Doing business with

Brazil

Brazil is the world's fifth largest country, 2.6 times the size of India. It borders every country of South America except Chile & Ecuador and has a coastline of 7,407 kms on the Atlantic Ocean. It is a monolingual country with Portuguese as official language and Roman Catholic as the predominant religion.

International Trade & Procurement

Brazil imports close to US$ 240 billion worth of goods and exports close to US$ 240 billion worth of goods each year. It has a significant volume of imports, with more than 40,000 direct import firms, in addition to innumerable businesses engaged in indirect importing. To assist companies, the Brazilian Government provides, through the Trade and Investment Promotion Department (DPR) of the Ministry of External Relations, two directories with information on Brazilian importers at www.brasilglobalnet.gov.br: the Catalogue of Brazilian Importers (Catálogo de Importadores Brasileiros) and the Brazilian Tradings Directory (Diretorio Tradings do Brasil).

Government procurement in Brazil is governed by Law 8666 of June 21, 1993, which mandates the establishment of competitive bidding procedures for public procurements of goods and services, including those delivered from abroad. All ministries, quasi-government (mixed capital) enterprises, self-governing bodies, and other State agencies are required, for the purpose of importing goods and services from abroad, to publish bid notices open to all participants wishing to take part in a price quotation procedure. The selection criteria are set forth in the bid notice, although in the majority of cases the lowest price criterion prevails, provided the respective technical requirements and supply conditions in connection with the respective product are met.

IMPORTANT : In the case of a tie between a domestic and foreign supplier, by law, preference is given to the domestic supplier. In general, a bank guarantee must be submitted with the proposal, in order to cover the costs of a new bidding procedure in the event the winning bidder fails or opts not to sign the supply or service execution contract. All bidding procedures are published on the Internet. The federal government operates a Procurement Portal: http://www.comprasnet.gov.br

General Characteristics of Brazilian Trade Practices

Brazilian importers generally conduct in-depth research on suppliers throughout the global market. Therefore, exporters should have a firm grasp of the competitive advantages of their products and clearly lay these out for potential clients. After swapping detailed technical and business information on proposed transactions, importers will request issuance of a Pro Forma Invoice. While this does not indicate a formal product order, the invoice is required to meet internal company procedures to finalize transactions. There are three critical steps in the preliminary negotiations between parties: unit price, delivery schedule, and payment form. Determining unit price requires setting out the pertinent sales conditions, referred to by the abbreviation Incoterms currently applied in international commercial transactions.

The delivery schedule in Brazil is contingent not only on the means of transportation employed, but on the time required by Brazilian customs to nationalize the respective products. The payment form should be determined in accordance with the existing modalities. Exporters are urged to present comprehensive productive catalogues, including in electronic format and over the Internet. In addition, in many cases providing product samples is equally important and can be carried out by the exporter's representative in Brazil or directly by the exporter's main office. Pursuant to Brazilian law, while product samples are classified as imports they are subject to simplified customs procedures and exempt from import duties or other obligations applied to regular imports.

Litigation and Disputes

In the case of legal actions and disputes between the parties, depending on the payment form, the respective issues may be resolved as per the rules and regulations of the International Chamber of Commerce - ICC or, where an agreement is not reached, through the courts in the jurisdiction established by contract, which may be located in the supplying or purchasing country alike.

Administrative Procedures for importing

Importing into Brazil involves procedures similar in complexity to those found in any other country. All import procedures are performed through the Integrated Foreign Trade System (Sistema Integrado de Comercio Exterior - SISCOMEX), which interconnects government agencies to all agents engaged in export and import activities. The Foreign Trade Secretariat(Secretaria de Comércio Exterior - SECEX), a subordinate body of the Ministry of Development, Industry, and Foreign Trade (MDIC), has primary responsibility for implementing the mechanisms and instruments employed in the oversight and enforcement of export and import transactions. Additional key agencies include the Brazilian Federal Revenue Department (Secretaria da Receita Federal do Brasil - SRFB), a unit of the Ministry of Finance responsible for the applicable customs, fiscal, and tax procedures, and the Brazilian Central Bank (BACEN), responsible for implementing the country's financial and foreign exchange rules. The administrative procedures for importing into Brazil involve the following requirements:

- Certification of the importer's eligibility on the SISCOMEX;
- Classification of the imported goods;
- Submission of the Pro Form Invoice;
- Registration of the transaction on the SISCOMEX;
- Import licensing (licensing requirements are waived for the bulk of goods);
- Loading of goods in the country of origin;
- Issuance of international documents and customs clearance;
- Contracting of foreign exchange;
- Payment of applicable duties;
- Issuance of Import Declaration;
- Release of cargo in Brazil.

