# Table of Contents

EXECUTIVE SUMMARY .......................................................................................................................... 3

HISTORY AND BACKGROUND .............................................................................................................. 4
  DEVELOPING A STABLE ECONOMY .................................................................................................. 4

BRAZIL TODAY ........................................................................................................................................ 7
  THE CURRENT ECONOMIC STATE .................................................................................................. 7

INFRASTRUCTURE ......................................................................................................................................... 9
  HOW A PRODUCT COMES HOME .................................................................................................. 9
  HOLDING BACK THE SPEED OF INVESTMENTS ........................................................................... 9
  PROJECTS AND OPPORTUNITIES .................................................................................................. 10
  SECTOR SPECIFIC CONCERNS ......................................................................................................... 13
    Transportation ............................................................................................................................... 13
    Renewable Energy ....................................................................................................................... 19
    Oil and Gas ................................................................................................................................... 21

CONCLUSION ......................................................................................................................................... 23

BIBLIOGRAPHY ..................................................................................................................................... 24
EXECUTIVE SUMMARY

After the Cold War, the third world lost its political influence as competition among superpowers to influence such countries subsided. The fall of the Berlin wall opened the doors to new markets and sequentially a new focus on the integration of the global marketplace emerged. In a neutral environment, it became harder for countries to compete for external loans. A heavier focus on economic policy reforms was needed in order to create a more stable environment that would in turn attract private capital. As other free trade blocs began to develop, Brazil simply could not afford to remain isolated.¹

Today, Brazil has the seventh largest economy in the world by purchasing power parity³ and eight largest at market exchange rates. Brazil’s GDP is the highest of Latin America with large and mature mining, agricultural, technology, manufacturing, and service sectors. Furthermore, new oil discoveries provide an opportunity for long – term and sustained positioning of its energy sector. Brazil’s macroeconomic power has improved significantly and its economy is forecast to grow by an annual average of 4.8% through 2012. After years of political uncertainty, and high inflationary levels, the “land of the future” finally sees its promise take form.

Brazil’s exports integrate the country into the world, creating a more modern state. The car we drive, the things we own, the commodities throughout our market, are a product of global manufacturing that creates economies of scale in the world. The export – import market is highly influenced by global politics and has become a key aspect of a country’s economic health. The international market guarantees growth in productivity and dilutes the elevated costs of investments. Brazil also benefits from the transfer of technologies that can radiate to all productive sectors. Brazil strives to become more active in the international manufacturing market and to be among the major producers (in aggregated value) in the world.

In order for Brazil to sustain a competitive advantage in the marketplace, it must institute significant changes to its infrastructure.

Like many other Latin American countries, Brazil’s future as an economic engine has been chained to a long past of instability. Shifting from a military regime (1964 – 1985) to a democratic republic, the country’s landscape has been fermented by different philosophies and ideologies of governance. Once oil gained market power and the Eastern European market opened up, Brazil’s internal politics could no longer operate without taking into account the impact from outside political and economic forces.

The world oil shock in 1973 was one of many external affairs that would come to affect Brazil’s internal politics. The resulting crisis left Brazil with an overvalued currency and a high current – account deficit. Due to a sharp rise in import costs, the government borrowed foreign currency to be able to finance its import bill. The strategy that on one hand promoted growth also raised import requirements. Consequently the surpluses from an import – export expansion did not meet expectations, leaving the country with high levels of foreign debt. With the end of the military regime in 1985, the country sought a new effort to renovate its economic standing.

Under a new government, President Jose Sarney introduced one of the first attempts to stabilize the economy - the Cruzado Plan of 1986. Nevertheless, an established price freeze ended up resulting in an anti-business culture, based on a preference for price controls, and a lack of price stability because of government monetary policy. This brought Brazil a large dose of state controls that gave birth to a moratorium culture, particularly when addressing the external debt. When the Berlin wall came down in 1989, and opened export potential to Eastern Europe Brazil was unable to take full advantage because the unfavorable economy lowered Brazil’s competitiveness in the new post-communism global playing field.4

A second attempt at economic reform came in the early 1990’s with the Collor presidency. The Collor plan delineated five goals for achieving stability and attracting foreign investment. First, it made a clearer attack on inflation by not only freezing prices but also freezing bank accounts for eighteen months. It converted large portions of consumer bank accounts into non-cashable government bonds. The goal was to stall the economy artificially by driving down demand. As a result not only was demand stalled but also investments were frozen and consequently the country’s ability to grow. Although hyperinflation was tamed in the short run, inflation soon went back up and the decline in sales generated high unemployment rates.

