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Opportunities and Legal Challenges for Chinese Investments in Brazil

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POINTS OF PRESENTATION

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

Brazil - Opportunities



Map of Brazil



Strategic Advantages

**Arable land over
20 millions
hectars**



KZT



TUR



ARG



AUS



CAN



GER



UK



NLD



PKT



IDN



NIG



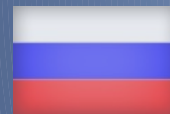
BRA



USA



IND



RUS



FRA



ITA



KOR

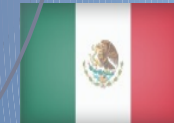
**Pop over 100 Million
inhabitants**



BGL



CHI



MEX



JPN

**GDP,
Population,
Agriculture**

**GDP over
US\$ 1 Trillion**

Fundamentals

Oil Production

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

Source:

1- Financial Times, July 8 2008

2- Petrobras, February 2011 estimate



Fundamentals

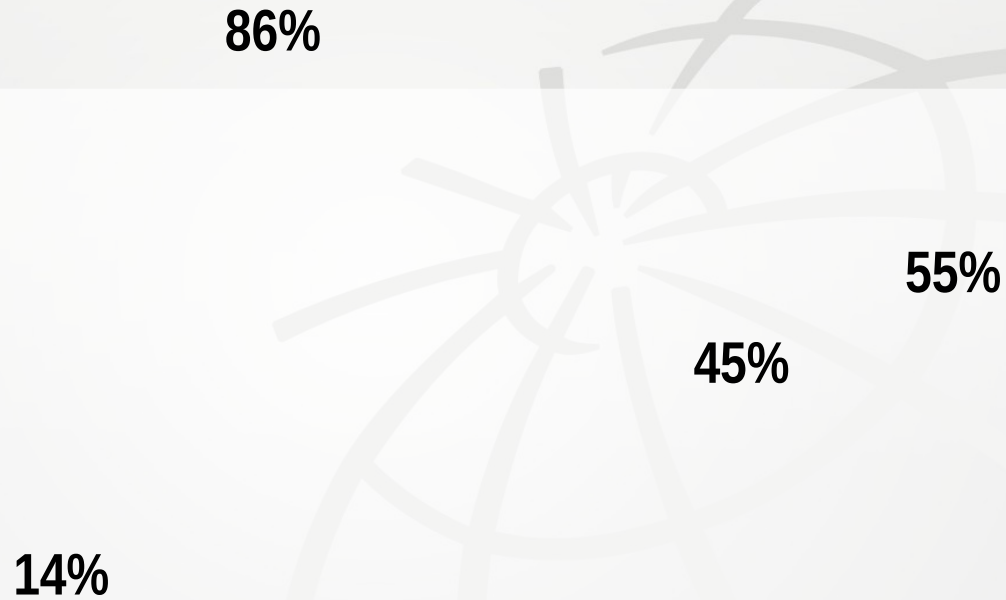
Ethanol Production

- 27 billion liters/year (2009)
- 70 billion liters/year (2020)* Estimate
- Increase in cultivated area by 67,000 hectares
- Creation of 20,000 direct jobs and 60,000 indirect jobs
- Investments in production chain estimated at around USD 1,5 billion for the next years
- CO2 emission reduction by 3.5 million tons/year

