

BRAZIL

Amid the global economic turmoil, Brazil is still a safe haven for investors. In the third and final part of its *Booming Brazil* series, Global Business takes a closer look.



BRAZIL

Famous for its sun-kissed beaches, samba music, and colorful carnivals, it is not only tourists who continue to pour money into Brazil's economy—the country remains one of the world's hottest investment destinations. Since President Luiz Inácio Lula da Silva took the helm in 2003 and embarked on a program of private investment and heavy promotion of export markets, Brazil's import and export revenues have surged.

With the highest gross domestic product in Latin America, Brazil boasts large and well developed mining, agricultural, manufacturing, and services sectors. It has access to a huge labor pool among its 188 million population, and the future growth potential across many industrial and consumer sectors is one of its major strengths. It has been expanding its presence in international financial and commodities markets, and it is one of the four emerging major economies known as BRIC – Brazil, Russia, India and China.

Increased living standards and greater job security have resulted in a boom in middle-class growth and spending on real estate and consumer goods. Travel companies and airlines have been among the winners of increased travel opportunities for its citizens, with regional destinations such as Manaus, Fortaleza, Salvador, and Florianópolis reporting increased visitor numbers. Airport operator and cargo logistics group

Infraero is one such beneficiary of the rise in air travel, as it manages 67 airports, 80 air shipping support units, and 32 cargo logistics terminals (TECA).

A major oil and gas producer, Brazil is also the world leader in ethanol production, thanks to the large number of sugar cane plantations across the country. Millions of automobiles run on ethanol rather than petrol in a government-backed program

to cut harmful emissions and reduce reliance on fossil fuels. Santelisa Vale is Brazil's second-largest sugar and ethanol producer and an industry leader in new technology and innovation. The company, which last year attracted substantial investment from Goldman Sachs, expects to produce 25 million bags of sugar this year, in addition to 700 million liters of

ethanol. It will sell a surplus of electricity totaling 420,000 MWh—enough to power a city of one million people for a year—that it produces from sugar cane bagasse.

Earlier this year, oil giant BP took a 50% stake in Santelisa Vale's joint venture with Maeda Group, Tropical BioEnergia. The joint venture is set to invest U.S.\$1 billion in the construction of two large new ethanol refineries.

Meanwhile, Brazil's public health system is managed and supported by all levels of government but the private health sector is developing fast due to expansion of the middle class. Health Minister, José Gomes Temporão, says: "Brazil has an



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Marcelo Hahn,
Founder and CEO,
Blasiegel

interesting characteristic: it is a mixed system, public and private. About 80% of the population uses the public system, and 20% use the plans offered by private health insurance companies." Two decades after being formed with U.S.\$20,000, health-care producer Blausiegel is one of the sector's leading names. It has ambitious plans for further growth and is investing heavily in new product lines. Best known for its core condom brand, Preserv, the business has continued to expand into several other pharmaceutical sectors such as medicine and vaccines for hospitals and clinics.

With the Brazilian government pursuing a policy of easier health-care access for the country's poor, Blausiegel is well

positioned to benefit from increased spending at home, while also expanding its presence in foreign markets.

In a strictly controlled and tightly regulated domestic industry, the owner of Ariston medicine continues to target niche markets for its 200 products, and was the first Brazil-based manufacturer of biotechnology products.

Founder and CEO, Marcelo Hahn, says: "Brazil is an excellent market in which to invest. It is a country rich in natural resources and does not hesitate to innovate. If the economic policies and politics continue as they have been doing, the country will grow even more. We started with U.S.\$20,000 and have come this far. If 5% of all the projects we have succeed,

Samarco — Brazil's leading iron ore producer goes from strength to strength.

Brazilian-based Samarco Mineração works in the exportation of iron ore and pellets, selling 100% of its products to more than 15 countries in Europe, Asia, Africa, the Middle East, and the Americas. A joint venture between Companhia Vale do Rio Doce and BHP Billiton, Samarco is the world's second-largest pellet producer, and with 20% of the global market share overall, ranks among Brazil's top ten companies.

Samarco's productive independence is assured because it generates nearly half of the energy needed itself, through hydroelectric power plants at Muniz Freire, which produces 25MW, and Guilman-Amorim—49% owned with Belgo Mineira—which produces 140 MW and provides 45% of the energy consumed in Germano. Together, these two plants supply about 40% of the company's total requirements, with the maximum environmental control.

As demand for steel continues to grow, so too does the company. "A third pellet plant project is now under way which will grow our capacity by 54% from the present level of 14 million tons of pellets annually to 21.6 million," Samarco's CEO, José Tadeu, explains. Of the total investment needed for this project—U.S.\$1.2 billion—U.S.\$800 million was obtained from 18 domestic and international institutions, taking advantage of the liquidity in the world economy. The remainder was self-financed. "It has been a huge investment, because we had to build everything from scratch," Tadeu says. "It includes a new 400 km pipeline that is the longest iron ore pipeline in the world."

This level of interest earned Samarco a BBB rating from

Fitch. Proposals received by the company exceeded U.S.\$1.2 billion, 50% more than had been actually sought on the market.

Between 60% and 70% of the new production has been absorbed by Samarco's existing customers, which, Tadeu says, recognize the high quality of the product and the competitive price offered (in dollars). "We have a very strong relationship with our clients that has lasted some 20 or 30 years," he says. "Our relationships are transparent, based on ethical trading and aimed at generating value for all stakeholders." Samarco's other competitive advantages lie

"Our vision is to be the world leader in pellet production."

in its limited customer base, around 30, which makes for easy and personalized management, and low costs: the company operates its own port facility at Point Ubu, which can accommodate two vessels of up to 170,000 tons. A fourth plant is already being studied.

