

# **NORONHA ADVOGADOS GLOBAL LAWYERS**

São Paulo | Rio de Janeiro | Brasília | Curitiba | Recife | Belo Horizonte | Campo Grande



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## **OPPORTUNITIES AND LEGAL CHALLENGES FOR CHINESE INVESTMENTS IN BRAZIL**

**PROF. DR. DURVAL DE NORONHA GOYOS JR.**  
**PRESIDENT - NORONHA ADVOGADOS**  
**SHANGHAI JUSTICE BUREAU**

**OCTOBER 30, 2012.**

# POINTS OF PRESENTATION

1. **Brazil – Opportunities.**
2. **Brazil – Legal challenges.**
3. **Conclusion: Prospects for the Brazil/China Strategic Partnership.**

# Brazil - Opportunities



# Map of Brazil





# Strategic Advantages

**Arable land over  
20 millions  
hectars**



UKR



KZT



TUR



ARG



AUS



CAN



USA



IND



UK



NLD



PKT



IDN



BRA



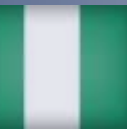
RUS



FRA



KOR



NIG



CHI



RUS



ITA

**Pop over 100 Million  
inhabitants**



BGL



MEX



JPN

**GDP,  
Population,  
Agriculture**



GER



UK



NLD



KOR



FRA



ITA



SPN

**GDP over  
US\$ 1 Trillion**

# Fundamentals

## Oil Production

- **2005 – 1.85 million barrels a day**
- **2006 – Brazil achieves self sufficiency in oil**
- **2007 – Discovery of Tupi oilfield with estimated 10 billion of barrels of oil. The discovery could double the Brazilian reserves.**
- **2008 – Discovery of Carioca oilfield with estimated 70 billion barrels of oil. Discovery puts Brazil's oil reserves among the world's largest <sup>1</sup>**
- **2010 – 2.1 million barrels a day**
- **2011 – 2.6 million barrels a day <sup>2</sup>**

Source:

<sup>1</sup>- Financial Times, July 8 2008

<sup>2</sup>- Petrobras, February 2011 estimate



# Fundamentals

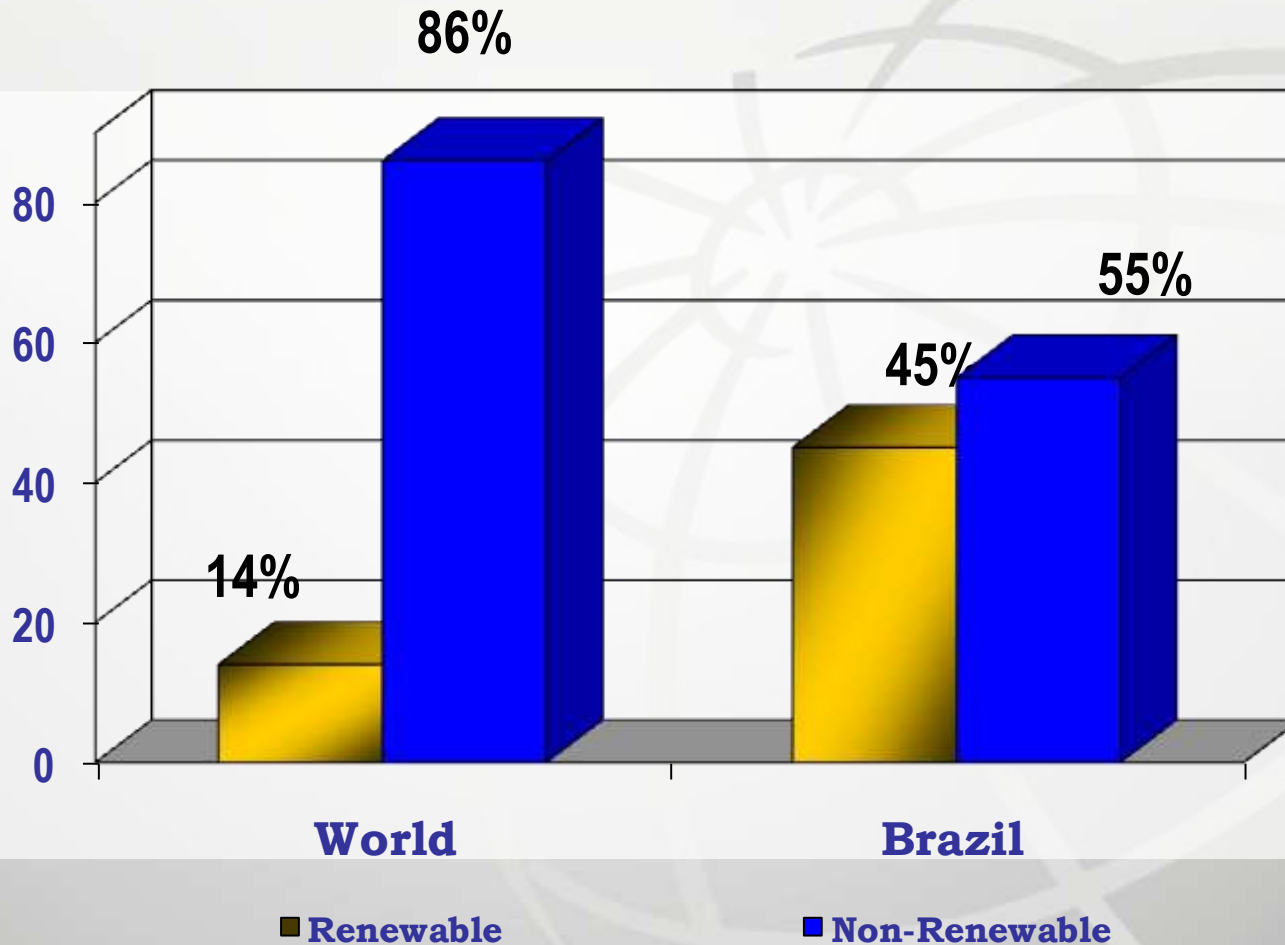
## Ethanol Production

- 27 billion liters/year (2009)
- 70 billion liters/year (2020)\* Estimate
- Increase in cultivated area by 67,000 hectares
- Creation of 20,000 direct jobs and 60,000 indirect jobs
- Investments in production chain estimated at around USD 1,5 billion for the next years
- CO<sup>2</sup> emission reduction by 3.5 million tons/year

