



Executive Summary

Brazil is open to and encourages foreign direct investment (FDI). According to the United Nations Conference on Trade and Development (UNCTAD), Brazil was the sixth largest destination for global FDI flows in 2013. New FDI into Brazil reached approximately USD 64 billion in 2013 and Brazil typically receives close to half of South America's total incoming FDI. The United States is a major foreign investor in Brazil; according to the Central Bank of Brazil, the United States had the highest stock of FDI in Brazil as of 2010, with \$104 billion. While Brazil is generally considered a friendly environment for foreign investment, complex tax, local content, and regulatory requirements exist. In most cases, these impediments apply without discrimination to both foreign and domestic firms. The Government of Brazil (GOB) generally makes no distinction between foreign and national capital in cases of direct investment.

The Brazilian economy disappointed in 2013 with a meager 2.3 percent GDP growth, and market participants surveyed by the Central Bank of Brazil expect just 1.7 percent in 2014. Medium- and long-term prospects remain favorable, however, supported by strong domestic demand, global demand for commodity exports, a growing middle class, anticipated investments in infrastructure and development of offshore oil reserves, and prudent macroeconomic policies.

1. Openness To, and Restrictions Upon, Foreign Investment

FDI is prevalent across Brazil's economy, although certain sectors are subject to foreign ownership limitations. A 1995 constitutional amendment terminated the distinction between foreign and local capital in general, but there are laws that restrict foreign ownership within some sectors, notably aviation, insurance, and media.

Aviation: The Government of Brazil currently restricts foreign investment in domestic airline companies to a maximum of 20 percent. A bill in the Chamber of Deputies (PL6716) that would increase the ceiling to 49 percent has been pending since 2009.

On March 19, 2011, representatives from the U.S. and Brazilian governments signed an Air Transport Agreement that will lead to an Open Skies relationship between the United States and Brazil, eliminating numerical limits on passenger and cargo flights between the two countries. If it is approved by Brazil's Congress, the agreement will take effect in October 2015. Both parties also signed a Memorandum of Consultation (MOC) that incrementally increases flight limits in the meantime. For example, in October 2013, the maximum number of weekly passenger flights was increased by 42 flight frequencies for Brazilian airlines and 42 for U.S. airlines, including 14 frequencies that can be used in the São Paulo metropolitan area. At the same time, the maximum number of cargo flights allowed rose by 14 per week for each country's airlines. Additional increases will take effect in October 2014.

Insurance: U.S. companies wanting to enter Brazil's insurance and reinsurance market must establish a subsidiary, enter into a joint venture, or acquire or partner with a local company.

Market entry for banks may occur on a case-by-case basis. The Brazilian reinsurance market was opened to competition in 2007. In December 2010 and March 2011, however, the Brazilian National Council on Private Insurance (CNSP) effectively rolled back market liberalization through the issuance of Resolutions 225 and 232, which disproportionately affect foreign insurers operating in the Brazilian market. Resolution 225 requires that 40 percent of all reinsurance risk be placed with Brazilian companies. Resolution 232 allows insurance companies to place only 20 percent of risk with affiliated reinsurance companies. In December 2011, the CNSP issued Resolution 241, which walked back some of the restrictions of Resolution 225 by allowing the 40 percent requirement to be waived if local reinsurance capacity does not exist.

Media: In September 2011, President Rousseff signed into force a law covering the subscription television market, including satellite and cable TV that will remove the previous 49 percent limit on foreign ownership of cable TV companies. Under the law, telecom companies will be allowed to offer television packages with their service. Content quotas will require every channel to air at least three and a half hours per week of Brazilian programming during primetime. Additionally, one-third of all channels included in any TV package will have to be Brazilian. In order to gauge public opinion regarding the telecom sector before proposing revisions to existing regulations, the Brazilian Telecommunications Agency (ANATEL) organized public consultations in February 2013. It was anticipated that revisions to regulations would be enacted in 2013, but no changes were made. While the results of these consultations are being considered, the previously existing law still prevails.

Foreign investment restrictions remain in a limited number of other sectors, including highway freight (20 percent) and mining of radioactive ore. Foreign ownership of land within 150 km of national borders remains prohibited unless approved by Brazil's National Security Council. In October 2009, the Chamber of Deputies approved legislation that would further restrict foreign ownership of land along Brazil's borders and within the Amazon. The proposed legislation (PL 4440/2001) still requires passage by the Brazilian Senate, followed by presidential approval before it can become law. The Senate has not yet brought the bill up for a vote.

On August 23, 2013, the National Land Reform and Settlement Institute (INCRA) published a set of new rules covering the purchase of Brazilian land by foreigners. These rules follow an August 2010 Attorney General's opinion that similarly limited foreign agricultural land ownership. Under the new rules, the area bought or leased by foreigners cannot account for more than 25 percent of the overall area in any municipal district. Additionally, no more than 10 percent of the land in any given municipal district may be owned or leased by foreign nationals from the same country. The rules also make it necessary to obtain congressional approval before large plots of land can be purchased by foreigners, foreign companies, or Brazilian companies with the majority of shareholders from foreign countries. There are several proposed bills -- PL 2289/2007, PL 2376/2007, PL 3483/2008, PL 4240/2008 and PL 4059/2012 -- pending in the Brazilian Congress which would clarify the process for foreigners who want to purchase land.

In the state of São Paulo, due to a judicial impasse, foreigners have been able to buy unrestricted amounts of land since the end of 2013. Companies controlled by foreign entities have been taking advantage of the opportunity and have been seeking investment properties.