Source: Sugar Cane Industry Union - UNICA

Fundamentals

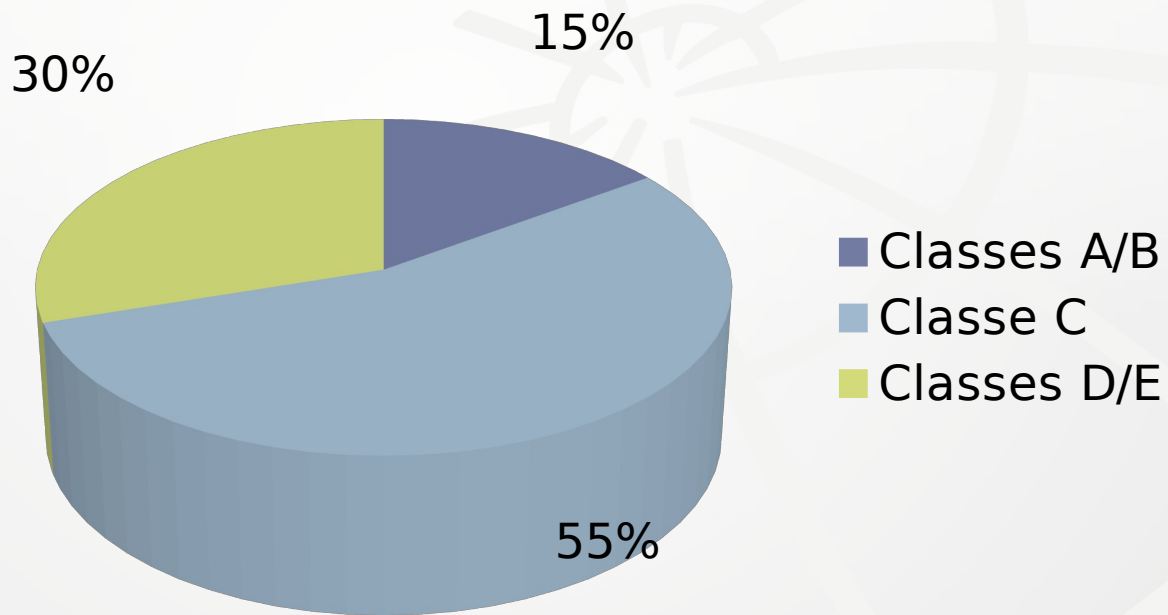
Sources of Energy



Source: Brazilian Ministry of Mines and Energy

Brazil's Economy

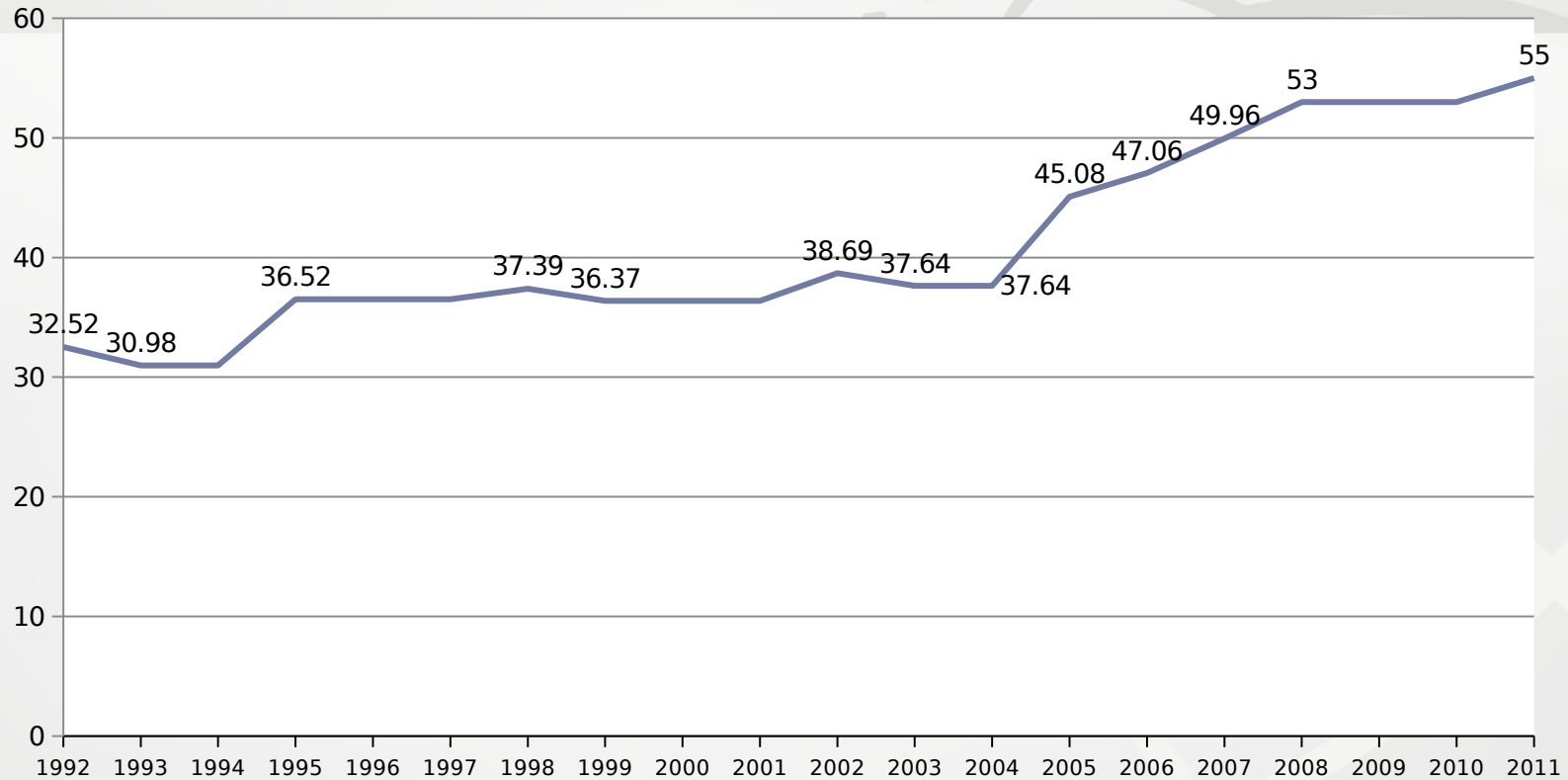
Brazil's Social Development: Division by Classes in 2010



