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62



58



44



68



COVER STORY

24 A new flight plan

How Brazil's major companies are facing the crisis – and planning for afterwards

Eliana Simonetti

10 **ANTENNA**  
Gastronomy – a way to win new business

18 **SURVEY**  
New data on Brazilian internationalization  
**Armando Mendes**

20 **OPINION**  
Will Obama bring Brazil a new business climate?  
**Diego Z. Bonomo**

22 **INVESTMENT**  
APEX-Brasil is attracting new funds for Brazil  
**Nely Caixeta**

34 **ANALYSIS**  
The Itaú-Unibanco merger: what it really means  
**Roberto Luís Troster**

36 **EMERGING NATIONS**  
Will the BRICs build something new?  
**Bruno K. Reis**

40 **INTERVIEW: RUBENS RICUPERO**  
It all depends on Obama and China  
**Nely Caixeta and Armando Mendes**

44 **MARKETING**  
Brazil has origin-certified products  
**Antônio Carlos Santomauro**

48 **TEST**  
How much do you know about the globalized world?  
**Arindam Bhattacharya, James Hemerling and Harold Sirkin**

50 **YOUR CARREER**  
Executives today have more power – and more risks  
**Christine Puleo**

54 **TECHNOLOGY**  
Even in the crisis, Totvs has strong client demand  
**Vicente Vilardaga**

58 **STRATEGY**  
How branding can help you win global markets  
**Flávio Dieguez**

62 **TALENT**  
Top New York fashion designer Francisco Costa hails from a small Brazilian town  
**Nara Vidal**

64 **BIOTECHNOLOGY**  
Biodiversity spells new products – and good business  
**Flávio de Carvalho Serpa**

68 **GASTRONOMY**  
The world falls in love with Brazilian barbecue  
**Adriana Setti**

72 **RANKINGS**  
Brazil: win some, lose some in the latest global surveys  
**Armando Mendes**

74 **EXPORTS**  
Haco fights for top spot in the world labels market  
**Maurício Oliveira**

76 **INTERNATIONALIZATION**  
Cinex licks its wounds after an internationalization bid turned sour  
**Arlete Lorini**

77 **FAIR TRADE**  
Caboclo turns traditional Brazilian peasant sandals into European fashion  
**Adriana Setti**

78 **GLOBE-TROTTER**  
**Business Traveler ::** How to survive a terrorist attack on your hotel  
**Express Tourism ::** Buenos Aires has more than just tango  
**In Transit ::** Rui Porto



# Not Afraid of the Crisis

Things were going so well for Brazil just recently, economically speaking, and for Brazilian companies around the world. It's a pity we have to change the subject, exactly in our Christmas edition.

But the crisis is with us, in all its depth and fury. We can't just ignore it. There's a general understanding that we'll hit bottom sometime in 2009. After that, anyone who's been doing their homework properly can hope to reemerge into a different world, one full of opportunities both in Brazil and abroad.

In this edition, we gave ourselves the task of discovering just how the major Brazilian companies with international operations are preparing for the turmoil in their various markets and how they plan to avoid (or at least minimize) the consequences and dangers that lie ahead. Our lead story by Eliana Simonetti shows how each company in its own way is making the necessary adjustments. The goal of Brazil's most important companies is not just to survive and preserve – as far as possible – their workforce and clients; they also see it as essential to reposition their

activities to account for the drastic shrinkage in other economies, above all the powerhouse called China.

However, the major Brazilian companies which produce foodstuffs and other commodities, energy and hi-tech products know that their real opportunity lies in maintaining their ability to produce what the world wants. Like Harold Sirkin, co-author of *Globality: Competing with Everyone from Everywhere* for Everything said: "Brazil has what the world needs." When the world starts buying again in large quantities, companies must be able to deliver.

To help understand what's happening, we heard important specialists and academics. One is ambassador and former finance minister Rubens Ricupero, an experienced observer of crisis since he served in Washington in the 1970s. Read his fascinating interview on page 38. Another is Roberto Luis Troster, former chief economist of the Brazilian Banking Federation, who analyzes the impact of the merger between Itaú and Unibanco and the international prospects of this new financial giant.

To finish on a lighter note, we decided to upgrade the *Globe-Trotter* section. This now has helpful hints to make your business trips both useful and enjoyable, tips for some quick tourism in foreign cities, and finally our traditional *In Transit* section with the personal experiences of some notable global road warriors.

In the same spirit, we have a story from Nara Vidal, born in the small interior town of Guarani, who grew up with Francisco Costa, currently a top fashion designer in New York. Vidal has also gone international, living in London where she has a real estate business.

THE EDITORS



Nara Vidal, from London for PIB

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**EXCELÊNCIA EDITORIAL**  
Nely Caixeta

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**BRAZILIAN COMPANIES**  
**GO INTERNATIONAL**

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

**EDITOR**  
Nely Caixeta - nely@revistapib.com.br

**CONTRIBUTORS TO THIS EDITION**  
Antonio Carlos Santomauro, Armando Mendes,  
Bruno K. Reis, Carolina de Sá, Christine Puleo,  
Eliana Simonetti, Flávio de Carvalho Serpa, Flávio  
Dieguez, Glaucy Vulcano, Marco Rezende, Roberto  
Luis Troster, Rui Porto e Vicente Vilardaga.  
*Barcelona:* Adriana Setti e Daniel Setti. *Florianópolis:*  
Maurício Oliveira. *Londres:* Nara Vidal. *Paris:*  
Andréa Flores. *Porto Alegre:* Arlete Lorini

**DESIGN**  
Karina Gentile e Maurício Fogaça  
Página Mestra

**COVER**  
Marcelo Calenda

**ILLUSTRATIONS**  
Enio Longo

**PHOTO EDITOR**  
Glaucy Vulcano

**COPYDESK AND PREPARATION**  
Márcia Melo

**TRANSLATION**  
Brian Nicholson e Johann Weber

**ADVERTISING**  
INTERNATIONAL AND BRAZIL  
(55-11) 3097.0849  
publicidade@revistapib.com.br  
Av. Brigadeiro Faria Lima, 1903, cj. 33  
Jardim Paulistano - 01452-911 - São Paulo - SP

**PRINTING**  
Editora Parma

**DISTRIBUTION IN BRAZIL**  
Support: Edicase - www.edicase.com.br  
Exclusive distributor: Fernando Chinaglia  
Mailing: Postal House

**PORTUGAL**  
Malta Distribuição  
Av. Paulista, 2001, cj. 815 - 01311-300 -  
São Paulo (SP) - www.maltainternacional.com.br

**ADMINISTRATIVE CONSULTANT**  
Luiz Fernando Canoa de Oliveira  
adm@totumex.com.br

**EDITORIAL CORRESPONDENCE**  
Av. Brigadeiro Faria Lima, 1903, cj. 33  
CEP 05426-100 - São Paulo - SP  
redacao@revistapib.com.br

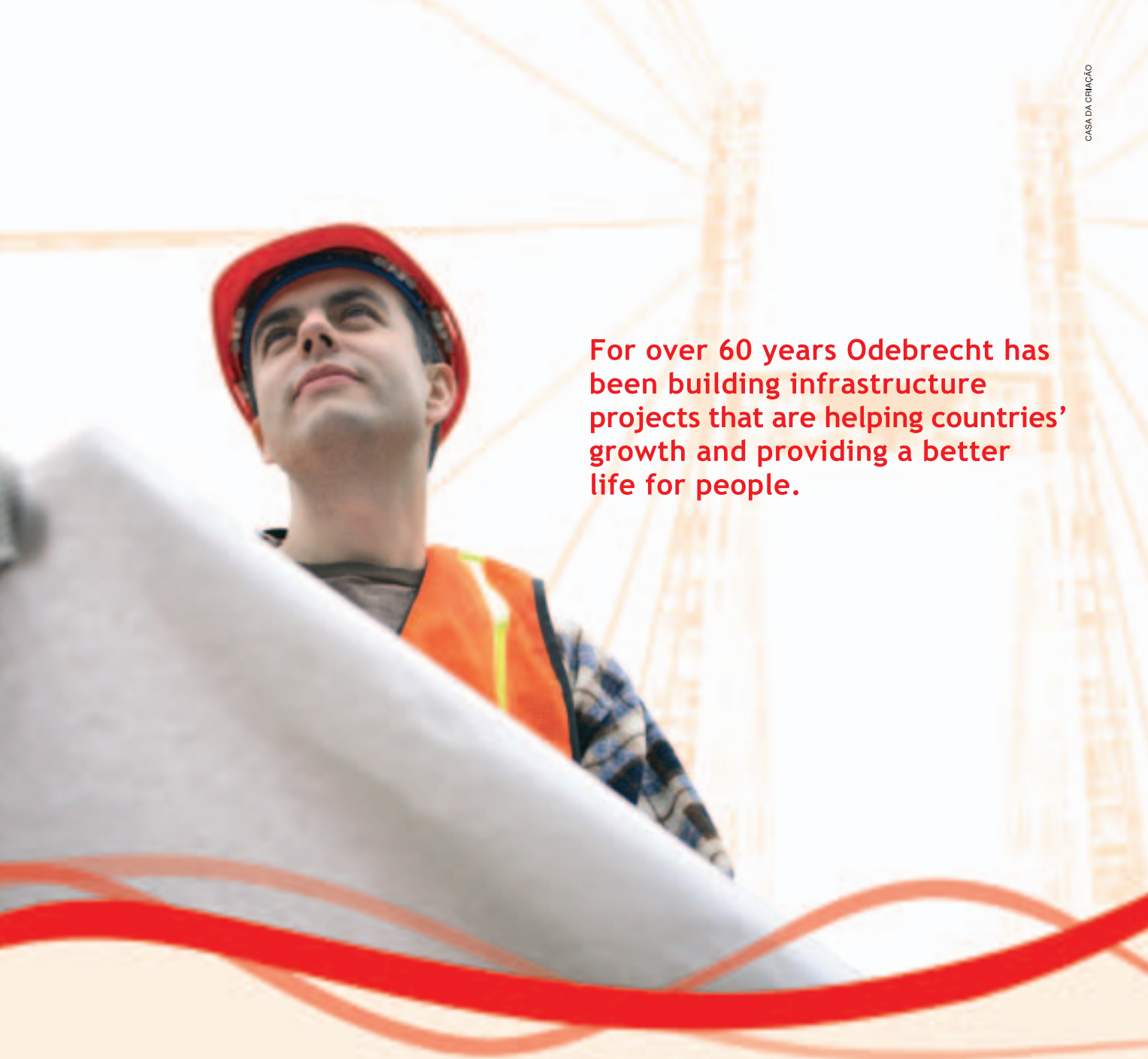
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the right to edit or summarize letters.

**LEGALLY RESPONSIBLE JOURNALIST**  
Nely Caixeta (MTb 11.409)

**PIB – Brazilian Companies go International**  
is published by Totum Excelência Editorial  
Av. Brigadeiro Faria Lima, 1903, cj. 33  
CEP 05426-100 - São Paulo - SP  
(55-11) 3097.0849 - contato@totumex.com.br

**PRINT RUN FOR THIS EDITION**  
Portuguese – 14.000  
English – 6.000  
Print run audited by PricewaterhouseCoopers

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President of the Board  
Votorantim Group

São Paulo (SP)

*Congratulations on the first anniversary of PIB. I am a professor and researcher at the Dom Cabral Foundation, and whenever possible I use your articles with my students. They are always very well received.*

**ANDERSON ROSSI**  
Dom Cabral Foundation  
Nova Lima (MG)

*PIB Magazine is doing a really worthwhile job. I am delighted to see such high-quality informative material being produced in and for Brazil.*

**ALMEIRI SANTOS**  
Real Trade Magazine  
Toronto – Canada

*I am a 23-year-old university student and reader of your excellent publication, which offers a precise panorama of the international insertion of Brazilian companies and – in the final instance – of Brazil itself. Please keep on producing this fine magazine.*

**THIAGO PIRES**  
Juiz de Fora (MG)

*After living for 30 years outside of Brazil it was wonderful to receive here in the United States a magazine that seeks to report on Brazil's new imagine in the world. The stories are interesting, concise and very informative. The magazine is headed in the right direction. We who live abroad need to know about Brazil's successes in today's world.*

**SILVIA SCHOTTINGER**  
New Jersey, USA

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AGENCE TV

French Year starts with business

## French invasion

**NEXT YEAR, 2009**, will be French Year in Brazil, but the marathon of meetings and events started early, in November. Directors of more than 120 French companies came to São Paulo for a meeting with representatives of some 800 Brazilian companies. A huge business fair was set up in an hotel on the Marginal Pinheiros expressway and each of the French companies, mainly small and mid-sized concerns, had a small table where their executives held face-to-face talks with Brazilian businessmen interested in various kinds of association or partnership. According to the French Economic Mission in São Paulo it is too soon to measure the results, but the event generated around three thousand bilateral business meetings.

French Economy Minister Christine Lagarde opened the event alongside São Paulo Mayor Gilberto Kassab. "Brazil has changed," said Lagarde explaining the French interest. "Today Brazil is a power in the same league as Russia." The French have previously held similar meetings in Hong Kong, Shanghai, New Delhi and Hanoi, amongst other emerg-

ing centers. The presence of French President Nicolas Sarkozy in Brazil at the end of the year will strengthen relations between the two countries in a strategic sector: defense.

Amongst the agreements now in preparation is one for the manufacture of helicopters for the Brazilian Armed Forces, with work being done by Helibrás, the Brazilian subsidiary of European conglomerate Eurocopter. The company calculates that

between 250 and 600 jobs would be created at the Helibrás factory in Itajubá, in Minas Gerais state. French Year in Brazil will also include, between April and November of 2009, art exhibitions (Matisse, maybe?) wine fairs, fashion and design, seminars and exhibitions about urban transportation and high speed trains, all under theme of the French way of life, mobility and innovation (*collaboration: Andréa Flores*).



AGENCE TV

"Brazil has changed," says Lagarde



HANDOUT

## Smaller cake, larger slice

**FOR LUIS AFONSO LIMA**, president of the Brazilian Society for the Study of Multinational Companies and Economic Globalization (Sobeet) the crisis will hit foreign direct investment in Brazil and investment by Brazilian companies abroad. However, not everything is gloomy. The total volume of FDI will diminish with the crisis, but the slice going to emerging economies is likely to grow, as it has been doing in recent decades. "The crisis has its origin in the developed countries, and this will further accelerate this trend," said Lima. From the 1980s and 90s until 2007, according to Unctad, the share of emerging economies in the global flow of FDI rose from around 15% to around 28%.

## Brazilian cinema in Canada

**BRAZILIAN FILMS** and music are warming up the chilly Canadian winter. The second edition of Brazil Film Fest/Festival du Film Brésilien, in Toronto and Montreal, celebrated 50 years of Bossa Nova by showing *Os Desafinados* (Walter Lima Jr.), *Vinicius*, by Miguel Faria Jr, and *Bossa Nova*, by Bruno Barreto. The Canadians were also treated to 1960s classics such as *Assalto ao Trem Pagador*, by Roberto Faria, and some contemporary production including musicals *Os Dois Filhos de Francisco*, by Breno Silveira and *Cazuza*, by Walter Carvalho and Sandra Werneck. A total of 25 films were shown between the end of November and the start of December. The Jangada Cultural Association, which promotes Brazilian cinema abroad, organized the event.



Port of Miami: security has its price

## Obama and change

**AT A RECENT EVENT** in the American Chamber of Commerce in São Paulo, Brazilian businessmen were eager to know what would change in an Obama government with respect of the rigid security measures at US ports and customs. These measures delay deliveries and increase the cost of shipping between the two

countries. According to the American participants at the meeting, in principal, nothing will change. The political risk of altering security arrangements would be very high, and the priorities for change under the new government will be for items that have strong support among American citizens, such as telephone and Internet wire tapping without judicial authority.

## São Paulo on the European map

**A STUDY ENTITLED** European Cities Monitor 2008 asked executives of major European countries where they would like to expand in the next five years. São Paulo appeared in first place in the Americas, ahead of New York. However it was only 5th in the overall ranking, behind the unbeatable duos of China and India: Shanghai and Beijing placing 1st and 2nd, and Mumbai and New Delhi 3rd and 4th. The annual study is conducted by Cushman & Wakefield, an international real estate company. The 2008 edition of the study voted London the best European city for doing business.



## The Asian Connection

*Hong Kong entices investors with its British legal system and promises of chinese growth*

The Hong Kong promotion agency is in Sao Paulo and looking to attract Brazilian companies to the former British colony. Simon Galpin, director of InvestHK\*, spoke with PIB:

### Why Hong Kong?

Galpin – Many people know that Hong Kong was handed back to Chinese control in 1997. What they don't know is that Hong Kong is different from Shanghai or Beijing, thanks to the 'one country, two systems' concept. Hong Kong is part of China but it has its own judicial system, based on British law. British and Australian judges go to Hong Kong to preside over appeal courts, and we have our own tax policy. The region has substantial autonomy, the legal system is reliable and taxes are very low.

### Interest in Brazil

We see more and more Brazilian trade missions going through Hong Kong on their way to China and other countries, but we believe that, given the size of the Brazilian economy, we could do much more. Many Brazilian companies are interested in internationalization and are evaluating places to locate. What we do is try to show the advantages of Hong Kong to these companies.

### A base for Asia

The main advantages are for management and administrative operations. Hong Kong is not competitive for factories, the labor and real estate costs are higher than in China. But if

a company wants to set up manufacturing operations in the region, it frequently makes sense to register a holding company in Hong Kong and to use this to invest in China or another country.

### Difficult times

The crisis? The companies I have seen in Brazil seem to be facing the crisis quite well. I don't know if it's because of all the ups and downs that Brazil has been through, but companies here recognize the problem, they know they'll face a difficult period, but they adopt a pragmatic stance and keep on planning things. That's great for us.

*\*InvestHK is represented in Brazil by Kaiser Associates [www.kaiserassociates.com.br](http://www.kaiserassociates.com.br)*



Hong Kong: China plus the United Kingdom

## Embraer in Florida

**IN DECEMBER**, Embraer started building its first factory in the United States, in the city of Melbourne, Florida. Scheduled to start operating in 2010, the factory will have the capacity to assemble eight of its Phenom light executive jets per month. The company says it's watching the development of the global crisis, like everybody else. So far, however, it has not received any cancellation or rescheduling of orders from clients and it currently maintains the projections it made last November, when it revised downwards its estimates for delivery for new planes in 2009. The company expects to deliver 270 planes in 2009, while estimates made at the end of 2007, before the crisis became apparent, suggested delivery of between 315 and 350 airplanes in 2009.

## Market pessimism

**AERONAUTICAL ANALYSTS** predict that executive aviation will be severely impacted by the crisis. British company PMI Media said in a report published December that the global market for small executive jets (the Very Light Jet category) between 2008 and 2017 would be 4,610 planes, a reduction of more than 1,000 in relation to the same estimate made last October.

PHOTOS: HANDOUT / EMBRAER



Phenom: orders holding up...



... for the executive jet

The governments of the region have the bad habit of proclaiming integration and working alone

LA NACIÓN, IN AN EDITORIAL ABOUT THE SAÚPE SUMMIT MEETING

## Free Zone made to measure

**COLOMBIA IS OFFERING** foreign investors the possibility of creating a tax-free zone to call their own. They are the so-called One-Company Tax-Free Zones (Zonas Francas Unipersonales) which allow a company to receive the legal and tax benefits of this status, even if installed outside of a permanent tax-free zone, which has geographic limits. To qualify as a Zona Franca Unipersonal, the law requires factories have a minimum investment of roughly US\$35 million and create 150 jobs. The project must also promote industrial restructuring or technology transfer. Brazil's Votorantim and Germany's Siemens are among the groups already interested in the special Colombian regulation.

*\*ProExport, the Colombian investment agency, has a São Paulo office [www.proexport.com.co](http://www.proexport.com.co)*



## From Garage to Greatness

**LUISA MATSUSHITA**, take a bow. Lovefoxxx (sic, three 'x's) to her fans is the 24-year-old São Paulo vocalist of the Brazilian band Cansei de Ser Sexy (Tired of Being Sexy, known abroad as CSS), an international pop-rock success with almost 200,000 records sold in two years. Lovefoxxx has appeared on the cover of British magazines Dazed & Confused and NME, but she could probably walk down the street unnoticed in most of Brazil. Before achieving international success, CSS had some Brazilian fans, principally in Rio and São Paulo, but was never a major national name.

In fact, the band is the most successful product of the independent music generation which emerged in Brazil from the start of the current decade, but was not warmly received by major recording companies who thought their product was not commercial. Success came through minor recording companies

**Lovefoxxx,  
pop power  
for export**

and Internet promotion. "Donkey", the second CD of CSS, was made available for three months, complete with the booklet, for free download on the site of the Trama recording company, which used money from sponsors to compensate the band – in the case of CSS, cash came from Volkswagen.

Other bands with a similar history include Céu, Curumin, + 2 (a trio formed by Kassin, Moreno Veloso and Domenico Lancelotti), Bonde do Rolê and Trash Pour 4. Less well known than CSS, they are all Brazilian bands and artists who – if they have difficulty gaining space on TV and radio at peak time, and sell few records in their own country – nevertheless make frequent tours abroad where they enjoy loyal fans and critical recognition. Straight from the garage to the world – something that used to happen only with football players. (Daniel Setti)



REX FEATURES / GRUPO KEYSTONE



**Intelligence: but  
can you sell it?**

## Biotechnology shows its face

Next year sees the start of a program to encourage Brazilian biotechnology to go international. Three sectors will be priority for 2009: food, pharmaceuticals and cosmetics. The idea is to exploit opportunities to combine these areas, said Alessandro Teixeira, president of APEX-Brasil, the agency heading the program. For example: combining foodstuffs and cosmetics with biotechnological products that meet health needs. Brazilian biotech companies are mainly quite small and don't have the size or structure to face international market by themselves, said Eduardo Emrich Soares, director-president of the Biominas Foundation, an institute to support biobusiness in Minas Gerais State. The APEX program will help them rise to the challenge by taking advantage of a characteristic of the sector, Teixeira said: it is brain-intensive, not capital-intensive. When money is short, that's an advantage.