Second, it instigated trade liberalization. At the time Brazil’s import tariffs ran at

---

4 Campos, Roberto (34).
80%, a high number even in comparison to neighboring Latin American countries (average of 45%). Third, the plan’s agenda deregulated assets. Fourth, it privatized sectors. Lastly, it reconciled the international financial community. Collor also introduced a new currency. Although this gave way to the drawing of a new economic roadmap, Brazil still lacked synergy between the private sector and a state that was committed to promoting development. Collor’s presidency was short lived after his own brother denounced him and his treasurer of corruption, leading to his impeachment in October of 1992.

The mid- nineties were marked by the implementation of a new set of measures to stabilize the Brazilian economy. In early 1994, during the presidency of Itamar Franco (Collor’s replacement), the Minister of Finance, Fernando Henrique Cardoso, gave birth to Plano Real. At the time prices were adjusted on almost a daily basis because of the high inflation and instability in the marketplace. Plano Real introduced a non–monetary unit of account (Unidade Real de Valor), which slowly allowed the country to transition into the current currency, the Real. By reducing expectations inflation was brought down to single digit annual figures. Although most Brazilian industrial goods were relatively more expensive than foreign products, the international financial community slowly renewed its interest in the country. The biggest achievement for the Plano Real was stabilization, which opened the market to a new consumer class of almost 25 million people.

Today, in 2010, over fifteen years after Cardoso’s economic reform, Brazil benefits from a growing economy. Lula da Silva, the current president, was able to maintain policies implemented during the Cardoso presidency (1995 – 2002) that ensured long-term growth. Lula also enlarged social programs like Bolsa Familia, which benefited the lower class families that can now have access to the marketplace. Whereas earlier the international marketplace was exclusively for the elite, the increased global need for commodities allows Brazil to have a more influential position. In 2010 Brazil rotated into the UN Security Council, symbolizing its enhanced importance in global politics.

The first half of the 20th century was marked by technology's infiltration into society as a necessary aspect of everyday life. World War Two, called the first modern war, tested the importance of the computer to national security. Sequentially, during the late 1970s and early 1980's classical political and economic models had to adapt to the new fast-paced environment of an interdependent global community. In addition, to promote its industry, Brazil shut its doors to imports, particularly in the informatics sector, giving rise to an infamous protectionist culture. The rationale of a Market Reserve Policy was that giving exclusivity to the national industry would lead to increase of local competitiveness.

This protectionist period can be broken down into thee phases. The first phase, from 1979 to 1984, institutionalized the National Policy for Informatics (PNI), which directed informatics activities to the government’s control by creating a Special Secretariat of Informatics (SEI) and passing the Informatics Law in 1984. The second phase, from 1985 to 1989, came under the New Republic government and focused on implementing the Informatics Law. Finally, the last phase, 1990 to 1991, is referred to as the fall of market reserve politics.

The Informatics Law gave form to a new industrial policy by increasing focus on the promotion of the Brazilian productive sector. The electronic component of the industry received 67% of all government support for research and development. The goal was to promote competition on a local level that could in turn generate jobs and income. Economists have generally come to denounce this form of market control. Skeptics believe that this policy will only be successful if incentives are granted in a timely manner and if investments exploit local interest in the activities.

The importance of the creation of a strong national technological segment paralleled the belief that autonomy and sovereignty depend on internalizing activities. For example, when IBM announced a new minicomputer to be sold in Brazil, many believed that this would kill Brazil’s domestic minicomputer industry even before it was born. The result was the implementation of about 1000 new companies in the 1980’s where 95% of them were national. The sector grew almost 30% by the end of the decade. Although the Informatics law created productive capacity in some critical areas of the industry, the sector remained underdeveloped in contrast to the accelerated innovation in the rest of the world. Brazilian products were removed from international competition. Furthermore, since microparts could not be imported, companies had to absorb the cost of building from scratch and offer their products at a higher price. Contrary to what was expected, the law had the following results: a new counterfeit culture in search for accessible low priced goods, and the growth of contraband imports delayed modernization of the industrial sector due to the difficulty of achieving transferable knowledge from foreign technologies, and a subsidy schema for the industry that left the public sector with unforeseen debt.

During the late 1980s the Collor government brought new economic reforms. Highlighting the role of the State in the economy, the empowerment of the technological sector and the participation of foreign capital, among other issues that needed to be addressed in a new pattern of global competition. The government changed requirements for joint ventures, giving more flexibility to international partners, and utilized tariffs as the principal tool of national industry protection. Although the country was back into a global playing field, international firms were skeptical of the country’s instability, and high requirements for entering the market slowed investment interest.
BRAZIL TODAY

The Current Economic State

As the largest country in Latin America, Brazil’s vast natural resources and labor force, foster the potential for the rise of a regional economic superpower. Brazil’s new favorable landscape holds several factors that have allowed for the creation of a stable macroeconomic environment, including: a consolidated democracy with over twenty years of regular elections, twenty years of trade liberalization, fifteen years of price stability, over ten years of fiscal targets (established after a deep fiscal restructuring at all levels of government), strong banks and innovative social policies. Recently, due to the heavily regulated and controlled banking system, and its monetary stability, Brazil has emerged from the global economic crisis with its head on its shoulders, proving that it is capable of participating in global economic governance.