Source: FGV

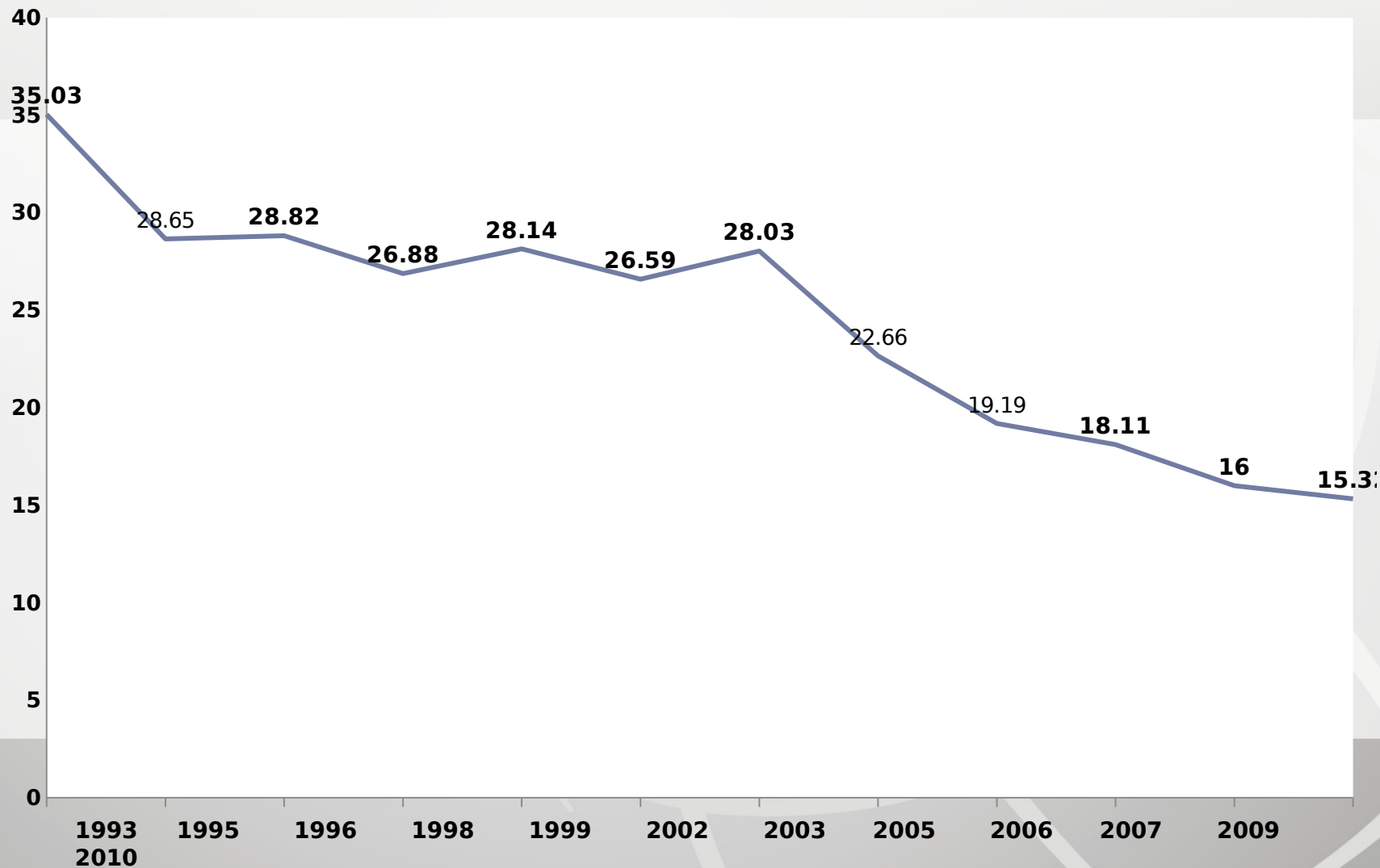
Brazil's Economy

Middle Class in % of the Brazilian Population - 1992/2011



Brazil's Economy

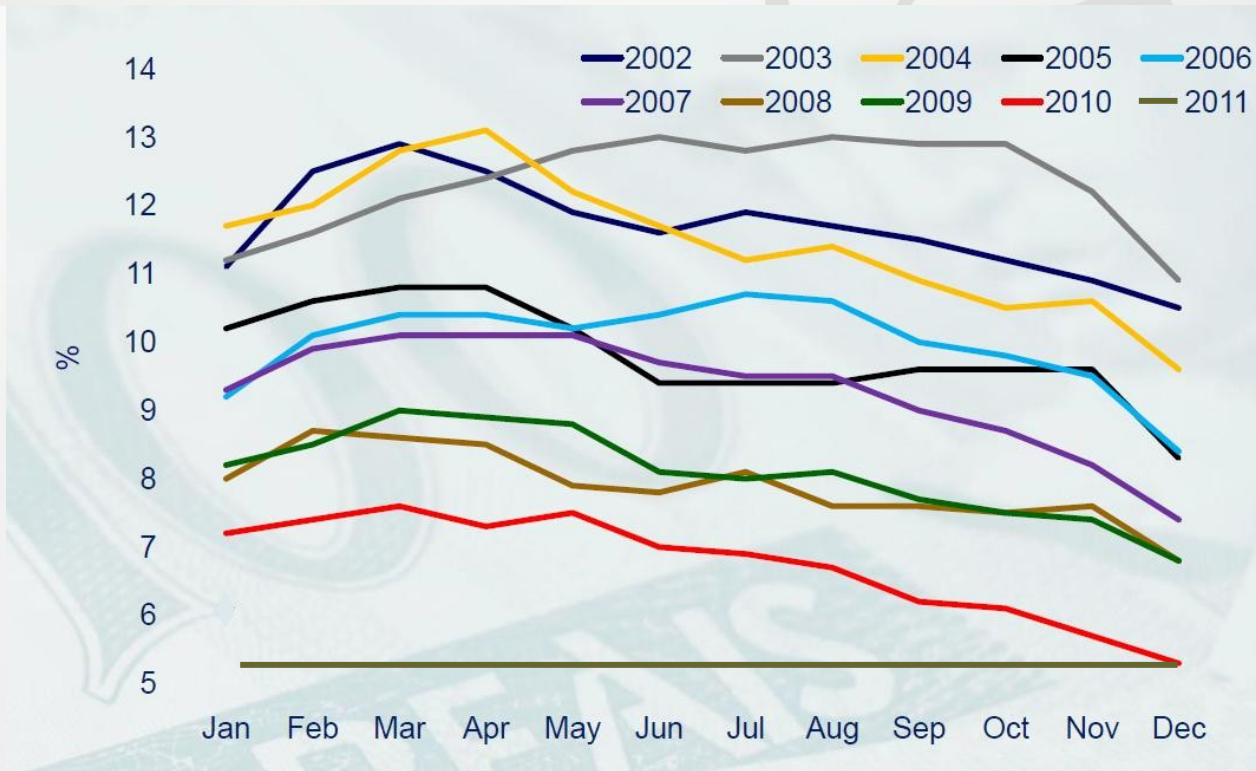
Poverty in % of the Brazilian Population - 1992/2010