**Dubai: want some  
nice furniture?**

## Brazilian furniture in Dubai

**AMERICANS MIGHT HAVE** lost their urge to spend in the crisis, but not the Arabs. Believing this, 36 Brazilian furniture makers headed for Dubai at the start of December. They went to show their wares at Index Dubai 2008, the largest furniture show in the Middle East, and came away happy, with US\$6 million of new business signed up – 20% more than at a recent fair in the United States, according to José Luiz Diaz Fernandez, president of the Brazilian Furniture Industry Association (Abimovel). Until the crisis Americans purchased 52% of Brazilian furniture exports but today that does not exceed 32%.

## Paper against the crisis

**THE GLOBAL CRISIS** forced the Brazilian pulp and paper sector to cut back production at the end of 2008. However, Elizabeth de Carvalhaes executive president of Bracelpa, the industry association, is looking to the long term. She believes Brazil will emerge from the crisis stronger than the North Americans and Europeans, because it has high productivity and cutting-edge technology. "Forests are immune to the crisis," she said. "Our competitiveness is safe." She's looking long-term:



**Brazilian pulp  
takes on the world**

"Do we want a paper factory closer to the consumer? We might even consider buying one abroad." First, however, the strategy is to win export markets and overtake China as the world's No. 3 pulp producer – Brazil was likely to edge out Sweden and Finland to rank 4th in 2008.

HANDOUT



## Brazilian Flavors in the Orient

**DUBAI** in the United Arab Emirates is the venue for an event promoting Brazilian food and drink in the Middle East. The Intercontinental Hotel will receive guests for a Brazilian dinner prepared by chef Morena Leite of the São Paulo restaurant Capim Santo. A series of business meetings between Brazilian exporters and local companies is also planned. The goal is to enhance the image of Brazilian food in a region that imports almost everything and help Brazilian companies find local partners. Exhibitors have received guidance about Islamic food doctrines: Halal certification is essential. The February 21-22 event is a pilot of the Sabores do Brasil (Flavors of Brazil) project run by APEX-Brasil which plans to stage similar events in other parts of the world.

Morena Leite: the flavor of Capim Santo in Dubai

HANDOUT

## Spain still investing in Latin America

**BRAZIL WILL HAVE** the best economic performance in Latin America next year, according to a study by the Gavin Anderson & Company PR firm and the IE Business School, surveying Spain's largest companies. For 96% of those interviewed, Brazil will get through 2009 in a good or very good situation. The Spanish see Brazil as the second most attractive market in the region next year, beside Chile but behind Mexico. Latin America remains top of the investment list for major Spanish companies in 2009, the study showed.



## From German to Mandarin

**THE HUMBOLDT COLLEGE**, a Brazilian-German school in São Paulo, started teaching Mandarin this year and will repeat the initiative in 2009. Twelve students took the course which was offered as an extra-curricular activity alongside French and Spanish (German and English are obligatory). According to deputy-director Herbert Zorn, all the students did very well. "Attendance was above 95% and grades were A or B." The school introduced the course in response to requests from students' parents – some are executives who do business in China and can see which way the winds of globalization are blowing. For 2009, Humboldt plans to promote the pioneers and open two new classes for starters.

Graça: Brasília in Milan

## Graça in Milão

**BRAZILIAN PHOTOGRAPHER** Graça Seligman, known both for her photojournalism and her portraits and scenes of urban life in cities like Rome and Brasília (she lived in both) was one of the highlights of the autumn cultural season in Milan, with a major photography show featuring Brasília. The exhibition opened in October in the Brazil-Itália Institute. It shows the principle architectural highlights of the Brazilian federal capital, bringing out their sculptural lines and the esthetic and beautiful aspects. Graça, who was previously director of institutes such as the São Paulo Museum of Image and Sound and the Athos Bulcão foundation in Brasília, pays homage to what she considers to be the dynamic functionality of the curving lines of the avenues, and the triumph of public art. "My photographic work is essentially a personal vision of a city which is a symbol, the work of many artists, starting with the magnificent Oscar Niemeyer," she said.

HANDOUT

Stefanini: 21st place on the internationalization ranking

## Time to Buy

**THE CRISIS AND DROP** in the value of the Brazilian real obliged Stefanini IT Solutions to rethink the purchase of foreign competitors in 2008, but strategy for 2009 remains international expansion via acquisitions. "We had to be cautious, buying (companies) became more risky and more complex than we imagined," said Marco Stefanini, founder and president of the IT services consultancy. However, he will continue looking for foreign targets in 2009, particularly in Mexico, the United States and Europe. In 2008 Stefanini became one of Brazil's most internationalized companies, placing 21st on the "Internationalization Index" produced by the Dom Cabral Foundation. This measures a company's overseas percentage of sales, assets and personnel. However, Stefanini ranks sixth in terms of the number of countries where it operates. Stefanini is in 15 locations, more than major construction companies and recognized industrial globetrotters like Sabó and Marcopolo.

HANDOUT



# Pause for Thought

A new study suggests that after some major international advances, Brazilian companies are now less interested in going international

BY ARMANDO MENDES

From 2002 through 2007, the percentage of major companies which still operate only inside Brazil, but which are planning to go international, has fallen from 82% to 26%, according to a new study by the Dom Cabral Foundation (FDC), conducted amongst the largest Brazilian-owned companies. Does this mean Brazilian companies are losing their interest in internationalization?

According to Professor Álvaro Cyrino of the FDC, one of those responsible for the study *Global Players II – Internationalization of Companies in Latin America*, the data does not allow for a definite conclusion as to the reason for the fall. However, Cyrino offers two possible explanations. “It could be the increased participation in the universe of the study, over the five years, of companies which are more interested in the domestic market,” he said. This would be the case of energy companies, for example.

A second possible explanation would be the growth in the number of Brazilian multinationals over the last five years. Only those companies which do not yet have overseas operations answered this question in the survey. They are a decreasing group within the total universe of the survey, representing 27% of all companies questioned in 2002 and 22% in 2007.

The reduced interest in internationalization, shown in the 2007 answers, could thus simply indicate that a larger number of the companies in-

terested in operating outside of Brazil are in fact already doing so, compared with 2002. In other words, the potential universe of Brazilian companies willing to risk internationalization is today closer to exhaustion than it was five years ago.

FDC also released a new ranking of Brazilian multinationals, calculated on 2007 data according to criteria by Unctad, the United Nations Conference on Trade and Development. The biggest change is the arrival of

Camargo Correa Cement in the first place amongst the most internationalized Brazilian companies, taking the place occupied last year by Gerdau.

This time, FDC classified individually the Brazilian multinationals which are members of large groups. For professor Cyrino, this change offers a better reflection of the real situation, because many groups are not as internationalized as some of their individual components. “When we look at the conglomerates as a whole, the

international participation of some companies was diluted among the groups to which they belong,” he said.

In this way, the cement production arm of Camargo Correa jumped into the lead once it was separated from the Camargo Correa SA group which remained in eighth position. Camargo Correa Cement has a strong presence in Argentina where it controls Loma Negra, the leading cement brand. The FDC ranking shows that the three first companies on the list, Camargo Correa Cement, Construtora Norberto Odebrecht and Gerdau, are today

larger abroad than they are at home.

This relation between foreign and domestic operations can be seen in the points given to FDC’s “Index of Internationalization”, which indicates the proportion of assets, sales and workforce in Brazil and abroad. When the index is greater than 0.5, as for the three companies mentioned above, it shows they have a greater

9<sup>th</sup> and 12<sup>th</sup> places respectively. That puts them ahead of the giant Petrobras which has most of its operations inside Brazil, and places 16<sup>th</sup>. Cyrino also notes a trait of Brazilian multinationals revealed by the study: they are mainly companies whose advantages lie in greater production efficiency rather than the creation of brands and marketing.

Artecola made headlines in 2007 by moving aggressively into neighboring countries, buying local manufacturers in Chile, Peru, Mexico and Argentina. International expansion via acquisitions is a trend. The KPMG consultancy in Brazil registered 66 such operations in 2007; two of the largest were the purchases of Chaparral Steel by Gerdau and of Swift Armour agribusiness group by JBS Friboi, both in the US. In 2008, the number of acquisitions through November was 53, with a sharp fall-off in the fourth quarter because of the international crisis.

When Brazilian multinationals are classified by the value of their foreign assets, the smaller companies obviously place way down the table: Vale remains the largest Brazilian multinational in absolute size, followed by Petrobras and Gerdau. The 20 largest multinationals have foreign assets of US\$73.8 billion, representing almost 57% of the stock of the Brazilian direct investment in other countries.

In general terms, the outward flow of Brazilian investments in 2007 reached US\$7.07 billion, almost three times the level of 2005. This was much less than in 2006 when outward Brazilian FDI reached US\$28.2 billion. However, 2006 was atypical; the result was distorted by a single, exceptional operation of around US\$19 billion, the acquisition by Vale of Canadian Mining Company INCO. ■

## Musical chairs

The changing ranking of Brazilian companies, according to FDC classification\*

POSITION IN 2008	POSITION IN 2007	COMPANY	INTERNATIONALIZATION INDEX
1	–	CAMARGO CORRÊA CIMENTOS	0,585
2	–	CONSTRUTORA NORBERTO ODEBRECHT	0,571
3	1	GERDAU **	0,544
4	–	VOTORANTIM CIMENTOS	0,397
5	2	VALE **	0,376
6	3	SABÓ	0,301
7	14	METALFRIO	0,286
8	9	CAMARGO CORRÊA S.A. **	0,284
9	22	LUPATECH	0,253
10	6	EMBRAER	0,237
11	23	ARACRUZ CELULOSE	0,233
12	12	ARTECOLA	0,212
13	4	MARCOPOLO	0,206
14	8	TIGRE	0,206
15	10	DUAS RODAS	0,170
16	18	PETROBRAS **	0,166

Source: Dom Cabral Foundation – FDC Ranking of Brazilian Multinationals, 2008 Edition. \* The complete ranking comprises 34 companies. \*\* Corporate group

presence abroad than in Brazil. This is a proportional evaluation, meaning that relatively small companies can place ahead of ones that are much bigger and better known.

Lupatech (engineering) and Artecola (industrial adhesives) are examples of mid-sized companies that are not very well known to the average consumer. However, a substantial part of their activity is outside of Brazil and therefore they appear in



Loma Negra: Argentine subsidiary of the internationalization champion



# All Change in the New Year?



*Barack Obama and his ample congressional majority spell a new business climate for Brazilian companies in the US – but it might not be better*

BY DIEGO Z. BONOMO\*

**T**he start of 2009 will see three factors that will, for better or worse, determine the business climate for Brazilian companies that export to or invest in the United States. The first two are related to politics: the nature and implementation of the agendas of President-elect Barack Obama and the 111th Congress. The third factor has to do with economics and is related to the expansion or retraction of the financial crisis and its impacts on production, employment and income.

The new president of the United States takes office with a wide-ranging agenda that has a declared emphasis on the social area and the expansion of the participation of the state as a regulator of private economic activity. Energy, taxation, education, health and welfare are priorities for the new administration. The first of these items is likely to be on the table at the start of Barack Obama's mandate, and this spells an important opportunity for Brazil.

Brazilian agribusiness executives have over the last two decades grown used to keeping a close eye on US agricultural policy, in particular for its impact on the competitiveness of Brazilian products both in the US market and in third countries. The periodic changes in



**Brazilian ethanol producers could benefit from an eventual reduction or elimination of the US\$0.54 per gallon additional tariff which currently pushes up the cost of ethanol imported from Brazil**

the Farm Bill are studied closely by the Brazilian government and business sector, always seeking to open up the North American market to exports and to eliminate distortions caused by the agricultural subsidies that are granted by the US government to domestic producers.

Since the start of Brazil's ethanol boom, keeping a close eye on the US Energy Bill has become essential for the Brazilian strategy of transforming the sugarcane biofuel into an international commodity. New versions of the Energy Bill were approved in 2005 and in 2007, with additional measures approved in 2008 via the most recent Farm Bill. Given the prospects for changes in US energy policy next year, Brazilian ethanol producers could benefit from an eventual reduction or elimination of the US\$0.54 per gallon additional tariff which currently pushes up the cost of ethanol imported from Brazil.

In terms of taxes, the new administration is likely to concentrate its political capital on pushing through an ample reform to benefit small business: that group of small and medium companies which is responsible for the greatest number of jobs in the United States. On the other hand, large companies may find that the Democratic administration ends some of the fiscal benefits that they were granted in the tax reduction plans of President George W. Bush.

Brazilian companies that have major investments in the United States may therefore find they face a real increase in federal taxes.

Just like the Executive Branch of government, the new Congress

will seek to implement the platform of the Democratic Party which has expanded its majority in the House of Representatives and achieved a majority in the Senate, following the elections of November 4. Given that Congress in the United States enjoys a constitutional prerogative to formulate the country's trade policy, the members of Congress will undoubtedly be subject to protectionist pressures. Potentially, these will be increased because of the financial crisis. As a consequence, important areas of Brazilian industry and agribusiness may find themselves affected by additional commercial barriers, of both a tariff and non-tariff nature.

Examples of the potential obstacles that Brazilian exports and investments may face include changes in U.S. legislation which produce increased commercial protection mechanisms and unilateral instruments for market access, or which are the result of a future system for control of greenhouse gas emissions via the imposition of a carbon tax. Additionally there will be an important debate about the maintenance or reform of preferential programs that are of direct benefit to Brazil, such as the Generalized System of Preferences (GSP), or others which have an indirect effect, for example the tariff preferences currently granted to Caribbean countries which serve as export platforms for processed products containing Brazilian inputs.

However, both the Administration and the Congress will be controlled by the Democratic Party, and this alignment of interest may help to damp down the above-mentioned protectionist pressures. What's more, President-elect Barack Obama has shown a willingness to rebuild bipartisan

**The Administration and Congress will be controlled by the Democratic Party, and this alignment of interest may help damp down protectionist pressures. Brazil's private sector must clearly define its interests**



dialogue in Congress, thus avoiding the polarization of positions that was encouraged by President George W. Bush and which in the area of commercial policy resulted in the approval of commercial measures and agreements by very narrow margins, thus minimizing their legitimacy. Both the 2002 Trade Promotion Authority and the free trade agreement with Central American countries and the Dominican Republic (CAFTA-DR)

were approved by just single-vote majorities in Congress.

Finally there are bilateral measures which are part of the agenda both of the Administration and of Congress and which are currently under negotiation. If approved, these could improve the business environment for Brazilian companies. The most important of these is the Double Taxation Treaty. If approved, this will establish a legal basis for greater cooperation between the Brazilian Federal Tax Secretariat (Secretaria da Receita Federal do Brasil) and its U. S. counterpart. This agreement will also allow for reduction or elimination of income taxes paid by Brazilian companies with operations in the United States. The legislation would also be a stimulus to widen the structures of bilateral regulation, which could in the future be expanded through the negotiation of more ambitious agreements both in the areas of market access and investment.

More than simply monitoring the implementation of these agendas, it is up to the Brazilian private sector to clearly define its interests and actively work to have these included amongst the priorities of the Administration and Congress. ■

*\*Diego Z. Bonomo is Executive Director of the Brazil Information Center (BIC), an organization based in Washington DC that represents Brazilian business interests. The organization acts on three fronts: maintaining a network of relationships with areas of the North American government and with the private sector, the media and think tanks; defending the interests of its members by seeking to monitor and influence the legislative and regulatory process; and promoting the image of Brazil. More information: [www.brazilinfocenter.org](http://www.brazilinfocenter.org).*



# Money that enters

*Apex-Brazil, better known for its trade promotion abroad, is also a powerful engine for attracting investments* **BY NELY CAIXETA**

**B**razil ranked fourth among the emerging countries that most received foreign direct investments in 2007, with a total inflow of US\$ 34.6 billion – behind only China, Hong Kong and Russia. Since then, however, the most serious financial crisis in recent history has deflagrated around the world. Now the forecast for 2009 is a retraction of up to 30% in the global flow of transnational investments, which reached US\$ 1.83 trillion in 2007.

That said, Brazil could well come out of the crisis in better shape than most in terms of attracting these waning funds. According to calculations made Apex-Brazil, the federal trade and investment promotion agency, no less than US\$ 38 billion in direct investment should enter the country in 2008. That value is close

to 30% of everything Latin America received during the year.

In 2009 Apex-Brazil plans to invest R\$ 50 million in international seminars, visits from foreign trade missions and other activities to showcase to potential investors how business is done in Brazil. Among the 29 initiatives already programmed is a partnership in a round of the World Economic Forum to be held in Rio de Janeiro in April, and the creation of a National Investment Attraction Network with support from the World Bank to orient state governments in how to seek foreign resources.

This face of Apex-Brazil is less known than the agency's traditional activity of promoting exports

of Brazilian products. But the two functions complement each other, explains the president of the agency, Alessandro Teixeira. "It is a two-way street," he says. "In attracting business to a certain sector in Brazil, we end up strengthening the entire productive chain here, which reinforces our export base." At the beginning of December, Teixeira, who is also president of the World Association of Investment Promo-

**In lean times, those who know how to attract money will come out on top**

tion Agencies (Waipa), invited a group of important personalities to Rio de Janeiro, among them the former president of Mexico, Vicente Fox, and Nobel Laureates in Economics Joseph Stiglitz (2001) and Edmund Phelps (2006), to discuss the impact of the crisis on

foreign direct investment around the world. In times of scarcity, countries with a well-planned strategy to attract – and win – the attention of those who have money to invest will be the ones to come out on top. In 2008 alone Apex-Brazil promoted more than two hundred actions related to business intelligence, such as studies of sectors, markets and opportunities. "We have internal teams dedicated to seeking out opportunities around the world," informs Teixeira.

Among Apex-Brazil's priority targets in its search for investors are China, the United States, Canada, Scandinavia, the United Arab Emirates and Russia, due to their potential to channel, depending on the case, capital, technologies and jobs in Brazil. ■



Waipa meeting in Rio: race for investments

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The human face of the crisis: young people search for work in China

# A New Flight Plan

*After the hard landing provoked by the paralyzing effect of the world crisis on Brazil, major companies in the country are positioning themselves to hold on to markets, select opportunities and grow globally again – as soon as is possible*

**BY ELIANA SIMONETTI,  
WITH COLLABORATORS**

**A**s in other historic moments, the global crisis in 2008 will be remembered with some strong images. In one, thousands of unemployed in the new and powerful capitalist China stand in line for jobs that are evaporating. In another, in New York, employees of Lehman Brothers – once an icon among investors, having collapsed suddenly – shuffle out of the bank's headquarters carrying personal items in dreary cardboard boxes. And in Brazil, where car sales smashed records until October, after filling their own patios and neighboring spaces, auto assemblers went as far as to rent airport runways (as did Fiat, in Oliveira, MG) to park 300,000 new cars that have yet to find buyers.



The closer Christmas approached the more signs appeared that the effects of the financial disaster that devastated the rest of the world had arrived in Brazil with the force of a tsunami, not a trickle. Evaporating credit, markets retracting, plummeting prices for products and assets have forced the principal Brazilian companies – almost all exporters with a strong international presence – to take hard measures, review plans, change strategies and build new alliances. The New Year to come will demand a cool head, practical spirit, common sense and lots of flexibility. For the first time since 1982, world trade is expected to fall. Moreover, the flow of capital to developing countries should drop by half.

As always occurs in this type of scenario, weak or indebted companies start getting bought up by stronger, well-managed and capitalized competitors, or investment funds – most of them with foreign capital – in a consolidation process that naturally gives more muscle to the buyer (*see the box on page 32*). In November, when the country finally acknowledged the extension and depth of the crisis, the biggest business news of the year took place in the banking sector: Brazil's third-largest private bank, Itaú, merged with the fifth-largest, Unibanco, combining to form the largest financial institution in the country and, also, the southern hemisphere. The new institution has 21.5% of all the money deposited in bank accounts in Brazil. And, more importantly, it has gained scale to evolve into a respected player in the competitive world banking market.

"The crisis only made us more certain that we should go ahead with the merger, since it strengthens the bank," informed the president of Itaú, Roberto Setúbal, in an interview with PIB magazine. In the midst of today's somber visions, he adopts a positive tone when assessing the financial sector in Brazil. "While the international financial system has become very fragile, Brazilian banks will weather the crisis far better than banks abroad," he affirms. And what about after the crisis? Here Setúbal is a bit more cautious. He says that integrating the two banks will be a priority and require a long effort, maybe about two years, but after that Itaú will be ready to compete in the international markets. "Everything will depend on the opportunities that appear," he observes. (*see summary of the interview on page 29*)

Following the same strategy as Itaú/Unibanco in creating scale and depth to strengthen amid the crisis, consolidate its position and conquer new markets, Banco do Brasil quickly moved to snap up 72% of Banco Nossa Caixa from the São Paulo

**The world will grow once again, but it will be a different world**

State government – and is already studying new deals. Everything indicates that the coming months will be very active. "This is a phase of purification, market consolidation," says former Finance Minister Mailson Nóbrega, partner of Tendências Consultoria Integrada. "Over the next two years we should see many mergers and acquisitions and then everything will quieten down again for a while. Yes, because crises will continue to occur, and between them the world will get richer."

The world will certainly produce again and grow, but the new scenario appearing in the banking system and among companies is that things will be quite different after the crisis. It was unthinkable to imagine just a short time ago that venerated names like Lehman Brothers, Bear Stearns and Citibank, which form part of the history of contemporary capitalism itself, would each face its own Calvary. The first broke, the second was sold for a symbolic price to JP Morgan and Citi only survived because it obtained US\$ 45 billion in capital from the US government, besides US\$ 306 billion in

guarantees for its high-risk assets. Notable changes have also occurred in Brazil. Brazilian banks, which typically have a very strong capital base, as Setúbal asserts, are now setting their sights on competing in the international market, while at the same time fulfilling the "function" of a central bank in the internal market, doling out credit with an iron hand. Paradoxically, in helping to control liquidity, they operate in the opposite direction of the authorities in Brasília, which are more concerned about injecting funds into the economy – in doses, it should be said, that are much more modest than the measures being taken to stimulate consumption in the wealthy nations.

