Brazil

RISK & COMPLIANCE REPORT

DATE: June 2018

JERSEY TRUST COMPANY

Executive Summary - Brazil	
Sanctions:	None
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	US Dept of State Money Laundering Assessment Not on EU White list equivalent jurisdictions Serious deficiencies identified in the enacting of counter terrorist financing legislation
Medium Risk Areas:	Non - Compliance with FATF 40 + 9 Recommendations Weakness in Government Legislation to combat Money Laundering Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score)

Major Investment Areas:

Agriculture - products:

coffee, soybeans, wheat, rice, corn, sugarcane, cocoa, citrus; beef

Industries:

textiles, shoes, chemicals, cement, lumber, iron ore, tin, steel, aircraft, motor vehicles and parts, other machinery and equipment

Exports - commodities:

transport equipment, iron ore, soybeans, footwear, coffee, autos

Exports - partners:

China 17%, US 11.1%, Argentina 7.4%, Netherlands 6.2% (2012)

Imports - commodities:

machinery, electrical and transport equipment, chemical products, oil, automotive parts, electronics

Imports - partners:

China 15.4%, US 14.7%, Argentina 7.4%, Germany 6.4%, South Korea 4.1% (2012)

Investment Restrictions:

There are laws that restrict foreign ownership within some sectors, notably aviation, insurance, and media.

Foreign investment restrictions remain in a limited number of other sectors, including highway freight (20 percent) and mining of radioactive ore

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Section 1 - Background

Following more than three centuries under Portuguese rule, Brazil gained its independence in 1822, maintaining a monarchical system of government until the abolition of slavery in 1888 and the subsequent proclamation of a republic by the military in 1889. Brazilian coffee exporters politically dominated the country until populist leader Getulio VARGAS rose to power in 1930. By far the largest and most populous country in South America, Brazil underwent more than a half century of populist and military government until 1985, when the military regime peacefully ceded power to civilian rulers. Brazil continues to pursue industrial and agricultural growth and development of its interior. Exploiting vast natural resources and a large labor pool, it is today South America's leading economic power and a regional leader, one of the first in the area to begin an economic recovery. Highly unequal income distribution and crime remain pressing problems.

Section 2 - Anti – Money Laundering / Terrorist Financing

FATF List of Countries that have been identified as having strategic AML deficiencies

29 June 2018 - Brazil's progress in addressing the deficiencies identified in its mutual evaluation report

The FATF recognises that Brazil has taken further steps to improve its counter terrorist financing regime; however deficiencies remain regarding targeted financial sanctions and Brazil has failed to meet the deadlines in the action plan it agreed to. As such, this is now a membership issue for the FATF to consider in February 2019 and Brazil is encouraged to address those deficiencies as soon as possible.

Statement – October 2016

In February 2016, the Financial Action Task Force (FATF), the international standard-setter for combating money laundering, the financing of terrorism and proliferation of weapons of mass destruction, released a statement conveying its deep concerns about Brazil's continued failure to remedy the serious deficiencies identified in its third mutual evaluation report adopted in June 2010. Brazil had not criminalised terrorist financing since 2004, when Brazil's second mutual evaluation report was adopted. And while the FATF welcomed progress by Brazil on the freezing of terrorist assets, further improvements were required to fully satisfy the FATF standards. The FATF called on Brazil to fulfil its FATF membership commitment by enacting counter terrorist financing legislation that would adequately address these shortcomings in line with the FATF Recommendations. If adequate legislation was not enacted by the June 2016 FATF Plenary, the FATF would have considered the next steps in the follow-up process.

On 16 March 2016, Law 13.260 was enacted to criminalise terrorism and terrorist financing[1] and "deal with investigative and procedural provisions and to reformulate the concept of a terrorist organization" and which covered most of the elements of former SR.II, thereby addressing that Recommendation sufficiently (with minor deficiencies). The FATF welcomed that important development and decided not to consider the next steps in the follow-up process.

Since June 2016, Brazil has taken additional steps towards improving its counter-terrorism (CFT) regime by preparing several ordinances which would in principle contribute to fully implementing UNSCRs 1267 and 1373. These however, are yet to be enacted.

There still remain a number of shortcomings that Brazil must address in order to reach a satisfactory level of compliance with the FATF standards. If sufficient progress is not made by February 2017, the FATF will consider taking other measures, including issuing another Public Statement.

[1] Among the provisions included in the new law, article 5, paragraph 1 establishes penalties to the agents, who with the purpose of practicing acts of terrorism, recruit, organize, carry or equip individuals traveling to a country other than that of their residence or nationality. This is an important provision in line with UNSCR 2178 (2014).

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Brazil was undertaken by the Financial Action Task Force (FATF) in 2010. According to that Evaluation, Brazil was deemed Compliant for 3 and Largely Compliant for 21 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for all 3 of the 6 Core Recommendations.

FATF Statement on Brazil's considerable progress in addressing the serious deficiencies identified in its mutual evaluation reports, and the important issues that remain unresolved (November 3, 2016)

In February 2016, the FATF released a statement conveying its deep concerns about Brazil's continued failure to remedy the serious deficiencies identified in its third mutual evaluation report adopted in June 2010, especially those related to terrorism and terrorist financing. The FATF called for actions to address those deficiencies. The FATF reiterated its concern in October 2016, February 2017 and June 2017, and again called on Brazil to address these shortcomings.

The FATF recognises that Brazil has taken several significant steps to improve its CFT regime; however, deficiencies remain regarding targeted financial sanctions.

The FATF therefore calls on Brazil to fulfil its FATF membership commitment by taking further action to fully address these shortcomings. As the next step in its follow-up process, Brazil has committed to an action plan for addressing the remaining deficiencies in its regime for implementing targeted financial sanctions. Should Brazil continue to fail to adequately rectify these deficiencies, in line with its action plan, the FATF will consider further steps in its follow-up process.

Key Findings from latest Mutual Evaluation Report (2010):

Brazil, which is a member of both the FATF and the Grupo de Acción Financiera de Sudamérica (GAFISUD), has developed a coherent AML/CFT strategy, the National Strategy Against Corruption and Money Laundering (ENCCLA), which has enabled it to make systematic progress to enhance its implementation of AML/CFT measures. An important outcome of this strategy is a Bill to amend Federal Law 9613/1998 (the AML Law) and criminalise terrorist financing. This Bill has been approved by the Senate and is currently under consideration in the House of Representatives.

Brazil has significantly enhanced its ability to prosecute money laundering (ML) offences by implementing a system of Specialised Federal Courts which bring together federal prosecutors and judges specialised and with experience in handling cases involving ML and other financial crimes. The main sources of proceeds of crime in Brazil are corruption and crimes against the national financial system, including fraud and capital flight. Drug trafficking, weapons trafficking, organised crime, smuggling and embezzlement of governmental money are also important sources of illegal proceeds.

The ML risks are higher in relation to the border areas and the informal economy. The banking sector is perceived to face greater ML risk in the business areas of foreign exchange and private banking. ML risk has been detected in the securities sector through the use of a broker to deposit funds and conduct stock market transactions. In the insurance sector, accumulation, life and pension/retirement products are perceived as being the most vulnerable to ML. Some cases of illicit drugs being exchanged for precious stones have been detected, although this is uncommon, as profit margins for precious stones sold on the open market are relatively low because most of the precious stone trade conducted in Brazil is carried out on the wholesale export market and the retail market is residual.. No ML cases have been detected in the closed pension funds sector.

The government of Brazil has been working to mitigate the risk of terrorist financing (FT) in its territory. Such work has been carried out in close co-operation with other interested governments and allows to keep under strict surveillance all activities considered to be of higher risk. Initiatives such as regional intelligence structures, joint operations and exchange of information, among others, are used to identify, prevent and disrupt activities that could be related to terrorism and its financing.

The ML offence is largely in line with international requirements; however, overall the number of final sentences and convictions is low, given the size of the country and the sophistication of its financial system. Brazil has not criminalised terrorist financing as a stand-alone offence in a manner that is consistent with the international requirements. Since 2004, Brazil has pursued a strategy of enhancing its systems for applying provisional measures and confiscation. Overall, the statistics show a sufficient number of seizures, but a relatively low number of confiscations.

Brazil has effective mechanisms to facilitate policy and operational co-operation at the domestic level, particularly through the ENCCLA mechanism. Systems for providing mutual legal assistance are not impacted by deficiencies in the criminalisation of terrorist financing because Brazil can provide MLA in the absence of dual criminality and has demonstrated its ability to do so in practice. Money laundering is an extraditable offence. However, deficiencies in the criminalisation of FT impede Brazil's ability to extradite (or prosecute its own nationals) in such cases, as dual criminality is required.

Preventative measures apply to all financial institutions, dealers in precious metals and stones, and real estate agents who are legal persons. However, the extent to which such measures are elaborated is much less robust outside of the banking (including money remittance and foreign exchange), securities and insurance sectors. All financial institutions are subject to comprehensive requirements to identify politically exposed persons (PEPs), keep records and report suspicious transactions. Banking, securities and insurance institutions are required to identify beneficial owners. Breaches of the AML/CFT requirements are punishable by a full range of sanctions.

Key recommendations made to Brazil include: criminalise FT in a manner consistent with the international requirements; continue to support the Specialised Federal Courts and other measures to enhance the ability to apply final sanctions for ML; extend corporate civil or administrative liability to legal persons who commit ML/FT; ensure that confiscation is systematically pursued; implement effective laws and procedures to take freezing action pursuant to the relevant United Nations Security Council Resolutions (UNSCRs); broaden the obligation to declare physical cross-border transportations of currency and bearer negotiable instruments (BNI); enhance supervisory powers and resources in some areas; increase supervision of non-bank financial institutions; and extend AML/CFT requirements to all categories of designated non-financial businesses and professions (DNFBP).

US Department of State Money Laundering assessment (INCSR)

Brazil is categorised by the US State Department as a Country/Jurisdiction of Primary Concern in respect of Money Laundering and Financial Crimes.

OVERVIEW

Brazil's economy was the second largest in the Western Hemisphere in 2016 and among the 10 largest in the world. São Paulo is the largest city in South America and a regional financial center. Brazil is a major drug-transit country, as well as one of the world's largest drug consumers. Transnational criminal organizations operate throughout Brazil and launder proceeds from trafficking in narcotics, weapons, and counterfeit goods. A multi-billion dollar contraband trade occurs in the Tri-Border Area (TBA) where Brazil shares borders with Paraguay and Argentina. Public corruption is Brazilian law enforcement's primary money laundering priority, followed by narcotics trafficking.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Public corruption and trafficking of drugs, weapons, and counterfeit goods are the primary sources of illicit funds in Brazil. Money laundering methods include the use of banks, real estate, and financial asset markets; remittance networks; shell companies; phantom accounts; illegal gambling (jogo de bicho); informal financial networks, such as hawalas; and through the sale of cars, cattle, racehorses, artwork, and other luxury goods. Brazilian criminals also use foreign tax havens to launder illicit gains. Drug trafficking organizations are linked to black market money exchange operators (dolieros). Money is also often laundered through bulk cash smuggling. Money laundering techniques vary widely in Brazil. In large urban centers, techniques are sophisticated and often involve foreign bank accounts, shell companies, and financial assets. In rural Brazil, promissory notes and factoring operations are more common. Brazilian law enforcement has successfully seized millions in multiple currencies in highway seizures and served arrest warrants throughout Brazil, especially on the border with Paraguay (State of Parana).

Some high-priced goods in the TBA are paid for in U.S. dollars, and cross-border bulk cash smuggling is a concern. Large sums of U.S. dollars generated from licit and suspected illicit commercial activity are transported physically from Paraguay into Brazil. From there, the money may make its way to banking centers in the United States. However, Brazil maintains some control of capital flows and requires disclosure of corporate ownership.