Source: Sugar Cane Industry Union - UNICA

# Fundamentals

## Sources of Energy

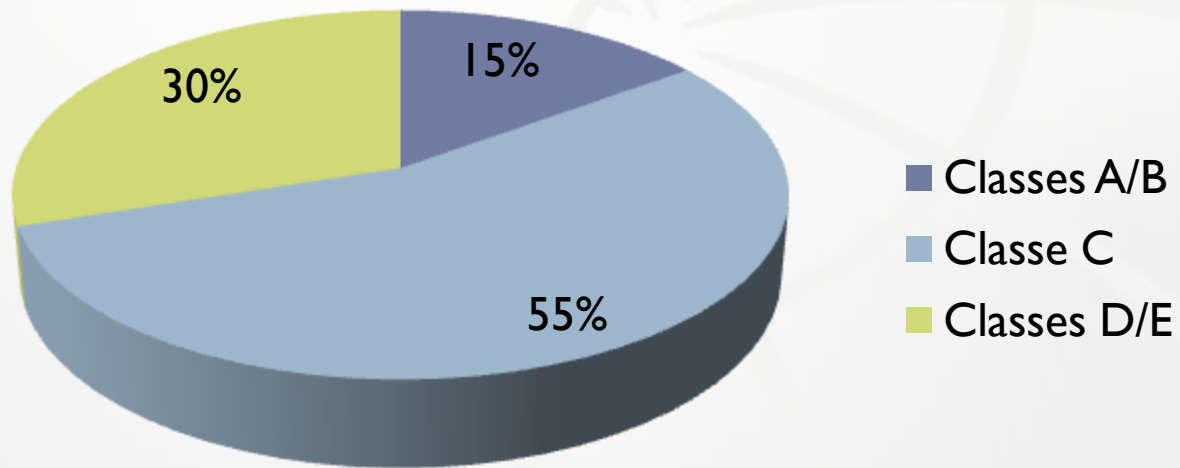


Source: Brazilian Ministry of Mines and Energy



# Brazil's Economy

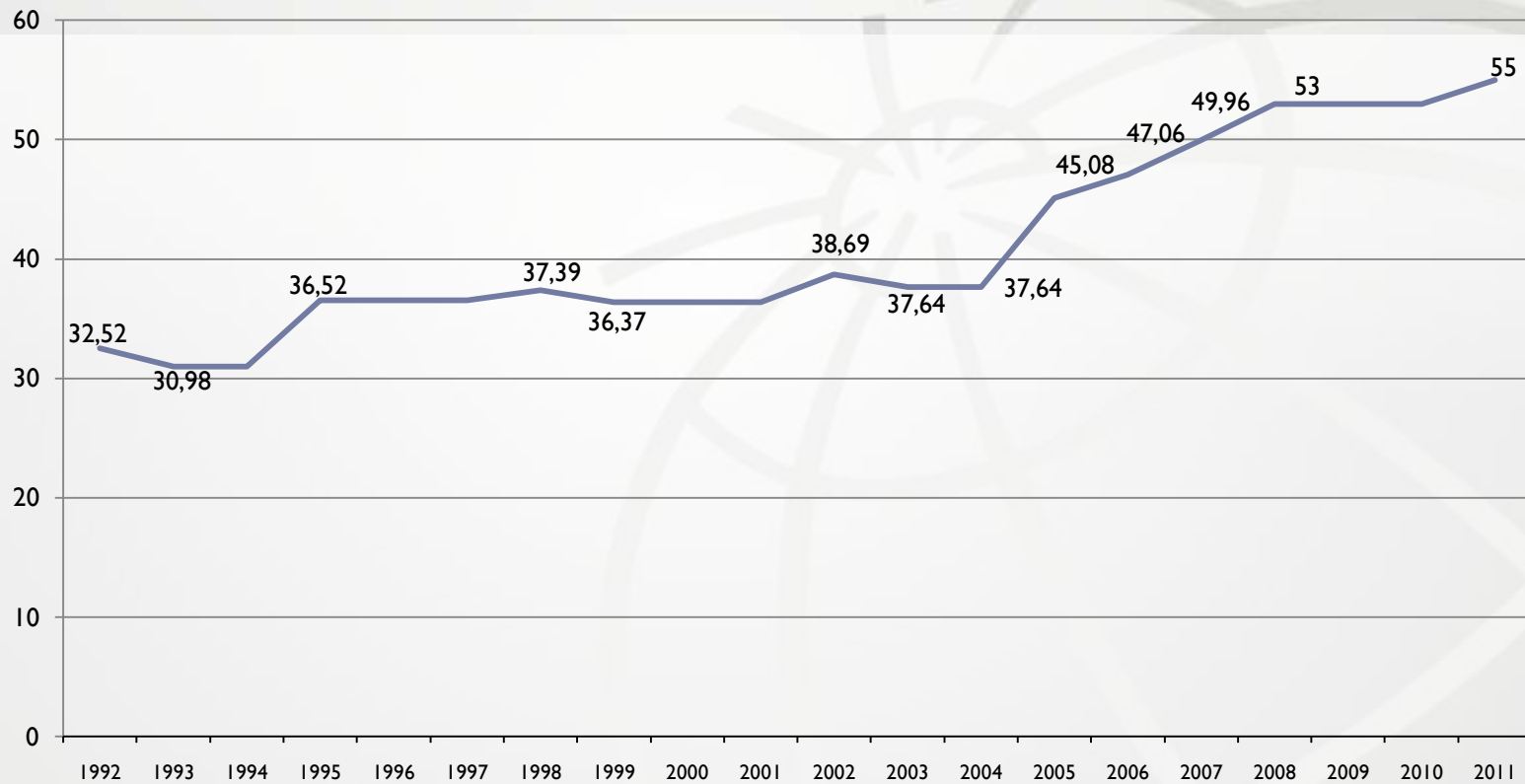
## Brazil's Social Development: Division by Classes in 2010