Infrastructure Concessions: Brazil has begun an ambitious USD 240 billion Logistics Investment Program (PIL) to draw in private capital and managerial expertise to upgrade the nation’s infrastructure, including projects in roads, ports, airports, energy, and urban mobility. All of the infrastructure concessions are open to foreign companies. In fact, in the airport concessions, foreign companies have not only been encouraged to bid, but the auction criteria have been defined in a way that has the effect of requiring the participation of foreign airport operators. The bidding process is non-discriminatory, transparent, and performed without political interference.

Domestic Investment Goals: In addition to the PIL mentioned above, between January 2011 and December 2013, the government’s Program to Accelerate Growth (PAC) disbursed R\$773 billion to fund transportation, energy, housing, and sanitation projects, representing 76.1 percent of total spending projected by the end of 2014. Under the program, an estimated R\$959 billion was allocated for the period of 2011 through 2014.

In August 2011, Brazil announced a new industrial policy, *Plano Brasil Maior* (the “Bigger Brazil” plan), to support domestic producers, encourage investment, and spur innovation. The plan, covering the period of 2011-2014, sets targets for investment spending to reach 22.4 percent of GDP by 2014, up from a 2010 baseline of 18.4 percent. Private investment in R&D is to reach 0.90 percent of GDP by 2014, up from the 2010 figure of 0.59 percent. *Brasil Maior* also sets targets for making the economy more energy-efficient, reducing the amount of petroleum used per unit of GDP by 9 percent, and nearly tripling broadband internet penetration from 13.8 million households in 2010 to 40 million households in 2014. No mid-term progress reports have been released.

The latest OECD Economic Survey for Brazil was released in 2013. The Survey applauds Brazil’s efforts to promote inclusive growth and to sustainably manage natural resources, but recommends continued fiscal consolidation, more aggressive monetary policy to bring inflation closer towards the center of the target band, and improvements to productivity and competitiveness. The OECD report can be found at: http://www.oecd.org/eco/surveys/Brazil_2013_Overview_ENG.pdf.

TABLE 1: Brazil’s International Ranking

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions Index	2013	72 of 175	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation’s Economic Freedom Index	2013	114 of 178)	http://www.heritage.org/index/ranking
World Bank’s Doing Business Report “Ease of Doing Business”	2013	116 of 189	http://doingbusiness.org/rankings

Global Innovation Index	2013	64 of 142	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	\$ 11,630	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

There are few restrictions on converting or transferring funds associated with a foreign investment in Brazil. Foreign investors may freely convert Brazilian currency in the unified foreign exchange market where buy-sell rates are determined by market forces. All foreign exchange transactions, including identifying data, must be reported to the Central Bank. Foreign exchange transactions on the current account have been fully liberalized.

Foreigners investing in Brazil must register their investment with the Central Bank within 30 days of the inflow of resources to Brazil. Registration is done electronically. Investments involving royalties and technology transfer must be registered with Brazil's patent office, the National Institute of Industrial Property (INPI). Investors must also have a local representative in Brazil. Portfolio investors must have a Brazilian financial administrator and register with the Brazilian Securities Exchange Commission (CVM).

All incoming foreign loans must be approved by the Central Bank. In most instances, the loans are automatically approved. Automatic approval is not issued when the costs of the loan are "not compatible with normal market conditions and practices." In such instances, the Central Bank may request additional information regarding the transaction. Foreign loans obtained abroad do not require advance approval by the Central Bank, provided the recipient is not a government entity. Loans to government entities, however, require prior approval from the Brazilian Senate as well as from the Finance Ministry's Treasury Secretariat, and must be registered with the Central Bank.

Interest and amortization payments specified in a loan contract can be made without additional approval from the Central Bank. Early payments can also be made without additional approvals, if the contract includes a provision for them. Otherwise, early payment requires notification to the Central Bank to ensure accurate records of Brazil's stock of debt.

Foreign investors, upon registering their investment with the Central Bank, are able to remit dividends, capital (including capital gains), and, if applicable, royalties. Remittances must also be registered with the Central Bank. Dividends cannot exceed corporate profits. The remittance transaction may be carried out at any bank by documenting the source of the transaction (evidence of profit or sale of assets) and showing that applicable taxes have been paid.

Capital gain remittances are subject to a 15 percent income withholding tax, with the exception of the capital gains and interest payments on tax-exempt domestically issued Brazilian bonds. Repatriation of the initial investment is also exempt from income tax. Lease payments are assessed a 15 percent withholding tax. Remittances related to technology transfers are not

subject to the tax on credit, foreign exchange, and insurance, although they are subject to a 15 percent withholding tax and an extra 10 percent Contribution of Intervention in the Economic Domain (CIDE).

The Government of Brazil imposes a tax on financial operations, the IOF, on portfolio capital inflows. The main goal of the tax is to discourage short-term, speculative capital flows that could lead to excessive currency volatility or place significant appreciation pressure on the Brazilian currency. In June 2013, the GOB lowered to zero the IOF on fixed income portfolio flows and derivatives in order to attract more foreign portfolio capital. The government retained the ability to increase the IOF at a later date.

3. Expropriation and Compensation

There have been no expropriation actions in Brazil against foreign interests in the recent past, nor have there been any signs that the current government is contemplating such actions. In the past, some claims regarding land expropriations by state agencies have been judged by Brazilian courts in U.S. citizens' favor. However, compensation has not always been paid as states have filed appeals to these decisions and the Brazilian judicial system moves slowly.

4. Dispute Settlement

The Brazilian court system, in general, is overburdened, and contract disputes can be lengthy and complex. The 2013 World Bank "Doing Business" survey found that on average it takes 44 procedures and 731 days to litigate a contract breach at an average cost of 15.3 percent of the claim.