Source: CPS/FGV

Brazil's Economy

Unemployment rate in Brazil



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

Brazil's Economy

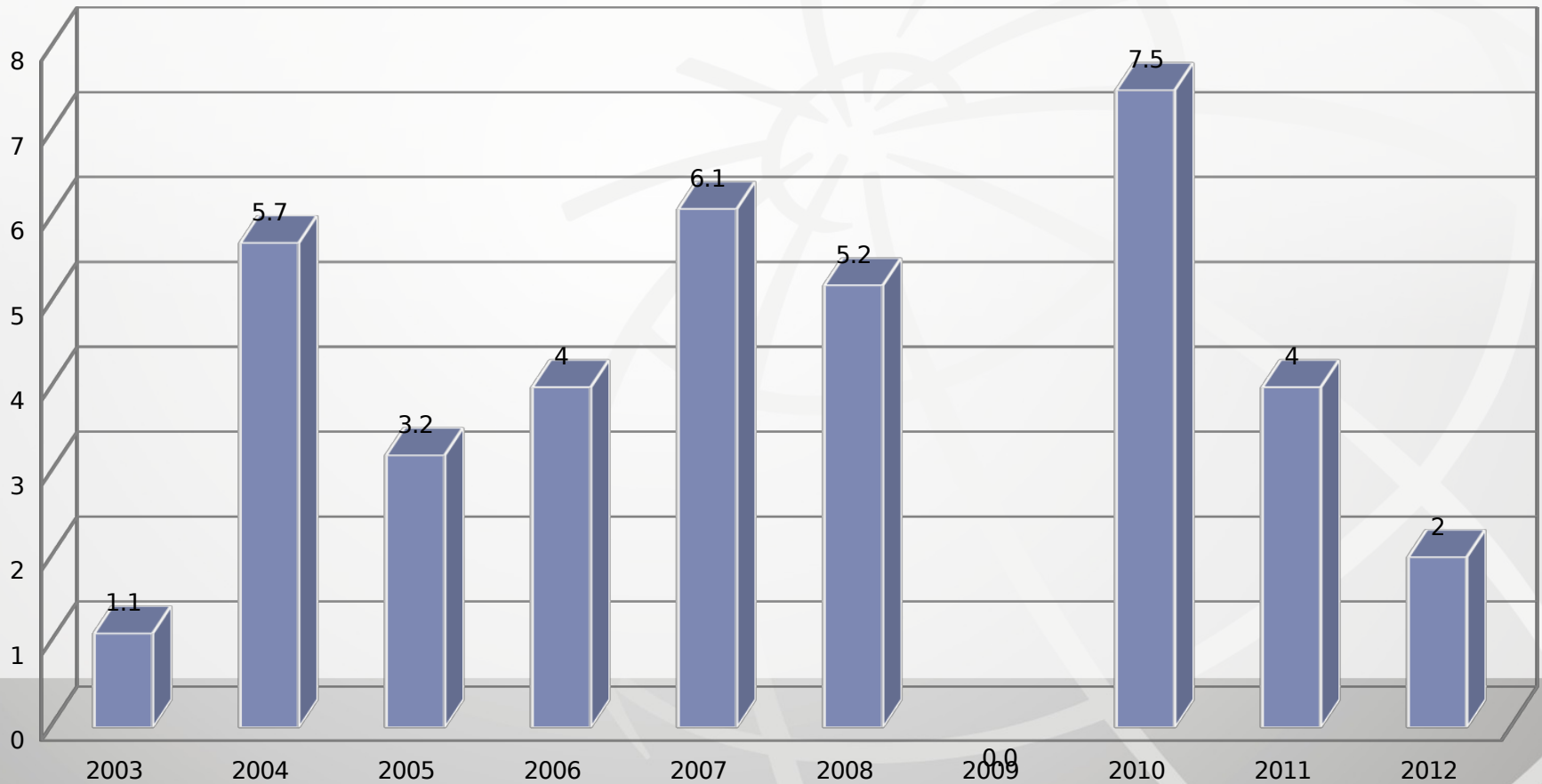
Brazil's GDP in US\$

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

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

Brazil's Economy

Economic Growth % (GDP)

