



THE LEGAL FRAMEWORK OF DOING BUSINESS IN BRAZIL

Presentation
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The Legal Framework of Doing Business in Brazil



- 1.- INTRODUCTION;**
- 2.- HISTORICAL, POLITICAL AND GEOGRAPHIC CONSIDERATIONS;**
- 3.- THE BRAZILIAN CONSTITUTIONAL FRAMEWORK:**
 - 3.1.- The Executive;**
 - 3.2.- The Legislative; and**
 - 3.3.- The Judiciary.**

The Legal Framework of Doing Business in Brazil



4.- COMPANY AND INVESTMENT LAW;

4.1.- The Corporation (S.A.)

4.2.- The Limited Liability Company; and

**4.3.- Forms of Investment, Exchange Controls
and International Flow of Domestic Currency.**

The Legal Framework of Doing Business in Brazil



5.- TAXATION

5.1.- Income Tax;

5.2.- Sales Tax (ICMS , IPI);

5.3.- Service Tax;

5.4.- Tariffs and the Common External Tariff (CET);

and

5.5.- Double Taxation Treaties.

The Legal Framework of Doing Business in Brazil



6.- THE FINANCIAL SECTOR

6.1.- The Stock Exchanges and the Capital Markets;

6.2.- Banking; and

6.3.- Insurance.

7.- THE LEGAL STRUCTURE OF MERCOSUL

7.1.- MERCOSUL: Current situation;

7.2.- MERCOSUL: Trade Negotiations.

BRAZIL HISTORICAL, POLITICAL AND GEOGRAPHIC CONSIDERATIONS



- ⇒ The Executive;
- ⇒ The Legislative; and
- ⇒ The Judiciary.

The Brazilian Constitutional Framework

EXECUTIVE POWER



Palácio do Planalto

The Brazilian Constitutional Framework



EXECUTIVE POWER

(Federal Level)

Structure

PRESIDENCY

Mandate of four years

President Mr. Fernando Henrique Cardoso

First Mandate - 1995-1998

Second Mandate - 1999 - 2002



MINISTRIES - 20

The Brazilian Constitutional Framework

EXECUTIVE POWER



Ministeries' Avenue

The Brazilian Constitutional Framework

EXECUTIVE POWER



(Federal Level)

Structure *(continuation)*

Some Ministries

- 1. Ministry of External Relations** - Itamaraty - *Minister Ambassador Luiz Felipe Lampreia*
phone (061) 411.6161 fax (061) 411-6993
- 2. Ministry of Finance** - *Minister Pedro Sampaio Malan*
phone (061) 314.2000 fax (061) 223.5239
- 3. Ministry of Development, External Trade and Industry** - *Minister Alcides Lopes Tápias*
phone (061) 325.2000 fax (061) 325.2209
- 4. Ministry of Justice** - *Minister José Gregori*
phone (061) 429.3000 fax (061) 224.6817
- 5. Ministry of Mines & Energy** - *Minister Rodolpho Tourinho Neto*
phone (061) 319-5555 fax (061) 321.5547

The Brazilian Constitutional Framework

EXECUTIVE POWER



(State Level)

Structure

Governor

(mandate of 4 years)

Governor of São Paulo

- *Mr. Mario Covas* -

First Mandate - 1995 - 1998

Second Mandate - 1999 - 2002

SECRETARIES

The Brazilian Constitutional Framework

NORONHA
ADVOCADOS

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National Congress

Legislative Power



The Brazilian Constitutional Framework

LEGISLATIVE POWER

(Federal Level)

National Congress

(Composition)

SENATE
(81 Senators)

3 Senators per state and Federal District with a mandate of 8 years.

CHAMBER OF DEPUTIES
(513 Deputies)

- ➔ Each legislature has the duration of four years.
- ➔ Every four years, the Senate is renewed by one and two thirds, alternatively.

The Brazilian Constitutional Framework

LEGISLATIVE POWER

(Federal Level)

National Congress

1.- NON-EXCLUSIVE COMPETENCE

- 1.1.- Taxation
- 1.2.- Budget;
- 1.3.- Armed Forces;
- 1.4.- Territory;
- 1.5.- Political Subdivision;
- 1.6.- Organization of the Judiciary;
- 1.7.- Others.