Article 34 the 1996 Brazilian Arbitration Act (Brazilian Law 9307) defines a foreign arbitration judgment as any judgment rendered outside the national territory. The law established that the Brazilian Federal Supreme Court must ratify foreign arbitration awards. Law 9307 also stipulates that the foreign arbitration award is to be recognized or executed in Brazil in conformity with the international agreements ratified by the country and, in their absence, with domestic law. (Note: A 2001 Brazilian Federal Supreme Court ruling established that the 1996 Brazilian Arbitration Act, permitting international arbitration subject to Federal Supreme Court ratification of arbitration decisions, does not violate the Federal Constitution's provision that "the law shall not exclude any injury or threat to a right from the consideration of the Judicial Power.")

Brazil has ratified the 1975 Inter-American Convention on International Commercial Arbitration (Panama Convention), the 1979 Inter-American Convention on Extraterritorial Validity of Foreign Judgments and Arbitration Awards (Montevideo Convention) and the 1958 U.N. Convention on the Recognition and Enforcement of Foreign Arbitration Awards (New York Convention). Brazil, however, is not a member of the International Center for the Settlement of Investment Disputes (ICSID), also known as the Washington Convention.

Brazil has a commercial code that governs most aspects of commercial association, except for corporations formed for the provision of professional services, which are governed by the civil

code. In 2005, bankruptcy legislation (Law 11101) went into effect creating a system, modeled on Chapter 11 of the U.S. bankruptcy code, which allows a company in financial trouble to negotiate a restructuring with its creditors outside of the courts. In the event a company does fail despite restructuring efforts, the reforms improve creditors' ability to recover their debts.

Brazil has both a federal and a state court system, and jurisprudence is based on civil law. Federal judges hear most disputes in which one of the parties is the State and rule on lawsuits between a foreign State or international organization and a municipality or a person residing in Brazil. Five regional federal courts hear appeals of federal judges' decisions.

5. Performance Requirements and Incentives

The Brazilian government uses a variety of tax incentives and attractive financing through the National Bank for Economic and Social Development (BNDES) to actively encourage both domestic and foreign investment. In 2013, BNDES disbursements rose 22 percent to reach R\$190 billion, making it one of the largest development banks in the world, outpacing the lending of even the World Bank. BNDES funding in 2013 was focused on infrastructure and industry, accounting respectively for 33 and 30 percent of total disbursements. The agriculture and livestock sector saw the largest growth in lending, with total disbursement of R\$18.6 billion, a 64 percent increase over the previous year. One of the BNDES' highlights in 2013 was a 27 percent increase on disbursements to micro-, small- and medium-sized enterprises, with a record disbursement of R\$63.5 billion, equivalent to 33% of the bank's total disbursements.

The Government of Brazil extends tax benefits for investment in less developed parts of the country, such as the Northeast and the Amazon regions, with equal application to foreign and domestic investors. These incentives have been successful in attracting major foreign plants to areas like the Manaus Free Trade Zone, but most foreign investment remains concentrated in the more industrialized southern part of Brazil.

Individual states have sought to attract investment by offering ad hoc tax benefits and infrastructure support to specific companies, negotiated on a case by case basis. These benefits have spurred a so-called "fiscal war" between the states, with some states challenging the tax benefits as harmful fiscal competition. In June 2011, the Brazilian Supreme Court ruled that the benefits granted by 14 states on interstate commerce are unconstitutional, since they were implemented without unanimous consent from the National Council of Fiscal Policy (Confaz). In November 2012, the Ministry of Finance proposed to Congress an end to the "fiscal war" by setting the interstate tax rate on goods at 4 percent for all states, thus limiting states' ability to offer special tax incentives to attract investment away from other states. On October 2013, a Confaz meeting was held and state finance secretaries were unable reach consensus on the tax rate exemptions proposal. It had been hoped that the law would be voted on by the Senate, and although the Senate announced that an effort would be made to vote on the law by November 2013, no further progress was made.

In October 2012, the GOB announced Decree 7819 in support of domestic auto manufacturers. The decree raised the Industrial Products Tax (IPI) by 30 percentage points of the price of the vehicle on all vehicle sales in the Brazilian market on or after January 1, 2013. This change

affected all vehicles: domestically-produced, imports from other Mercosul member countries, imports from Mexico within quota, and all other foreign imports. Auto manufacturers are able to apply for a tax credit based on their ability to meet certain criteria, including the number of manufacturing processes performed in Brazil, enhancing fuel efficiency, committing to invest in research and development in Brazil or to use Brazilian engineering services, and agreeing to participate in a fuel-efficiency labeling scheme. This decree is the successor to the September 2011 decree (No. 7567) which called for a 30 percentage point increase in the IPI on any car not sourced with at least 65 percent of its parts from Mercosul countries or Mexico, with which Brazil has an auto sector trade agreement. Decree 7567 expired on December 31, 2012. Both decrees are clear moves to encourage manufacturers to manufacture cars in Brazil rather than export them to Brazil.

In December 2011, the Government of Brazil passed Law 12546, which introduced the Special Regime for the Reinstatement of Taxes for Exporters, dubbed the Reintegra Program. Exporters of products covering 8,630 tariff codes – representing R\$80 billion of exports – received a subsidy of 3 percent of the value of their exports, to be used either as a credit against their income tax or as a cash payment. To qualify, the imported content of the exported goods must not exceed 40%, except in the case of high-tech goods, such as pharmaceuticals, electronics, and aircraft and parts, which are permitted to have up to 65% of inputs imported. In addition, Reintegra exempts exporters from so-called indirect taxes on capital expenditures, including the PIS/Cofins social contribution taxes and the IOF tax on financial transactions. The Reintegra Program expired on December 31, 2013, with many private sector organizations lobbying for it to be reinstated in 2014. To date, this has yet to happen.

