

## Brazil

**Poised on the threshold of the new century, Brazil's credentials are its diversified manufacturing industry, increasingly efficient agriculture, and dynamic and sophisticated service structure.**

*President of Brazil<sup>1</sup>*

### Introduction

- 7.1 Brazil was founded in the early 16<sup>th</sup> century by the Portuguese originally as a commercial concern. In the early 19<sup>th</sup> century, the Portuguese crown sought protection in Brazil from war in Europe, although by 1822 Brazil had declared independence that was recognised by other nations soon after. In 1889, Brazil's emperor abdicated and in 1891 Brazil established a new republic and constitution.
- 7.2 Governor Getúlio Vargas led a successful rebellion in 1930, and a new constitution in 1934 allowed him to remain influential for two decades. This concentration was undone when a new constitution in 1946 decentralised powers within Brazil. The early 1960s were a period of political turmoil in Brazil, and in 1964 a rebellion by the armed forces began two decades of military-dominated rule. In presidential elections in 1985 a civilian candidate took power, and introduced political and economic reforms.
- 7.3 In October 1998, during Brazil's most recent presidential elections, Fernando Cardoso of the Partido da Social Democracia Brasileira became President, and formed a coalition with several other political parties in Congress.

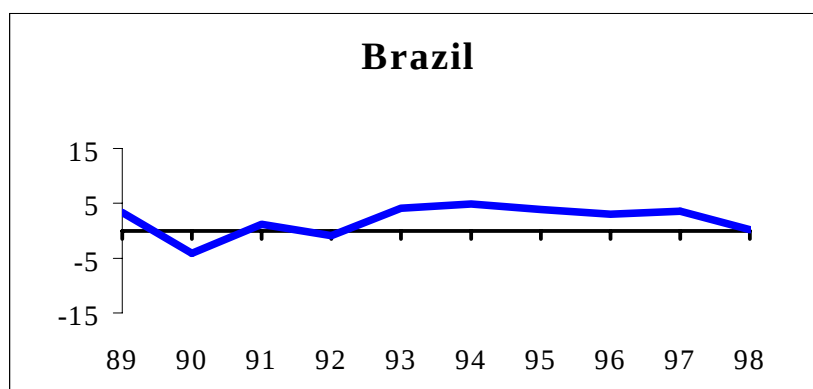
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1 Foreword by the President of Brazil, *Brasil, territory, people, work, culture*, Prêmio Editorial Ltda and Ministry of Foreign Relations, São Paulo, Brazil, 1997.

## Overview of the Economy

- 7.4 With a population of approximately 170 million people, Brazil's economy is the eighth largest in the world and accounts for 54 per cent of South America's total GDP. Brazil is one of the four members of Mercosur, although the largest portion of its imports and exports are traded with the European Union.<sup>2</sup>
- 7.5 The Brazilian economy used to be characterised by dependence on a few agricultural products such as Brazil wood, cotton, coffee, sugar and rubber. This resulted in a lack of economic stability - when prices for these commodities fell the economy as a whole suffered. More recently greater diversification has occurred and Brazil's economy now has a growing mining industry, a well developed manufacturing industry and has a strong services sector. Brazil is the only country in South America where ETMs<sup>3</sup> lead the export mix.
- 7.6 DFAT points out that the introduction of a new currency, the *real*, in 1994 has lessened the burden of inflation and allowed the middle class to grow prompting a shift in consumption patterns.<sup>4</sup>
- 7.7 In late 1998, Brazil's economy suffered the effects of financial difficulties, and it appears that Brazil is recovering from the effects much faster than forecasted by the international community. President Cardoso's policies have centred on the privatisation of government assets, managing inflation and reducing Brazil's budget deficit. Figure 7.1 reflects the impact of the financial difficulties experienced by Brazil in 1998. These difficulties have been discussed in Chapter 3 of the report.

**Figure 7.1 Real GDP Growth – 1989-1998**



Source Australia's Trade with the Americas, 1993-94 & 1998, Department of Foreign Affairs and Trade, Canberra.