## Flight to liquidity

In another change of roles triggered by the crisis, Petrobras, the largest company in Brazil and one of the largest oil producers in the world, has assumed the function of providing liquidity for hundreds of its suppliers. To raise cash, its reputation abroad still makes miracles. At the beginning of December it raised US\$ 750 million in a routine operation with Japanese banks. And for the

first time in the internal market (with the government's special blessing) in November it borrowed R\$ 2.7 billion from Banco do Brasil and federal savings bank CEF and, in December, R\$ 528 billion from the Brazilian Development Bank (BNDES).

"Governments all over the world are making credit available for their companies so they can remain active," explained the financial director of Petrobras, Almir Barbassa, to PIB magazine. "We pass through funds in the form of advances to the entire chain of companies that supply us with equipment, services, materials, works ... And at a lower cost than if they were to obtain the funds in the market. If we pulled the brake we would derail the entire economy, putting many companies into difficulty and forcing dismissals. Without activity there is no employment. It would be the path to recession," notes Barbassa (*read the full interview on the site [www.revistapib.com.br](http://www.revistapib.com.br)*).

Besides the responsibility of operating in a strategic sector and serving as the engine for various industrial sectors, Petrobras assists its suppliers by maintaining its level of activity and executing its business plan. The



Iron ore from Vale: 10% cut in production

HANDOUT/VALE





Volkswagen  
patios: where are  
the customers?

company, which invests a little less than 13% of its resources in international operations, plans to become one of the five largest oil producers in the world over the next five years. Abroad, it operates as a fuel distributor in five Latin-American countries (Colombia, Paraguay, Uruguay, Argentina and Chile), besides extracting oil off the west coast of Africa, the Gulf of Mexico, the Black Sea and Turkey.

Nevertheless, Petrobras' 2009 Business Plan, frozen by the company's management since October, had yet to receive the green light from its board of directors at the beginning of December. Barbassa confirms that the plan is still being reviewed due to uncertainty about the full extent of the crisis in the coming months. "We are all suffering equally," he admits.

Mergers, revising goals, cost cutting, a desperate search for cash and, predictably, layoffs, have started to become part of business for large companies intent on making it across the desert. It is estimated that at least 12,000 jobs were cut through December, a relatively modest volume considering the 5 million formal positions created in the last three years.

Vale, the largest producer of iron ore in the world, was the first large Brazilian company to reduce its workforce: the company has dismissed 1,300 workers, 300 of

whom abroad, where it also began a voluntary retirement program. The mining giant, which employs 60,000 people, has also announced a staggered collective leave program. No less than 5,500 employees will be on compulsory vacation.

At the beginning of October the company had already announced a 10% cut in production. Soon afterwards it suspended operations at two pelletization plants in Espírito Santo state and another two owned by Samarco, a subsidiary of the group, in Minas Gerais state. In December two plants in the port of Tubarão, also in Espírito Santo, stopped operating. Worldwide, the stoppages continue: nickel production was interrupted in Canada and Indonesia and a processor deactivated in Dalian, China. In France, the iron-alloy plant in Dunkirk will remain idle until April 2009. Production at the company's plant in Mo i Rana, in Norway, will be suspended until June 2009 ostensibly to renovate a furnace.

To cut costs Vale has been renegotiating and building new alliances with parts and equipment suppliers and engineering services companies. It also decided to close various European offices and to concentrate its activities for Europe and the Middle East in Switzerland. The company's explanation for all these maneuvers: the drop in international demand

## Mergers, goal revisions, cost cutting, and, predictably, layoffs

## WORLD CLASS

Roberto Setúbal, President of the Itaú Bank, speaks about his plans to grow in the crisis

**PIB | Brazilian banks have grown in an environment of great volatility. Have they now the chance to gain markets abroad?**

**Setúbal |** In a couple of years, yes, I believe that Brazilian banks will be in a privileged situation and able to think about international expansion. The international financial system has been severely weakened. The coming year (2009) will be a little more difficult, but Brazilian banks will get through the crisis much better than international banks. In the same way, I believe that the Brazilian economy will do better than many others.

**What differential can Brazilian banks offer abroad?**

They will have a very strong capital base, while foreign banks have severe problems of capital, to the point that several governments have been forced to increase the capital of these banks. When they face limitations of capital capacity, they lose competitive advantage and will be very concerned with their own problems. Our management posture will aim at taking advantage of opportunities as they arise.

**In addition to being well capitalized and offering security for clients, do Brazilian banks have any particular differential?**

The most important is the capital base and the capacity to focus more on the client.

**In the midst of the crisis, banks have in a certain manner taken on functions that are typical of monetary authorities, by reducing liquidity in the markets. What will be necessary for Itaú to resume lending at the volume it did before the crisis?**

The Itaú loans portfolio has been growing without any kind of restriction. What changed is that we are more selective in granting credit, because of the increased risk provoked by the more difficult economic condi-

that has driven down the price of ore. Actually, a good part of Vale's stress came from the unexpected retraction of the formerly voracious Chinese market, which until recently provided a large part of the company's revenues. "It's time to get our house in order and shut down operations with a high cost," affirmed the president of the mining giant, Roger Agnelli, on the company's site. "We are in a phase of mutation."



Roberto Setúbal  
and Moreira  
Salles: united

tions in 2009. Additionally there has been an important change: large companies have started borrowing inside Brazil, rather than abroad, as they did before. Petrobras is a good example. This is a direct consequence of the problem of international liquidity, and it leads to congestion in our market, which is of a limited size. However, to all intents and purposes we are operating with a normal offer of credit. What we cannot do is meet the volumes that are sometimes requested, because there is not the same liquidity as before.

**How will Brazil face the turbulence in 2009? Will the economy continue growing?**

We are expecting growth of between 2% and 3%, but there is still a lot of uncertainty about what will happen abroad. The crisis will affect Brazil, but the country is well placed and may recover with growth that is much greater than in the rest of the world.

**Some people say that now is the time for emerging economies to show their strength and that the solution to the crisis lies in emerging economies. Is this reality or just wishful thinking?**

It's wishful thinking... The economy of the emerging nations isn't big enough to avoid a more severe problem in their own economies, let alone the rest of the world. The big difference today is that emerging economies are contributing to the solution; they are not part of the problem as they were in other occasions. (Nely Caixeta)

However, in an extensive interview with the newspaper O Estado de S. Paulo, Agnelli was more optimistic, although moderately so. "The world grew very rapidly in recent years because of the entry of millions of people into the consumer market. This happened in China, India, and Brazil. Over the short term the financial crisis will force us to adjust, but this will not be enough to annul the conquests the world has ob-



tained,” he said. In other words Agnelli believes that the post-crisis could be favorable for Brazil, because it is unthinkable that the large mass of new Chinese consumers will allow itself to be deprived for long of the supply of goods and products with which it became accustomed. And it was new Chinese consumption that stimulated the exports of countries like Brazil and raised the prices of commodities like iron ore and soybeans to levels never before seen.

Vale’s CEO forecasts that the squeeze on the company will continue for about four more months, until inventories of iron ore abroad begin to fall. After that, he predicts that the world will start buying again. In the same interview, Agnelli signals the possibility of using the company’s solid cash position – it raised US\$ 12 billion in a global stock offering in July – to buy foreign companies that are in difficulty or for sale. Vale’s public posture, however, is that its growth from now on will be more organic, and should not come from acquiring other businesses. But it was precisely this model of acquisitions that allowed Vale, under the command of Agnelli, to leap from eighth position to become the second-largest mining conglomerate in the world.

In the middle of October, almost two months before announcing the dismissals, Vale’s board of directors approved a US\$ 14.2 billion investment budget for 2009. The funds are to sustain existing operations (in Brazil, Canada, Mozambique, Oman, Australia, Indonesia and Peru) and research and development, besides supporting projects in other sectors. Diversification is the newest among Vale’s formulas for weathering the problems created by the international crisis. One of its divisions created in 2003 to explore and produce natural gas had only a small stake in 15 blocks in Brazilian sedimentary basins, in partnership with other companies. In December, however, the company announced the purchase of Petroleum Geoscience Technology (PGT), specializing in the geological evaluation of oil and natural gas exploration and production areas. The acquisition, according to explanations given in a report to investors, is in line with the mining company’s strategy of investing in its own natural gas production in order to fuel operations in Brazil and abroad.

Many companies in the United States, Europe, Japan and China that tumbled overnight from profit to loss have moved quickly to cut costs, suspend production and dismiss personnel. It has been no different for Brazilian groups with a strong presence abroad.



Petrobras in the Gulf of Mexico: full steam

PHOTOS: HANDOUT / PETROBRAS

**The good news is that Brazil has what the world wants**

Steel giant Companhia Siderúrgica Nacional (CSN) reacted to the shock and plunge in steel consumption by reducing production at its units in the US and Portugal. In Brazil, the company suspended purchases of raw material and outsourced logistics services for its Volta Redonda plant, with a contract that should reduce costs by 10% a year. “We will wait until January to make any new decisions,” affirmed the president of the company, Benjamin Steinbruch, at the end of a meeting with entrepreneurs in Brasília. “We do not want to lay anyone off, but we have to think about the subject.”

In a similar predicament is Gerdau, leader in long-steel production in the Americas and the 14<sup>th</sup> largest producer of steel in the world. With 337 industrial units in 14 countries, the Brazilian steel company employees more than 46,000 collaborators. In October the company cut production at its US plant – Gerdau Ameristeel. “The only thing that our customers are doing right now is filling significant gaps in their stocks,” lamented Gerdau’s director of operations, Terry Sutter, in a presentation released on the company’s website. At the beginning of December Gerdau informed the local metalworkers’ union that it plans to anticipate maintenance stoppages at its units in Araçariçuama, São Paulo state, and Riograndense, in Rio Grande do Sul state. Employees in the company’s production and administrative areas will also be put on collective leave.



Petrobras’ Barbassa: financing partners

want to improve their productivity, and for this reason we are maintaining our investment plan,” explains Totvs executive vice-president José Rogério Luiz.

For Nori Lerman of ATP, the largest supplier of information-technology services for banks in the country – processing no less than 45 million documents a month – there is no doubt. “This is a moment when everyone wants to reduce risks and share resources,” she says. “So for us, it is a time of growth.” In fact, companies like Totvs and ATP are comfortable with the knowledge that they produce something essential for the success of any business – selling what other companies need to buy.

In this sense, for many Brazilian companies such as commodities exporters, the economic scenario, while currently somber, promises to clear up in the medium term. In a recent

visit to São Paulo, Harold L. Sirkin, a senior partner of the Boston Consulting Group, considered the prospects lying ahead for a country like Brazil, which is capable of placing large amounts of meat, sugar and alcohol, soybeans, iron ore and steel in the international market at competitive prices. “Brazil has what the world needs,” affirms Sirkin, joint author of the book *Globality*, recently launched in the country. In his opinion, populous economies like China and India which have managed to bring millions of poor to the consumer market in recent years will continue to depend on the natural wealth of Brazil to maintain the new habits of their populations and continue growing.

**Credit crunch**

One of the most insidious aspects of the present crisis – the disappearance of credit for export – threatens the current success of aircraft giant Embraer, which has become a postcard for Brazil with its logo painted on passenger jets across the four corners of the globe. At the end of 2008 Embraer alerted its employees about the economic crisis through an internal report in which the timetable for deliveries will involve delays for all lines of jets in 2009. The company recognizes that the lack of credit spreading around the world could threaten payments for ordered airplanes. “This crisis does not come from Brazil,” affirmed the president of the company, Frederico Curado, in an interview with the press. “The credit crunch could lead our customers to reduce their orders.”



Until the onslaught of the crisis, Embraer, headquartered in São José dos Campos, São Paulo state, and with operations in the United States, France, Portugal, China and Singapore, flew high in blue skies. For the first nine months of 2008 the company delivered 145 jets of the 215 it planned to sell during the year. For 2009, it has a portfolio of orders for at least 315 aircraft.

In December, while the economic gloom continued to spread, the company still reported plenty of good news. Among these was the announcement of the beginning of construction of its first factory in the United States at the International Airport of Melbourne, Florida, whose operations are slated to start in 2010 (see the Antenna column). Embraer also confirmed the construction of two factories in Évora, about 200 kilometers from Lisbon, in 2009. Crowning the good news during the month was the final approval of its Phenom 100 executive jet by the Brazilian Civil Aviation Agency (Anac), attesting that the aircraft meets international standards and is airworthy.

The third largest manufacturer of airplanes in the world after Boeing and Airbus, Embraer was chosen by JetBlue chairman David Neeleman, creator of Azul – the newest airline in Brazil – to supply the company’s first 76 jets. Azul began operations in December. Over the last eight years, thanks to heated demand abroad, Embraer has barely been able to handle the orders. During this period the number of employees doubled to 23,000. It is now feared that if deliveries fall in 2009, as many as 4,000 jobs could be cut in São José dos Campos alone.

Brazilian producers and exporters of chicken, beef and pork smashed a series of sales records in 2008. These companies are part of a group that sells products for which people cannot live without: food. Sadia, one of the largest processors of meat in the country, even though it suffered heavy losses betting on the exchange rate (like Aracruz and Votorantim, among others) and has been forced to postpone new investments, says that it plans to maintain its growth plans. In 2009 the company intends to inaugurate five new industrial units in Brazil. Nevertheless several important projects have been put on the backburner by former Development Minister Luiz Fernando Furlan, once again CEO of the food giant. Among the projects now in limbo are a factory in Brazil with 8,000 jobs and a second unit in Abu Dhabi in the United Arab Emirates, one of the company’s main markets.

“We are going to have to reexamine projects and look forward more cautiously,” said Furlan at the beginning of December when commemorating the renovation and modernization of the company’s plant in Toledo, Paraná state, where it will produce chicken

ENTREPRENEURIAL DARWINISM

**THE EVOLUTION OF COMPANIES** and the survival of the fittest has been evident in this time of crisis, when all the investors in the world seem to want companies in sectors with growth potential. They know the crisis will make quick work of those that are weak or exposed to risk. Companies with the best prospects are being purchased and will grow. In addition to the merger between Unibanco and Itaú, here are some other deals done in Brazil during the crisis:

ETHANOL

In November the multinational Monsanto bought two companies involved in the genetic and biotechnological improvement of sugarcane: Vana Vialis and Alellyx, which belonged to Aly Participações, part of the Votorantim group.

VEHICLE BUILDERS

Ten days before Christmas Volkswagen announced the sale of its truck and bus division to MAN, for R\$3.8 billion. Volkswagen will remain in Brazil as a major producer of automobiles and light commercial vehicles.

FOOD

Tyson Foods (US) in November purchased Macedo Agroindustrial and Avícola Itaiópolis (SC) plus 70% of the capital of Frangobrás (PR). The aim is to double production of Macedo; together the three will produce 320,000 chickens per day.

ENERGY

Tractebel (Suez Energy group), Brazil’s largest electric power generator, paid R\$213 million in July for two small hydroelectric power companies, Tupan (SP) and Hidropower (MT).

products with a high aggregate value. While prudent, the executive appeared satisfied: China had just approved three of its plants for export and the first shipments were slated for December.

Ethanol is ours

One of the most active sectors in Brazil in recent years is the sugar-alcohol industry, which has benefited from a strong inflow of investments from both national and international groups. Nevertheless, due to the crisis, some groups have found themselves in difficult financial straits since they were not able to overcome the



Embraer jet: layoffs only as a last resort



Braskem, Odebrecht: betting on green plastic

combined effect of a drop in the price of ethanol, the lack of credit and a spike in the price of fertilizers and agricultural defensives. Among these mills, Albertina and the João Lyra group had to file for bankruptcy protection. Other companies, however, still have plenty of cash to take advantage of the current situation. The Belgian Alcotra group, one of the largest global ethanol trading firms, announced at the beginning of December that it will inject US\$ 400 million into Brazilian mills, either through acquisitions or partnerships. The group has already visited 30 companies – from which it selected five –, and does not plan to stop there. Others are beginning to invest in building new plants.

Created recently by private investors from the United States, Europe and the Middle East and boasting more than US\$ 1 billion in cash, the Vital Renewable Energy Company (VREC) raised its flag in Brazil in October with its sights set on ethanol production and generating electricity. It has already begun to build its first mill in the interior of São Paulo state in partnership with the Farias group. “Our studies indicate that we will obtain the desired return,” informs the president of Vital, Ricardo Roccia. And ETH Bioenergia, controlled by the Odebrecht group, is currently negotiating the purchase of NovAmerica, one of the largest in the domestic sector, which has found itself in financial trouble and is eagerly in search of a partner, preferring a merger to a sale. ETH, for its part, prefers to buy since it is in the middle of an expansion, flush with financing from the Brazilian Development Bank (BNDES) to install three new plants in Santa Luzia (MG), Conquista do Pontal (SP) and Rio Claro (GO).

Odebrecht, in fact, is taking a proactive stance in several of its areas of performance. Controlled by the group, Braskem, largest petrochemical company in Latin America, has also been adjusting to the changes in the market. Perceiving a drop in demand for ethylene, used to produce PET, the company interrupted production at its cracker in the Camaçari hub in Bahia state and the Triunfo complex in Rio Grande do Sul. Nevertheless the slowdown could be short lived, since in mid November orders began pouring in again from China. Recently the company informed its employees that there will not be any layoffs at the affected units. Finally, Braskem says it is still going ahead with its plans to construct a plant to produce “green plastic,” based on ethanol from sugarcane instead petroleum and using state-of-the-art technology developed internally that has been very well received in the international market. Amid the avalanche of bad news that comes out almost daily, decisions such as these should be celebrated. Most companies in Brazil already understand that the crisis needs to be conquered, not fueled. ■



# Banking Against the Tide



*Shrugging off the crisis, the merger of Itaú and Unibanco creates value and a major institution that can compete with the world's largest banks*

BY ROBERTO LUIS TROSTER\*

**T**he tide has turned. There were warning signs of approaching problems, but nobody anticipated their speed and intensity. Growth projections have crashed and commodities prices with them. A tsunami has rolled through the financial market: hundreds of billions of dollars of wealth have evaporated and even with the injection of resources, credit has dried up. Volatility dominates the markets and the future of the world looks different. The wave is coming to Brazil at a time when the dynamics of the economy and of credit were cooling. The sea has changed.

Much has been written about the macroeconomic management of the crisis, but there are also some positive surprises on the horizon. The merger of Itaú with Unibanco, the purchase of Nossa Caixa by the Banco do Brasil, and São Paulo as a financial center all show things being done that run counter to the crisis. These are steps which generate value and show the potential for even more.

Unitaú, or whatever name is chosen for the Itaú-Unibanco merger, is born as a major player. The numbers are impressive: over 100,000 employees and assets exceeding one-fifth of Brazilian GDP. Two institutions with similar vocations are

of financial products, covering all of Brazil and acting internationally.

The strategy is to consolidate operations in Brazil and push ahead with internationalization. Unitaú is already the biggest bank in Latin America and the 20th biggest in the world. It is a conglomerate that competes as an equal with institutions around the world and has good performance in Argentina, Uruguay, Paraguay, Chile and Portugal, with offices in all the world's major financial centers. We can expect greater expansion: Mexico and Colombia are the most logical short-term targets.

As Brazil loses ground abroad because of falling commodity prices, Unitaú is going in the opposite direction by exporting banking services. There is also a secondary

impact because in other countries the institution acts as a bridgehead for Brazilian companies that want to do business.

The purchase of Nossa Caixa by Banco do Brasil impacts the domestic market. There is complementarity between the two structures, with potential economies of scale. Until now the impact of competition on margins and the cost of services has been slight, because the banking market was growing at rates exceeding 20% a year, so there was little incentive to start a price war. The market now expects a slowdown in the expansion of banking services, so margins will shrink more quickly and this will require greater efficiency by institutions. The branch networks of Nossa Caixa and Banco do Brasil are complementary and the real estate credit operations of the São Paulo bank can be replicated throughout Brazil.

**A crisis like the current one should not frighten a banking system that grew during economic turbulence, with runaway inflation. It represents an opportunity for “Unitaú” and for São Paulo as a financial center**

The Unitaú operation could be copied by the Caixa Econômica Federal and Banco do Brasil. These two institutions have virtually identical vocations: they are targeted to the national retail market; they have the same controlling shareholder (the National Treasury); and they operate nationally. Operating as a single institution would create considerable synergies; it is difficult to understand why this merger has not happened. There is also room for merger between the federal development banks: BASA, BNB, and BNDES. There would be synergies and economies of scale and considerable transparency to be gained.

Another opportunity would be to make São Paulo an international financial sector along the lines of New York, Hong Kong and London. Proximity of companies in the same sector generates complementarities and generates benefits in the relationships between institutions, in the hiring of labor and the purchase of inputs, in addition obviously to creating advantages for the host country. This is a process that feeds on itself, attracting more companies

and more suppliers to take advantage of the externalities.

São Paulo offers the best potential in Latin America to be a regional financial center. It is well located with convenient infrastructure – airports, hotels, telephones etc – and it already concentrates Brazilian financial activity. Virtually all the Brazilian private banks, plus other institutions such as BMF&Bovespa, clearing houses and the CIP are headquartered in the São Paulo state capital. The city also has some disadvantages: difficulty in executing contracts, an outdated normative structure and the tax system. These difficulties mean that Bovespa and the rest of the capital market lose business and jobs to foreign competitors.

The goal of developing a financial center implies the adoption of proactive policies designed to modernize the regulatory structure, simplify legal procedures, eliminate compulsory deposits, rationalize taxation and invest in infrastructure. If we do this we will generate jobs and attract investments to Brazil.