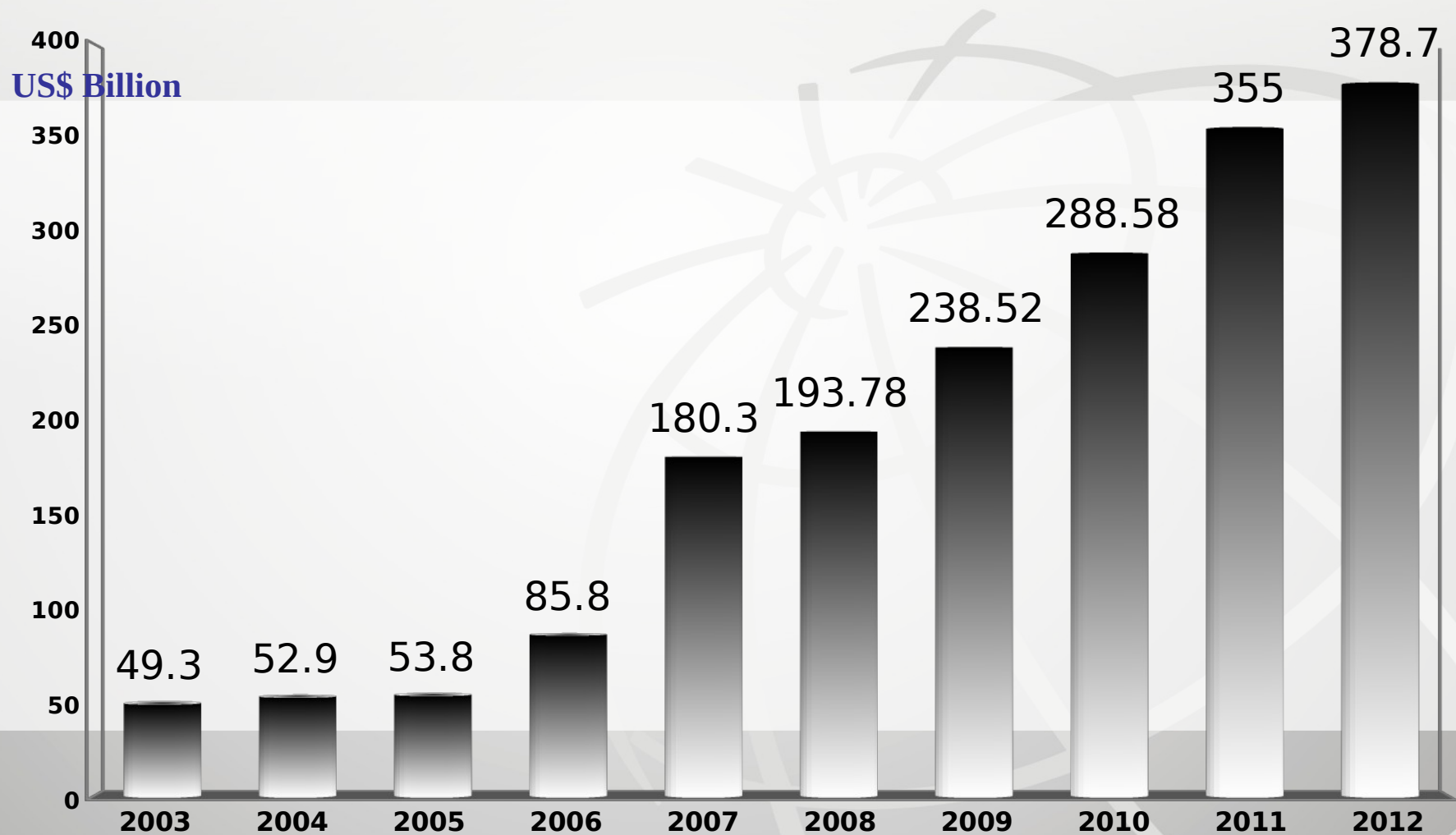


Source: Brazilian Institute of Geography and Statistics – IBGE/IEDI

* Estimate

Brazil's Economy

Brazilian International Reserves

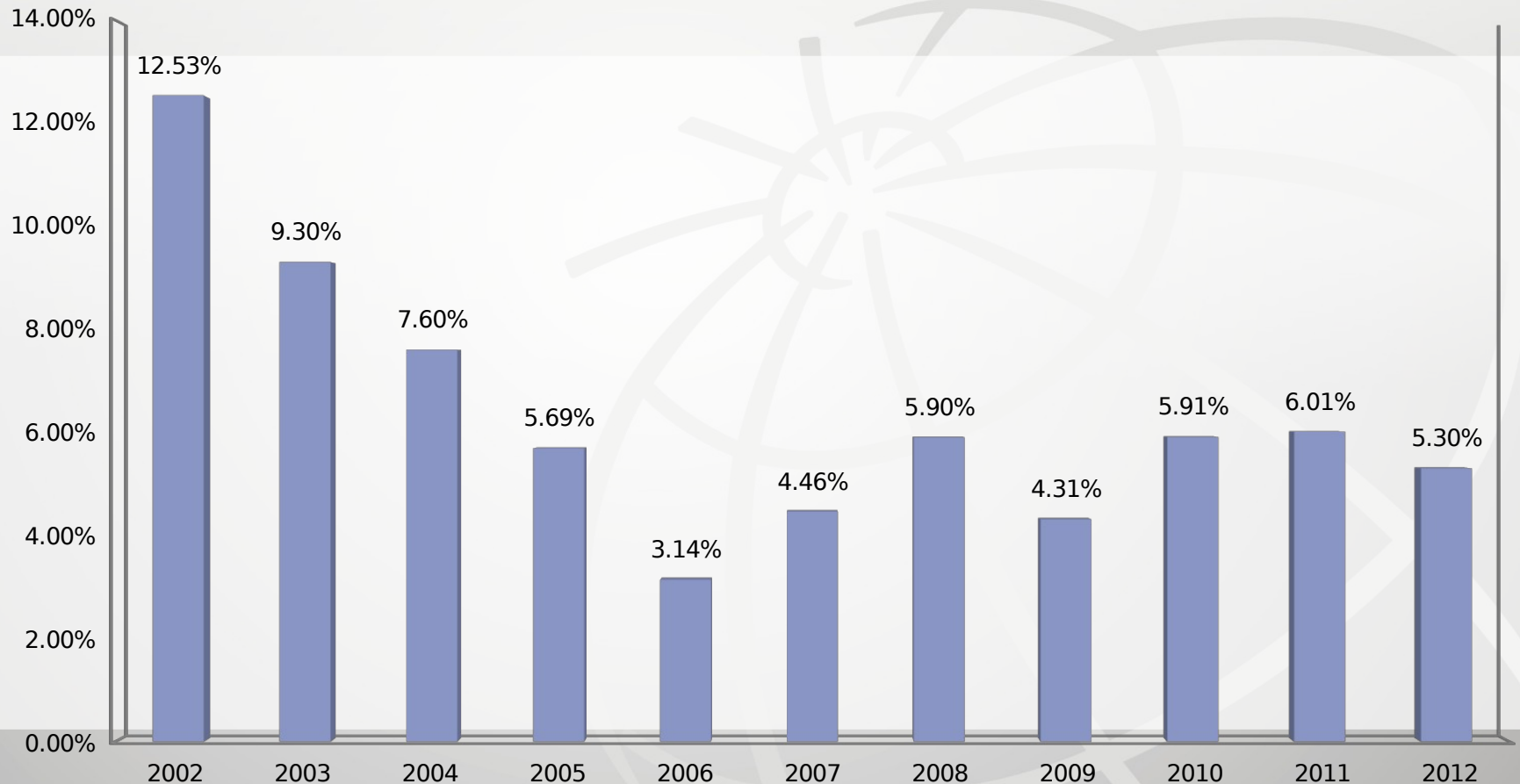


