

Brazil: Major economic draw, major headache

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SÃO PAULO — Felipe Berer has ridden the entire Brazilian wave.

It started in 2010, when the financial world fell in love with Brazil. After a decade of solid growth, the country's economy exploded with a staggering 7.5% increase in output that year. Tens of millions of people were entering the middle class — and the consumer market — and foreign businesses were racing to get in on it.

"Most people thought the future had arrived," said Berer, who was shipped from Miami to his native Brazil to help his law firm, Akerman, establish itself there. "The question everybody had was, 'Is this sustainable or not?'"

It was not. The commodity prices that had largely spurred Brazil's growth leveled off. The economic rise that had pushed so many out of poverty became a drag — government spending on roads, hospitals, education and other public infrastructure couldn't keep up, leading to gridlock everywhere. The International Monetary Fund predicts 1.8% growth this year.

And behind it all, foreign business owners came to a disheartening conclusion: The only thing that remained unchanged was the bureaucratic headache of operating in Brazil.

"The tax reform, the labor reform, the infrastructure investment — all of those issues that have been historically problematic for Brazil, they failed to use that window to take care of them," said Berer, who returned to the United States in 2011 when the economy came crashing back down. "Nothing was really done."

Brazil is back in the spotlight as 800,000 foreigners visit to watch the World Cup. In between the parties and soccer matches, many will be exploring business opportunities there because, despite its faults, Brazil remains one of the biggest economic draws on the planet.

The country raked in \$65 billion in foreign direct investment in 2013, the [fourth-highest in the world](#) , according to the United Nations Conference on Trade and Development. And the country did that, according to Marcelo Neri, without even trying.

Neri, a Brazilian economist who is now President Dilma Rousseff's minister for strategic affairs, said the country has historically been a closed one, shunning foreigners who try to work in the country and making it difficult for foreign companies that try to establish themselves. But in the past two years, the government has made it easier for foreigners to get a work permit in Brazil, added new incentives to lure business, and sent officials to world economic forums to "roll out the red carpet."

Rousseff even delivered her first speech at the World Economic Forum in Davos, Switzerland, earlier this year, laying out the reforms the country has made and declaring Brazil open for business.

"We didn't care too much about attracting investment from the outside," Neri said. "Now we are starting to."

WAITING IS CUSTOMARY

Despite the new tone, ask any foreigner operating in Brazil, and they'll tell you the same thing: The country still has a long way to go.

The reasons for Brazil's constant underperformance come down to what is commonly referred to as the *custo Brazil* — a combination of the added time and costs that come with working there.

It starts from the very beginning. Yosbel Ibarra, a Miami-based attorney at Greenberg Traurig, said it takes about an hour to start a company in the United States.

"I go online, I take out a credit card, I have a company," he said. "In Brazil, it can take two months, three months to get up and running."

The country has incredibly stringent labor requirements. Workers have broad rights to strike, firing employees can easily land an employer in Brazil's complicated legal system, and other benefits drive up a company's payroll [as much as 80%](#) , according to professional services firm Deloitte.



Cars of World Cup tourists are parked — for a fee — where homes once stood in the Metro Mangueira favela in Rio de Janeiro.(Photo: Mario Tama, Getty Images)

Taxes, and the time it takes to file them, also drive up a company's costs in Brazil. The tax structure is so complicated that, according to the World Bank, it takes a company about 1,200 hours a year to prepare its taxes, by far [the highest figure in the world](#).

Brazil's legal system also becomes its own challenge.

Robert Kohn, an attorney who worked for an American energy company in Brazil, said the legal system allows for lawsuits to be filed for basic complaints that would normally be handled through a company's customer service department in the U.S. Kohn laughs at the signs in Brazilian airports that welcome people with complaints about their flights or bags to file a small-claims suit in court.

According to the court system in the state of Rio de Janeiro, people have filed [nearly 500,000 small-claims lawsuits](#) against companies there in the past year.

"It's an absolute monster, especially for companies that provide any kind of service like water, electricity, banks," Kohn said. "Can you imagine how many people internally you need to manage all those cases?"

But one problem could trump them all: the Brazilian bureaucracy.

Any business owner can tell you a story about how long it can take government officials to approve any number of business transactions. From expanding a company to importing basic goods, they say even the simplest tasks often need approval from so many government officials that it becomes exhausting.

Ricardo João Santin, markets director for the Brazilian Association of Animal Protein, which represents most of the country's poultry and pork producers, said it can take up to six months for the government to approve a new label for a product. And he said his group has been waging an unsuccessful fight for the past year to get the OK to write "No Hormones Added" on their products, something that is increasingly important to foreign buyers.

"You're just losing competitiveness," Santin said. "(The government) could help us grow so much more. But there are only small islands in the government that actually help."

Rosane Guterres Santana, a Brazilian-born, Miami-based attorney who has represented companies including Domino's Pizza and AT&T in their Brazil operations, said the heavy bureaucracy is, unfortunately, part of the genetic makeup of Brazilians.

"Try to teach a German to dance samba. It can't happen. It's not in the blood," she said. "Same thing with Brazilians. You can't teach them how to live without a bureaucracy."

BUSINESSES FIND WORK-AROUNDS

Despite the collective headache of operating in Brazil, companies, both domestic and foreign, have figured out ways to get around it.

TAM Executive Aviation is a Brazilian company that sells U.S.-made Cessna airplanes and Bell helicopters. The company also performs maintenance, fueling and other services for the country's fast-growing airlines sector.

Leonardo Fiuza, TAM's director for airline services, said the company grew so tired of waiting for Brazilian customs officers to clear imported aircraft parts that it worked with the government to establish a public-private operation in which TAM manages those imports. Now, instead of waiting weeks for a specific part to be cleared by Brazilian customs inspectors, TAM employees working with government systems do the clearance work and can deliver parts in a couple of days.

"Instead of saying, 'The government doesn't do this, the government doesn't do that,' do it yourself," Fiuza said. "If you want to be professional, if you want to do the things the right way, it's not a problem. Come sit down with the government, put the proposal on the table, and prove to them you will do it in the best way."

Kohn also found a work-around for his company's massive court costs. He and his Brazilian partner created a [conflict resolution website](#) that speeds up the process and cuts the costs of resolving each lawsuit, which

normally require reams of paperwork, man hours and multiple trips to a Brazilian courthouse.

“Brazil is No. 1 in the world in the number of claims filed,” said Kohn, whose website is now being used by a Brazilian bank, a Brazilian credit rating company and several American companies operating in Brazil. “But these companies are making a lot of money. They’re not planning to get out of Brazil.”

Kohn’s explanation speaks to the feeling of so many companies targeting Brazil. Yes, it’s a headache. Yes, the costs are high. But given the sheer size of the country and its consumer market, and the steps taken by the government to welcome foreign investment, foreign companies recognize they have to be there.

“The good news is that when you look at Brazil, all these problems are self-inflicted,” said Welber Barral, a former trade minister for Brazilian President Lula da Silva who now advises foreign companies trying to operate in Brazil. “We don’t have earthquakes. We don’t have ethnic clashes. We don’t have anything that is so complicated and so natural that it can’t be changed.”

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