Source: FGV

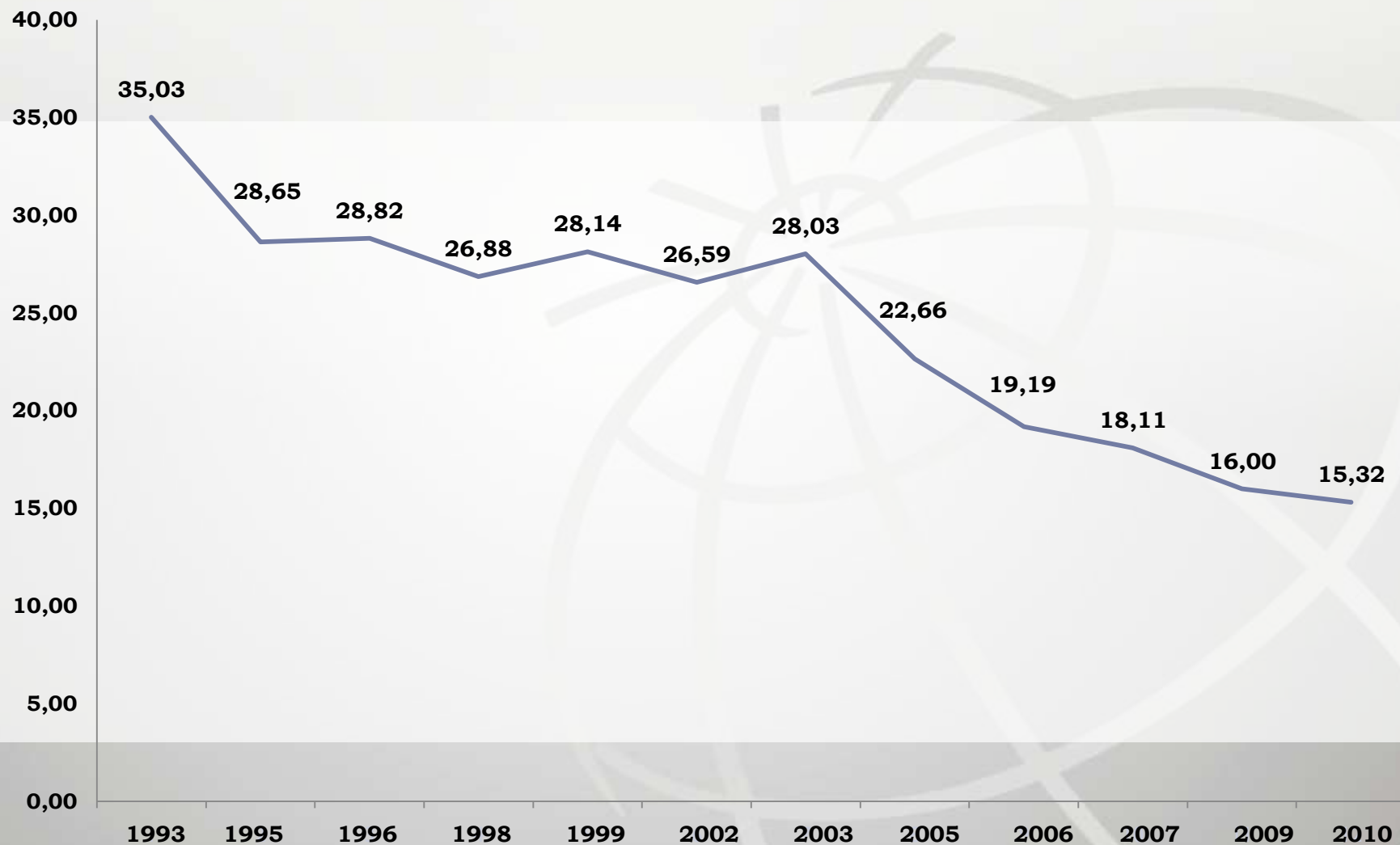
# Brazil's Economy

## Middle Class in % of the Brazilian Population – 1992/2011



# Brazil's Economy

## Poverty in % of the Brazilian Population – 1992/2010



Source: CPS/FGV

# Brazil's Economy

## Unemployment rate in Brazil



Source: Central Bank/Brazilian Institute of Geography and Statistics - IBGE

# Brazil's Economy

## Brazil's GDP in US\$

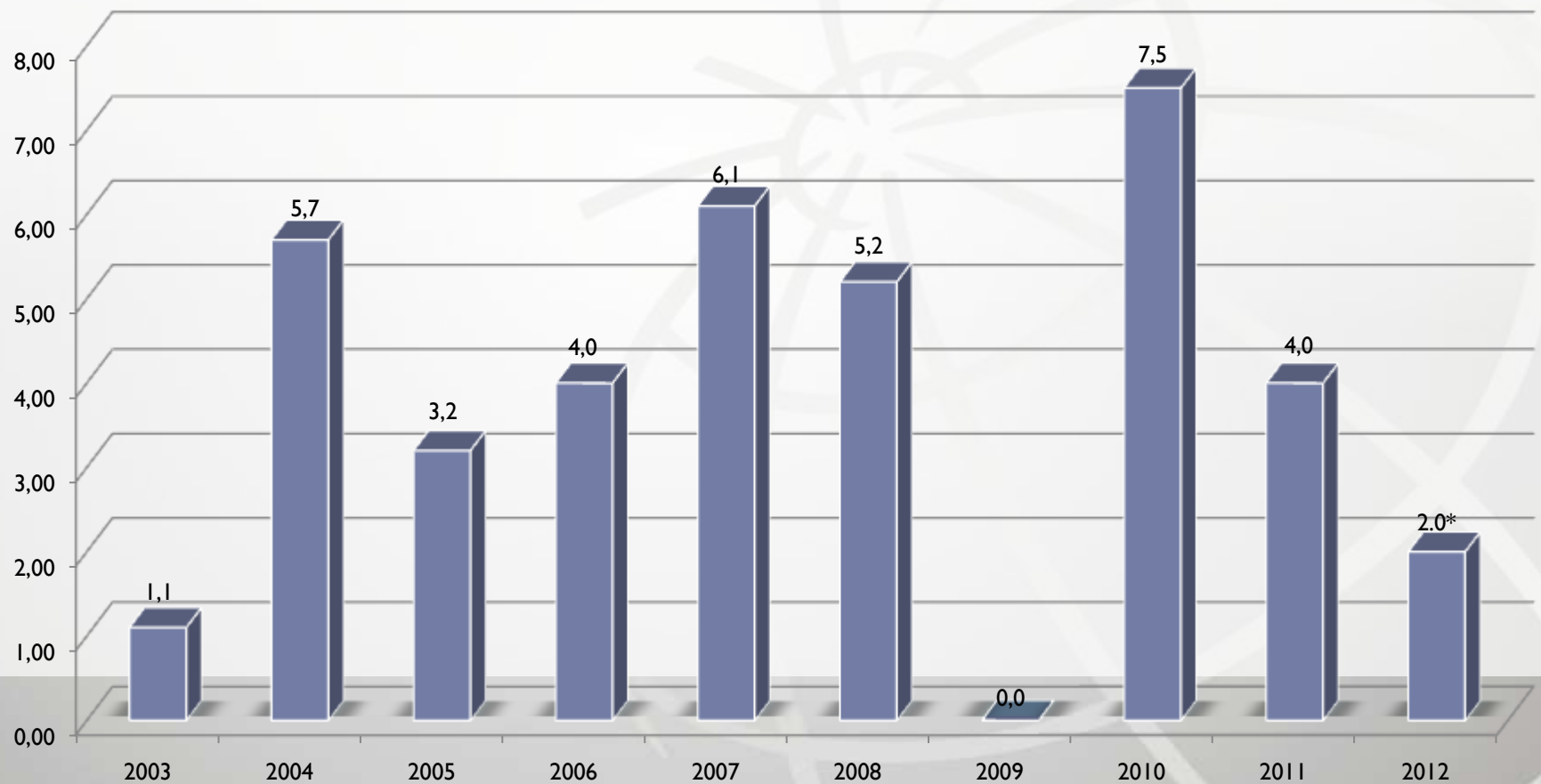
	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>GDP (Billion)</b>	<b>552</b>	<b>663.4</b>	<b>882</b>	<b>1,006</b>	<b>1,300</b>	<b>1,378</b>	<b>1,922</b>	<b>2,090</b>	<b>2,480</b>
<b>Population (Million)</b>	<b>178.9</b>	<b>181.5</b>	<b>185.5</b>	<b>186.7</b>	<b>188.9</b>	<b>190.0</b>	<b>193</b>	<b>195</b>	<b>196</b>
<b>GDP per capita (Thousand)</b>	<b>3,10</b>	<b>3,66</b>	<b>4,77</b>	<b>5,41</b>	<b>6,91</b>	<b>7,252</b>	<b>9,958</b>	<b>10,717</b>	<b>12,653</b>

