



UK Trade
& Investment

Brazil Oil & Gas and Related Marine Industries

Options for Market Entry

Withdrawn on 3 November 2020



Mike Winstanley, Sales Director
Bowtech Products Ltd

“The help we have received from the UKTI teams in both Rio & London has been invaluable. We needed to get off to a ‘flying start’ in Brazil to convince the company that it was worth devoting considerable top management effort to a new market.”

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Developing relationships



Introduction

UK Trade & Investment has identified High Value Opportunities (HVOs) in Brazil, in the oil & gas and related marine engineering and construction sectors.

A key driver is the investments being made by Brazil's National Oil Company Petrobras in the country's 'pre-salt' oil fields, with planned spend in excess of US\$230bn in the period up to 2018. This has created massive demand for products and services.

Brazil's aim is to leverage these pre-salt investments to upskill its workforce and create a world-class hub for oil & gas. It has, therefore, placed significant local content requirements on the provision of goods and services in this area. However, recognising that Brazilian industry will need external assistance to support its development, government agencies are encouraging foreign companies to set up in Brazil through fiscal and other incentives.

Opportunities for the UK

The main contractors in Brazil are keen to develop relationships with UK suppliers who have the experience to supply offshore construction, engineering, maintenance, subsea equipment and services to the oil & gas and shipbuilding sectors. This includes areas such as drillships and floating production storage and offloading (FPSO) units, consultancy and training. Supply-chain opportunities are also available with Brazilian prime contractors.

The Brazilian business environment

Building strong relationships is key. Brazilian executives will generally prefer to do business with people they know and trust, and whom they can call directly if the need arises. Considerable time and effort should be spent nurturing Brazilian contacts. The more senior the UK company representative, the better.

UK companies should also remember that many Brazilians will be reluctant to rely on email exchanges early in the relationship. Not receiving a reply to an email can create the wrong impression, as can the receipt of such emails instead of a telephone call.

UK companies interested in tapping into the Brazilian oil & gas and marine construction market should be aware that local businesses require a high level of commitment from their suppliers, and will generally favour those who are based in the country. Suppliers who can readily provide access to spare parts and support services will be looked upon favourably.

How UKTI can help

Through its HVO programme, UKTI is working to help UK oil & gas and marine engineering and construction firms exploit the potential offered by Brazil.

Ways in which UKTI can help include:

- engaging at a high-level with key companies, both at commercial and political levels, to identify opportunities and facilitate introductions;
- showcase UK capability to key Brazilian buyers and decision makers;
- highlighting opportunities to UK companies and access issues;
- working with UK and local companies to understand the Brazilian government's local content requirements and
- working with UK Export Finance (UKEF) to support financing for UK goods and services.



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Market entry

Various routes can be used to enter the Brazilian market, from direct export sales from UK headquarters, to opening up an in-country office, to investing in the set up of local manufacturing (or services provision) capability.

Below is a high-level analysis of some of these options.

Market entry route	Benefits	Challenges
Export from UK/Set up of representative office	<ul style="list-style-type: none"> • Little investment required. • Ability to 'test' the market for products and/or services before commitment. 	<ul style="list-style-type: none"> • Market perception of lack of commitment, and Brazilian preference to build a relationship with a local supplier. • Consumer requirement for after-sales support (parts and services) may reduce market appetite. • Does not meet local content requirements.
Greenfield /organic expansion	<ul style="list-style-type: none"> • Market perception of commitment. • Staged capital investment following initial outlay. • Ability to provide higher level of service. • High level of local content is more attractive to customers. 	<ul style="list-style-type: none"> • How does the business operate in the Brazilian environment? • Does the company have the in-house skills to set up effectively in Brazil? • Develop market channels and business relationships. • Learn how to do business in Brazil.
Acquisition	<ul style="list-style-type: none"> • Market perception of commitment. • Ability to provide higher level of service. • Instant access to market channels, skills and relationships. • High level of local content is more attractive to customers. 	<ul style="list-style-type: none"> • Capital investment. • Integration challenges: cultural and operational. • Does the parent company have the in-house skills to manage a Brazilian subsidiary effectively? • Need for extensive due diligence given complexity of Brazilian labour and tax systems. • Potentially difficult to divest if things don't work out.
Joint venture (JV)	<ul style="list-style-type: none"> • Lower capital investment than acquisition. • Market perception of commitment. • High level of local content is more attractive to customers. • Ability to provide higher level of service. • Instant access to market channels/skills and relationships. 	<ul style="list-style-type: none"> • JV integration challenges: cultural and operational. • Governance (shared control) challenges. • Does the parent company have the in-house skills to govern a Brazilian JV effectively? • Need for due diligence given complexity of Brazilian labour and tax systems. • Potentially difficult to divest if things don't work out.