Investors see the face of a new Brazil. Whereas the third world was once seen as a source of cheap labor, today, Brazil’s economic prosperity has allowed it to slowly redesign its wealth distribution and empower a new consumer market. Along with the expanding middle class purchasing power, there comes a lower fertility rate, a growth of life expectancy, and better socioeconomic conditions. This climate weighs positively as global uncertainties subside. Serious fiscal imbalances remain, even though, Brazil has embarked on a period of faster growth. During 2004 to 2008 economists hesitated to believe that the country could hold onto its projected 4.8% growth a year. Today, in 2010, the year is expected to close at an impressive 7.1%, and maintain a growth of 5.5 % through 2014 - numbers that overshadow the present United States 1.6% GDP growth rate.

In late September reports showed Brazil’s Bovespa stock index at its highest level since August 5th as record credit and consumer confidence boosted the outlook for property firms while rising commodities prices lifted producers. According to Leonardo Boguszewski, from the Parana Banco Asset Management, “These are numbers that confirm the momentum of the Brazilian economy”. 5 Bank lending has also expanded in the third quarter of 2010.

Brazil’s market size and vast resources create the capacity to respond quickly to global demand, particularly in the commodities and energy sectors, making it a key component of the growing global economy. Nevertheless, is Brazil’s future an overheating reality a mere reflection of an overheated economy that will not be able to sustain its growth in the long run? Or is it reasonable to believe that Brazil is in fact a superpower of the twenty-first century?

Although Brazil has a flourishing economy, it still has many characteristics of a third world country. Social issues remain present in the country's politics, and the integration of big cities with the rest of the country is limited by the troublesome transportation systems. Its now stable politics still bear the heavy government culture from the past, where the cost to finance in government carries a high interest rate. Overall, its operational success is still constrained by infrastructure inefficiencies. Bottlenecks in every sector hamper the development of industry. In order for Brazil to maintain a growing GDP and benefit from foreign investment, the country must heavily invest in its infrastructure capability, and also elevate its jurisprudential efficiency.

Uncertainty about the outcome of the 2010 Presidential elections has also held back the speed of investments into the country. The leading candidate, Dilma Rouseff (Lula’s chief of staff) is also the head of the PAC program. Her candidacy would carry on many of the programs already in place, however many fear that her leftist outlook could lead to the nationalization of key sectors and drive away international interest. Her opponent, Jose Serra, promotes private investment, however a change in party representation in the executive branch could shift the focus of various social programs and other projects already in place. Needless to say, Lula’s successor will face the challenge of living up to the world’s expectations. In order to maintain a growing economy there must be a continued flow of investments into the country’s infrastructure. According to Luciano Coutinho, president of Brazil’s National Development Bank (BNDES), the country needs to spend at least 22.2% of its GDP in order to keep the economy growing at a steady pace.
INFRASTRUCTURE
How a product comes home

Heavy infrastructure investments translate into long-term macroeconomic growth. For a country with vast resources, a growing purchasing power, and a new role in global politics, Brazil still has not invested enough in its infrastructure. Resources are more available but are still not sufficient. Although there are sectors that need more investment than others, the overall process of getting a product to the consumer is impacted by a lack of synergy among regulatory institutions. The private sector suffers from overhead costs from repetitive paperwork filing, adapting packaging to resist poor transportation conditions, finding financial credit lines to support ventures, etc. Furthermore, the upcoming World Cup of 2014, and Olympic Games of 2016, present opportunities for Brazil to benefit from tourism and prove to the world that it is ready to take its place as an important piece of global governance. The country sits under the world’s eyeglass, as everyone anxiously waits to see how it will address its infamous infrastructure problems in time to deliver world-class spectacles. The National Brazilian Development Bank (BNDES) continues to invest heavily in the market, providing almost R$274 billion for the period of 2010 – 2013 (up 38% from 2005 – 2008). Nevertheless, the country must continue to seek new ways to attract private capital, by revisiting institutional and regulatory frameworks, in order to have the necessary investment levels that will sustain the growing economy and allow the delivery of successful projects.