The Brazilian Constitutional Framework

LEGISLATIVE POWER

(Federal Level)

National Congress

1.- EXCLUSIVE COMPETENCE

2.1.- International Treaties;

2.2.- Control of the Executive;

2.3.- Approve the accounts of the Presidency; and

2.4.- Others.

The Brazilian Constitutional Framework

LEGISLATIVE POWER

(State Level)



ASSEMBLY OF DEPUTIES

The Brazilian Constitutional Framework

JUDICIARY POWER



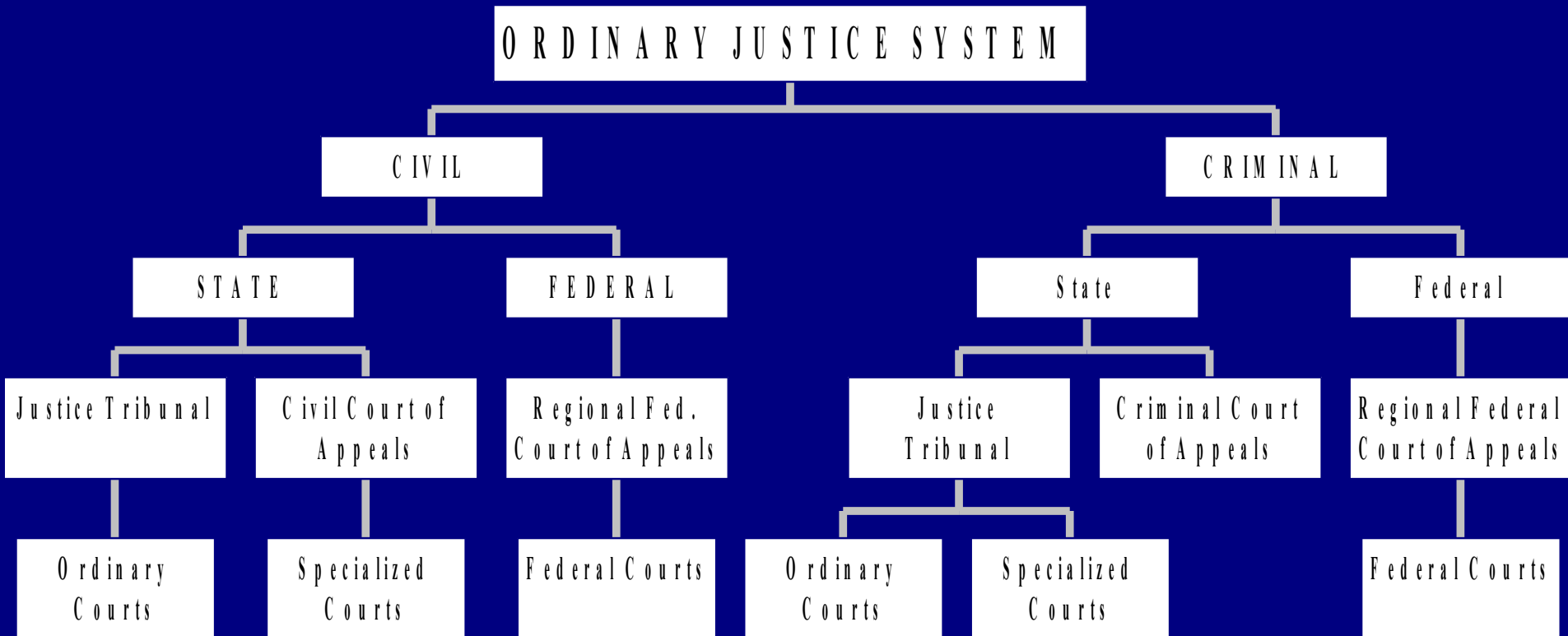
Federal Supreme Court

The Brazilian Constitutional Framework



BRAZILIAN JUDICIARY

