being carried out on various fronts. The most symbolic of these was the creation of five committees, each composed of five fixed members, coming from both sides, in addition to some special invited members. These committees represent the five pillars of the company structure: human resources and management; marketing, sales and development; supplies; industrial; and finance and information technology. Since August of last year each committee has met monthly by videoconference with a face-to-face meeting every six months. "These groups seek to identify and capture synergies, as well as exchanging experience and knowledge," said Brazilian executive Nelson Tambelini Junior, human resources director at Tavex. "They also discuss ways of unifying the performance indicators."

With complementary areas of activity and similar business cultures, Santista and Tavex are now seeking to blend the better aspects of their respective man-



Quality: Santista processes will be introduced into Tavex

FOTOS: MARIO POMARICO

agement styles in a single melting pot. "There is no doubt that Santista has a lot to contribute in terms of its working practices, processes and quality control," Tambelini said. "This refers not just to obtaining certifications, like the ISO system, but also adopting labor policies and ways of evaluating performance, which have also been very well defined characteristics of our company."

For its part, Tavex contributes a strong position in the market for premium denim, where the company is strong in production know-how and has a portfolio packed with clients from the world of high fashion. This luxury segment has the highest added value and thus generates more profit. It is also the side of production that gives more scope to designers and allows the jeans industry to undergo constant renewal. A pair of jeans made from premium denim can cost US\$300, while a basic pair costs anything from US\$10 to US\$25. Tavex currently holds 15% and 3% respectively of the premium markets in Europe and the United States. With the recent acquisition of two factories in Mexico – whose prospects are enhanced by opportunities under the Central America Free Trade Agreement (CAFTA) – the goal is to reach 15% in two years. ■

Our goal is to be present in the Asian market as well

Herbert Schmid,
Tavex CEO

FLEEING FROM THE OLD WORLD

IT'S POSSIBLE TO COVER the 57 kilometers of highway between Casablanca, the largest city in Morocco with a population of 3.2 million, and the Tavex factory in Settat, in around 40 minutes. Add on the two-hour flight from Madrid to Casablanca and it becomes clear that the Moroccan factory is really just a short step from Europe. This reflects in practice the strategy of the company in transferring operations to low-cost production regions that are nevertheless close to its clients. "One of the initial impacts will be to shift production from Spain to Morocco," said CEO Herbert Schmid. "We are investing €17 million in this operation, and we hope to reduce costs by 30%."

With the Brazilian real currency gaining in value and the 2004 end of the WTO Agreement on Textiles and Clothing (ATC), which eliminated import quotas on products coming from rich nations, Santista Têxtil saw its profitability gradually erode. The entry of foreign products forced down the price of denim by 15%, reducing Santista's gross margin from 28% in 2002 to 17% in 2005. Meanwhile, Tavex also faced problems because of competition in Europe from Asian producers. The merger was a question of survival for both. According to statistics from the International Textile Manufacturers Federation (ITMF), 89% of all weaving equipment sold in 2006 went to Asian manufacturers. China

alone produced 43% of total world fiber output. The roughly 300 Chinese denim factories are responsible for one third of world production. However, 90% of their output is of basic products, leaving space for makers of premium cloths. "We are already close to three major commercial blocs and our goal is to be present in the Asian market as well," Schmid said.

China is close to Japan, where the consumption of luxury models represents 25% of total jeans sales, the same percentage as in Europe and the United States. Additionally, China is the world's fastest growing domestic market, both in relation to basic products and for premium items. This is more than enough reason to pluck up courage and face up to the fury of the Chinese dragon.



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FUEL TO CHAN

Sugarcane has always held great importance for the Brazilian economy. Now the whole world is looking for sources of clean energy, and the raw material for ethanol is the basis of a supply chain in which Brazil masters all the technology. And it's about to become a global industry. **BY JOÃO PAULO NUCCI**

Pay attention. What you just read in the title, and what you'll read in the following pages, isn't jingoism. Brazil really does have a concrete chance of participating in and even leading an important revolution in the world economy. The realization that global warming is not just some boring spiel of ecologists but a concrete threat to life on our planet finds Brazil ready and prepared with the most favorable conditions in the world to produce clean, renewable energy. What's even better, the country has technology that, if replicated in other countries, has the capacity to significantly reduce the emission of the greenhouse gases that cause the problem.

Brazil is the world's largest producer of sugarcane. Of every three sugarcane plants in the world, one grows in a Brazilian plantation. Ethanol-powered cars have been a regular sight on Brazilian streets for almost 30 years. What's more, because it adds ethanol to regular gasoline – the current mix has between 20% - 25% ethanol, depending on availability – Brazil has the world's least polluting fuel. Brazilian ethanol production is 16 billion liters, which last year earned the country's distillers more than US\$6 billion.

"The opportunity for the sector is not limited just to ethanol," said Marcos Sawaya Jank, president of the São Paulo Sugar Cane Agroindustry Union (Unica). "Our technologies also allow for converting sugarcane biomass into electric power, for example."

As we can see, the possibilities are immense, and Brazil has a prominent

position throughout the fuel industry of the future. It has the most advanced plantations and the greatest abundance of land for new sugarcane crops. It has the world's most modern and productive distilleries. Brazilian industry exports equipment to build ethanol plants in dozens of countries. And there's more – the flex-fuel automobile engine that can run on any mixture of ethanol and gasoline was de-





GE THE WORLD

veloped in the engineering departments of the major automobile makers located in Brazil (see story on page 40). Engines of this type are now standard on virtually all new cars sold in Brazil. And there's more. Start paying attention to another clean fuel, biodiesel. Following a decision by the federal government, as of 2008 all the diesel sold in Brazil must contain 2% of biodiesel. And as this proportion increases, there will be a noticeable and positive impact on the quality of air in the major cities.

In the long run, and with other countries progressively adopting a similar posture, this could add up to an effective contribution to reducing global warming – in the same way that another Brazilian creation, the market for carbon credits (see story on page 40) could also have an effective participation in this question. The truth is that in this area, the world wants what Brazil has to offer. What does this mean? Apparently, there's a clear path ahead and the consolidation of Brazil as a major energy power in the 21st century would seem to be just a matter of time. This is even more true after the recent confirmation of the potential of the Tupi deep water oil field in the Santos Basin, that will propel Brazil into the club of petroleum exporting countries. All this makes the future look even more propitious – Brazil could simultaneously lead the production of clean fuels and be a major producer of the most traditional source of energy. Is this what's really going to happen? Will it really be so simple? It's as well to exercise a little caution.

In the first place, the world still lacks a formal market for major transactions in the new fuels, similar to the one for


petroleum. There's still a lot of talking to be done before ethanol becomes a commodity with globally-recognized prices. And for this to happen, Brazilian producers will have to adopt a negotiating posture different from that which they have traditionally used in the domestic market. "It's one thing being a wise guy in Piracicaba," said Rubens Ricupero, a former ambassador and finance minister, referring to the city in São Paulo state which sits in the center of a major ethanol producing region. "It's quite a different matter being respected as a partner at the negotiating table by major international organizations."

World star

Be that as it may, ethanol is a world star among the renewable fuels and all the sectors that comprise the ethanol production chain are having their best moment ever. "Brazil today produces what are by far the most modern and best equipped sugar mills and ethanol distilleries, way ahead of any other country," said Plínio Nastari, an agribusiness consultant for Datagro. "The world's sugar and ethanol companies come to Brazil looking for technology." The country may be leader, but it is not alone. According to Nastari, Brazilian manufacturers have significant competitors for specific pieces of equipment, for example the United States in the production of boilers and Turkey in diffusers. "But nobody dominates the whole productive chain from start to finish, like Brazil does."

It's estimated that there are around 100 ethanol distilleries on order, which creates a kind of waiting line in the sector. Today it's impossible to acquire a complete plant in under two years, while historically the average

for delivery used to be 10 months. Exports represent around 10% of the sector, but this will tend to increase a lot in the coming years. "The great breakthrough will come in 2015, when the United States could become ethanol purchasers," Nastari said. The world's largest consumer market looks set to become an importer when it exhausts its domestic capacity for producing ethanol from corn, possibly in the middle of the next decade.



**Brazil has a
unique chance
to lead a
world-wide
energy
revolution**

In the meantime, Brazilian companies are gearing up to meet the growing demand. Dedini Indústrias de Base, the country's leading maker of sugar mills and controlled by the Ometto family, grew from billings of R\$450 million in 2003 to R\$1.8 billion in 2007. Around 70% of this comes from the sugar and ethanol sector. And growth for 2008 is predicted at no less than 60%. "We are participating in various infrastructure projects in segments such as petroleum, gas, mining, paper and pulp," said Sérgio Leme dos Santos, vice-president for corporate affairs of the company which is located in Piracicaba and was founded 86 years ago. "But the major impulse will come in the sectors of energy, sugar and ethanol."

Investments of over R\$100 million since 2003 have allowed the company to double capacity from 12 to 24 mills per year. Through 2010, that should reach 33 complete mills per year. In August, Brazilian President Luiz Inácio Lula da Silva participated in the inauguration in Jamaica of one of the innumerable mills that Dedini has built around the world.

Dramatic recovery

Dedini's current situation is the complete opposite of what it looked to be at the end of the Eighties. At its peak the company had 11,000 employees, but it entered the Nineties swamped in debt. Its principal competitor of the time, Zanini, belonging to the Biagi family, was also in difficulty. Zanini temporarily joined its operations with Dedini but ended up driven under by the reduction in the demand for ethanol powered cars, and went bankrupt. Former Zanini employees created more than 500 companies from the spoils and are now active in the sector, almost all of them in the São Paulo city of Sertãozinho, which is near Ribeirão Preto and also an important center for sugar cane production. "It's possible to order up a complete mill here in Sertãozinho, without having to buy anything from outside of the town," said businessman Mário Garrefa, president of the Sertãozinho Industry Center.

The city of just over 100,000 residents is completely surrounded by plantations, and describes itself as the



**São Paulo distillery:
the world wants
Brazilian technology**

PAULO LIEBERT/Æ

world's leading center for sugarcane technology and equipment manufacture. Dedini still has five factories in Piracicaba, but its main factory for heavy equipment is in Sertãozinho. Its major competitor Caldema, specialized in boilers, is also going through a great time. "We have grown 100% in the last three years," said Alexandre Martinelli, commercial and marketing manager for the company, but choosing not to reveal his sales by value. The company has 500 employees and great tradition in the sector. It was founded 1972 by the same Ettore Zanini who founded Zanini along with the Biagi family in the Fifties.

Spurred by heavy industry and ethanol, the local economy is booming as never before. From 2001 through 2004, the economy of Sertãozinho expanded by 38.7%, according to the IBGE. Between 2005 and 2006, some 5,000 jobs were created in the formal economy. And in the first eight months of 2007, industry alone added a further 5,000 new jobs. Local manufacturers have full order books through 2010.

Things are so good that the historic name of Zanini is being reactivated by the Biagi family, owner of Crystalsev e and Santelisa Vale, two of the leading Brazilian producers of sugar and ethanol. In September, a holding company was created to handle the capital goods interests of the group. So far, it encompasses just two companies, Sermatec and Renk Zanini, but the group is eager to invest in heavy industry, and has the funds. From the original Zanini group there remains an show pavilion in Sertãozinho which houses the principal trade fairs of the sector, Fenasucro and Agrocana, which take place simultaneously. Last September, over R\$1.8 billion of business was done in four days. ■

havaianas
As Originais do Brasil

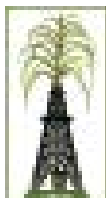




A Long Road to Travel

Brazil is firm favorite to lead the new global trend into clean fuels. The problem will be finding raw materials that can do for biodiesel what sugarcane has done for ethanol

BY MARCELO CABRAL



Today, as Brazilian sugar producers are starting to share with the world the experience they have gained in nearly four decades of building and perfecting a national ethanol industry, another group of companies has set in motion what could prove to be a second – and vitally important – stage of the race to find clean fuels. Biodiesel produced from animal fats, soy, dendê palm nuts, peanuts and dozens of other oil-bearing plants could soon be a rising and shining star in the new scenario. According to data from Brazil's National Petroleum Agency, the country already has around 150 mills producing biodiesel, and requests for installation licensing for new mills arrive all the time.

Mills already in operation produce nearly 180 million liters a year of biodiesel, but this is far short of the target set by the government, to mix the



A Petrobras biodiesel production unit: Brazil already produces 180 million liters per year

MAURICIO LIMA/AP

new fuel into regular diesel and substitute 2% of the petroleum-based fuel by January 2008. Brazil today consumes around 40 billion liters of diesel per year. Even so, the outlook is promising. Whichever way you look at it, the first impression is that biodiesel is right now the hottest new fuel around.

There are several reasons to think so. Firstly, the technical questions: while gasoline engines had to undergo a series of modifications to become reliable and efficient when running on ethanol, diesel engines need absolutely no adaptation. It's just a question of filling the tank



The challenge: production must not eat into food supplies

EDUARDO NICOLAU/AE

with the clean fuel and switching on. It's worth recalling, in fact, that when German engineer Rudolf Diesel took his motor to a Paris exhibition in 1898, just one year after inventing it, he chose to run it on peanut oil.

Another relevant fact is that the technology used to produce biodiesel is well known, cheap and relatively simple. It's just a question of removing the glycerin from oils of animal or vegetable origin and they can provide power output that, in the view of the greatest enthusiasts, can even be better than that of petroleum derivatives.

First steps are now being taken to produce biodiesel on a large scale. In August of 2007 the Bertin meatpacking company, one of the largest beef producers in Brazil, inaugurated Bertin Biodiesel located at Lins, 440 kilometers from São Paulo city. The factory cost the equivalent of just over US\$20 million and has capacity to produce 110 million liters of biodiesel per year from beef tallow, a slaughter-house byproduct that currently has little value. "The glycerin left over in the production process is used as raw material in

the cosmetics industry," said César Abreu, industrial director of the new plant.

To complete the picture, the world needs biodiesel, and just as in the case of ethanol, Brazil enjoys ideal conditions to produce it: agricultural vocation, available land and successful industrial experience in the production of clean fuels. What's more, in the wake of discussions about how to

prevent global warming, there's a general understanding that demand for biodiesel will quite literally explode. During a recent debate promoted by the Innovation Agency at Campinas State University, chemical

engineer Expedito José de Sá Parante, who in 1983 registered the first Brazilian patent for biodiesel production, estimated that global demand for the fuel could reach 700 or 800 billion liters through the next 15 years. Today, the world as a whole produces less than five billion liters of biodiesel.

Seen in this light, the outlook looks promising. The world wants the new fuel. And once companies of the size of Bertin start to become active, it would seem that there are

The technology is cheap, well-know and ease to use

no more obstacles to large-scale production. Should we expect, therefore, that biodiesel will soon be as important within the clean fuels sector as ethanol is today? Unfortunately, it's not that simple.

An infant industry

It's essential to understand that, contrary to what we might think at first sight, there are problems, they are substantial, and if they are not resolved then there will not be significant progress. "Biodiesel is still at the stage of an infant industry, taking its first steps," said Marcos Jank, president of the São Paulo Sugar Cane Agroindustry Union (Unica). The list of problems is a long one. In the first place, there's still no agreement about what is the best raw material from which to produce biodiesel. Even investments like that of the Bertin group, no matter how promising they might be within the context of their own supply chain, will always be limited by their supply of raw material.

Even if the tallow of all the 40 million head of cattle slaughtered yearly by Brazilian meatpackers was used to produce biodiesel, it would still be necessary to look for other sources of raw material. And when we analyze the other possible raw materials, we can see that while all offer some potential, none of them looks likely to be the sought-after "sugarcane of biodiesel". The raw material currently most used in Brazil is soy, which the country grows in vast quantities. But soy offers the lowest rate of conversion of all the oilseeds – oil represents just 18% of each grain, the rest being protein. In the case of dendê palm oil, the nut contains 28% oil, but dendê is not so widely grown, and could also suffer criticism that a popular food is being used to make fuel.

**In the laboratory:
lots of research
to find the ideal
raw material**



PETROBRAS/HANDOUT

For other alternatives, the problem is different. Castor seed, for example, would be the ideal type of plant. It has no food value and almost half of it (44%) is oil. However, this oil is an extremely fine lubricant, already used in the aerospace industry, and is very expensive. Burning it in a truck engine would be a waste. "It would be the same as using the very best olive oil, a very valuable product, as fuel," said agronomist Mário Fontes, a director of Bloom-

ingtrade, a company that specializes in selling biodiesel on the world market. "A great waste."

Europe, where 70% of the vehicle fleet is powered by diesel, is the region of the world that is currently giving most encouragement to the consumption of biodiesel. A study by the International Energy Agency showed that to substitute 5% of European diesel by biodiesel it would be necessary to dedicate 15% of all the agricultural land on



Putting plans into practice: starting January, 2% of diesel must be of vegetable origin

DADO JUNQUEIRA/AGF

the continent just to growing sunflowers, which are another possible source of raw material. In practice, that would be impossible in a continent where every square inch of available land is hotly disputed.

Another possibility is reusing oil that has been used to fry food, but it has not yet been possible to estimate the potential productive capacity of this market. "Reusing this oil could become an important option in some regions that need to dispose of significant amounts of waste oil," said Ricardo Dornelles director of the Renewable Fuels Department at Brazil's Ministry of Mines and Energy.