In March 2014, Brazilian law enforcement received a tip regarding money laundering at a gas station connected to the parastatal oil company, Petrobras. Since then, "Operation Carwash" (Lava Jato) uncovered a complex web of corruption, money laundering, and tax evasion spanning the Americas, leading to arrests of former and current ministers, members of Congress, political party operatives, employees at Petrobras and other parastatals, and executives at major private construction firms in multiple countries throughout the region. Corruption-related money laundering is associated with fraudulent contracts, bribery and influence-peddling, antitrust violations, public pension fund investments, and undeclared or illegal campaign donations.

To attract investment, Brazil has a preferential tax regime for four FTZs in the North and Northeast regions.

KEY AML LAWS AND REGULATIONS

Brazil's money laundering legal framework has been updated three times since its establishment in 1998, most recently by Law #12.683 in 2012. The framework facilitates the finding, freezing, and forfeiture of illicit assets. Brazil has comprehensive KYC and STR regulations.

Brazil and the United States have a MLAT. Brazil regularly exchanges records with the United States and other jurisdictions.

Brazil is a member of the FATF and GAFILAT, a FATF-style regional body.

AML DEFICIENCIES

Legal entities cannot be criminally charged under Brazil's money laundering statute, but are subject to reporting requirements if they are covered entities under the AML law. Legal entities in violation of the reporting requirements can face fines and suspension of operation, and managers can face criminal sanctions.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

From January through September 2017, financial regulators initiated 75 money laundering administrative actions and referred 5,418 cases to law enforcement for potential investigation. Comprehensive data on criminal investigations and convictions are not yet available. The lack of a central de-confliction database, coupled with the stove-piping of intelligence by multiple Brazilian law enforcement agencies, makes it difficult to fully identify the means through which criminal groups launder money. Coordination between civilian security agencies, law enforcement agencies, and the Brazilian military is hindered by inter-service rivalries.

Through its 2003 National Strategy Against Corruption and Money Laundering (ENCCLA) and associated whole-of-government working groups, Brazil made significant strides in strengthening its legal framework, building capacity to investigate and prosecute financial crimes through specialized police units and courts, and fostering interagency cooperation and civil society input on prospective reforms. Challenges remain. Judicial delays often lead to cases expiring before judgment due to strict statutes of limitations. Brazil will benefit from expanded use of the task-force model and cooperative agreements that facilitated recent major anti-corruption breakthroughs, an increased information exchange on best practices for financial market fraud, government contract oversight, and collaboration and leniency agreements.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Brazil does not conform with regard to the following government legislation: -

- **Ability to freeze assets without delay:** The government has an independent national system and mechanism for freezing terrorist assets in a timely manner (including but not limited to bank accounts, other financial assets, airplanes, autos, residences, and/or other property belonging to terrorists or terrorist organizations).

- **Criminalised Financing of Terrorism:** The jurisdiction has criminalized the provision of material support to terrorists and/or terrorist organizations.

EU White list of Equivalent Jurisdictions

Brazil is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

To view historic Governance Indicators Ctrl + Click here and then select country

Failed States Index

To view Failed States Index Ctrl + Click here

Offshore Financial Centre

Brazil is not considered to be an Offshore Financial Centre

Key Findings from other US State Department Reports:

Narcotics

Brazil is a major transit and destination country for cocaine. The country's border with narcotics source countries Colombia, Peru, Bolivia, and Paraguay is porous and over three times the length of the U.S. border with Mexico. The majority of cocaine transiting Brazil is destined for its domestic market and Europe, sometimes via West Africa. The Brazilian drug trade is controlled by large, violent, and well-organized drug trafficking organizations operating throughout the country. Brazil suffers from a substantial and growing domestic drug consumption problem. It is the world's second-largest consumer of cocaine hydrochloride and likely the largest consumer of cocaine-base products. The Government of Brazil appreciates the gravity of the illicit drugs issue and is committed to combating drug trafficking but does not have the institutional capacity to fully stem the flow of illegal drugs across its borders.

In 2016, Brazil faced a deep economic recession and a fiscal short-fall, resulting in austerity cuts across the government, including at the enforcement and social welfare agencies that address drug flow and substance use disorders. President Michel Temer, in office since the end of August, has prioritized efforts on border security and is pursuing a whole-of-government approach to counter organized crime, drugs and arms trafficking, and violent crime. Brazil's Ministry of Justice as the Ministry of Justice and Citizenship, formerly the Ministry of Justice prior the ministry's reorganization in May, is the lead on counternarcotics and drug policy. The new ministry has assumed a broader portfolio to include human rights and social inclusion as well as traditional rule-of-law issues.

Conclusion

Brazil has institutionalized its commitment to combating narcotics trafficking and addressing a growing domestic consumption problem. Brazil would benefit from comprehensive population surveys to determine the scope of its domestic drug consumption, consolidated nationwide data on drug interdiction, increased monitoring of its sea ports, and greater cooperation with its neighboring countries.

Trafficking in Persons

Brazil is classified a Tier 2 country - A country whose governments does not fully comply with the Trafficking Victims Protection Act's minimum standards, but are making significant efforts to bring themselves into compliance with those standards

Brazil is a source, transit, and destination country for men, women, and children subjected to sex trafficking and forced labor. Brazilian women and children are exploited in sex trafficking within the country, and federal police report higher rates of children exploited in prostitution in the north and northeast regions. Brazilian women are found in sex trafficking abroad, often in Western Europe and China. Women and girls from other South American countries, including Paraguay, are exploited in sex trafficking in Brazil. Transgender Brazilians are forced into prostitution in Brazil. Brazilian men and transgender Brazilians have been exploited in sex trafficking in Spain and Italy. Child sex tourism remains a problem, particularly in resort and coastal areas; many child sex tourists are from Europe, and to a lesser extent, the United States. Brazilian law defines trabalho escravo, or slave labor, as forced labor or labor performed during exhausting work days or in degrading work conditions. While not all individuals in trabalho escravo are forced labor victims, many are. Some Brazilian men, and to lesser extent women and children, are subjected to trabalho escravo and debt bondage in rural areas, including in ranching, agriculture, charcoal production, logging, and mining. Exploitation of workers is sometimes linked to environmental damage and deforestation, particularly in the Amazon region. Brazilians are also found in trabalho escravo in urban areas in construction, factories, and the restaurant and hospitality industries. Brazilian women and children, as well as girls from other countries in the region, are exploited in domestic servitude with approximately 213,000 children employed as domestic workers in Brazil. Some Brazilian trafficking victims are forced to engage in criminal activity, including drug trafficking, in Brazil and neighboring countries. Brazilian forced labor victims have been identified in other countries, including in Europe. Brazil is a destination for men, women, and children from other countries—including Bolivia, Paraguay, Haiti, and China—exploited in forced labor and debt bondage in many sectors, including construction; the textile industry, particularly in Sao Paulo; and small businesses. NGOs and officials report some police officers tolerate children exploited in sex trafficking, patronize brothels, and rob and assault women in prostitution, impeding proactive identification of sex trafficking victims. Government officials and former officials have been investigated and prosecuted for trabalho escravo.

The Government of Brazil does not fully meet the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. Brazilian law defines trafficking as a movement-based crime and statutes prohibiting trafficking do not align with international law, making it difficult to assess government efforts accurately. Decentralized data collection on prosecutions, convictions, and sentences inhibits government coordination and also makes assessment difficult. Most trafficking cases took many years to progress through the legal and judicial systems. An increased number of state governments offered vocational training and access to public services to forced labor victims. Authorities confirmed providing general services to only a small portion of potential victims, and the federal government did not fund specialized shelters, although some states provided job training for vulnerable populations, including forced labor victims. The government continued awareness-raising efforts.

Terrorist Financing 2016:

Overview: Counterterrorism cooperation between Brazil and the United States was strong, with increased information sharing in 2016. The Brazilian government passed legislation criminalizing terrorism and terrorist financing and dramatically increased both interagency and international cooperation on counterterrorism issues in 2016. In repeated public statements in advance of the 2016 Summer Olympics and Paralympics in Rio de Janeiro, Brazilian officials candidly assessed the potential threat posed by a high-profile gathering of foreigners and prepared for the possibility of a lone offender/self-radicalized individual or other terrorist threat at the Olympics. The Brazilian government deployed an interagency strategy on counterterrorism, integrated counterterrorism command centers which included

international partners, and launched a public awareness campaign, "See, Inform, Save," to encourage citizens to be alert to potential terrorist or security threats. No terrorist incident occurred at the Olympic Games. Commentators noted the concerted Brazilian effort to improve counterterrorism cooperation as a potential lasting legacy of the Games.
The Brazilian Federal Police (DPF) – Brazil's lead counterterrorism agency – worked closely with the United States and other nations' law enforcement entities to assess and mitigate potential terrorist threats, especially leading up to the Olympics. The Brazilian government continued to support counterterrorism activities, which included third-country technical assistance for controlling sensitive technologies, assessing and mitigating potential terrorist threats in advance of major events, and investigating fraudulent travel documents.

In 2016, press reports indicated the new online presence of a Portuguese-speaking ISIS recruiter (Ismail Abdul Jabbar Al Brazili – "The Brazilian") and potential Brazilian sympathizers. As a result of the deepest economic recession in Brazil's modern history and a fiscal short-fall, there were austerity cuts across the government, including at the law enforcement agencies that address counterterrorism and rule of law.

Legislation, Law Enforcement, and Border Security: On March 16, Brazil's president signed Law #13.260, criminalizing terrorism and terrorist financing, including specific provisions addressing foreign terrorist fighters. The law imposed penalties of up to 12 to 30 years' imprisonment for terrorism and 15 to 30 years for terrorist financing – in addition to any other applicable charges. The law also criminalized preparatory acts that could lead to a terrorist attack. This law includes penalties for those who recruit individuals to another country with the purpose of practicing acts of terrorism, as well as those who provide or receive such training in another country, in line with UN Security Council resolution (UNSCR) 2178 (2014) on foreign terrorist fighters.

The Law joined companion legislation (Law #13.170, signed October 16, 2015) to facilitate the freezing of assets, giving Brazil a comprehensive legal counterterrorism framework for the first time. Together, the two laws closed a longstanding legal gap in Brazil that had hindered counterterrorism investigations and prosecutions.

Law #13.260 was used for the first time on July 21, two weeks ahead of the start of the Olympic Games. As part of "Operation Hashtag," Brazilian Federal Police arrested 12 Brazilian citizens under suspicion of preparatory acts for an intended terrorist attack. Since then, charges have been filed against eight individuals, with trials pending at year's end.
In November, Brazil's president established a permanent federal interagency committee on border security issues, as part of a stated objective by the administration to prioritize the issue. Prior to the Olympics, Brazil instituted an interagency structure on counterterrorism strategy, led jointly by the Ministry of Justice and Citizenship, the Institutional Security Cabinet, and the Ministry of Defense. Brazil's Ministry of External Affairs leads on counterterrorism policy at international fora. This strategic planning led to the establishment of counterterrorism protocols for a wide range of potential scenarios, with a particular focus on soft targets.

Operationally, multiple Brazilian law enforcement agencies have counterterrorism responsibilities. The Brazilian Federal Police's Anti-Terrorism Division – which reports to the Ministry of Justice and Citizenship – is the lead counterterrorism agency, responsible for investigating any terrorist-related threats or groups. Response duties are shared by state-level Military Police Departments, through their respective Police Special Operations Battalions; and the state-level Civil Police Departments, through their respective Divisions of Special Operations. The Brazilian Intelligence Agency, which reports to the Institutional Security Cabinet, also monitors terrorist threats. Brazil's military leads on border security issues and on chemical, biological, nuclear, and radiological emergency response. Coordination between civilian security and law enforcement agencies, and the Brazilian military, is hindered by inter-agency rivalries, but has made great strides through Brazil's preparations for major events. Interagency coordination would benefit from consolidated and automatic information sharing.