Joint Ventures

Main drivers

Forming a JV with a local company can significantly support a UK company looking to do business in Brazil. This can support in navigating the country's somewhat complex and bureaucratic fiscal, labour and legal system.

It is an increasingly popular form of market entry in Brazil and elsewhere, but it should not be chosen lightly.

Advantages include:

For UK companies:

- **Lower capital investment:** The capital investment required to start up a JV will be typically lower than to acquire an existing business.
- **Political:** Local authorities are likely to look favourably on UK companies that partner with Brazilian companies and could potentially offer preferential conditions to set up business.
- **Practical:** It is more effective to learn from a partner who is familiar with Brazil's complex business environment and who speaks the language (Portuguese) and understands the culture.
- **Risk mitigation:** Having a local partner can help a UK company to avoid the myriad risks of non-compliance that could significantly impair its ability to do business. It may also provide the UK firm with a 'natural buyer' for their stake, should they at any point wish to pull out.

For Brazilian companies:

- **Growth:** Partnering with a UK company may give the Brazilian company instant access to a wider range of products and services, enabling it to expand its market niche and explore new opportunities. It may also give joint access to markets outside of Brazil.
- **Funding:** A UK partner may bring the funding that might not otherwise be available to support expansion.
- **Technology:** A UK partner may instantly give the Brazilian party access to technology that will enable it to strengthen/differentiate its offering.
- **Succession:** Most mid-sized companies in Brazil remain family owned and thus place importance on succession planning. Partnering with a UK company may open up opportunities for development of the 'next generation' in a professionalised environment.

Key considerations:

Before forming a JV, both UK and Brazilian companies should give careful consideration to the following:

- **Partner selection:** Selection criteria should include strategic fit, alignment of objectives and product/services, and a 'cultural/personality' fit amongst the teams that will implement and operate the JV. Rigorous due diligence should always be undertaken (both at corporate and shareholder level).
- **Implementation (and operations) plan:** Both partners should work together to develop a joint implementation plan with clearly defined roles and responsibilities, deliverables and timelines. Should seamlessly flow into an ongoing operational plan.
- **Exit strategy:** Having a clear exit strategy, defined and agreed upfront, is to the benefit of both parties. Parent companies' circumstances and strategies may evolve over time in a way that is not consistent with the JV's goals.



Challenges

Despite the obvious rewards, doing business in Brazil can present a number of challenges, which UK companies need to overcome in order to be successful there. They include:

- **Structuring:** The UK does not have a bilateral tax treaty with Brazil. It is, therefore, common for investments by UK companies in Brazil to be structured via alternative jurisdictions which do have tax treaties with both countries. Careful structuring needs to be considered early in the process.
- **Fiscal and legal/regulatory environment:** The Brazilian fiscal and regulatory system is complex, with requirements at the municipal, state and federal levels. Taxes require detailed understanding and careful calculation.
- **Bureaucracy:** The Brazilian system's complexity creates an administrative burden and implications for a UK company's back-office operations, particularly when it comes to demonstrating compliance.
- **Timescales:** Timescales in Brazil are generally longer than in the UK and can be a source of frustration.
- **'Custo Brasil' ('Brazil Cost'):** This is an umbrella expression used to encompass added costs created by Brazil-specific challenges, including systematic delays, bureaucracy, labour legislation, lack of skills and poor infrastructure.



Contact UKTI

If you are a UK-based company looking to develop your business in overseas markets or an overseas client looking for UK suppliers of world-class products and services, then please contact us for expert advice and practical support.

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How can UK Trade & Investment help

UK Trade & Investment is the Government Department that helps UK-based companies succeed in the global economy. We also help overseas companies bring their high quality investment to the UK's dynamic economy acknowledged as Europe's best place from which to succeed in global business.

UK Trade & Investment offers expertise and contacts through its extensive network of specialists in the UK, and in British embassies and other diplomatic offices around the world. We provide companies with the tools they require to be competitive on the world stage.

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