Brazil has a sophisticated banking structure, and unlike that of other countries it grew in an atmosphere of economic turbulence, with runaway inflation and high macroeconomic volatility. Nevertheless it managed to provide credit, roll over the public debt, preserve national savings and develop payment systems, exchanges, financial derivatives, and safe and efficient compensation and settlement institutions. A crisis like the current one should not frighten us. It represents a concrete opportunity for Unitaú, a partial advance for the Banco do Brasil, and a chance for São Paulo. ■

\* Roberto Luis Troster is a partner in Integral Trust, e-mail: robertotroster@uol.com.br





# Is Now the Time?

The collapse of the international financial system and the terrible crisis in the developed economies would seem to be opening up an exceptional chance of leadership for emerging economies. But is it? **BY BRUNO K. REIS**

*"We live in a time of torment and wicked winds"*  
(Luís de Camões)

**A**midst the greatest economic and financial crisis since the 1930s, the world is watching the collapse of the financial system of rich countries and above all that of the world's largest economy, the United States. Major investment banks like Merrill Lynch, Lehman Brothers and Bear Stearns, formerly symbols of financial strength, have been sold, rapidly rescued to avoid failure, or simply left to go under. Major commercial banks like CitiGroup have required cash from the sovereign funds of developing countries and the support of their government to avoid going down the same path. Traditional sectors like the automobile industry run the risk of disappearing and real estate, the first domino which produced the current situation, will take many years to recover. Entire countries, as in the case of Iceland, have simply gone bust.

While rich-country economies are at the eye of the hurricane, developing nations have watched the tempest from afar, with unusual tranquility. After years of unprecedented growth, developing econo-

mies have grown at record levels, fueled by various factors but above all the high growth rates in China and other countries such as India and Russia. These have benefited from exporting to rich countries and have enjoyed cheap money to financially support their industrial sector, commerce and infra-structure. Commodity exporters like Brazil have benefited from the high demand and high prices for their products on the international market. Thanks to these factors there has been strong growth in emerging economies, and they have accumulated significant foreign reserves.

## This time, the BRICs were more prepared to face the crisis

The internal situation was also favorable, given that emerging countries were in a good economic situation thanks to the structural adjustments they made in the 1990s. Having learned the lessons of the crises that shook Asia, Mexico, Russia and Brazil between 1997 and 1999, they set in motion a process to reduce their external dependence and expand internal consumption, based on policies aimed at the population with lower spending power, and helped by the ample credit available on the international market.



**Brazilian soy: big Chinese orders**

Unlike the 1990s, emerging nations are now better prepared to face the crisis. But it is necessary to remember that today's crisis, despite its magnitude and severity, is different from previous crises because it started and has its epicenter in the world's principle economy, the United States, and then spread to other industrialized nations.

## guarantee the bonanza

The fact that the eye of the hurricane lay far away initially led some people to believe that for the first time the emerging economies would be safe from the storm. Some analysts said this showed the end of an era – that of the supremacy of the developed countries – and the start of a new paradigm in international relations where emerging nations



**Cosipa blast furnace: emerging economies aren't so independent after all**

led by China would finally enjoy a position of importance within the world economy. With the leading capitalist countries unable to act as the driving force in the economy, this role would be taken over by emerging nations as the new locomotive of the world.

## New kids in town

Taking all this into account it's worth going back to the original question: has the moment finally come for emerging nations? Will the crisis so decisively impacting major economies give the emerging economies more weight in the international economy?

According to Hélio Herrera, economics professor at Columbia University in New York, if the crisis shows us anything it is that developed countries and in particular the United States are and will continue to be the driving force in the international economy. The slower growth of emerging economies, which is likely to worsen in coming months, makes it clear that an important part of their rapid growth was based on capital and demand from developed countries.

In fact, the idea that emerging nations would be immune to the crisis has been losing ground as signs of contagion have begun

to emerge. Professor Simão Silber of the Economics Institute at the University of São Paulo believes that the picture emerging from the crisis shows two things: the first is the end of general acceptance of the idea of "uncoupling" which argued that developing economies would not be affected by the crisis in developed nations. The second is that the crisis will significantly affect everybody, without exception. As we might expect, the impact will not be the same for all countries; it will reflect their different characteristics. For Silber, what has collapsed is the mechanism by which the United States absorbed Chinese exports and developing countries financed the US debt, while China and India purchased large volumes of commodities at high prices from Brazil and other developing countries. This equation also included oil exporters, who generated enormous profits through high prices and increased world consumption.

When the crisis erupted at the heart of the capitalist world, this structure collapsed and all were affected equally by the disaster. However, for Silber, not even this earthquake is likely to cause a realignment of forces within the international economy. Even the attempts to reorganize the global financial sys-



tem around the G-20 are not likely to bring concrete changes.

Silber believes there is simply no other country that can occupy the role of the United States as leader of the global economy, and neither is any other country really interested in trying to assume that role. For Silber, it is also premature to start talking about a kind of “Bretton Woods 2”, because the context today is very different from when the original Bretton Woods agreement was made. The original conference and financial agreements of Bretton Woods were made possible in the post-war environment, when Europe and Japan were almost completely destroyed and the United States had vast available resources; also the threat of the Soviet Union on the Eastern frontier of Europe must be remembered.

All this made it possible for the United States to place its own proposals on the table, and other Western nations simply had to accept them because they had no other option. Today, however, the United States is in a different situation and Europe and Japan are looking for their own ways to resolve the crisis.

Other real-world truths tend to weaken the hypothesis that emerging nations may gain ground and even start to share leadership in the midst of the turmoil. The most obvious: developed countries don’t want developing countries to gain political space; Japan doesn’t want competition in Asia with an even more powerful China; and the European Union, which wants to strengthen its position in the context of its transna-

**India: prosperity threatened by the deficit**

**Emerging nations need cash if they want to have a bigger role**

tional characteristics, doesn’t plan on giving ground to BRICS countries and other emerging nations. Finally we have the concrete fact – as Silber notes – that rhetoric is not enough: an expanded role for emerging nations would naturally be tied to an increase in their responsibilities, for example contributing to recapitalizing the IMF and the World Bank. But have they the money? Even China is reluctant to play a leading role in the crisis and has behaved very discreetly, despite its huge foreign exchange reserves. Thus, it would be appropriate to talk of a new culture of coordinate actions between central banks, rather than any restructuring of the international financial system.

**Opportunities?**

It is frequently said that crisis bring risk and opportunity, but emerging economies are very heterogeneous and react differently to both. Some already face difficulties: Turkey has been severely affected by the crisis, and Eastern Europe countries like Hungary and the Ukraine have had to seek IMF help.



If we focus just on the most important emerging nations, the BRICs, it’s easy to see that these are very different, one from the other, and have absorbed the impact of the crisis in different ways. The only thing they have in common is the certainty that no one will escape unaffected. As Ambassador Rubens Ricupero mentions (*see his interview on page 40*) the emerging nations are being impacted in different ways. Russia is in a bad way, with very serious problems stemming from the dramatic fall in the price of oil and gas. India has problems caused by significant current account deficits. Brazil isn’t in a great situation, with exchange rate problems and its commodities facing shrinking markets and falling prices. For Ricupero, the only country in a good situation is China. That’s why he says “the only real emerging economy just now is China.”

Columbia’s Herrera said that rather than promoting emerging economies to a leading role, the crisis will test their resistant to external shocks, at least in the short term. The vulnerability of emerging nations in relation to the economic slowdown in the central economies, and their dependence on financial leverage, are still both important, said Herrera. Commodity exporters

like Brazil are historically vulnerable to international price fluctuations. Ricupero recalls that Brazil is no different: like the other Latin American countries it grows when commodity prices improve relative to the price of imported goods and it suffers when international demand falls.

The good news is that in the medium term emerging nations will recover. Even if they don’t become the

locomotives of the world economy, there is no doubt that they will gradually have a more decisive weight within the world economy. It’s an inevitable process. The crisis may not transform the emerging economies in to lead actors, but neither will it spell the end of their growth. Even if they do not manage to sustain the growth rate of recent years, in relative terms they will produce growth rates higher than those of the devel-



oping nations. The high level of foreign exchange reserves will also help to reduce the negative impacts.

**As for Brazil...**

Harold L. Sirkin, senior partner at the Boston Consulting Group, said at a recent seminar in São Paulo that Brazil enjoys a privileged situation in the international scenario and that the crisis will have only have a short-term impact on the country. For Sirkin, Brazil has abundant natural resources, a large and diversified energy sector – with the highlight on ethanol and the recent discoveries of sub-salt petroleum – huge quantities of minerals and the most competitive agricultural in the world. “Brazil has what the world needs,” said Sirkin. Major developing nations like China and India with their enormous populations will continue to add millions of consumers every year. These people will have to eat and will require infrastructure to match the growth. This phenomenon will not be stopped by the crisis, and it means that Brazil will gradually gain greater importance within the world economy.

Nobody doubts that once the crisis passes the emerging economies will continue to increase their relative importance and this will intensify in coming decades. It’s a gradual but ongoing process and won’t change in the short term. Developed countries will remain the leading actors in the world economy, with the inevitable inclusion of China. If emerging nations can overcome the short-term negative impacts, it is inevitable that they will gain greater political space – for the simple fact that they will continue to gain economic weight. ■

**Prada, Rome: when will customers return?**



Ricupero:  
experienced  
crisis watcher

# Light at the End of the Tunnel

*For Rubens Ricupero, an ambassador and former finance minister, the global economy may well pick up in a couple of years thanks to two factors: Barack Obama and China. Brazil will suffer in 2009, but it's well placed to prosper in the new post-crisis world*

BY NELY CAIXETA AND ARMANDO MENDES

**A**mbassador Rubens Ricupero is an experienced observer of economic turmoil, starting with the petroleum crisis of the 1970s which he went through as a diplomat in the United States. He has no doubt that today's crisis is the worst since the Great Depression of the 1930s, but he also risks an optimistic forecast: the current crisis will be brief. The world could start growing again in 2010, if President-elect Barack Obama and his star-studded economic team make good on their promise of kick-starting the American economy. As for Brazil and other emerging nations, Ricupero sees difficult days in 2009 with recovery starting 2010. In the short term, the Brazilian government must wrestle with a deficit and will not have enough money to support economic activity as China will be able to do. Indeed, for Ricupero, China is the only real emerging power. The former finance minister spoke to PIB on the same day that he was invited to take part in a commission which the General Assembly of the United Nations is putting together to deal with the crisis; US economist Joseph Stiglitz, a well-known critic of financial globalization, will be presiding.

**PIB – After a lifetime dealing with the international economy, have you ever seen such a moment as this?**

**Ricupero** – Never. Things were difficult in the 1970s, when I was a diplomat in the United States. I got there while Richard Nixon was still president and watched his impeachment in the Watergate scandal. It was a terrible moment for US self esteem, coming together with the collapse in Vietnam and those helicopters flying from the terrace of the US Embassy in Saigon with people hanging from the wheels. It was a time of petroleum shocks in 1974 and again in 1979. There were lines at gas stations and inflation was high. Even so, that moment was not as serious as today. General Motors was founded in 1908 and today it is threatened with bankruptcy! It survived the Great Depression, but now, without help, it will run out of cash by the end of February. The Americans won't let it go

**I hope the crisis doesn't become a depression; Japan started one in 1990 and went 10 years without growth**

under. They criticize others for being nationalistic, but don't think for a moment that they think this kind of thing is funny. These are US symbols.

**Is this really the most serious crisis since 1929?**

Certainly. The crisis of '29 got its name because that was the year of the stock market crash, but it really started with a failure of a bank in Vienna, the Kredit-Anstalt, in 1931. That's when it really took hold and was to last for years. I hope the current crisis doesn't become a depression, with falling prices, because that would be the worst situation of all. Japan slipped into such a situation in 1990 and spent 10 or 11 years without economic growth, despite huge public works programs.

**So at least the current crisis may be shorter?**

I hope so. We're going to have a very proactive American government. The voters chose the candidate who is best prepared to deal with a crisis like this. Barack Obama has been impeccable during the transition – he has not made one bad choice yet, above all in his Treasury Secretary, Tim Geithner, who is a rising star. When he was director of the Federal



Reserve in New York, Geithner was in charge of the Bear Stearns rescue. So, we will have a very strong package of anti-crisis measures, similar to that which Roosevelt prepared in 1932 when he was elected. It will comprise at least three fundamental elements. First, a vigorous stimulus for consumption and infrastructure investments – highways, energy and the environment. The United States has for a long time allowed its infrastructure to get outdated. Second, the package will help people who are threatened with losing their homes in the mortgage crisis. And finally there will be help for General Motors, Chrysler, Ford and the airlines. The essential thing, as Obama has announced, and correctly, is to preserve or create jobs. Allowing General Motors to go under would destroy 2.5 million jobs, directly and indirectly. He doesn't want to do this.

#### **How much might a package like this cost?**

Martin Wolf, writing in the Financial Times, estimated it could reach 10% of GDP, which today is estimated at between US\$14 trillion and US\$15 trillion. So, it could reach US\$1.5 trillion. This is not so extraordinary, because they have already approved a US\$700 billion package and spent US\$100 billion to prevent the bankruptcy of AIG.

#### **Will this be enough to get the economy going again?**

I'm confident that this can get the US economy moving. We should note that there are some leading economists, for example Paul Krugman, this year's Nobel Prize winner, who speak of the possibility of prolonged deflation, maybe 10 years. I don't believe this, because the US economy can make an impressive recovery. I've seen it do this. I served in Washington twice, first as chief political counselor in

the mid-1970s, then again when I returned as ambassador in 1991. The US economy has extraordinary vigor and we should never underestimate its power to recover. This crisis looks likely to last a couple of years, so it's possible that the recovery will start in 2010. I have a lot of confidence in the new government which is competent and young, a new generation coming into power.

#### **Will Brazil and the emerging nations suffer much?**

Emerging nations are already being affected. Initially some people thought they were no longer so tightly linked to developed economies but today nobody takes that idea seriously. Brazil is one of the two countries where both the currency and the stock market have seen the greatest volatility, which is not a good sign. Strictly speaking, the only country which is doing a little better so far, but it is also being impacted, is China. Russia is doing very badly, and India has problems because it had a large current account deficit. Brazil is not in a magnificent situation, unlike what some people have been saying. The only real emerging economy just now is China.

#### **What advantages does China?**

China has extremely high domestic savings, sometimes reaching 44% of GDP. Brazil is 17% or 18% at the most, it is not a country that saves. Also, China has less need of other countries; it has huge hard-currency

**China saves of 44% of GDP; Brazil hardly reaches 17% and the government spends badly**

reserves, close to US\$2 trillion, and won't have any problem spending on fiscal stimulus packages as was done during the 1997 Asian crisis. China compensated by expanding internal investment programs, and they'll do this again. They can do this because they aren't worried about the deficit. Not only does Brazil not have domestic savings, but it has a problem with the deficit and an expensive debt. So much is this the case that even today Brazil measures its public accounts in terms of the primary result, excluding financial expenditures, rather than looking at the nominal balance. This means the government has less room to increase spending. Even the PAC (the government's Faster Growth Program) will increase investment only from 0.5% of GDP to 1% of GDP, which is welcome but still very small. Sadly, the government has spent far too much on current expenditures: the public sector wage bill, hiring people, and increasing salaries. These are not productive expenditures.

#### **What other problems will Brazil face?**

In schematic terms, Brazilian dependency is twofold. Because the country does not have sufficient savings of its own, it is obliged to use external savings. When these dry up, like now, Brazil faces a critical problem of pressure on the currency. I see no easy way to resolve in the short term, because many of the investments that were destined for Brazil were attracted by the high commodity prices, which are now falling.

#### **What is the second problem?**

Trade. Contrary to what many Brazilians think, the behavior of the Brazilian economy is a direct reflection of what happens in Latin America. Everything that happens in Latin America happens in Brazil. When Latin America goes badly, as

it did between 1998 and 2002, Brazil doesn't grow. When Latin America grew around 5.5%, from 2003 until 2008, Brazil grew less, but it grew. It's the same reason – the improvement in commodity prices in relation to the price of imports. And the most impressive growth in Latin America wasn't Brazil; it was the mineral exporters, above all Peru and Chile.

#### **So what happens now?**

Trade was falling even before the crisis. According to the November report of the World Trade Organization, global trade net of inflation and foreign exchange fluctuations grew by 8.5% in 2006. In 2007 it grew just 6%, and as of April the WTO was predicting 4.5% for 2008. Today, nobody is risking any kind of forecast. World trade is dropping; demand is down. This means competition is increasing and commodity prices are falling. This will impact Brazil, because we are essentially a commodities exporter.

#### **But will it continue to fall? Some people have a different medium-term vision...**

I'm talking about the short term, 2009. In the medium and long term the outlook is good. If my optimism is proven correct, that this will be a relatively short crisis and the world economy starts growing in 2010, then Brazil will be in a good situation to resume growth. The country's wealth of natural resources, including sub-salt petroleum – all this will be more valuable in a growing economy.

#### **Do you see companies going bankrupt in 2009?**

Not in Brazil. It will be a difficult year, but without recession. Brazil will do OK if it grows 2% or 2.5%, because population growth in Brazil is now very low. I don't see any catastrophe. But it's a pity, because we were in the process of making

**Internationalized companies have gone through bad times and survived; they'll get through this one**

up for lost time, improving bottom-rung consumption and reducing a little the terrible misery, and now all this seems to be delayed. We would have to grow non-stop by at least 5% during 30 or 40 years to absorb unemployment – which is still at least 8.5% – and all the accumulated misery. And that's not going to happen in 2009, unless there's a global miracle. Let's pray.

#### **What will be the impact for internationalized Brazilian companies?**

They will face problems, but not a catastrophe. Prices will fall and they will sell less. If they don't have heavy debts they'll get through this period thanks to the recently good times. Until four or five years ago, iron ore sold to China sold for just one third of its shipping cost. The ore itself was worth nothing. Companies survived that, so why not now?

#### **Do you think developing nations might emerge from this crisis with a greater weight in international relations, as some people expect?**

Certainly. They're already being asked to play a larger role, and this is not as new as it might appear; the G-20 was created in 1999 under the auspices of the World Bank and the IMF after the crises in Asia, Russia and Brazil in the 1990s. The goal was to improve how the system works to avoid repetition of such crises, bringing together the strongest developing countries with the group of rich countries. But we have to be specific; it's a mistake to

speak of emerging nations as if they were all the same. Once again, the truth is that China is first amongst equals. It's by far the most powerful of these countries. It's also the most discreet.

#### **Some people are speaking about a new world economic architecture...**

We shouldn't nurture exaggerated expectations. I don't believe there will be a second Bretton Woods, because that's where the world created the current economic and financial structure. It's going through a crisis but it hasn't been destroyed like the previous order was destroyed by World War Two. In this respect we are dealing with absolutely enormous interests; people are very conservative and they don't want major revolutions. Questions related to reference currencies and reserves are very delicate. Those who are making ill-thought-out statements are those who have no money. That's why the Chinese are very discreet. They have US\$2 trillion of reserves and don't want things to get unstuck. If the house falls down, it falls on them.

#### **Will the world emerge from this crisis with more regulated markets?**

Leading countries like the United States and Great Britain – the two largest financial centers in the world are New York and London – are unlikely to accept delegating supervision of their financial sectors to international authorities. In the US, the financial sector represents 40% of total company profit. Treasury Secretary Henry Paulson was against more control, but now he's favorable, so it's clear there will be some regulation. But it will be done by them, not by us. The Americans provoked this crisis and we're paying a price. Unfortunately that's how the world is. They do something stupid and we pay for it. ■



# A Birth Certificate

*Only now is Brazil starting to certify some products by their geographic origin, which will automatically raise their value both domestically and internationally* **BY ANTONIO CARLOS SANTOMAURO**

**C**hampagne, Bohemia Crystal and Parma Ham – throughout the world these famous products carry with them an aura of quality and exclusivity. The reason is simple: should imitations or less valued copies appear on the market, they can easily be denounced, thanks to the indication of geographic origin which constitutes an irrefutable guarantee of quality.

Geographic indications or denominations of controlled origin enjoy recognition and protection under various international commercial agreements. They designate products that have unique characteristics, starting with their exclusive geographic zone of origin. Sparkling wine may be called Champagne only if it comes from a small region of the same name in France. In many cases, including Champagne, the denomination of origin also defines a specific and traditional method of production.

In Europe, the geographic indications of origin – called Protected Designation of Origin or “PDO” – are widely used to protect quality products. France alone has more than 700. The motive is economic: loyal customers will pay more for

products which are protected, and which they feel to be superior.

Only recently have Brazilian producers also started to use this powerful differential for competitive advantage. Four geographic indications are now recognized by the National Institute for Intellectual Property (INPI) – Vinhedos Valley Wine; Cerrado (savannah region) Coffee; Paraty Cachaça, and Pampa Gaucha Beef. Various products are in the process of requesting certification (see box).



**White, red and sparkling:**  
tasting the taste of  
“Vinhedos Valley”

PHOTOS: GILMAR GOMES



**Geographic indication  
of origin for Vinhedos  
Valley wines**

Brazil’s oldest indication of geographic origin dates back just six years, to designate the fine wines from the Vinhedos Valley in Rio Grande do Sul State. That region produces just 3% of the 370 million liters of wine produced annually in Brazil but accounts for 21% of the country’s fine wine exports.

“Geographic indication opens doors around the world,” said Jai-

me Milan, executive director of the Association of Fine Wine Producers in Vinhedos Valley (Aprovale). It also allows a producer to get a better price: certified wine from Vinhedo Valley sells abroad for US\$8 – US\$10 per liter, while similar wines without this differential sell for US\$7 at the most. Before Vinhedo wine received INPI certification, there was in theory noth-

ing to prevent some sugary syrup from São Paulo or the Northeast of the country carrying a label saying “Vinhedos Valley”.

## Sustainability

Coffee producers in the Cerrado (savannah region) of Minas Gerais State obtained geographic indication protection in 2005, even though they were already export-



## CACHAÇA: A MOST BRAZILIAN PRODUCT

**BRAZILIAN CACHAÇA** is the world's second-largest selling spirit, after vodka. However, until recently there wasn't even a specific customs classification; it was included amongst other sugarcane spirits, as if it were a kind of rum.