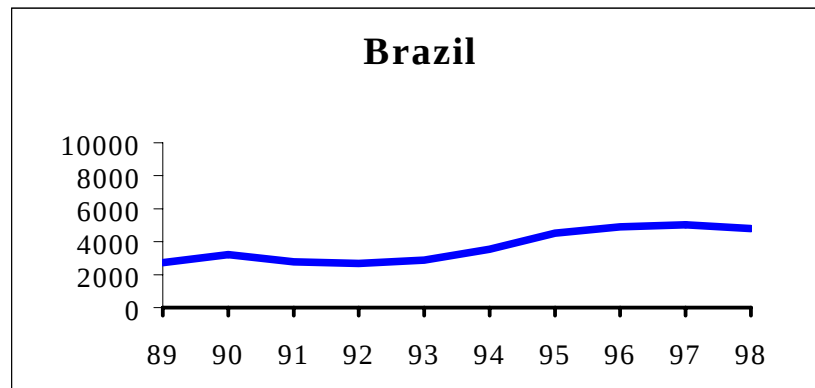
<sup>2</sup> DFAT, Submission, p. 286.

<sup>3</sup> ETMs – elaborately transformed manufactures.

<sup>4</sup> DFAT and Austrade, *Doing Business in Latin America: An Introductory Guide*, Commonwealth of Australia, 1999, p. 13.

- 7.8 GDP per capita has grown over the last ten years but fell slightly in 1998 to \$4801 from \$5037 in 1997 with the impact of the financial difficulties. Figure 7.2 shows GDP per capita for the 10 years 1989 to 1998.

**Figure 7.2 GDP Per Capita – 1989-1998**



Source *Australia's Trade with the Americas, 1998, Department of Foreign Affairs and Trade, Canberra, and IMF/IFS and EIU Country Reports.*

- 7.9 Regional integration is a core component of Brazil's economic and trade policy of which Mercosur is the primary component. As DFAT points out Brazil plays an influential role in Mercosur developments, being responsible for about 70 per cent of the grouping's GDP.<sup>5</sup>

## The Nature of the Trade and Investment Relationship

- 7.10 In 1999, Brazil was ranked 33<sup>rd</sup> on the value of merchandise trade with Australia, making Brazil Australia's largest market in South America. In that year, Brazil purchased \$392.340 million of Australia's merchandise exports, making Brazil the 30<sup>th</sup> largest market for these goods. These figures represent a decrease of 12.6 per cent over the previous year's exports. The trend for Australian exports to Brazil from 1994 to 1999 was an increase of 8.0 per cent.
- 7.11 Brazil ranked 35<sup>th</sup> in 1999 as a source of merchandise imports, selling some \$344.154 million worth of goods to Australia. This is a rise of 5.0 per cent over the previous year, although the trend from 1994 to 1999 shows that the value of imports from Brazil fell by 5.0 per cent.
- 7.12 During 1999, major Australian imports from Brazil included fruit juices - \$52.124 million; coffee and coffee substitutes - \$23.270 million; pulp and waste paper - \$21.807 million; and hydrocarbons and derivatives - \$16.909

million. Australia's main exports to Brazil included coal - \$264.875 million; passenger motor vehicles - \$34.187 million; medicaments (including veterinary) - \$9.699 million; and pigments, paints and varnishes - \$8.864 million. Passenger motor vehicles are a new item of export to Brazil for Australia.

- 7.13 Australia's major investments to Brazil are in mining though there is now diversification in investments into sectors such as manufacturing and agriculture, services and entertainment. The major Australian investments in Brazil are shown in Table 7.1.

**Table 7.1 Major Australian Investment Activity in Brazil**

| Type              | Company        | Activity                                                                                                                                                                  |
|-------------------|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Natural Resources | BHP            | Owns 40 per cent of iron ore operation, Samarco, in the Brazilian state of Minas Gerais.<br>Holds significant interest in a 3,150 km Brazil-Bolivia gas pipeline project. |
|                   | WMC            | Involved in non-ferrous metal exploration in Brazil.<br>Owns a small gold mine in the Brazilian state of Goias.                                                           |
|                   | Hamersley Iron | Owns small iron ore operation at Corumba in the south.<br>Represents an investment of US\$50m.                                                                            |
| Entertainment     | Hoyts          | In partnership with North America company General Cinemas International, has announced plans to invest US\$250m towards the development of cinema complexes.              |
| Services          | Keycorp        | Providing monitors, PIN pads and key-stations for Bradesco, one of Brazil's largest commercial banks.                                                                     |

Source DFAT, Submission, p. 286.

