

Global reach

A strong currency and growing commercial prowess means Brazilian firms are buying up overseas. **Jason Mitchell** reports

A new entrepreneurial spirit in Brazil is leading to the rise of the country's first truly multi-national companies that want to set up shop throughout the world.

Brazil's improving economic climate over the past five years has been one of the main factors behind its leading enterprises becoming increasingly important global players. Along with India, China and South Africa, it is emerging as one of the rapidly developing countries (RDCs) that are producing firms to take on incumbent companies in the developed world.

This trend is dramatically highlighted by Brazilian metals and mining firm Companhia Vale do Rio Doce (CVRD), which made a \$17.6bn all-cash bid for Canadian nickel maker Inco in August 2006. The deal – which would be one of the biggest ever acquisitions by any Latin American company – seems likely to go ahead after Inco's board recommended the offer to shareholders at the end of September. Steel group CSN underlined the trend in mid-November with its bold challenge to Tata Steel's bid for Corus (see page 60).

A May survey by Boston Consulting Group (BCG), called 'New Global Challengers', shows that 12 of the 100 most important companies among RDCs come from Brazil: Braskem (petrochemicals), CVRD (metals and mining), Coteminas (textiles), Embraco (engineered products), Embraer (aerospace), Gerdaul (steel), Natura (cosmetics), Perdigão (food and beverages), Petrobrás (fossil fuels), Sadia (food and beverages), Votorantim (process industries) and WEG (engineered products).

Roberto Abdenur, Brazil's ambassador to the US, says: "During the past decade, we have seen a sea change in the mindset of Brazilians. They got fed up with the inflation of the past.

Important changes in the macroeconomic environment have taken place, making Brazilians more outward looking. Brazil has just achieved self-sufficiency in oil for the first time.

"The horizons of Brazilian companies are expanding beyond Latin America. Of course, it's natural that the country's enterprises invest in their own neighbourhood first, but now they are turning their gaze to the US, Europe, and beyond."

According to the IMF, FDI outflows from Brazil to the rest of the world amounted to \$2.5bn in 2005, compared with \$9.4bn in 2004, \$249m in 2003 and \$2.4bn in 2002.

Brazilian enterprises acquired 18 overseas businesses valued at more than \$1m during the first half of this year, according to consultancy KPMG in Brazil. This compares with 24 during the whole of 2005 and 22 in 2004.

Better fundamentals

Silvia Fazio, a partner at London-based law firm Collyer Bristow, says: "I think that since the Brazilian crisis of 1999, the country has changed markedly. The economic environment is much better.

"Many Brazilian companies have reached a kind of maturity. They are no longer thinking about just Latin America or the Iberian peninsula, but want to be true multinationals and expand into dynamic Anglo-Saxon markets.

"Previously, many Brazilian companies may have set up an office in Lisbon or Madrid, but increasingly they want to be in London as well. It's partly to do with the simplicity of setting up a business in the UK, but also to do with the importance of London as a financial centre, especially for commodity-based companies."

Martin Phelan, head of the inward investment group of UK Trade and

Investment, says: "Brazil is becoming one of the most important emerging markets for us. I am sure Germany is interested in attracting Brazilian FDI as well, as it has important historic links with the country. Many Germans emigrated to southern Brazil during the 20th century. The French must be keen too – Brazil is a Latin country, after all.

"It has a strong technological capability, which is not matched by any other Latin American nation, including Mexico. We will certainly invest more energy and effort into trying to capture FDI from there in the future."

Global reputation

An example of a Brazilian company that now has a global reach is aerospace group Embraer. It has overtaken Canada's Bombardier as the world's number three aircraft maker, and is securing mid-sized jet orders that would otherwise go to Airbus and Boeing. Its stylish EMB 190 – which seats up to 118 – has taken smaller commercial aircraft to a new standard. Its fuselage design offers the leg room and overhead luggage space of much bigger planes.

BCG's report says: "You get the idea how far some firms have come by touring Embraer's campus in São José dos Campos [São Paulo state], which is the size of 55 soccer fields. On the floor of one hangar, dozens of workers in impeccable overalls put the finishing touches on three luxurious Legacy 600 corporate jets that seat up to 16."