Holding back the speed of investments

The completion of projects in Brazil sees itself held back on the timeline even before it has been kick started. On average, one will spend almost 38 months (more than three years) between the pitch of a project and its initiation. It is imperative that the country work towards modernizing its licensing process to serve a timely agenda. A
new set of criteria must highlight the importance that public investment has in promoting long-term sustainability. Most importantly, projects must be prioritized according to their impact on the development of the country.

Nevertheless, for the government to overcome deficiencies efficiently in the sectors of industry, the private sector must have an active involvement in capital investment and creation of services. Brazil’s potential in a global market is set back by inefficiencies in infrastructure that turn away private investment. Although Lula’s government advocates for both government participation in the economy and investor’s contractual rights, his strategy places focus on partnerships rather than privatization. This acts as a moderate disincentive to investment, especially when public – Private partnerships have still not been given their rightful emphasis and few contracts have been put in place. According to the World Bank’s 2010 Doing Business survey, starting a business in Brazil takes 120 days; the regional average is 45.5 days. In order to attract private capital Brazil must offer a safe judicial system and efficient regulatory marks. Agencies must have the necessary level of autonomy to guarantee the capacity to tend to questions at hand in a timely manner. A clear and well-defined process reduces uncertainties in the execution and returns of high-risk investments.

Uncertainty of operational efficiency also holds back private interest. Companies often become frustrated by a bureaucratic customs patrol and entry, a low quality and high cost transportation system, a weak judicial system, and the numerous unsynchronized agencies that create a repetitive and inefficient environment. Brazil must create a synthesized judicial system where a stable past and the predictability of laws can dictate the future by creating a dynamic present.

Projects and opportunities

The most significant incentive for investment is reflected through the Brazilian government’s implementation of the “Brazilian Growth Acceleration Program” (PAC). Designed to unlock the economy, PAC devotes R$ 503.9 billion for the first phase of the project (2007 – 2010) and R$1.59 trillion for phase two (broken down into two periods: 2011 – 2014 and Post 2014. It also addresses projects for the 2014 World Cup and 2016 Olympics. These investments come from both public sources and private money. Overall there are R$25.16 billion assigned to private investment projects that are opened for bidding.

While PAC promises a significant change in the investment culture of the country, the rate of completion of projects is already being contested as it enters its second phase. According to the Brazilian Court of Accounts (TCU), the government has completed only 12% of the projects initiated in 2007. Lula’s chief of staff (head of Casa Civil), director of the PAC program, and the 2010 presidential candidate, Dilma Rouseff, argues that the program has executed 80% of projects and that the vast
difference is due to “differing methodologies”. PAC’s success will depend on the transparency of investment and progress reports as well as a tight monitoring system that lessens the potential for corruption.

**PAC**

**Mission:** To improve efficiency of operations in main sectors of the economy; stimulate technological modernization; increase global competitiveness. To provide an amicable platform of discussion between private and public sectors, backboned by constant communication among federal and state officials.

Brazil’s National Growth Acceleration Program (PAC), introduced in January of 2007, utilizes macroeconomic institutional measures to amplify opportunities for investment in the country, developing a sustainable infrastructure that not only provides economic growth, but also, contributes to higher employment levels and social benefits for its people. The State creates an attractive environment, giving light to essential legislative changes, partnership opportunities, financing accessibility and public investments. Some companies, however, maintain that the state retains too much control and give too little benefit to the private investor.

The R$ 503.9 billion stimulus was designed to last four years, starting in January of 2007 and running through the end of 2010. The two key players in orchestrating the stimulus package are: the CGPAC, which includes government representatives and ministers from Casa Civil, Fazenda, and Planning; and the executive PAC committee Executive administration, responsible for planning and operational management. The stimulus is divided among three areas of investment during the 2007 – 2010 period: Logistics (includes roads, airports, and ports), receiving R$ 58.3 billion; Energy (includes renewable energy, oil and gas, and petrochemical), receiving R$274.8 billion; and social and urban (includes metros, sanitation, tourist, and commercial real estate), receiving 170.8 billion

---

The second phase of the National Growth Acceleration Program, PAC 2, will continue to help the Brazilian economy expand at an average 5.5 percent a year through 2014. PAC 2 includes not only the already announced projects from PAC 1, but also investment projects for the 2011 – 2014 and post – 2014 periods. The total stimulus package promises an investment of almost R$1.59 trillion (R$958.9 billion in 2011 – 2014 and R$ 631.6 billion after 2014) in six areas of investment. Aside from the energy sector already defined by PAC 1, PAC 2 focuses on urban infrastructure ("Better Cities"), safety and social inclusion ("Bringing Citizenship to the Community"), housing ("My house, My life"), and sanitation and electricity access ("Water and Light for All")

### World Cup 2014

The World cup will receive almost R$ 105 billion in investment projects. The twelve host – cities need development of not only state of the art stadiums, but also the logistics to house tourists and create easy access to key points of the city. Almost R$ 6 billion is allocated for modernization and construction, generating almost 20 million new jobs. R$ 9 billion is given to airports alone, and urbanization is to reach R$ 90 billion in investments.