Cachaça began moving up market late 2001 with a government decree defining expressions such as "cachaça", "Brazilian cachaça" and "caipirinha" as applicable only to producers established in the country. For those who don't know, caipirinha is a delicious drink made with

cachaça, sugar, limes and ice. A later decree established the basis for denomination of controlled origin by determining that "Cachaça" is a typical and exclusive denomination for a spirit produced from sugarcane in Brazil with an alcoholic degree between 38% and 48% by volume, at 20 degrees Celsius, obtained from the fermented residue of sugarcane, with the possible addition of up to 6 grams/liter of sugars."

So far, only Paraty Cachaça has obtained geographic registration, but other famous cachaças from Salinas (Minas Gerais) and others from Abaira (Bahia) have registration applications pending.

Other products awaiting certification include coffee from the Alta Mogiana region, fruit from the São Francisco Valley, honey from Araripi, oysters from Santa Catarina and marble from Cachoeira do Itapemirín.



Cachaça becomes a citizen of the world, with its own ID

ing 70% of their production. "With this indication of origin we can sell in Japan for between R\$30 – R\$50 more per sack; without this, our differential reached no more than R\$10," said José Augusto Rizental, the superintendent of the Council of Associations of Cerrado Coffee Producers (Caccer).

In order to receive the Brazilian seal of geographic origin, Cerrado Coffee had to obtain more than 75 points in a tasting trial held using the criteria of the Specialty Coffee Association of America (SCAA). This internationally recognized test evaluates the coffee in 10 items including body, acidity, aroma and sweetness.

One example of the investment made by Caccer to prepare for the process of certification was the event held early November in the Center of Coffee Excellence, established in the city of Patrocínio by the Minas Gerais State Secretariat for Agriculture. At this event Manoel Alves, a Portuguese consultant for the SCAA, trained 20 professionals to be international coffee tasting judges.

In addition to success in tasting trials, in order to receive certification by Caccer the Cerrado Coffee had also to comply with other rules which are today relevant in international trade, with respect to environmental sustainability.

Leather producers in the Sinos Valley in Rio Grande do Sul State are also seeking to associate geographic origin and sustainability. The Sinos Valley is the heartland of Brazil's tanning industry and exports hides used mainly for furniture and automobile seats. Producers hope that designation of origin will help their leather

find a niche in a market of higher added value: the fashion industry.

Gerson Luiz Becker, director of the project to obtain geographic indication at the Rio Grande do Sul Tanning Industry Association (AIC-



PHOTOS: NEY DOS REIS

Sul), said the tanneries seeking the seal of origin are currently exporting well below their potential. His own company, MATS, had 2008 billings estimated at R\$18 million, but just 5% – 7% came from exports. Certification of geographic origin, currently in the final stages of recognition at

INPI, could improve this: "When we combine the control of the entire process – starting with cattle traceability – with environmental sustainability, the protection of the seal of origin will add substantial value to our products," said Becker.

**Certification isn't enough, you have to know the product and be able to sell it**

### Protection and potential

Unfortunately, Brazilian indication of geographic origin does not automatically ensure worldwide recognition. Japan is an exception; it automati-

cally endorses all indications made by other countries. "In Europe, however, it's wise to obtain specific recognition valid for the European Union," said Maria Alice Calliari, general coordinator of other registrations at INPI.

Aprovale (from the Vinhedos Vale) did just this and in early 2007 obtained European Union recognition for its zone of production. "Now we can use the



Consultant Manoel Alves (above) tastes Cerrado Coffee and helps train new quality judges

same specifications within Europe that we use in Brazil. A cabernet sauvignon formerly had to be described as red table wine."

For Rizental, of Caccer, Brazil's indications of geographic origin would receive greater protection

**Geographic indication can boost the price of coffee by up to R\$50 per sack**

if the country were to sign the Lisbon Treaty, a 1950s agreement for the international recognition of geographic indications. "Today, we still need expensive international legal support to defend our certification of origin," he said.

In the opinion of Hulda Giesbrecht, an analyst at the Brazilian Support Service for Small Companies (Sebrae) who works on access to innovation and technology, Brazilian indications of geographic origin are protected internationally by TRIPS – the Agreement on Trade Related Aspects of Intellectual Property Rights, under the auspices of the World Trade Organization. Amongst other things, TRIPS determines the automatic recognition of designations of origin by countries which are members of the WTO.

Today, Sebrae includes indication of geographic origin amongst its new business projects in various sectors. "Indication of origin is an effective tool for market access, both domestically and abroad, because it indicates a differentiated product," said Giesbrecht. However, merely obtaining the certification is not enough. Expanding exports of a product that has indication of geographic origin requires showing it at international fairs and in tasting sessions, all within a structured communications and marketing project. "Anyone who sells or serves a certified product must know how to speak about it," said Calliari.

A database of detailed information also helps convince clients to pay more for a special product. "Here at Caccer we know where each of our coffees has come from and who tasted it," said Rizental. ■



# Are You Ready for Globality?

What's your Globality Quotient, or GQ? Try this quiz to see how much you're in tune with today's world

**GLOBALITY ISN'T JUST** a new term or a different way of saying globalization. For the Boston Consulting Group (BCG), a leader in strategy and business consulting that operates in 38 countries, globality is what's coming next. In their book "Globality: Competing with Everyone from Everywhere for Everything" now published in Portu-

guese in Brazil by Nova Fronteira, authors and BCG partners Arindam Bhattacharya, James Hemerling and Harold L. Sirkin warn us that this new phenomenon includes the swift and impressive rise of companies located in rapidly developing economies. These companies do business in innovative ways and are challenging their traditional competitors. They are redefining their sectors of the economy and staking out leadership positions around the world.

Check out your own GQ, or Globality Quotient, by answering a quiz prepared by the authors:

## QUESTIONS

**1** Which is world's largest producer of small commercial jets (up to 120 seats)?

- a. France
- b. Russia
- c. Brazil
- d. Korea

**2** By 2010, India and China together will graduate approximately how many science and engineering students?

- a. 250,000
- b. 500,000
- c. 1.5 million
- d. 4 million

**3** Chinese baby goods maker Goodbaby innovates at the rate of one new product development every \_\_ hours:

- a. 12 hours
- b. 24 hours
- c. 36 hours
- d. 48 hours

**4** An upstart appliance manufacturer in Asia has designed a clothes washer for the Chinese market that also does what?

- a. Removes wrinkles
- b. Steams rice
- c. Dry cleans silk
- d. Washes vegetables
- e. Heats the kitchen

**5** Which company now owns the prestigious Jaguar and Land Rover lines of automobiles?

- a. Cerberus Capital, of the United States
- b. Ford Motor, of the United States
- c. Tata Group, of India
- d. M+M/Renault, of France
- e. Mitsubishi Motors, of Japan

**6** India-based Bajaj Auto is the number-one seller of two-stroke motorbikes in which emerging market country/countries? You may choose more than one alternative:

- a. Sri Lanka
- b. Colombia
- c. Bangladesh
- d. Mexico
- e. Peru
- f. Egypt

**7** Choose the correct order below of the total hours worked per year by white-collar workers in the following countries -- from highest to lowest:

- a. Poland, United States, Germany
- b. United States, Poland, Germany
- c. Poland, Germany, United States
- d. Germany, Poland, United States

**8** Johnson Electric, the world's largest independent maker of micromotors, is based in:

- a. Dayton, United States
- b. Seoul, Korea
- c. Mannheim, Germany
- d. Hong Kong, China
- e. Vancouver, Canada

**9** The largest acquisition by a Latin American company was made in which country:

- a. United States
- b. Canada
- c. Mexico
- d. India
- e. Brazil

**10** As of April 2008, what percentage of major league baseball players was foreign born?

- a. 8%
- b. 16%
- c. 28%
- d. 32%

## ANSWERS

**1** **Alternative C.** Brazil's Embraer has proven to be a creative designer, acutely aware of customer needs and a tough competitor in international markets. Its boldest bid to date is the ERJ 145 family of commuter jets which shook up traditional jet design by making the top of the cabin wider than the bottom, thus increasing space and comfort for passengers.

**2** **Alternative C.** Education is a priority for emerging economies because, contrary to popular belief, these countries face difficulties both in education and in employability. Together, China and India will graduate 1.5 million students in science and engineering, 12 times the number in the United

States. But studies by human resources groups show that three-quarters of these graduates will still require substantial on-the-job training.

**3** **Alternative A.** Since it was founded in 1990, Goodbaby has given top priority to innovation and speed of production. The company started when its founder had so many simultaneous offers to buy his new design of baby carriage that he decided to make it himself. Since then Goodbaby has won 80% of the Chinese market for baby carriages, plus 24% of the American market. The company has research and development centers in China, Germany, France, the United Kingdom, the United States and Japan.

Since 1990 Goodbaby has registered 2,300 patents, 40 of them outside of China.

**4** **Alternative D.** Technicians at Haier, a Chinese household equipment company, were receiving numerous calls to unblock the piping in their customers' washing machines. They discovered that their clients were using the machines to wash sweet potatoes. Haier saw this as an opportunity and adapted its washing machines to the market, adding a cycle for washing vegetables.

**5** **Alternative C.** In March of 2008, Indian group Tata paid US\$2 billion in cash for the luxury Jaguar and Land Rover automobile marques which then belonged to the Ford Motor Company. It was the latest in a series of mergers and acquisitions, including the Anglo-Dutch steel company Corus (for US\$13 billion) and Tetley Tea (for US\$432 million). Tata operates in segments as varied as steel, automobiles, food and technology, and is becoming a major global player.

**6** **All the alternatives.** Indian group Bajaj is a world leader in production of small cheap motorbikes. In 2007, its bikes were sold in 50 countries and exports grew by 77%.

Quality is so good that major competitors like Kawasaki are importing and selling Bajaj motorbikes in other markets.

**7** **Alternative A.** Polish executives work for an average of 1,984 hours per year, compared with 1,777 hours for Americans and 1,362 for Germans.

**8** **Alternative D.** Johnson Electric of Hong Kong started life making small electric motors for toys, but soon expanded its business to make motors for household appliances, which offer a greater profit margin. It then started supplying electric motors to the German automobile industry. Today Johnson Electric has 45,000 employees and is the world's largest supplier of micromotors for the automobile industry.

**9** **Alternative B.** In 2006 Vale, a Brazilian mining company, made the largest-ever acquisition by a Latin American company when it bought Inco, a Canadian nickel mining company, for US\$19 billion. It was a major step in Vale's strategy to build global strength.

**10** **Alternative C.**

(\*) For more information: [www.bcg.com/globality](http://www.bcg.com/globality); [www.globalidade.com.br](http://www.globalidade.com.br)



ILLUSTRATION: ENZO LONGO



# In the Eye of the Storm

*Internationalization of companies gives executives more power, but leaves them more vulnerable to risk*

BY CHRISTINE PULEO

**T**he globalized world requires Brazilian executives who are up to the challenge: they must take swift but effective decisions on their own authority; be prepared to take ever-increasing risks and deal with constant pressures – while still delivering consistent results.

Hiring top-level executives had become a more selective and demanding process even before the tsunami that swept over the global economy, and this trend has only been accentuated by the crisis. While an impressive remuneration package is the standard reward for those selected, the high expectations of those in command have sometimes been just too great. Consequences have been dramatic, for example the massive currency swap losses incurred by major Brazilian companies in 2008.

Quite probably this need to impress the uppermost echelon is at least partly responsible for what is being called the “Brazilian subprime” – executives from Sadia, Aracruz and Votorantim invested heavily in currency contracts, betting against the US dollar in a move that eventually cost their companies billions with the dollar’s recent spike in value against the Brazilian real.



Leaving Lehman Brothers: executives hit by the collapse



Isac Zagury of Aracruz: whose fault, really?

LEO PINHEIRO/VALOR RJ/FOLHA IMAGEM

an executive’s performance. Now, the board of directors and shareholders make up their minds in less than a year.”

In her view, however, this pressure to achieve dramatic results does not justify the actions taken by the executives involved in the “Brazilian subprime”. Zorzato places a large share of the blame squarely on the executives. “They agreed to go along with these risky financial bets. In many cases, it looked like they lost their senses. It was a company decision, but at the end of the day an executive needs to alert his board to a risk. It is their responsibility,” she said.

With the end of the crisis nowhere in sight, a more competitive climate will continue well into 2009. “From now on, executives will need to show more hands-on experience in improving tangible business results, such as growing sales, improving prices, reducing

Fatima Zorzato, Brazil Country Manager of multinational headhunter Russell Reynolds Associates, highlights a sense of urgency as a key attribute needed for success. “To be successful, executives need to create a greater impact and generate immediate results,” she says. “In the past it took at least four years to evaluate

costs, negotiating better collection terms and overall, improving business results,” says Marcelo Mariaca of Mariaca, a São Paulo-based HR consulting firm. According to Zorzato, companies need executives who are strong leaders, who can exercise enough autonomy to skillfully lead and protect the welfare of their companies, even against the will of controlling shareholders. “We need people with courage to say ‘no’ sometimes,” she says. “It’s not just about saying ‘yes sir’ and getting your bonus.”

The senior executives involved in the currency bets were once the darlings of the business community, but now they find themselves under an unwelcome spotlight. Aracruz shareholders recently voted to sue Isac Zagury, the company’s former chief financial officer, for its massive foreign exchange losses. According to an Aracruz spokesperson, “the next steps will be decided by lawyers for Aracruz.” Sadia is also carefully study-

ing who to blame for their financial mishaps. Once the losses were revealed, Sadia dismissed its chief financial officer and finance manager, and launched a special audit by KPMG that found flaws in finan-

cial reporting. An additional audit by BDO Trevisan will determine who is responsible for the losses. “Once responsibility is determined the company will take appropriate action,” says Alessandra Wolff Terceiro, spokesperson for Sadia.

There’s also bad news from abroad for the Brazilian executives accused of poor management or fraud. Saxena White, a small but powerful US-based law firm that

## Aracruz, Sadia and Votorantim seek those responsible for losses



## A GROWING MARKET FOR D&O INSURANCE AGAINST EXECUTIVE BLUNDERS

**IN THE UNITED STATES**, virtually all companies supply their executives with Directors and Officers Liability Insurance (D&O), an insurance payable to company executives or to the corporation itself to cover legal costs if executives are sued for losses or any action taken while at the company. However, D&O does not apply to cases of fraud and intentional wrong-doing. Brazil has the same insurance, where it's also known as D&O: both the name and the concept were imported by multinationals operating in Brazil. Just as in the US, Brazilian D&O covers litigation costs and protects an executive's assets, but does not offer coverage in cases of fraud and willful wrongdoing.

The need for D&O in Brazil is growing and the product is finding a new market in small and medium-sized companies. "I have always advised executives to have this kind of insurance," says Gilberto Guimarães, an IBMEC-SP professor and HR consultant. Interest in this type of insurance, currently offered by about a dozen insurers in Brazil, is growing, according to Fernando Mantovani of Robert Half. "D&O policies are more and more common and are more popular than ever," he said. The area reached R\$96 million in premiums in 2007, up 9% since 2006, and is expected

to rise 15% by the end of this year. "It is in the interests of the corporation to protect its administrators so that they can have more peace of mind to make day-to-day decisions for the organization," said Angelo Colombo, director of Major Risks at Allianz Seguros of Brazil. "Today, we see many managers demanding a D&O policy as a benefit before they accept a position."

### Brazil is a growing market for policies to protect managers

Experts agree on one thing: no one will face criminal charges arising from the "Brazilian subprime", as most experts do not see any legal wrongdoing. João Burke of Nehring e Associados Advocacia explains that Brazilian law will punish executives who exceed their powers, or act against the law. "But there is no special rule concerning an aggressive business approach, which appears to be the case in 'Brazilian subprime'," he said. This contrasts with the likely fall-out from the US subprime crisis. "There will be criminal charges in the United States," said Joe Murphy, counsel at Compliance Legal Systems in New Jersey, and author of 501 Ideas for Your Compliance and Ethics Program. That's because the US subprime mess undoubtedly involves cases of fraud, although the complexity of the crisis means that it will take time for investigators to sort through evidence and pinpoint blame, Murphy said.

specializes in protecting shareholders against alleged wrongdoing by executives – who can be held civilly and criminally responsible – filed a Securities Fraud Class Action suit against Aracruz. The allegation, made in the name of a group of US shareholders, charges that the bets against the dollar violated company security policy and were larger than were necessary to hedge normal business operations. Additionally, the Securities and Exchange Commission of Brazil (CVM – Comissão de Valores Mobiliários) said it may investigate companies and executives involved in the "Brazilian subprime".

It is possible that some of these executives may be covered by a type of insurance extremely common in the US, that is becoming more popular in Brazil: Directors and Officers Liability Insurance ("D&O"), which can cover defense costs if executives are sued for losses or any action taken while at the company (*see box*).

Experts disagree, however, on the consequences for those involved. "If executives have made bad bets – especially without advance approval by their boards, or if they approved risks beyond their levels of expertise or possibly their levels of authority – it will end careers and have a lasting impact as much as stealing or breaches of ethics have in the past," said Mariaca. "They need to be upfront and be prepared for negative evaluation about their judgment, ethical standards and intelligence."

Gilberto Guimarães, a professor at the IBMEC-SP business school and an HR consultant and author, said he agrees in part: a fired executive must be upfront about involvement, Guimarães said, but he will eventually bounce back. "I do not believe that anyone fired as a result



PHOTOS: HANDOUT

Fátima Zorzato: "the executive has a duty to say no"



Mariaca: "executive will need new skills in 2009"

of the "Brazilian subprime" will be punished professionally forever," he says. "This did not occur in bad faith; it was an error of judgment. If there is blame, it cannot fall just on one person." Fernando Mantovani, the branch manager at Robert Half Brasil, an international recruiting company, agrees. He sees the losses as an effect of market conditions. "I am dealing right now with an executive from one of the companies affected by the currency bets," Mantovani says. "The interviewing company is aware of this, and still wants to interview, and possibly hire, him."

### The Good News

Despite the crisis and reduction in hiring at the end of 2008, the forecast for Brazilian executives still remains relatively bright. In some areas, the Brazilian market has more opportunities than qualified candidates, particularly among high-level executives. "We simply don't have the qualified workforce we need, particularly in the oil, gas, property, construction and bio-energy sectors," says Mantovani.

Every change – be it positive or negative – brings opportunity, and Guimarães sees particular demand

for professionals with specific expertise in change itself. "We are seeing increased interest in change process management, people who have experience in restructuring. For example, many banks and companies are looking for this type of professional." This interdisciplinary job function is at the nexus of IT, management and communication; most broadly this role involves business change management and subsequent technology implementations. Mantovani reports that those who have worked with restructuring or with very tight credit will also be in high demand.

Another area of specialization in high demand is direct experience in mergers and acquisitions (M&A). The crisis and resulting fall in stock prices has increased the possibility of mergers in Brazil, and executives with financial markets experience – particularly those who have worked on complex transactions in mature markets like Tokyo, New York and London – will find themselves aggressively

courted in Brazil. Hiring foreigners could supply the skills increasingly needed by Brazil-based companies, Mantovani said, but businesses still favor a Brazilian executive who can better understand the Brazilian market and culture.

"Having experience and past success in very difficult and even hostile environments such as start-ups and turnarounds will count a great deal," says Mariaca. Mantovani also sees an up-side where others see only disaster. "Working for companies that suffered from the bad currency bets represents a good

### Opportunity for executives who know how to manage change

opportunity," he said. "Existing executives or new hires face the challenge of rebuilding the companies and can add that to their resumes."

Of course, Brazil's tradition of instability has helped Brazilian executives take the recent shocks in their stride. "Brazilian executives are famous for their adaptability, good people skills, overall leadership and ability to learn fast," says Mariaca. "Learning from past crisis situations has been part of our history." ■



# Totvs' Big Bet

*The need for integrated management technology by midsized and small companies continues in times of crisis and continues to drive the software business, even abroad* **VICENTE VILARDAGA**

If the global environment now appears to be more hostile to business, with the financial crisis and the threat of a world recession, for Totvs (pronounced "Totus"), the biggest software house in Brazil and ninth-largest manufacturer of integrated management systems on the planet – competing directly with giants like SAP and Oracle, both in Brazil and abroad –, the seas are calm. The atmosphere at the company's beautiful headquarters, surrounded by gardens in a tree-lined neighborhood in the city of São Paulo, inspires a profound sense of peace. The president of the company, Laércio Cosentino, who likes to cook personally for customers and friends in a professional kitchen installed in the building where he works, is the personification of that serenity. A 48 year-old engineer with a degree from the University of São Paulo (USP), Cosentino is sure that the Brazilian software industry will weather the crisis unscathed and even continue to grow domestically and abroad despite the new scenario.

His optimistic prognosis is based on the demand in Totvs' customer portfolio, consisting mostly of small and midsized companies in Brazil, where the company has a 38% share of the market, not to mention abroad, where it has a good presence and strong ambitions. "Large corporations that are already computerized

or countries with a high degree of IT use generally postpone investments in times of crisis," notes Cosentino. "This is not the case with smaller companies, which need to continue investing in technology in order to gain competitiveness."

Totvs has a growth strategy based on acquisitions and conquering markets that is also supported by the Brazilian Development Bank (BNDES), which favors the existence of a large

national software company with enough scale and capacity to compete globally. Since floating a R\$ 460 million initial public offering (IPO) in 2006, Totvs has made no less than seven acquisitions. In July the company took a new leap with the purchase of Datasul in a deal valued at R\$ 700 million. The acquisition gave Totvs access to countries where did not formerly operate – like Colombia –, besides creating synergies and strengthening



HANDOUT

## SNAPSHOT

**TOTVS** – Microsiga until 2005 – is the largest Brazilian company in the area of integrated management software, and the 9th in the world.