"Our vision is to be the leader in pellet production within ten years, and recognized as a world-class organization," says Tadeu. "I see a promising future for us; we have been able to grow and keep our share of the market in a very competitive industry."

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José Tadeu de Moraes, President, Samarco

the company will earn 10 times more.”

One of the more difficult markets for foreign investors to succeed in is Brazil's pharmaceutical industry, with the government keen to promote the interests

of local manufacturers. Low prices, various market protection measures, and a high level of competition mean the sector is dominated by a handful of large domestic companies.

However, the generics sector is performing well for overseas investors, and several major foreign generics makers have set up subsidiaries and production facilities in Brazil.

The business of innovation

With a presence in 140 countries, leading French independent pharmaceutical firm Servier first established itself in Brazil in 2001 with the opening of a center for therapeutic research in Rio de Janeiro.

A new drug factory was opened in the city by Servier do Brazil in 2006, and more substantial investment will take place shortly as the innovative company



Rio de Janeiro, Brazil's famed cosmopolitan coastal resort.

which are widespread in Latin America. “Servier intends to make significant investments in Latin America,” she adds. “Our objective for 2011 is to exceed €240 million (U.S.\$304 million), including €100 million (U.S.\$126 million) from Servier do Brazil, and to create a significant number of jobs.”

As of early 2006, there were an estimated 3.3 million broadband lines in Brazil, more than 95% of which were via ADSL technology, and the rest via cable modems. Founded 22 years ago, Microcity is one of Brazil's largest and most successful IT companies. The hardware and software solutions business enjoys a 17.3% slice of the market and an annual growth rate of 30%. Turnover in 2007 was U.S.\$27

Finally, with massive mineral resources, Brazil's mining sector is one of the most profitable, with companies exploiting large deposits of natural materials such as nickel, tin, chromite, lead, iron ore, and copper. Formed in 1975 by the merger of Samitri and Marcona, mining group Samarco has a global reach with 30 clients in 15 countries spread throughout Asia, Africa, the Middle East, Europe, and the Americas. ■

“Our research activities make us different from the competition.” Varso Toppjian, GM, Servier do Brazil

looks to strengthen its presence. General manager Varso Toppjian says: “We are an innovative company focused on research. Our research activities make us different from the competition because we are always able to bring in new products. Brazil is one of the most important countries in South America and it has very good research centers. We have agreements with more than 50 Brazilian entities such as Instituto do Coração in São Paulo. This enables us to better identify medical needs and collaborate with specialists in these countries, particularly in the fields of cardiovascular disease and diabetes,

million and is expected to grow to U.S.\$34 million in 2008. Turnover for 2009 is seen at U.S.\$46 million. “We are specialists in infrastructure outsourcing and offer customized solutions depending on our clients' needs,” states president Luis Carlos Cunha Nacif. “We integrate platforms and develop technological solutions for the corporate market. We have invested U.S.\$95,000 in a new branch in São Paulo, and are expanding activities to new markets. I want Microcity to be the industry leader in Brazil and for us to be recognized for our financial solidity and professionalism.”

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Infraero soars even higher

Brazil's aviation logistics giant is breaking records in cargo imports with excellent performance figures across the board.

Infraero, a public company with more than 30 years of tradition and excellence, is the name behind Brazil's 32 cargo logistics terminals (TECA), 67 airports, and 80 air shipping support units. Last year, cargo imports and exports in Brazil's logistics terminals increased 17.5%; a total of 689,030 tons were processed, with income from these operations increasing by 8.8%, to reach U.S.\$450 million.

A third of this cargo income was produced solely at São Paulo's TECA Guarulhos, which beat its own record in cargo imports with an increase of 15.8% in 2007, due to the fall of the dollar and strong demand in internal markets. TECA Campinas was second (followed by Manaus and Rio's Galeão), and moved 14,095 tons in October—the greatest volume of cargo ever to have been received, in one sole month, by a net terminal.

Infraero has a presence in every Brazilian state.

Infraero's commercial management has followed the increase of activities in logistics terminals with strategic actions. Investments in construction and restoration of stores, automation, information technology, handling and cargo movement equipment, and professional training are enabling the sustained growth of the new demand required by the market. The company has also invested heavily in information technology; a new system, for example, has enabled a customer loyalty program to be implemented. All of Infraero's cargo logistics terminals are equipped with modern information systems, which speed up the processes

of receipt, movement, storage, and release of cargo, and enabling greater security. In the search for excellence in provision of services, there has also been considerable investment in training.

Infraero also takes its social commitments seriously, and is responsible for 62 social projects in the airports it manages. Around 17,000 people benefit each year from the Infraero Social Program, which focuses on training, health, and formal education for children, youngsters, and adults at social risk and living in low income communities that are situated close to the airports.

In 2005, the company extended its social action to sports. As official sponsor of the Brazil judo team, Infraero is now taking the sport to people living in the vicinity of its airports and has already begun classes in both the Minas Gerais and Rio de Janeiro states.

In order to serve its airport customers better, Infraero has opened direct communication channels with clients for suggestions, claims, and information requests via special Company Information Booths in the airports, a toll-free number, and through its website. Besides information on the company and on the main airports in Brazil, the website also provides an on-line consultation service on flights in the main Brazilian airports. At the present time, customers can find out if an aircraft is late or on time from the comfort of home.

Linked to the Ministry of Defense, and with its head office in the capital Brasilia, Infraero is present in all Brazilian states and employs some 26,500 professionals, both in-house and outsourced.

For Infraero, the sky really is the limit.

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