### Olympic Games 2016

The Rio Olympic Games of 2016 are expected to see an investment of R$ 30 billion. Rio de Janeiro plans to develop a better metro system for easy and safe access to the game site. In order to house the millions of new tourists the city projects it will need about 300 hotels, or 86 thousand new rooms.
Sector specific concerns

“The aim is simultaneously to generate jobs and wealth and to provide the infrastructure needed to leverage growth.”

Transportation

Efficient transportation, for civil or commercial use, is imperative for the development of Brazilian industry. With over 8.5 million kilometers (3.3 million square miles), the country has to be able to connect and serve its vast areas effectively. Brazil must be able to keep the economy growing by capitalizing on its resources and large consumer market, an almost impossible task when transport infrastructure is underdeveloped and costly. Some attention has been given to modernization of the sector, but efforts have been slow to make significant changes and are often inefficient. For example, the National Council for the Integration of Transportation Politics (CONIT) was created in 2001 and is responsible for coordinating the sector’s politics but had its first meeting only in late 2009. Also, The National Plan for Transportation Logistics (PNLT) represents an effort to organize long-term planning but it neglects to prioritize activities.

The current fragmented system continues to discourage foreign investment and heightens the cost of the final product. Significant deficiencies exist in planning and in the politics of an intermodal integration. Difficulty in port access and the underutilization of waterways and railways curtail the potential of the marketplace. Waterways should be given priority in its development, only a quarter of the usable 44 thousand kilometers are utilized. In sum, the system as a whole must be modernized to eliminate bottlenecks and create a new network of transportation that is synchronized to ensure faster deliveries and quick processing.

Airports

Brazil’s airports face a sharp growth in the demand for air travel. A new economic power coming from a rising middle class and a decline in airline ticket prices have made air travel an accessible mode of transportation. The low-cost business models of companies such as Azul (Jet Blue affiliate) and Gol have introduced a new concept to the transportation sector that once catered to the elite. In the first semester of 2010, passenger transit increased by 27.6 per cent.

---

The current demand levels require immediate attention to bottlenecks that inhibit not only prospective growth of the sector, but also its present operational efficiency. The notorious infrastructure bottlenecks present problems from the very start of the travel experience with inadequate parking lots, all the way up to final boarding when flights are often delayed because terminals have limited space.

Up to now, the imperfect scenario has avoided chaos thanks to ANAC’s (agency responsible to air traffic security) efforts to limit the number of operations in the country’s main airports. However, as the country’s demand continues to grow, airports must find a way to modernize and accommodate new passengers. Limiting operations will turn away potential revenue of the sector and in sequence limit the potential of the economy. A less mobile population hampers the potential of intellectual transfer, business operations, and tourism.

The airports are faced with yet another challenge: accommodating the peak demand resulting from the World Cup in 2014 and the Olympics in 2016. The country is expected to see over 600,000 visitors from all over the world in the two-year time frame. GDP during this period is expected to have an increase of R$47.9 billion. However, the challenge goes beyond simply adjusting to a temporary demand flux. An airport is a country’s first chance to make an impression. A smooth experience from the start will attract travelers in the long run and increase tourism across the country. Brazil must focus on airport reform as one of the main priorities in order to guarantee not only the success of these two events but also to sustain a growing economy and fully benefit from the boost in GDP.

**INFRAERO / ANAC**

*Anac* is the Brazilian agency responsible for the regulation and the safety oversight of civil aviation. Established in 2006, the regulatory agency has a five member board nominated by the President of Brazil and approved by the Senate.

The Department of Airport Infrastructure (Superintendência de Infraestrutura Aeroportuária – SIA) was established to oversee the planning, safety, security and airport fiscalization.

*Infraero* is another government controlled agency responsible for designing, building, operating, and managing 67 airports and 81 navigation support stations, all of which have air traffic control, telecommunications services, and flight protection systems and services. It is headquartered in Brasilia and has seven regional business centers – Belem, Brasilia, Manaus, Porto Alegre, Recife, Rio de Janeiro, and São Paulo.
As the Brazilian market expands, its ports are faced with operational challenges that must be addressed in order to keep the country competitive in the marketplace. A consistent growth in the global GDP is backed by the consistent growth in foreign trade. The desire to achieve economies of scale has led to a higher demand in global naval transportation and sequentially growth in ship size. Brazil’s ports are not only overworked but also have not kept up with technology, making it difficult to accommodate the new large ships and other advanced systems.