One possibility that is always mentioned is the *jatropha curcas*, also known as the Barbados nut or physic nut, a small oilseed tree that grows in the Northeast of Brazil but which is not currently included in the National Crops Register of the Ministry of Agriculture. Everything suggests that this bureaucratic problem will be resolved and steps are already being taken to use the plant to produce biodiesel. At the end of November, Spanish company CIE, that country's largest producer of biodiesel, closed a deal with NNE Minas Agro Florestal for an initial investment of almost US\$4

million to produce *jatropha curcas* seedlings in Brazil.

First shipment

Specialists say that Brazil's biggest trump card to become favorite in the biodiesel race is the situation of other countries. According to the specialists, there is no lack of potential. "Brazil can be a giant (in this sector) thanks to its competitive differentials," said Weber Amaral, director of the National Biofuels Center (Pólo Nacional de Biocombustíveis). "With raw material representing more than 70% of the cost of biodiesel, producing this more cheaply means a much lower final price."

Sérgio Tadeu Cabral Beltrão, executive director of the Brazilian Biodiesel Union (Ubrabio) sees it the same way. "We are the only country that combines the best of four factors: land, technology, climate and manpower. Other countries might have one or other, but none has that combination." And Alessandro Teixeira, president of the Agency for Promotion of Exports and Investments (Apex-Brasil), observed that "by it-

self, the State of Pará has the potential to supply more than half of the world market, provided it can viably implant large-scale production."

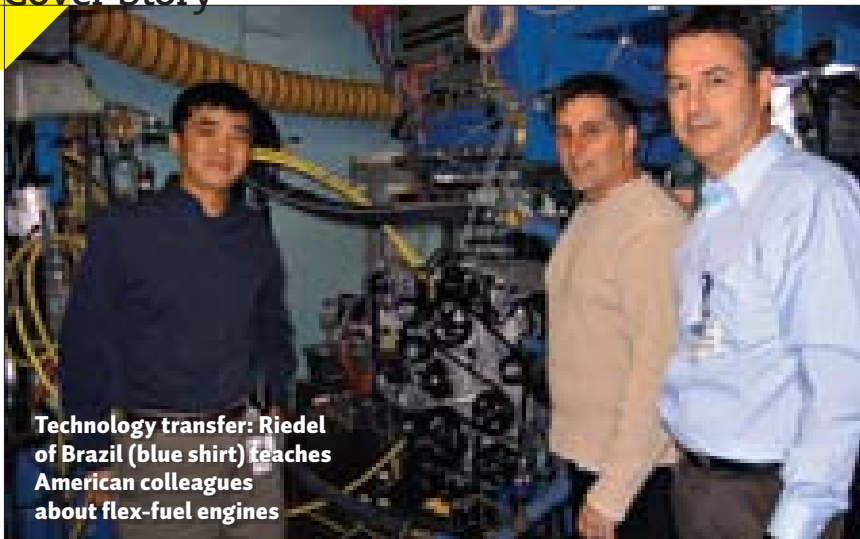
The first signs that the experts could be right are starting to appear. "European petroleum companies are short of diesel, and will more and more be needing biodiesel," said Fontes. One example of this is Spain's Repsol YPF, which has been seeking out contacts with Brazilian producers who can supply it with biodiesel. Swiss company Gebana has also announced the purchase of 1.5 million liters from a group of small producers comprising 300 families in the region of Capanema, in the north of Paraná State. Gebana will pay over the market price because the families use production techniques that do not harm the environment.

Petrobras has closed a deal to supply biodiesel to Portuguese petroleum company Galp. The two companies will create a joint venture to market the product in Eu-

rope and to encourage the use of the fuel in African countries such as Angola and Mozambique. Brazil's largest producer, Brasil Ecodiesel, also announced that it would make its first export shipment by the end of 2007, destined for

Germany. Another good option for Brazilian companies is exporting Brazilian technology for biodiesel. One example of this came with Biocom, which this year sold 10 small biodiesel production units to the United States. The total value of the sale was around US\$1.3 million. In other words, when all is said and done, biodiesel looks set to be a promising business. ■

Brazil has land, technology, climate and manpower suitable for production



Technology transfer: Riedel of Brazil (blue shirt) teaches American colleagues about flex-fuel engines

GM/HANDOUT



From Pupils to Professors

Brazilian automobile engineers are teaching their head office colleagues the secrets of flex-fuel engines **BY VICENTE VILLARDAGA**



Brazilian engineer Paulo Riedel spends his days in the vehicle power plant laboratory of General Motors in Michigan (USA). More precisely, he is working in the

global headquarters of the group's Powertrain division, which is responsible for engines and gearboxes. It's a product development nucleus with 90 technical staff that gathers together all the knowledge of innovations made in GM subsidiaries around the world – a center of excellence that interacts with GM's three other global development units to generate improvements for the vehicles sold in the American market.

Riedel, who is 43 years old and has been with GM for 23, is an experienced professional. He's a specialist in flex-fuel engines and the use of biofuels, and this is his

second spell in the United States. Riedel's recent career path is an excellent illustration of an important change in the status of Brazilian engineering, which has recently switched from being an importer to an exporter of knowledge.

This trend isn't exclusive to GM. Other major vehicle factories located in Brazil are following the same path of selling technical services to other subsidiaries. And there's no doubt that Brazilian factories have become the benchmark for making compact automobiles with high environmental efficiency.

In his first visit to Michigan, at the start of the Nineties, Riedel went to learn. Now, the roles have

changed – he went much more to teach than to learn. "Brazilian engineering has gained prominence because the US market is turning to flex-fuel engines," he said. "People want smaller, more efficient engines which use clean fuels and are more powerful, like the Brazilian engines." GM is already offering cars with the new engines in virtually all market segments in the United States.

Ford has a design, development, certification and approval center at its Camaçari plant in Bahia, Northeastern Brazil, handling vehicles for the South American, Mexican and

Australian markets. The center employs some 700 people and includes a design studio, electrical and electronics laboratories and test tracks. Brazilian engineers are responsible for tests, engine calibration and internal consultation for all markets in Latin America.

GM-Brazil billed
US\$
200
million
in 2006 by
selling services to
other countries



Flex-fuel engine: the American market wants to use cleaner fuels

GM/HANDOUT

Working at a distance

Some of GM's Brazilian engineers have become global professionals, contributing to internal technical discussion forums and travelling constantly to help with product development in other countries and to handle engine calibration, the main service offered by the Powertrain division.

Many technicians go to other factories for short spells. And remote, on-line working is also becoming more common. But some engineers end up developing an international career and moving to other countries. There are at least two Brazilian engineers in senior positions at the engines division of GM's Chinese operation. Antônio Ribeiro has been at Patac, the Shanghai engineering center, for eight years, and is responsible for one of the product lines. Jean

Launberg, the other Brazilian, is working as an executive in China, in the company's planning area.

"This interchange is not new, but it has grown recently," said Vicente Lourenço, engineering director of Powertrain. "This is due to a combination of factors,

such as the increased demand for cheaper, environmentally-correct vehicles in emerging markets."

The Powertrain team within GM-Brazil totals around 300 engineers, of whom 10% are entirely dedicated to projects for other countries. The rest are focused on the

domestic market, but also end up participating in development projects for global platforms. Some motors originally developed by Opel in Europe and made in Brazil are now being produced in Mexico and China using "tropicalization" projects that

Brazilian engineering is ready and able to develop complete projects demanded by other markets

were developed in Brazil, adapting them to emerging markets. Currently, some 15 engineers in the Brazilian division of Powertrain are working in other subsidiaries. And there are Brazilian technicians at the Opel factory at Rüsselsheim in Germany.

Capacity for innovation

Today, Brazilian engineering is ready and able to develop complete projects and to meet highly specialized requirements of other markets. GM in Brazil is responsible for developing the brand's latest generation of Flexpower motors. Volkswagen, Ford and Fiat have also developed new generations of motors in Brazil which are used in vehicles sold around the world. The new GM propulsion units equip Brazilian vehicles exported to other countries in Latin America and are used by the company in Mexico. GM Powertrain also sells its services to companies outside the group, for example Fiat in Brazil, and Suzuki in Japan.

So far, no other emerging nation has demonstrated the same innovative capacity as Brazil in the automobile industry. India and China, for example, still have a long way to go in terms of manufacturing efficiency and component quality. And other traditional vehicle makers (Europe, the United States and Japan) don't have the same range of abilities as the Brazilian engineers, whose specialty is small cars. According to Lourenço, the current advantage of Brazilian engineering lies in its experience and flexibility. "The Brazilian automobile industry has been around for 50 years and has accumulated a huge amount of knowledge," he said. "But we must continue improving and keep our costs competitive, otherwise sooner or later China and India might catch up with us." ■

CO₂ = \$\$\$

The market for carbon credits was born in Brazil. Now it's come of age and looks set to total US\$30 billion by 2012 **BY JOÃO PAULO NUCCI**



The citizens of Nova Iguaçu, in the low-rent Baixada Fluminense suburbs behind Rio de Janeiro's glittering beaches, could never have imagined that they were making

history back at the start of the 1990s when they put out their garbage. But the city dump, final destination for the waste of Nova Iguaçu's 830,000 residents, was to be the basis in 2004 for the first UN-approved project for the issuing and sale of carbon credits. The project was financed by the Dutch government and structured by EcoSecurities, a global company that has Pedro Moura Costa of Brazil among its founders. This project was to set in motion a market that will be worth US\$30 billion worldwide by 2012.

Carbon credits were created under the scope of the 1997 Kyoto Protocol, but the idea took time to get under way. However, new warnings by the scientific community about the state of the planet lent a new urgency to negotiations and deals. In September of 2007, an auction of credits held by São Paulo city authorities at the São Paulo Mercantile and Futures Exchange (BM&F) attracted no less than 14 interested bidders, most of them international financial institutions. The city treasury pocketed the equivalent of roughly US\$18 million, generated

by tonnes of garbage at the Bandeirantes landfill. Winning bidder was Fortis, a Belgian-Dutch bank, which said it plans to resell the credits. "We have a growing list of clients who need to buy carbon credits to compensate for the pollution that

they create," Seb Walhain, director of Environmental Markets for the bank, said at the time.

It's clear that demand is hotting up, but getting to this point has required a long learning process on the part of the financial and environmental communities, given the complexity of the established norms. Specialists say that although the carbon market has now reached a much greater state of maturity, people should be prepared for changes in the relatively near future, given that the current rules expire in 2012 when the Kyoto Protocol comes to an end. "So far, we have been working on the model of buying cheap and selling expensive," said Marco Antonio Fujihara, a con-



sultant with the Totum Institute (no relation to Totum Excelência Editorial, the publisher of this magazine). "Now, companies are discovering that it is possible to place carbon credits as a component of the financial structure of projects."

The problem is that 2012 will come sooner than we think, and there are no guarantees that the current market structure will continue. "Expectations are for a change in rules at that time," said Nuno Cunha e Silva, director for South America of EcoSecurities. However, there is still a demand to be met under existing rules. "Current projects are ready to generate in certificates the equivalent of 2.7 billion tonnes of CO₂, while es-

timates suggest that there are today buyers for up to 3.5 billion tonnes under current conditions," Cunha e Silva said.

The São Paulo city hall auction is seen as a landmark in the relationship between the Brazilian public sector and the carbon market. "We hoped we might get three bidders, but there were 14," said Stela Goldstein, assistant secretary to the government. New auctions will take place soon, for additional lots of credits generated at the Bandeirantes landfill. These will

be followed by the start of operations at another similar project at the São João landfill, also in São Paulo city. "We have paved the way and other cities and state governments can follow us," Goldstein said.


Getting to the stage of selling credits at the BM&F, as São Paulo city hall did, is just the final step of a long and arduous journey. São Paulo took the lead because it has landfills that are much larger than those of any other Brazilian city. That means there is substantial scope for burning the gas, which also allows for generation of energy from the garbage. "In addition, there was all the process of management at the landfill to allow the project to be implemented," Goldstein said.

São Paulo city auction attracted 14 bidders and raised US\$18 million

Although the auction is convenient for public administrators, because it avoids the need for public tenders and other bureaucracy, it is not the only possible solution. The government of Amazonas State last June launched a project called Bolsa

Floresta ("Forest Grant") which will remunerate local communities in preservation areas if they help to keep the forest intact. The project could benefit 60,000 families, and will use financing from carbon credits. However, since the reduction in emissions resulting from preventing deforestation is not authorized under Kyoto, the state government plans acting in a kind of parallel carbon market, better known as the voluntary market.

The idea is harness a different kind of motivation to sell the credits, not just compliance with Kyoto. "We want to attract governments, companies and individuals who are concerned about social responsibility," said Virgílio Viana, Amazonas State secretary for the environment. Buyers of the "Forest Grant" will receive a document from the government certifying to carbon sequestration resulting from the avoidance of deforestation. There is hope that this kind of document will come to enjoy the same validity as official carbon credits in future versions of the Protocol. Let's hope it happens. After all, despite recent progress, Amazon deforestation accounts for 75% of the 1.4 billion tonnes of CO₂ that Brazil emitted in 2006, placing the country fifth top in the world rank of polluters. If the "Forest Grant" takes hold, the world will be grateful. ■



Conservation: Amazon State plans using credits to save the rain forest

STOCKXPERT

Old Ways, New Ways

There's a paradox in the sugarcane sector: on the one hand, modern mills and distilleries; on the other; outdated labor relations. But this is changing **BY ARMANDO MENDES***



Harvesting sugarcane is backbreaking, exhausting work. Each cane cutter strikes his machete from 6,000 to 10,000 times per day, bending and straightening up each time. The cutter walks at least four kilometers along plantation lines cut an average of 12 tonnes of cane per day. Twenty years ago the average was six tonnes a day, but competition from mechanical harvesting has forced workers to increase their output.

The effort, under a burning sun and heavy dust, can lead to cramps, illness and even death. Numbers vary according to the source (and producers contest the data) but labor unions and NGOs speak of 17 to 19 deaths from overwork in São Paulo in the last three years. TV and newspapers show cane cutters covered from head to foot with old clothes to protect themselves from the sun and from cuts by the sharp leaves. There are also frequent reports from around the country that cane cutters miss out on the basic rights specified in Brazilian labor law, suffering abusive conditions and sometimes forced labor.

There are two very different and contradictory sides to the Bra-

zilian sugarcane agribusiness and its showcase product, fuel ethanol. On the one hand, it seems to be on the cutting edge of technology, capable of supplying a giant country with clean and renewable fuel, a goal that's just a distant dream for many rich countries. On the other hand, sugarcane helps keep labor relations outdated and degrading. It's an eminently Brazilian paradox and an urgent challenge, because Brazil's chances of becoming a major global producer and exporter of fuel ethanol depend on finding good answers to this dilemma.

Historic contradiction

Workers' and employers' representatives draw on the same historic sources to comment the contradiction. "Sugarcane has been in Brazil for 500 years and is linked to sad episodes such as slavery," said Marcos Jank, president of the São Paulo Sugar Cane Agroindustry Union (Unica) which represents producers in Brazil's principal cane and ethanol producing area. "At the same time, it's one of the most modern activi-

ties generating clean products such as sugar, ethanol and electricity."

The same initial viewpoint is echoed by Kjeld Jakobsen, former president of the Social Observatory Institute, an NGO linked to CUT, a major national labor confederation and to Dieese, an inter-union research NGO: "We have to remember that just a hundred-odd years ago, the people cutting the cane were slaves, and manual labor is still undervalued in Brazil today, even in the cities." As its name might suggest, the institute monitors the

labor and environmental conduct of companies and economic sectors.

These days, cane cutting is an occupation that attracts unskilled laborers, many of them mi-



Many producers avoid responsibility for social and environmental problems



Cane cutters in São Paulo State: backbreaking, exhausting work

JOEL SILVA/FOLHA IMAGEM

grants in search of temporary work. Around 40% of the 243,000 temporary workers in São Paulo State in 2005 came from neighboring Minas Gerais State and from the arid scrubland areas that lie inland from the Northeast coast. On average they earned R\$620 to R\$800 per month – currently some US\$340 to US\$440 – during a season lasting up to eight months per year.

These temporary workers are caught in a system that exists specifically in the sugar industry. Generally speaking, cane planters are not sugar or ethanol producers. The mills and distilleries buy much of their raw material from cane planters who often use intermediaries to supply migrant labor. And many producers, when faced with labor and environmental problems, try to pass that responsibility down the supply chain.

“They (producers) do not always feel responsible for what is done by the service suppliers who hire the day-rate workers,” said Clarissa Lins, executive director of the Brazilian Foundation for Sustainable Development (FBDS) in Rio de Janeiro. In September the FBDS published a study called “Corporate Sustainability in the Brazilian Sugar and Ethanol Sector”. In it, the NGO evaluated the situation by means of interviews and surveys conducted with directors and managers of 12 major groups that produce sugar and alcohol. The study showed the damage caused by the use of intermediaries in the relationship between employer and worker. “This is what gives rise to most problems of irregular conscription of workers, low-quality jobs and forced labor,” the study said.

Last year the Ethos Institute, a São Paulo-based NGO working in partnership with Unica, helped a

SUSTAINABLE AGENDA

FIVE STEPS ethanol producers need to take to convince the country and the world that Brazil produces biofuels in a clean and socially acceptable manner:

1 Accept responsibility for the actions of suppliers and outsourced service suppliers. Like it or not, the producing company is seen by public opinion as responsible for people working in its supply chain.

2 Give account of their actions both within the company and in public (to employees and to society). It’s essential to recognize problems and be transparent, while showing the positive initiatives.

3 Work together to spread good social and environmental practices. The public image of the

whole sector suffers both inside and outside Brazil when the bad examples get media coverage.