Source: Brazilian Institute of Geography and Statistics – IBGE – World Bank



# Brazil's Economy

## Economic Growth % (GDP)



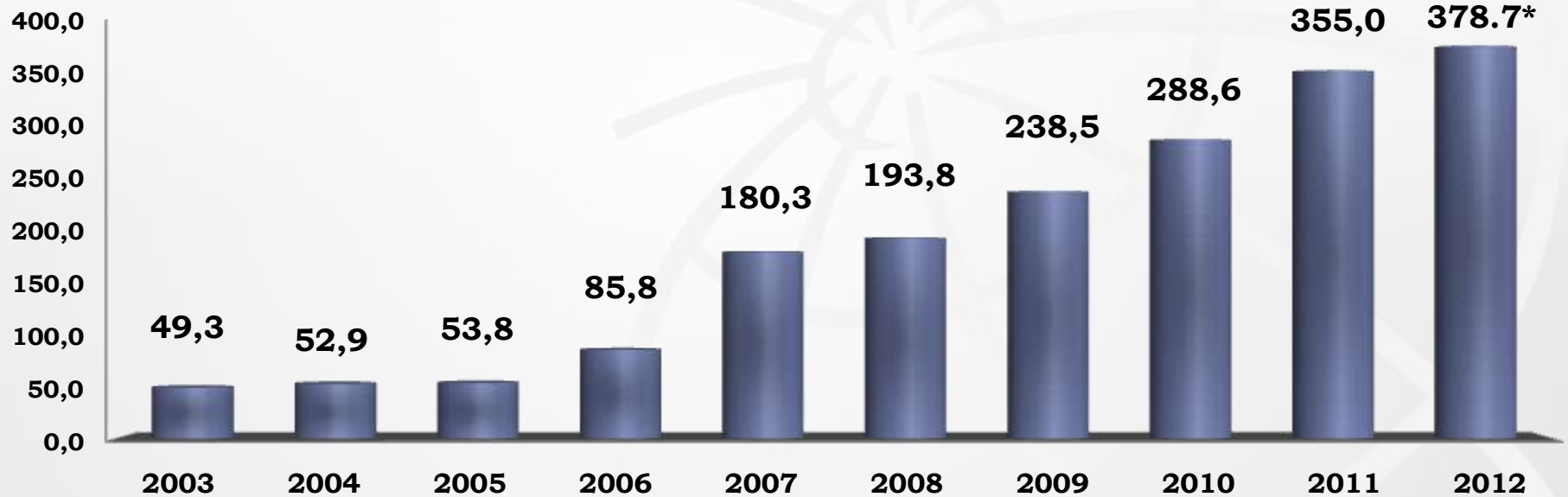
Source: Brazilian Institute of Geography and Statistics – IBGE/IEDI