All of Brazil's law enforcement agencies with counterterrorism responsibilities have benefitted from U.S. capacity-building training. In 2016, the Department of State's Antiterrorism Assistance program delivered courses to security and law enforcement personnel covering such topics as countering international and transnational terrorism, preventing attacks on soft targets, and police leaders' role in countering terrorism – all with the goal of enhancing investigative capabilities, building border security capabilities, and supporting Brazil's efforts to prevent and respond to potential terrorist attacks at the 2016 Summer Olympics. Training courses had the added benefit of bringing together disparate agencies, which enhanced Brazilian interagency communication. In addition, the Department of State supported subject matter expert exchanges on emergency incident command response for major disasters and fire and medical rescue training, as well as supporting enhanced operational information sharing.

Brazilian authorities continued to work with other concerned nations – particularly the United States – to counter document fraud. Regional and international joint operations successfully disrupted a number of document vendors and facilitators, as well as related human-smuggling networks. The Department of State provided comprehensive and ongoing counterfeit and fraudulent document recognition training to airline and border police units through its Investigations Program. The Investigations Program continued to train thousands of airline personnel and Brazilian Immigration officials at all of Brazil's international ports of entry. The Department of Homeland Security's Immigration and Customs Enforcement, Homeland Security Investigations, and Customs and Border Protection (CBP) have trained Brazilian airline employees on identifying fraudulent documents.

The U.S.-Brazil Container Security Initiative (CSI) in Santos, which began in 2005, continued to operate throughout 2016. CSI promotes container security by co-locating CBP personnel overseas with Brazilian customs administrators, to target, detect, and inspect high-risk cargo while facilitating the movement of legitimate trade. CBP's International Affairs and Field Operations Offices conducted joint workshops with Brazil to bolster supply chain security and port security. Similarly, the National Civil Aviation Agency, DPF, and Brazilian Customs continued to work with the U.S. Transportation Security Administration (TSA) to make modifications to Brazil's National Cargo Security Program to gain TSA recognition of commensurability for cargo security procedures, training, and operations at Brazil's international airports.

Brazil shares vast international borders with 10 different countries. Many of its borders – especially those with Argentina, Colombia, Paraguay, Uruguay, and Venezuela – are porous. Irregular migration, especially by aliens from areas with a potential nexus to terrorism, is a growing problem, with Brazil often serving as a transit country.

Brazilian states maintained individual criminal records databases, and information sharing between the states is unwieldy. Biographic information is collected from foreign visitors, although biometric information is not. A 2013 law requires the collection of passenger name record data, and it is being gradually implemented. Brazil maintains its own watchlist, but it is not fully digitized and is not widely shared across all the relevant screening authorities. Brazil collaborates with other nations and INTERPOL on information sharing. On July 18, Brazilian airports began applying international security measures for inspection of passengers and hand luggage on domestic flights.

The Brazilian Army continued to implement an Integrated Border Monitoring System to monitor the country's borders using a combination of soldiers, cameras, sensors, and satellites. The strategic initiative is underway in the state of Mato Grosso do Sul, as a preliminary pilot project, with intention to cover the entire Brazilian border by 2021. Brazil's law enforcement, security officials, and justice system faced resource constraints when enforcing immigration law, supervising airport security and screening, and monitoring Brazil's borders.

Countering the Financing of Terrorism: Brazil is a member of the Financial Action Task Force (FATF) and the Financial Action Task Force of Latin America, a FATF-style regional body. Its financial intelligence unit, the Council for Financial Activities Control (COAF), is a member of the Egmont Group of Financial Intelligence Units. COAF is a largely independent entity within the Finance Ministry and is responsible for monitoring domestic financial operations, identifying possible funding sources for terrorist groups, and implementing the UN Security Council ISIL (Da'esh) and al-Qa'ida sanctions regime.

Brazil criminalized terrorist financing via Law #13.260, signed March 16, 2016. Law #13.170, signed October 16, 2015, provided procedures for freezing assets relating to UN Security Council resolutions and for information provided through bilateral cooperation. Brazil's laws and regulations still do not fully comply with FATF standards, however.

International Sanctions

Brazil is not currently subject to any International Sanctions

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	37
World Governance Indicator – Control of Corruption	39

Corruption represents a severe constraint to business in Brazil. Brazil is currently being roiled by a number of large corruption cases including the 'Operation Car Wash' case involving Petrobras and Odebrecht in elaborate kickback and bribing schemes that has embroiled hundreds of politicians and led to the impeachment of former president Dilma Rousseff. Corruption is especially likely in the tax administration, public procurement and natural resource sectors. The Clean Companies Act is one of the toughest anti-corruption laws in the world, but its enforcement is inconsistent. Under the Act, bid rigging and fraud in public procurement, direct and indirect acts of bribery, and attempted bribery of Brazilian public officials and of foreign public officials are illegal. The Act holds companies liable for the corrupt acts of their employees. Brazilian law makes no distinction between bribes and facilitation payments. Giving gifts is illegal and uncommon when doing business and establishing relationships. Businesses are advised to consider the Portal's compliance guide for Brazil's Clean Company Act. **Information provided by GAN Integrity.**

US State Department

In 2013, Brazil ranked 72nd (out of 175 countries) in Transparency International's Corruption Perceptions Index. In South America, Brazil ranked behind Chile and Uruguay, and ranked ahead of Colombia, Peru, Argentina, Suriname, Bolivia, Ecuador, Guyana, Paraguay and Venezuela. With regard to major emerging economies in the BRICS grouping, Brazil ranked ahead of China (80th), India (94th), and Russia (127th), and tied with South Africa (72nd).

Corruption scandals are a regular feature of Brazilian political life. Politics for the past two years have been shaken by Penal Case 470, more commonly known as the "Mensalão" case, under which defendants, including some past and present members of the Brazilian Congress, were found guilty of participating in a pay-for-votes scheme. A former president of the Chamber of Deputies, former President Lula's chief of staff, and 24 other current and former public officials were convicted in the highly-followed trial, which was viewed as a positive step in the fight against corruption.

Brazil is a signatory to the Organization for Economic Cooperation and Development (OECD) Anti-Bribery Convention and a participating member of the OECD Working Group on bribery. It was one of the founders, along with the United States, of the intergovernmental Open Government Partnership, which seeks to help governments increase transparency. Brazil has laws, regulations and penalties to combat corruption, but their effectiveness is inconsistent. Bribery is illegal, and a bribe by a local company to a foreign official is a criminal act. A company cannot deduct a bribe to a foreign official from its taxes. While federal government authorities generally investigate allegations of corruption, there are inconsistencies in the level of enforcement among individual states. Corruption has been reported to be problematic in business dealings with some authorities, particularly at the municipal level. U.S. companies operating in Brazil are subject to the U.S. Foreign Corrupt Practices Act.

Corruption - Global Security

Political Climate

Economic growth and openness to foreign investors coupled with a considerable upward social mobility over the past decade have made Brazil a major recipient of FDI among emerging markets. A stable political climate plays a positive role in fostering Brazil's impressive economic progress. Such political stability is likely to continue as the Workers' Party (PT), after 8 years in power, secured a further presidential term in autumn 2010. Dilma Rousseff was a little known political figure before the 2010 election campaign started. However, after a number of scandals involving high-profile candidates from the PT in the years leading up to the elections, she was selected as the favoured candidate by her widely popular predecessor, Luiz Inacio Lula da Silva. Rousseff has continued along the same political lines as her predecessor, but has placed a greater emphasis on fighting corruption. Nevertheless, Brazil is still struggling with a political culture that most observers view as corrupt and favouring vested interests. Although laws and regulations against personal enrichment from public funds exist, Freedom House reports in Countries at the Crossroads 2010 that the federal system of Brazil provides politicians and bureaucrats at regional and local levels with considerable discretionary power over the use of public funds. Oversight mechanisms at these levels are characterised by questionable efficiency, which has paved the way for frequently recurring cases of corruption and bribery involving high-level politicians and bureaucrats who, according to Global Integrity 2009, have traditionally been able to go unpunished for their crimes.

Although former President, Lula da Silva, openly declared war on corruption, his time in office witnessed several political scandals concerning money laundering, misuse of state funds and manipulation of large government contracts. The President generally relies on shifting majorities in a fragmented Congress to form cross-party coalitions, and this allegedly fuels the use of bribes as a means of securing political support. This was clearly illustrated in one of the largest political scandals in recent Brazilian history - the Mensalão ('monthly pay-off') scandal - in which politicians from parties allied to the government received bribes in return for their votes in Congress. The scandal came to light in 2005, as high-ranking members of the PT were accused of having paid around USD 13,000 monthly to opposition politicians and lawmakers throughout 2003 and 2004. The illegal payments were allegedly intended to buy support from the opposition so they would vote in line with the PT. Furthermore, the PT allegedly used illicit funds to finance the election campaigns of members and allies. Another and more recent high-profile case involved the Governor of the Federal District, Jose Roberto Arruda, and ten members of the district legislature, who were filmed taking kickbacks from companies seeking government works contracts (see highlights of the video here – in Portuguese). Arruda, who refused to give up his office despite the overwhelming evidence, was finally arrested in February 2010. According to several sources, including a February 2010 article by

The Economist, the arrest of Arruda represents a positive exception to the rule, since politicians in Brazil are commonly - and often openly - able to commit acts of corruption without suffering any consequences. Furthermore, the Cabinet Chief, Antonio Palocci was forced to resign in June 2011 after only 23 days in the job. The Folha de Sao Paulo newspaper, cited in a June 2011 CNN News article, found that his wealth had grown 20 times during a period of four years whilst he was a lawmaker. This is the second time he has been forced to resign because of a corruption scandal. Rousseff has taken a firm stance against corruption, and since she took office in January 2011, a total of seven ministers have resigned due to various corruption scandals. However, according to an April 2012 article published Al Jazeera, none of the resigned ministers has been prosecuted. In October 2011, the Congress passed a comprehensive Freedom of Information Law, forcing authorities to publish information on spending and to respond to citizen requests for information. The law has been well-received and is referred to as one of the world's most far-reaching freedom of information laws, as reported in a November 2011 article published by Reuters.

Most observers agree that corruption represents a major problem in Brazil and incurs high costs for the state and society in general and has strongly contributed to a reduction in public trust in the political system. For example, according to a December 2011 article by BBC News, it is estimated that Brazil loses about USD 45 billion to corruption every year. Evidence also suggests that citizens are frequent victims of corruption, with 23% of Brazilian households surveyed by the regional poll Latinobarómetro 2011 (in Spanish) claim that bribes are needed when interacting with public officials. Moreover, 58% of the respondents believe that the greatest obstacle to democracy in Brazil is the failure to curb corruption. According to Transparency International's Global Corruption Barometer 2010, 64% of households believe that the level of corruption in Brazil had increased over the past three years. Moreover, 54% of respondents perceived Lula da Silva's government actions to curb corruption as ineffective. According to Freedom House 2011, the current legislature is widely seen as the most corrupt in the history of Brazil. This is supported by a July 2010 article by The Economist, which reports that 147 congressmen and 21 senators are facing criminal charges in the Supreme Court or are under investigation – most of them for misusing state funds or for violating campaign financing laws. One step in the right direction, however, was taken in June 2010, when Lula da Silva signed the Ficha Limpa Law (‘clean record’). In February 2012 the Supreme Court ruled the law constitutional. A February 2012 article in The Rio Times notes that the law would be enforced for the upcoming municipal elections in October 2012. Under the law, a politician who has been convicted of a serious crime will be prohibited from running for political office at any level for eight years. According to many observers, this new law, if effectively enforced, may represent a very important step towards fighting political corruption in Brazil.