4 Understand that for a company to be sustainable it’s not enough to do good works in the community. Sustainability is not just handouts and philanthropy.

5 Build sustainable concepts and practices into strategic planning and the company’s day-to-day operations. Key directors and all employees need to know and take part in these processes.

group of 30 São Paulo sugar mill owners to undertake an exercise of self-criticism of their management, social and environmental practices. The conclusion was that mills were in line with general standards in the Brazilian labor market in terms of management quality, and half were better. But the picture changed for the social and environmental evaluation. The worst result was for the environment, and the second worst for relations with suppliers, including planters who supply cane.

"Most mill owners do not discuss these questions with their supply chain, there's still an attitude that the external supplier is not the mill's problem," said Maurício Mirra of Ethos, who coordinated the project. The study also showed that permanent, formally-hired mill workers tended to be better qualified than outsourced workers, and to receive better benefits. But in general these were industrial technicians and administrative employees, not field workers.

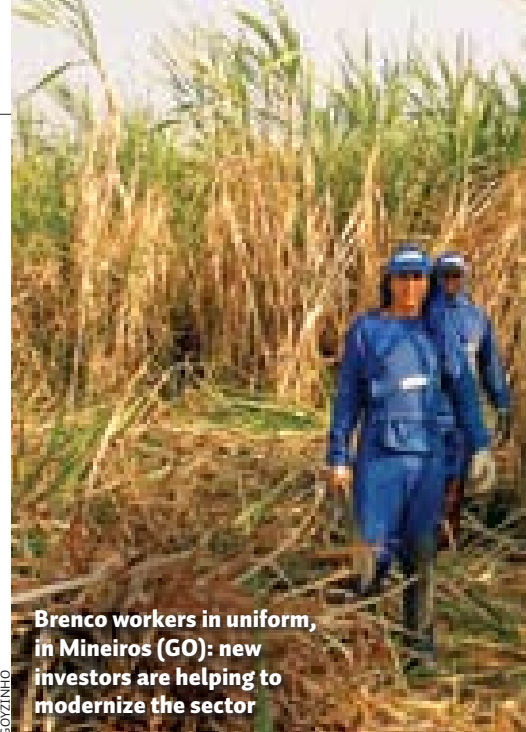
Thorny questions

For Jakobsen of the Social Observatory, it's a matter of applying Brazilian law which says that companies cannot outsource their core business, and that the hirer is responsible for the actions of whoever is hired. But it's not just a Brazilian problem. It is in fact one of the most difficult questions thrown up by globalization. A similar question almost brought down the mighty Nike, a world brand of sports shoes and equipment – and sponsor of the Brazilian soccer team. The American company was accused in the Nineties of turning a blind eye to slave and child labor in factories where its products were outsourced in Asia – the infamous sweatshops of China and Vietnam. The company took time in admitting that it, and not just its suppliers, was responsible.

In 2005, with the brand suffering an international campaign and boycott, Nike finally gave in. Not only did it publish an investigation of the problems discovered in its supply chain but it also assumed responsibility for improving working conditions at its outsourcers' factories, accepting that they be placed under independent inspection.

Back in Brazil, the studies suggest that there is awareness, but that effective action is irregular. "There is an understanding of the problem in plantations and mills, but this is not yet always reflected in changes in management practices," said Lins of the FBDS. "There is a great variation in behavior, with different practices throughout the sector." Mirra, of Ethos, sees signs of change – for example 30 mills submitting to a rigorous and wide-ranging self-evaluation of their conduct. And this year, another eight mills joined the process.

Jank, president of Unica, is betting on the power of example. He points to the rhythm at which mills are signing on to a protocol agreed June 2007 between Unica and the São Paulo State government, bringing forward the date by which mills must stop the practice of burning sugarcane before harvesting it – an important factor in environmental pollution. Under the protocol, burning in regular areas must end by 2014, against a deadline set in law of 2021. For areas of difficult terrain, the legal deadline of 2031 was advanced to 2017. Seventeen mills of the Cosan group, the largest in the sector, set the ball rolling by signing on in September. By



Breco workers in uniform, in Mineiros (GO): new investors are helping to modernize the sector

November, 117 mills were on board, out of 158 in the state. "Some will take the lead, others will watch their neighbors, see him change and not want to get left behind," Jank said.

For Lins, this power of example could gain support from internationalization. New companies with foreign capital have entered the sector recently, backed by investors who are used to dealing with demands for transparency and sustainability. One of them is the Brazilian Renewable Energy Company

(Breco), whose leading investor is Vinod Khosla, one of the founders of Sun Microsystems, an American IT giant. Henri-Philippe Reichstul, former president of Petrobras, is his chief executive. Breco

is creating five new agricultural business units in the Center-West states of Goiás, Mato Grosso and Mato Grosso do Sul, where it plans plantations covering 400,000 hectares, milling 24 million tonnes of cane per year. Breco director Humberto Bortolotto said that the company will un-

Unica is negotiating with labor leaders to ban outsourcing of cane cutting



VIDAL CAVALCANTE/AE

der no hypothesis break any labor legislation. "The sector is changing and has evolved a lot," he said. "It's moving to a new level, and we're part of the process."

Basic conditions

Obedying the law, in this case, means amongst other things NR-31, a norm that regulates field work and specifies that companies must supply rural workers with safe transportation, hot food, cold water, hygienic sanitary facilities, uniforms and protective equipment. None of this is new in the cities. But in the Brazilian countryside, which is still largely traditional and conservative, it could be almost a revolution.

"The great majority of producers will have to be as efficient and as sustainable as the best examples," said Marcelo Vieira, a director of AdecoAgro, a company that counts financier George Soros amongst its leading investors. "We must modernize, and whoever does not will be out." AdecoAgro is cultivating more than 20,000 hectares in Brazil and plans producing sugar and ethanol in Minas and Mato Grosso do Sul.

Unica is now negotiating the end of labor outsourcing with Feraesp, an organization that represents

formally contracted rural workers in São Paulo. The two bodies signed a protocol last year dealing with this and other points of conflict between workers and employers, amongst them piecework payment and the way each worker's production is measured. It's possible that a reduction in outsourcing will be announced early 2008. Unica has recommended its members to reduce this form of hiring, and has started a pilot project at the Vale do Rosário mill in the Ribeirão Preto region in São Paulo state to test various working systems with its suppliers. The project has support from Ethos and the World Bank.

Jank said that such initiatives could generate a set of standards for sustainable agribusiness in the sector that can be followed by all his member companies. A specialist in foreign trade and negotiations, Jank has dedicated the greater part of his time as president of Unica to social and environmental sustainability. "This is top of the agenda, it's essential to opening up markets," he said.

Foreign markets are in fact watching Brazil. "The green and fair trade lobbies are drawing closer and closer together," said Richard Oxley, director of Sugaronline, a London-based

consultancy. "I see the risk of pressure if ethanol supply is not clearly linked to ethical production methods." The European Union is preparing to substitute petroleum with imported biodiesel in the coming years (most European countries want to mix at least 5.25% of ethanol in gasoline by 2010, and 10% by 2020).

The future will also include certification for ethanol production, as today happens with wood, coffee and other agricultural products. This is the most viable way of letting the customer know that the product has been produced in a way that is environmentally clean and socially just. In the case of sugarcane, it also means mechanizing virtually all the harvesting. Machines will eliminate the backbreaking work but they will produce unemployment, if the migrant workers are not trained for other functions. Until then it is necessary to give these workers the same protection and care that already exist for other sectors. After all, oil and electricity workers also have dangerous jobs, but we don't hear of so many problems in those sectors. ■

**Additional reporting by
Lucianne Carneiro, in London*

With One Foot in Japan

Coffee growers in the Cerrado region of Minas Gerais have joined forces with a Japanese firm to ensure a ready market and good prices for their specialty bean **BY NELY CAIXETA, IN PATROCÍNIO**

Last September, 15 small Japanese specialty coffee roasters took part in a program of periodic visits to farms in Alto Paranaíba, in the Cerrado or tropical savannah region of Minas Gerais. The visitors were clients of Cerrad Coffee Japan, an importer in which a group of Minas Gerais coffee growers holds a stake, and for five days they listened to detailed explanations about planting systems, types of fertilizer, the use of natural methods for pest control which allow reduced use of pesticides, harvesting methods and environmental precautions. They also took part in two tasting sessions to find the batches of coffee most suited to the tastes of their

customers back in Japan. And when they were leaving, they made sure to take photos of the plantations and of the coffee farmers.

Acting as surrogate eyes and ears for their consumer is something these roasters do quite naturally. "Beside the counter where the customer is served, we always put a poster with the face of the producer and a short history of his farm," said Yukihiro Matsumoto, owner of a coffee roasting company in Kobe. "Showing that we know where the coffee comes from is a way of guaranteeing the quality of the product that our customers buy to take home." At a time when food safety and traceability are all the rage, attention to details like this



help guarantee many extra yen coming into the till. One hundred grams of Minas specialty coffee imported by Cerrad Coffee and roasted in Kobe will cost around 400 yen (R\$6.80) – double the price for regular coffee from Brazil and other places that the company used to sell until four years ago, when it



Café do Centro, in Tokyo: a Brazilian symbol goes international

A BRIDGE TO ASIA

Two stores in Tokyo mark the start of internationalization for Café do Centro

THE NAME ON the awning and the snacks would be familiar to anybody who knows the old financial heart of São Paulo, but the neighborhood couldn't be further away – near the Imperial Palace in central Tokyo. That's where Rodrigo and Rafael Branco Peres took their first steps for international promotion of Café do Centro, a traditional São Paulo roaster purchased in 1995 by the Branco Peres group, a producer of orange juice, sugar and ethanol, and an exporter of coffee.

These two cousins went searching for Japanese partners, and more than five years were to pass between initial conversations and inauguration of the first shop in June of 2006. Following advice of



MARCELINO ARAUJO/OBSERVAT

discovered the product from the Cerrado region.

Yukihiro took part in a marketing strategy which growers in Minas have been developing to ensure attractive markets and prices for their product. The strategy was launched with a bold decision. In 1987, a group of producers from the

region acquired 15% of the capital of Cerrad Coffee Japan, a company created years earlier by a group of Japanese investors who planted coffee in Paracatu, in the northwest of the state. The aim was to supply the Japanese market with specialty coffees – beans whose characteristics match the classification scale drawn

up by the Specialty Coffee Association of America, which ranges from 80 through 100 points (see box). During the negotiations, carried out by the Council of Associations of Coffee Growers of the Cerrado (Caccer), the Japanese were authorized to use the brand name Cerrado Coffee in exchange for the commitment to seek out purchasers for coffees produced in the region.

This gave rise to Cerrad Coffee do Brasil, headquartered in Patrocínio, a city in the Alto Paranaíba. At first there were 16 growers, now 20. The capital invested was divided into export quotas, each of which carried the right to just over 6% of the shipments destined to Japan. In the first year, just 500 sacks of 60 kilos each were exported. Today, the total is around 25,000 sacks per year, most of it with quality greater than 80 points. Coffees exported to Japan are sold in specialized shops alongside beans from countries that are recognized for their superior quality product, for example Kenya, Guatemala and Colombia. They are roasted by specialists to bring out

the local partners, the shop exudes a distinctly Brazilian atmosphere. The menu offers hot cheese bread, fried turnovers, chicken drumsticks in breadcrumbs, pots of bean juice, caipirinha (sugar cane rum with lime and sugar) and mango and passion fruit drinks.

Coffee is the same as served in top São Paulo restaurants such as D.O.M, A Bela Sintra and La Tambouille, and of course comes from Brazil's leading producing regions. The music offers bossa nova classics sung almost without accent by a Japanese singer. "Our partners wanted something that would be different from everything else in Tokyo," said Rodrigo Branco Peres.

Competition is very stiff. The Japanese discovered coffee just 15 years ago, but already they make up the world's third largest market behind the United States and Brazil. In the next 10 years, the Branco Peres cousins hope to spread a hundred Café do Centro shops through countries such as China, South Korea, the Philippines and

Singapore. To do this they must accelerate their rate of expansion – today they have just the two Tokyo shops. The second was opened six months ago in Ayoama, a neighborhood replete with embassies and smart stores.

They believe that if the product is successful in Tokyo, then it will do well throughout Asia. Once the brand is established, the way will be open to introduce ground and roasted coffee in chains of supermarkets in Japan and, who knows, neighboring countries. "To do this, it's important to have the brand well established," said Rodrigo. "First, we have to consolidate the business in Japan."

The initial goal was 500 customers per day within a year, but that was reached just four months after opening. The two stores required investment of US\$1.5 million and have average monthly billing of US\$90,000, trending upwards. "We're not impatient," said Rodrigo. "A business takes longer to mature in Japan than in Brazil."





MARCELINO ARAÚJO/OBSERVAT

Tasting time: attention to detail ensures better flavor and aroma

their maximum flavor and aroma. In the Tokyo coffee shops, a cup of this kind of coffee won't cost less than US\$6. Part of the coffee imported by UCC, one of Japan's largest roasters, is made into an iced drink sold in cans in the 7 Eleven convenience stores.

Wagner Crivelenti Ferrero of São Paulo, the great grandson of Italian immigrants who help put in the first coffee plantations in the region of Ribeirão Preto, invested around US\$135,000 to buy one and a half quotas in Cerrad Coffee do Brasil 12 years ago. Working in partnership with his mother and two sisters, he manages a 250 hectare farm in the municipality of Patos de Minas. The family also has another 550 hectares of plantations spread throughout the Alta Mogiana region of São Paulo and another farm in the south

of Minas. "Our motto is to produce quality," Ferrero said. "The partnership with the Japanese was important to underscore this awareness." He was one of the first in Brazil to make large-scale use of suspended coffee drying – a system in which a translucent screen is stretched a meter off the ground, to avoid contamination with the soil.

Ferrero's beans have won various prizes in quality competitions held for 13 years now by Italy's Illy Cafe and won principally by producers from the Cerrado region. Of the 25,000 sacks of coffee that Ferrero produces on average each year, he exports 2,000 to roasters in Japan, among them UCC. In the last year, the group of Brazilian growers has hired a trader to develop new markets outside of Japan. "We

are trying to open new markets in China and other Asian countries," Ferrero said.

The idea for Cerrad Coffee Japan came from a simple observation. Coffee, much more than soy or other commodities sold by the ton, offers a great increase in value provided it is treated with the care necessary to convert it into a premium product. With this in mind, Japanese investors who had developed a ranching project in the Paracatu region in the mid-eighties started planting coffee and investing heavily in quality. This group introduced into Brazil the washed coffee process on a commercial scale, similar to techniques used in Colombia and Central American countries. They were also pioneers in spreading advances such as irrigation systems for coffee plantations and selective harvesting of the cherries at the same stage of ripening, thus guaranteeing greater homogeneity of the beans.

The results of these techniques were encouraging. In a normal plantation, without any special care, growers achieve a natural rate of about 5% of specialty coffees. These end up mixed in with the lower quality beans. In the Paracatu plantations, thanks to all the innovations, it has been possible to obtain from 30% to 50% of superior quality beans. Even so, the farm pays a high price for innovations made at a moment when international prices were low and ended up being sold. "Much of the success of specialty coffees today is a result of these pioneer experiments handed down to this group of producers in the Cerrado," said Akio Yamaguchi, the 46-year-old director of the Patrocínio subsidiary of Cerrad Coffee Japan. "We created a solid base of quality and thus made it possible to win over and keep a demanding clientele." ■

Proof of authenticity

Just like the best wines, the coffee from the Cerrado region of Minas Gerais wants to have a Certificate of Origin



- 155,000 hectares spread across 55 municipalities
- Coffee production is 3.7 million sacks/year
- Grows 11% of all Brazil's coffee
- The only coffee region with Indication of Origin recognized by INPI, the national patents office. This is the first step towards a real Certificate of Origin



NELSON PEREZ/ LUMINA PRESS

for restructuring. In the meantime, Brazilians can only buy the brand abroad, in sales points in luxury outlets, or in large multi-brand stores such as TopShop in England or Urban Outfitters in the United States. In 2008, however, two Brazilian stores will be opened, one in Rio, the other in São Paulo.

Another factor that should help drive sales is a licensing partnership that has been negotiated with Italy's Braccialini group, makers of luxury bags, for the international distribution of AmazonLife products. Production capacity is currently about 1,000 bags a month, but will be increased.

Rubber over canvas

The AmazonLife brand was born out of the Amazon Vegetable Leather project, created by environmentalist Bia Saldanha. Visiting Acre, she saw how the local rubber tappers applied rubber over canvas, producing something that is very similar to leather. The product made its debut during the ECO-92 international environmental conference in Rio in 1992 and was an overnight sensation. By 2004 she was supplying raw material to Hermes, which prepared a special collection themed on the Amazon. But the business nose-dived the following year through bad administration and lack of resources.

The guardian angel for AmazonLife was executive and investor Paolo Dal Pino, then president of cellular telephone operator TIM Brasil. He bought the company because of its universal appeal. "The AmazonLife brand was unknown, but full of meaning and simple to communicate," he said. Even so, the business still faced difficulties. The solution was to bring in Angela as a minority partner, so acquiring her enormous experience of the global market. ■

Brazilian DNA

Ângela Hirata helped Alpargatas transform Havaianas – a brand of flip-flop sandals – into a global fashion statement. Now, as a partner in AmazonLife, she's using environmental appeal to ensure success for their bags and accessories

BY REBECA DE MORAES

Executive Ângela Hirata wants to do for the bags and accessories of AmazonLife, a Rio de Janeiro brand that uses natural materials obtained (legally, of course!) in the Amazon, what she did for Havaianas flip-flops. As foreign trade director for Alpargatas between 2001 and 2005, she was responsible for internationalizing the success of the flip-flop rubber sandal, so sparking one of the greatest repositioning exercises in the history of marketing.