\* Estimate

# Brazil's Economy

## Brazilian International Reserves

US\$ Billion

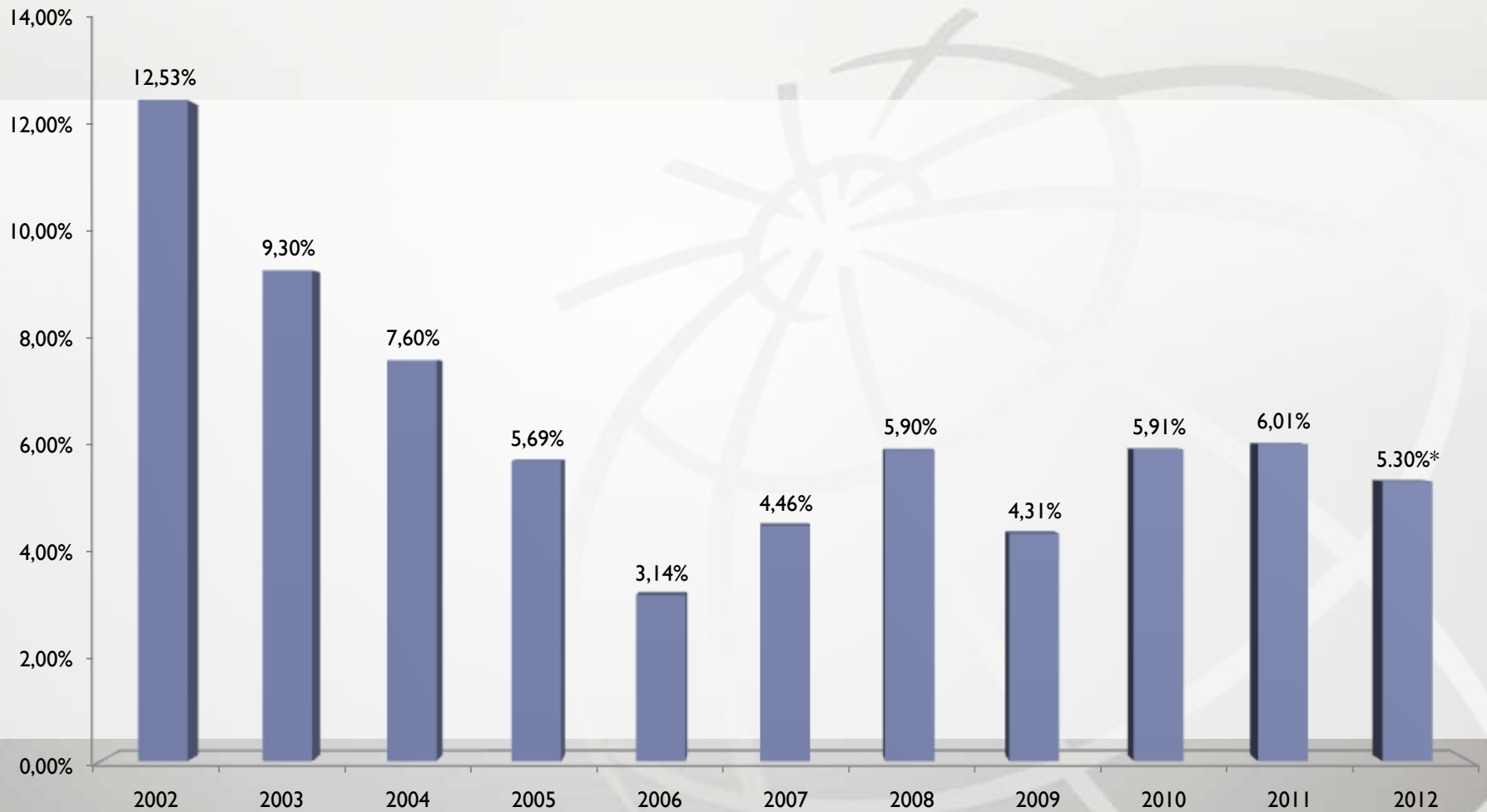


Source: Central Bank

\*September 2012

# Brazil's Economy

## Brazilian Inflation Rates

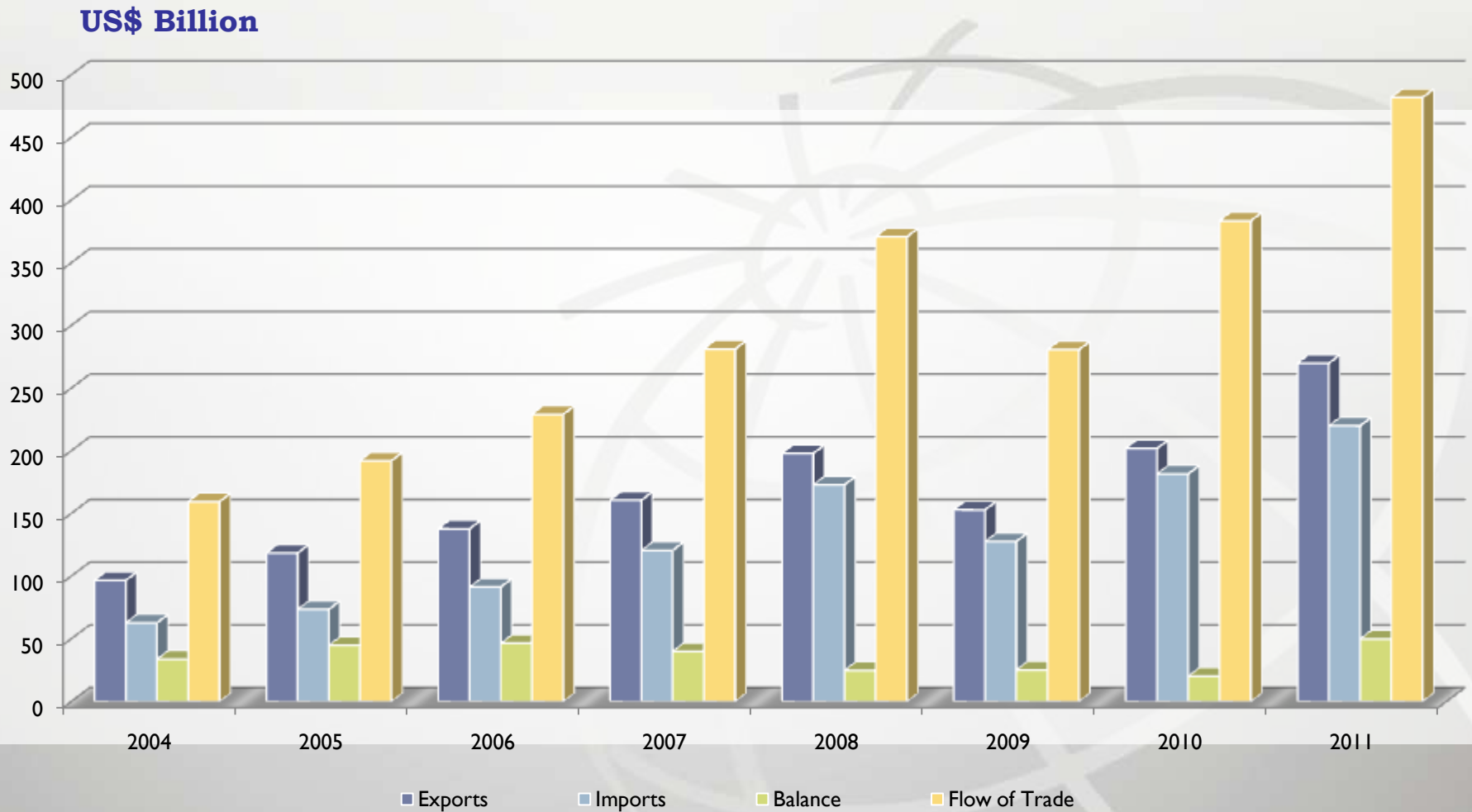


Source: Brazilian Institute of Geography and Statistics - IBGE