■ **Number of active clients:** 22,500

■ **Countries of operation:** Chile, Paraguay, Argentina, Uruguay, Bolivia, Peru, Colombia, Puerto Rico, Mexico, Portugal, Angola, Mozambique, Ecuador, Venezuela, Guatemala, Costa Rica, United States ( 17 countries)

■ **Share of the Brazilian market for integrated management software:** 38% (Totvs + Datasul; source: IDC)

■ **Billing in 2007:** R\$439.67 million (Totvs) and R\$222.60 million (Datasul)

■ **Billing in 2008 (through September):** R\$611.40 Million (Totvs + Datasul)

■ **Share of foreign sales in total billing:** 6%

■ **Average number of new clients per month:** 200

■ **Number of acquisitions:** 17 (Totvs: Logocenter, RM Sistemas, BMI, Midbyte) (Totvs + Datasul: BMS, Setware, Datasul) (Datasul: Informenge, Meya, Próxima, Ilog, YMF, Soft Team, Bonagura, Gens, Tools, Tech Solution)



FREDERIC JEAN / AG. ISTOE

**The Buenos Aires offices of Totvs, and Cosentino: profit in crisis**

pendence on the US economy. Similar in form and operation to the Brazilian head office, the Mexican subsidiary counts on 185 employees and attends to a base of 350 customers.

Totvs has organized its operations in Latin America with command centers in Buenos Aires and Mexico City. Based in these cities, the company attends to an area that includes 14 countries. From Lisbon, where Totvs' European office is located, the company also spearheads its operations in Africa, especially Angola and Mozambique. In order to serve Portuguese and Spanish-speaking markets, Totvs concentrates its software development in São Paulo and in Córdoba, Argentina.

"Totvs was created to consolidate the systems-management market in Latin America and has become very competitive in the international arena," affirms Cosentino. "We have gained scale, and between 2006 and 2008 our profit margin increased from 14% to 21%." For its international operations Totvs has adopted a hybrid business model along the same lines as its operations in Brazil, where it combines its own units with franchises. These franchises assist in both distribution and systems development.

While the integrated management software market is expected to grow less in 2009, it should still grow. According to a recent study of the Latin American market conducted by the consulting firm IDC and divulged at the end of November, IT investments in the region should increase 7.8% next year (before the crisis, IDC's estimate was 13.7%). In Brazil the company's growth forecast has been adjusted downwards from 14.4% to 9.1%.

The IDC study shows that the Latin American IT market will be one

operations where both companies had already set up shop, including Argentina and Mexico. "Overlapping only occurred in Buenos Aires and Mexico City, where each company has its own units," explains Cosentino. "In all the other regions franchises operated."

Today Totvs' foreign sales, concentrated above all in Latin America and Africa, represent about 6% of its revenue and have been growing steadily but sustainably. The compa-

ny's competitors in these markets are generally small and lack the capacity to meet demand. Cosentino informs that there has not yet been a widespread drop in economic activity in the countries where Totvs operates, although he recognizes a certain sectorial cooling among Latin-American customers related to the American automotive industry. The Mexican market tends to be the most affected in the short term, due to its strong de-





**Totvs in São Paulo: growing abroad**

system, for example, it is necessary to attend to a plethora of legal prerequisites that are uncommon in other markets. This ends up generating complex products that are both flexible and have broad applications.

The financial market clearly approves of Totvs' performance. While the São Paulo Stock Exchange's Ibovespa index fell 33% between September 30 and October 31, the company's shares only dropped 21%. Even with the abrupt plunge in November, Totvs' stock has appreciated 18.75% since opening its capital in March 2006. "We did everything we intended to do, consolidating into the largest software company in Brazil through a series of acquisitions and have given a good return to our investors," asserts Cosentino.

In the third quarter of 2008 the company's turnover increased for the 15<sup>th</sup> consecutive quarter, conquering 705 new customers over the period and bringing its current portfolio to more than 22,500. Net revenue rose to R\$ 218.5 million, 29.7% higher than for the same period in 2007, while adjusted net profit jumped to R\$ 34 million. At the end of September Totvs boasted no less than R\$ 144 million in cash. If Datasul is included, the combined company turned over R\$ 662.27 million during the first nine months of 2008.

"We have always grown more during periods of crisis than in normalcy," notes Cosentino, referring to the history of Microsiga, the company that gave origin to Totvs, created 25 years ago during a period of great political turbulence and high inflation. "We need to go into 2009 lean, without any extra fat," says Cosentino. "Every crisis has an opening and anyone who has a full tank and new tires has a great chance to grow."■

of the least affected by the global crisis. Projections for software sales and services related to increasing productivity and improving performance for companies have fallen very little in the region. In the case of software, until September a 12.1% growth in sales was expected for 2009. By November, the estimate had only fallen to 10%. In terms of services, the projected expansion for next year was reduced from 10.7% to 8.6%. As for integrated management systems and customer relationship management (CRM) software, IDC says purchase intentions still run high.

"Although the market as a whole is growing, we have noticed that the crisis has impacted large companies and some specific sectors," notes Cosentino. "The smaller a company is, the less affected it will be in the short term." In his view, as much in periods of prosperity as in difficulty, investments in management systems tend to grow because companies need to improve their efficiency and understand their processes better in order to reduce ex-

penses and guide restructuring projects. "During a crisis, businesses need to increase control over their operations in order to survive," he observes. "When things are going well, preparing for growth becomes strategic."

Cosentino's optimism is sustained on solid grounds. The corporate software market has been growing constantly for years, without jolts and independent of crises. Totvs in particular maintains vulnerability at bay thanks to a broad portfolio of products targeted to various sectors, diversifying the risk that a specific segment suffers more or less with the financial and macroeconomic psychodrama spreading around the world.

An interesting competitive advantage for the Brazilian management software industry is that it has been able to create reliable and high-performance applications for the international market based on the local reality. Brazil is an almost byzantine country in terms of tax and labor questions. To develop an accounting or human-resources management

**"Anyone with a full tank and new tires will grow when things start up again"**

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# Not Just a Name

*How branding helped Havaianas, Natura and other companies establish a position in global markets* **BY FLÁVIO DIEGUEZ**

**I**n a strictly technical sense, branding means building a brand. But this simple definition does not do justice to the power that this technique has given Brazilian companies in their efforts to conquer global markets in recent years. It has to be seen to be believed. “The best known and most impressive example,” said Maurício de Almeida Prado of the Plano 1 communications agency, “was the transformation of the Havaiana sandal, basically a simple product, into an object of desire for consumers around the world.” Today Havaianas sell in 100 countries with dozens of very distinct products to satisfy different consumers: leopard skin patterns in Australia; blue and white flags to satisfy Argentine national pride; thick macho straps for American feet; and thin straps in screaming colors for India.

None of this is a miracle: the chameleon-like metamorphosis of the brand between such varied peoples and markets was the result of work that started in 2000, seeking to endow the thong sandal with so-called intangible, emotional values – ones that may be difficult to evaluate but which can make all the difference to the purchaser if they are well matched to the specific market in terms of color, symbols, strap width and other details.

**Ronald Kapaz:**  
design is part of  
branding, a new  
way of seeing  
something



PHOTOS: HANDOUT

said. Variations were created based on an analysis of customs: “You have to know the local fashion culture to do branding in a case like this.”

Havaianas were a good product for decades, Porto said, and exported well. But now they have become a brand, and sell in virtually all the world’s major cities thanks to branding. “We have yet to conquer Tokyo, but Havaianas are already a fad in Paris, London and New York. They sell almost as much in the Philippines as they do in the US, our principal export market. We don’t sell so much in India because there it’s a relatively expensive prod-

**Havaianas international ads: the freedom of bare feet; life with more meaning**

uct, as it is in Morocco for middle class consumers.” Throughout the world, depending on the place, the price of Havaianas can vary from US\$15 to US\$300. Sales in the United States represent 15% of the total.

According to Ronald Kapaz of Oz Design, one of the stars of Brazilian branding, communications strategies no longer see the consumer as a simple sales target. “Branding looks at the world in a new way. We put the person back at the center of the question and use design to ensure that products and objects also have sense and importance in our lives,” he said. Kapaz believes Havaianas were successful because they tapped into the universal desire for “disurbanization” – the desire to take off one’s shoes and feel one’s naked feet: “Havaianas symbolize lightness, a carefree attitude in a world full of competition, efficiency, results and performance.”

The new popularity of Havaianas has caused surprise – for example they found their way into a presentation made by Sergio Barcellos, an analyst at INPI, Brazil’s patent office. “I discovered in specialist magazines that Havaianas were as well known in the United States as the VW Beetle or Boeing,” he said. The success of its branding strategy last year won Havaianas the title of best intangible asset (“Brazilian brand” category), awarded by national consulting companies DOM Strategy Partners and Grupo Padrão.

Another brand that has enjoyed exceptional international performance with branding firmly positioned on the concept of sustainability is cosmetics giant Natura. Now the company is launching a







Natura's Villares: outlets in Mexico and Colombia (left)



campaign to conquer Latin American markets with a campaign based on the cultural links and habits that unite the countries of the region. "We are questioning the physical frontiers and emphasizing the culture of the region," said innovation marketing director Joel Ponte. He explained that last March, before launching "Natura Love of America" (Natura Amor America), two perfume specialists travelled throughout the Andes and Patago-

nia searching for inspiration and collecting aromas, flavors and local sounds. Each of the environments yielded exclusive essential oils, amongst other things, and what is most important, they are obtained sustainably. "We're just getting started," said Pedro Villares, operations director for the region. "In the whole of Latin America Natura bills around US\$100 million, which is just a fraction of our total billing of around US\$2.5 billion.

In other words, Latin America has enormous potential for growth." Villares said he went to Chile in September to work on positioning the Natura brand, based on the concept of sustainability in the context of the local culture. "We're going to publish a map of sustainability produced by Natura. We mapped Santiago for places for recycling, parks and where you can ride a bicycle," he explained. "It resulted in a 200-page guide with nine maps." In an evaluation made in October, the Latin American offensive shows that the number of consultants (as Natura calls its direct sell-



Sadia gets out the message in Saudi Arabi

tancy at the University of São Paulo. This year, Queiroz published a study of São Paulo Alparagatas as the first chapter of a book entitled The Internationalization of Brazilian Companies ("Internacionalização das Empresas Brasileiras") which was edited by Eduardo Vasconcellos of the same university. In the study, Queiroz argues that intangible values are also extremely real because they contributed to more than doubling the value of company shares in just a short time. "What's more," he said, "it made a great contribution to overturning the inferior image of Brazilian-made products in foreign markets."

For Queiroz, many companies that have already achieved international success would nevertheless stand to gain if they achieved a stronger brand positioning abroad. He gave as examples Sadia, Marcopolo and even giants such as Gerdau and Vale. While these companies do not operate directly at the retail level, they could evolve in this direction via branding: "What's to stop Sadia from selling meat directly over the counter instead of just distributing to third parties?" ■

ing team) grew by 41.4% to exceed 111,000. There are six service centers – so called Natura Houses – in Buenos Aires (Argentina), Cali and Bogota (Colombia), Lima (Peru) and two in Mexico City. Natura hoped to inaugurate three more service centers in Latin America by the end of 2008. Service is a central part of the company's operations, and for this reason it is commemorating the fact it was recently considered one of the best places to work in Argentina, Chile, and

Peru. This year in Mexico Natura received two prizes in the category of social responsibility, another strategic question for the company. Branding in Brazil has been enhanced by the success of Havaianas and Natura. Today any academic analysis of internationalization strategy includes branding as an essential element for many companies. "I have no doubt of this," said Mauricio Jucá de Queiroz of the Faculty of Economics, Administration and Account-

### Branding can make a real contribution to international success

## THE ALLURE OF THE DOMESTIC MARKET

**ACCORDING TO RESEARCHER** Karen Perrotta of Mackenzie University in São Paulo, branding as a tool offers enormous potential in the Brazilian domestic market by adding intangible and emotional attributions to brands which can grow amongst low-income consumers. "What we notice is that in low income neighborhoods, people put packages of Omo (washing

powder) in the window to show their neighbors that they can afford the more expensive brands." Another area where brand competes well against price, said Perrotta, is foodstuffs. "There is great aversion to risk," she said. "Children acquire preferences at school and if parents don't buy what the kids want they won't eat it, and frequently the parents don't have the

money to buy an alternative." Knowing this, companies are investing in branding. Almeida Prado, of Plano 1, predicts an increase in the battle between price and brand as a result of the worsening international crisis. "Brands that are not very well established may fall back to competing on price while investment in branding may suffer a reduction in some sectors." On the other hand, branding will probably become bolder, he said. As an example of this, Prado men-

tioned a campaign he was involved in for the Oral B electric toothbrush. "We decided to associate the brand with a youthful experience: the customer buying the toothbrush received a free bungee jump." In another case, that of Veet hair removing cream, which was targeted at adolescents, the choice was to go for sophistication. "We ran a competition in which the prize was a shopping trip to Paris, London and New York with the right to

take a friend." The tendency to use ever-bolder branding as a weapon against the crisis is consistent with various recent facts and analysis, as can be seen by the Cinescent initiative, tested in German cinemas in July: an advertising film for sun block screen showed people on the beach, then the product's perfume was injected into the cinema via the air conditioning. Kamran Kashani, a professor at the IMD Business School in Geneva,

also argues in favor of a bolder approach. Kashani argues that a major crisis presents a challenge of the same proportions: "Marketing professionals should be more than ever prepared to show that they are comfortable with changes, and that they are ahead of the curve. They must make innovation an integral part of their work, creating new ideas in all aspects of the business from branding through prices and distribution."



# Yesterday Guarani, Today the World!

*Francisco Costa, designer for Calvin Klein in the United States and twice winner of the “Oscar” of US fashion, is one of the talents exported by this small Brazilian town* **BY NARA VIDAL\***

Francisco, fashion Oscar-winner, with friend Eva Mendes



**M**inas Gerais is a Brazilian State with a lot of stories to tell. Some come from the small town of Guarani, in the so called Zona da Mata region. More than 9,000 people now live in Guarani, but before the arrival of the railroad and before Guarani became a municipality in its own right, at the start of the last century, it was just a dot on the map in the southeast of Minas Gerais, known by the colorful name of Espírito Santo do Cemitério. In its own way the Guarani of today is also present in globalization and the growing internationalization of Brazil as a brand. Francisco Costa, chief designer for Calvin Klein, who has twice won the CFDA Award, the “Oscar for Fashion” of the United States, was born and bought up in Guarani.

Dedê, as Costa was known in our group of childhood friends in Guarani, is certainly the city’s best-known son: the famous Calvin Klein designer now rules in Manhattan and is known worldwide. But when he went to New York at the start of the 1980s, seeking to conquer the capital of the world, he had to overcome many problems and hone up the artistic sense he had inherited from his mother, Dona Lita. Owner of the local Confecções Marelena clothes shop, Dona Lita gave great encouragement to her son. Thanks to Dona Lita’s shop, all the kids wanted clothes rather than toys. Doryleia, the chief seamstress, produced the best children’s clothes in the region.

I remember I was once asked to help try out some little suits and dresses that months later would be shown at the Repentinos, the local club. And I remember with a smile and not a little embarrass-

ment a show at which the guest of honor was Elke Maravilha, then a top Brazilian TV presenter. I was just eight years old and was desperate to be invited to take part in a Marelena fashion show, but the invitation never came. The telephone never rang. Thousands of times I almost spoke to Costa but then finally I plucked up courage and asked my friend Liliana to phone him “suggesting” that I should take part in a parade. She was blunt about it: “Are there any clothes that Nara could wear in a fashion show? She’s so good at it!” From the other end of the line, to my relief, came the answer: “But of course! Tell her to come and do a rehearsal today.” Right, that was it! I had the green light to take part in the show for Elke Maravilha, and coming from Costa himself, an emotion that I will never forget.

My work since then has taken me away from Brazil, but not as a fashion model. I have been living for seven years in London where I have a real estate investment company. Before moving to the Old World, I thought of being a dancer on a children’s TV show, a singer or TV or theater actress. Luckily my “talent” was not recognized in Brazil and like other sons and daughters of Guarani I became an expatriate, more mature and today married to a charming Englishman.

Various other talents emerged from that group of kids that grew up

together in Guarani listening to storytellers on old farms, wrapped in thick blankets and sitting happily in front of blazing log fires in the winter. Paulinho Braga couldn’t stand math at school, but he soon made a name for beating out a rhythm on the school desks. This was to win him a place in the Lira Guaraniense, a local band, and he was the city’s greatest drummer of the time. Later Braga went to Rio de Janeiro and played with such legends as Tom Jobin, Elis Regina, Milton Nascimento, Ivan Lins and Tim Maia, amongst others. Today he’s a member of the fantastic Trio Jobin, playing alongside the son and grandson of Tom Jobin.

Guarani also produced at least two contemporary artists who have become well known and won prizes. Roberto Ornellas studied at Rio de Janeiro’s National Fine Arts School and became known at the 1963 National Modern Art Salon in Rio de Janeiro. He has shown in galleries and museums in Brazil and abroad:



Drummer Paulinho Braga, another famous son of Guarani (above)

his favorite theme is Guarani. His work has been bought by collectors in various parts of the world, from Guarani to Israel.

My friend Alexandre Gaudereto – known as Tati – is a disciple of Ornellas who works in lithography, drawing and painting. His style verges on the infantile with almost primitive technique, bringing to life the characters of his imagination

or even his loved ones in vibrant color and strong shades. Last April, Gaudereto took part in exhibitions in Frankfurt, Vienna and Warsaw.

Of course, none of these “sons of Guarani” has enjoyed such fame as Costa, at the peak of international fashion. With his apparent shyness and the quiet caution that is typical of people from Minas Gerais, Costa still insists on telling people he comes from the small town of Guarani. I imagine that for him, our little home town represents a safe haven of affection and happy memories, a place that he would like to revisit at least yearly. Guarani will never have the fame and bustle of New York, where Costa lives and works today. But who knows, one day we may see him with his muse and friend Eva Mendes, a talented actress, strolling through the little town square after eating a pizza at Cesar’s Bar? ■

*\*Additional research by Alcyone Vidal Neves. Neves was a childhood colleague of Paulinho Braga and the teacher of Costa and Gaudereto. She collects works by Ornellas and is the mother of the author of this text.*



# Innovation: The Best Medicine

Brazilian research laboratories are creating new products with the potential to generate good business – and even foreign earnings

BY FLÁVIO DE CARVALHO SERPA

PHOTOS: HANDOUT

In recent years, Brazil has achieved considerable visibility in high-technology markets (Embraer airplanes), energy (ethanol and petroleum) and design (fashion). Now, the world is looking at Brazilian biotechnology. Until recently, this news would have referred just to Brazil's recognized competitive advantage in biodiversity – the country has more than 20% of the world's flora and fauna, and is a storehouse envied by researchers around the world. Now, however, thanks to innovative research by Brazilian scientists and pharmacologists, and the interest of new Brazilian biotechnology firms, the country "is heading for a transition from imitator to innovator in products related to health." This is the conclusion of a detailed analysis published in the Canadian magazine *Nature Biotechnology* by the McLaughlin-Rotman Center for Global Health, connected to Toronto University. The study sheds global light on Brazilian potential to innovate at a substantially lower cost than the major multinational pharmaceutical companies.

All cases of Brazilian pharmaceutical success have involved exploitation of Brazilian biodiversity, still in its infancy. One example is the aging retardant developed by the Eurofarma Laboratory, which licensed patents registered by chemist André Arigony Souto of the Chemistry Faculty at the Catholic University of Rio Grande do Sul.

The drug is based on resveratrol – a molecule present in wine and grape juice. This poten-

**Muñoz, of Eurofarma, and the company's new HQ: chasing the international market**

tially offers great success for retarding the ageing process – this at least was the result of giving the drug to laboratory rats in large doses. Sadly it does not also offer the pleasures of a good glass of wine.

Souto was a pioneer in studying resveratrol before it became fashionable. "I have been researching resveratrol since 1999" he said. "Recently the scientific literature has shown that this is a super molecule with a wide spectrum of action, as an antioxidant, an anti-inflammatory, an antiviral, a cardioprotector, a neuroprotector and a chemical anti-carcinogenic, as well as

protecting against infection and ischemia, reducing obesity and preventing ageing."

Eurofarma decided to research new forms of resveratrol, Souto said, and discovered its concentration in vine roots is

100 times greater than in the grape. "This was the first patent we registered. Another was an invention to avoid the rapid elimination of resveratrol in the organism. This is important; it could lead to a medicine for Type 2 Diabetes." Eurofarma, which licensed the patents, plans to market the medicine in 2013.

The all-Brazilian company has ambitious plans. "Our goal is to cover 90% of Latin America with our own operation by 2015," said Maria de Pilar Muñoz, director for institutional affairs at Eurofarma.

In 2007, the company received the green light from the European Medicines Agency, the EU regulatory body, for a line of products. "We are now preparing to compete more aggressively, seeking certification from international agencies to allow export of products made in Brazil," said Muñoz.

## From imitation to innovation in health-related products



The fine new factory built beside the Castelo Branco Highway in Itapevi, near São Paulo city, will have a fundamental role in this strategy. It was planned in accordance with standards laid down by the US Food and Drug Administration (FDA) and will meet the current and future needs of the company both for supplying the Brazilian domestic market and for the planned exportation and internationalization of operations.

**Arigony, with his Sorrel: two patents in hand**



GILSON OLIVEIRA

“Our new installations were prepared to meet the most rigorous international quality standards,” said Muñoz. Eurofarma is already testing its first phytotherapeutic product for muscular pain based on *Aleurites moluccanus*, sometimes called the Candle Berry or Indian Walnut, a medium-sized tree which grows in Old and New World tropics. Wolney Alonso, innovation director at Eurofarma, said other projects are in the pipeline. “This is just the first

of others which are also based on Brazilian biodiversity. Additionally, we are always looking for new partnerships with universities and research institutions to develop innovative research programs in Brazil,” he said. Alonso reckoned the new medicine will be on pharmacy shelves in 2012.

**World class** Brazilian biodiversity also provides inspiration for Ozires Silva, a partner and board president at the new com-

pany Pele Nova Biotecnologia. Silva, former CEO of Embraer, Varig and Petrobras, brings his huge experience to the world of pharmaceuticals focusing on the use of natural substances. Silva has been enthusiastic about the country’s natural resources ever since he served as a flight lieutenant at the start of his career in the Brazilian air force in Belém, in Pará State in the eastern Amazon. “Brazilian biodiversity is famous all around the world, but Brazil makes little use of it. Anvisa (the Brazilian agency responsible for the quality of pharmaceutical products) reports that 90% of medicines used in Brazil are imported,” said Silva.