Hirata travelled the world to transform Havaianas into a fashion icon. Now she's ready to do the same thing again, this time in the name of AmazonLife, where she has been for the last year. One important differential

in the 67 items of the product line is their very Brazilian feeling. According to Hirata this can ensure good sales in the four countries where they are already present – Japan, the United States, England and Italy. "Ever since Havaianas, what I sell abroad is Brazil," she said. "The product may have changed, but the DNA has to be Brazilian, which lends a touch of being laid-back and irreverent."

In her year at the helm of AmazonLife, Hirata has prompted an internal revolution. The products and the communications of the company have been revamped by the team from Oestúdio, a Rio agency of advertising specialists who also act as stylists. Additionally, AmazonLife's one and only shop, in Rio's Jardim Botânico neighborhood, was closed

The King who Invented Brazil

When Portuguese King Dom João VI crossed the ocean 200 years ago, Brazil ceased to be merely a colony and became part of the world **BY RICARDO GALUPPO**

The year of 1808 is much more important for Brazil than might be imagined by anyone who has merely glanced through the history books without paying attention to the quantity and quality of measures taken by Dom João VI as soon as he set foot in his South American colony. Or putting it better, colonies.

There are many reasons that Brazil in 2008 will commemorate the 200th anniversary of the arrival of the then prince regent. He was the first European sovereign to set foot in a New World colony, and more importantly the only one to give the colony the same status as the metropolis. With the measures that he adopted after his arrival in Brazil, with the laws that he revoked and above all his decision to make Rio de Janeiro the capital of his kingdom, Dom João VI was the ruler who gave the initial impetus for Brazil to transform itself into a country.

The sovereign arrived in Rio de Janeiro on the 8th of March, 1808, leading more than 10,000 of his subjects on a long and difficult sea

voyage. He was do more to ensure Brazil's territorial integrity and to forge cultural and political unity than any other ruler, or indeed any other national hero in the country's history. The Brazil that independence hero Tiradentes dreamt of freeing from the Portuguese yoke ran from the heart of Minas Gerais as far as the coast, while the Brazil that Father Caneca wanted to make a republic stretched at most from Ceará to Alagoas. On the other

Dom João did more to unify the country than any Brazilian hero

hand, General Bento Gonçalves years later didn't want to unite but rather to separate Rio Grande do Sul from the rest of the country. These different visions were understandable, given the difficulties of communication imposed by the colonial master. If Brazil gained the political and cultural unity that it has preserved to this day, then that can be credited above all to Dom João.

Prince regent of Portugal since 1792, the year when his mother Queen Maria I was deemed mad, Dom João was to become king in 1816, with a coronation in Rio de Janeiro. He went down in history as hesitant and cowardly, but it was

thanks to him that Brazil emerged from the infancy in which it had been kept through the 308 years since its discovery and started taking the first steps towards adulthood. Starting with Dom João VI, Brazil ceased to be merely a part of the Portuguese Empire and became part of the world. But not all his legacy is positive. He did nothing, for example, to eliminate or even relax the system of slavery which – apart from being inhuman and indecent – was one of the factors responsible for Brazil's monumental backwardness in relation to the rest of the world, backwardness that only now, in the 21st century, is starting to slip into the past. But be all that as it may, the monarch did much that was important. And positive.



The hammer and the anvil

All this, of course, must be seen in the light of the circumstances that led Dom João, the entire royal family and at least 10,000 absolutely desperate subjects to embark on 14 vessels of the Portuguese fleet in Lisbon harbor and set off across the Atlantic Ocean on an adventure that was to bring them to Brazil. Dom João did not decide to transfer his seat of government to Brazil because he wanted to be closer to the economic heart of the empire which, it was already realized in Lisbon, beat in the tropical colonies. He left because he was caught between an English hammer and a French anvil.

The two European powers were at war, and both wanted to sway Portugal to their side. Portugal was

at the time a solid European ally of England, her traditional trading partner. London wanted things to stay that way, and exercised the greatest encouragement and pressure for the royal family to get out. Paris demanded that Portugal cut its trade ties with England and accept Napoleon's terms: to hand over the Portuguese throne. Dom João was afraid he would face the same humiliating fate as his brother in law, Spanish monarch Ferdinand VII, who was simply booted off his throne. Fernando was brother to Princess Carlota Joaquina, the wife of Dom João, but he was not recognized by Napoleon. Fernando went to France to negotiate his position and ended up in prison until the end of the war.

The first measure taken by Dom João in Brazilian territory, during his stop-over in Salvador, was to sign a Royal Warrant on January 28th, 1808 opening up Brazilian ports to the ships of nations with which Portugal maintained stable relations. This meant they could anchor without running the risk of being sunk by coastal canons. The immediate impact of this was to establish direct trade relations between Brazil and England, and it led to some abuse. English merchant John Luccock, who arrived in Brazil a few months after the Portuguese court and stayed in the country for 10 years, wrote that soon after the opening of the ports England exported to Brazil a whole load of trinkets and items that were useless in the tropics – things like ice skates, heavy overcoats and a kind of charcoal-filled contraption that was used to warm up beds on cold European winter nights.

Apart from the bad faith of the English merchants, this reflected the ingenuous nature of a brand-new country that for centuries had been prohibited from establishing steady trade relations with any nation other than Portugal.

A little later, important countries established diplomatic relations with the new capital of the kingdom. In August 1809, the United States chose diplomat Thomas Sumter to be their first representative in Brazil. And as Napoleon's influence in Europe started to wane, so more countries began doing business with Brazil.

Of Brazil and Brazils

Most Brazilians know that Dom João VI was responsible for opening up the ports to friendly nations and for establishing the Banco do Brasil, the country's first bank. They know that he set up a judicial power, created the first non-religious high schools,

The crossing: the royal family landed in Rio with 10,000 subjects in March of 1808

AUTOR: GEOFF HUNT / ISMA / PROPRIETÁRIO: KENNETH LIGHT



THE KINGDOM OF BRAZIL

With the arrival in Brazil of Dom João VI, the hereditary captaincies into which Brazil was divided started taking orders from Rio de Janeiro, rather than Lisbon. This helped develop a feeling of unity which, until then, had been repressed by restrictive measures imposed by Portugal. To take revenge on Napoleon Bonaparte, Dom João ordered the invasion of French Guiana to the

allowed the building of factories, financed the first research for adaptation of plants to tropical climates, set up the Official Press and created the National Library. All this would be enough to ensure him an honored place in history. But he did much more besides. "Blaming Dom João VI for not being more than just a well-meaning monarch and describing his reforms as modest would be two injustices for which Brazilians cannot accept responsibility," said historian Manuel de Oliveira Lima, author of one of the most important books written about the period.

Until the prince regent arrived, there was no Brazil. There were Brazils, totaling roughly two million inhabitants, most of them slaves. Before his arrival, the greatest Portuguese authority in the American colony was the viceroy, who held court in Rio de Janeiro. However, despite what the pompous title might suggest, the power of the viceroy did not extend over all the colonies, it was limited to the district around Rio de Janeiro. He had no authority over the captain-generals who governed the 16 other administrative units that comprised the colony (see map). Each captaincy owed obedience only to Lisbon, from whence it took orders directly. It was a system very similar to that adopted in Spanish America which, upon freeing itself from Madrid, split into nine countries just in the southern part of the continent.

With the transfer of the court, Rio de Janeiro assumed the role formerly played by Lisbon, and many situations that had previously been banned were now encouraged. For example, a law dating from 1733 that barred any kind of communication or interchange between the captaincies was revoked. The same law had outlawed building highways in the

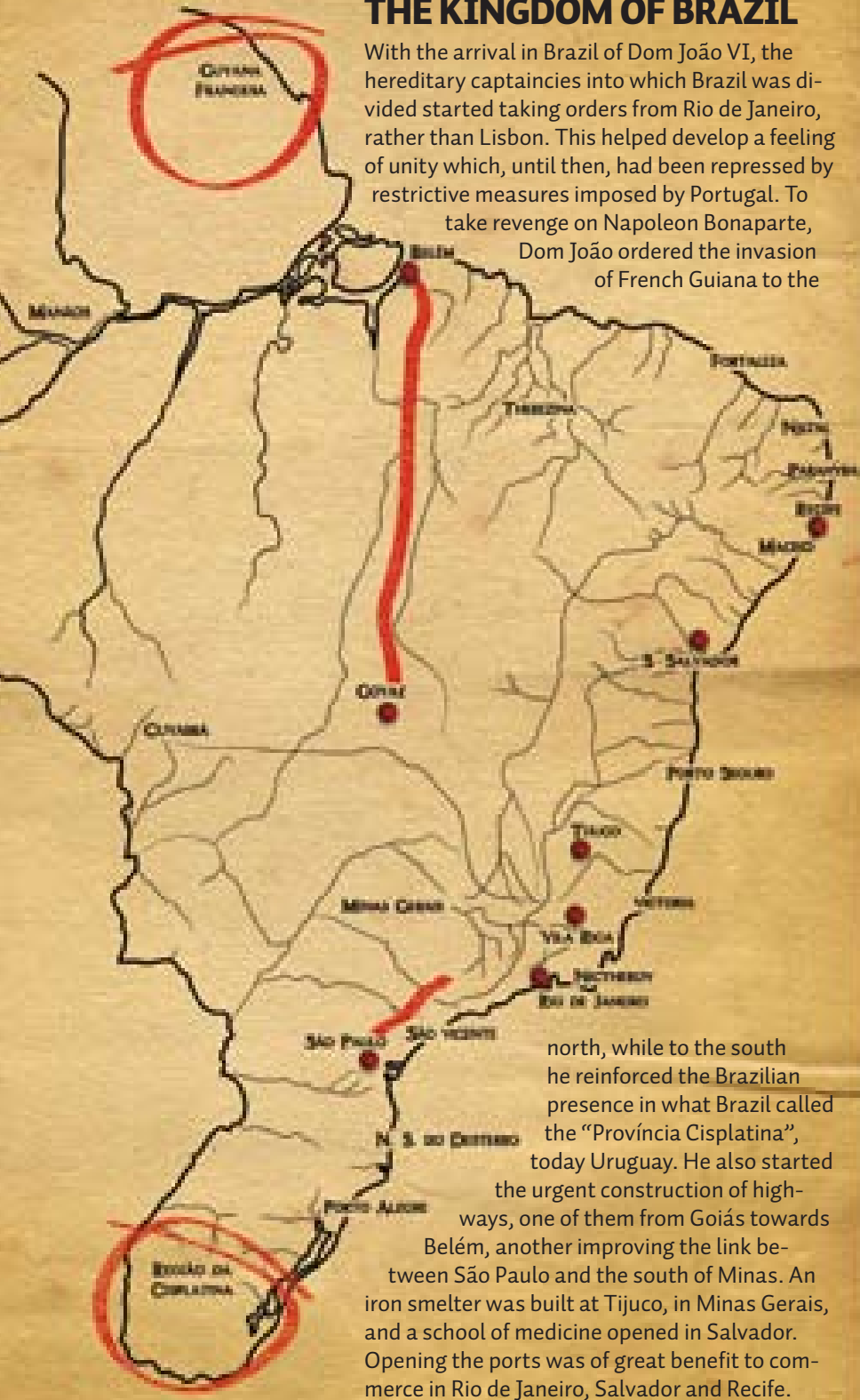
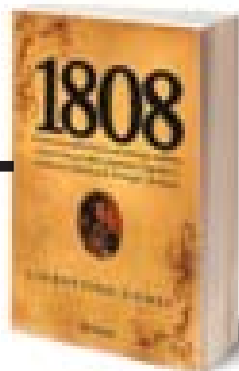


ILLUSTRATION: MARCELO CALENDIA

A EUROPEAN COURT IN THE TROPICS

THE FLIGHT FROM LISBON, the problems at sea, the arrival in Brazil and the changes promoted by Dom João VI in the political, economic and social life of the colony are detailed in *1808*, a new book by journalist Laurentino Gomes (Editora Planeta, R\$ 31,80). It's one of the most complete accounts yet of a period when Brazil was just starting to pave the way towards independence. Gomes offers a precise view of the times and his account goes beyond just the city of Rio de Janeiro. As far as possible, he tries to explain how the presence of the king influenced other parts of Brazil. It's a delicious dip into Brazilian history.



interior of the country, under the pretext of prevent smuggling of gold and precious stones. In his best-seller *1808*, journalist Laurentino Gomes notes that although he built the cumbersome and inefficient state framework that Brazil was never to lose, the prince regent was also smart enough to gather round him a group of competent and hard-working assistants. The first ministers named by Dom João, explains Gomes, had the job of "building a country out of nothing." And that is exactly what they did.

Among Dom João's key aides, pride of place probably went to Rodrigo de Souza Coutinho, the Count of Linhares. He was a remarkable figure, not least for his foresight. On the 22nd of November 1796, when he minister responsible for the Portuguese navy, he dispatched orders from Lisbon to his brother Francisco de Souza Coutinho, then governor of Pará in the Amazon, telling him to set up a system to control tree felling and – according to historian Oliveira Lima – to ensure that whatever was cut down was replanted. In those

days, of course, wood was the principal raw material for ship building. Coutinho was probably the first person in any position of authority to be concerned about promoting sustainable use of the Amazon, something that even today, two centuries later, has yet to be implemented.

Thanks to the highways that he build and with power centralized in his hands, Dom João was able to establish territorial unity, which his government then tried to extend. In-

Back in 1796, Minister Souza Coutinho wanted to promote sustainable use of the Amazon

fluenced by Rodrigo Souza Coutinho, he sent the Portuguese armies located in Brazil to march against French Guiana in the North, while to the south they occupied the Eastern Strip of the Vice-royalty of La Plata, the area that today is Uruguay. Just as he conquered them, though, he was also to lose these territories, so that Brazil gained what are to this day its northern and southern limits at Oiapoque and Chuí. The western frontier, however, was only to be defined several decades later, at the end of the Empire and the start of the Republic.

Hard work and fancy dress

The 13 years that Dom João spent in Rio de Janeiro were fundamental for Brazil to become what it is today. And his influences – for better and for worse – remain imprinted on the profile of the state and the nation. The first signs of a certain lack of enthusiasm for work exhibited by more prosperous Brazilians can be traced back to the Portuguese presence in Brazil, and to the spectacular impact that this had on the population of Rio de Janeiro. Be that as it may, the habit of delegating everything to slaves is rooted in the grandiose manifestations of Brazilian culture. Lubbock, the English businessman, recalled his amazement and did not spare the irony when describing the 1810 wedding ceremony of Maria Tereza, Dom João's daughter, to Pedro Carlos, cousin to Princess Carlota Joaquina. Large models of Portuguese strongholds around the world were assembled on carts, while the power of the monarch was illustrated by groups whose clothes made reference to American, European, African and Asiatic peoples under his dominion.

Such commemorations, complete with people in costume and large wheeled floats, were particularly beloved by Dom João VI. Take away from these parades the pomp that the monarch tried to give them, add on a musical background based on African percussion, then strictly prohibited, and build in the rhythm that black Brazilians were to create many years later, and there you have the embryo of today's samba schools. Historians have yet to study this, but if they do, it's highly likely that they will come to the conclusion that Dom João VI, with his love of allegory, has even left his fingerprints on the Rio Carnival which, two centuries later, has become one of the principal cultural features for which Brazil is known around the world. ■

The Eyes and the Ears of the Client

More and more Brazilian businessmen are interested in getting into China. To help them, a growing number of companies offer specialized services to locate opportunities, build partnerships, check products and smooth over cultural differences **BY JULIANA VALE, IN BEIJING**

China has become the great “factory of the world,” seducing even businessmen from the other side of the planet, like Brazilians, with tempting costs for all kinds of industrial operations. However, to do business with the Chinese, it’s essential to decipher a complicated fiscal system, understand laws that don’t make much sense outside of the Asian context and learn to negotiate prices and deadlines in a very different way from in the West. And last but not least, to dribble the language barriers. It’s for this reason that, as the demand for Chinese suppliers keeps on rising, so there are more and more companies called “China Entry.”

These are small and medium sized firms dedicated to making life easier for people who want to operate in China, but who lack the capital or know-how to mount their own operation. Some offer strategic assistance, others deal directly with local intermediaries, facilitating the commercial operation and customs for clients from all around the world. “When it’s time to close a deal, it’s good to know you can count on a compatriot who’s established here,” said Sit Si Wei, the Chinese-Brazilian partner of the Oping Group consultancy, based in Shanghai and specialized in financial, accounting, legal and fiscal matters.

With almost two decades of experience abroad, Sit helps foreign businessmen understand the Chinese market. “There’s enormous fiscal and legal complexity, and rules are always changing,” he said. Moreover, Chinese have the habit of closing a deal only after marathon negotiations. “It can take months before they put pen to paper,” said the consultant, who is fluent in Mandarin and Cantonese.

Anyone who has frequented trade fairs in China knows that he can find two men from Rio



Production line: lack of confidence in the local product ensures business for “China Entry” companies

AFP

de Janeiro, Renato Castro and Cláudio Meirelles, working in the same line. They quit executive positions in Brazil to start Baumann in Beijing, which now counts five professional staff. "For our clients, we are a kind of marketing and logistics department in China," said Meirelles.