\*Estimate

# Foreign Trade

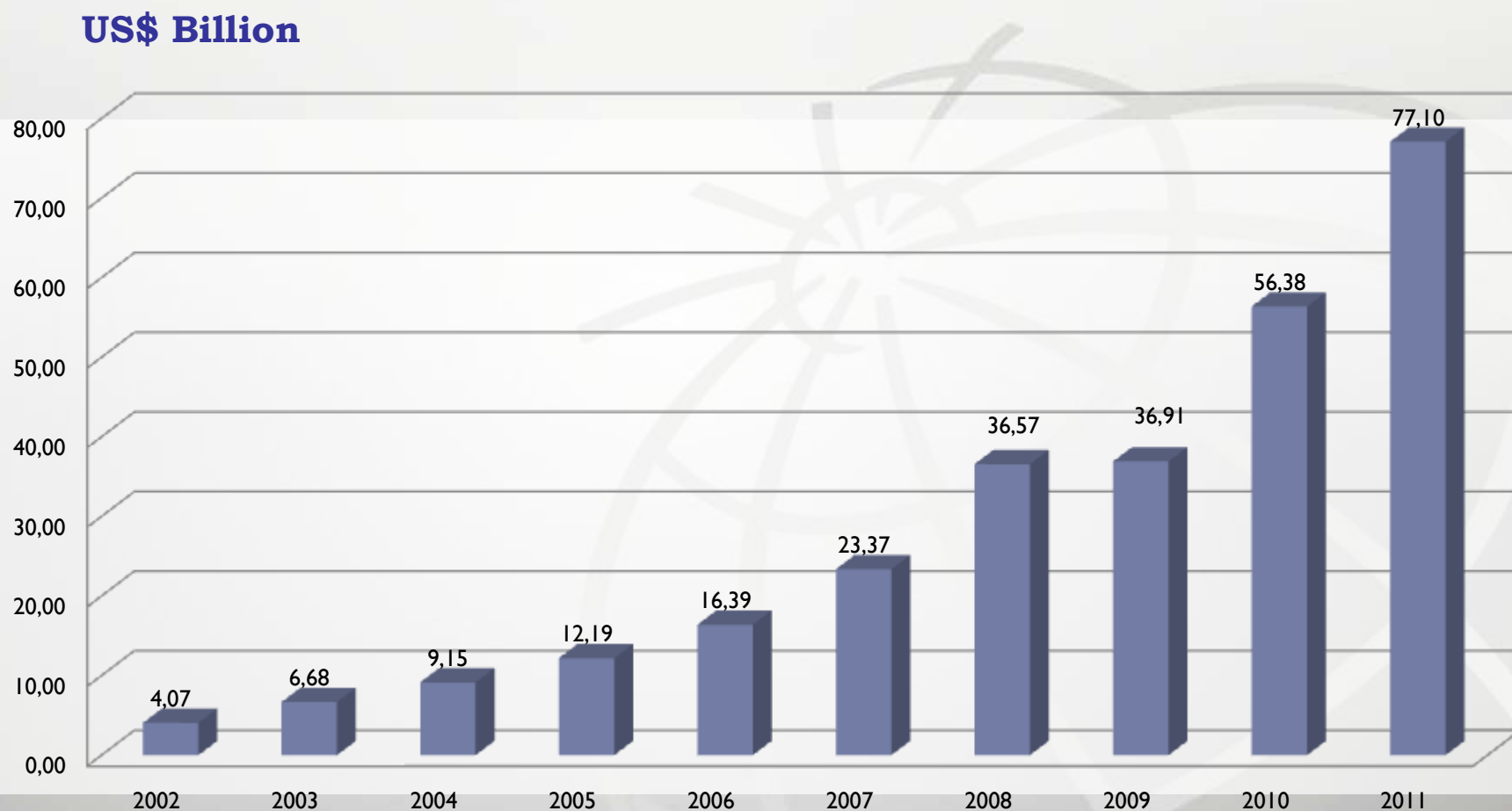
## Brazil's Balance of Trade



Source: Development, Industry and Trade Ministry - MDIC

# Bilateral Trade Brazil China

Current of Trade US\$



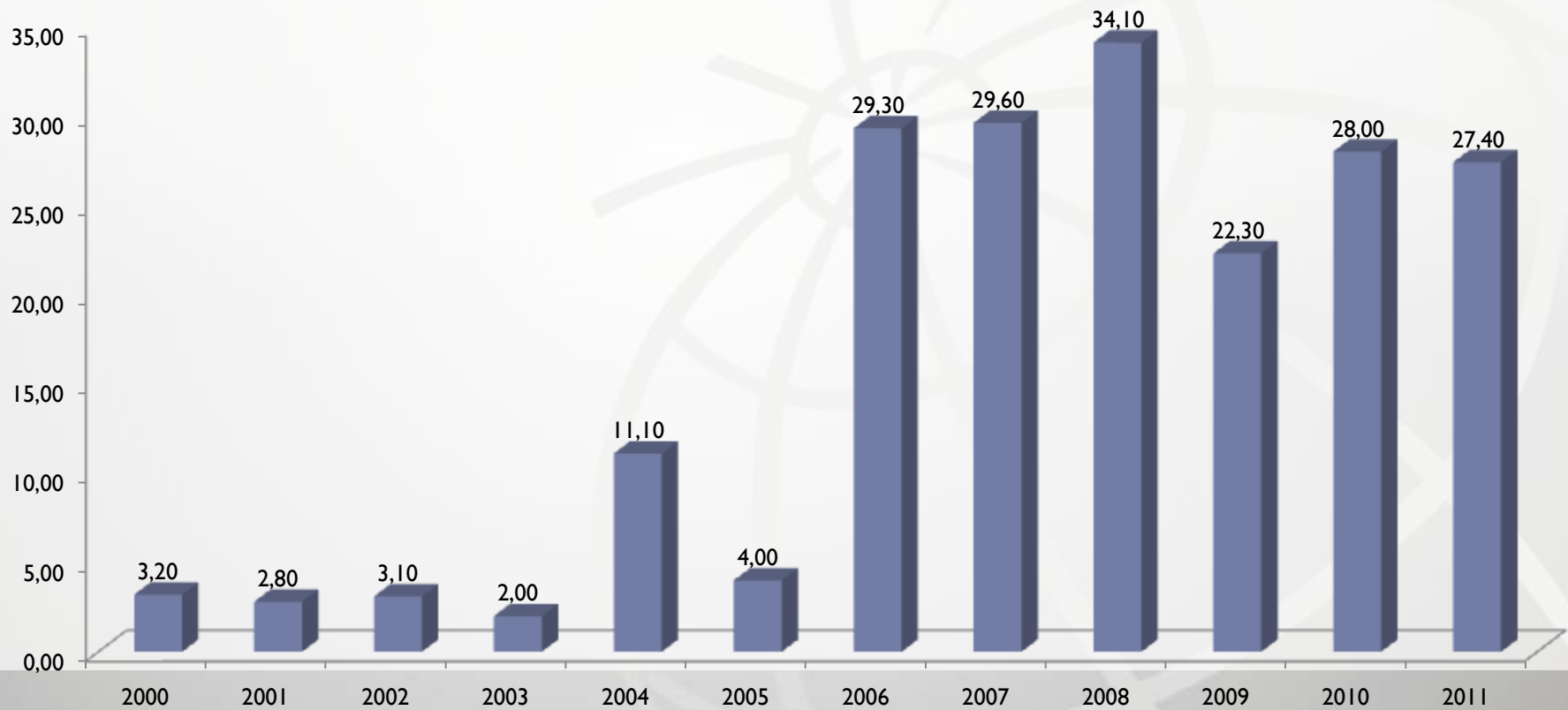
Source: Brazilian Secretary of Foreign Trade - SECEX