Business and Corruption

Brazil has long been open to and encouraged foreign investments, and is the top recipient of Foreign Direct Investment in Latin America. Moreover, according to the Bertelsmann Foundation 2012 , Brazil has performed better than many other economies during the global financial crisis. Government policies advocate for both government participation in the economy and respect for the contractual rights of private investors. However, despite a formally well-functioning business environment, several studies indicate that corruption and bribery are serious obstacles for doing business in Brazil. For example, the Enterprise Surveys

2009 by the World Bank & IFC reveals that almost 70% of the surveyed companies perceive corruption to be a 'major constraint' for doing business in Brazil. According to the World Economic Forum's Global Competitiveness Report 2011-2012, companies operating in Brazil give the likelihood of having to pay facilitation payments or bribes in relation to (a) imports and exports, (b) public utilities, (c) annual tax payments, (d) awarding of public contracts and licences and (e) obtaining favourable judicial decisions, an aggregate score of 4.1 (where 1 = 'very common' and 7 = 'never occurs'). According to the US Department of State 2011, corruption is particularly prevalent and problematic in business dealings with local-level governments. The risks primarily relate to public procurement and local levels of the judiciary.

In a CMI 2008 report, 27% of the responding companies reported that gifts or bribes had been required in their business operations, while 9% of these companies had also experienced requests for money by an agent, adviser or a consultant, which most likely would be used for bribery. Companies should also note that the use of facilitation payments is a common way of circumventing time-consuming and complicated administrative burdens. For example, almost 12% of companies polled in the Enterprise Surveys 2009 expect to make informal payments to public officials to 'get things done'. While many of Brazil's corruption scandals that have occurred within the last decade have involved kickbacks paid by companies to politicians in return for government contracts or loans, one would also expect public procurement to be an area with high risk of corruption. Figures from the Global Competitiveness Report 2011-2012 show that business executives have stated that public funds are often diverted to companies, individuals or groups due to corruption, and that government officials often show favouritism when deciding upon policies and contracts. On the other hand, according to the Enterprise Surveys 2009, less than 1% of the polled companies expect to give gifts to get government contracts. Nonetheless, companies considering bidding for public contracts in Brazil are highly recommended to use a specialised due diligence tool on public procurement which will help reduce the risk of encountering corruption in a bidding process.

The high level of corruption and bribery in Brazil also leads to significant disadvantages for Brazilian companies when they attempt to operate abroad. Brazilian companies report that they carry with them a reputation of being corrupt, which makes it difficult for them to win the trust of partner companies and to raise international financing. Transparency International Bribe Payers Index 2011 ranks Brazilian companies 14th most likely never to pay bribes out of companies from 28 major exporting countries when doing business abroad. This is a marked improvement on the previous figure from the 2008 Survey.

Regulatory Environment

Brazil has a friendly environment for foreign investments and national treatment applies in principle to all foreign investors. Nevertheless, the regulatory environment can be very burdensome, and companies operating in Brazil have to deal with a wide range of regulatory agencies due to the federal structure of the political system. Public officials enjoy broad discretionary authority and the central government has historically exercised considerable control over private companies by upholding extensive and frequently changing regulations. According to a CMI 2008 report, the majority of responding companies found entry into Brazilian markets difficult and expensive, but promising if things were done right. The selection of capable business partners and agents was emphasised by the surveyed companies as very important in order to better navigate the Brazilian regulatory system and to reduce the risk of corruption, which is seen as particularly high during the entry period. The specific entry challenges referred to in the survey were primarily attributed to regulation and taxation, more so than to the challenge of getting contracts. In general, companies are advised to develop, implement and strengthen integrity systems and to carry out extensive due diligence before committing funds and when already doing business in Brazil.

According to the World Economic Forum Global Competitiveness Report 2011-2012, tax regulations and tax rates are mentioned as the two most problematic factors for doing business in Brazil, followed by an inadequate supply of infrastructure, restrictive labour regulations, inefficient government bureaucracy, inadequate educated workforce and corruption. The World Bank & IFC Enterprise Surveys 2009 reveals that senior managers spend almost 19% of their time dealing with government regulations and that only 34% of companies agree that public officials interpret regulations consistently and predictably. The Bertelsmann Foundation 2010 reports that some states have simplified procedures for registering a business; however, it is still far more time consuming to register a business in Brazil than the regional average. According to the World Bank & IFC Doing Business 2012, starting a business in Brazil can take as long as 119 days and requires the entrepreneur to go through 13 administrative steps. Taxation is equally onerous, as a medium-sized company spends 2,600 hours a year on average to manage the administrative tasks related to tax payments, while the corresponding average for the region is 382 hours. The same studies also report that obtaining licences and permits are characterised by complicated bureaucratic procedures.

According to the Bertelsmann Foundation 2012, property rights are well defined and property acquisition is appropriately regulated. Brazil's intellectual property laws are mostly in conformity with international standards. Nevertheless, the US Department of State 2011 notes that piracy of copyright material is still a problem. The country has made efforts to improve its anti-piracy enforcement and in 2007, the US transferred Brazil from its 'Priority Watch List' to the 'Watch List'. The Brazilian judicial system is generally overburdened and it can take years until a final judgement is reached in contractual disputes. Arbitration clauses in contracts are not automatically enforceable and legal uncertainty and controversy exists over binding foreign arbitration between foreign investors and state entities. Brazil is a member of several international arbitration conventions, including the New York Convention of 1958, the Inter-American Convention on International Commercial Arbitration, and the Inter-American Convention on Extraterritorial Validity of Foreign Judgments and Arbitral Awards. Foreign investors are advised to consult the National Investment Information Network (RENAI), supported by the Ministry of Development, Industry and Foreign Trade, and BrazilGlobalNet, a trade portal run by the Ministry of External Relations. Both of these websites provide valuable information for foreign investors on relevant procedures and legislation as well as information on regions and business contacts. Access the Lexadin World Law Guide for a collection of legislation in Brazil.

Section 3 - Economy

Characterized by large and well-developed agricultural, mining, manufacturing, and service sectors, and a rapidly expanding middle class, Brazil's economy outweighs that of all other South American countries, and Brazil is expanding its presence in world markets. Since 2003, Brazil has steadily improved its macroeconomic stability, building up foreign reserves, and reducing its debt profile by shifting its debt burden toward real denominated and domestically held instruments. Since 2008, Brazil became a net external creditor and all three of the major ratings agencies awarded investment grade status to its debt.

After strong growth in 2007 and 2008, the onset of the global financial crisis hit Brazil in 2008. Brazil experienced two quarters of recession, as global demand for Brazil's commodity-based exports dwindled and external credit dried up. However, Brazil was one of the first emerging markets to begin a recovery. In 2010, consumer and investor confidence revived and GDP growth reached 7.5%, the highest growth rate in the past 25 years. GDP growth has slowed since 2011, due to several factors, including overdependence on exports of raw commodities, low productivity, high operational costs, persistently high inflation, and low levels of investment. After reaching historic lows of 4.8% in 2014, the unemployment rate remains low, but is rising. Brazil's traditionally high level of income inequality has declined for the last 15 years.

Brazil’s fiscal and current account balances have eroded during the past four years as the government attempted to boost economic growth through targeted tax cuts for industry and incentives to spur household consumption. After winning reelection in October 2014 by a historically narrow margin, President Dilma ROUSSEFF appointed a new economic team led by Finance Minister Joaquim LEVY, who introduced a fiscal austerity package intended to restore the primary account surplus (before interest expenditures are included) to 1.2% of GDP and preserve the country's investment-grade sovereign credit rating. LEVY encountered political headwinds and an economy facing more challenges than he anticipated. The target for the primary account surplus fell to a deficit of 2%, and two of the three main credit rating agencies downgraded Brazil to “junk” status.

Brazil seeks to strengthen its workforce and its economy over the long run by imposing local content and technology transfer requirements on foreign businesses, by investing in education through social programs such as Bolsa Familia and the Brazil Science Mobility Program, and by investing in research in the areas of space, nanotechnology, healthcare, and energy.

Agriculture - products:

coffee, soybeans, wheat, rice, corn, sugarcane, cocoa, citrus; beef

Industries:

textiles, shoes, chemicals, cement, lumber, iron ore, tin, steel, aircraft, motor vehicles and parts, other machinery and equipment

Exports - commodities:

transport equipment, iron ore, soybeans, footwear, coffee, automobiles

Exports - partners:

China 18.6%, US 12.7%, Argentina 6.7%, Netherlands 5.3% (2015)

Imports - commodities:

machinery, electrical and transport equipment, chemical products, oil, automotive parts, electronics

Imports - partners:

China 17.9%, US 15.6%, Germany 6.1%, Argentina 6% (2015)

Section 4 - Investment Climate

Executive Summary

Brazil is the second largest economy in the hemisphere behind the United States, and the ninth largest economy in the world. According to the United Nations Conference on Trade and Development (UNCTAD), Brazil was the eighth largest destination for global Foreign Direct Investment (FDI) flows in 2015. Brazil typically receives close to half of South America's total incoming FDI. The United States is a major foreign investor in Brazil; according to the Brazilian Central Bank (BCB), the United States had the largest single-country stock of FDI (US$ 112 billion) in Brazil in 2014. The Government of Brazil (GOB) has made attracting private investment in infrastructure a top priority for 2016.

Brazil's GDP fared worse than almost any other major economy in 2015, contracting by 3.8 percent and setting GDP back to 2011 levels. Economists are expecting GDP to shrink a further 3.5-4.0 percent in 2016, marking the country's longest and deepest recession since Brazilian Institute of Applied Economic Research (IPEA) records began in 1901. In 2015, GDP per capita decreased almost 5 percent; unemployment hit a six-year high of 9 percent; inflation ended the year at 10.7 percent, a 12-year high; the Brazilian *real* shed a third of its value against the dollar; investment levels dropped over 14 percent; industrial output contracted by 8.3 percent; and the fiscal deficit rose to a record 10.3 percent of GDP.

Despite the difficulties from the current recession, Brazil's large economy and vast middle class continue to make the country a destination for long-term investment, particularly in consumer products, albeit not without challenges:

- Large Consumer Base Attracts Investment: With a US$ 1.8 trillion economy, a population of over 200 million, and a large middle-class consumer base, Brazil is a top 10 destination for global FDI. The GOB investment promotion strategy prioritizes the automobile, renewable energy, life sciences, oil and gas, and infrastructure sectors. Foreign investors in Brazil receive the same legal treatment as local investors in most economic sectors. Foreign investment is restricted in the health, mass media, telecommunications, aerospace, rural property, maritime, and air transport sectors.

- Domestic Environment Presents Challenges: In addition to current economic difficulties, since 2014, Brazil's anti-corruption oversight bodies have been investigating allegations of widespread corruption involving state-owned energy firm Petrobras and a number of private construction companies. A separate tax bribery investigation announced in 2015 is also ongoing. Analysts contend that slowing domestic demand, a strong terms of trade shock caused by plummeting commodity prices, and – above all – negative market reactions to ongoing political uncertainties have hampered investment in Brazil. Foreign investors also cite concerns over poor existing infrastructure, rigid labor laws, and complex tax, local content, and regulatory requirements; the so-called "Custo Brasil" (Brazil Cost).

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2015	76 of 168	transparency.org/cpi2014/results
World Bank's Doing Business Report "Ease of Doing Business"	2015	116 of 189	doingbusiness.org/rankings
Global Innovation Index	2015	70 of 141	globalinnovationindex.org/content/page/data-analysis
U.S. FDI in partner country ($M USD, stock positions)	2015	USD 111,715	bea.gov
World Bank GNI per capita	2014	USD 11,530	data.worldbank.org/indicator/NY.GNP.PCAP.CD

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

Brazil was the world's eighth largest destination for Foreign Direct Investment (FDI) in 2015, with inflows of US$ 56 billion. The GOB actively encourages FDI – particularly in the automobile, renewable energy, life sciences, oil and gas, and transportation infrastructure sectors – to introduce greater innovation into Brazil's economy and to generate economic growth. GOB investment incentives include tax exemptions and low-cost financing with no distinction made between domestic and foreign investors. Foreign investment is restricted in the health, mass media, telecommunications, aerospace, rural property, maritime, and air transport sectors.