- 7.14 There are a number of mining equipment and service suppliers in Brazil such as Global Aero Survey, Mincom and Warman Pumps.
- 7.15 Nu-Lec's distributor, CDI Automation, is executing a turn-key project at LIGHT, energy supplier to Rio de Janeiro and one of the most important electrical utilities in Brazil.
- 7.16 Qantas now has a representative office in Brazil, located within the British Airways office in São Paulo. It is only since the beginning of 2000 that its has been allowed to advertise, hire staff and operate a bank account.
- 7.17 While in São Paulo the Trade Sub-Committee was able to meet with Australian businesses and there is a diverse range of SMEs in the Brazilian market.
- 7.18 Recent activities by Australian companies include the opening of offices in São Paulo by Total Tel, an Australian company providing pre-paid telephony software in Brazil's rapidly expanding mobile phone network. Milcom launched its professional qualification recognition services and IDP Education has launched a new fellowship program with particular

emphasis on IT. The Albert Einstein Hospital in São Paulo has rolled out patient data management applications developed by the Australian software company Trak Systems.

- 7.19 The Trade Sub-Committee was at the signing in São Paulo of the partnership agreement between Macquarie Bank and Banco do Brasil to provide financial services to the agricultural and agribusiness sectors of Brazil. The agreement, the first deal of its kind in Brazil, is that Macquarie Bank will act as Banco do Brasil's partner in the provision of coffee and soy options to Brazilian primary producers. This will give local producers the opportunity to comprehensively manage market risk and secure prices through derivatives.<sup>6</sup>
- 7.20 The Trade Sub-Committee met with CVRD,<sup>7</sup> one of Brazil's largest companies. It is an integrated complex, extracting and processing natural resources; and also operating in the transportation field. It is the world's largest producer and exporter of iron ore and pellets – active in prospecting for and mining of gold, manganese, kaolin and potash. It is Brazil's largest holder of mineral rights.
- 7.21 The Sub-Committee was told that CVRD is the 3<sup>rd</sup> or 4<sup>th</sup> largest steel company in the world noting that BHP was the second largest. The Brazilian Ambassador profiled the cooperation between BHP and CVRD in evidence to the Committee:
- BHP cooperates with CVRD. We have taken a lot of your market in Japan, of course, but between themselves, they not only have a gentlemen's agreement to work well, as big mining companies, but also they export to each other. They complement each other's exports and they more or less try to rule the market instead of being ruled by the market.<sup>8</sup>
- 7.22 CVRD buys equipment from all around the world but has not been looking at Australian sourced equipment. They told the Trade Sub-Committee that best price is their criterion and through Austrade they would welcome contact with Australian companies.
- 7.23 Brazil is a member of the Cairns Group along with Australia, has participated with Australia in the GATT negotiations and now the WTO negotiations. Australia and Brazil are part of the Valdivia Group, the coalition of Southern Hemisphere countries that meets to discuss a common approach to environmental issues.

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6 News Release, Macquarie Bank Limited, *Macquarie Bank signs agreement with Banco do Brasil to offer coffee and soy options*, Sydney, 29 March 2000.

7 CVRD – Companhia Vale do Rio Doce.

8 Brazilian Ambassador, Transcript, 22 October, 1999, p. 343.

- 7.24 Bilateral arrangements with Brazil are limited. Currently there are two arrangements – a Memorandum of Understanding on Cooperation in Sanitary Matters and a Treaty of Extradition.
- 7.25 During the recent visit by Senator the Hon Richard Alston to Brazil discussions were reopened on the need for a bilateral science and technology (SANDT) agreement. Brazil is undertaking a review of its SANDT partnerships and moving away from its traditional partners in Europe and the US. Australia has been identified as a potential new partner due to the strength of the science and technology base. Key areas where Brazil is keen to institute a program of cooperation are biotechnology and information technology.
- 7.26 A double taxation agreement with Brazil is a priority. Currently there are withholding taxes on telecommunications – 15 per cent, 25 per cent on services and 15 per cent on intellectual property. The corporate tax rate is 26 per cent but if a company sets up with a partner then it is only subject to state taxes of 5 per cent. However the repatriation of profits is difficult if a company sets up locally.