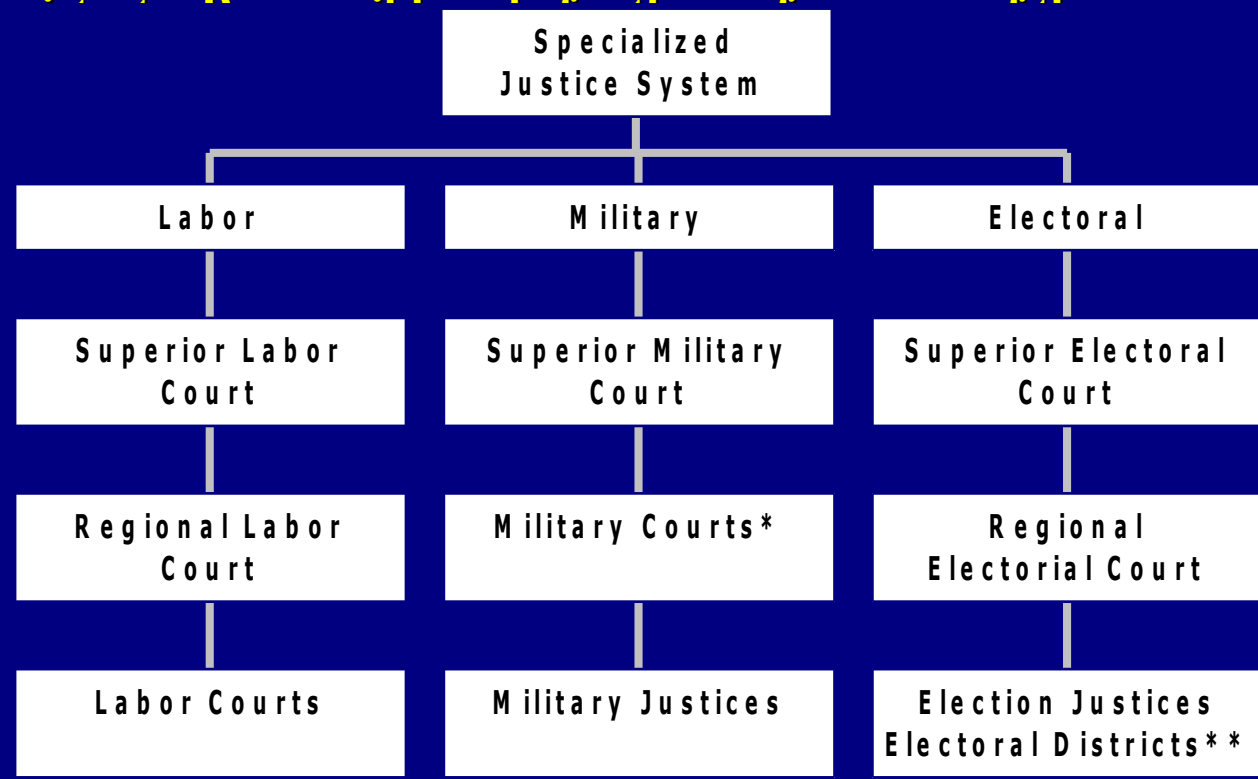
Higher Courts - Federal Supreme Court and Superior Court of Justice



The Brazilian Constitutional Framework

BRAZILIAN JUDICIARY

Others:
Small Claims Courts
Marriage M
marriage ce



* In some states the Justice Tribunal acts as the Military Court.

** Where there is no specialized electoral court the State Judge has jurisdiction.

COMPANY AND INVESTMENT LAW



BASIC COMPANY TYPES

⇒ More complex:

Sociedade Anônima (S.A)

“Corporation”

⇒ Simpler:

Sociedade por Quotas de Responsabilidade Limitada
(LTDA.)