Pele Nova Biotecnologia was created in 2003 based on the work of two researchers from the University of São Paulo who discovered the regenerative properties of natural latex in the tissues of the esophagus. The product, which carries the commercial name of Biocure, is awaiting patent registration in 60 countries. It has been approved by Anvisa and has various applications ranging from healing ulcers to treatment of severe burns.

“This is an exceptional business,” said Silva. “We have created the prospect of a range of absolutely new products, which are normally produced with very expensive technologies, not just in terms of the research but also the extremely complex pro-



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duction process.” He noted an additional advantage: “Our product is natural, which has enormous appeal on the world market.”

Another major step was taken by João Batista Calixto, a professor and researcher in the pharmacology department at the Federal University of Santa Catarina. After some 10 years of research he developed the first completely Brazilian medicine, an anti-inflammatory called Acheflan which is now sold by Aché Laboratories, a 100% Brazilian-capital pharmaceutical company.

Acheflan also represents the first major step in Aché’s internationalization plans. The product will be sold in Canada and the United States in a partnership with RFI Ingredients, while in Mexico the partnership dating from 2006 is with a local pharmaceutical company called Silanes.

Aché invested over R\$190 million in a new industrial complex to bring its production laboratories up to international standards, with state-of-the-art equipment that meets the most rigid regulatory norms. Exports by the Brazilian company currently represent just a small portion of its billing, around R\$4 million a year, basically to Latin American neighbors.

Peter Singer, the doctor who co-authored the study published in *Nature Biotechnology*, said the Brazilian

pharmaceutical industry faces specific challenges in its quest for growth. “Unlike what happens in many other countries, what’s holding Brazil back has nothing to do with the country’s scientific competence, which is world class,” he said. “Unfortunately Brazilian progress is hampered by a series of relatively minor challenges.” One such is the lack of an official financing policy for the sector. Producing a really innovative medicine from scratch takes investments of several hundred million dollars.

Calixto says he thinks Brazilian biotechnology will continue to advance and will resolve its problems. One of the most immediate options is the incremental improvement of medicines. “It is always possible to make small improvements to something which is already on the market, this is a niche which the multinationals ignore,” he said. “If there’s a medicine which is good, but which has some side effects, we can improve the formula to make it more effective.”

This is a process that works well in today’s market, which is eager for more natural cures. One of the secrets of Acheflan’s success over similar products, such as the popular Cataflan and generic equivalents, is that it is produced from vegetable extracts and not from chemical substances.

**Bill Gates is watching**

São Paulo’s Butantan Institute, a long-established and venerated institution that is internationally known for snake research, comes under the State Health Secretariat. Today, the institute is also making its contribution to the development of new medicines, with enormous commercial potential. Butantan started as an emergency

laboratory to produce serum for an outbreak of bubonic plague in the Port of Santos in 1889, and today enjoys a global reputation for competence in the field of vaccines. Now Butantan is working on dengue fever, and this brought it to the attention of Bill and Melinda Gates.

Using money from the foundation set up by the creator and major shareholder in Microsoft and from the US National Institutes of Health (NIH), Butantan will over the next two years invest R\$20 million to create a vaccine against dengue fever. Initially this will be produced in a pilot scale for clinical testing. After testing in human beings, the dengue vaccine will be made at Butantan and sold by the Brazilian Ministry of Health, for free application in areas of risk in Brazil. It will also be exported in commercial scale to other countries such as South Korea and the United States which take part in the clinical testing. ■

**Ozires and Biocure: new skin from latex**



RICARDO BENICHO

Good Herbs			
Practical applications of the new medicines based on Brazilian biodiversity			
VEGETABLE ORIGIN	PRODUCT	ACTIVE INGREDIENT	FUNCTION
Sorrel ( <i>Rumex acetosa</i> )	Still without a commercial name; to be launched 2013 by Eurofarma Laboratories	Resveratrol, the same substance responsible for the beneficial effects of wine	Antioxidant, anti-inflammatory, antiviral, cardioprotector, neuroprotector, chemical anti-carcinogenic, as well as reducing obesity
Cordia, aka Wild-Sage, Black-Sage, Erva Baleeira, Maria Milagrosa ( <i>Cordia verbenacea</i> )	Acheflan, sold by Aché Laboratory	Alpha-humuleno	An anti-inflammatory indicated for the treatment of chronic tendinitis and muscular pains. It is just as effective as Cataflan ( <i>Diclofenac diethylammonium</i> ), without collateral effects
Para rubber tree ( <i>Hevea brasiliensis</i> )	Biocure, of Pele Nova Biotecnologia; on sale	Latex	Serves as a matrix for tissue regeneration following burns or internal lesions
Indian Walnut ( <i>Aleurites moluccanus</i> )	Aleurites, now testing with the Eurofarma Laboratory	Vegetable extract with various active ingredients	Painkiller and anti-inflammatory





Fogo Samba, the “Brazilian” churrascaria in Macau: *rodízio*

# “Some More Steak, Sir?”

Entrepreneurs from around the world have copied Brazilian barbecue know-how: churrascaria meat restaurants are even conquering Asia **BY ADRIANA SETTI**

A succulent slice of barbecued rump steak slides on to the customer’s plate and nestles between ample piles of mixed salad, as colorful as the Rio Carnival. Waiters zigzag between the tables with meat-laden spits while the delicious aroma of meat fat sizzling over the grill wafts around the restaurant, a mouth-watering enticement for patrons still waiting at the door. Outside, where thermometers nudge 36° C and the humidity hangs heavy, the sidewalk is covered with wavy black and white designs like Copacabana. Rather than the Portuguese

stonework that distinguishes one of the world’s most famous beaches, however, this synthetic cloth pattern serves as a mere visual reference to the exotic Rio de Janeiro seafront half a world away. But around nine o’clock on a Friday night, the Brazil Churrasco restaurant is one of the busiest in Singapore’s fashionable Sixth Avenue.

The restaurant operates the *rodízio* system where patrons help themselves to salad from a buffet and waiters bring barbecued meat until gorged customers wave them away. The Singapore restaurant has everything that a Brazilian equiva-

lent would have, and with the exception of the occasional oriental detail which creeps into the buffet it might seem totally Brazilian. But in fact, it’s the initiative of three businessmen born and bred in this Asian tiger where the population is split between Chinese, Malay, and Indians. In Singapore, people are more accustomed to eating with chopsticks or with their fingers than with a sharp knife and fork.

At the end of the 1980s the partners found themselves in a Brazilian *churrascaria* in Lisbon, Portugal, where they wolfed down massive quantities of barbecued meat. It was an unforgettable experience, so much so that in 1993, the principle partner David Gabriel, then in the business of ship refurbishing, flew to Rio de Janeiro for a closer look at the *churrascaria* business. After three days cranking up his cholesterol in the city’s principal *rodízio* restaurants he decided the concept would work in Singapore, a city where the importance of gastronomy in the local culture can be seen in the innumerable “eateries” – centers with several food stalls, which are packed all day long.



Brazil Churrasco, in Singapore: it all looks Brazilian, but it isn’t...

Martin Spikerman was chosen as general manager for the planned Singapore restaurant. His first step was to spend four months at the Churrascaria Palace, a traditional Rio restaurant next to the Copacabana Palace Hotel. There he learned the ins and outs of the business. On his return, in addition to know-how, Spikerman took with him eight *churrascaria* waiters, often called *passadores* in Brazil, and the word entered Singapore vocabulary. Architect Jean-Claude Pardon, also responsible for the Churrascaria Palace, was chosen to design the new restaurant. He covered the walls with large oil paintings signed by Brazilian artists such as Lenita Holtz.

“We conceived our restaurant to be luminous and airy; we tried to capture a little of the atmosphere of Rio which, for us, spells sunshine, fun and cosmopolitan people who like to enjoy life,” said owner David Gabriel. His Asian clientele loves the barbecued rump steak and chicken hearts but he had to cut back on salt to respect local taste. Also, the meat is Australian. “People in this part of the world aren’t used to Brazilian meat, which has a stronger aroma



Another “Brazilian” restaurant in Saigon, Vietnam: a Swiss owner

with more flavor and texture,” explained Gabriel. “Eating red meat is not so widespread in our culture, so I preferred to go with something that people are already used to. I love Brazilian meat, but I’m in a minority on that,” he said. Similarly, the desserts are a little less sweet than in Brazil.

The formula has been a great success. In 14 years the restaurant has served around one million customers and expanded to two subsidiaries in Singapore, one in the

Malaysian capital of Kuala Lumpur (called Carnava, because of problems registering the name) and one in Ho Chi Minh City in Vietnam. Joint ventures are under discussion for the coming years with restaurants in India, Indonesia, and Kuwait. “We are proud of our food and also of the fact that the Brazilian ambassador to Singapore is one of our customers,” Gabriel said.

Brazil Churrasco is far from being the only such restaurant to find





Fogo de Chão in Washington: one of 11 in the US



Belarmino Filho, who took the Rubayat to Buenos Aires and Madrid

success in the Orient. Its main competitor in Vietnam, Au Lac do Brazil, has three restaurants in the country. The first was inaugurated in Ho Chi Minh City, formerly Saigon, in 2003. Three years later one opened in Hanoi, and last September a new subsidiary was opened in Ho Chi Minh City. Despite serving *caipirinha* made with rum – “*cachaça* is very expensive here,” owner Jan Stromler explained – the restaurant serves 12 types of Brazilian meat and also has *feijoada* black bean stew and *arroz carreteiro*

(rice with chopped jerky) on the side. Stromler, a Swede married to a local woman, uses meat from New Zealand, but the chicken comes from Brazil as does the salt to marinate the rump steak. Just like the *churrascaria* owners in Singapore, Stromler fell in love with Brazilian *churrasco* during a visit to Portugal.

**In Shanghai, where everything is superlative, there are over 40 Brazilian churrascarias**

However, the know-how to open the restaurant came from Adriano Villela, a Brazilian executive, who despite being responsible just for the business accounting side has been a *churrasco* fan since he was a child. As might be expected, the restaurant attracts many Brazilians

who are homesick for their favorite national dish, seeking to add a good protein boost to the local diet based on rice and vegetables. Among them is Brazilian Ambassador to Vietnam João Mendonça.

In Macau, the most famous restaurant in the Venetian Macau Resort, a luxury hotel casino, is the Fogo Samba. It operates as a *rodizio* with traditional side dishes including kale, roast manioc flour and cheese bread. The Brazilian atmosphere includes table indicators used to tell the waiter if you want more meat: green one side,

red the other. And because the restaurant is inside a casino, the indicators resemble roulette chips. When he was hired to manage the restaurant, Brazilian Iuri Martins Volcato was, believe it or not, a magician. Volcato also starred in a famous reality show in Macau, and customers still beg autographs. The restaurant owners decided that, despite having absolutely no prior experience in the area, Volcato would give it the essential Brazilian touch. NBA stars and singers Sting and Celine Dion have been spotted enjoying the *caipirinhas* and rump steak.

The Carnival Restaurant in Kuala Lumpur (a subsidiary of Brazil Churrasco) has various competitors. One is Bom Brazil in the bustling bohemian night-life region of Bukit Bintang. In Shanghai, in China, where everything is in the superlative, there are more than 40 *churrascarias*, know as “Brazilian style barbecue”.

The wave of meat restaurants run by foreign businessman is not restricted to the Orient. In London,

the sophisticated Rodizio Rico already has three restaurants and enjoys success amongst both home-sick Brazilians and the local British public. In Barcelona, the Rodizio (not connected with the London restaurant) is packed out for lunch and dinner.

The insatiable foreign appetite for unlimited quantities of barbecued meat confirms a tendency noted by Brazilian entrepreneurs. One of the pioneers in the internationalization of the sector was Porcão, a Rio de Janeiro restaurant belonging to the Mocellin family, which opened its first US restaurant in Miami in 1992. Today Porcão has branches in New York, Lisbon and Milan. In 1997 the first Fogo de Chão restaurant was opened in Dallas, Texas, by brothers Arri and Jair Coser together with partners Aleixo and Jorge Ongaratto. This venture into the US market was so successful that Fogo de Chão now has a total of 11 subsidiaries, including restaurants in major cities such as Washington, Atlanta, Chicago and Los An-

geles. Three more were due to be inaugurated in the United States through the end of 2008, adding to the six restaurants already existing in Brazil. Unlike Porcão, which is geared more to the local Brazilian community, the Fogo de Chão bets on attracting more American trade and has found favor with a list of customers that even includes ex-president George Bush.

The Rubayat, one of Brazil’s most famous *churrascarias* and the winner of many awards, started its internationalization project via Argentina and in 2006 established a foothold in Spain, the native land of Belarmino Fernandez Iglesias who founded the chain after coming to Brazil in the 1950s. The project for the Rubayat Madrid started in 1998 but it was only in 2005 that the owners of the Cabo Maior restaurant finally agreed all the details of the negotiation and rented their prime location on Rua Juan Ramon Giménez. Today the group has three restaurants in the Spanish capital, one of which, the Porto Rubayat, specializes in sea food.

In order to adapt to refined Spanish tastes, the Rubayat has had to further enhance its reputation for quality. “The Spanish are much more demanding in terms of cuts of meat and seasonal products,” said Belarmino Filho, in charge of group internationalization. “If artichoke is in season, the customer will demand artichoke. The gastronomic culture in Spain is much stronger than it is in Brazil and this has meant that I also have become more demanding.”

To get the Madrid operation off the ground, Belarmino Filho battled to get work visas for 140 Brazilian employees; 60 have already been seduced away by competitors: “I have become a great trainer and supplier of labor in Madrid.”

The Spanish restaurants of the Rubayat group serve 16,000 customers per month, who eat their way through four tonnes of meat and generate billing of €8 million per year. Nevertheless, Belarmino Filho, who came back to live in Brazil in February of this year, decided to put on hold his European expansion plans which included new restaurants in Lisbon, Barcelona and London through 2010. “I over-estimated the European market in volume,” he said. “I’m not interested in anything smaller than Madrid, so Barcelona and Lisbon are simply out of the picture,” he said.

But what about London? The problems that Belarmino faced when trying to get work visas for his Brazilian employees, plus the recession which now threatens Europe, have led him to redirect his focus to Latin America. Mexico City and Santiago in Chile are top targets for the next two years. “This is the time to be cautious and to study things; when the situation gets better we’ll take another look at expanding in Europe.” Might that also be the moment for *churrascarias* in Asia? ■



# Are Rio de Janeiro and São Paulo global cities?

A ranking by Foreign Policy magazine places the two great Brazilian metropolises firmly on the path of globalization, but the drawback is always the same: inadequate human capital

BY ARMANDO MENDES

**EVERY YEAR BRINGS** a fresh crop of rankings and projections. The most recent list of globalized cities placed São Paulo and Rio de Janeiro amongst the most globalized metropolitan regions in the world, and Brazil's standing could be measured against other BRICs countries and continental neighbors in terms of competitiveness, quality of life and future prospects.

São Paulo placed 31<sup>st</sup> and Rio de Janeiro placed 47<sup>th</sup> on index of global cities published by *Foreign Policy* magazine, part of The Washington Post publishing group. The usual suspects – New York, London, Paris and Tokyo – grabbed the first four posi-

tions with Hong Kong lying 5<sup>th</sup> (see full story: [www.foreignpolicy.com/story/cms.php?story\\_id=4509](http://www.foreignpolicy.com/story/cms.php?story_id=4509)).

The study, conducted in partnership with A.T. Kearney and the Chicago Council on Global Affairs, sought to measure the influence and degree of international integration of 60 global metropolises – just two were from Brazil. The creators of the ranking claim it is a genuine index of globalization, a phenomena in some ways matching the urbanization of the planet.

The index weighted 24 criteria in five groups: business environment; human capital; information exchange; cultural experience and political in-

volvement. On the overall ranking, São Paulo placed behind three major BRICs metropolitan regions: Beijing (12<sup>th</sup>); Moscow (19<sup>th</sup>) and Shanghai (20<sup>th</sup>), but ahead of two others: New Delhi (41<sup>st</sup>) and Mumbai (49<sup>th</sup>). Within Latin America, São Paulo lost out to Mexico City (25<sup>th</sup>) but came narrowly ahead of Buenos Aires (23<sup>rd</sup>).

However, the relative strengths and weaknesses of each city can best be seen in the individual categories. São Paulo placed global 16<sup>th</sup> in the rank of best places to do business, but this was the only category where the city showed amongst the world's top 20.

São Paulo performed worst in terms of human capital; it dropped to 36<sup>th</sup> position, pulling down its overall ranking. Buenos Aires and Mexico City placed better than São Paulo in this important question, 18<sup>th</sup> and 19<sup>th</sup> respectively. Unlike São Paulo they both scored better than their general ranking in terms of human capital.



São Paulo: in the top 20 for business

MARCOS HIRAKAWA / IMAGEPLUS

## The champions for doing business

1	NEW YORK
2	TOKYO
3	PARIS
4	LONDON
5	HONG KONG
6	SINGAPORE
7	SEOUL
8	SHANGHAI
9	BEIJING
10	AMSTERDAM
11	FRANKFURT
12	CHICAGO
13	VIENNA
14	MADRID
15	LOS ANGELES
16	SÃO PAULO
17	BANGKOK
18	BRUSSELS
19	TAIPEI
20	SYDNEY

Classification based on cities which house head offices of companies listed in the Fortune Global 500; cities where the 40 largest service companies have offices; the strength of the capital markets; the flow of goods; and the number of global conventions they host

## Brazil's more competitive, but not much....

**BRAZIL HAS RISEN** in the Global Competitiveness Index published by the World Economic Forum, the debating society of the advanced economies. It rose from 72nd position in 2007 to 64th in 2008. But it's still not time to celebrate: Brazil is the least competitive of the four BRICs nations, behind China (30th place) India (50th) and Russia (51st). In Latin America, Brazil was soundly beaten by Chile (28th) and still trailed the second squad composed of Panama (58th), Costa Rica (59th) and Mexico (60th, but falling).

## Growing doesn't always improve things

**COSTA RICA** showed well in another ranking, this time for quality of life in Latin America and the Caribbean, published by the InterAmerican Development Bank. On scale of 1 to 10, where 10 is best, Costa Ricans scored 7.4 against 6.2 for Brazilians who placed 9th in the overall list of 23 countries. Economic growth doesn't always translate into immediate satisfaction: in Chile, Peru, Ecuador and Trinidad and Tobago, GDP per capita growth was high between 2001 and 2006, but citizens declared they were less satisfied than their counterparts in Guatemala, Jamaica, and Colombia, where per-capita growth was lower. Citizens of Haiti declared themselves least satisfied of all.



Costa Rica: good standard of living

MARCELO CARNAVAL / AGÊNCIA O GLOBO

## Emerging economies looking bad

**DRAWING WITH THE ITALIANS**, less honest than companies from the richest nations but cleaner than those from other BRICs. That's how Brazilian multinationals appear in a 2008 ranking called the Bribe Payers Index, drawn up by Transparency International. The NGO asked 2,742 executives which were the countries whose multinational companies were most likely to pay bribes to win contracts abroad. The ranking has 22 countries and Brazil appears in 17th place beside Italy. In first place with the cleanest hands are companies from Belgium and Canada. In last place was Russia; while China, Mexico and India appear between the Russians and the Brazilians.

## Global diplomat

**IT'S THE YEAR 2021:** China, India and the United States are on the brink of war to control supply routes for gas and petroleum. Only one country enjoys the confidence of the three super-powers to undertake diplomatic negotiations and avoid disaster. That country is Brazil. Is this empty futurology? No: this is one of the scenarios foreseen in the document called Global Trends 2025: A Transformed World, prepared by the National Intelligence Council (NIC), a Washington think-tank which brings together national security agencies and advises the American government. In the study – the most recent in a series of political and strategic projections made by the NIC – the fictitious Brazilian foreign minister in 2021 writes to a former president revealing his strategy for breaking the ice between the coming super powers: he schedules a round of negotiations for Rio de Janeiro at the height of Carnival.





Lowndes: mission is to command Haco's internationalization

PHOTOS: CRISTIANE FONTINHA

# Hidden Treasure

High technology, punctuality and exclusive services help Haco fight for world leadership in production of labels for clothing

BY MAURÍCIO OLIVEIRA, IN BLUMENAU

Since 1958, Haco has been responsible for what many soccer fans might see as one of the most important jobs in the world: it makes the official team shirt badge of the Brazilian Football Confederation. Founded 80 years ago in Blumenau, in the Itajaí Valley in Santa Catarina, Southern Brazil, the company still makes the badges for virtually all of Brazil's top teams, but the main line of business is often less visible. Almost 65% of Haco's billing comes from the production and sale of labels for clothing and accessories, items which sometimes are hidden almost out of sight. Nevertheless, the company's client list is just as star-studded and globally known as the Brazilian soccer team: Calvin Klein, Christian Dior, Guess, Gucci, Hugo Boss, Grendene, Adidas, Nike and Victoria's Secret, amongst many others. Many of these famous clients buy more than just labels; Haco's 800 looms and specialized machines make Jacquard cloth and decorative components for women's shoes, carrier bags, handbag handles, laces and other such items.

Haco now produces over six billion items a year, and in Brazil enjoys 75% of the label market. The company was for a long time global leader in its sector, with over 100 clients in 33 countries, but last year it fell to second place when US conglomerate Avery Dennison finalized the acquisition of two competitors. Haco does not publish its earnings, but said billings grew 18% in 2007 and were predicted to rise a further 23% in 2008.

Winning back global leadership will require more than simply fast growth. There's no way to be world number one without establishing a presence in Asia, today the global center for clothing manufacture. Haco predicts it will be established on the continent within a couple of years. "India looks like one of the better alternatives, but it's not the only option," said company president

Ricardo Lowndes. "We are analyzing each possibility with great care." He has also not yet decided if Haco will undertake the Asian investment by itself, by opening a subsidiary, or if it will acquire a competitor.

