

# BRAZIL

## Overview

Since the election of President Cardoso, Brazil is in the process of implementing a comprehensive, market-oriented reform program. President Cardoso has called massive changes to reform the public sector, privatize state-owned industry and eliminate barriers to increased foreign investment. The United States is one of Brazil's largest trading partners, accounting for 22% of Brazilian imports. Real growths have been in the 4-6% range during the mid-1990s. The development of economic reforms and a strengthening democratic form of government may provide a wide variety of commercial and defense-related opportunities for U.S. firms.

## Defense Industry Environment

Fiscal year 1995 military spending was budgeted at approximately \$4 billion, the largest in Latin America. Due to continued federal budget tightening, defense budgets will most likely remain level for the next several years.

Brazil has a diversified industry which produces a wide variety of defense equipment and supplies, ranging from small arms to aircraft. Since the zenith of Brazil's arms industry and arms exports in the mid-1980s, many Brazilian arms manufacturers have suffered extreme financial crises due to lack of domestic orders and changing international arms procurement patterns.

The following is a listing of key domestic Brazilian defense firms:

- *Embraer* -- recently privatized. Producer of civil aircraft and parts, military training aircraft (Tucano and Super Tucano), and jointly with an Italian aircraft manufacturer, produces the AMX, a subsonic attack fighter.
- *Industria de Material Belica do Brasil (Imbel)* -- Parastatal firm producing explosives, small arms, communication equipment, and munitions.
- *Companhia Brasileira de Cartuchos (CBC)* -- Private-sector munitions manufacturer.
- *Helicopteros do Brasil (Helibras)* -- Helicopters, components.
- *Forjas Taurus* -- Privately owned small arms manufacturer.
- *Rossi* -- Privately owned small arms manufacturer.
- *Avibras Industria Raaespacial, S.A.* -- Producer of rockets and launching systems, explosives, antenna systems, and aerospace engineering.
- *Engesa Engeherios Especializados* -- Producer of armored vehicles.

Foreign based defense firms active in Brazil include Northrop, Lockheed, Harris, Motorola, and Raytheon (U.S.); Vickers, Vosper-Thornycroft (U.K.); Signaal (Netherlands); Alenia (Italy); and Thomson and Aerospatiale (France). The U.S. Government is also active via foreign military sales.

## **Defense Opportunities**

There are opportunities for sales to Brazil military centers on replacing aging equipment and upgrading defensive weapons systems, such as new armored personnel carriers, aircraft, ASW upgrades, and command and control/intelligence systems. Trends include seeking excess defense article bargains for the next decade (or any reasonably priced equipment) to tide them over until their indigenous arms industry can be reestablished.

The following are known opportunities:

- F-5 aircraft avionics (upgrades)
- C-130 aircraft (spare parts)
- UH-1H helicopters (spare parts)
- Garcia class ships (upgrades, maintenance, and spare parts)
- SH-3D helicopters (upgrades, maintenance, and spare parts) plus purchase of same from U.S. Navy with new AQS-18V sonar
- Cargo helicopters
- Amphibious assault vehicles and related training
- Gas masks (direct commercial sales)
- Personal soldier equipment
- Communications equipment (upgrades)
- Onboard naval weapons systems
- Bridging equipment
- Well-drilling equipment
- Surface to air missile system for Niteroi-class frigates
- Main battle tanks
- Air-to-Air missiles
- Renovate aircraft carrier Minas Gerais
- Field hospitals
- Construction equipment

Brazilian military modernization plans include outfitting the Army with heavy/medium tanks, tube/howitzers, and training helicopters. The Air Force is considering procurement of a replacement fighter. The Navy plans to procure new weapons systems, including a surface to air missile system for its Niteroi-class frigates and new propulsion systems for its Corvette fleet.

## *Defense Plan*

Brazil's military has no Ministry of Defense. Each service has a Minister (four-star general officer) who reports directly to the President of Brazil. The military's basic priorities are increased pay/benefits which have fallen behind the civilian sector, and force modernization.

Training in Brazilian Navy/Marine Corps has an emphasis on helicopter-borne assault troops. Other priorities include electronic warfare and command and control systems integration, improved ASW capability at sea, and improved amphibious assault capability, especially helo-borne troops.

## **Defense Procurement Process**

Key ministries for procurement are the Army, Air Force, Navy, and Finance. Each service must compete with other ministries for a limited budget. Procurements are generally public and when open to international bidding, are announced by message to the appropriate embassy which makes further distribution.