In May of 2010, the government placed state-owned communications firm Telebras at the head of a National Broadband Plan, which incorporates fiscal incentives, private sector participation, and regulatory reform to build out Brazil's next generation communication infrastructure network. While the plan provides commercial opportunities for the private sector, including foreign investors, the government seeks to leverage the plan to advance Brazilian technology. This includes favorable BNDES financing for acquisition of telecom equipment that utilizes Brazilian technology, tax exemptions on the purchase of IT equipment that uses Brazilian technology, as well as favoring domestic technology in the procurement process.

To promote Brazilian industry, the Special Agency for Industrial Financing (FINAME) of BNDES provides financing for Brazilian firms to purchase Brazilian-made machinery and equipment and capital goods with a high level of domestic content. The interest rates charged by BNDES are often significantly lower than the prevailing market interest rates for domestic financing.

Government Procurement: Brazil is not a signatory to the WTO Agreement on Government Procurement (GPA). U.S. companies seeking to participate in Brazil's public sector procurement effectively need to partner with a local firm or have operations in Brazil. Foreign companies are often successful in obtaining subcontracting opportunities with large Brazilian firms that win government contracts.

Law 8666 (1993) covers most government procurement other than information technology/telecommunications and requires non-discriminatory treatment for all bidders regardless of nationality or origin of the product or service. Brazilian government procurement rules apply to purchases by government entities and state-owned companies. Brazil has an open competition process for major government procurements. The Brazilian government may not make a distinction between domestic and foreign-owned companies during the tendering process; however, when two equally qualified vendors are considered, the law's implementing regulations provide for a preference for Brazilian goods and services. Price is to be the overriding factor in selecting suppliers. However, the law's implementing regulations also allow for the consideration of non-price factors, giving preferences to certain goods produced in Brazil and stipulating local content requirements in order to qualify for tax benefits. Additionally, nearly all bids require establishment of a local representative for any foreign company bidding.

Government procurement is just one of thirty-five components under Brasil Maior intended to support Brazilian industry and protect domestic producers, particularly the labor-intensive sectors threatened by imports. The textile, clothing and footwear industries – among the few industries to have lost jobs during the current growth period – were the first to benefit from Brasil Maior when, in November 2011, the Ministry of Development, Industry and Commerce implemented an 8 percent preference margin for domestic producers in these industries when bidding on government contracts. In April 2012, Decrees 7709 and 7713 expanded the use of preference margins to pharmaceuticals and medicine (8 or 20 percent) and excavators and bulldozers (15 and 25 percent). The preference margins for these goods are valid until December 31, 2015.

Decree 7174 (2010), which regulates the procurement of information technology goods and services, requires federal agencies and parastatal entities to give preferential treatment to domestically produced computer products and goods or services with technology developed in Brazil based on a complicated price/technology matrix.

6. Right to Private Ownership and Establishment

Foreign and domestic private entities may establish, own, and dispose of business enterprises.

7. Protection of Property Rights

Mortgages: Brazil has a system in place for mortgage registration, but implementation is uneven and there is no standardized contract. Foreign individuals or foreign-owned companies can purchase real property in Brazil. These buyers frequently arrange alternative financing in their own countries, where rates may be more attractive. Law 9514 (1997) helped spur the mortgage industry by establishing a legal framework for a secondary market in mortgages and streamlining the foreclosure process, but the mortgage market in Brazil is still underdeveloped, and foreigners may have difficulty obtaining mortgage financing. Large U.S. real estate firms, nonetheless, are expanding their portfolios in Brazil.

Intellectual Property Rights: Brazil is a signatory to the GATT Uruguay Round Agreements, including the Trade Related Aspects of Intellectual Property (TRIPs) Agreement, which it signed

in 1994. Brazil is a signatory of the Bern Convention on Artistic Property, the Patent Cooperation Treaty, the Convention on Plant Variety Protection, and the Paris Convention on Protection of Intellectual Property.

Brazil is not a party to the WIPO Copyright Treaty or the WIPO Performances and Phonograms Treaty (collectively, the "WIPO Internet Treaties"). In 2006, Brazil announced plans to join the Madrid Agreement Concerning the International Registration of Marks ("Madrid Protocol"), but the executive branch has yet to submit this proposal to the Brazilian Congress for approval.

In most respects, Brazil's 1996 Industrial Property Law (Law 9279) meets the international standards specified in the TRIPs Agreement regarding patent and trademark protection. However, the law permits the grant of a compulsory license if a patent owner has failed to locally manufacture the patented invention in Brazil within three years of patent issuance, a form of compulsory licensing that the United States believes would be inconsistent with Articles 27.1 and 28.1 of TRIPs. On May 4, 2007, invoking TRIPs provisions for public health emergencies, Brazil issued a compulsory license for an anti-retroviral drug used in treating HIV/AIDS.

The United States continues to raise concerns regarding article 229-C of law 9279, as amended by Law 10196 (2001), which includes a requirement for the National Health Surveillance Agency (ANVISA) to grant an approval prior to the issuance of a pharmaceutical patent by the National Industrial Property Institute (INPI). ANVISA has had a "prior consent" role in initially reviewing pharmaceutical patent applications before Brazil's Patent Office, INPI (Provisional Act 2006/1999). While consolidated by Law 10196/2001, it has since been legally contested. No other industrial sector is treated in this way. For all other patent applications, INPI is the sole arbiter of whether or not a patent is granted, and other agencies regulate market access. In October 2009, the Brazilian Federal Attorney General (AGU) issued an opinion (No. 210/PGF/AE/2009) ruling against ANVISA's practice of reviewing patentability requirements. In January 2011, the AGU issued another opinion (No. 337/PGF/AE/2010) reaffirming the terms of its previous decision and noting ANVISA's limited role. The AGU's opinions, however, were non-binding.