Under the Law of Ports (Lei dos Portos 8.630/93) the federal government is still responsible for port operations, either directly or through delegation (authorization, concession or permission). Decree 6.620/08, which regulates the law, was meant to strengthen the present regulatory framework and establish rules for the concession of new ports. However, it has increased the bureaucracy in the public sector and lowered competition among terminals, stalling construction of ports for private use and slowing down movement of big container ships. The sector remains under the vigilance of the public administration of the Companhia Docas, making it difficult to make the necessary changes in order to modernize the sector. Privatization of the ports has yet to be executed by the Law of Ports. Currently, the bureaucratic environment requires companies to fill about 935 fields in different forms before...
products can enter the country, delaying the process and often stalling products at the docks for an undetermined time. The government has made some attempt to change with the introduction of the Paperless Ports, a system that would reduce the use of forms and synchronize requirements for entry across the country. However along with building more modern infrastructure, there also needs to be an emphasis on the modernization of operational systems.

There have been some advances in the access to ports with the start of the Brazilian Port Dredging Program (Lei 11.610/07). It introduces the concept of output based dredging contracts and established the competence of the Brazilian Secretariat for Ports to implement the program. However, although products may have entered the ports successfully, they have still not reached their final destination. Road and railway access needs to be integrated into a plan for port modernization.
The National Maritime market

The national market for ship-building is not as strong as it can be. The Brazilian flag is not strong in long-range maritime transportation. Within Mercosur, few routes have been explored and protective legislation introduced in the 1970’s and 1980’s embed subsidies for the creation of an exclusive national market for Brazilian ship builders that often lack technological know-how and are unable to serve the requirements of the growing economy. Brazilian ships are not only 30% - 45% more costly than foreign competitors, but also suffer from a slow construction process and the high cost of labor due to generous labor laws.

Other countries have also adopted a nationalistic Maritime policy (such as the European Maritime Policy Green Paper) in order to secure growth in the sector and raise competition. Maritime transportation is a crucial aspect for Brazil’s export market; 95% of exported products travel via commercial ships. However, Brazilian exports are still a small part of global commerce. As a result foreign transporters can undermine the importance of Brazilian products when international demand heats up, (as was the case in 2004/2005 when due to a peak in demand for Chinese products, few ships were able to attend the Brazilian exports). In order to have a bigger presence in the market, Brazilian legislation must be revisited to reflect the current scenario of international commerce. Instead of analyzing the benefits from cost reduction, technological transfer, and economic returns to the society, the government simply subsidizes the market. There needs to be a competitive opening of the marketplace and a re-evaluation of financing options for purchases of international ships.

Ground Transportation

The highway and railway systems in Brazil do not have the necessary capacity to serve all regions of the country. Limited access to the countryside from the big cities slows the potential of a new growing consumer market. Furthermore, the old problematic roads require that suppliers give better attention to packaging requirements in order to protect products from a long and bumpy ride. Although some development projects have been designed, they are slow to be completed and end up no longer serving their initial purpose by the time they are ready for public use. For example, a half-finished ring road around Sao Paulo is helping to ease congestion but vehicle sales at an all-time high are filling new road space more quickly than it is being built. Particularly for highways, concern to achieve the lowest possible tariff for road users has curtailed investments in improvements. A research study carried in 2009 by the National Confederation of Transports (CNT), indicates that only 32% of roads are considered “good to excellent”.
In summary, the current model for the transport administration is inefficient and unprofessional. For example, the National Court of Audit (TCU) cannot order a project to be stopped but can only make recommendations to Congress; it usually suggests action on isolated parts of a project and recommends paralysis only when the whole thing seems riddled with corruption. The old and renowned problems of the sector must be quickly identified in order for the country to become better integrated and to serve the growing market efficiently.

The system suffers from regulations that are outdated and inadequate for current levels of demand. The low efficiency in services causes costs that are superior to world averages, which in turn compromises the productive sector in international levels of competition and quality. For example soy (one of the main export products of Brazil) has transportation costs that represent 19% of the final product cost when selling from the United States to Germany while in Brazil it is above 30%. Studies by the Inter-American Development Bank have shown that lowering 10% of the cost means that Brazil could export 30% more to the United States. Although new laws have given some attention to the problem, confusion over the separation of responsibilities between federal, state and municipal authorities has put progress on hold.