## **Opportunities for Australian Business**

- 7.27 With the sheer size of Brazil's market and recent improvements in its economy there is a broad range of market opportunities for prospective Australian exporters, in mining, oil and gas, technology and communications and transport.<sup>9</sup> A significant development was the National Congress in 1995 finally removing restrictions to foreign capital established in the Constitution.
- 7.28 As part of the Foreign Affairs and Trade Portfolio Action Agenda, as already mentioned, a series of papers for business will be produced highlighting opportunities for cooperation in sectors of substantial commercial interest for Australia.<sup>10</sup> DFAT and Austrade have yet to finalise the sectors but under consideration are information technology, telecommunications, auto parts, mining equipment, agribusiness and consumer goods and services. The Committee has recommended that a sectoral paper be prepared on services per se.
- 7.29 It is expected that the first of the sectoral papers will be available towards the latter part of 2000. The papers will focus on recent developments in

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9 DFAT, Country Brief.

10 DFAT, Exhibit No 44.

the sector, where to access further information, and case studies where appropriate.

## Mining

- 7.30 Brazil continues to attract interest to its mining sector because of its good geological potential. It is the most important mineral producer in Latin America and plays an important role in the context of the mineral economy at an international level. For instance it is 1<sup>st</sup> in the world in the production of niobium and iron, 3<sup>rd</sup> in magnesite and kaolin, 4<sup>th</sup> in bauxite, vermiculite and graphite, 5<sup>th</sup> in asbestos, 6<sup>th</sup> in talc and chromite and 7<sup>th</sup> in lithium production.<sup>11</sup>
- 7.31 The Department of Industry, Science and Resources points out:
- A growing domestic market and the good results achieved through the Mercosur agreement add to the factors which are lowering the country's investment risks. The privatisation program and government debt reduction continues to move ahead.<sup>12</sup>
- 7.32 With the Brazilian government seeking to increase its ability to attract exploration companies through mechanisms such as simplifying the procedure for approvals for mining exploration and improving the current mining legislation, more opportunities will open up.
- 7.33 Since the 1995 change in the law some 50 foreign companies have set up operations in Brazil. The Brazilian government aims to increase exploration from the current US\$120 million to US\$400 million per year till 2003. Mining projects for 1999-2002 have been valued at US\$3.9 billion.
- 7.34 The areas where, according to industry specialists, the mining industry will be investing include:
- Equipment:
    - ⇒ Sample analysis, mining laboratory equipment;
    - ⇒ Trucks shovels, drilling equipment, front-end loaders, wheel loaders;
    - ⇒ Environmental control equipment;
  - Services:
    - ⇒ Drilling;
    - ⇒ Exploration;
    - ⇒ Airborne geophysics;

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11 Austrade information brief, *Latin America – expand your horizons*, April 2000.

12 DISR, Submission, p. 418.

- ⇒ Contract mining and engineering services;
- ⇒ Materials handling;
- ⇒ Environmental management;
- Software:
  - ⇒ Mining, exploration and geophysics.<sup>13</sup>

## Oil and Gas

- 7.35 The 1995 law to allow foreigners to invest in this sector brought to an end the 45 year monopoly by Petrobras of Brazil's petroleum industry and saw the creation of a regulatory body, the Agencia Nacional de Petroleo (ANP). The changes in the sector has two phases, first the forming of joint ventures and partnerships with state companies and second with fully foreign-owned projects.<sup>14</sup>
- 7.36 Austrade began to focus on the sector in 1999 and in November of 1999 held a workshop in Brazil on the oil industry. It is anticipated that the oil and gas sector will receive investments of between US\$50-60 billion over the next ten years and expenditure on equipment is forecast at US\$8-10 billion for the same period. Moreover Brazilian companies or companies installed in Brazil will only be able to supply 50 per cent of the equipment and services.<sup>15</sup> To date some US\$80 billion has been invested in the sector.
- 7.37 In discussions with ANP, the Trade Sub-Committee was told that Brazil is now in a position to open up fresh new concessions (the 2<sup>nd</sup> round) from grass roots. Petrobras has gone into joint ventures with several large foreign companies but there are no Australian companies. In this current round There are two Australian companies involved in this current round.
- 7.38 By 2001 Brazil will have a fully open market. According to ANP, royalties are currently 10 per cent on the fields but could be lowered to the minimum of 5 per cent if Brazil wishes to provide incentives. ANP is fossil fuel focused and the agency works on transparent processes (they auction the bid rounds) and their website has details of Brazil 1 and Brazil 2 bid rounds. ANP does not play any role in environmental issues – that is the responsibility of the Ministry of Environment and under that each state entity.
- 7.39 ANP said that there are opportunities coming up on the supply side for equipment – with companies either coming to Brazil or joint venturing - and this represents an excellent opportunity for Australia.
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13 Austrade information brief, *Latin America – expand your horizons*, April 2000.