Two of Brazil's multinationals, food processors Sadia and Perdigão, have grown internationally by marketing products that make the most of Brazil's advantage in natural resources.

Sadia's annual revenue is \$2.2bn and Pedigão's \$1.8bn. Almost half of their income comes from exports to more than 100 countries. Both firms enjoy

30% to 50% shares of the Brazilian market in their principal product lines.

Sadia does business with 12,500 soya and corn producers and 10,200 integrated farmers. The firm has nine industrial units, eight distribution centres and 11 sales offices throughout the world. Its total exports surpassed 1m tons in 2005, a rise of 16% over 2004.

Perdigão has 16 industrial units and 16 distribution centres in Brazil, as well as seven sales offices in Europe, the Middle East and east Asia.

BCG's report says: "Both firms' expansion models focus on growing domestic production capacity while investing in overseas supply-chain-management capabilities. Perdigão's Rio Verde Agro industrial complex is now South America's largest slaughterhouse, and the company's total exports average 60,000 tons per month."

Mining and metals firm CVRD has built its global advantage and presence on rich, low-cost iron-ore reserves, while cosmetics group Natura has a long-term globalisation path that determines its international moves. Bringing together its operating capabilities and a clear strategy to access new markets, Natura has been able to spread its value proposition and strengthen its brand recognition internationally.

Exchange rate pinch

Claudio de Leoni Ramos, corporate finance partner at KPMG in Brazil, says: "The Brazilian real's exchange rate has not been favourable to exports. This could be one of the factors encouraging Brazilian companies to invest abroad.

"Most Brazilian companies making inroads overseas do so through mergers and acquisitions, rather than setting up afresh. Brazil's new entrepreneurialism is demonstrated by the 14 initial public offerings on the Bovespa stockmarket in 2006, with another 14 in the pipeline. Compare this with 1995 and 2003, when there were only six IPOs over the entire period."

Most of Brazil's FDI outflows are likely to be destined for the country's main trading partners. Last year, the US received 20% of Brazil's exports while China received 7.5%, Argentina 7% and Germany 5.4%.

Brazil is the US's 13th most important trading partner. Between January and

July this year, total US exports to Brazil amounted to \$10.1bn and total imports added up to \$14.8bn.

According to the Brazilian Ministry of Development, Industry and Overseas Commerce, between January and September this year, Brazil's total exports amounted to \$97.2bn and total imports \$64.5bn. Exports are growing at 20% a year and imports at 34%.

Mr Abdenur says: "Brazilian invest-

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ment in the US is very strong. During the past three years, Brazilian companies have invested \$2bn to \$3bn in the US. Embraer has been a strong player in North America, and Petrobrás recently announced plans to invest \$2bn in new oil drilling projects in the country.

"Many Brazilian small and medium-sized enterprises are looking at the US. Furthermore, Brazilian firms are investing heavily in research and development, which bodes well for the future. More than 10,000 Brazilians receive PhDs every year. However, the key to spreading prosperity throughout Brazil is investment in secondary education."

During the past few years, one of the most important developments in the developing world has been the emergence of a political and economic axis between India, Brazil and South Africa (known as the IBSA initiative). The three countries are regarded as leaders on their respective continents and are spearheading the new G20 grouping of major developing states. Trade and investment between the three is expected to rise rapidly in the future, and they are discussing an IBSA free trade agreement.

Chinese bridgehead

China is also an important market for Brazil and is likely to attract large amounts of Brazilian FDI outflows. The former Portuguese colony of Macau is a useful bridgehead for Brazilian firms wishing to invest in the Asian giant.

Africa has also received the attention of major Brazilian companies, including Petrobrás, CVRD and engineering and construction group Odebrecht.

Traditionally, Brazilian firms have invested in Africa's lusophone countries (former Portuguese colonies). The main three are Angola, Mozambique and Cape Verde, although São Tomé and Príncipe and Guinea-Bissau are also being eyed up.

Ultimately, the pressures of globalisation will lead to increased FDI outflows from Brazil to countries throughout the world. Brazilian enterprises must expand and diversify to remain competitive in the new global marketplace, which will also see the rise of mega multinational corporations from China and India.



Walking tall: Embraer's EMB 190 has taken smaller commercial aircraft to a new standard