# Investment Flows - Brazil

## Foreign Direct Investment: Outbound

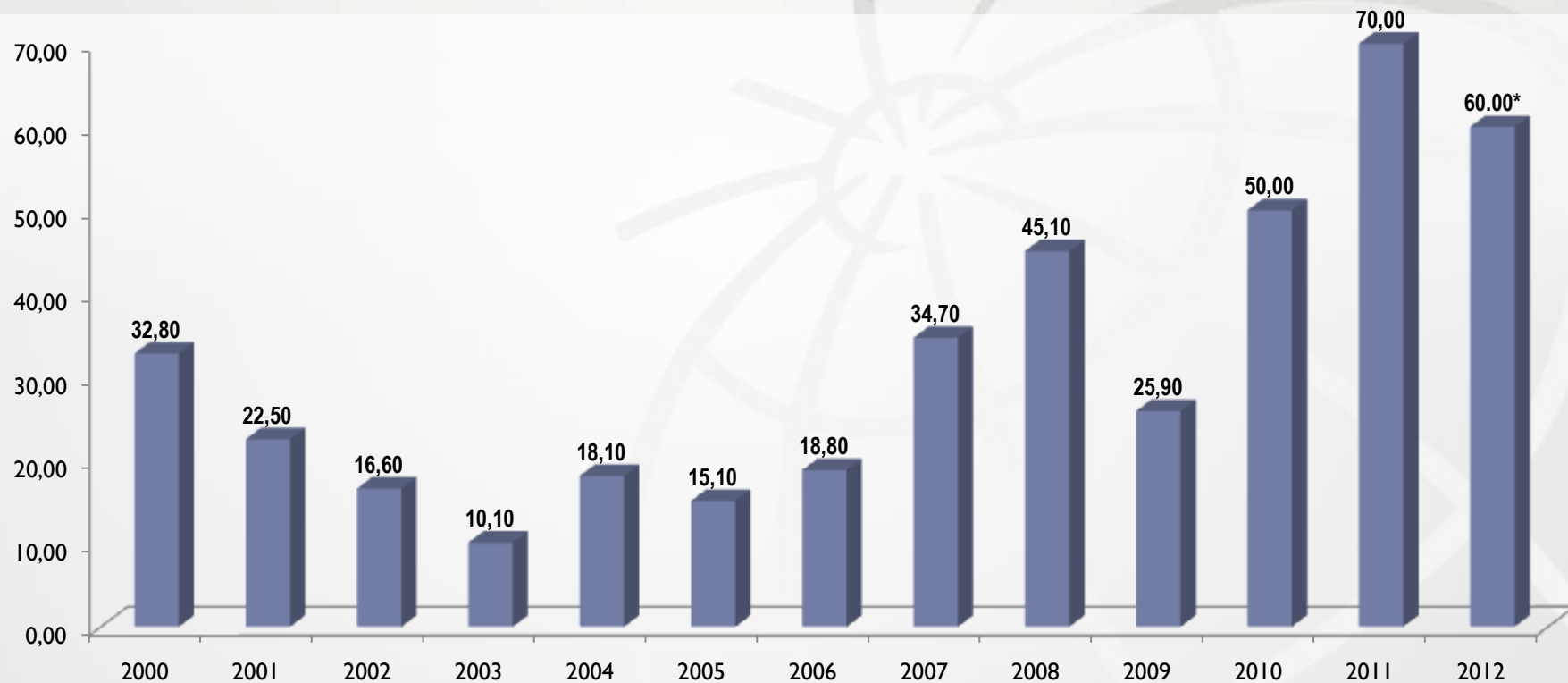
US\$ Billion



Source: Central Bank of Brazil

# Investment Flows - Brazil

## Foreign Direct Investment: Inflows



Source: Central Bank

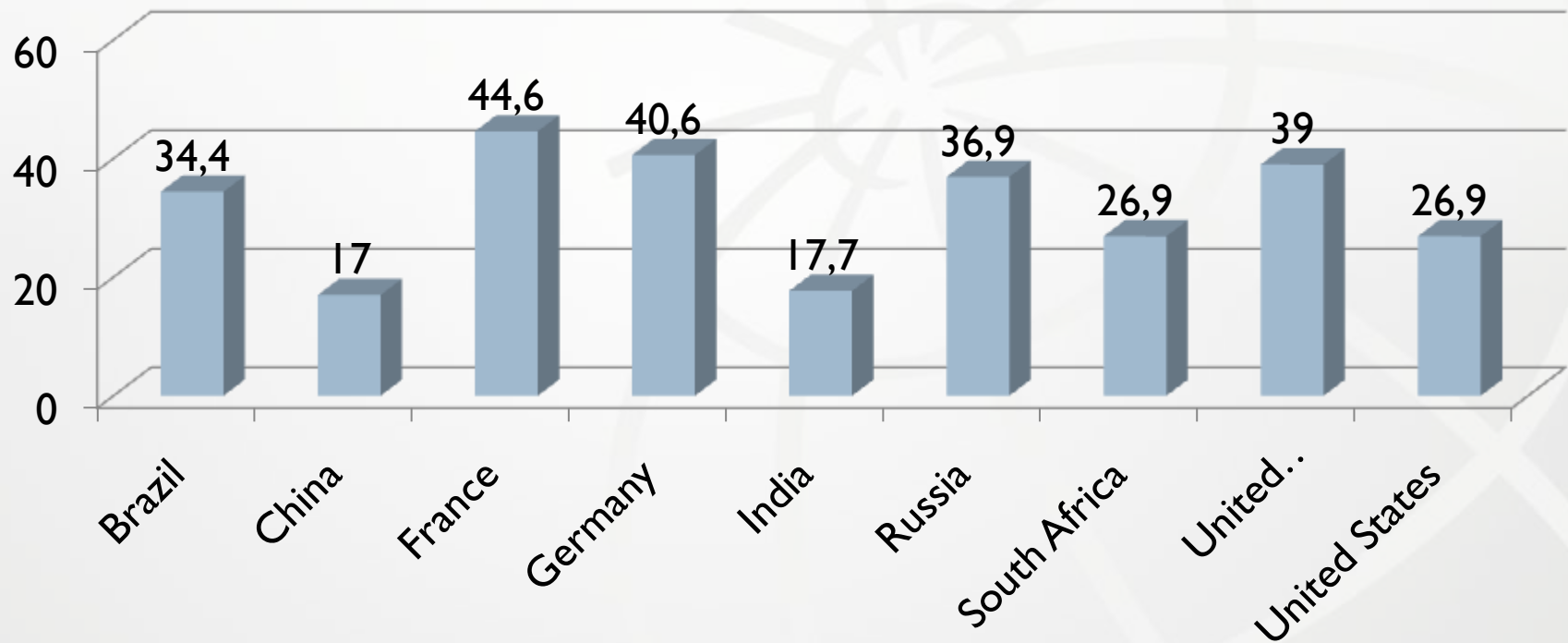
\*Central Bank estimate

# Brazil – Legal Challenges

- Taxes are not competitive;
- Interest rates are very high;
- Brazilian currency overvalued;
- Labour costs;
- Excessive bureaucracy; and
- Deficient Infrastructure.



# List of Countries by Tax Revenue as Percentage of GDP



Source: Heritage Foundation 2012

# Basic Taxes in Brazil

## A

- Income tax on corporate profits – 15% + 10% over R\$240,000;
- Social contribution on Net Profits – 9%;
- Effective tax rate on profits – 34%;



# Basic Taxes in Brazil

## B

- Capital Gains on FDI;
- Taxable at source – 15%;
- Tax havens – 25%;

# Basic Taxes in Brazil

C

- Withholding taxes
- Dividends - Zero;
- Interest – 15% or 25%
- Royalties – 15% or 25%
- Service payments – 25%

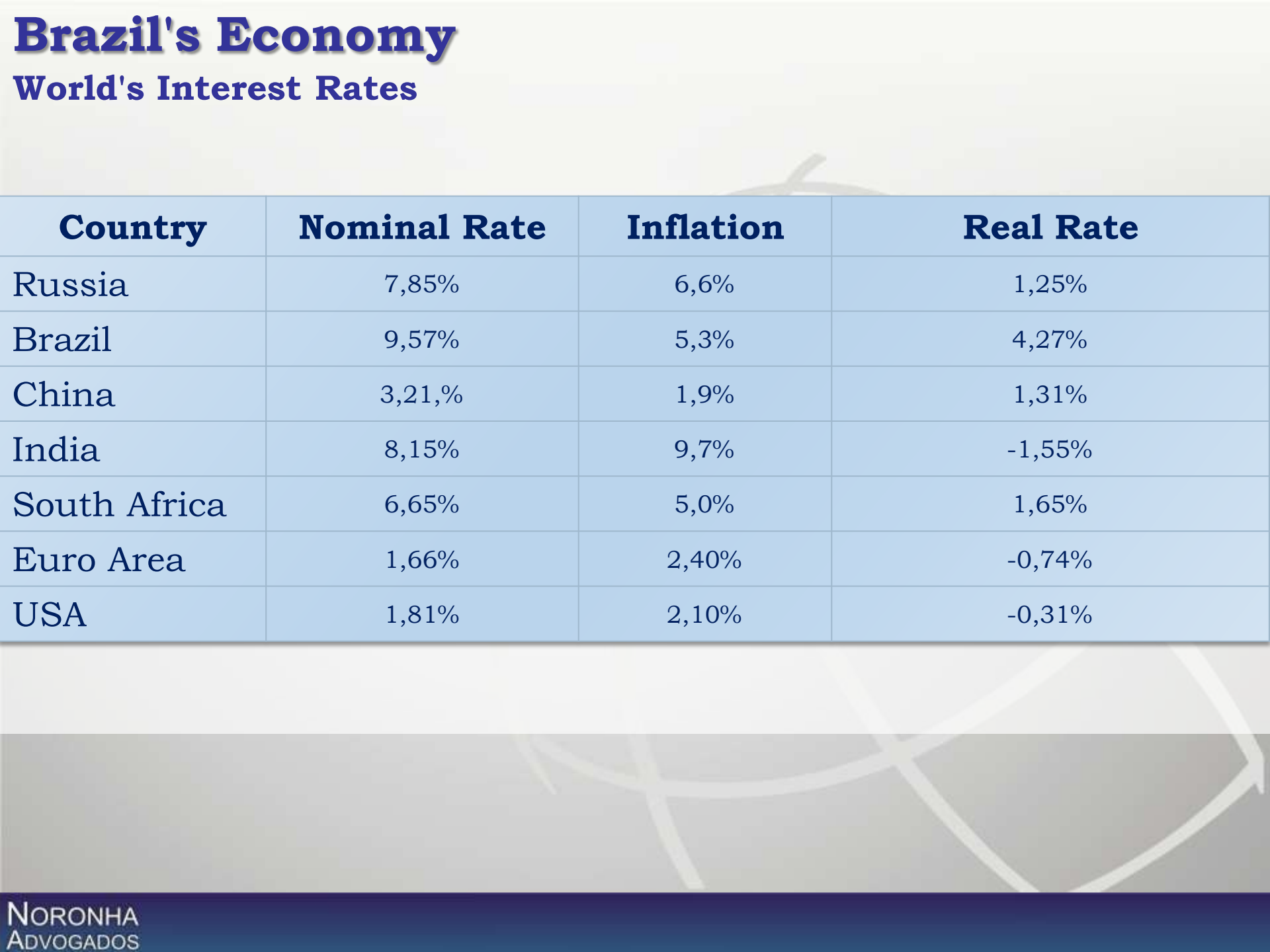
# Basic Taxes in Brazil

D

- Taxation on Revenue
- COFINS 7.6%

# Simulation re import taxes

- Product value (CIF) = USD 200,000.00 = R\$442.560,00 (US\$1.00 = R\$ 2,2128)
- Import Duty (14% over the CIF value) = R\$61.958,40
- Excise Tax(IPI – 10% over the CIF value plus the Import Duty) = R\$ 50.451,84
- ICMS (18% over CIF value plus Import Duty and IPI using the Inside Calculation Method) = R\$121.822,73
- PIS (1,65%) = R\$ 10.261,50\*
- COFINS (7,6%) = R\$ 47.265,11\*
- AFRMM (25%) over the overseas freight (R\$20.000,00) = R\$ 5.000,00
- Total Tax Burden = R\$ 296.759,58