Don't trust the sticker

Castro and Meirelles bring potential clients from Brazil to trade fairs and shows. They offer a package, with all the arrangements and a personalized market study for each client. They can also compile a tour of technical visits to potential Chinese suppliers, and have served more than 60 Brazilian clients including Norberto Odebrecht, Grupo Wheaton, the ABC paper store of Brasília and various small and medium companies.

Born in Campinas (SP), 36-year-old Tomas de Mello is another of these facilitators who lives with a foot in each world. He founded Midas Global, headquartered in Shenzhen, southern China, to offer assistance to whoever wants manufactured products. "We find the Chinese supplier who best matches the profile," he said.

Midas Global opened early 2006 and now has five employees. Billings grew 160% in the first six months of 2007, compared to the first year. That's better than even Mello had hoped for. He came to China as an employee of a similar company and soon realized that he could make more working for himself.

The lack of trust that buyers have in Chinese manufacturers ends up being an important source of business for companies of this kind. To make sure they are buying good-quality articles in China, the importers pay local agents to control each purchase and administer eventual problems with faulty goods. A prime



**Tomas: from
Campinas to
Shenzhen**

example of what frequently goes wrong was the recent recall by Mattel, the North American company, of more than 18 million toys made in China. Tires, animal ration and cough syrup are all among articles that have recently been pulled from circulation because they were produced with components or materials that were dangerous to health, or because they had some other kind of serious manufacturing defect. China is both geographically and culturally far from the daily routine of the Western businessman. For this reason, when a scandal happens it's virtually impossible to find out at what point of the production process – much of it highly outsourced – the product specifications were ignored.

Cultural differences

For American Kent Kedl, director of the strategic consultancy Technomic Asia, the contracting companies share responsibility. With more than two decades of experience in Asia, Kedl puts his finger on a basic contradiction: Westerners want to outsource production to China because it costs less, but they forget that one of the main reasons for Chinese competitiveness is the cheap labor. "The day that the importer comes to China and checks out the production line, he gets frustrated with the quality control," said Kedl.

The search for local informa-

tion also explains why consultancies established in China are in such demand. Local knowledge can make a great difference when it comes to introducing a brand or product into the Chinese market. There are

cases where the most basic information can be lacking. Even Coca Cola fell victim to cultural differences. According to one notorious local anecdote, the soft drink maker supposedly made a mistake when it translated the name of its product for the Chinese market, initially calling it "Kekekenla". It was only after millions of publicity items were printed that the marketing team listened to local collaborators and learned that the new name meant something like "bite a wax tadpole" or "mare filled with wax", depending on the dialect. At the last minute the soft drink was launched as "Kekou-kele", meaning something like "happiness in the mouth".

In the case of Brazilians, this kind of challenge is more discrete. "There are very few brands that have that power," said Sit. "In China, then.... Not even Havaianas (rubber flip-flops) are known here!"

With the exception of companies that already have a major international presence, such as Vale, Petrobras, Embraco, Embraer or Sadia, the majority of Brazilian companies look to China to find cheap products and labor. Either that or they want to create a Chinese subsidiary and use Chinese growth as a spring-board to the world. "For better or worse, the fact is that here the businessman receives incentives and finds it very easy to export," said Sit. "In Brazil, it's the opposite." ■

Turbo-charged Expatriation

Petrobras prepares its employees to work abroad by offering them the chance to experience different situations and so avoid culture shock **BY MARIO GRANGEIA**

Keeping a valid passport has become essential for an ever greater number of Brazilian executives, not just for business trips but also for periods of expatriation – the much sought-after opportunities to work for branches of multinational companies in other countries. Checking the expiry date on the passport, however, is just one of many tasks that professionals face as they move to countries where the culture, language and habits are all different. To help executives and their families handle such challenges, global companies have created programs designed to prepare staff for the situations they face when moving.

Petrobras, the Brazilian oil giant with operations in over 26 countries, set up such a program in 2005 after identifying it as a necessity given the rapid expansion of its international activities. To date 146 expatriate Petrobras staff have gone through the program – there are currently a total of 176 working outside Brazil. Among the benefits: executives feel better prepared to work in other

markets, and their families adapt more easily to new lifestyles.

When an employee is to work abroad, the company's international mobility area assumes two tasks: offering logistical support for practical questions such as finding a house and a school; and setting up meetings to prepare the family for the new reality. These measures benefit both veteran and first-time expatriates. João Figueira, vice president

for prospection and production of Petrobras America, has been with the company for 25 years, almost half of which he spent filling key slots in Luanda, the capital of Angola, and in London. For Figueira, his move last February to Houston, Texas was much easier thanks to the program. A local company specialized in getting expatriates settled in was hired to offer advice about where he, his wife and two children should live and about necessary tasks such as vaccination. Also, they explained which documents are equivalent to those used in Brazil. "With administrative questions safely delegated, we could settle in more quickly and

So far 146 expatriate employees have taken the Petrobras program



Figueira: from Houston to the catwalk at the Petrobras convention



start delivering the expected results," he said. Figueira's unit will be responsible for investments of US\$4.9 billion through 2012, representing 32% of the company's international budget.

Figueira's previous international moves were much more demanding both for him and his family. His first was in 1984, to Luanda as a geophysicist, and he had no idea what to expect. In addition to carrying out all his daily duties, he had to administer cultural differences between his Angolan and Belgian colleagues, partners of Petrobras in a new petroleum joint venture. "No shareholder was operational leader, which meant it was essential to use a lot of tact and flexibility to negotiate each decision," he recalled. Figueira stayed there until 1987 and for a couple of years at the end of the last decade.

Flexibility

Being flexible is critical for the professional who wants to establish

his credentials for working abroad. "The literature tells us that a person's technical capacity can sometimes be less important than his flexibility and readiness to take decisions different to those that he normally would," said Elsa Maria Sola, coordinator of international mobility with the human resources structure at Petrobras. Sola, an Argentinean who has worked in this area for 10 years, explained that although such programs are not new for companies in Europe and the United States, the Petrobras program is not simply a copy of what others have done. Rather, it is perfected through reports from employees and by incorporating the work of authors such as Fons Trompenaars and Charles Hampden-Turner, plus US writer Dean Foster who spoke to Petrobras two years ago. Foster is the source for the estimate that an unsuccessful three-year expatriation can cost a company more than US\$1 million – without counting losses due to failed deals and projects.

One inevitable challenge, experts say, is to deal with different rhythms, deadlines, ways of asking to have work done and levels of approval. "The expatriate must be ready to make a diagnosis in every new situation," said anthropologist Carmen Migueles of the Dom Cabral business school, who has experience of expatriate training. "This is essential in both professional and personal life, for example dealing with a child who is incapable of verbalizing unhappiness with changes." When facing cultural differences, it can be essential to find new ways of looking at a problem. One example was the resistance of American employees to the annual medical check-ups that employees do in Brazil. "Instead of trying to impose this routine, which is not specified



Hercules, manager in Angola: "We are informal ambassadors"

PHOTOS: PETROBRAS/HANDOUT

in US law, it was necessary to work to make people aware of the advantages for them," Figueira said.

Seeking to minimize settling-in problems, Petrobras organizes

meetings between expatriates and executives who have returned from spells abroad. In this way the family of Hercules Silva, general manager in Angola, travelled two and a half years ago knowing they would have to face the difficult

situation of a country that had recently ended a 27-year civil war. "You take all day to do the shopping, going to various supermarkets to find everything you need; the traffic is very congested, because Luanda has 10 times the 500,000 inhabitants it was planned for," said Silva, who takes three hours going to and from work. He said the meeting between families helped foresee the pros and cons of the move, but did not reduce any remaining discomfort. "If you compare your life before and after (the move) you might suffer, but I would urge everybody to see the good things here," Silva said.

On the plus side he noted good houses in closed condos and the use of cars with drivers, paid for by the company. Petrobras is participating in drilling at least 11 new offshore wells, investing between US\$200 and US\$350 million.

Specialists agree that good information is key to preventing expatriation going bad. "Reading about the local culture and talking to people who live or have lived there are necessary precautions, even though individual experience can never be fully transferred," said

Moisés Balassiano, professor of career management at the Getúlio Vargas Foundation (FGV-RJ) business school. "What's certain is that working abroad is a valuable use of

time and a major plus for the curriculum. The professional must not waste it."

One way to reduce the feeling of being a "fish out of water" and win favor with local people is to wear

local dress on certain occasions. When giving a home reception for colleagues, Iran Garcia, the Petrobras general manager in Libya, was voted a success for greeting people dressed in a long tunic and sandals.

"By paying attention to the local culture, I gave everyone a positive surprise," he recalled.

The communications management of the international area of Petrobras has taken advantage of examples like this to encourage 100 of its executives to value other customs. At the last annual managers' meeting, in a very informal atmo-

Contrary to what many might think, globalization has not reduced cultural differences



Supporting local passions: sponsorship for the River Plate soccer club in Argentina

DANIEL VIDES/AFP

DAILY DIPLOMACY

SOME OF THE PRACTICAL GUIDANCE Petrobras gives employees who work abroad:

Business cards :: in Arab countries, never offer it with the left hand, which is considered impure because reserved for personal hygiene; in Japan, presenting the card with both hands is a mark of respect.

Negotiations :: the Japanese value indirect language and may avoid discussion even with good news. For Indians, evasive answers are common and arguments which appeal to sentiments and beliefs are more convincing than objective facts.

Inappropriate gestures :: in India, it's an insult to point with the finger (use the extended hand or the chin) and wave with the palm of the hand forwards (place it downwards and move the fingers). Whistling is unacceptable and winking taken as an insult or sexual overture.

Your feet :: in India and Arab countries, don't show the soles of your shoes, it's an insult. For Indians, the sole of the foot is impure.

Dangerous colors :: in Japan, do not use brown clothes (the color is associated with frustration); in Malaysia, avoid golden-yellow (the color of the king), white (grieving) and black. In India, black and white indicate bad luck, red and yellow are signs of happiness.

Off-limit presents :: never give a watch in China, it's associated with death.

a woman allowing a man to enter an elevator first, to avoid the two of them being alone. But, even paying attention to the local culture, he could not avoid an incident when hiring a woman as manager (today he has two, in human resources and communications). "I had to reject candidates without a veil or with an inappropriate dress," he said. "We only hire women who adopt the rules of the Koran." Currently he has a team of 21 employees, of which three are Brazilian, and six are Libyan women.

On his site "Learn About Cultures", Dean Foster observes that such cultural differences are experienced more vividly because of globalization, although common sense might suggest the opposite, that people would become more similar. Growing internationalization led Petrobras to create in 2006 an intercultural educational program for head office employees. Seeking to make them more open to diversity, the initiative includes workshops about cultural distance and insertion, work-oriented language courses and even an MBA in international business, run by Ibmecc. While not aimed exclusively at expatriates, the program makes life easier for those going abroad.

"Knowing other realities, the employee can adjust the way he presents himself. For Americans, he presents Petrobras as a market company, while for the Chinese he might stress the connection with the government," said José Augusto Carrinho, sector manager for knowledge management in the human resources department.

It is clear that knowing other cultures and being ready to assimilate them is today the real passport for success abroad. ■

sphere, many of them took part in a parade of typical and formal dress and all received a handbook with hints on how to pack a suitcase and dress appropriately. This guide reflects a common trait amongst the expatriates: greater concern about their image at work. They argue that the nature of the state-controlled company gives them a role of representing Brazil abroad. "Presentation is very important, we are seen as informal ambassadors," Silva said.

Between the lines

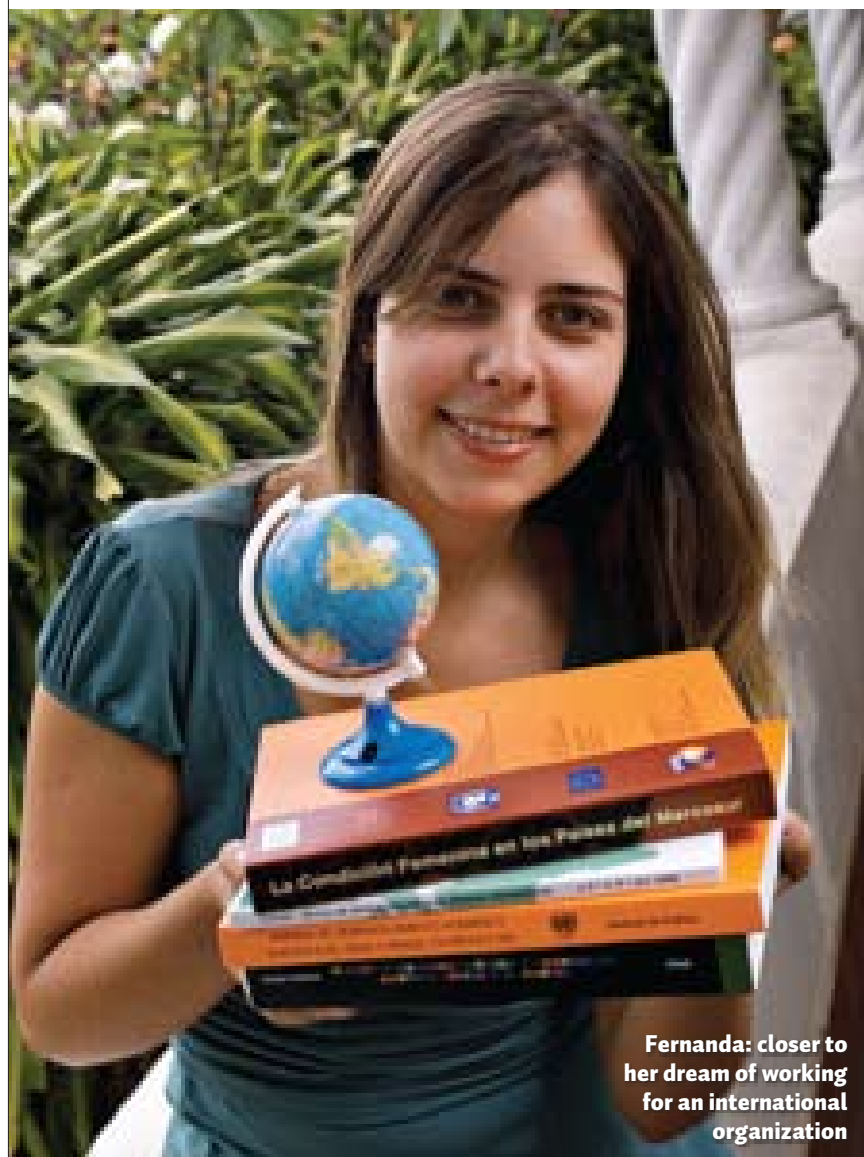
Care to avoid diplomatic slip-ups by expatriates and people sent on missions abroad led to publication of leaflets that focus on specific aspects of other cultures. The most recent, for Japan, warns about the

importance of "reading between the lines" in negotiations, because indirect communication is the essence of local communication, and about the inadvisability of harping about your own virtues and achievements, because humility is placed at a great premium. One attitude absolute banned for employees is talking about politics when abroad. Once, a professional criticized the Cuban political and economic system and the local state company requested his removal from that island. The situation was resolved by discussion, but has not been forgotten in the company.

In the Arab world, the rigors of Islam and the different treatment of women constitute the main cultural barriers for expatriates. In two years in Libya, Iran Garcia has seen

More and More Popular

There's growing demand for International Relations courses and MBAs designed to prepare tomorrow's global professionals and executive **BY LIA VASCONCELOS**



Fernanda: closer to her dream of working for an international organization

More and more, the business world wants to hire, train and develop leaders who've got what it takes to operate in a globalized market. But what are the guidelines? How can companies go about finding such people? It's obvious that today's borderless economy requires a new set of aptitudes to manage businesses abroad, and that's exactly why Brazil is today facing unprecedented demand from students and businessmen alike for bachelor's and post-graduate courses that are designed to train international executives. Between 2000 and 2005, for example, no less than 126 bachelor's courses in foreign trade and 100 in international relations (IR) were launched throughout the country. One sign of the times: at the University of Brasilia (UnB), the IR classes that formerly attracted mainly students dreaming of becoming diplomats are now also packed out with young people planning careers either in the private sector or in international organizations.

Year after year, the international relations courses have been among the most keenly sought-after by students taking entrance exams at Brazil's top-line universities, lying close behind traditional disciplines like medicine, law and administration. In this year's entrance exams for students seeking places at São Paulo's premier institution USP (the University of São Paulo) in 2008, IR received the third-highest number of applicants, placing just behind journalism and advertising. The same trend can be seen at another top-line São Paulo university, the Armando Álvares Penteado Foundation (FAAP), where the IR course received most applications alongside fashion. FAAP's IR course proved

NETO RODRIGUES

more popular even than its economic course, run by the faculty to which the IR course is subordinated. "We place great emphasis on subjects such as negotiations, international cooperation and national and international finance," said Prof. Luiz Alberto Machado, deputy director of the Economics Faculty at FAAP.

According to Machado, students have their eye on companies that are going international. "Our goal is to produce creative leaders," he said. "We prepare all our students to be either executives or entrepreneurs." That is exactly what 22-year-old Paulo Caselato, a fourth-year student of IR at FAAP, has in mind. Caselato sees two main career options: working for a private company or starting his own company to promote trade between Brazil and Russia, a country where he sees great business opportunities in the future. Caselato was for 18 months a trainee at São Paulo's Mercantile and Futures Exchange (BM&F) and takes regular classes in Russian. He plans seeking a master's course in global processes at the University of Moscow when he graduates from FAAP in 2008. "I still have to find my niche in the market," he said.