14 Austrade, Exhibit No 54.

15 *ibid.*

- 7.40 Austrade, at its *Latin America – expand your horizons* seminars held in April 2000, provided a list of areas from industry specialists where the Brazilian oil and gas industry will be investing and which Australian business needs to look at:
- Equipment;
  - Drilling equipment / components / tools;
  - Equipment / components related to seismic vessels;
  - Equipment / components for production platforms;
  - Equipment / components for refineries;
  - Pumps, pipeline products;
  - Refrigeration equipment;
  - Corrosion control equipment;
  - Services;
  - Drilling;
  - Exploration;
  - Airborne seismic surveys;
  - Engineering services;
  - Environmental services;
  - Catering;
  - Software;
  - Oil platform management;
  - Geophysics.
- 7.41 ANP noted that there are huge opportunities in Brazil as they have the population and this generates huge internal demand.
- 7.42 The Trade Sub-Committee was interested to learn in its discussions about some cultural differences that impact on the way business is done. It was noted that Australians as individuals have a stock market culture and this is lacking in Brazil. The stock exchange in Brazil operates at a different level – mainly for the big companies. The focus of Australians on the stock market is excellent for SMEs something that would be invaluable in Brazil.

## Telecommunications and Information Technology

- 7.43 Along with mining and oil and gas, this sector is part of Austrade's Brazil strategy. A few statistics on Brazil's telecommunications market quickly shows that there are significant opportunities available in the sector. Brazil has 2.1 per cent of the global telecommunications market and is therefore the 7<sup>th</sup> largest telecoms market in the world attracting 6.5 per cent of global investments in the telecoms industry. It is the largest potential market in terms of opportunities in telecommunications products and services in Latin America.<sup>16</sup> It is one of the world's five fastest users of the Internet and has the world's 4<sup>th</sup> largest TV broadcasting system.<sup>17</sup>
- 7.44 In July 1998 the auction of the Brazilian government's stake in Telebras – Latin America's biggest telecommunications firm – took place. The total selling price was US\$19 billion and was the world's second largest privatisation after Japan's Nippon Telephone & Telegraph.<sup>18</sup> Telebras was broken into 12 components and foreign firms from Spain, Portugal, Italy, Canada and the US purchased 70 per cent of the Telebras system.
- 7.45 There are 23 million fixed telephone lines, placing Brazil's telecom network in 15<sup>th</sup> place worldwide. There are however only 12 phones installed per 100 inhabitants, and only 12 per cent of rural properties, 20 per cent of residences and 54 per cent of business establishments have a phone.<sup>19</sup>
- 7.46 The number of fixed phones will nearly double by 2003 to 43 million and investment plans show there will be a total of 23 million mobile phones in the same time. ANP in its discussions with the Trade Sub-Committee pointed to the huge internal demand that is being generated in Brazil and cited the increase in mobile phone units. Market analysts estimate annual returns of US\$2 billion for mobile cellular services with São Paulo representing more than 50 per cent of the total. Plans to install digital networks will provide opportunities for equipment suppliers.<sup>20</sup>
- 7.47 Brazil is heavily dependent on imported telecommunications and electronics equipment. According to Austrade practically all equipment for the booming cellular infrastructure and data communications markets is imported.<sup>21</sup>
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16 Austrade information brief, *Latin America – expand your horizons*, April 2000.

17 Brazilian Ambassador, Transcript, 22 October 1999, p. 340.

18 Austrade information brief, *Latin America – expand your horizons*, April 2000.

19 Austrade, Submission, p. 223.

20 *ibid.*

21 *ibid.*

- 7.48 On 21 June 2000 the Brazilian National Telecommunications Agency (ANATEL) decided to adopt the 1.8 gigahertz transmission frequency standard for its 'band C' mobile phone service. Australian companies have the skills, product and experience to take up opportunities resulting from this decision.