“Limited Liability Company”

FORMS OF INVESTMENTS AND FLOW OF FUNDS

- Foreign Currency
- Migration from soft to hard currency (2000)

TAXATION

CORPORATE INCOME TAX IN BRAZIL FOR 2001



| | |
|-------------------------------------|---|
| <i>Taxable event:</i> | income |
| <i>Rate:</i> | 15% |
| <i>Additional Rate (Surcharge):</i> | 10% on the amount over R\$ 20,000.00/month (R\$ 240,000.00 annual) |

EXAMPLE (monthly basis)

| | |
|---|--------------|
| Gross Income | 1,000,000.00 |
| Social Contribution (9% rate) | 90,000.00 |
| Taxable Income | 1,000,000.00 |
| Federal Income (15% rate) | 150,000.00 |
| Surcharge (over 20,000.00/month) - (10% rate) | 98,000.00 |
| Total Taxes | 338,000.00 |
| Net Income | 662,000.00 |

TAXATION

SALES TAX



⇒ **ICMS** (*State Tax on Circulation of Goods and Services*)

General Rate: 18% in the State of São Paulo

⇒ **IPI** (*Federal Tax on Manufactured Products*)

General Rate: depends on the product

| <u>Product</u> | <u>Average Rate (%)</u> |
|--------------------|-------------------------|
| Paper | 12 to 20 |
| Cloth | 5 |
| Cameras, radios | 10 to 20 |
| Watches | 18 to 28 |
| Passenger Vehicles | 25 |
| Load Vehicles | 5 to 10 |
| Boats | 5 to 25 |
| Weapons | 45 |

SERVICE TAX

⇒ **ISS** (*Municipal Tax on Services*)

General Rate: 5% in the City of São Paulo

TAXATION

TARIFFS AND THE COMMON EXTERNAL TARIFF (CET)

The CET represents, generally, tariff levels from 0 to 16 %.

EXAMPLES

| <u>Product</u> | <u>Average Rate (%)</u> |
|--------------------|-------------------------|
| Paper | 15 to 19 |
| Cloth | 17 to 21 |
| Watches | 21 to 23 |
| Weapons | 23 |
| Passenger Vehicles | 23 |
| Load Vehicles | 23 |

TAXATION

BRAZIL'S DOUBLE TAXATION TREATIES



In force: Argentina, Austria, Belgium, Canada, China, Czech and Slovak Republics, Denmark, Ecuador, Finland, France, Germany, Holland, Hungary, India, Italy, Japan, Korea, Luxembourg, Norway, Philippines, Portugal, Spain and Sweden.

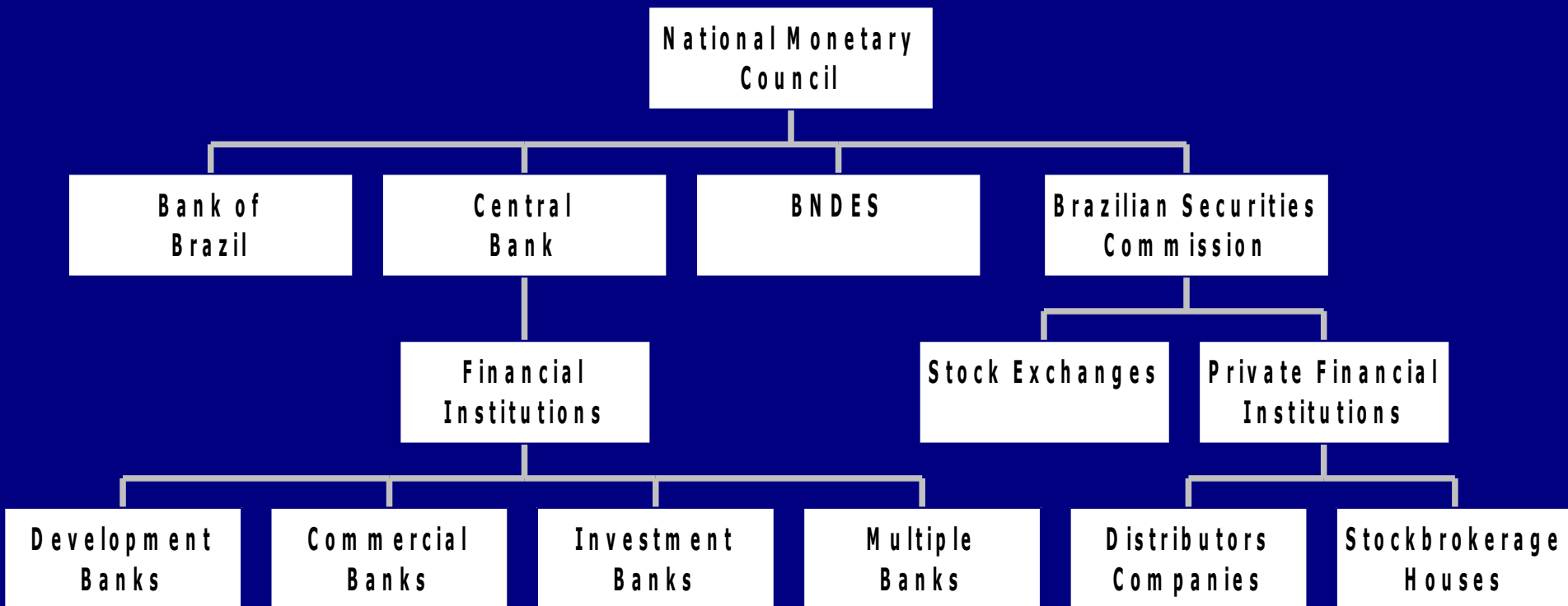
In negotiations: South Africa, United States of America.