Other Investment Policy Reviews

Brazil has risen to become one of the world's top ten economic powers, and its growth and social welfare policies have lifted millions out of poverty. The Organization for Economic Cooperation and Development (OECD) asserts that macroeconomic stability has been a crucial factor behind this success, but that fiscal performance has deteriorated recently while inflation has risen markedly. The 2015 OECD Economic Survey for Brazil noted, "As the tailwinds from high commodity prices have weakened, improving domestic policies will be more important than before. Over the last few years, bottlenecks have emerged, mostly on the supply side of the economy." The OECD projects quarterly growth will turn positive sometime in the second half 2016 and begin to rise toward the economy's long term growth potential in 2017. Once fiscal results improve and inflation starts to return to target, the OECD believes there will be clear growth pay-offs as recovering confidence supports stronger investment and consumption, particularly if coupled with policy and budget reforms that address growing structural deficits. The OECD report can be found at: http://www.oecd.org/eco/surveys/Brazil-2015-overview.pdf.

Foreign investors in Brazil receive the same legal treatment as local investors in most economic sectors. Constitutional amendments passed in 1995 prohibit all forms of discrimination against foreign capital not explicitly set out under law.

On March 1, 2016, the GOB passed Provisional Measure (MP) 714 to relax restrictions on foreign investment in domestic airline companies from a maximum of 20 percent to a maximum of 49 percent (Law 7565/1986, Article 181, MP 714/2016). The MP is pending Congressional approval. On March 19, 2011, the United States and Brazil signed an Air Transport Agreement as a step towards an Open Skies relationship that would eliminate numerical limits on passenger and cargo flights between the two countries. The agreement remains pending transmission from the executive branch to Brazil's Congress for ratification.

To enter Brazil's insurance and reinsurance market, U.S. companies must establish a subsidiary, enter into a joint venture, or acquire or partner with a local company. Applications for banking licenses are reviewed by the BCB on a case-by-case basis. Of the top 50 banks in Brazil, 20 are owned or controlled by foreign interests. Citibank, the only U.S. retail banking operation in Brazil, announced in February 2016 its intent to sell its Brazilian, Argentine, and Colombian retail banking assets. Brazil's anti-trust authorities are reviewing Bradesco bank's August 2015 agreement to purchase HSBC's Brazilian retail banking operation.

The Brazilian reinsurance market opened to competition in 2007. In December 2010 and March 2011, however, the Brazilian National Council on Private Insurance (CNSP) rolled back market liberalization through the issuance of Resolutions 225 and 232, which disproportionately affects foreign insurers operating in the Brazilian market. Resolution 225 requires that 40 percent of all reinsurance risk be placed with Brazilian companies. Resolution 232 allows insurance companies to place only 20 percent of risk with affiliated reinsurance companies. In December 2011, the CNSP issued Resolution 241, which walked back some of the restrictions of Resolution 225 by allowing the 40 percent requirement to be waived if local reinsurance capacity does not exist.

In September 2011, Law 12485/2011 removed a 49 percent limit on foreign ownership of cable TV companies and allowed telecom companies to offer television packages with their service. Content quotas require every channel to air at least three and a half hours per week of Brazilian programming during primetime. Additionally, one-third of all channels included in any TV package have to be Brazilian.

In May 2015, lawmakers revived a 2012 bill that calls for easing restrictions on the acquisition of land by foreigners to boost investment in agriculture and forestry. A 2010 decree limiting the purchase of land by foreign companies has been challenged on economic and legal grounds, including in April 2015 in the Supreme Court. Guidelines published in 2013 set limits on the total area and the percentage of land in the overall area of any municipal district that can be purchased by a foreign firm without congressional approval.

Business Registration

A company must register with the Board of Trade to obtain the National Registry of Legal Entities (CNPJ). Brazil's Export Promotion and Investment Agency (APEX) has a mandate to facilitate foreign investment. The agency's services are available to all investors, foreign and domestic. Foreign companies interested in investing in Brazil have access to many benefits and tax incentives granted by the Brazilian government at the municipal, state, and federal levels. Most incentives are granted based on project sector, amount to be invested, and potential job generation. Brazil's business registration website can be found at: http://idg.receita.fazenda.gov.br/orientacao/tributaria/cadastros/cadastro-nacional-de-pessoas-juridicas-cnpj.

Industrial Promotion

In October 2012, the GOB approved via Decree 7819/2012 Inovar-Auto, a program that offers a variety of incentives to encourage vehicle manufacturers to expand investment and production in Brazil. The European Union (EU) and Japan filed separate World Trade Organization (WTO) complaints in 2013 and 2015 that argue that some Inovar-auto tax benefits discriminate against foreign product imports and restricts trade. Meanwhile, the InovAtiva Brasil and Startup Brasil programs support start-ups in the country. The GOB also uses free trade zones to incentivize industrial production. A complete description of the scope and scale of Brazil's investment promotion programs and regimes can be found at: http://www.apexbrasil.com.br/en/home.

Limits on Foreign Control and Right to Private Ownership and Establishment

A 1995 constitutional amendment (EC 6/1995) eliminated distinctions between foreign and local capital, ending favorable treatment (e.g. tax incentives, preference for winning bids) for companies using only local capital. However, foreign investment is restricted by Constitutional law in the health (Law 13097/2015), mass media (Law 10610/2002), telecommunications (Law 12485/2011), aerospace (Law 7565/1986, updated by MP 714), rural property (Law 5709/1971), maritime (Law 9432/1997 and Decree 2256/1997), insurance (Law 11371/2006), and air transport sectors (MP 714/2016).

Privatization Program

Since 2012, the GOB has announced its intent to transfer billions in state assets to private investors through long term infrastructure concession (public-private partnership) agreements that give winning bidders the right to improve and operate airports, roads, railways, and ports for around 30 years.

In June 2015, Brazil launched the second stage of its transportation infrastructure-focused Logistics Investment Program (PIL), estimated at US$ 60 billion, which will mostly be used to provide subsidized financing for projects through the Brazilian National Development Bank (BNDES). All federal and state-level infrastructure concessions are open to foreign companies. In airport concessions, foreign companies have not only been encouraged to bid, but auction criteria have been defined in a way that effectively requires participation of foreign airport operators. In addition to the PIL, the GOB launched the next phase of the Program to Accelerate Growth (PAC) in 2015 to include annual US$ 75 billion in funds for transportation, energy, housing, and sanitation projects through 2018.

In April 2012, the U.S. Trade and Development Agency (USTDA), the U.S. Department of State, the Federal Aviation Administration (FAA), and the Transportation Security Administration (TSA) joined with Brazil's Ministry of External Relations to launch the U.S.–Brazil Aviation Partnership. This public-private partnership supports Brazil's aviation infrastructure development priorities while connecting U.S. companies to airport expansion, airspace management, safety, and security projects.

In May 2014, the U.S. Department of Transportation and Brazil's Ministry of Transportation launched the U.S.-Brazil Transportation Partnership. Four working groups meet on a continuous basis to share best practices and promote participation by U.S. firms in ports and waterways, highways, railways, and disaster response projects.

In March 2016, USTDA and the U.S. Department of Commerce signed a Memorandum of Cooperation with Brazil on Bilateral Infrastructure Development to streamline information presented to U.S. firms on Brazil's infrastructure concessions.

Screening of FDI

Foreigners investing in Brazil must register their investment with the BCB within 30 days of the inflow of resources to Brazil. Registration is done electronically. Investments involving royalties and technology transfer must be registered with Brazil's patent office, the National Institute of Industrial Property (INPI). Investors must also have a local representative in Brazil. Portfolio investors must have a Brazilian financial administrator and register with the Brazilian Securities Exchange Commission (CVM).

Competition Law

Regulatory review of mergers and acquisitions are carried out by the Administrative Council for Economic Defense (CADE). In October 2012, Brazil performed its first review of a pending merger, bringing Brazil in line with U.S. and European practices. This shift to pre-merger review was a result of 2011 legislation (Law 12529) adopted to modernize Brazil's antitrust review process and to combine the antitrust functions of the Ministry of Justice and the Ministry of Finance into CADE. This government body is responsible for enforcement of competition laws and consumer defense.

2. Conversion and Transfer Policies

Foreign Exchange

There are few restrictions on converting or transferring funds associated with a foreign investment in Brazil. Foreign investors may freely convert Brazilian currency in the unified foreign exchange market where buy-sell rates are determined by market forces. All foreign exchange transactions, including identifying data, must be reported to the BCB. Foreign exchange transactions on the current account have been fully liberalized.

All incoming foreign loans must be approved by the BCB. In most cases, loans are automatically approved unless loan costs are determined to be "not compatible with normal market conditions and practices." In such cases, the BCB may request additional information regarding the transaction. Loans obtained abroad do not require advance approval by the BCB, provided the Brazilian recipient is not a government entity. Loans to government entities require prior approval from the Brazilian Senate as well as from the Finance Ministry's Treasury Secretariat, and must be registered with the BCB.

Interest and amortization payments specified in a loan contract can be made without additional approval from the BCB. Early payments can also be made without additional approvals, if the contract includes a provision for them. Otherwise, early payment requires notification to the BCB to ensure accurate records of Brazil's stock of debt.

In March 2014, the Federal Revenue Service of Brazil consolidated the regulations on withholding taxes (IRRF) applicable to earnings and capital gains realized by individuals and legal entities resident or domiciled outside Brazil. The regulation states that the cost of acquisition must be calculated in Brazilian *reais*. Also, the "technical services" definition was broadened to include administrative support and consulting services rendered by individuals (employees or not) or resulting from automated structures having clear technological content.

Upon registering their investments with the BCB, foreign investors are able to remit dividends, capital (including capital gains), and, if applicable, royalties. Remittances must also be registered with the BCB. Dividends cannot exceed corporate profits. The remittance transaction may be carried out at any bank by documenting the source of the transaction (evidence of profit or sale of assets) and showing that applicable taxes have been paid.

Under Law 13259/2016 passed in March 2016, capital gain remittances are subject to a 15-22.5 percent income withholding tax, with the exception of the capital gains and interest payments on tax-exempt domestically issued Brazilian bonds. The tax rate is determined by capital gains: up to US$ 1.5 million is taxed at 15 percent; US$ 1.5 million to US$ 2.9 million is taxed at 17.5 percent; US$ 2.9 million to US$ 8.9 million is taxed at 20 percent; and more than US$ 8.9 million is taxed at 22.5 percent.

Repatriation of a foreign investor's initial investment is also exempt from income tax under Law 4131/1962. Lease payments are assessed a 15 percent withholding tax. Remittances related to technology transfers are not subject to the tax on credit, foreign exchange, and insurance, although they are subject to a 15 percent withholding tax and an extra 10 percent CIDE (Contribution for Intervening in Economic Domain) tax.

3. Expropriation and Compensation

There have been no known expropriation actions in Brazil against foreign interests in the recent past, nor have there been any signs that the current government is contemplating such actions. Some claims regarding land expropriations by state agencies have been judged by Brazilian courts in U.S. citizens' favor; however, compensation has not always been paid, as states have filed appeals to these decisions.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Contract disputes in Brazil can be lengthy and complex. Brazil has both a federal and a state court system, and jurisprudence is based on civil law. Federal judges hear most disputes in which one of the parties is the State, and rule on lawsuits between a foreign State or international organization and a municipality or a person residing in Brazil. Five regional federal courts hear appeals of federal judges' decisions.