Five stars

Launched 1996, the IR course at the Catholic University in Belo Horizonte (PUC-BH) was classified as one of the best in Brazil by the 2007 edition of "The Student's Guide" (Guia do Estudante) published by the Abril company, receiving the publication's "five star" (excellent) designation. Along with the IR course at UnB, the PUC-BH course was singled out for the breadth and depth of its curriculum and for the fact that it conducts advanced studies. "Some 90% of teaching staff in our department are engaged in some



**São Paulo University:
IR is the third
most popular
course in 2008**

DANILO VERPA/FOLHA IMAGEM

YOUR CAREER – ONE CLICK AWAY!

SITES OF SOME of the most popular international relations courses in Brazil:

- São Paulo University:
www.usp.br
- São Paulo Catholic University:
www.pucsp.br/ri/
- Armando Álvares Penteado Foundation: www.fAAP.br
- Brasília University:
www.unb.br
- Belo Horizonte Catholic University:
www.ri.pucminas.br

research project," said department coordinator Javier Alberto Zedell. Although the bachelor's degree curriculum is essentially academic, it does not ignore the requirements of the labor market. In all, the IR course has 428 students enrolled and this year started its first master's group. On average there are seven candidates for each of the 120 first-year places.

One such student is 22-year-old Fernanda Cinini Salles, now in the eighth period and about to graduate. Cinini, who already holds a bachelor's in social sciences, chose the IR faculty with the dream of becoming a diplomat or working in an international organization. She soon gave up the first option, seeing less attraction in the diplomatic career and also the difficulty of getting into the Rio Branco Institute, Brazil's training college for entry to the diplomatic service. However, she has discovered her academic aptitudes. "A doctorate abroad could pave the way for working in international organizations, as I planned when I started university," she said.

Global classroom

International experience for anyone seeking a global career can start even while studying for a first degree. IR and foreign trade courses are good ways in. At the Catholic University in São Paulo (PUC-SP), the 12-year-old IR course attracts one of the highest levels of interest among would-be students. In 2002 it lay in fourth place, in terms ratio of applicants to places, beating out tra-

ditional subjects such as engineering, law and economics. Operating agreements with French university Institut d'Études Politiques de Paris (Sciences Po) allow IR students to graduated from both institutions in five years. Students also have the chance of doing a professional training semester in France.

However, classroom globalization is still more common in the MBA and post-graduate courses, which give students the chance of taking specialization modules at foreign schools and universities. The goal, as always, is to make them world citizens. MBAs with international modules have proven to be good and efficient passports, offering the student the chance to start building relationships outside of his country right from the start of his professional life.

Megumi Wadade, business development manager at the Votorantim bank in New York, is a case in

point. Before moving to the United States, where she has lived and worked for about a year, Wadade took the OneMBA at the Getulio Vargas Foundation School of Business Administration in São Paulo (Eaesp-FGV), offered and paid for by the Votorantim Group where she was a relationship manager for the group's bank. The course included modules in four foreign universities. Wadade then received the mission to change direction completely and build up the business of the Votorantim brokerage in New York, a challenge she accepted quite naturally. "Doing an MBA was essential to give me the self confidence that the new responsibilities require," said Wadade, now 41. "For example, I lost my fear of meeting with foreign investors."

The MBA with international modules prepares not only executives who want to work outside of their country but also entrepre-



neurs interested in expanding their businesses beyond their national borders. As director-general of the Elias Group, a distributor of farming and industrial products located in

LEARNING GLOBALIZATION AT SCHOOL

SOME OF THE MBA and post-grad courses that prepare international executives

1. OneMBA

Institution :: Getulio Vargas Foundation (FGV) School of Business Administration in São Paulo.

Class :: 110 people in five participating schools – FGV, Monterrey Institute of Technology (Mexico), Rotterdam School of Management (Holland), University of China (Hong Kong) and the University of North Carolina (USA).

Duration :: 21 months.

Price :: R\$90,000.

More information ::
www.eaesp.fgvsp.br

2. MBA Global Partners

Institution :: Institute for Post-Graduate Studies and Administration Research (Coppead) at the Rio de Janeiro Federal University (UFRJ).

Class :: 20 to 30 people in three participating schools – Coppead, Institut d'Administration des Entreprises, Sorbonne University (France), and the Robinson College of Business, Georgia University (USA).

Duration :: 12 months

Price :: US\$35,000

More information ::
www.coppead.ufrj.br

3. MBA In-Company

Institution :: Ibmecc

More information ::

www.ibmeccsp.edu.br/mba/

4. Post-graduate course in Foreign Trade Management

Institution :: Senac-SP

Class :: at least 20

Duration :: one and a half years

Price :: R\$570 per month

Enrollment fee :: R\$50

Entrance selection :: until 14th February 2008

Matriculation :: 20-23 February 2008

Start of classes :: from 23rd February 2008

More information :: www.sp.senac.br
e-mail :: posgraduacao@sp.senac.br



Caselato:
studying Russian
to conquer Moscow

EPITÁCIO PESSOA/AE

Tangará da Serra, Mato Grosso State, Carlos Alberto Elias Júnior falls into this second category. He opted for the OneMBA after taking charge of the family business. "My short and medium-term goal is to structure a trading company to export soy and import basic inputs," he said.

São Paulo's Ibmecc business school offers its MBA students the chance of gaining experience outside of Brazil during their studies, albeit in a different way via inter-company courses that are designed and developed to meet the needs of the organizations for which the students work. These customized corporate programs have been offered since 2003, and in 2005 students gained the chance to undergo a brief foreign interchange. The program generally lasts two years with a class of up to 30 students. "We prepare managers to operate in other countries," said Silvia Ethel, coordinator of new business in the area of corporate programs at Ibmecc. Currently the institution runs partnerships with universi-

ties in the United States, France and China.

Expectations are that this interest on the part of Brazilian companies will lead to ever increasing numbers of students, and this is encouraging the people behind the Global Partners MBA, which is

run by the Institute for Post-Graduate Studies and Administration Research (Coppead) within the Rio de Janeiro Federal University (UFRJ). The course was created 2003 in the wake of the latest wave of internationalization, and has a class size of 20 to 30 students – with one interesting detail: so far it has not included any Brazilian students. In the current class, 50% are Americans and 50% from other countries. "The majority are entrepreneurs who want to expand internationally, a minority are executives who want jobs abroad," said Global Partners MBA coordinator Victor Almeida.

He attributes the absence of Brazilian students to the fact that most of the course is given outside of Brazil. It comprises seven months in the United States, one month each in Rio de Janeiro and France and two weeks in China. "Happily, we are now starting to see some interest by Brazilian students," he said.

Small companies face the world

It's not only current and would-be executives of major Brazilian groups like Votorantim, Gerdau, Odebrecht and Embraer who want to prepare to face the challenges of internationalization. Recently, small and medium companies are seeking greater international activity. To this end, the São Paulo branch of Senac, Brazil's nation-wide semi-official commercial sector training institute, has created a post-grad course in Foreign Trade Management, due to start 2008. "The goal is prepare traders, analysts and businessmen

via intensive exposure to international trade, studying import and export operations and negotiation techniques," said program coordinator Ana Carolina Duarte.

The main differential of the Senac course, she said, is to transform the executive who already has solid hands-on experience into someone who can seek out new business and negotiate deals abroad for small and medium companies. Another equally important characteristic is to encourage entrepreneurship. "The executive will be qualified to work either as a trader or to open his own business and offer consultancy," she said. ■

Entrepreneurs looking to foreign markets also benefit from the courses

The American Mirage

On the eve of another US presidential election, Brazilians are once again asking what would be best for their country: a Democrat or Republican victory? But in terms of trade policy, the two parties have rarely looked more alike **BY PAULO MOREIRA LEITE***

Given that Brazilians don't vote to decide on who should sit in the White House, it would be wise when thinking of the upcoming US presidential election to keep in mind what happens south of the Equator. The current high levels of rejection for George W. Bush and the Republican Party is a relevant factor, it confirms the rejection of the current government's foreign policy, which produced the quagmire in Iraq and threatens the planet with a permanent rise in the political temperature. At the domestic level, the Bush administration has been noteworthy for mediocre economic growth,

at least when compared with the spectacular years of the Clinton administration. This helps explain the popularity of Democratic presidential hopefuls, not least of them Senator Hillary Clinton.

For countries that are looking for things that might help speed up their development, the succession to Bush promises little good news, above all in the area of foreign trade where fancy phrases tend to be stripped of misleading camouflage and reduced to cold, hard facts. Be he (or she) Democrat or Republican, the next president of the United States is unlikely to take major initiatives in this area.

Recent experience teaches us that we should update the text books

for students of diplomacy, who have traditionally learned that since Franklin D. Roosevelt's New Deal, US commercial policy has prayed to two saints – protectionism, for Democrat administrations, and the market, for Republicans. The last decades show that this model has changed. Even discounting the aberrations that characterize the current Bush administration, Republicans and Democrats have moved to the political center, distancing themselves from the more extreme positions of the past.

It was Ronald Reagan, a Republican seen as a global prophet of deregulation and the market economy, who slapped down rigid rules for importation of Japanese cars, effectively forcing companies to open factories in the United States. On the other hand it was Democrat Bill Clinton who finalized NAFTA, the free trade pact that opened US borders to products from Mexico and Canada. In other words, in these two cases the Republican Reagan failed to obey the liberal bible, while the Democrat Clinton ignored the protectionist counterpart.

Today, both parties share the idea of "competitive trade liberation" – a bid to prize open borders while ensuring compensatory measures for the American economy. The idea is to free up international trade, but without losing. One limited but cruel example of this policy came with the Central America-Dominican Republic-United States Free Trade Agreement (CAFTA-DR). According to the rules, clothing made in the Central American countries can be freely imported into the US – but with the proviso that it is made



PAUL RICHARDS/ATP

Similarities: Democrats and Republicans share the idea of "competitive trade liberation"

from thread spun north of the border. Without such certification of origin, it will be taxed normally.

On the strategic question of agricultural subsidies, it's difficult to find real differences between Clinton and Bush. For the poorer countries, the damage done by this type of subsidy is well known. They make US prices artificially unbeatable on the international market, hamper exports to the US and discourage production in less developed countries. During Bill Clinton's second administration, projected direct support from the government to farmers grew sevenfold. And George W. Bush during his first term in office launched an agricultural policy that boosted subsidies 80% to an estimated US\$180 billion over the following 10 years. This figure included a hike exceeding 40% in the maximum support level for each farmer, assistance if prices fall, expansion of the area receiving support and a host of other similar measures. Examples of such attitudes are not uncommon.

Export of Brazilian prawns has already run into problems in the United States thanks to suggestions that Brazilian fishermen are failing to respect the natural environment of sea turtles. Italian cloth maker Loro Piana was forced to open a factory in the United States to be able to sell its wares in that country, but has faced numerous legal challenges from North Carolina cloth makers, and for the same reason. And while NAFTA ensures free commerce between the two countries, Mexican truck drivers face all manner of impediments when they try to drive their cargo on US high-

It's difficult to find significant differences between the two parties in the area of farm subsidies

ways, thanks to pressure from the powerful (in various senses) union that represents US truckers.

These conflicts have given rise to criticisms that the United States don't practice at their own customs barriers what they preach to their trading partners. It's an attractive argument, with some basis in fact, but it must be kept in context. No other major country has zero or close to zero tariff on 40% of its imports, only the United States. Subsidies for US farmers represent on average 11% of income in the sector,

while in the European Union they can reach 32%, and in Brazil are around 6%.

The resilience of the US system lies in the country's political institutions, which give more weight to discussion of local interests. The US Constitution gives Congress the final say on trade, which is always a key issue in a country that boasts the world's largest economy. The United States has district voting, which tends to give priority to debate about questions of concrete importance to voters at the expense of potentially dangerous doctrinaire discussion.

In industrial regions, where the

working class vote is important and jobs can be put at risk by trade agreements that hurt local interests, Republicans and Democrats say much the same things and support similar policies. The same happens in rural areas where congressmen from both parties reject cutting a single cent from the package of benefits destined for farmers. The US congressman has to face re-election every two years, rather than every four years which is the norm in many countries, and this only serves to reduce his willingness to provoke the ire of his constituents. And finally, the vote is voluntary, meaning that it tends to be the prerogative of the more politically aware citizen who follows the interests of his region and knows which congressmen voted for what, when, and why.

This political system favoring local interests imposes some limits on foreign policies. American trade can generate excellent news for the country's commercial partners, and indeed it has done so for Brazil in recent years. But the vision that we could see a qualitative jump in the terms of trade, something that could carry the economies of developing countries to new levels thanks to their access to the US market, seems likely to remain what it always has been – a mirage. ■

* Paulo Moreira Leite is a journalist



Hillary Clinton and Barak Obama: popularity boosted by rejection of the Bush government

MANDEL NEGAN/AFP

The Conquest of the West

Question: what does the Itau Bank have to gain in Chile, when it could profit more by expanding its business at home in Brazil? Answer: much more than just money **BY JULIANA GARÇON**

In Rome, the old saying goes, one should do as the Romans do. That has been more or less the motto for Brazil's Itau Bank as it crossed the Andes heading West, seeking space in Chile's highly competitive banking market. The mission started in May of 2006, shortly after announcement of the agreement by which Brazil's second largest private-sector bank acquired the operations of BankBoston in the region. In addition to the operations of the US financial institution in Brazil, the deal included branches in Uruguay and Chile. Seen in Brazil principally as a large-scale retail bank, Itau had to prepare carefully and undertake considerable planning if it was to be successful in the new market.

The agreement implied more than just a simple exchange of brand logos over the door of the 50 branches that BankBoston had in Chile. It meant, above all, substituting an institution rooted in the United States, a country seen by Chileans as having one of the most solid and well-regulated banking systems in

the world, with one based in Brazil. And no matter how robust, modern, reliable and profitable Brazilian institutions have become in recent decades, this was not very clearly perceived on the other side of the Andes, where research showed that the Itau brand was seen basically as a travel agency rather than a bank. In a line of business where trust is everything, this was a major problem.

"Chile and Uruguay have their backs to Brazil, they have their arms wide open for Asia, Europe and the United States," said Ricardo Marino, external director of Itau. "It's a challenge making the transition and doing what's necessary to build a trusted brand."

Itau's entry into the Chilean market was part of a package that included, in addition to the branches in that country, the 140 branches

in Brazil and another 15 in Uruguay. In exchange, the Brazilian bank issued shares and transferred 7.44% of its capital to the Bank of America, then the controlling institution of BankBoston. Itau also acquired BankBoston operations

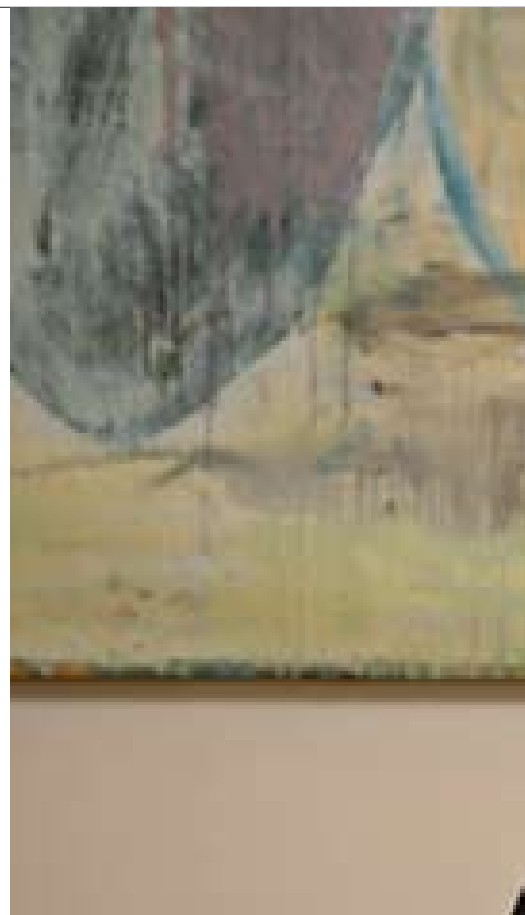
The bank's greatest challenge was taking the place of a North American brand, a symbol of reliability for many Chileans

in Miami and Nassau, these via its subsidiary in Europe.

"In the medium term, the scenario is set to change and Brazilian banks will expand their overseas presence," said Prof. Alexandre Fialho, director of institutional relations at the Dom Cabral business school in the Brazilian state of Minas Gerais. "This will happen, not least because the world hegemony of the United States is being questioned everywhere." While this does not happen, however, the solution for Itau was to adapt to the demands of the market and exercise caution as it ventured into Chile. So great was the bank's caution that some less astute observers mistook it for difficulty in establishing a firm position in the new market.

Sober colors

In Brazil, the public face of Itau features a bright strong color, orange, with the message of an institution





Itau's Marino:
record numbers of
new accounts in
Chile since April

ITAU/HANDOUT

veys is seen as a sign of solidity and credibility in Brazil and Argentina where the bank has had a prominent presence since the 1990s. The modus operandi, however, will be more like Itau's Brazilian "Personnalité" branches which cater to up-scale customers. Another important point: all managers, account executives and products of the old BankBoston network were maintained so that the institution could "change without changing".

"We changed the facade and the colors, but we retained the essence," said Marino. "The values and the mission remain the same."