## Banking Technology

- 7.49 Australian companies are already operating in Brazil's financial sector. The Australian company Keycorp recognised the need for banking technology in Brazil and is winning substantial business. And of course the Macquarie Bank and Banco do Brasil's partnership agreement to provide price risk protection to Brazil's primary producers.
- 7.50 Austrade points out that Brazil is one of the largest financial markets in the world and the country wide banking system comprised as, of year – end 1999:
- 215 banks with a total of 17,746 agencies and service posts;
  - 40 million current accounts;
  - 67 million savings accounts; and
  - a total of 114,000 tellers.<sup>22</sup>
- 7.51 Brazil is seeing some very large international banking houses open – The Hong Kong and Shanghai Banking Corporation, Spain's Banco Santander and Banco Bilbao. According to Austrade the entry of these banks will spur re-engineering and further investments in IT technology amongst banks.
- 7.52 It is important to note Austrade advises, particularly for the telecommunications and banking sectors, that international firms find strong local partners to overcome market entry barriers. The greatest obstacles encountered in entering the Brazilian market are:
- The longer than anticipated gestation period and return on investment.
  - The scarcity of experienced personnel.
  - The high 'on-costs' especially related to salaries.
  - The language barrier (Portuguese is spoken in Brazil).
  - Resistance to foreigners.
  - The competitive landscape, understanding the bureaucracy.

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22 Austrade information brief, *Latin America – expand your horizons*, April 2000.

## Transportation

- 7.53 There are opportunities in the areas of marine, auto, airports and rail. BNDES<sup>23</sup> has a budget of US\$500 million for financing transport projects this year. As raised in Chapter 6 the lightweight commercial sector of the Australian shipbuilding industry is well placed to export to South America and the industry is recognised internationally as a world leader in fast ferry design and technology.<sup>24</sup> Companies like Incat and Austral 'are pioneering the development of aluminium fast cargo ferries capable of carrying larger volumes of cargo and passengers at faster speeds.'<sup>25</sup>
- 7.54 While South America is not a significant market for Australian fast ferries – Australia has 16 per cent of the market – the Department of Industry, Science and Resources sees potential in the market:
- With its extensive inland river systems and coastlines and growing tourist traffic, the South American region could be a major market for Australian shipbuilders. Australian builders have expertise in designing low-wash rivercats for inland rivers and a range of small and large fast passenger / cargo ferries for coastal travel.<sup>26</sup>
- 7.55 The other marine engineering sector where there are possible opportunities is in the recreational and light commercial boating industry. The leading companies have formed the Australian Marine Industries Export Group (AIMEX), a consortium of boat building and related marine products and services companies established to promote the Australian boating industry in international markets.<sup>27</sup> Austrade and DISR have been working on a study examining the prospects for fast ferries and other similar vessels.
- 7.56 Austrade in its submission mentions automotive components and airports. Austrade São Paulo told the Trade Sub-Committee that there are opportunities for Australia as a Tier 2 supplier of automotive components. For instance the Ford Motor Co sources its parts from Australia. The South American market is not a priority for Australian automobile manufacturers as they are still looking to Detroit and North Asia.
- 7.57 On the airport front Austrade says that the planned construction of the third terminal at São Paulo International Airport will present opportunities.
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23 BNDES – National Bank for Social and Economic Development.

24 DISR, Submission, p. 420.

25 *ibid.*

26 *ibid.*

27 *ibid.* p. 421.

- 7.58 BNDES has examined urban transport systems and commissioned a feasibility study that took in ten towns and assessed their rail requirements or the upgrade needed.
- 7.59 In November 2000 the ARIC<sup>28</sup> has a railway mission of twelve companies travelling to South America. The mission will be visiting São Paulo as well as travelling to Buenos Aires, Santiago and Lima.

## Education

- 7.60 Despite the potential of the demand for education services from Brazil, education is not among key opportunities listed by Austrade and is not on the list of possible sectoral papers. Furthermore it is not currently part of Austrade's marketing strategy in Latin America.
- 7.61 Professor Mott from La Trobe University made an important observation that goes to the heart of the importance of education exports for Australia and shows the lack of an all-of-government approach to marketing Australian education in South America:
- I think the industry needs good support from government and the agencies of government to make our education better known. Yet, if we look at the submissions of DFAT and Austrade to this inquiry, we find only slight reference to education, more or less in passing, and not many ideas for action. I found DETYA's submission disappointingly negative in the sense that it tended to be giving reasons why perhaps Latin America would not be very prospective. Is it realised that education is a \$3 billion industry for Australia in fees, goods and services, or that Brazilian students, even in their smallish number of 800, apparently – according to figures – brought \$21 million to the country in 1998? Can you name five larger export industries than education? I doubt it.<sup>29</sup>
- 7.62 The AEI in its market survey found that Brazil is the largest, most diverse market with a relatively young population and a wealthy middle class familiar with the concept of overseas study. In addition there are similarities of climate, lifestyle and general outlook between Australia and Brazil.<sup>30</sup>
- 7.63 The courses that are in most demand are English language programs and short courses. AEI points out that as university places in Brazil are insufficient to meet demand there is considerable potential for

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28 ARIC – Australian Railways Industries Corporation.