An additional ongoing concern is the backlog of pending patent applications at INPI. INPI claims it takes an average of five years to receive a patent in Brazil; independent sources report that it takes six to seven years. INPI has increased its hiring and training of new patent examiners in an effort to decrease the backlog of pending cases. In March 2013, ANVISA held a public hearing and in April 2013, ANVISA implemented the new regulation. ANVISA continues, for now, to examine some pharmaceutical patent applications to determine if the invention described is patentable. In a February 2014 meeting, ANVISA representatives clarified ANVISA does not review all pharmaceutical patents – those determined by the Ministry of Health every two years, and most recently in December 2013. This review process may have an effect on both product availability and capital inflows for the sector and may also diminish the likelihood that newer "on patent" medications will be produced or even sold in Brazil.

In October 2013, the Brazilian Chamber of Deputies released a report on revising patent legislation in Brazil. One recommendation is for Brazil's Congress to approve Bill 5402/2013, first introduced in April 2013, which would reinforce the ANVISA "prior consent" mechanism.

It would reaffirm ANVISA's duty to analyze patent applications from a public health perspective, namely (1) to determine if a pharmaceutical product or process poses a health risk or (2) to determine if a pharmaceutical patent application meets the patentability requirements in cases where the processes or products are of interest to Brazil's national health system (SUS).

In the U.S. Trade Representative's 2007 Special 301 Report, Brazil was downgraded from "Priority Watch List" to "Watch List," in recognition of its improved anti-piracy enforcement efforts. Since then, Brazil has remained on the "Watch List" of the Special 301 Reports. Anti-piracy enforcement has continued to improve, especially in the major cities of Sao Paulo, Rio de Janeiro, and Brasilia. The upcoming 2014 FIFA soccer World Cup and 2016 Olympics are expected to continue to drive strong anti-piracy and anti-counterfeiting efforts by local, state, and federal police.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Embassy point of contact: Albert Keyack, U.S. Patent and Trademark Office, Rio de Janeiro, Albert.Keyack@trade.gov

Local lawyers list: <http://brazil.usembassy.gov/lawyers.html>

8. Transparency of the Regulatory System

In the 2013 World Bank "Doing Business" report, Brazil ranked 116th out of 189 countries in terms of overall ease of doing business, an improvement of fourteen places compared to the 2012 report (the 2012 report ranked four fewer countries). According to the study, it takes an average of 13 procedures and 107.5 days to start a new business, significantly longer than the OECD high-income economies' average of 11.1 days. The study noted that the annual administrative burden to a medium-size business of tax payments in Brazil is an average of 2,600 hours versus 176 hours in the OECD high-income economies. According to this same study, the total tax rate for a medium-sized business in Brazil is 68.3 percent of profits, compared to 41.3 percent in the OECD high-income economies. Business managers often complain of not understanding tax regulations, despite their investments in large tax and accounting departments.

Tax regulations, while burdensome and numerous, do not differentiate between foreign and domestic firms. However, there have been instances of complaints that the value-added tax collected by individual states (ICMS) favors local companies. Although the tax is designed to be refunded when goods are exported abroad, exporters in many states have had difficulty receiving their ICMS rebates. Taxes on commercial and financial transactions are particularly burdensome, and businesses complain that these taxes hinder the international competitiveness of Brazilian-made products.

Of Brazil's ten federal regulatory agencies, the most prominent include ANVISA (the Brazilian equivalent of the U.S. Food and Drug Administration), which has regulatory authority over the production and marketing of food, drugs and medical devices; ANATEL, the country's telecommunication agency, which handles licensing and assigning of bandwidth; ANP, the

National Petroleum Agency, which regulates oil and gas contracts and oversees the bidding process for oil blocks, including for pre-salt oil; and ANAC, the agency which oversees the civil aviation industry. In addition to these federal regulatory agencies, Brazil has 23 state-level agencies and eight municipal-level agencies.

The Office of the Presidency's Program for the Strengthening of Institutional Capacity for Management in Regulation (PRO-REG), created in 2007, has tried to introduce a broad program for improving the regulatory framework in Brazil including via a 2014 Work Plan with the White House Office of Information and Regulatory Affairs to exchange best practices in developing regulations.

Pursuant to the Rousseff administration's priority to improve transparency, the general public has online access to both approved and proposed federal legislation, via websites for the Chamber of Deputies, Federal Senate, and the Office of the Presidency. Brazil is seeking to improve their public comment and stakeholder input process.

Foreign investors have encountered obstacles engaging with regulatory agencies. Notable examples include companies in the electric power sector that have complained about the high level of regulatory risk, including the tariff review process. Additionally, some industries have reported challenges in obtaining licenses from IBAMA, the environmental regulator, citing unclear licensing requirements, though the process was reportedly streamlined in 2008. There have also been examples of federal agencies levying significant fines on U.S. companies.

Regulatory review of mergers and acquisitions are carried out by the Administrative Council for Economic Defense (CADE). In October 2012, Brazil performed its first-ever pre-merger review of a pending merger, bringing Brazil in line with U.S. and European practices. Brazil had previously performed only post-merger reviews. This shift in merger review was a result of 2011 legislation (Law 12529) which was adopted to modernize Brazil's antitrust review and to combine the antitrust functions of the Ministry of Justice and the Ministry of Finance into those of the so-called Super CADE. This new government body will be responsible for enforcement of competition laws, consumer defense, and combating abuse of economic power.