General Tax Treatment for Imports

The applicable tax treatment for Brazilian imports includes the Import Tax (Imposto de Importação - II) as well as a number of additional levies assessed to products sold on the domestic market; with a view to ensuring goods produced in Brazil receive equal treatment. While computing the levies assessed on imported goods may be quite complex, the SISCOMEX can automatically calculate the applicable obligations by simply entering the classification of the respective goods and their customs value.

IMPORTANT : to avoid the cumulative payment of levies, Brazilian law provides that a credit be extended upon payment of obligations at the time of import, which the importer can then use to offset equivalent levies assessed in subsequent transactions. In practice, therefore, the levy applies only to the value added of the imported good.

1. Import Tax (IT) - Federal tax assessed for exclusively economic (regulatory) ends and protection. The tax applies only to products imported from abroad. The Import Tax is selective, as it varies according to country of origin of the imported goods and the characteristics of the respective product. The applicable rates are set forth in the Common External Tariff (CET), the customs duty assessed by the member States of MERCOSUR. There is a specific rate for each item of the Common Nomenclature of MERCOSUR (CNM). The tax is computed on the basis of the customs value of the imported goods. As a general rule, the customs value is calculated based on the Free on Board (FOB) value plus the corresponding freight and international insurance amounts. The Import Tax is calculated through application of the CET rates to the respective tax base. The rates currently set forth in the CET are all ad valorem. The Import Tax adheres to the following formula: II = CET (%) x Customs Value.

2. Excise Tax (Imposto sobre Produtos Industrializados - IPI) A federal tax which also varies according to the characteristics of the respective product. As with the Import Tax, a specific rate applies (Excise Tax Index - TIPI) for each item of the Common Nomenclature of MERCOSUR (CNM). The IPI is selectively applied as well. That is, the weight of the levy differs by virtue of the product's strategic importance, so that the most essential products are exempted. The obligation is calculated on the basis of the customs value of the respective product plus the amount of the Import Tax. The tax is computed

through application of the rates established in the TIPI. IPI = TIPI (%) x (Customs Value + II)

3. Social Integration Program Contribution (Programa de Integração Social - PIS) and Social Security Financing Contribution (Contribuição para o Financiamento da Seguridade Social - COFINS) Federal social contributions aimed at funding social security. Since 2004, the contributions have been applied to imported products, in order to ensure domestically produced goods receive equal treatment. Imported goods are taxed at the same rate as domestic products. A fixed rate is applied to both contributions: 1.65% for the PIS and 7.6% for the COFINS. Calculation of both contributions is based on the customs value of the goods plus the applicable goods and services tax (Impostosobre Circulação de Mercadorias e de Serviços - ICMS) on the imported goods and the total value of the contributions themselves, as these are included in the end price of the goods (gross up). In this light, the contributions adhere to the following formula: PIS = 1.65% x (Customs Value + ICMS + PIS + COFINS)
COFINS = 7.6% x (Customs Value + ICMS + PIS + COFINS)

4. Goods and Services Tax (Imposto sobre a Circulação de Mercadorias e Prestação de Serviços - ICMS) Astate tax on the circulation of goods on the domestic market and on interstate and inter-municipal transportation services, as well as telecommunications services. The tax also applies, in general, to imported goods, in order to ensure domestically produced goods receive equal treatment. The tax rate differs by virtue of the importance of the product and may range from zero, for essential goods, to25%. Each state and the Federal District have their own ICMS legislation, including different rates and distinct tax treatment. Therefore, to estimate the total tax obligation, it is necessary to know in which state the respective good will be sold. The ICMS is calculated by adding the customs value, the IT, the IPI, the ICMS itself (gross up), any other applicable levies on the imported goods, and the pertinent import customs expenses, namely the costs relating to import clearance, such as warehousing, wharfage, etc. The estimated tax obligation, which can only be calculated following arrival of the good - astotal customs costs are not known prior to this point -, is based on the following formula:

ICMS = ICMS Rate (%) x (Customs Value + II + IPI +ICMS + PIS + COFINS + Customs Expenses) or

ICMS = ICMS Rate (%) x [(Customs Value + II + IPI + PIS + COFINS + Customs Expenses)/(1 - ICMS Rate)]

5. Contribution for Intervention in the Economic Domain (Contribuição de Intervenção no Domínio Econômico - CIDE-Combustíveis) The Contribution for Intervention in the Economic Domain is a federal tax assessed to regulate fuel prices. The CIDE-Fuel applies to the import and sale of gasoline, diesel, aviation kerosene, fuel oil, liquefied petroleum gas, and ethanol. The contribution is calculated based on sale volumes, to which a fixed value is assessed for each unit sold.