# Brazil's Economy

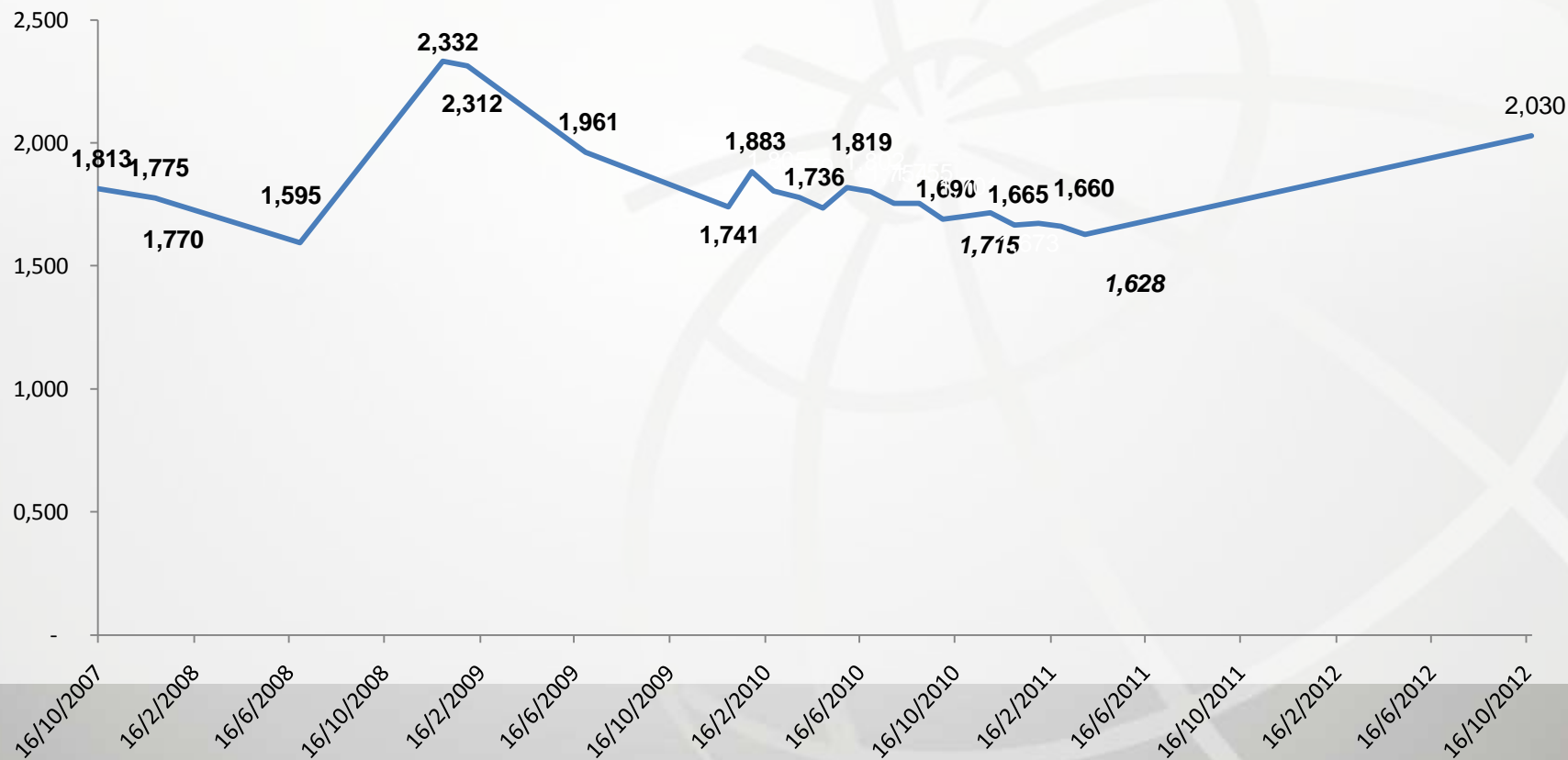
## World's Interest Rates

Country	Nominal Rate	Inflation	Real Rate
Russia	7,85%	6,6%	1,25%
Brazil	9,57%	5,3%	4,27%
China	3,21,%	1,9%	1,31%
India	8,15%	9,7%	-1,55%
South Africa	6,65%	5,0%	1,65%
Euro Area	1,66%	2,40%	-0,74%
USA	1,81%	2,10%	-0,31%



# Brazil's Economy

## Exchange Rates of the Real Against the US Dollar



# Bureaucracy – Company Formation in Brazil

## Previous requirements

- Two shareholders for the company;
- A power of Attorney to a resident in Brazil;
- Manager resident in Brazil;
- Company's registered address; and
- Registration of foreign shareholders with the Brazilian internal revenue service.

Source: Noronha Advogados

# Bureaucracy – Company Formation in Brazil

## Incorporation and subsequent filings

- Execution of Articles of Incorporation;
- Registration of Articles before the Board of Trade;
- Enrollment of Company with the Federal Taxpayers registry;
- Enrollment of Company with the Municipal Taxpayers registry;
- Enrollment of Company with the State Taxpayers registry;
- Special enrollments such as Securities and Exchange Commission, Engineering Council, etc; and
- Adequate capitalization – R\$ 600.000,00 per visa

Source: Noronha Advogados

# Conclusion

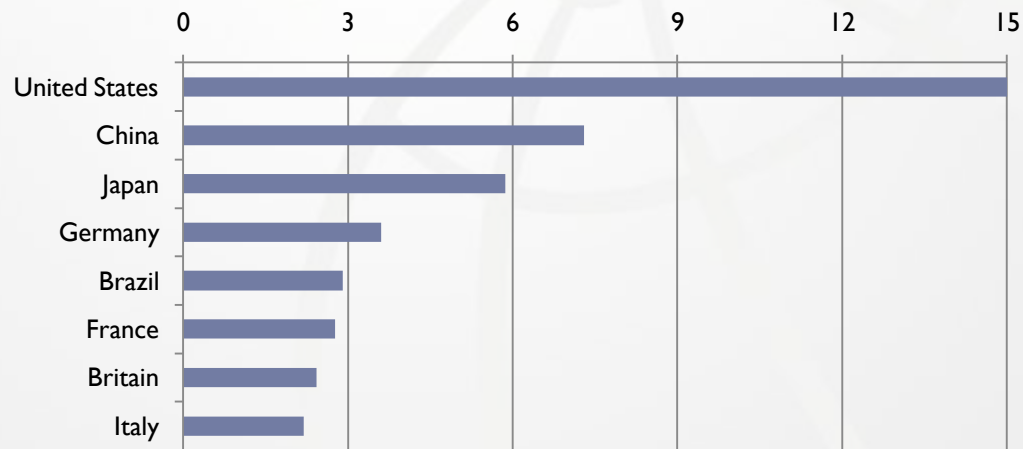
## 3. Prospects for the Brazil – China Strategic Partnership in 2013



# Brazil's Economy

## Biggest Economies - Projected 2012 - GDP US\$ Trillion

**Brazil rising**  
**Biggest economies, 2012 GDP**  
**Strn at average exchange rates**



# Prospects for the Brazil China Strategic Partnership in 2013

- Brazil and China will enter 2013 as two of the five largest economies in the world;
- Brazil and China will cooperate very closely in international fora;
- China will maintain its position of Brazil's largest trade partner in the world;
- China will maintain its position of Brazil's largest investor in the world;
- Brazil will remain the main destination of Chinese investments in Latin America;
- Brazil will remain China's main trade partner in Latin America;
- Brazilian investments in China will increase substantially;
- Brazil and China will continue to work together, for global peace, international justice and generalized prosperity of all nations.



# NORONHA ADVOGADOS







**Durval de Noronha Goyos Jr.**

[dng@noronhaadvogados.com.br](mailto:dng@noronhaadvogados.com.br)

[www.noronhaadvogados.com.br](http://www.noronhaadvogados.com.br)