9. Efficient Capital Markets and Portfolio Investment

The Brazilian financial sector is large and sophisticated. Banks lend at Brazilian market rates which remain high. Reasons cited by industry observers include high taxation, repayment risk, concern over inconsistent judicial enforcement of contracts, high mandatory reserve requirements, and administrative overhead.

The financial sector is concentrated, with Central Bank data indicating that the 10 largest commercial banks (excluding brokerages) account for approximately 81 percent of the commercial banking sector's roughly USD 2 trillion in assets. Three of the five largest banks (in assets) in the country, Banco do Brasil, Caixa Economica Federal, and BNDES, are partially or completely federally owned. Lending by the large banking institutions is focused on the largest companies, while small- and medium-sized banks primarily serve small- and medium-sized companies.

The Central Bank has strengthened bank audits, implemented more stringent internal control requirements, and tightened capital adequacy rules to better reflect risk. It also established loan classification and provisioning requirements. These measures are applied to private and publicly owned banks alike. The Brazilian securities and exchange commission (CVM) independently regulates the stock exchanges, brokers, distributors, pension funds, mutual funds, and leasing companies with penalties against insider trading.

Credit Market: Brazil's credit market has grown significantly over the past several years. Real interest rates, once among the highest in the world, fell dramatically in 2012, driven by continued decreases in the Central Bank's benchmark overnight Selic lending rate and a concerted effort by the GOB to reduce lending spreads charged by public and private banks. The Central Bank initiated a cycle of monetary policy tightening in April 2013, which has continued into 2014, and real interest rates have increased again. While local private sector banks are beginning to offer longer credit terms, BNDES, the state-owned national development bank, is the traditional Brazilian source of long-term credit, and also provides export credits. FINAME (the Special Agency for Industrial Financing) provides foreign- and domestically-owned companies operating in Brazil financing for the manufacturing and marketing of capital goods. FINAMEX (Export Financing), which finances capital good exports for both foreign and domestic companies, is a part of FINAME. One of the goals of these financing mechanisms is to encourage the purchase of domestically produced over imported equipment and machinery.

Equity Market: All stock trading is performed on the Sao Paulo Stock Exchange (BOVESPA), while trading of public securities is conducted on the Rio de Janeiro market. In 2008, the Brazilian Mercantile & Futures Exchange (BM&F) merged with the BOVESPA to form what is now the fourth largest exchange in the Western Hemisphere, after the NYSE, NASDAQ, and Canadian TSX Group exchanges. BOVESPA has launched a "New Market" in which the listed companies comply with stricter corporate governance requirements. A majority of initial public offerings (IPOs) are now listed on the New Market. Until October 2013, nine new IPOs and follow-ons raised R\$ 16 billion in capital.

At the end of 2013, there were 452 companies traded on the BM&F/BOVESPA. Total daily trading average volume has risen from R\$ 2.4 billion in 2006 to R\$ 7.4 billion in 2013, and the number of trades has increased more than 10 times over the same period.

The BM&F/BOVESPA currently has no competition, but that may change soon. In January 2013, DirectEdge, the fourth-largest stock exchange operator in the United States, applied for a license to launch its services in Brazil in 2013. Direct Edge's position in the Brazilian market may be strengthened after its proposed merger with BATS Global Markets in 2014. Direct Edge is expected to begin operations in Brazil in 2015.

Foreign investors, both institutions and individuals, can directly invest in equities, securities and derivatives. Foreign investors are required to trade derivatives and stocks of publicly held companies on established markets. At year-end 2013, foreign investors accounted for 43.7 percent of the total turnover on the BOVESPA. Domestic institutional investors were the second most active market participants, accounting for 32 percent of activity. Individual investors

comprised 15.2 percent of activity, followed by financial institutions (7.4 percent), and public and private companies (1 percent). Law 10303 of 2001 limits preferred shares to 50 percent of new issuances.

Wholly owned subsidiaries of multinational accounting firms, including the major U.S. firms, are present in Brazil. As of 1996, auditors are personally liable for the accuracy of accounting statements prepared for banks.

In recent years the government has sought to manage short-term capital inflows and appreciation of the Brazilian currency with the introduction of new taxes on capital inflows (see “Conversion and Transfer Policies” in section 2).

10. Competition from State-Owned Enterprises

In the 1990’s and early 2000s, the Brazilian government privatized state-owned enterprises across a broad spectrum of industries, including mining, steel, aeronautics, banking, energy, and electricity generation and distribution. While the government has divested itself from many of its state-owned companies, it maintains partial control (at both the federal and state level) of some previously wholly state-owned enterprises. Notable examples of partially federally-controlled firms include energy giant Petrobras and power utility Eletrobras. Both Petrobras and Eletrobras include non-government shareholders, are listed on both the Brazilian and NYSE stock exchanges, and are subject to the same accounting and audit regulations as all publicly traded Brazilian companies.

The 2010 “pre-salt” legislation gives Petrobras sole operator status for the development of the new oil discoveries. The terms and conditions of the new regime favor Petrobras as the sole operator, although foreign firms are still anticipated to play a role in the pre-salt oil fields.

In addition to major players like Petrobras and Eletrobras, the Brazilian government, at both the federal and state levels, maintains ownership interests in a variety of other smaller enterprises. Typically, corporate governance is led by a board comprised of directors elected by the state or federal government with additional directors elected by non-government shareholders. Brazilian enterprises with state ownership are concentrated in the energy, electricity generation and distribution, transportation, and banking sectors. Many of these firms are also publically traded companies on the Brazilian and other stock exchanges.