Apparently, the strategy has been successful. In a country with just over 15 million inhabitants – smaller than metropolitan São Paulo – and with a market fought over by local and foreign institutions (see box), it is natural that Itau's numbers would be more modest than in Brazil. Today the bank has just over 60,000 personal accounts and 13,000 company accounts, a total of 10,000 more than when it took over from BankBoston. Growth through 2007 was projected at 20% and the branch network is expanding, from 50 in mid-2006 to 60 in 2008. The bank is also opening a brokerage. "Since April we have set records for new accounts, which never occurred during two decades of BankBoston presence in Chile," Marino said.

Investment grade

The essential question is: why go abroad in search of a place in the sun in smaller and more competitive markets when the Brazilian home market offers one of the most fertile terrains that a bank could hope to find anywhere in the world? Itau's profit in the Brazilian market in the first nine months of 2007 was R\$6.4 billion – some US\$3.3 billion –

WEIGHTS AND MEASURES

IN TERMS OF VOLUME of business, Itau's operation in Chile is miles behind its Brazilian counterpart. Even so, a presence west of the Andes is a fundamental part of the bank's strategy.

ITAU IN BRAZIL

- **Branches:** 2,678 branches and 747 bank service stations
- **Employees:** 63,164
- **Clients:** 21 million
- **Assets:** R\$255.4 billion
- **Net worth:** R\$26.5 billion

that is young and innovative, a partner. In Chile the bank opted for a more discreet approach. "We carried out research to find out how our Chilean clients think," Marino explained, "and we discovered that the account holders we had inherited from BankBoston could not be lumped into the same portfolio as the majority of our Brazilian clients."

ITAU IN CHILE

- **Branches:** 53
- **Employees:** 1,791
- **Clients:** 74,000
- **Assets:** R\$7.3 billion
- **Net worth:** R\$778 million

In Chile, the strong color gave way to a sober silver tone, much more appropriate for a market where banks are less aggressive and the public is by nature a little more conservative than in Brazil.

The outcome was that in Chile, the bank chose to use the Itau brand name, which ensures that it has visibility, and which according to sur-

which is more or less the same as the total assets that the bank acquired in Chile. What's more, there's much more space to grow in Brazil, where credit operations are the equivalent of just 30% of GDP, against 60% in Chile and over 100% in the United States. "A bank should not seek just growth of profits and market size," Fialho said. "It should also be concerned with portfolio diversification, amongst other things."

There's another detail that must be born in mind. Chile has for some years enjoyed the investment grade

ratings that Brazil is likely to receive within the next few months. It also has a more stable and mature market than Brazil, with lower interest rates for both borrowers and lenders. A survey by Standard & Poor's published in October of last year found the Chilean financial market to be the one offering the lowest risk in Latin America. This is thanks to the existence of a well defined regulatory structure, the country's solid macroeconomic fundamentals and the political consensus that reduces the risk of abrupt changes to the lo-

cal financial system. "Itau did not change strategy," said Tãmara Berenholtz, Standard & Poor's analyst for the banking sector. "Its search for new markets can be seen as a way of diluting risk."

While banks are making very substantial profits in Brazil by dealing in public bonds, the growth of the market in Chile is led by loans to private individuals and to small and medium companies. One example: real estate mortgages represent just 2% of bank operations in Brazil, against 15% in Chile. In Brazil, the first 25-year mortgage financing was announced just a few months ago. In Chile, it is common to find home financing for 30 and even 40 years.

Other banks this decade have used the strategy of consolidation of the local market, with diversification of assets. In 2002, Santander Chile bought the Bank of Santiago to become the largest in the country. The Bank of Chile merged with Edwards Bank to hold the second slot. Together, these two institutions have 40% of the market. The sector is highly concentrated in comparison to Brazil, but the entry of new players – Fallabella in 1999, Ripley in 2002, Monex and HNS in 2003, and Penta and Paris in 2004 – suggests that there is space for banks that are interested in serving specific market niches.

Itau currently has more than US\$5 billion invested outside of Brazil, with a presence in European countries, Japan and the Chinese markets of Shanghai and Hong Kong. It also operates in the United States. The expansion started in the Eighties when the Brazilian bank set foot in the US market. In the middle of the following decade, it started operations in Argentina. "This movement is linked to the globalization of our clients," Marino said. ■



Silver is serious: the stronger colors used in Brazil (below) gave way to more sober tones in Chile



PHOTOS: ITAU/HANDOUT



AmBev: the brewery was the first Brazilian company to achieve investment grade

ALACOR FILHO/VE

In Search of the Holy Grail

It's a long, hard road to join the exclusive club of companies anointed by the international ratings agencies, but good marks are essential to attract investors and pave the way for international expansion **BY JULIANA GARÇON**

Votorantim, Brazil's fourth largest business group, has been showing amazing stamina. Last October, the group announced investments of R\$25.7 billion – some US\$13 billion – to expand its industrial operations around Brazil in cement, metals, pulp and paper, orange juice and energy. Away from the home base, the group's appetite for new acquisitions has been equally impressive. Just months after shelling out US\$491 million to take control of Colombian steel company Acerías Paz del Rio, the Brazilian group in November spent US\$295 to acquire US Zinc, a producer of that metal with

five factories in the United States and a sixth in China. This buying spree carried the share of international operations in the group's total revenue to 40%. A further US\$500 million will be invested to expand mining capacity at Cajamarquilla in Peru – just one more step to consolidating the company's position in the front ranks of world producers.

All this activity is an unmistakable sign of financial health and the availability of capital, and it represents both the cause and the effect of the positive image that Votoran-

tim enjoys in international financial circles. In May of 2004, when 65% of its total debt of R\$12 billion was due for payment within 24 months, so eating into the company's cash flow, Votorantim launched an effort to reorganize the finances of its industrial area. The aim was to stretch out payment times and reduce debt costs. One year later, with the proportion of short term debt down to 42%, American agency Standard & Poor's (S&P) granted the company investment grade rating – a kind of certificate of being a reliable payer.

From then, Votorantim has seen growth in the number of investors interested in buying its foreign bonds and has undertaken three operations to improve the structure of its finances. It issued US\$400 million in 15-year bonds, it obtained a standby facility of US\$300 million, and it received a loan of more than US\$400 million from the Andean

Development Corporation (CAF).

The Brazilian group is continuing to become more attractive, while its cost of borrowing continues to fall. Last year Fitch

Thanks to its good rating, Votorantim's investors have grown ten-fold

Ratings, another US ratings heavyweight, granted it investment grade status. Finally, in August of this year, Moody's followed suit. For Votorantim, these improved ratings have generated a reduction of up to 30 basis points per year in the group's general debt cost. "It's a new world for us," said Luis Felipe Schiriak, the group's corporate finance director.

Thanks to the good ratings of the three agencies, the number of potential purchasers of Votorantim bonds has increased ten-fold, and at long last includes pensions funds. "Companies who do not achieve this classification are condemned to stay on the radar screens only of those investors who specialize in emerging markets and junk bonds," Schiriak said. These are investors who receive higher rates of interest in exchange for the greater chance of default inherent in companies or countries classified as "speculative risk", a rating below investment grade. In the market, the difference between these papers is at least 150 basis points.

Burden of history

The first Brazilian company to achieve investment grade rating and so enjoy this kind of advantage was AmBev. S&P granted it investment grade in 2004, after the Brazilian group bought Canadian brewery Labatt and so increased to 30% the proportion of its earnings generated in hard currency. There then followed a series of upgrades which benefitted companies such as Vale (formerly CVRD, or Companhia Vale do Rio Doce), Aracruz Celulose, Votorantim Participações, Alcoa, Embraer, Companhia Siderúrgica de Tubarão,

Gerdau Açominas, CSN, Petrobras and Grupo Gerdau.

"Receiving this rating allows the group to capture funds on the international market at a lower cost, in addition to expanding the range of institutional investors that can buy bonds that the company may issue in a possible operation to raise cash," said Mauricio Werneck, finance director of Gerdau. The company obtained investment grade from Fitch in January and from S&P in June, after working two years to improve its risk rating, following a plan to elongate its debt profile.

Brazilian companies that enjoy investment grade ratings have effectively shrugged off the historic burden of Brazil's external vulnerability, reflected in the so-called "sovereign ceiling" which limits companies' papers to the rating obtained by the bonds of their government – the so-called "sovereign risk". This, for its part, indicates the capacity and willingness of the government to honor its debts. After being upgraded several times, Brazil's government

bonds are now right on the threshold of investment grade, on the last rung of the "speculative" category. In other words, they still reflect a certain wariness about the capacity of the country to meet its future obligations. For companies,

this is terrible. As long as the national government lacks the stamp of approval of the ratings agencies, foreign institutional investors cannot buy shares of Brazilian companies listed on Bovespa, the São Paulo stock exchange.

Those companies that do manage to overcome the problems of the sovereign rating emerge from the process stronger and better able



Gerdau: raising funds more cheaply on the global market

to resist the normal buffeting of the economy. This means amongst other things that they have managed to receive a considerable part of their revenues in foreign currency. This is one of the points examined by the analysts of the ratings agencies when they put a company under the microscope. The process lasts around a month and carries a six-digit fee. It involves picking apart the company's accounting and evaluating the prospects for growth, its reputation, the capital structure, financial policies, and vulnerability to technological change or upsets in the labor market. The agencies are widely recognized as honest and immune to influence by the companies that hire them, although they have come in for some criticism since the eruption of the sub-prime mortgage crisis in the United States.

Hundreds of pension funds, insurance companies and other major investors around the world, responsible for some 90% of global financial flows, will only consider buying bonds, debentures and other securities issued by companies that have

9
Brazilian companies have investment grade



GERDAU/HANDOUT

acceptable ratings. In general, institutional investors demand investment grade rating by two agencies before buying paper of companies that issue international bonds. The names S&P, Moody's and Fitch are the ones that financial analysts look to.

"The rating depends on the evaluation of a group of people, who take into consideration criteria and methodologies that differ from one agency to another," said Daniel Araújo, an analyst at S&P. "Even so, the investor wants to compare the analysis."

A good rating can even help companies that plan expanding abroad using their own capital. Banks, even when they have their own teams of analysts, will always pay attention to the opinion of the ratings agencies. "Companies in search of an association end up finding better partners because they bring with them the opinion of an independent agency," said Ricardo Carvalho, senior director of company evaluation at Fitch in Brazil.

An exclusive club

It's no mean feat, achieving investment grade rating from three agen-

cies. In Brazil, it's possible to count on one's fingers the number of companies that belong to that club – AmBev, Aracruz, Petrobras, Vale, Votorantim Participações and VCP (the paper producer within the Votorantim group), plus the banks Bradesco, Itaú and Itaú BBA. It's no coincidence that the select club of Brazilian companies that hold investment grade from any of the international ratings agencies is comprised almost exclusively of companies that went international many years ago and need substantial volumes of finance to expand internationally – most of them made acquisitions using third-party capital.

Given that access to and cost of financing depend a lot on credit ratings, companies tend to put their house in order before setting off on international ventures. "The investor looks at the company's quality of credit and how it will be after the acquisition. From there, it calculates what it's prepared to pay for

the bonds issued by the company," said Carvalho, of Fitch.

Part of the preparations, for example, will allow greater transparency in publishing financial data. This was the case with Votorantim. As a family company, it is not subject to transparency rules that govern publicly quoted companies, which form the majority of companies holding investment grade rating. Nevertheless, the group adopted procedures for greater transparency. The effort was worthwhile, because it allowed the group to take advantage of the high volumes of international liquidity in the last two years to put its finances in order.

The same path was followed by

companies whose business is linked to commodities like iron, steel, aluminum, nickel and petroleum, where the steady price rise in international markets has left their cash flows healthier. The good

Before heading out into the world, it's vital to put your house in order

phase has made it possible to restructure debts, elongating repayment and reducing debt cost, according to a study by Sobeet, a São Paulo-based investment research NGO.

With the recent setbacks in the market triggered by the US mortgage crisis, the reduction in global liquidity and the consequent drop in opportunities to restructure debts, the options for ratings upgrades have shrunk. This doesn't mean that other Brazilian companies cannot achieve better ratings from the agencies. Companies that require heavy investments with significant economies of scale will continue to strive for better ratings, given that their survival depends to a great extent on their capacity to consolidate their business internationally. ■

The Dangerous Allure of the Easy Path

Innovation and a competitive differential are keys to global success **BY BRUNO KOLTAI REIS***

What position will Brazil hold in the global economy in the coming decades? The answer is difficult, and depends on innumerable variables. However, what's certain is that the country's capacity to (finally) catch up with the front-runners in the world economy will depend in great part on the success of Brazilian companies in promoting their own internationalization. It will be specifically the ability of a significant number of Brazilian companies to become global actors, expanding their capacity and adding value to their products, that can make this happen. There will be innumerable opportunities – and challenges too. It will for Brazil to decide how to take advantage of them.

With the start of the process of globalization, around the end of the Eighties and the start of the Nineties, with the opening up of markets and the creation of new technologies, the world experienced a revolution in systems of production. This revolution profoundly transformed the international economic environment, and as with every process of change there were winners and losers. The winners, at least to begin with, were the large multinationals, principally those based in developed countries.

Historically speaking, the great multinationals of the developed

nations have been fundamental to economic development, mainly for their role in introducing new technologies, promoting new products and spreading new forms of business organization. The multinationals consolidated their leadership exactly because they were already operating internationally, had better administrative capabilities and an important technological lead.

Brazil cannot succumb to the easy path: exporting raw materials and a handful of high value added products

All this meant that they were better placed to take advantage of the opportunities available in the new international economic scenario.

This new context was characterized by globalization and the reduction of protectionist barriers, and it was a difficult period for manufacturers in developing countries. The economies of these countries were going through a period of transition and their companies were facing problems. Integration with the international economy meant that local firms had to compete with multinationals from developed countries.

The gap between them was substantial, and in many cases the companies from developing nations lost markets, went bankrupt or were sold.

The challenges faced by emerging economies and their companies were, in general, similar from country to country. However, given their specific characteristics, each country answered the challenges in a different way and each one developed its own strategies to try and adapt to the new context.

In Brazil, economic development was historically based on protection for national industry. However, by the start of the Nineties this model was no longer appropriate for the new realities of the international economy. In this period Brazil undertook various important reforms, and whatever criticism might be made of them, for example the manner or speed of their implementation, they were essential to the country's modernization. Without the opening of the economy and the consequent productivity shock suffered by companies in Brazil, it would not have been possible either to break the inflationary process or to carry out the productive restructuring of Brazilian industry.

These changes helped alter the profile of Brazilian companies. One of the most significant changes in the reshaping of Brazilian industry was that, instead of generating regressive specialization, it had exactly the opposite effect: companies that survived the transition restructured their operations and looked for new opportunities.



ILLUSTRATION: MARCELO CALEDA

All this, plus the increase in the scale of production because of new technologies, led companies to seek to match the same best practices as their international competitors and so made them much better prepared to compete internationally.

Unlike in the Nineties, globalization and its operational characteristics are today well known. Liberalization of markets and international competition are just as familiar to developed and developing countries alike. And the clearer rules of the game drive those at the back of the pack, now restructured, to make up for lost time.

Global emerging nations

This is the scenario in which some companies based in developing countries are becoming important global competitors and occupying significant positions in various sectors, sometimes even as sector leaders. There are plenty of examples of these emerging global multinationals: Chinese companies such as Huawei and Lenovo; Indian companies such as Infosys, Tata and Mittal; Mexican companies such as Cemex and America Movil; and Brazilian companies such as Ambev, Embraer and Vale (formerly CVRD).

The rise of the emerging nations, and in particular the most important of them known collectively as BRIC, for Brazil, Russia, India and China because of their size, population and growth potential – in particular China – are altering the status quo of the world economy, which until recently was almost totally dependent on the triad of the United States, Japan and Western Europe.

These emerging nations have become major producers, consumers and exporters. At the same time these countries, which in theory should be net importers of capital,

have become important sources of outward Foreign Direct Investment (FDI). This new reality is a complete change from 20 years ago, and has obliged many countries to rethink the way they plan to integrate their economies with the rest of the world.

This new competitiveness of emerging markets is very significant, and offers enormous opportunities and risks for Brazil and Brazilian companies. The country must evaluate how best to take advantage of the situation if it is not to lose hard-earned shares in some markets. On the one hand it will have access to markets that are still relatively under-exploited, where there are billions of potential consumers and a virtually inexhaustible demand for raw materials and commodities. On the other, the economic growth of some emerging nations and the transformation of their companies into major multinationals has made them Brazil's ferocious competitors.

Breadbasket of the world

At least in the short term, the current situation is very favorable for Brazil. The world economy and international manufacturing specialization are working in Brazil's favor, first because the country is very competitive in commodities and raw materials whose prices are currently very high because of strong international demand, and secondly because major emerging economies are still complementary rather than competitors. To repeat an analogy beloved of economic journalists, we can generalize and call China the world's factory, India its office, Brazil its breadbasket and Russia its source of energy.

What matters now is to realize that this favorable set of circum-



Brazil risks being “squeezed” between exporters of raw materials and high technology

stances will not last. This “strategic equilibrium” among the emerging economies is starting to change and the BRICs – along with other emerging nations, particularly in Asia – make no secret of their plans to support and invest and rely on the growth of their multinational companies as a central plank of their economic development strategy. Based on their enormous trade surpluses, they are investing massively in innovation and are adding value to their products. In this way, the companies of the developed countries, aware of the threat posed by these new players, are preparing for a cut-throat global dispute for markets. Everything points to Brazilian companies soon having to face the highly competitive companies of the developed countries plus the new – and hungry – multinationals of the emerging nations. It promises to be a tough fight!