Brazilian Government procurement policies apply to purchases by government entities and by parastatal companies. Government procurement regulations are contained in Law 8666 of August 1993, which establishes an open competitive process for major government procurements. Under Law 8666, price is the determining factor in selecting suppliers, and most government procurements are opened to international competition either through direct bidding, consortia, or through imports. International bidding is allowed for all procurements with related international development bank (e.g., World Bank) funding.

Government procurement of telecommunications equipment and information processing (informatics) equipment are exempted from the above. Special requirements were established in 1993 and early 1994 allowing locally manufactured telecommunications and informatics products to receive preferential treatment in government procurement, and to be eligible for tax and other fiscal benefits based on meeting local content and other requirements. Listed below are some points of contact within each service branch for additional procurement information.

## **Armed Forces**

### *Air Force*

Fax: 061-223-2592

Minister of Aeronautics  
General Mauro Jose Miranda Gandra  
Esplanada Dos Ministerios  
Bloco M  
70045-900 Brasilia, DF  
Tel: 061-223-3018

Aeronautics Secretary of Finance - SEFA  
General Joao Felipe Sampaio de Lacerda  
Junior  
Esplanada Dos Ministerios  
Bloco M  
70045-900 Brasilia, DF

Tel: 061-225-4318  
Fax: 061-31-1970

Aeronautics War Material Directorate  
General Jose Alfredo Sobreira De Sampiao  
Estrada Do Galeao 3300  
Ilha Do Governador  
21941-000 Rio De Janeiro, RJ  
Tel: 021-393-8280  
Fax: 021-393-8485

Aerospace Technical Center - CTA  
General Nelson De Souza Taveira  
Praca Marchal Eduardo Gomes  
50, Vila Das Acacaís  
12228-901 Sao Jose Dos Campos, Sp  
Tel: 0123-41-3400  
Fax: 0123-41-4033

#### *Navy*

Minister of the Navy  
Admiral Mauro Cesar Rodrigues Pereira  
Esplanada Dos Ministerios  
Bloco N  
70055-900 Brasilia, DF  
Tel: 061-312-1212  
Fax: 061-312-1041

Director of Naval Supply  
Vice Admiral Luiz Henrique Grimmer

Av. Brasil 10500 - Olaria  
21012-350 Rio De Janeiro, RJ  
Tel: 021-280-4218  
Fax: 021-562-1260

Naval Material Directorate  
Admiral Domingos Alfredo Silva  
Ilha Das Cobras - Ed. N. 26 Do  
AMRJ  
20091-000 Rio De Janeiro, RJ  
Tel: 021-233-6025  
Fax: 021-216-6710

#### *Army*

Minister of the Army  
General Zenildo Gonzaga Zoroastro De  
Lucena  
QG/EX, Bloco A, 4 Andar - SMU  
70630-001 Brasilia, DF  
Tel: 061-321-4747  
Fax: 061-223-7019

Director of War Material  
Gen. Dirceu Ribas Correa  
Smu, QG EX., Bloco C 2 Andar Pavimento  
70630-901 Brasilia, Dr  
Tel: 061-315-6554  
Fax: 061-315-5599

## **Diversification/Commercial Opportunities**

The large and increasingly diversified Brazilian economy provides a wide variety of commercial opportunities for U.S. firms. Described briefly are several industry sectors deemed "best prospects" for U.S. exporters.

### *Computers - Equipment and Software*

One of the areas offering the greatest potential for U.S. firms is in software distribution. For every one hundred software packages, there is only one distributor in Brazil. The greatest obstacle to profitability in this market is pirating. Some figures suggest that up to 80 percent of the software used in Brazil has been pirated. Software companies and private software

associations are combating this problem through the use of raids, advertising, and by offering fringe benefits to legal users, such as technical assistance. Software offering best sales prospects for U.S. exporters include LAN and Graphics Software.

The Brazilian market reserve policy, which restricted foreign participation in the computer industry, ended in October 1992. However, the Brazilian Government still offers incentives to the Brazilian computer industry. Market access is also limited by relatively high taxes and import duties for computers.

Most promising products include notebooks, subnotebooks, handhelds and palmtops, high-end micro computers, disk drives, monitors and printers.