THE FINANCIAL SECTOR



Central Bank

NATIONAL FINANCIAL SYSTEM



THE BRAZILIAN FINANCIAL SYSTEM

- ⇒ **The National Monetary Council;**
- ⇒ **The Central Bank of Brazil;**
- ⇒ **The National Bank of Economic and Social Development;**
and
- ⇒ **Other public and private financial institutions.**

THE STOCK EXCHANGES AND THE CAPITAL MARKETS

- ◆ Regulatory Agency “Comissão de Valores Mobiliários” - based in Rio de Janeiro.



SÃO PAULO STOCK EXCHANGE - BOVESPA

- ♦ The São Paulo Stock Exchange was founded in 1890;
- ♦ Largest stock exchange in South America
- ♦ 122 brokerage members and 459 listed companies;
- ♦ In 2000 the total amount of trade was US\$ 102 billion, an increase of 15.6% as compared to 1999 (US\$ 86 billion);



SÃO PAULO STOCK EXCHANGE - BOVESPA *(continuation)*

♦ The profile of the participation of investors in the overall traded volume in 2000:

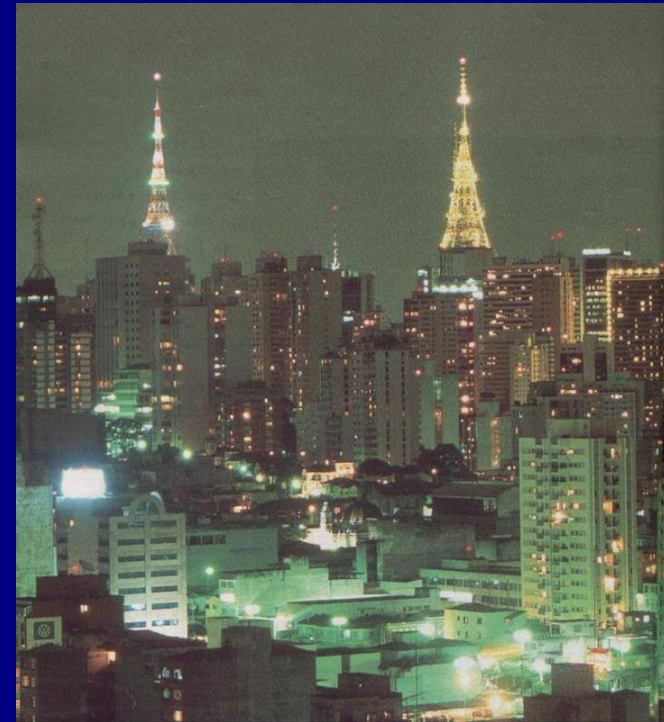
- individuals - 18.2%
- institutional investors - 19.4%
- foreign investors - 22.6%
- financial institutions - 36%
- others - 0.20%



COMMODITIES AND FUTURES EXCHANGE -

“BOLSA MERCANTIL E DE FUTUROS” (BM&F)

- ◆ Founded in 1986 and based in São Paulo;
- ◆ 10th largest derivatives exchange in the world;
- ◆ Approximately 40 million contracts in the period January to September, 1999;
- ◆ Grown at an average rate of 60% a year;
- ◆ *No share options;*
- ◆ Financial Contracts, Interest rates, Exchange rates;
- ◆ Commodities Contracts: gold, coffee, live cattle, soya, sugar, others