6. Additional Freight for the Renovation of the Merchant Marine (Adicional ao Frete para Renovação da Marinha Mercante - AFRMM). The AFRMM is a federal social contribution for intervention in the economic domain assessed on the value of international freight or sabotage and aimed at providing resources to support the government's efforts to develop the Brazilian merchant marine and shipbuilding and repair industry. The additional freight is assessed on a percentage of the port-to-port water transport service, including port and other expenses listed on the bill of lading. Additional freight rates vary according to the type of navigation: 25% for long-course navigation; 10% for sabotage navigation; and 40% for inland and river navigation. The AFRMM is not assessed on freight originating in the Member States of MERCOSUR and those included under international agreements signed by Brazil that expressly waive the additional freight charge, such as the Economic Complementation Agreements executed with the member countries of the Latin American Integration Association - ALADI.

7. SISCOMEX Use Fee Aimed at covering the Import Declaration registration costs on the Integrated Foreign Trade System - SISCOMEX. The fee varies according to the CNM classification number under which the Import Declaration is registered.

8. Additional Costs In addition to the items listed above, imports are subject to other international commercial transaction fees relating, which are regularly assessed in virtually every country:

- Wharfage (movement of goods at port);
- Warehousing;
- Import licensing costs;
- Customs clearance costs;
- Transport of goods to the premises of the local company;
- Bank fees relating to opening of credit lines, etc.

General Recommendations for Exporters

Trade Habits

Brazilian entrepreneurs and executives are generally cordial and prefer to dispense with unnecessary formalities. However, this does not mean they are unduly flexible negotiators. Brazilian importers want to receive all of the technical and commercial information on the goods they purchase and the respective prices, including the respective customs classification. With the related data in hand, importers can prepare the appropriate import schedules that take into account the applicable duties, warehousing, and port costs, enabling more efficient and timely decisions about purchases. Therefore, exporters should make all product information available. To the extent possible, no questions should go unanswered, as this could prompt delays in client decision. The absence of any data or information could make clients think twice about concluding a business deal.

Another essential piece of information involves loading periods in the country of origin, to the extent that, depending on the means of transportation employed, transit times become an important element in planning for the roll-out and sale of a particular product on the domestic market. Extreme care should be taken with the volumes offered. For example, order volumes may be substantial in the case of human consumption products, given the size of the Brazilian market. Therefore, exporters should be certain of their capacity to supply the negotiated amounts within the agreed deadlines.

Clients should not be pressured in the hope of obtaining an immediate decision, in so far as concomitant queries into the applicable customs rules are usually conducted, which can delay the decision-making process. What can happen at business meetings is clients may request submission of the Pro Forma Invoice. As such, exporters are urged to have company letterhead with them.

Some importers will raise key contractual issues in business meetings, with the final draft concluded subsequently by fax or email. Once a proposal has been formalized, the respective price and payment form should not be modified.

Commercial contracts are not usually concluded for small- or medium-sized purchases, as the Pro Forma Invoice serves this purpose. In the event the negotiation involves goods and amounts which, in the exporter's view, require a formal instrument, execution of a contract may be proposed that includes all of the procedures to be fulfilled by both parties. The contract may be notarized and the competent jurisdiction for settling any and all disputes selected. The competent jurisdiction may be located in Brazil or in the exporting country. Formal instruments should be prepared in the two working languages.

Important Tips

o In Brazil, business meetings are generally held in company offices. It is rare for clients to schedule meetings at a hotel or in their residence, as is customary in other countries. Adopt an objective and direct approach in meetings, be clear and firm with regard to prices, timetables, and payment forms. Do not be concerned if assistants or cell phones interrupt the meeting, even during sales pitches. Pause and continue the presentation as naturally as possible.

In general, Brazilian executives negotiate business deals alone or with another company representative engaged in the particular field or project. Company catalogues and Web sites should be made available in a number of languages, including Portuguese, to ensure specific technical information does not have to be translated or explained during meetings.

Guarantees, post-sale technical assistance, replacements, maintenance, or any other obligations required following the sale should be clearly laid out, primarily those relating to financial matters. Brazilian executives will not always directly state their lack of interest in purchasing the product. Generally, they will allow the business negotiation to run its course until it becomes clear to the visitor that a deal is not possible.