### *Security and Safety Equipment*

There has been limited growth in sales of security and safety equipment in Brazil despite urgent concern for the protection of persons and property. Imports account for approximately 25 percent of the total market and U.S. suppliers enjoy a competitive edge due the quality associated with U.S. products. With growing market liberalization and increased awareness of the importance of security, especially within the corporate environment, good export opportunities exist. An aggressive local sales force is highly recommended.

Most promising subsectors are expected to be:

- Safety equipment
- Vehicles theft deterrent systems
- Alarm devices
- Industrial security systems

### *Aircraft & Parts*

In the past two years, the Brazilian market for aircraft and parts was affected by Brazil's economic recession. The major airline carriers are going through a critical time, as they are trying to stabilize their financial situations. Brazil depends heavily on air transportation to link the sparsely inhabited areas with the country's major economic centers. The United States is the largest exporter to Brazil of aircraft and parts, followed by France and the United Kingdom. Foreign aircraft/parts manufacturers have good medium-term market prospects in such subsectors as executive and general aviation aircraft, with an estimated market of US \$320.1 million and civilian helicopters with an estimated market of US \$265.2 million. (Note: These figures do not reflect the values of leased aircraft and parts.)

Brazil's aircraft manufacturer, Embraer, was slated for privatization in December 1994. Four auctions were scheduled but were called off for various reasons all stemming from lack of

Brazilian Government consensus on such issues as valuation of assets, and the Government's role in a privatized company. Nevertheless, Embraer privatization offers significant opportunities for foreign investment in a competitive producer.

### *Telecommunications*

The telecommunications market includes equipment, training and services. The Brazilian Government has several ongoing projects for the next six years for promising sub-sectors such as cellular, broadcasting, and public telephone networks. The government has made limited progress in opening the sector for private sector participation.

Purchases of telecommunications equipment and parts by government owned entities have traditionally been ruled by an entrenched "buy national" policy. These policies were recently formalized with the March 2, 1994, passage of Decree #1070, allowing a technology and price preference for Brazilian products purchased by government-controlled (i.e., 51 percent or more government owned) entities, which account for more than 90 percent of the total Brazilian telecommunications equipment market.

Opportunities are strongest in sectors such as cellular equipment (est. market: US \$520 million), telephone switching equipment (est. market US \$630 million), satellite communications equipment (est. market US \$240.1 million), broadcasting equipment (est. market US \$610.3 million), and value added services (est. market US \$210 million).

### *Electronics Industry Production and Test Equipment*

The Brazilian domestic market for electronics industry production and test equipment has suffered from the country's economic recession and lack of industrial incentives. Recently, the Brazilian Government issued legislation supporting local production of electronic production and test equipment. Steady growth can be expected as a result. Imports account for a over 80 percent of the market with U.S. suppliers holding approximately 60 percent of the total. Most promising subsectors are expected to be:

- SMT assembly machines
- Through-the-hole insertion machines
- Automatic dispensers

### *Medical Equipment and Supplies*

The Brazilian private health care system has experienced very limited growth during the past several years due to severely reduced government spending in this sector. U.S. suppliers can expect to increase modestly their market shares in the Brazilian medical equipment and supplies sector. They are followed closely by European and Japanese competitors. Asian suppliers can also expect to expand import share in selected segments, including disposables because of their attractive costs. Most promising subsectors are expected to be:

Medical imaging equipment  
Laboratory equipment  
Cardiological/cardiovascular equipment

### *Electronic Components*

Imports account for half of the Brazilian market in this sector with U.S. products maintaining an approximate 40 percent share. The market is expected to experience gradual growth in response to Brazilian Government incentives provided to national producers of electronic products. Steady evolution in this market however will be largely dependent on the success of the recently implemented Brazilian economic stabilization package which could well result in an overall improvement of Brazil's economy. Most promising subsectors are expected to be in the following areas:

Integrated Circuits  
Printed Circuit Boards

### *Machine Tools and Metalworking Equipment*

Domestic consumption of machine-tools in 1994 showed signs of recovery because of the increased production of automobiles from US \$1.4 million in 1993 to an estimated US \$1.8 million in 1994. The Brazilian Association of Automobile Manufacturers (ANFAVEA) forecasts that domestic production of automobiles will double by the end of the nineties. General Motors plans to invest in the construction of two new plants in 1995. Renault also plans to build a new production factory in 1995.

### *Satellite and Launch Services*

Brazil plans to put into orbit two successors to its locally developed and built SCD-1 data collection satellite which was launched by the U.S. company, Orbital Sciences, in 1993. Brazil's space research agency, INPE, will implement the program. Also, Brazil's Ministry of Communications and Telebras, the state telephone holding company, is in the early planning stages for a communications satellite network (ECO-8).