TYPES OF PRIVATE FINANCIAL INSTITUTIONS

- Commercial Banks
- Investment Banks
- Credit and Financing Companies
- Real Estate Credit Cooperatives
- Leasing Companies
- Stock Brokerage Companies
- Exchange Brokerage Companies
- Securities Distribution Companies
- Mortgage Companies
- Factoring Companies
- Foreign Banks
- Multiple Banks

The Legal Structure of MERCOSUL



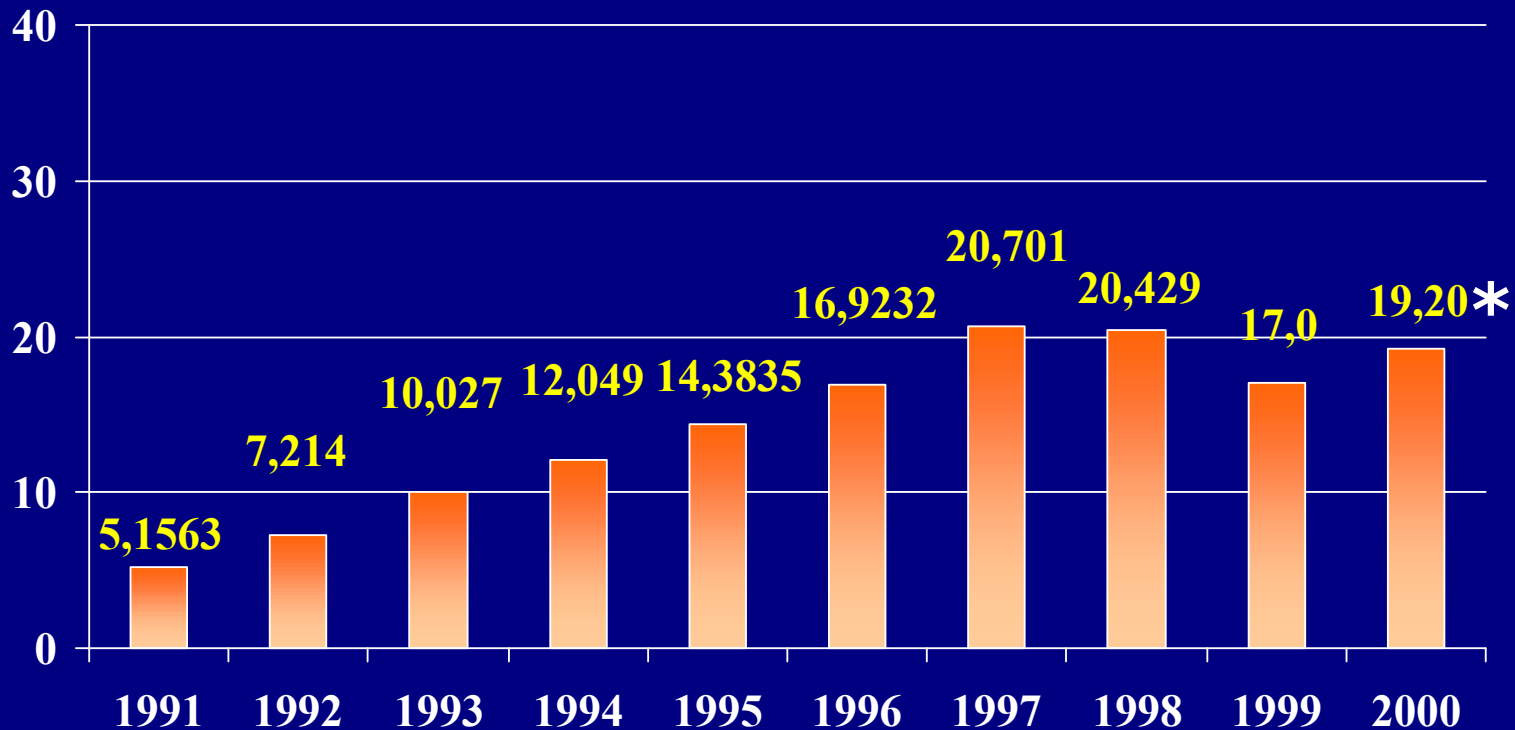
MERCOSUL's Objectives

- ◆ The free circulation of capital, goods and services, and people;
- ◆ The creation of a common external tariff and trade policy;
- ◆ The co-ordination of macroeconomic policies.