Haco first established a presence outside Brazil 15 years ago, in Europe, when it set up a factory in the Portuguese city of Covilhã, an important textile industry center between Lisbon and Oporto. "This was our headquarters for expansion into Europe," said Lowndes. "Now we plan to do the same thing in Asia." The mission of overseeing internationalization is increasingly entrusted to Alberto Conrad Lowndes, 26, the youngest of Ricardo's three sons who holds a degree in business administration from the IBMEC business school in Rio de Janeiro and has already been named as official successor to his father in the general management of the company.

## In the family

Haco makes no secret of being a genuine family company and is convinced that for the time being this model will not change. The company was created in 1928 by Alberto's great-grandmother, Johanna Conrad, who came from Germany to visit a sister in Brazil, fell in love with the country and decided to stay. Johanna bought a small cotton shoe-lace factory with six looms and 10 employees in a wooden shed.

## HACO: X-RAY

- **Founded:** May 1928, in Blumenau (SC).
- **Billing:** divided between cloth labels (52%), laces (17%), prints (11%), printed labels (11%), synthetic labels (9%). Value not published.
- **Employees:** 2,400.
- **Factories:** five – Blumenau, Massaranduba and Criciúma (Santa Catarina State), Eusébio (Ceará State) and Covilhã (Portugal).
- **Exports:** 33 countries. Half of sales destined to US market, 25% to Europe, 20% to Latin America

izing in labels, passed to the control of Carl, their son, and made its first export sale in 1976, to Germany. In 1999, with the death of Carl, the group presidency passed to son-in-law Ricardo Lowndes.

In addition to the headquarters and the Portuguese subsidiary, Haco has factories in Criciúma and Massaranduba, both in Santa Catarina, and since 2000 a factory at Eusébio in the Northeast state of Ceará. This is the company's second largest installation, capable of producing two billion items per year, and is located close to the Port of Pecém, a plus factor for the company's international expansion plans.

## High technology

The company is betting on cutting-edge technology to keep on grow-



Production line in Blumenau: labels for top brands like Calvin Klein and Dior

She renamed the company as Haco, a name composed of the initials of her husband Heinrich who was opposed to the family staying in Brazil.

The couple directed the business until 1960 when Heinrich died. Haco, by then special-

ing. It installed its first computer controlled systems and electronic looms in 1980 and has not stopped since. The next technological leap will be popularization of a label that allows for identification via radio frequency. "This means for example that people would be automatically authorized to enter an event just by wearing a t-shirt with the badge, which has a micro chip built into it," said Alberto.

Another of Haco's secrets can be found at its thread processing plant at Massaranduba, 20 km from Blumenau, where the company has its own dyeing operation. This makes Haco the only major company in its sector in the world with the capacity to color its own raw material – competitors buy their threads ready dyed. "This means we can get exactly the color the client wants," said Alberto.

Another company differential lies in the fact that Haco does not just produce items to order. A team of 20 people including designers and stylists is available to help create new designs and to suggest possible alterations to items ordered by clients. The company also enhances its reputation by sticking rigidly to the punctuality requirement instilled by Johanna. "This is absolutely essential. Can you imagine a top brand production line grinding to a halt because of a lack of labels?" said Alberto. ■





César Cine, of Cinex: knowing when to advance; when to pull back

HANDOUT

## Foreign Clients? Only for Exports

After two frustrated attempts to set up a factory abroad, Cinex has decided to concentrate production at home

BY ARLETE LORINI, IN PORTO ALEGRE (RS)

Businessman César Cine has taken four important decisions in the last six years about the internationalization of Cinex, his company which makes aluminum and glass doors for furniture at its headquarters in Bento Gonçalves, in the mountainous Serra Gaucha region of Rio Grande do Sul State. Two decisions were bold: to open factories in the United States, in 2002, and in Mexico, in 2005. The other two were more painful: to close down these two foreign outposts in 2005 and 2007 respectively. "We lost money, but that's just the price of experience," said Cine.

The company will still seek foreign customers, mainly in South America, but from now on production will be concentrated in Brazil. Since the company was created in 1997, the

goal has been to boost exports to 20% of billings as a way of reducing operational risks. But last year foreign sales were just 4% of the company's total billings of R\$39.5 million.

Cinex's foreign adventures consumed investment of approximately US\$2 million. The first attempt, in the United States, came after two years of exportations to that country. It was a bid to be closer to clients and to reduce logistics cost. The experiment failed in part because of disagreements with the North American partner, and in part through immigration problems for employees following the September 11<sup>th</sup> terrorist attacks. Cine thought everything would be different when he switched the American factory and for a Mexican location. He chose the city of Saltillo, close to the U.S. border, and went ahead without any local partner.

The idea was to continue supplying the North American market, using the advantages of the NAFTA free trade pact and the lower production costs, principally lower labor cost. While the average salary of a Cinex worker in the United States was US\$2,400 per month, in Mexico it was just US\$400. "But the lower salary was just an illusion," said Cine. "The Mexican employees were irresponsible with no work ethic."

Despite being so close to the United States, the costs on the frontier could outweigh the advantages. "To reduce the costs of transportation you have to ship full containers, which is difficult for a small company with small scale production," said Cine. Using full containers his freight costs represented at most 10% of production cost, but when he was forced to use split containers, freight costs could be as high as 50%. The lower value of the dollar was a further complication for the foreign subsidiary, given that part of the raw materials were brought from Brazil. "We ended up being uncompetitive in the American market," he said.

Plans were for the Mexican factory to reach annual billings of US\$8 million, but it never exceeded US\$3 million. Amongst all the problems he faced operating abroad, Cine identified labor as the most challenging. "Before starting any international venture, you have to have the right person to manage the foreign operation," said Cine. "It's no good trying to administer something from afar." Cinex gave up the idea of manufacturing abroad just as the company in Brazil was experiencing a boom, growing 20% in 2008. "With civil construction growing so fast, the Brazilian domestic market was once again great for us," said Cine. ■

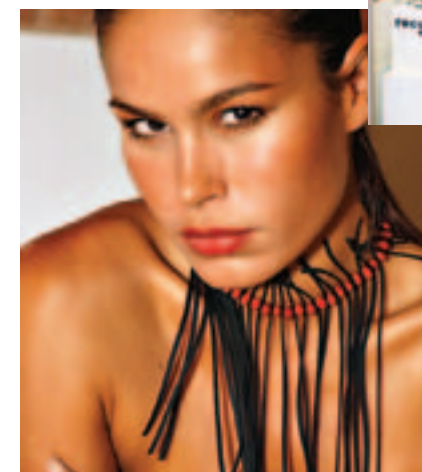
## Made in Cariri

*Caboclo, a Brazilian store in Barcelona, has transformed peasant sandals from the Northeast drylands into a sensation amongst Europeans*

BY ADRIANA SETTI, IN BARCELONA

The traditional leather peasant sandals of the Brazilian Northeast have made a long journey from Cariri, deep in the drylands of Ceará, to the pages of sophisticated Spanish editions of magazines such as *Elle* and *InStyle*. Entirely hand-made by a cooperative of craftsmen in Ceará, with a sole of recycled tire and rough leather, the sandals have become a sensation in Barcelona thanks to São Paulo businessman Juliano Lima. He's the owner of Caboclo, which is a retail store and wholesaler located in the heart of Barcelona's Gothic Quarter and dedicated exclusively to products made by poor communities in Brazil. Everything is produced in line with Fair Trade rules which favor family-scale production and ban practices such as the unreasonable exploitation of labor. "Working with this kind of product is more than just a trend, it's an obligation," Lima said.

The sandals are the most popular product for the super-hip shoppers at Caboclo. But the product has been slightly modified to sell in Europe. "It was necessary to cut the rubber in a more ergonomic form, improve the type of glue used and make a few improvements to the design, and it's successful," he said. Lima took an initial stock of 200 pairs of sandals to Caboclo in 2006, then in 2007 the volume rose to 700. And this summer, no less than 1,400 pairs were shipped from



Model Mireia is helping to promote traditional sandals from the Brazilian Northeast: €48 in Lima's Spanish store



Cariri. They sell in the Catalan capital for €48 and are exported to France, the United Kingdom and Germany. They're also going to Bulgaria, where Caboclo has just opened its first franchise in the resort of Varna, the Ibiza of Eastern Europe. "The Scandinavians are more aware of the importance of Fair Trade, and they fell in love with my sandals at first sight," Lima said.

The company doesn't exist just on esthetics. To start up Caboclo in 2005, Lima toured Brazil looking for products that were ecologically and politically correct that might find favor with Europeans. In Belém, a major city at the mouth of the Amazon, he found Ecojóias, a small company making jewelry from seeds and other recycled Amazon materials, but with sophisticated

designs. The ecological jewels are distributed throughout Europe and account for the majority of Caboclo's annual €110,000 billing, but that could soon grow. A new collection dubbed "Jungle Chic" (Selva Chic) was launched last September in Madrid at a splash party starring model Mireia Canalda, former girlfriend of Brazilian soccer legend Ronaldo. Designer was Brazilian Marzio Fiorini, known in Europe and the US as the "man of rubber" for his sculptural jewelry made – as the name would imply – from another of Brazil's Amazon riches. ■

PHOTOS: HANDOUT





Westin Palace, Madrid: a penthouse spa

## The Best Business Hotels

### FORBES MAGAZINE LOVES

making lists, not least its much-awaited “400 richest people in the world”. At the end of November, Forbes ranked the world’s best hotels for business travelers. One essential these days is a good workout room, and here two hotels came out top: The Peninsula, in Chicago, has a spa of almost 5,000 square meters, while the Westin Palace in Madrid has a penthouse fitness center with a view over the city. No Brazilian hotel made the list: [www.forbes.com/2008/11/17/hotels-travel-best-forbeslife-cx\\_pl\\_1117travel\\_slide\\_7.html?thisSpeed=30000](http://www.forbes.com/2008/11/17/hotels-travel-best-forbeslife-cx_pl_1117travel_slide_7.html?thisSpeed=30000)

PHOTOS: HANDOUT

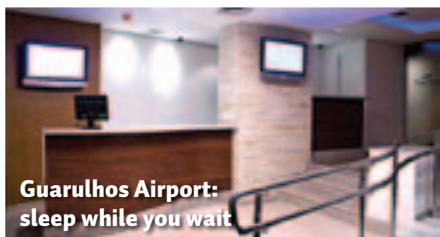


## Unclaimed Baggage

**FIRST-WORLD AIRLINE** companies lost 15.4 items of baggage for every 1,000 passengers in 2007, up almost 3% on the rate the year before. In 2006 a total of 30 million items went missing. The annual cost to the airlines is over US\$2.5 billion or US\$90 per wandering suitcase. Frequent travelers know the importance of having good identification on your bag, both inside and outside. At check-in, make sure your luggage label matches your destination, and if possible take direct flights: 10% of luggage is lost in connections.

## A Quick Nap

**NEXT TIME** you find yourself in São Paulo’s Guarulhos International Airport and facing a long flight delay, don’t despair: there’s a new “day hotel” on the ground floor of Terminal 2 (Zone C). The Fast Sleep offers comfortable rest cabins similar to a train. Basic cost for the minimum one hour period is R\$52.50, or R\$68.25 with a full private bathroom. Per additional hour the charge is R\$15.



Guarulhos Airport: sleep while you wait

## How to Survive a Terrorist Attack on Your Hotel

**WHILE THE CHANCES OF** being in an hotel that’s attacked by terrorists are pretty slight, maybe the same as winning the lottery, that’s what happened to travelers recently at the Mumbai Taj Hotel. At the end of November terrorists machine-gunned innocent guests in the lobby, corridors and rooms. A similar thing happened at the Marriot in Islamabad, Pakistan, last September when the hotel was destroyed by a truck bomb. Dozens were killed. Jeffrey Goldberg, a specialist writing in The Atlantic Magazine offers hints on how to survive in such a tragedy. Two tips: choose hotels which have already suffered a terrorist attack; and get a room between the 4th and 6th floors: you’ll be far enough from the lobby where the worst things normally happen, but low enough to climb down a fireman’s ladder. Check out all Goldberg’s tips: [http://jeffrey-goldberg.theatlantic.com/archives/2008/11/how\\_to\\_stay\\_alive\\_in\\_a\\_terrori.php](http://jeffrey-goldberg.theatlantic.com/archives/2008/11/how_to_stay_alive_in_a_terrori.php).



China via Frankfurt: shorter

AP / IMAGEPLUS

## Getting to China

**AIR CHINA** stopped flying direct from São Paulo (Guarulhos) to Beijing via Madrid shortly after the 2008 Olympic Games. However, there’s a Lufthansa/Air China flight from São Paulo to Beijing with a connection in Frankfurt. This is the quickest route, and takes only 24 hours.

## China Night Out

**IF YOU WANT TO** find out how the new capitalists of China get their fun, one good address is the Red Capital Club. A mixture of hotel, restaurant and bar, this occupies a luxurious traditional mansion with internal courtyards set in an old hutong (narrow alleyway) off Dongsi Jiutiao Avenue. Guests can smoke cigars in the cigar room, but perhaps the biggest surprise is the menu based on the favorites of Communist Party leaders from the 1950s and 60s. Reservations: [www.redcapitalclub.com.cn](http://www.redcapitalclub.com.cn)

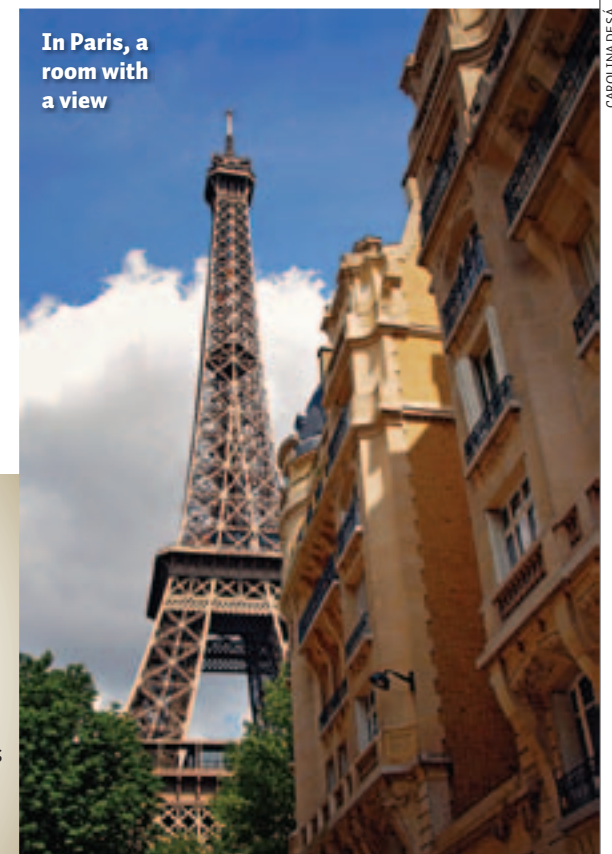
## Home Sweet Home

**IF YOU’RE STAYING** for any length of time, temporary apartments are often better than hotels: they cost less and offer comfort similar to home. In order to compete, the best temporary apartments in the world’s leading capitals now offer flat-screen TVs, broad-band internet and a kitchen stocked with good wine glasses. For temporary apartments in New York, Paris and Rome check out, respectively: [www.furnishedquarters.com](http://www.furnishedquarters.com), [www.monparis.fr](http://www.monparis.fr) and [www.romanreference.com](http://www.romanreference.com)

## Africa: Flying Dangerously

**FLYING IS BECOMING** ever safer, but not necessarily in Africa and some other regions. According to data from the International Airline Passengers Association (IAPA) the average of accidents involving airplanes built in Western nations, which carry 90% of global traffic, fell by half between 1996 and 2005, when there was one fatality per four million flights. In Africa, the accident rate is 100 times greater than in the United States. It’s not for nothing that the great majority of airlines on the European Union Transport Department blacklist are from Africa. Included on the list – and so banned from Europe skies – are the national companies of Indonesia (Garuda), Afghanistan (Ariana), North Korea (Air Koryo) and Angola (TAAG). Check out the full list: [http://ec.europa.eu/transport/air-ban/list\\_pt.htm](http://ec.europa.eu/transport/air-ban/list_pt.htm)

In Paris, a room with a view



CAROLINA DESA



## Buenos Aires Beyond Calle Florida

**DINNER AND A TANGO** show, shopping on the Calle Florida and Sunday morning at the San Telmo antique fair. Well, we all know Buenos Aires has much more to offer. If you have any time left after work, a few hours or days, here are some things worth checking out in the Argentine capital:

Buenos Aires:  
atmosphere is  
guaranteed



## Just a few hours...

**GRAB A CAB** and check out what's new in the traditional neighborhood of Palermo. Until the start of the 1990s people went to Palermo only for a car repair shop or to visit old relatives. Today Palermo is one of the liveliest and most interesting places in town, with boutique hotels, restaurants and the coolest stores. Focus on the six blocks within calles Gurruchaga, Costa Rica, Malábia and Gorriti. To find what interests you most, there's a map with all the shops and streets: [www.saberadondeir.com.ar](http://www.saberadondeir.com.ar). There's no time for lunch or dinner, but fit in a quick stop at La Cupertina (Cabrera, 5,300) where owner Cecília Hermann makes fabulous empanadas – half the size and double the flavor!

The empanadas  
at La Cupertina,  
in Palermo



Malba Museum: don't  
miss Tarsila's Abapuru

ANP PRESS / GRUPO KEYSTONE

## If you have a whole day...

**DON'T BE IN A HURRY**, because the best shops open after 11 and the museums not until midday. If you wake up early, take a stroll in the Botanical Gardens (next to the Zoo) which has specimens from all over the world and a small area delicately perfumed with aromatic herbs. Then go to the Latin American Art Museum (MALBA), between Recoleta and Palermo – and don't miss Tarsila do Amaral's enigmatic Abapuru at the top of the escalator. MALBA offers excellent architecture, an excellent collection and a wonderful example of private philanthropy, because the whole collection was given to the city by businessman Eduardo Con-

stantini. If you'd like to try what the Óleo Guide rates as the city's best meat, book a lunch table at the little La Cabrera restaurant. The atmosphere combines refined simplicity and a (false) lack of pretention, and the wines are excellent. Ten minutes by cab then gets you to the Patio Bulrich, the city's most fashionable shopping mall where you'll find absolutely everything, including the La Martina store with high-fashion polo and horse riding gear. A tiring day deserves a civilized rest in the gardens of the new Palácio Duhau – Park Hyatt Hotel, with an excellent espresso or afternoon tea, while you watch the early evening lights go on.

## If you have a weekend...

**IN ADDITION TO THE ABOVE**, prepare for two or three profound gastronomic experiences. In Puerto Madero, the Faena Hotel (also know as the Universo Hotel) is a post-modern cathedral shaped like an industrial warehouse, designed by architect Philippe Starck. It's a place to see and drink an aperitif – try the Mojito de Champagne. For dinner, book ahead of time at the Casa Cruz ([www.casa-cruz.com](http://www.casa-cruz.com)): a top-quality contemporary menu; an excellent national and international wine list; and a sensual, sophisticated and discrete atmosphere. It's the preferred choice for local executives and leading politicians. For something completely different try Nectarine, an excellent French restaurant: small, classic, elegant and intimate (+54-1-4813-6993). With the Teatro Colón still closed for a seemingly endless renovation, there are two other excellent cultural options: the hilarious musical El Fugor Argentino (yes, the Argentines do laugh at themselves!) every Saturday at 10 o'clock in the Catalinas Arena Theater ([www.catalinasur.com.ar](http://www.catalinasur.com.ar)). And the Ballet Argentino group, led by Julio Poka, especially if dancer Hernan Diquin will be performing (check the program at [www.juliobocca.com](http://www.juliobocca.com)).

Faena:  
champagne  
mojito

Casa Cruz:  
sensual





# Don't Be Afraid to Enjoy Yourself!

*How to enhance your personal life and further your career by using business trips to transform information into knowledge – and have a good time*

## MY PROFESSIONAL RESPONSIBILITIES

have for several years led me to travel abroad quite frequently, and I have noted that many executives seem to follow an unwritten rule which says that business trips must be as miserable as possible, and can't be productive for the company unless they involve nothing but hard work, stress and exhaustion.

Obviously the main objective of a business trip – to attend a sales convention, visit clients or whatever – is always the job. In this respect the professional must be mature enough to know what his company expects him to do, and when and how. Nevertheless, when work's over there's no law says you have to sit in front of your laptop with whatever room service can provide, or go to the same fast-food outlet beside the hotel. If you finish work on a Friday why not extend your stay – at your own cost, of course – in cities like Buenos Aires, New York, Lisbon or wherever, and turn a routine trip into an enriching experience.

Companies that are concerned about their skilled professionals have encouraged executives to broaden their horizons outside of their specific areas, for example into music, art, gastronomy and literature. But the fact remains that many people voluntarily impose upon themselves an absolute separation between work and pleasure, with no relaxation. You don't need much time for great experiences – visit a major museum, grab some minutes in an art gallery along the way, catch a good concert or simply walk around new places. It's personally having new experiences that helps transform information into knowledge.

I have my own guidelines to help make business trips more productive and entertaining:

- Always take a different route between the hotel and work;
- Take an interest in things you maybe just catch a glance of: new streets, a new building with interesting architecture, or attractive shop windows – these in particular offer a wealth of information for anyone in sales;
- Invite colleagues to escape from the hotel snack bar and have lunch in a nice place, or who knows have a sandwich in a pleasant park. The second half of your day will be more fruitful;
- Hotel fitness centers are normally pretty dreary places, so if there's time, opt instead for a walk or a jog in local streets or a park. Hotels normally have maps with suggested routes;
- Take advantage of the hotel concierge. He can normally give you great tips about interesting things in the city and in the immediate neighborhood of the hotel;
- Never forget to pick up a good guidebook for the city you're visiting. Everything you can learn about the place will help improve the quality of your trip and some moment will prove useful in your career. ■

Rui Porto is director of communications and media at São Paulo Alpargatas and a columnist for the Viagem & Turismo magazine.



Brazil was always famous for its natural beauties. Today it is also well-known for its aircraft exports.

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