Source: Central Bank

*September 2012

Brazil's Economy

Brazilian Inflation Rates



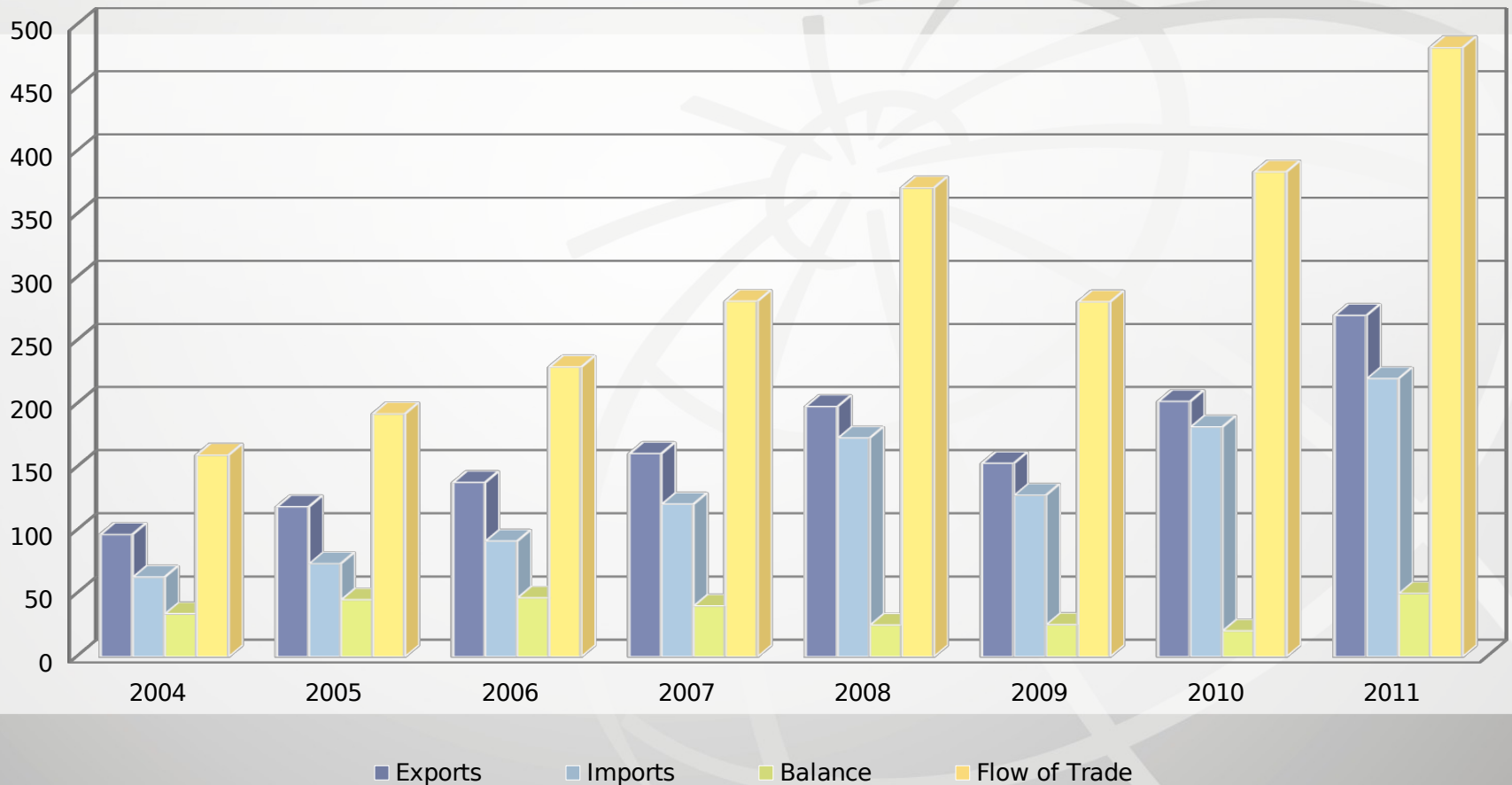
Source: Brazilian Institute of Geography and Statistics - IBGE