Bankruptcy

Brazil has a commercial code that governs most aspects of commercial association, except for corporations formed for the provision of professional services, which are governed by the civil code. In 2005, bankruptcy legislation (Law 11101) went into effect creating a system modeled on Chapter 11 of the U.S. bankruptcy code, which allows a company in financial trouble to negotiate a restructuring with its creditors outside of the courts. In the event a company does fail despite restructuring efforts, the reforms improve creditors' ability to recover their debts. In the World Bank's 2015 Doing Business Report, Brazil is ranked 62nd out of 189 countries for ease of "resolving insolvency."

Investment Disputes

Article 34 the 1996 Brazilian Arbitration Act (Law 9307) defines a foreign arbitration judgment as any judgment rendered outside the national territory. The law established that the Brazilian Federal Supreme Court must ratify foreign arbitration awards. Law 9307 also stipulates that the foreign arbitration award is to be recognized or executed in Brazil in conformity with the international agreements ratified by the country and, in their absence, with domestic law. A 2001 Brazilian Federal Supreme Court ruling established that the 1996 Brazilian Arbitration Act, permitting international arbitration subject to Federal Supreme Court ratification of arbitration decisions, does not violate the Federal Constitution's provision that "the law shall not exclude any injury or threat to a right from the consideration of the Judicial Power."

International Arbitration

Brazil has ratified the 1975 Inter-American Convention on International Commercial Arbitration (Panama Convention) and the 1979 Inter-American Convention on Extraterritorial Validity of Foreign Judgments and Arbitration Awards (Montevideo Convention). Law 9307/1996 pertains to advanced legislation on arbitration and anchored in what is most modern about the principles and guarantees of litigants. The GOB developed a new Cooperation and Facilitation Investment Agreement (CFIA) model in 2015 (http://dai-mre.serpro.gov.br/atos internacionais/bilaterais/2015) that does not include investor state dispute settlement mechanisms. (See section 13)

ICSID Convention and New York Convention

Brazil has ratified the 1958 Convention on the Recognition and Enforcement of Foreign Arbitration Awards. Brazil is not a member of the World Bank's International Center for the Settlement of Investment Disputes (ICSID). Brazil joined the United Nations Commission on International Trade Law (UNCITRAL) most recently in 2010, and its membership will expire at the end of 2016.

Duration of Dispute Resolution – Local Courts

The 2016 World Bank Doing Business report found that on average it takes 11 procedures and 77.75 days to litigate a contract breach at an average cost of 3.85 percent of the economy's income per capita.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Brazil is not a signatory to the World Trade Organization (WTO) Agreement on Government Procurement (GPA). U.S. companies seeking to participate in Brazil's public sector procurement need to partner with a local firm or have operations in Brazil. Foreign companies are often successful in obtaining subcontracting opportunities with large Brazilian firms that win government contracts. Under trade bloc Mercosul's Government Procurement Protocol, member nations Brazil, Argentina, Paraguay and Uruguay are entitled to non-discriminatory treatment of goods, services and public works originating from each other's' suppliers and providers. The Protocol has only been ratified by Argentina and so is currently not in force.

Investment Incentives

As part of a December 2014 fiscal tightening package, the GOB announced its intention to scale back the expansionary activities of BNDES. The GOB ended direct Treasury support to the bank, which provided 20 percent of BNDES cash flow in 2014, and raised the official Long Term Interest Rate that serves as the reference rate for subsidized BNDES loans to 7.5 percent from 5.5 % by the end of 2015. The GOB extends tax benefits for investment in less developed parts of the country, including the Northeast and the Amazon regions, with equal application to foreign and domestic investors. These incentives have been successful in attracting major foreign plants to areas like the Manaus Free Trade Zone in Amazonas State, but most foreign investment remains concentrated in the more industrialized southern part of Brazil.

Individual states have sought to attract private investment by offering ad hoc tax benefits and infrastructure support to companies, negotiated on a case by case basis. Competition among states to attract employment generating investment has led some states to challenge such tax benefits as beggar-thy-neighbor fiscal competition.

In January 2015, the GOB eliminated industrial products tax (IPI) exemptions on vehicles, while keeping all other tax incentives provided by the October 2012 Inovar-Auto program. Through Inovar-Auto, auto manufacturers are able to apply for tax credits based on their ability to meet certain criteria, including manufacturing processes performed in Brazil, enhancing fuel efficiency, committing to investing in research and development in Brazil or using Brazilian engineering services, and agreeing to participate in a fuel-efficiency labeling scheme.

In September 2014, the GOB issued Decree 8304 to reinstate the Special Regime for the Reinstatement of Taxes for Exporters, dubbed the Reintegra Program. Under the program, exporters of products covering 8,630 tariff codes receive a subsidy of 3 percent of the value of their exports. To qualify, the imported content of the exported goods cannot exceed 40 percent, except in the case of high-tech goods, such as pharmaceuticals, electronics, and aircraft and parts, which are permitted to have up to 65 percent of inputs imported. In addition, Reintegra exempts exporters from so-called indirect taxes on capital expenditures, including the PIS/Cofins social contribution taxes and the tax on financial transactions (IOF). On February 27, 2015, Decree 8415 revoked Decree 8304 and determined new regulations for the program; however, the 3 percent subsidy on the value of the exports is still in effect.

In May 2010, the GOB launched a National Broadband Plan, which featured fiscal incentives, private sector participation, and regulatory reform to build out Internet infrastructure under the leadership of state-owned firm Telebras. While the plan provided commercial opportunities for foreign investors, it also sought to boost Brazilian technology by granting domestic IT equipment tax exemptions, favorable BNDES financing, and preference in the procurement process.

Research and Development

Tax credits are available based on a producer's ability to meet certain criteria, including investing in research and development in Brazil.

Performance Requirements

Investors in Brazil must adhere to the country's regulated prices, which fall into one of two groups: those regulated at the federal level, or by a federal company or agency, and those set by sub-national governments (states or municipalities). Regulated prices managed at the federal level include telephone services, oil products (gasoline and bottled cooking gas), electricity, and healthcare plans. Regulated prices controlled by local governments include water and sewage fees, vehicle registration fees, and most fees for public transportation, such as local bus and rail services. As part of its fiscal adjustment strategy, the GOB sharply increased administered prices in January 2015.

In firms employing three or more persons, Brazilian nationals must constitute at least two-thirds of all employees and receive at least two-thirds of total payroll, according to Brazilian Labor Law Articles 352 to 354. Foreign specialists in fields where Brazilians are unavailable are not counted in calculating the one-third permitted for non-Brazilians.

Decree 7174 from 2010, which regulates the procurement of information technology goods and services, requires federal agencies and parastatal entities to give preferential treatment to domestically produced computer products and goods or services with technology developed in Brazil based on a complicated price/technology matrix.

Data Storage

Brazil's *Marco Civil*, an Internet law that determines user rights and company responsibilities, states that data collected or processed in Brazil must respect Brazilian law, even if the data is subsequently stored outside the country. Penalties for non-compliance could include fines of up to 10 percent of gross Brazilian revenues and/or suspension or prohibition of related operations. Under the law, Internet connection and application providers must retain access logs for specified periods or face sanctions. While the *Marco Civil* does not require data to be stored in Brazil, its provisions – as well provisions of other proposed legislation, including a data privacy bill – should be closely tracked by Internet and other data-related companies investing in Brazil operations.

6. Protection of Property Rights

Real Property

Brazil has a system in place for mortgage registration, but implementation is uneven and there is no standardized contract. Foreign individuals or foreign-owned companies can purchase real property in Brazil. These buyers frequently arrange alternative financing in their own countries, where rates may be more attractive. Law 9514 from 1997 helped spur the mortgage industry by establishing a legal framework for a secondary market in mortgages and streamlining the foreclosure process, but the mortgage market in Brazil is still underdeveloped, and foreigners may have difficulty obtaining mortgage financing. Large U.S. real estate firms, nonetheless, are expanding their portfolios in Brazil.

Intellectual Property Rights

Rights holders in Brazil continue to face intellectual property rights (IPR) challenges. Brazil has remained on the "Watch List" of the U.S. Trade Representative's Special 301 report since 2007. For more information, please see: https://ustr.gov/issue-areas/intellectual-property/Special-301

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at: http://www.wipo.int/directory/en/

Resources for Rights Holders

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Laura Hammel
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http://www.amcham.com.br
http://www.amchamrio.com.br
http://brazil.usembassy.gov/lawyers.html

7. Transparency of the Regulatory System

In the 2015 World Bank Doing Business report, Brazil ranked 116th out of 189 countries in terms of overall ease of doing business, a decline of 5 positions compared to the 2014 report. According to the World Bank, it takes approximately 174 days to start a business in Brazil. The GOB is seeking to streamline the process and number of days to open a business to five days through its RedeSimples Program. Similarly, the GOB has reduced red-tape through the implementation of the SIMPLES program, which was designed to simplify the collection of up to eight federal, state, and municipal-level taxes into one single payment.

The 2015 World Bank study noted that the annual administrative burden to a medium-size business of tax payments in Brazil is an average of 2,600 hours versus 176.6 hours in the OECD high-income economies. The total tax rate for a medium-sized business in Brazil is 69.4 percent of profits, compared to 41.2 percent in the OECD high-income economies. Business managers often complain of not understanding tax regulations, despite their investments in large tax and accounting departments.

Tax regulations, while burdensome and numerous, do not differentiate between foreign and domestic firms. However, there have been instances of complaints that the value-added tax collected by individual states (ICMS) favors local companies. Although the tax is designed to be refunded when goods are exported abroad, exporters in many states have had difficulty receiving their ICMS rebates. Taxes on commercial and financial transactions are particularly burdensome, and businesses complain that these taxes hinder the international competitiveness of Brazilian-made products. In addition, the U.S. government is evaluating Provisional Measure 668, which increased the PIS/Cofins tax rate on imported goods only and took effect May 1, 2015.

Of Brazil's 10 federal regulatory agencies, the most prominent include ANVISA (the Brazilian equivalent of the U.S. Food and Drug Administration), which has regulatory authority over the production and marketing of food, drugs and medical devices; ANATEL, the country's telecommunication agency, which handles licensing and assigning of bandwidth; ANP, the National Petroleum Agency, which regulates oil and gas contracts and oversees the bidding process for oil blocks, including for pre-salt oil; ANAC, the agency that oversees the civil aviation industry; and ANEEL, the country's electric energy agency. In addition to these federal regulatory agencies, Brazil has at least 27 state-level agencies and 17 municipal-level agencies.

The Office of the Presidency's Program for the Strengthening of Institutional Capacity for Management in Regulation (PRO-REG), created in 2007 by Decree 6062, has introduced a broad program for improving Brazil's regulatory framework, including via an ongoing Work Plan launched in 2014 with the U.S. White House Office of Information and Regulatory Affairs (OIRA) to exchange best practices in developing high quality regulations that mandate the least burdensome approach to address policy implementation.

The general public has online access to both approved and proposed federal legislation via websites for the Chamber of Deputies, Federal Senate, and the Office of the Presidency. Brazil is seeking to improve its public comment and stakeholder input process. Since 2004, the GOB has instituted a Transparency Portal, a website in which data is available on funds transferred to and from the federal, state and city governments, as well as to and from foreign countries. It also includes information on civil servants' salaries.

8. Efficient Capital Markets and Portfolio Investment

In an effort to control rising inflation rates, the BCB initiated a cycle of monetary policy tightening in April 2013, and real interest rates increased through 2015. The current BCB benchmark interest rate is 14.25 percent.

While local private sector banks are beginning to offer longer credit terms, BNDES has been the traditional Brazilian source of long-term credit, and also provides export credits. BNDES provides foreign- and domestically-owned companies operating in Brazil financing for the manufacturing and marketing of capital goods. As part of its package of fiscal tightening, in December 2014, the GOB announced its intention to scale back the expansionary activities of BNDES. The GOB ended direct Treasury support to the bank, and it raised the Long Term Interest Rate that serves as the basis for BNDES loans from 5.0 percent to 7.5 percent by the end of 2015.