Brazil has modernized. Now, it needs to make a quantum leap and cease to be an economy that is largely dependent on commodities and manufactured goods. Other countries are adapting and preparing their companies to be international winners. If Brazil does not follow this example, it risks being “squeezed” between the countries that merely export raw materials and those that sell high technology to the world. This means that it is essential, above all, to diversify the list of items Brazil exports, and to add to their value.

If Brazil is to achieve this objective it must develop a genuine policy of promoting the internationalization of companies and press ahead with substantial investments in innovation and product differentiation. That is the only way that Brazilian companies can internationalize in various segments of the economy, and in the majority of them compete as equals with the major international players, wherever they come from. It's a game with only one rule: being internationally competitive. The country cannot succumb to the temptation of taking the easy path – of exporting huge volumes of raw materials, plus a handful of good cases of high value added products that sell well. It must choose its own path, aware of the risks and opportunities, and also of the fact that the current favorable external scenario is only apparent, and will not last forever. It is exactly here, in the temptation to take the easy way, that the real danger lies. ■

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How to be Legal in a Strange Land

Knowledge of the local legal and regulatory framework is essential for companies that aim to invest abroad **BY RABIH A. NASSER***

When it first thought of buying the Canadian mining company Inco Limited, Vale (until recently CVRD) certainly did not have a precise idea of the full range of rules that it would have to observe. That was only natural, given that the deal would have to be concluded under Canadian law, which is largely unknown in Brazil.

Hiring a local law firm made it possible for Vale to comply with all necessary legal processes and finalize the largest foreign acquisition yet made by a Brazilian company. Along the way, however, Vale had to agree some items with the Canadian government, to convince it that the deal would be beneficial for that country. Among these: keeping some Canadian directors; maintaining certain employment levels; and an undertaking to move forward with specific investment projects in Canada.

Negotiation of these conditions with local authorities was based on the Investment Canada Act, a law that seeks to ensure that such deals effectively contribute to Canadian development.

Laws of this type exist in various countries, in particular the more developed ones, and can be a problem for investments made by companies from developing countries. In the United States, for example, the Committee on Foreign Invest-

ment in the United States (CFIUS) is a governmental commission charged with reviewing foreign investments that might impact national security. In July of 2007 its scope was broadened to include any operation involving assets in "critical" infrastructure.



ABLESTOCK

This wider control was a consequence of the 2005 attempt by Dubai Ports World to assume the operation of various US port terminals. The deal was initially approved by CFIUS, but later vetoed by Congress on the grounds that the buyer came from the Arab world.

These examples show that, while economic and financial data and strategic considerations may be the key factors behind a decision to acquire foreign assets, the legal and regulatory framework

is fundamental. This includes not just the laws on the books, but how they are interpreted and applied by local authorities.

The result is a new challenge for the legal advisors of Brazilian companies that are going international. Without ever minimizing the need for legal advice in the country where the deal is being carried out, to the extent that Brazilian lawyers can also follow the work they can bring additional peace of mind to the executives who must make the decisions. The greatest advantage lies in the possibility of comparing rules in other countries with those in Brazil, with which the company will be more familiar.

What matters is not just the national law of the country of destination. International law is also relevant. To better evaluate the regulatory framework, it is important to know which international conventions and treaties have been ratified and how they are being applied in practice.

Subjects such as comparative law and international law have gained a new importance that they never had in Brazil. They were rarely taught and aroused only limited interest. Traditionally, Brazilian company lawyers are used to advising multinational companies seeking to invest in Brazil about the laws of this country. Now the internationalization of Brazilian companies is forcing them to accept new challenges, and their success in meeting these can bring greater quality and security to a company's process of international expansion. ■

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Pure beauty: a striking presence in a New York mall

HANDOUT

Havaianas Conquer the World

VIS IS A MAGICAL little island with less than 5,000 inhabitants and 80 km of coastline, bathed by the crystal clear waters of the Adriatic just 45 km from the Croatian mainland. With its hillsides wrapped in vineyards, stone houses, Roman ruins and – above all – idyllic beaches that put any of the neighboring Greek islands to shame, Vis in recent summers has become one of Europe's favorite, laidback destinations. And among the first things that anyone will see, stepping ashore at the charming harbor, is a striking boutique of Havaiana sandals.

Seven years after invading Europe, these most Brazilian of sandals have become a fashion statement around the continent, seen in the most exclusive places. All the most famous spots of the Old World – the Quadrilatero d'Oro in Milan, the Champs-Élysées in Paris, and the Ramblas of Barcelona – are the natural habitat of Havaianas. Hollywood stars such as Nicole Kidman and Julia Roberts helped spread the phenomenon around the world when they were seen wearing the sandals produced by São Paulo Alpargatas.

The sandals were created in 1962, inspired by Japan's traditional zori sandals (made of rice straw or wood) and the company, part of the Camargo Corrêa group, started exporting them 10 years ago. Today Havaianas can be found at more than 20,000 stores in 79 countries. The brand's only factory is at Campina Grande, in Paraíba State. It makes 200 million pairs per year, of which 17 million go for export. "Three out of every four Brazilians buys a new pair of Havaianas each year," said Carla Schmitzberger, director of the sandals division of Alpargatas. "Our best growth opportunity now is the external market."

To this end, the brand inaugurated its first international subsidiary in June of this year, in New York. Between R\$50 and R\$100 million will be invested through the next five years to build up sales in the world's biggest market.

The export market has been fertile ground for Alpargatas. A pair of Havaianas can cost between € 20 and € 30 (R\$ 55 to R\$ 80) in Europe. In Brazil, the same sandal sells for at most R\$25. Foreign consumers enjoy more model options than in Brazil – there are 72 types spread around international markets, against roughly 50 in Brazilian stores.

"We have different prints and designs with more sober colors, particularly for the Northern hemisphere market," Schmitzberger said. Many ideas in fact originate abroad, suggested by representatives of the brand. One example would be the Havaianas with fluorescent strips and citric colors, an idea that started in Australia and so far is sold only there.

The sandals have become such a trend around the world that they have already attracted the attention of the ever-creative parallel market. Brands such as "Bahianas", "The Originals" or "The Same" are common wares for European beach hawkers and souvenir shops. But they do have the traditional Brazilian flag printed on the strap, of course.

Rachel Verano, from Valencia

Willkommen, Brazilianer

EVEN THOUGH it's home to such multinational giants as Daimler, BMW, Siemens and Adidas, the strength of the Germany economy is rooted in small and medium companies, responsible for 85% of all business. Smaller Brazilian companies have been taking advantage of this situation, using it as a platform from which to attack the European market. MN Própolis of Mogi das Cruzes, and Native of Sertãozinho, two cities in the interior of São Paulo State, show the value of this strategy. The former sells propolis, natural products, enriched honey, honey products and alcoholic beverages to German homes and bars while Native – the organic products arm of the Balbo sugar and ethanol group – exports sugar, coffee, and orange juice to Germany and 50 other countries.

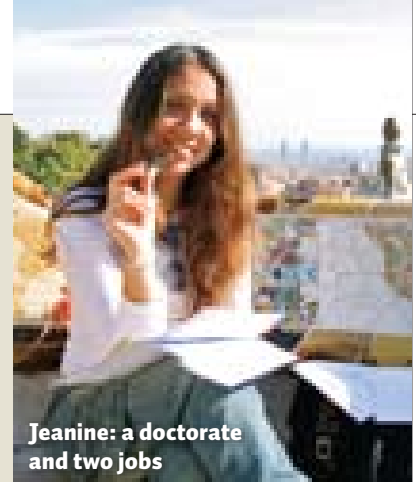
To attract more Brazilian companies, the Brazil-Germany Chamber of Commerce and Industry promoted an event entitled "How to Conquer the German Market" in São Paulo at the start of November, in partnership with the Felsberg & Associados law firm. Peter Sester, a German consultant and professor of European company law and economic law, spelled out the advantages of starting internationalization via Germany. With GDP of €2.2 trillion and 82

million inhabitants, the land of Goethe is the European Union's biggest economy and biggest market. It has a very efficient infrastructure network, the best connections with East European countries, the world's fourth best judicial environment and a huge base of research, with 277 patents registered for every million inhabitants. Add on the fact that Germans have always seen the name Brazil in a positive light, they like ecologically correct products and they have a business sector of small and medium companies that is efficient and extremely open to international partnerships.

There are problems, though. The rigid fiscal system and labor laws sometimes get in the way of business. "OK, you will need a Steuerberater (fiscal consultant) and a local lawyer, but it's not that different from Brazil," said lawyer Anneliese Moritz of Felsberg & Associados. "The advantage is that in Germany the system is more transparent, less bureaucratic and the company knows where its tax money is going and who it is paying."

More information from the Brazil-Germany Chamber: www.ahkbrasil.com. (Marco Justo Losso)

**Native: organic products
in Germany and over
50 countries**



**Jeanine: a doctorate
and two jobs**

ANNA G. HAUSMANN

Fascinating Barcelona

BARCELONA, the capital of Cataluña, the most prosperous region of Spain, has never seen so many Brazilian students and young professionals. Among them is a very special group of Brazilians, in Barcelona to take advantage of exactly what makes the city so special – its tradition of bold architecture, known worldwide for the fantastic works of Antoni Gaudí; its feeling for design that rivals world icons such as London and New York; a privileged cultural agenda for all ages and tastes; and a feeling of being in a cosmopolitan atmosphere that offers all the facilities of a well organized city with great job opportunities. Of course, they also like the beaches and the familiarity of the language.

Jeanine Caminha, 32, is studying for her doctorate at the Architecture Faculty of the Polytechnic University of Cataluña (UPC). She's a good example of this expat wave, working for three years in the offices of architect Carlos Marti and also coordinating projects for the Intercon office, which is responsible for giving a facelift to the Dostyk luxury hotel chain in Kazakhstan. "None of my architect friends are out of work," she said. (Patu Antunes, from Barcelona)

HANDOUT

Brazilian Soap Opera with a French Accent

ALL THOSE BRAZILIANS who still insist in seeing France in terms of the clichés – both positive and negative – that have accumulated over the centuries would be well advised to pay attention to what’s coming. Following on the great success of the Brazilian Year in France, in 2005, there’ll be a French Year in Brazil, scheduled for 2009. It will be a great opportunity for Brazilians to get to know what the France of the 21st century is producing in fields ranging from culture to cutting edge technology, from advanced research to sustainable development. Writer Olivier Poivre d’Arvor, director of Culturesfrance, the institution responsible for organizing the event, said he believes that the shows, expositions and business fairs due to take place in at least 15 major Brazilian cities will attract at least 40 million people.

That calculation might look a little optimistic, or even exaggerated, but at least it shows that the organizers of the event are thinking big. “We

want to create a dialogue with all social classes, not just the middle and upper classes,” said Poivre d’Arvor. “In this way, we will reach the greatest possible number of people.” One of the ideas supported by Anne Louyot and Yves Saint-Geours, who

bodies such as Sesc in São Paulo and the University of São Paulo (USP). The Brazil-France Chamber of Commerce and the São Paulo Secretariat of Culture are also on board.

Brazil will be the first country in Latin America to have an entire year of French cultural programs. If the initiative proves a success, it could be taken to other places. The program is still being finalized, but some ideas are more or less confirmed. One of these is an exhibition of works by Henri Matisse, one of the most important names in French art from the end of the 19th century and the first half of the 20th. Initial estimates suggest the complete event will cost at least €10 million. But this could rise if the most ambitious of all the

ideas now being discussed by organizers becomes a reality: the production of a French-Brazilian TV soap opera. “TV soaps are part of Brazilian culture and this would be an excellent way of bringing France into all homes,” said Poivre d’Arvor. (Andréa Flores, in Paris)

**Two-way street:
in 2005, Brazil
shone in France**



represented the French side at a recent planning meeting in Brazil, is to promote a French caravan through various cities in the interior of the country. To ensure the success of the event, some strategic partnerships have already been negotiated with

The Charms of Wales

ANY MENTION of doing business in the United Kingdom immediately brings to mind the all-powerful City of London, a powerhouse of global capitalism. But other parts of Great Britain can be just as attractive as the nation’s capital, according to Paul Viggers, the director of International Business Wales (www.ibwales.com), a consultancy linked to the government of Wales.



Intelligence is the Name of the Game

EVER SINCE HE took over from businessman Juan Quirós as CEO of the Brazilian Trade and Investment Promotion Agency (Apex/Brasil), economist Alessandro Teixeira has insisted on a few key themes. He wants to expand investments in commercial intelligence and, as well as working on promotion, help change the way that some Brazilian organizations look on internationalization. Following are some of Teixeira's main ideas:

» **COMMERCIAL INTELLIGENCE:** In the past, Brazil didn't have the resources to conduct any real analysis of the best destinations for its exports. Apex/Brasil has now invested in commercial intelligence, with a study (just finished) of 111 countries, covering incomes, wages, average growth and other data, and analyzing the pattern of growth. It's not enough to know that a country grew 20% in a year, it's essential to know where that income goes. If there's good distribution, Brazil can sell chicken, beans and soy. If there's concentration, it sells airplanes and luxury goods.

» **INTERNATIONAL VOCATION:** A company in Singapore is born with international DNA. Brazilian companies are different, they're born facing their own domestic market and only afterwards go international. This must change.

» **HELPING SMALL COMPANIES:** When we think of the internationalization of the Brazilian economy, we must think, for example, of expanding the country's

While he was in Brazil at the end of November, Viggers ticked off the advantages open to companies that choose to structure their operations and do business under the **flag of Wales**. "We are totally integrated into the London financial system but we offer a much lower cost, both in terms of operations and labor," he said. "What's more, Wales today is one of Europe's centers of excellence in sectors such as

information technology, capital markets and infrastructure." Even better, Cardiff, the capital of Wales, is just two hours from London. It's a pleasant city of 315,000 that offers a rhythm of life very different from the British metropolis.

Speaking of London, one good option for anyone looking for advice about getting started there is the Nabas Legal Consultancy, an office set up in London five years

ago by Brazilian lawyer Victoria Nabas. The firm specializes in serving small and medium companies that want to export or to get established in the UK. "In recent years there has been an enormous influx of businessmen wanting to start a business in Britain, for example in small supermarkets," she said. In other words: anywhere in the United Kingdom is a good place for Brazil to do business. (Marcelo Cabral)



Teixeira: a new focus for Apex

retail chains. Why don't they expand in Latin America? If that happened, they could open up more space for Brazilian products abroad.

» **OBSTACLES:** Today, tradings can't participate in Apex work, only companies. Teixeira wants to bring in the tradings, which is a way of getting quick results.

» **DISTRIBUTION CENTERS:** The idea is excellent, but the system needs improving. Teixeira will change the name to Business Centers. Today, to be in a Center, a company has to sign up for the full package: office, showroom and distribution desk. Now, it will pay for each service separately, according to what it needs. (NC and RG)

The Human Touch

Today's traveler is looking for much more in an hotel than just good installations, excellent food and multilingual receptionists. More and more, he's looking for subtleties of services and attitudes that reach out to the human spirit

NEVER BEFORE HAVE really special services been so sought-after. Our travelers want more. Much more than just attention, massages, international and regional dishes, good wines, the latest technology in fitness equipment and multilingual receptionists. They also want attitudes that touch the human spirit and sharpen the senses, like the magic that makes children's (and adults') eyes sparkle the first time they visit a Disney theme park.

The world really has changed! This is the truth that you most hear in administration, marketing and publicity classrooms. Expectations have changed, and hotels must keep abreast. A wide range of services is available for the new, spiritually concerned consumer who seeks more than just good installations and technology – he wants the human touch as well.

Recently, in three new luxury hotels in Tokyo, I saw the pleasure of being able to serve, something that permeates Oriental culture. There, there is a healthy “war” to offer the best services, atmosphere, installations and attitudes. My attention was caught by the focus on individuality, on personalization of services, on attention to the smallest detail, adding up to constant concern with the guest's well-being. Creativity and the smallest gestures were opportunities to please the guest in various situations, assuming that a person might not want now what he wanted before, because time has moved on.

I was fascinated by the posture of the hotel staff, interacting with their guests: in the way they bowed in Japanese style, drawing closer to talk or bid farewell. In the restaurant, it was how they led guests to table with suave, carefully trained body movements. Female employees offered a very feminine touch while male employees exuded quiet elegance. It all added up to a relaxing feeling of being welcome, inspiring confidence – very important ingredients for a stay or a dinner.

Total harmony is also the goal in the spas and beauty salons. The attendants' gentle voice demonstrates respect for this being the client's moment, and the desire to achieve serenity. With the treadmills placed next to huge glass windows, you have the feeling you're running in the streets of Tokyo. In the salon, a simple hair wash is transformed into a restful ritual. The chair is as comfortable as a bed, the ceiling lights are dimmed and the shampoo-massage takes place to gentle music. Without realizing it, you're asleep.

Another enchanting detail is the beautiful view from the bedrooms, restaurants and social areas, where enormous windows frame the Tokyo landscapes. Hotels are opening all the time, all over the world, but what really creates the different perception from one to the other are the details in the service, the posture of staff, the values, the right things in the right places. Beds aren't just made, they are given an appearance of quality that transmits a sensation of serenity. This ability to “communicate” without emitting any sound, to transmit feeling, to offer moments of pure tranquility and the pleasure of making the guest feel that all his bodily, mental and spiritual needs are being catered to – this is what I believe constitutes true hospitality in the 21st century. ■

*Chieko Aoki is president of the administrative council of the Blue Tree hotel chain.



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