The investment in railways has seen some progress with the conclusion of a few projects in the North of the country. However, the service areas need to cover more area so that rail transport method can play a bigger part in Brazil's economy.
**Renewable Energy**

The availability and costs of energy are key ingredients for the competitiveness of Brazil's industry. Brazil's energy tariff rates for the industrial producer have increased, above inflationary levels. Between 2002 and 2007, the average price has risen by 21.6%, a significantly large number when compared to Mexico's 12.7% and the United States' 5.4%. Moreover, the various agencies and organizations in the sector keep prices above average, contributing to 12% of the price for the industry and having a tax burden of almost 40% of the total cost. Furthermore, a weak regulatory system for the distribution of energy across the country impacts the distribution network. Investors await the government’s decisions on the policies to expire in 2015 regarding the generation, transmission, and distribution of energy. The lack of positioning on the issue generates high insecurities, postponing investment interest in the sector.

Nevertheless, Brazil is globally recognized for the sustainability of its energy matrix, with a recent increase in participation from renewable sources. Most remarkable has been its focus on research and development of biomass, sugar cane, and hydroelectricity. Renewable energy makes up 48% of Brazil's electricity matrix, far above the 14% world average. Due to a growing economy, Brazil's electricity market has also been growing at a faster pace than other countries. In the past 35 years it has seen a 6.1% annual growth compared to that of the 3.4% global average. Notwithstanding, the use of and accessibility to energy remains low when compared to world averages. For example, per capita consumption in Brazil is 1/6 of the average consumption in the United States. Policies that give incentives to renewable resources of energy can help elevate demand in the country. The investment landscape must be one that honors a reasonable energy tariff, attracts capital in all productive segments, and installs economic and financial instruments to stimulate development of renewable energy.
Hydroelectric Power

Heavy costs of hydroelectric power are a result of heavy restrictions on environmental licensing for projects and the reduced availability of hydropower in consumer centers. 70% of Brazil’s hydroelectric power potential remains unexplored. In recent years projects for hydroelectric development faced social and environmental criticisms particularly when looking at creating water reserves.

The Madeira River Complex

Bordering Peru, Bolivia, and Brazil, the Madeira River Complex is one of the anchor projects for the Integrated Regional Infrastructure for South America. It would create a major corridor for energy production and raw material export. By developing dams, in Santo Antonio and Jirau (Rondonia, Brazil), the Brazilian market could benefit from a production of almost 6450 megawatts of hydroelectricity, about 8% of the Brazilian energy matrix. Most importantly, Madeira would increase the capacity for transporting soybean (one of Brazil’s most important commodities), timber, and minerals to the Pacific through the opening of a river channel and the new highways in the Peruvian and Bolivian Amazon. This would result in a potential 500% growth in soybean transport, shifting from the current seven million tons to almost 35 million tons exported. The slow interest in investment is due to the enormous costs and technical challenges of the region. There are risks in environmental and social impacts that could significantly change the landscape of the region and threaten the sustainability of endangered species. However, the large long-term returns to the economy should also be weighed in the equation. Other alternatives for transportation and energy resources continue to harm the environment with miles upon miles of polluting trucks and a less than favorable use of thermoelectric energy. If built in a conscientious manner, Madeira could be a revolutionary project for the growth of Brazil in the global marketplace.

There are US$50.9 billion available from PAC I for infrastructure and energy projects in the Amazon region. The Madeira Complex represents the largest portion of the investment with US$21.6 billion. The Brazilian National Development Bank (BNDES) has also received US$ 3 billion from the Inter-American Development Bank to support the project, however lack of transparency makes it unclear how the money has been applied. Direct financing cannot be emitted until the environmental agency, IBAMA, approves the project’s license. More than 1500 miles of electric transmission lines would have to be built to connect the dams to the nation, and IBAMA claims there is not enough data from the Environmental Impact Assessments (EIAs) to determine the project’s impact.

In addition, in 2007 politicians and government officers in the Ministry of Energy and Mines were arrested due to suspected fraud in the bidding process. Gautama Construction Company had influenced the system in order to get a bigger chance at winning large infrastructure projects in the Amazon basin area. The Minister of Energy and Mines, Silas Rondeau, stepped down after the Federal Police found evidence of the Minister receiving US$50,000 in bribes. This has also heightened uncertainty of investors and slowed the construction of the project in the region.
Ironically this leads to a higher use of thermoelectric energy, a far less environmentally friendly resource and with far higher costs.

**Ethanol**

Brazil’s focused commitment to developing a competitive sugarcane industry has allowed the country to achieve greater energy independence. Sugarcane ethanol is a clean and affordable renewable fuel and a key part of its energy matrix. The country first began using ethanol in vehicles in the 1920s but research and development really became a priority for the sector once the oil shock hit the globe during the 1970s. But it was only in 2003 with the introduction of the *flex fuel* vehicles that ethanol gained popularity. Today, over 90% of cars sold in Brazil are *flex fuel*, allowing drivers to choose between running on gasoline or ethanol. This renewable energy source has allowed Brazil to reduce its greenhouse gas emissions and to develop greater economic growth through sugarcane exports.