All stock trading is performed on the Sao Paulo Stock Exchange (BOVESPA), while trading of public securities is conducted on the Rio de Janeiro market. In 2008, the Brazilian Mercantile & Futures Exchange (BM&F) merged with the BOVESPA to form what is now the fourth largest exchange in the Western Hemisphere, after the NYSE, NASDAQ, and Canadian TSX Group exchanges. BOVESPA launched in 2000 a “New Market” in which the listed companies comply with stricter corporate governance requirements. A majority of initial public offerings (IPOs) are listed on the New Market. At year-end 2015, there were 115 companies listed under the “New Market” program. Their market value reached US$ 185 billion in 2015. At year-end, there were 519 companies traded on the BM&F/BOVESPA. Total daily trading average volume rose from R$ 2.4 billion (US $ 1.2 billion) in 2006 to R$ 7.3 billion (US $ 3.1 billion) in 2014, but decreased to R$ 6.8 billion (US $ 2.0 billion) in 2015.

Foreign investors, both institutions and individuals, can directly invest in equities, securities and derivatives. Foreign investors are required to trade derivatives and stocks of publicly held companies on established markets. At year-end 2015, foreign investors accounted for 52.8 percent of the total turnover on the BOVESPA. Domestic institutional investors were the second most active market participants, accounting for 27.2 percent of activity. Individual investors comprised 13.7 percent of activity, followed by financial institutions (5.1 percent), and public and private companies (1.2 percent).

Wholly owned subsidiaries of multinational accounting firms, including the major U.S. firms, are present in Brazil. Auditors are personally liable for the accuracy of accounting statements prepared for banks.

Money and Banking System, Hostile Takeovers

The Brazilian financial sector is large and sophisticated. Banks lend at Brazilian market rates, which remain high. Reasons cited by industry observers include high taxation, repayment risk, and concern over inconsistent judicial enforcement of contracts, high mandatory reserve requirements, and administrative overhead.

The financial sector is concentrated, with BCB data indicating that the 10 largest commercial banks (excluding brokerages) account for approximately 89.6 percent of the commercial banking sector. Three of the five largest banks (in assets) in the country – Banco do Brasil, Caixa Economica Federal, and BNDES – are partially or completely federally owned. Lending by the large banking institutions is focused on the largest companies, while small- and medium-sized banks primarily serve small- and medium-sized companies.

The BCB has strengthened bank audits, implemented more stringent internal control requirements, and tightened capital adequacy rules to better reflect risk. It also established loan classification and provisioning requirements. These measures are applied to private and publicly owned banks alike. The Brazilian Securities and Exchange Commission (CVM) independently regulates the stock exchanges, brokers, distributors, pension funds, mutual funds, and leasing companies with penalties against insider trading.

9. Competition from State-Owned Enterprises

In the 1990s and early 2000s, the GOB privatized state-owned enterprises across a broad spectrum of industries, including mining, steel, aeronautics, banking, energy, and electricity generation and distribution. While the GOB has divested itself from many of its state-owned companies, it maintains partial control (at both the federal and state level) of some previously wholly state-owned enterprises.

Notable examples of majority government owned and controlled firms include national energy giant Petrobras and power utility Eletrobras. Both Petrobras and Eletrobras include non-government shareholders, are listed on both the Brazilian and NYSE stock exchanges, and are subject to the same accounting and audit regulations as all publicly traded Brazilian companies. 2010 legislation obligated Petrobras to serve as the sole operator and minimum 30 percent investor in any exploration consortium, to develop all oil discoveries in Brazil's offshore "pre-salt" fields. Given the 2010 restrictions on foreign operatorship, as well as a desire to increase foreign investment in offshore oil and gas exploration, in February 2016 the Brazilian Senate passed a bill that would give Petrobras right-of-first refusal in developing pre-salt fields and eliminate Petrobras' obligation to invest in exploration groups, which could open pre-salt fields to foreign operatorship. As of April 2016, the bill remains under consideration with the Lower Chamber of Deputies.

OECD Guidelines on Corporate Governance of SOEs

The GOB maintains ownership interests in a variety of enterprises at both the federal and state levels. Typically, SOE corporate governance is led by a board comprised of directors elected by the state or federal government with additional directors elected by any non-government shareholders. Brazilian SOEs are concentrated in the energy, electricity generation and distribution, transportation, and banking sectors. A number of these firms are also publically traded on the Brazilian and other stock exchanges.

Sovereign Wealth Funds

The Sovereign Fund of Brazil (FSB) was established in 2008 under Law 11887. It is a non-commodity fund with a mandate to support national companies in their export activities and to offset counter-cyclical development, promoting investment in projects of strategic interest to Brazil both domestically and abroad. The GOB also has the authority to use money from this fund to help meet its fiscal targets when annual revenues are lower than expected, and to invest in state-owned companies. The FSB was worth US$ 2.2 billion in 2016. FSB resources are derived from GOB financial revenues.

10. Responsible Business Conduct

Most state-owned and private sector corporations of any significant size in Brazil pursue corporate social responsibility (CSR) activities. Brazil's new CFIAs (see section 13) contain CFR provisions. Many corporations support local education, health and other programs in the communities where they have a presence. Brazilian consumers, especially the local citizenry where a corporation has or is planning a local presence, expect CSR activity. It is not uncommon for corporate officials to meet with community members prior to building a new plant or factory to review what types of local services the corporation will commit to providing. Foreign and local enterprises in Brazil often advance United Nations Development Program (UNDP) Millennium Development Goals (MDGs) as part of their CSR activity, and will cite their local contributions to MDGs, such as universal primary education and environmental sustainability.

The U.S. diplomatic mission in Brazil supports American business CSR activities through the +Unidos Group (*Mais Unidos*), a group of more than 100 American companies established in

Brazil. Additional information on how the partnership supports public and private alliances in Brazil can be found on its website: www.maisunidos.org.

11. Political Violence

Strikes and demonstrations occur occasionally in urban areas and may cause temporary disruption to public transportation. Occasional port strikes also impact commerce.

In 2016, over three million people demonstrated to call for President Dilma Rousseff's impeachment and protest against corruption, among the largest public protests in Brazil's history. At the same time, almost one million people demonstrated in support of the Rousseff administration. Non-violent pro- and anti-government demonstrations have occurred regularly over the past few years.

Although U.S. citizens have traditionally not been targeted during such events, U.S. citizens traveling or residing in Brazil are advised to take common-sense precautions and avoid any large gatherings or any other event where crowds have congregated to demonstrate or protest. For the latest U.S. State Department guidance on travel in Brazil, please consult www.travel.state.gov.

12. Corruption

In 2015, Brazil ranked 76th out of 167 countries in Transparency International's Corruption Perceptions Index. The full report can be found at: http://www.transparency.org/cpi2015

Since 2014, "Operation Carwash" (*Lava Jato*) has uncovered a complex web of corruption, money laundering, and tax evasion related to the upstream, midstream, and downstream arms of Petrobras. The ongoing investigation has led to the arrests of Petrobras directors, oil industry suppliers including executives from Brazil's largest construction companies, and money launderers. Many Brazilian politicians are also under investigation.

In 2015, GOB prosecutors also announced "Operation Zealots" (*Operacao Zelotes*), in which firms are alleged to have bribed tax officials to reduce their assessments.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Brazil is a signatory to the OECD Anti-Bribery Convention and a participating member of the OECD Working Group on bribery. It was one of the founders, along with the United States, of the intergovernmental Open Government Partnership, which seeks to help governments increase transparency. Brazil has laws, regulations and penalties to combat corruption, but their effectiveness is inconsistent. Bribery is illegal, and a bribe by a local company to a foreign official is a criminal act. A company cannot deduct a bribe to a foreign official from its taxes. While federal government authorities generally investigate allegations of corruption, there are inconsistencies in the level of enforcement among individual states. Corruption has been reported to be problematic in business dealings with some authorities, particularly at the municipal level. U.S. companies operating in Brazil are subject to the U.S. Foreign Corrupt Practices Act.

Resources to Report Corruption

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+55 (11) 3259-6986
http://www.transparencia.org.br/contato

13. Bilateral Investment Agreements

Brazil does not have a Bilateral Investment Treaty (BIT) with the United States. In the 1990s Brazil signed BITs with Belgium and Luxembourg, Chile, Cuba, Denmark, Finland, France, Germany, Italy, the Republic of Korea, the Netherlands, Portugal, Switzerland, the United Kingdom and Venezuela. None of these were approved by Brazil's Congress and in 2002 an inter-ministerial working group withdrew the agreements from Congress.

The GOB signed six new Cooperation and Facilitation Investment Agreements (CFIAs) in 2015 (http://dai-mre.serpro.gov.br/atos-internacionais/bilaterais/2015), which are pending Congressional ratification: Mozambique (April, 2015), Angola (May 2015), Mexico (June 2015) Malawi (October 2015), Colombia (October 2015), and Chile (November 2015).

The signed CFIAs outline progressive steps for the settlement of any "issue of interest of an investor:" 1) an ombudsmen and a Joint Committee appointed by the two governments will act as mediators of sorts to amicably settle any dispute; 2) if amicable settlement fails, any of the two governments may bring the dispute to the attention of the Joint Committee; 3) if the dispute is not settled within the Joint Committee, the two governments may resort to interstate arbitration mechanisms."

Bilateral Taxation Treaties

Brazil does not have a double taxation treaty with the United States, but it does have such treaties with 36 other countries, including, among others, Japan, France, Italy, the Netherlands, Canada, Spain, Portugal, and Argentina. Brazil signed a Tax Information Exchange Agreement (TIEA) with the United States in March 2007, and that agreement entered into force on May 15, 2013, signed by President Rousseff in Decree 8003/2013. In September 2014, Brazil and the United States signed an intergovernmental agreement (IGA) to improve international tax compliance and to implement the Foreign Account Tax Compliance Act (FATCA). This agreement went in effect in September 2015.

14. Foreign Trade Zones/Free Ports/Trade Facilitation

The federal government grants tax benefits for certain free trade zones. Most of these free trade zones aim to attract investment to the country's relatively underdeveloped North and Northeast regions. The most prominent of these is the Manaus Free Trade Zone, in Amazonas State, which has attracted significant foreign investment, including from U.S. companies. In October 2011, President Rousseff signed a constitutional amendment that extends Manaus's status as an industrial zone for another 50 years. Constitutional amendment 83/2014 came into force in August 2014 and extended the status of Manaus Free Trade Zone until the year 2073.

15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) ($M USD)	2014	$ 2,345,379	2014	$2,346,076	www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country ($M USD, stock positions)	2014	$111,715**	2014	$70,457	http://www.bea.gov
Host country's FDI in the United States ($M USD, stock positions)	2014	$11,812	2014	$22,400	http://www.bea.gov
Total inbound stock of FDI as % host GDP	2014	11.5%	2014	N/A	http://www.bea.gov

* http://www.bcb.gov.br
** In this year's report, we are using BCB "stock – distribution by ultimate investment country" statistics for this chart.

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data (IMF, 2014)					
From Top Five Sources/To Top Five Destinations *(US Dollars, Millions)*					
Inward Direct Investment			Outward Direct Investment		
Total Inward	709,007	100%	Total Outward	208,307	100%
Netherlands	176,293	25%	Cayman Islands	48,625	23%

United States*	112,223	16%	Austria	47,525	23%
Spain	71,971	10%	British Virgin Islands	25,926	12%
Luxembourg	52,227	7%	The Bahamas	22,187	11%
France	40,281	6%	Luxembourg	17,130	8%
"0" reflects amounts rounded to +/- USD 500,000.					