11. Corporate Social Responsibility

Most state-owned and private sector corporations of any significant size in Brazil pursue corporate social responsibility (CSR) activities. Many corporations support local education, health and other programs in the communities where they have a presence. Brazilian consumers, especially the local citizenry where a corporation has or is planning a local presence, expect CSR activity. It is not uncommon for corporate officials to meet with community members prior to building a new plant or factory to review what types of local services the corporation will commit to providing. Foreign and local enterprises in Brazil often advance United Nations Development Program (UNDP) Millennium Development Goals (MDGs) as part of their CSR

activity, and will cite their local contributions to MDGs, such as universal primary education and environmental sustainability.

The U.S. diplomatic mission in Brazil supports American business CSR activities through the +Unidos Group (Mais Unidos), a group of more than 100 American companies established in Brazil. Additional information on how the partnership supports public and private alliances in Brazil can be found on its website: www.maisunidos.org.

12. Political Violence

Strikes and demonstrations occur occasionally in urban areas and may cause temporary disruption to public transportation. Occasional port strikes also impact commerce. Large, widespread protests occurred in June 2013 during the Confederations Cup. The protests started in response to a hike in bus fares and later grew to include complaints regarding the government's perceived inability to tackle corruption and improve public services, such as education and healthcare. Several protest groups are organizing on social media for demonstrations during the 2014 FIFA World Cup but the government insists World Cup protests will be smaller than Confederations Cup demonstrations. Although U.S. citizens have traditionally not been targeted during such events, U.S. citizens traveling or residing in Brazil are advised to take common-sense precautions and avoid any large gatherings or any other event where crowds have congregated to demonstrate or protest. For the latest U.S. State Department guidance on travel in Brazil, please consult www.travel.state.gov.

13. Corruption

In 2013, Brazil ranked 72nd (out of 175 countries) in Transparency International's Corruption Perceptions Index. In South America, Brazil ranked behind Chile and Uruguay, and ranked ahead of Colombia, Peru, Argentina, Suriname, Bolivia, Ecuador, Guyana, Paraguay and Venezuela. With regard to major emerging economies in the BRICS grouping, Brazil ranked ahead of China (80th), India (94th), and Russia (127th), and tied with South Africa (72nd).

Corruption scandals are a regular feature of Brazilian political life. Politics for the past two years have been shaken by Penal Case 470, more commonly known as the "Mensalão" case, under which defendants, including some past and present members of the Brazilian Congress, were found guilty of participating in a pay-for-votes scheme. A former president of the Chamber of Deputies, former President Lula's chief of staff, and 24 other current and former public officials were convicted in the highly-followed trial, which was viewed as a positive step in the fight against corruption.

Brazil is a signatory to the Organization for Economic Cooperation and Development (OECD) Anti-Bribery Convention and a participating member of the OECD Working Group on bribery. It was one of the founders, along with the United States, of the intergovernmental Open Government Partnership, which seeks to help governments increase transparency. Brazil has laws, regulations and penalties to combat corruption, but their effectiveness is inconsistent. Bribery is illegal, and a bribe by a local company to a foreign official is a criminal act. A company cannot deduct a bribe to a foreign official from its taxes. While federal government

authorities generally investigate allegations of corruption, there are inconsistencies in the level of enforcement among individual states. Corruption has been reported to be problematic in business dealings with some authorities, particularly at the municipal level. U.S. companies operating in Brazil are subject to the U.S. Foreign Corrupt Practices Act.

14. Bilateral Investment Agreements

Brazil does not have a Bilateral Investment Treaty with the United States. In the 1990's Brazil signed BITs with Belgium and Luxembourg, Chile, Cuba, Denmark, Finland, France, Germany, Italy, the Republic of Korea, the Netherlands, Portugal, Switzerland, the United Kingdom and Venezuela, but none of these have been approved by the Brazilian Congress. In 2002, an inter-ministerial working group decided to withdraw the agreements from Congress for approval, so they have not and will not be voted on any time soon. Brazil also has not approved the Mercosul investment protocol.

Brazil does not have a double taxation treaty with the United States, but it does have such treaties with 31 other countries, including, among others, Japan, France, Italy, the Netherlands, Canada and Argentina. Brazil signed a Tax Information Exchange Agreement (TIEA) with the United States in March 2007, and that agreement entered into force on May 15, 2013, signed by President Dilma Rousseff in Decree 8003/2013.

15. OPIC and Other Investment Insurance Programs

Programs of the Overseas Private Investment Corporation (OPIC) are fully available, and activity has increased in recent years. The size of OPIC's exposure in Brazil may occasionally limit its capacity for new coverage. Brazil has been a member of the Multilateral Investment Guarantee Agency (MIGA) since 1992.

16. Labor

The Brazilian Ministry of Labor estimates that 19.3 million jobs were created in Brazil from January 2003 to October 2013. In 2013, a net 1.1 million jobs were created, compared to 1.3 million in 2012 and 1.9 million in 2011. The 2013 results were the worst annual performance since 2003, when the country created only 645,433 formal jobs.

According to a 2011 Brazilian Institute of Geography and Statistics (IBGE) report, the Brazilian labor force has 92.5 million workers. Roughly 58% were located in the services sector, 15% in agriculture, 21% in the construction and manufacturing sectors.

Brazil has signed on to a large number of International Labor Organization (ILO) conventions. Brazil is party to the UN Convention on the Rights of the Child and major ILO conventions concerning the prohibition of child labor, forced labor and discrimination.