SOUTH AMERICA

MERCOSUL BENEFITS

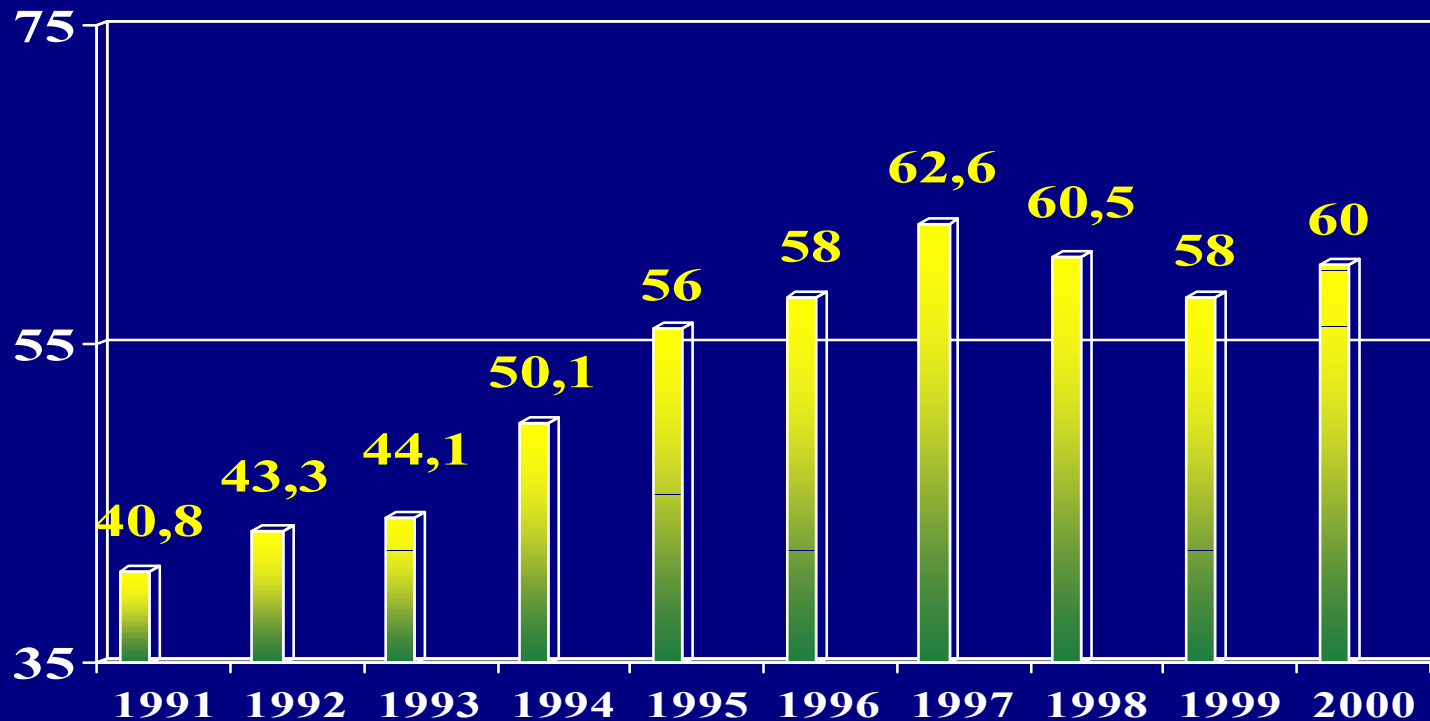
Increased commerce inside Mercosul...



* estimated

SOUTH AMERICA **MERCOSUL BENEFITS**

Without reducing commerce outside Mercosul



SOUTH AMERICA **MERCOSUL: STILL ROOM FOR GROWTH IN TRADE**

Total commerce inside region / Total GDP