In order to ensure that ethanol maintains an influential position not only in the energy sector but also in Brazil’s economy as a whole, the Brazilian government must continue to reinforce the importance of renewable energy through the revision of policies that emphasize the benefits of this resource to industry. Logistics of commercialization of this product must be strengthened and perfected. Additionally, a safer climate for business negotiations would help attract private capital and investments in the sector.

**Oil & Gas**

A peaking global demand for oil and natural gas presents an exceptional opportunity for Brazil. The country ranks 17th in the world in terms of oil reserves. Significant findings in the pre–salt region, by the state-owned company *Petrobras*, will allow the country to become a major player in the field. The discovery of large reserves increased its stock price by 19%. The Brazilian Petroleum Institute estimates that the country has probable reserves of 60-80 billion barrels. The agenda for research and development of oil calls for strong policies that can maximize the sector’s economic potential. Currently federal and state governments favor local firms or firms with significant local content. International investors must seek a local partner for its ventures. There have been tax exemption incentives to attract foreign investors (i.e. ICMS sales tax), however they were removed far before its expiration date. Brazil is considering regulatory changes for the purpose of capturing more capital from the industry. Two competing models are in discussion: 1) maintain current concession model and increase royalties or 2) nationalize petroleum reserves and use production sharing agreements to partner with companies to develop them. Although both options will draw the same revenue for the industry, these two models have different political implications and a direction

---

9 Referred to as Tupi, Jupiter, and others.
will only take light after the 2010 Presidential elections. In order for Brazil to become a key exporter of oil, infrastructure must be developed in other supporting sectors. Naval operations must have a greater part in the country’s economic dynamic. Most importantly, waterways and storage equipment must be modernized in order to support a high oil demand.

Natural gas

Industry is the biggest consumer of natural gas, being responsible for 65% of its total use in 2009. Gas is 9.3% of the country’s total energy resource. The price of sale to distributors is not regulated and has been arbitrated by unclear procedures with no transparency or predictability. The current scenario creates a perception of risk through its uncertainties. Lack of regulation allows the producer to set his own price, giving rise to a monopolistic market with low competition. Nevertheless, this important resource may become a major player in the country’s energy matrix, but in order for its market participation to grow, there must be stable prices and a clear separation of activities.

Petrobras

Petrobras is Brazil’s largest company with net revenues of US$ 85.3 billion and is ranked among the top 15 oil companies in the world. Petrobras’ monopoly ended in 1998 allowing for over 50 international firms to enter the Brazilian market. The Brazilian government owns 55.7% of Petrobras’ common shares with voting rights. Petrobras continues to dominate the marketplace, making most of the opportunity for other companies in servicing and supplying for Petrobras operations.

The company is scheduled to issue more than US$6 billion shares to as much as US$78 billion by September 23, 2010, just ten days before the Presidential election. During 2009 – 2013 Petrobras plans to invest US$174.4 billion to increase productivity. Petrobras expects to double its production by 2020.

Petrobras has expanded its business to international markets, having a presence in 28 countries. In the United States Petrobras America is headquartered in Houston, Texas.

---

CONCLUSION

The unstable economics and politics that encompass Brazil’s past is merely a shadow of what is now a promising future. During the 1990’s the *Plano Real* introduced an economic model that was able to tame the infamous inflation levels and unpredictability of the market. The current Lula administration is praised for being able to look past political party interests and sustain his predecessor’s economic model. Today, a booming economy and growing middle class have placed Brazil among the fastest growing countries in the world, allowing it to hold a more influential position in global governance.

But with power comes responsibility. Brazil must be wary of the velocity of its growth. On one hand, the heated economy signals opportunity and progress, on the other it signals the fragility of an inflated bubble that can burst as it continues to scorch. Although Brazil’s volatile history remains in the past, it must not be forgotten. The new stable environment will be a long-term reality only if the backbone of the system is also stable. In order for the country to be able to compete on the global platform, it has to use its opportunities with discretion. A closely monitored slow down in its economy can establish long-standing changes in its infamous system.

With the start of a new administration in January of 2011, the new president has the opportunity to leave his/her mark by embracing a plan that secures Brazil’s influential position in the global arena. Media has spotlighted the country’s promising future, bringing international attention to its national politics. Nevertheless it is time for Brazil’s leaders to put the hyped fame aside, hold back the excitement, and start acting on its much speculated potential.


"Dilma nega caráter eleitoreiro do PAC e baixa execução orçamentária do programa," 7 May 2008, *A Folha de São Paulo*