29 Mott, Transcript, 17 November 1999, p. 370.

30 AEI, Exhibit No 4, p. 27.

undergraduate studies in Australia, where prices are lower than in major competitor countries and in private universities in Brazil.

- 7.64 The demand for short English language courses can be very strong. The Sydney English Language Centre (SELC) told the Committee during the height of Brazil's financial difficulties – August 1998 to January 1999 – their business steadily increased.
- 7.65 Professor Mott sees the market for Australian language schools as a sound one but it is 'a long-term exercise in which good quality of education, price, perseverance and good agents on the spot are pre-requisites as the competition is tough.'<sup>31</sup>
- 7.66 The US is where most postgraduate students look but what is becoming increasingly popular is where students complete a portion of their Ph D study in Brazil and then travel overseas to complete their thesis. This can offer opportunities for Australian universities once formal linkages between participating institutions have been established.
- 7.67 On vocational education, which under Brazil's education reforms will be separated from general secondary training, there are opportunities for vocationally oriented short courses offered over the summer period. As AEI points out these should include site visits or attachments to Australian companies.<sup>32</sup>
- 7.68 The role of distance education is being boosted in Brazil. There are two projects in train. One is School TV, an education oriented channel that offers 3 hours of programs 3 times a day. The other project is the Program on Information Science and Technology in Education that aims to equip all schools that have over 250 students for primary grades 5-8, and all secondary schools. AEI says there is a market for Australian visual educational products for use in such cable television channels and there is the possibility of Australia offering teacher training / upgrading of skills in distance education.<sup>33</sup>

## Tourism

- 7.69 Brazil's travel market comprises 20 per cent business and 80 per cent leisure. It is the 2<sup>nd</sup> biggest leisure market in the world and Australia has not positioned itself to capture part of this market. Brazil has over one million passengers a year travelling to the US.

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31 Mott, Submission, p. 609.

32 AEI, Exhibit No 4, p. 43.

33 *ibid.* p. 48.

- 7.70 Australia is the only place that one cannot fly to from Brazil and Brazilians find it 'hard' that they have to fly to Australia from Argentina.
- 7.71 In evidence to the Committee the Ambassador of Brazil said:
- ... in 1995 negotiations concerning a direct transport link were pushed by Brazil, without much interest from Qantas. The situation was reversed when Qantas established this link with South America, with Buenos Aires. I know this is an important link and it concerns us in the sense that almost 40 per cent of the passengers that are on Qantas flights come from Brazil, as their submission shows. Qantas now favours a bilateral agreement, which is under examination by Brazilian authorities, with Brazilian companies.<sup>34</sup>
- 7.72 As we have discussed Qantas has a representative office in São Paulo and out spends the ATC on tourist promotions in Brazil. Notwithstanding there is no air services agreement as yet, it is essential that the ATC put in place a strategy to market Australia as the ultimate tourist destination in such a lucrative market as Brazil.
- 7.73 The Brazilian Ambassador told the Committee that he believes there is a lot to do in tourism in Brazil. There is a diversity of tourist activities in Brazil from eco-tourism in the Amazon, to beach tourism in the north-east of Brazil, to historic tourism in the old towns, to exciting metropolitan stays in cities such as Rio de Janeiro and São Paulo. However the Ambassador noted that there is a problem in services and infrastructure and in developing the right culture to develop that. He thought there would be good opportunities for joint ventures.<sup>35</sup>

## Market Access Issues

- 7.74 There are a number of market access issues that impact on doing business in Brazil:
- Quarantine / health certification arrangements are being revised.
  - Taxation issues including the three-tier taxation system and shipping freight tax.
  - Tariff peaks in some toys, shoes, dairy products, information technology equipment and vehicles and automotive parts.
  - Customs clearance problems.

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34 Brazilian Ambassador, Transcript, 22 October 1999, p. 342.

35 *ibid.* p. 344.

- Restrictions on foreign investment in media, health, financial institutions and airlines.<sup>36</sup>

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36 DFAT, Submission, p. 332.