- Brazilian executives are punctual and will frequently call in advance if they are unable to meet at the scheduled time. In regard to dress codes, men and women alike should wear formal business attire. Do not be surprised if prior to the meeting light hearted comments are made about a report in the media or about the preferred soccer (football) teams of meeting participants. These are common "ice-breakers".
- At the outset of meetings, coffee is served in small cups. The coffee is strong, quite different from that found in other Latin American countries. Brazilians are interested in the stories foreign visitors have to tell. Generally, visitors are asked to offer some observations or to report on a significant factor development in their country. Never offer comments on the country's political or economic situation, much less about issues relating to Brazilian foreign trade with which one disagrees, as this could give rise to inconvenient comparisons.
- Presentations should be objective, succinct, clear, and, in the event technical information is required, avoid excessive detail. One should assume that the client has an adequate understanding of the sale product. In general, very few questions will be posed during presentations. However, a number of questions relating to all aspects of a particular product, including in regard to prices, will most certainly be raised afterward.
- Depending on the relationship established in the business meeting, a lunch or dinner invitation may be extended with a view to continuing the negotiation. As such, lunch or dinner

invitations should not be viewed as social gatherings. Visitors are unlikely to be invited to meet the families of clients, a practice more prevalent in other countries. However, after all pertinent business matters have been discussed; Brazilians enjoy engaging in informal conversations about personal lives.

- Visitors should take the initiative to treat their hosts, even in cases in which clients insist on paying the check. The gesture will be looked on favourably, not so much from a financial standpoint, as for the thoughtfulness of the act. On leaving the establishment, the client may want to take his or her visitors back to their hotel. Visitors should accept, for it is important to Brazilian to ensure the comfort and safety of their guests.

What Not To Do

Certain attitudes should be avoided, as they could affect the client's view of the company and jeopardize the business deal:

- Failing to respond immediately to client emails;
- Pledging to export in excess of the company's true production capacity;
- Adjusting the price following formal submission of the Pro Forma Invoice;
- Failing to send the promised product samples;
- Unilaterally modifying the agreed payment form;
- Shipping goods of lesser quality than guaranteed;
- Failing to deliver required documents in a timely fashion;
- Failing to provide explanations for discrepancies in required documentation;
- Neglecting to invite client to visit one's country & company
- Putting forth negative views of one's country or of Brazil;
- Failing to implement product modifications requested;
- Refusing to collaborate in insurance compensation;
- Insinuating the possibility of default if payment is not executed through a letter of credit;
- Insisting on advance payment due to a lack of trust;
- Announcing contracting of a credit insurance policy, suggesting a lack of trust;
- Criticizing Brazilian customs procedures;
- Criticizing Brazilian culture, customs, food and infrastructure;
- Demonstrating exaggerated fear with respect to urban crime in Brazil;
- Excessively praising one's country, particularly through comparisons to Brazil. ■

Export Data Processing and Monitoring System (EDPMS)

Copy of RBI Circular, RBI/2013-14/507, A.P. (DIR Series) Circular No. 109; February 28, 2014

Attention of Authorised Dealers is invited to A. P. (DIR Series) Circular No. 12 dated September 9, 2000 read with A.P. (DIR Series) Circular No.101 dated February 04, 2014 in terms of which a comprehensive IT- based system called Export Data Processing and Monitoring System (EDPMS) has been developed for better monitoring of export of goods and software and facilitating AD banks to report various returns through a single platform. It has been further advised that the date of inception of the system along with user credentials and web link for accessing the system would be communicated to the AD banks shortly.

2. It is now advised that EDPMS has been operationalized with effect from February 28, 2014 and the same would be available to AD banks with effect from March 01, 2014. Accordingly, AD banks are advised to use web link https://edpms.rbi.org.in/edpmsfor accessing the system. The user credentials for accessing the system have already been shared with the AD banks.

3. Henceforth, the entire shipping documents should be reported in the new system and old shipping documents would continue to be reported in the old system till completion of the cycle. Both the old and new systems will run parallel to each other for some time before the old system is discontinued. This will be advised to AD banks separately.

4. Authorised Dealers may bring the contents of this circular to the notice of their constituents concerned.

5. The directions contained in this circular have been issued under Section 10(4) and Section 11(1) of the FEMA, 1999 (42 of 1999) and are without prejudice to permissions/ approvals, if any, required under any other law.

Yours faithfully,

(C.D Srinivasan)Chief General Manager