* There is a discrepancy between BCB and IMF calculations for U.S. FDI distribution in Brazil, as well as Brazilian FDI distribution in the United States. According to the BCB, the United States had the highest stock of FDI in Brazil as of 2013. The BCB calculates FDI distribution by ultimate investing country (for which the United States ranks number one), whereas the IMF calculates FDI distribution by immediate investing country (for which the Netherlands ranks number one). The ultimate investor occupies the top of the control chain and does not necessarily coincide with the immediate investor.

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets (IMF, June 2015)								
Top Five Partners (Millions, US Dollars)								
Total			Equity Securities			Total Debt Securities		
All Countries	26,630	100%	All Countries	18,385	100%	All Countries	8,246	100%
United States	12,325	46%	United States	8,155	44%	United States	4,171	51%
Spain	2,327	9%	Cayman Islands	1,581	9%	Denmark	1,513	18%
Cayman Islands	1,687	6%	Bermuda	1,454	8%	Spain	1,337	16%
Denmark	1,522	6%	Spain	990	5%	Republic of Korea	363	4%
Bermuda	1,456	5%	Luxembourg	957	5%	Mexico	203	2%

Section 5 - Government

For the current list of Chiefs of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments]

Political parties and leaders:

Brazilian Communist Party or PCB [Ivan Martins PINHEIRO]
Brazilian Democratic Movement Party or PMDB [Valdir RAUPP, acting]
Brazilian Labor Party or PTB [Benito GAMA, acting]
Brazilian Renewal Labor Party or PRTB [Jose Levy FIDELIX da Cruz]
Brazilian Republican Party or PRB [Marcos Antonio PEREIRA]
Brazilian Social Democracy Party or PSDB [Sergio GUERRA]
Brazilian Socialist Party or PSB [Eduardo CAMPOS]
Christian Labor Party or PTC [Daniel TOURINHO]
Christian Social Democratic Party or PSDC [Jose Maria EYMAEL]
Communist Party of Brazil or PCdoB [Jose Renato RABELO]
Democratic Labor Party or PDT [Carlos Roberto LUPI]
the Democrats or DEM [Jose AGRIPINO] (formerly Liberal Front Party or PFL)
Free Homeland Party or PPL [Sergio Rubens de Araujo TORRES]
Green Party or PV [Jose Luiz PENNA]
Humanist Party of Solidarity or PHS [Eduardo Machado e Silva RODRIGUES]
Labor Party of Brazil or PTB [Luis Henrique de Oliveira RESENDE]
National Ecologic Party or PEN [Adilson Barroso OLIVEIRA]
National Labor Party or PTN [Jose Masci de ABREU]
National Mobilization Party or PMN [Oscar Noronha FILHO]
Party of the Republic or PR [Alfredo NASCIMENTO]
Popular Socialist Party or PPS [Roberto Joao PEREIRA FREIRE]
Progressive Party or PP [Francisco DORNELLES]
Progressive Republican Party or PRP [Ovasco Roma Altimari RESENDE]
Social Christian Party or PSC [Vitor Jorge Abdala NOSSEIS]
Social Democratic Party (Partido Social Democratico) or PSD [Gilberto KASSAB]
Social Liberal Party or PSL [Luciano Caldas BIVAR]
Socialism and Freedom Party (Partido Socialismo e Liberdade) or PSOL [Ivan VALENTE]
United Socialist Workers' Party or PSTU [Jose Maria DE ALMEIDA]
Workers' Cause Party or PCO [Rui Costa PIMENTA]
Workers' Party or PT [Rui FALCAO]

Legal system:

civil law; note - a new civil law code was enacted in 2002 replacing the 1916 code

International organization participation:

AfDB (nonregional member), BIS, BRICS, CAN (associate), CD, CELAC, CPLP, FAO, FATF, G-15, G-20, G-24, G-77, IADB, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IFAD, IFC, IFRCS, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC (NGOs), LAES, LAIA, LAS (observer), Mercosur, MIGA, MINURSO, MINUSTAH, NAM (observer), NSG, OAS, OECD (Enhanced Engagement, OPANAL, OPCW, Paris Club (associate), PCA, SICA (observer), UN, UNASUR, UNCTAD, UNESCO, UNFICYP, UNHCR, UNIDO, UNIFIL, Union Latina, UNISFA, UNITAR, UNMIL, UNMISS, UNMIT, UNOCI, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO

Section 6 - Tax

Exchange control

The Central Bank allows the official exchange rate to float freely within periodically established bands but participation is restricted to authorised dealers. The bank intervenes when there are signs of speculative operations. There is an official tourist rate that ranges normally close to the commercial rate.

Treaty and non-treaty withholding tax rates

The overall rate of withholding tax at source used in the remittance of interest and royalties is 15%, except for Japan with a rate of 12.5%. There is no tax on the remittance of dividends. Any remittances to tax haven countries (blacklist) are subject to withholding tax at the rate of 25%.

In calendar year 2010, the Brazilian Federal Revenue stated the new blacklist forced by Normative Instruction SRF No. 1,037/10, which contains the long-awaited "tax blacklist" of (1) "low tax jurisdictions" and (2) "tax privileged regimes".

Non-resident entities that are incorporated in a jurisdiction that qualifies as either a "low tax jurisdiction" or a "tax privileged jurisdiction" are generally subject to unfriendly Brazilian tax rules. The most punitive Brazilian tax rules, however, generally apply only to non-resident entities located in "low tax jurisdictions".

Prior to June 2008, the Brazilian tax authorities had only considered the concept of the "low tax jurisdiction" which was generally defined as a jurisdiction that taxed its residents at a tax rate of less than 20%. Non-resident entities formed in "low tax jurisdictions" were subject to additional taxes when doing business with Brazilian companies. For example:

- the increase in withholding tax from 15% to 25% on interest, royalties, and charter payments
- the increase in withholding tax from 15% to 25% on capital gains (non-publicly traded companies)
- enhanced transfer pricing scrutiny (including scrutiny of transactions with unrelated parties).

The new normative instruction revealed to practitioners that the Brazilian Federal revenue (IRS) would start to look beyond a "country-by-country" blacklist.

Tax privilege regimes states, by law, include:

I – Holding Company set up under Luxembourg law

II – SAFIS constituted under Uruguay law until December 2010

III – Holding Company set up under Denmark law that has no substantive economic activities

IV – Holding company set up under law applicable to corporate in United Kingdom with no substantive economic activities

V – International Trading Company – ITC set up under law of Iceland

VI – Offshore KFT Company set up under law applicable to corporate in Hungary

VII - United States Limited Liability Company (US LLC) as a "tax privileged regime" when the membership of the US LLC "is composed of non-residents, not subject to federal income taxation." The US LLC was not listed as a "low tax entity." The United States "corporation" avoided both blacklists.

VIII – E.T.V.Es – "Entidad de Tenencia de Valores Extranjeros" company set up under Law applicable to corporate in Spain

VIII – International Trading Company – ITC and International Holding Company – IHC set up under Law applicable to corporates in Malta.

Aside from shifting transfer pricing issues into the new category of "tax privileged regimes," all of the other limitations and additional taxes that historically applied to entities formed in "low tax jurisdictions" remained the same.

After the new concept of the "tax privileged regime" was created in calendar year 2008, the concept was expanded in late 2009 to place tougher Brazilian "thin capitalisation" restrictions on parent companies lending money to their Brazilian subsidiaries.

In summary, tax impacts forced by the new blacklist represents two main limitations that now apply to entities that are formed under "tax privileged regimes":

- Increased transfer pricing scrutiny; and
- Stricter thin capitalisation standards.

Brazil is not a member of the Organization for Economic Co-Operation and Development (OECD), Latin American Integration Association (LAIA) and is a signatory to the World Trade Organization (WTO), formerly the General Agreement on Tariffs and Trade (GATT). Until now, membership in LAIA has not affected the size of the market available to local industry and the foreign investor.

Brazil, Argentina, Paraguay and Uruguay are the signatory members of Mercosul (South Cone Market), which was officially ratified on 1 January 1995 after a phasing-in period. Under the treaty agreement, most tariffs have been reduced to zero. Movement of labour, goods and services is unrestricted, capital investment encouraged, macroeconomic policies co-ordinated, and foreign trade policies and rates for non-member countries harmonised.

Brazil has signed **40 agreements** (**33 DTC** and **7 TIEA** agreements) providing for the exchange of information.

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5	
Argentina	DTC	17 May 1980	7 Dec 1982	Yes	No	
Austria	DTC	24 May 1975	1 Jul 1976	No	No	
Belgium	DTC	23 Jun 1972	13 Jul 1973	Yes	No	
Bermuda	TIEA	29 Oct 2012	not yet in force	Yes	Yes	
Canada	DTC	4 Jun 1984	23 Dec 1985	Yes	No	
Cayman Islands	TIEA	19 Mar 2013	not yet in force	Yes	Yes	
Chile	DTC	3 Apr 2001	24 Jul 2003	Yes	Yes	
China	DTC	5 Aug 1991	6 Jan 1993	Yes	No	
Czech Republic	DTC	26 Aug 1986	14 Nov 1990	No	No	
Denmark	DTC	27 Aug 1974	5 Dec 1974	Yes	No	
Ecuador	DTC	26 May 1983	28 Dec 1987	Unreviewed	No	
Finland	DTC	2 Apr 1996	26 Dec 1997	Yes	No	
France	DTC	10 Sep 1971	10 May 1972	Yes	No	
Guernsey	TIEA	6 Feb 2013	not yet in force	Yes	Yes	
Hungary	DTC	20 Jun 1986	13 Jul 1990	No	No	
India	DTC	26 Apr 1988	11 Mar 1992	Yes	No	
Israel	DTC	12 Dec 2002	21 Sep 2005	Yes	No	
Italy	DTC	3 Oct 1978	24 Apr 1981	No	No	
Japan	DTC	24 Jan 1967	31 Dec 1967	No	No	
Jersey	TIEA	28 Jan 2013	not yet in force	Yes	Yes	
Korea, Republic of	DTC	7 Mar 1989	21 Nov 1991	No	No	
Luxembourg	DTC	8 Nov 1978	23 Jul 1980	No	No	
Mexico	DTC	25 Sep 2003	30 Nov 2006	Yes	No	
Netherlands	DTC	8 Mar 1990	22 Nov 1991	No	No	
Norway	DTC	21 Aug 1980	26 Nov 1981	Yes	No	
Peru	DTC	17 Feb 2006	14 Aug 2009	Unreviewed	Yes	
Philippines	DTC	29 Sep 1983	7 Oct 1991	No	No	
Portugal	DTC	16 May 2000	5 Oct 2001	Yes	No	
Russian Federation	DTC	22 Nov 2004	19 Jan 2009	Yes	No	
Slovakia	DTC	26 Aug 1986	14 Nov 1990	No	No	
South Africa	DTC	8 Nov 2003	24 Jul 2006	Yes	No	
Spain	DTC	14 Nov 1974	3 Dec 1975	Yes	No	
Sweden	DTC	25 Apr 1975	29 Dec 1975	Yes	No	
Trinidad and Tobago	DTC	23 Jul 2008	not yet in force	No	No	
Turkey	DTC	16 Dec 2010	9 Oct 2012	Yes	Yes	
Ukraine	DTC	16 Jan 2002	25 Apr 2006	Unreviewed	No	
United Kingdom	TIEA	28 Sep 2012	not yet in force	Yes	Yes	
United States	TIEA	20 Mar 2006	19 Mar 2013	Yes	Yes	

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5
Uruguay	TIEA	24 Oct 2012	not yet in force	Yes	Yes
Venezuela	DTC	14 Jan 2005	not yet in force	Unreviewed	No

Methodology and Sources

Section 1 - General Background Report and Map

(Source: CIA World Factbook)

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: CIA World Factbook)

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: US State Department)

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: CIA World Factbook / https://www.cia.gov/library/publications/world-leaders-1/index.html)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: OECD Global Forum on Transparency and Exchange of Information for Tax Purposes PKF International)

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