The labor code is highly detailed and relatively generous to workers. Formal sector workers are guaranteed 30 days of annual leave and severance pay in the case of dismissal without cause. Brazilian employers are required to pay a "thirteenth month" of salary to employees at the end of

the year. Brazil also has a system of labor courts that are charged with resolving routine cases involving unfair dismissal, working conditions, salary disputes, and other grievances. Labor courts have the power to impose an agreement on employers and unions if negotiations break down and either side appeals to the court system. As a result, labor courts routinely are called upon to determine wages and working conditions in industries across the country. The system is tantamount to compulsory arbitration and does not encourage collective bargaining. In recent years, however, both labor and management have become more flexible and collective bargaining has assumed greater relevance.

The Ministry of Labor estimates that there are nearly 15,000 labor unions in Brazil, but Ministry officials note that these figures are inexact. Labor unions, especially in sectors such as metalworking and banking, tend to be well-organized and aggressive in advocating for wages and working conditions and account for approximately 19 percent of the official workforce according to a recent IBGE release. Strikes occur periodically, particularly among public sector unions. Unions in various sectors engage in industry-wide collective bargaining negotiations mandated by federal regulation. While some labor organizations and their leadership operate independently of the government and of political parties, others are considered to be closely associated with political parties.

In firms employing three or more persons, Brazilian nationals must constitute at least two-thirds of all employees and receive at least two-thirds of total payroll. Foreign specialists in fields where Brazilians are unavailable are not counted in calculating the one-third permitted for non-Brazilians.

The IBGE statistical agency estimated unemployment in the six major metropolitan areas to be 5.4% at the end of 2013, the lowest level since the survey began in 2002. With low unemployment, there is currently a shortage of highly-skilled workers. Unemployment levels range significantly across regions.

Employer federations, supported by mandatory fees based on payroll, play a significant role in both public policy and labor relations. Each state has its own federation, which reports to the National Confederation of Industries (CNI), headquartered in Brasilia.

17. Foreign Trade Zones/Free Trade Zones

The federal government has granted tax benefits for certain free trade zones. Most of these free trade zones aim to attract investment to the country's relatively underdeveloped North and Northeast regions. The most prominent of these is the Manaus Free Trade Zone, in Amazonas State, which has attracted significant foreign investment, including from U.S. companies. In October 2011, President Rousseff signed a constitutional amendment which extends Manaus's status as an industrial zone for another 50 years. This measure must be approved by the Congress, however, and has yet to enter into force as of the end of 2013.

18. Foreign Direct Investment and Foreign Direct Investment Statistics

According to the Central Bank's most recent foreign-capital census (2010), the United States had the largest share of accumulated foreign-capital stock in Brazil, with 18.0 percent of the total. Spain had 14.7 percent, Belgium 8.7 percent, and Brazil 8.3 percent. Net foreign direct investment inflows between 2006 to 2011 total approximately USD 377 billion after subtracting depreciation and capital repatriation.

According to the UN, in 2012 Brazil was the fourth largest destination of foreign direct investment, trailing only the United States, China, and Hong Kong. The same criteria placed Brazil in fifth in 2011 and seventh in 2010.

According to data published by the Central Bank, FDI inflows to Brazil are anticipated to have reached more than USD 64 billion in 2013, a figure almost 2 percent lower than 2012. According to the U.S. Bureau of Economic Analysis, the stock of FDI from the United States in Brazil was USD 79.3 billion in 2012.

For more information on investing in Brazil, contact the Brazilian Trade and Investment Promotion Agency, ApexBrasil: <http://www.apexbrasil.com.br>.

TABLE 2: Key Macroeconomic Data, FDI in Brazil

	Host Country Statistical source*		USG or international statistical source		Source of Data
	Year	Amount	Year	Amount	
Economic Data					
Host Country Gross Domestic Product (GDP) <i>(Millions U.S. Dollars)</i>	2013	2,239,895	2012	2,253,000	http://www.worldbank.org/en/country https://www3.bcb.gov.br/sgspub/
Foreign Direct Investment					
U.S. FDI in partner country <i>(Millions U.S. Dollars, stock positions)</i>	2011	103,223	2012	79,394	http://www.bea.gov http://www.bcb.gov.br/Rex/CensoCE/port/resultados_censos_anos_base_2011_e_2010.asp?idpai
Host country's FDI in the United States <i>(Millions U.S. Dollars, stock positions)</i>	2012	22,635	2012	3,590	http://www.bea.gov http://www.bcb.gov.br
Total inbound stock of FDI as % host GDP	2011	28%			http://www.bcb.gov.br

* Host country data sourced from the Brazilian Central Bank.

TABLE 3: Sources and Destination of FDI, Brazil, 2012

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	746,903	100%	Total Outward	203,910	100%
Netherlands	212,569	28%	Austria	56,792	28%
United States	113,440	15%	Cayman Islands	32,241	16%
Spain	81,327	11%	Virgin Islands, British	21,069	10%
Luxembourg	50,566	7%	United States	20,935	10%
France	34,498	5%	Spain	16,121	8%

"0" reflects amounts rounded to +/- USD 500,000.

TABLE 4: Sources of Portfolio Investment, Brazil 2012

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			Equity Securities			Total Debt Securities		
World	22,124	100%	World	13,367	100%	World	8,757	100%
United States	9,436	43%	United States	4,816	36%	United States	4,620	53%
Bermuda	3,093	14%	Bermuda	3,091	23%	Denmark	1,461	17%
Denmark	1,462	7%	Virgin Islands, British	819	6%	Korea, Republic of	947	11%
Bahamas, The	1,081	5%	Switzerland	658	5%	Bahamas, The	723	8%
Korea, Republic of	947	4%	Cayman Islands	622	5%	Cayman Islands	271	3%

19. Contact Point at Post

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