*Estimate

Foreign Trade

Brazil's Balance of Trade

US\$ Billion

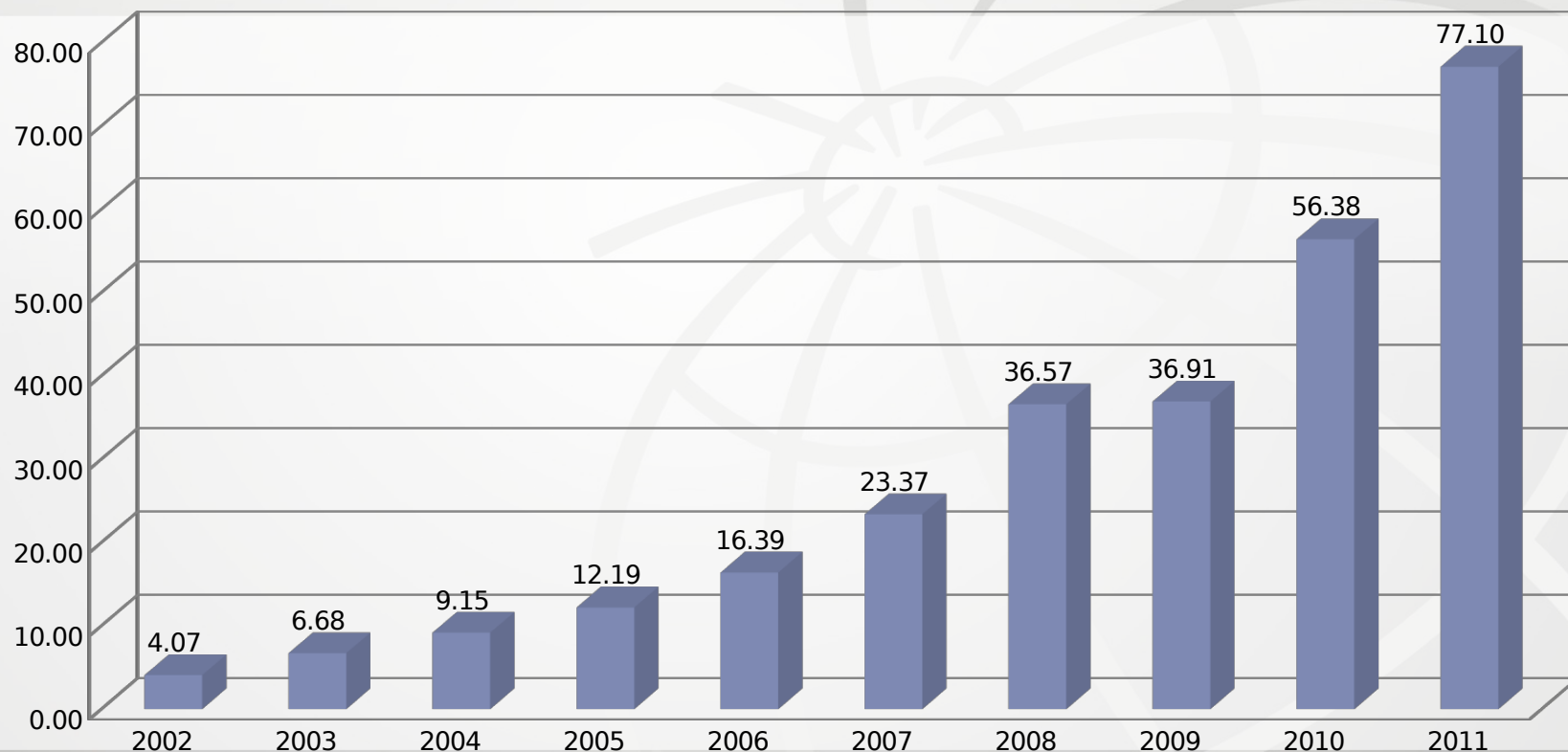


Source: Development, Industry and Trade Ministry - MDIC

Bilateral Trade Brazil China

Current of Trade US\$

US\$ Billion

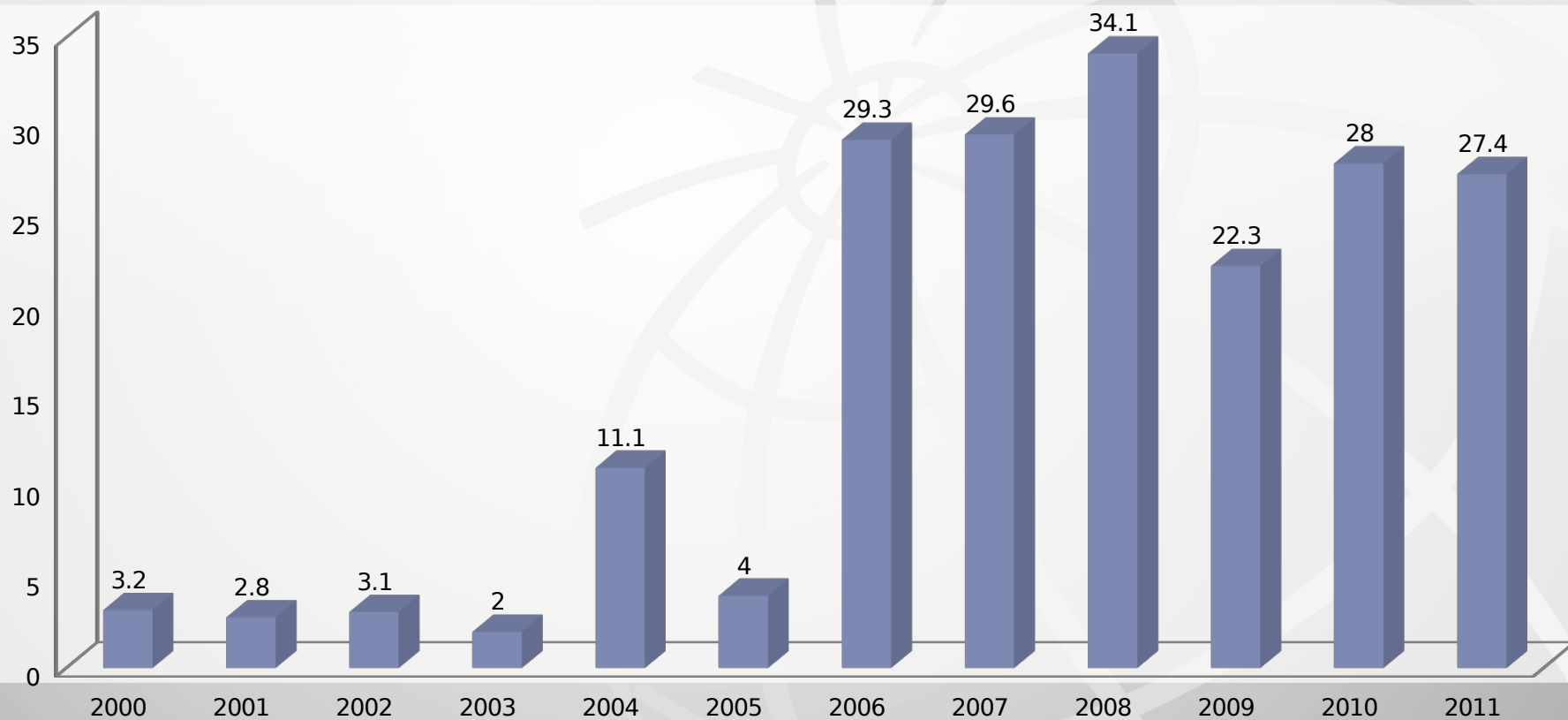


Source: Brazilian Secretary of Foreign Trade - SECEX

Investment Flows - Brazil

Foreign Direct Investment: Outbound

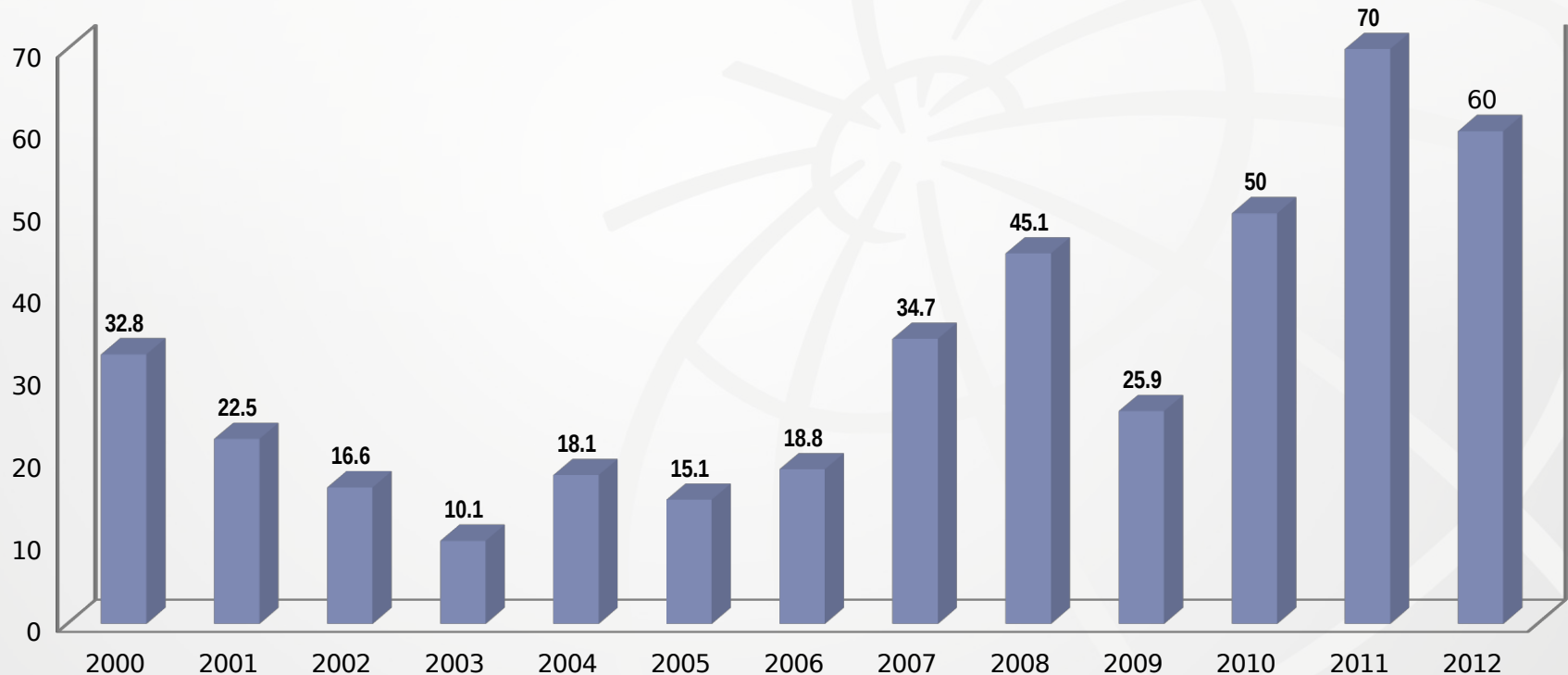
US\$ Billion



Source: Central Bank of Brazil

Investment Flows - Brazil

Foreign Direct Investment: Inflows



Source: Central Bank

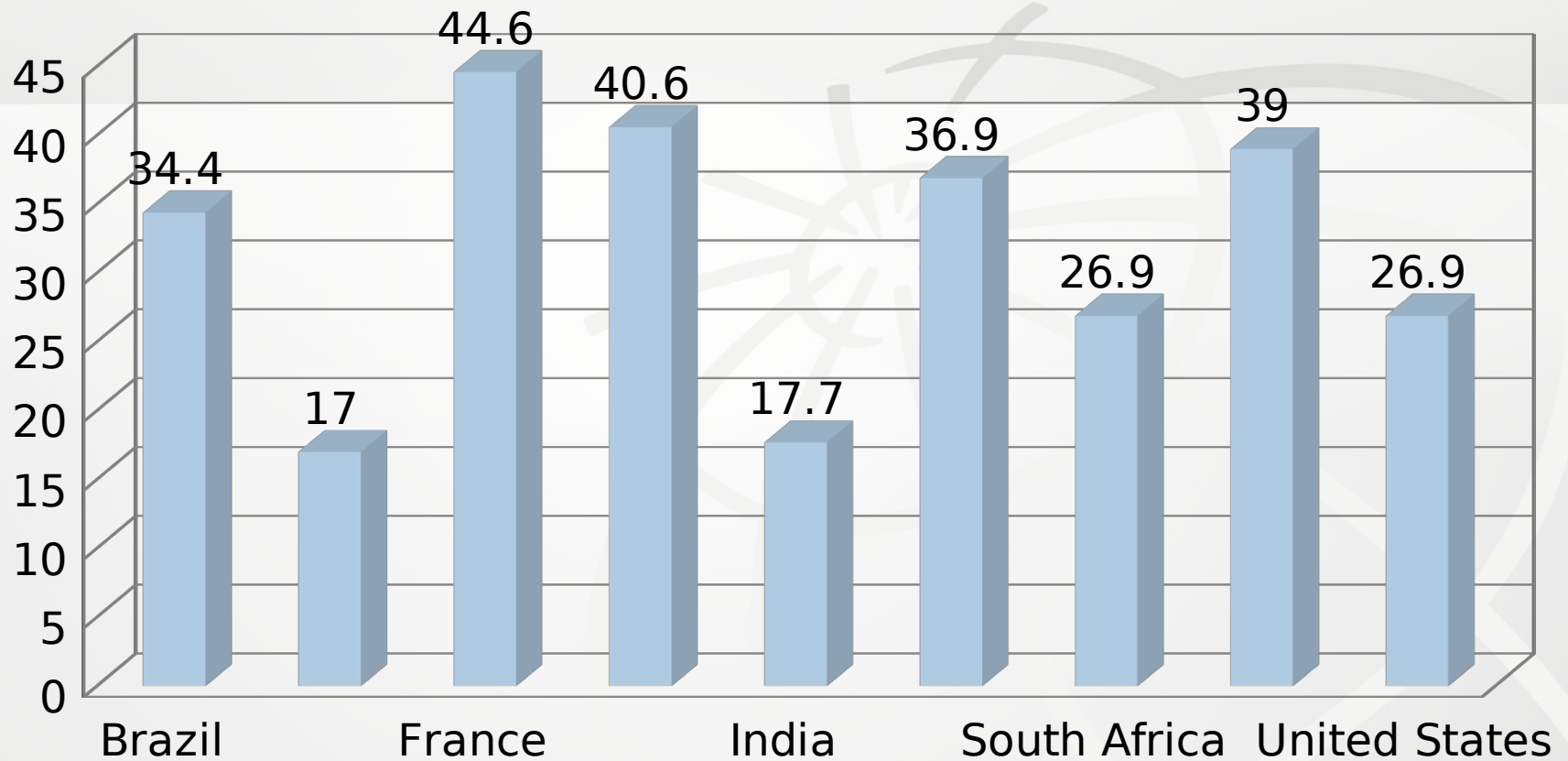
*Central Bank estimate

Brazil - Legal Challenges

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



List of Countries by Tax Revenue as Percentage of GDP



Source: Heritage Foundation 2012

Basic Taxes in Brazil

A

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

Basic Taxes in Brazil

B

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

Basic Taxes in Brazil

C

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