## **Brazilian Government Contacts**

Ronaldo Mota Sardenberg  
Secretary of Strategic Affairs  
Palacio Do Planalto  
70150-900 Brasilia, DF  
Tel: 061-221-1221  
Fax: 061-216-3447

Minister of Science and Technology  
Esplanada Dos Ministerios  
Bloco E - 4 Andar  
70067-900 Brasilia, DF  
Tel: 061-224-4364  
Fax: 061-225-7496

Jose Israel Vargas

Pedro Malan  
Minister of Finance  
Esplanada Dos Ministerios  
Bloco P  
70048-900 Brasilia, DF  
Tel: 061-321-3995  
Fax: 061-224-8970

Department of Civil Aviation - DAC  
General Mauro Jose Miranda Gandra  
Director  
Aeroporto Santos Dumodnt  
4 Andar  
20021-340 Rio de Janeiro, RJ  
Tel: 021-297-5322  
Fax: 021-220-0587

## **Doing Business in Brazil**

In practice, it is difficult for foreign service firms to operate in the public sector in Brazil unless work is performed in association with a local firm. To be considered Brazilian, a firm must have majority Brazilian capital participation and decision making authority, i.e., operational control. A Brazilian state enterprise is permitted to subcontract services to a foreign firm if domestic expertise is not available for the specific task. A foreign firm may only bid for government contracts to provide technical services when no qualified Brazilian firm exists.

In case of international bidding to supply goods and services or specific government projects, successful bidders are required to have local representation, i.e., legal presence, in Brazil. Since the open period for bidding is often as short as one month, it is highly advisable to have a permanent resident in Brazil able to act on tenders as soon as they are announced.

A U.S. supplier may find that including local purchases of Brazilian goods and services within its bid, or having significant subcontract (co-production) association with a Brazilian firm, will improve the chances for success. Similarly, a financing proposal that includes credit for purchase of local goods and services for the same project will be more attractive than one that ignores local business.

For more information, see the Brazil Country Commercial Guide, available from the U.S. Commerce Department Brazil desk at (202) 482-3871, and local Commerce Department District Offices.

## **U.S. Government Points of Contact**

Listed below are points of contact for U.S. firms interested in the Brazilian market.

U.S. Embassy :

Unit 3500  
APO AA 34030  
Tel 55/61-321-7272

Fax 55/61-225-9136

Commercial Attache (CS) - Americo Tadeu  
Military Liaison Office (MLO)/Security



Assistance Office) - Col. James Bjork  
Defense Attache - Col. Layton Dunbar

*Sao Paulo:*

American Consulate General  
Unit 3502  
APO AA 34030  
Tel 55/11-881-6511  
Fax 55/11-852-5154

U.S. Commercial Center  
Unit 3502  
APO AA 34030  
Tel 55/11-853-2011  
Fax 55/11-853-2744

*Rio de Janeiro:*

American Consulate General  
Unit 3501  
APO AA 34030  
Tel 55/21-292-7117  
Fax 55/21-240-9738

Commercial Officer - Dar Pribyl

## **Trade Associations**

Abimde - Brazilian Association of the  
Defense Materials Industry  
Rua Inajaroba, 32  
04511-040 Sao Paulo, Sp  
Tel: 55/11/822-5349  
Fax: 55/11/822-5349

State of Sao Paulo Federation of Industries  
Federacao Das Industrias Do  
Estado De Sao Paulo - Fiesp  
Av. Paulista 1313  
01311-923 Sao Paulo, Sp  
Tel: 55/11/251-3522  
Fax: 55/11/284-3971

State of Rio De Janeiro Federation of

Industries  
Federacao Das Industrias Do Estado Do Rio  
De Janeiro  
Av. Calogeras 15, 9 ANDAR  
20030-070 Rio De Janeiro, RJ  
Tel: 55/21/292-3939  
Fax: 55/21/262-6705

American Chamber of Commerce Sao Paulo  
Rua Alexandre Dumas 1976  
04717-004 Sao Paulo, Sp  
Tel: 55/11/246-9199  
Fax: 55/11/246-9080

American Chamber of Commerce Rio De  
Janeiro  
Praca Pio x 15, 5 Andar  
20040-020 Rio De Janeiro, RJ  
Tel: 55/21/203-2477  
Fax: 55/21/263-4477