Basic Taxes in Brazil

D

- Taxation on Revenue
- COFINS 7.6%

Simulation re import taxes

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

Brazil's Economy

World's Interest Rates

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

Brazil's Economy

Exchange Rates of the Real Against the US Dollar



Bureaucracy – Company Formation in Brazil

Previous requirements

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

Source: Noronha Advogados

Bureaucracy – Company Formation in Brazil

Incorporation and subsequent filings

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

Source: Noronha Advogados

Conclusion

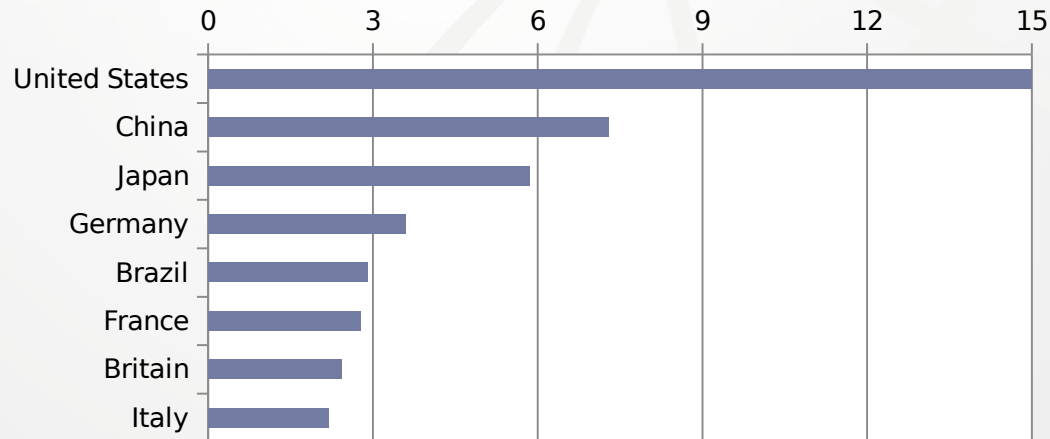
3. Prospects for the Brazil - China Strategic Partnership in 2013



Brazil's Economy

Biggest Economies - Projected 2012 - GDP US\$ Trillion

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



Prospects for the Brazil China Strategic Partnership in 2013

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

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