



Part 1: Market Overview and Opportunities



Part 2: Establishment and Market Entry



Part 3: Running a Company in Brazil

HOW TO DO BUSINESS IN **BRAZIL**

A Guide for Offshore,
Oil&Gas and Maritime
Companies Entering Brazil



Consulado Geral da Noruega
Rio de Janeiro



Innovation
Norway



Developed by
MARITIME & OFFSHORE
PARTNERS

2019 Edition

WELCOME TO BRAZIL!

Area

Brazil is South America's largest country, about 22 times larger than Norway, and in fact larger than continental USA. Brazil shares a border with 10 other South American countries and stretches over 3 time zones.





The Portuguese

arrived in Brazil in 1500. Brazil remained a Portuguese colony until 1822, when independency was declared.



Export. Brazil is the world's biggest coffee exporter. But even larger export articles are iron ore, soy beans, petroleum, steel, sugar, and chicken products.



The most important cities

are Brasilia (the capital), Rio de Janeiro (the Oil&Gas capital) and Sao Paulo (the commercial engine). Sao Paulo (picture) has more than 20 million inhabitants.



Brazil is the world's ninth biggest economy,

and also one of the most shielded, in terms of barriers on international trade and capital flow. Half of Latin America's GDP is generated in Brazil.

Spectacular nature

The Amazon basin is home to both the world's largest rain forest and the world's largest river. Brazil has more than 5,000 km of coastline forming an almost continuous stretch of white sand beaches. The Pantanal wetland area is globally unique for its animal and plant diversity, and the Iguaçu waterfalls are larger than the Niagara Falls.



The carnival

is world famous, but represents just a small part of Brazil's exceptionally rich cultural life.



Brazil's population

is 203 million. The rich Southeastern region is the most populous, dominated by people of European descent. The poorer Northeastern region is a mix of people with European, African and indigenous roots. The vast other regions of the country are relatively thinly populated.

Social development. Over the past decade, millions of Brazilians have been lifted out of poverty. Crime rates have dropped steadily for the past 20 years, except for setbacks during the past three years mainly due to an economic downturn. As the economy recovers, the crime rates are expected to continue going down.



Brazil is a republic, with a president who is directly elected for a 4-year term. The president is both the Head of State and the Head of the Government, and has extensive powers. Right-wing President Jair Bolsonaro took office in January 2019.

Voting is mandatory in Brazil for all literate citizens aged between 18 and 70.



Brazil has discovered enormous offshore oil reserves,

fueling a boom from 2008 that turned into a market crash in 2014, after too fast growth on unstable footing. After four tough years, necessary reforms have been carried out and are now driving new growth in a more sustainable way. International investments are returning, license auctions are back, and foreign companies are increasingly (re-)entering a market that is set to grow 40% over the next 5 years.



Football is what most people associate with Brazil. The five-time world champion hosted the football World Cup in 2014, and also the Summer Olympics in 2016.



ABOUT THIS GUIDE

“How to Do Business in Brazil” aims to give a comprehensive overview of the issues a foreign company needs to be aware of when establishing and operating a business in Brazil, and practical advice on how to handle the related challenges.

Brazil is a complex business environment to enter, and many companies entering Brazil make similar, common mistakes which can be costly and time consuming to correct. But with care and planning, these challenges are entirely manageable and should not in themselves stop foreign companies from entering the Brazilian market.

Structure:

- 1: Market Overview and Opportunities
- 2: Establishment and Market Entry
- 3: Running a Company in Brazil

The guide is aimed at Norwegian offshore O&G and maritime companies. However, parts 2 and 3 are less industry specific, and are valid for any company entering or expanding in the Brazilian market.

The report is developed by M&O Partners, a strategic and operational partner for companies in the O&G/maritime industries, on behalf of Norwegian Energy Partners (NORWEP), The Royal Norwegian Consulate and Innovation Norway in Rio de Janeiro.

Rio de Janeiro, May 2019



Consulado Geral da Noruega
Rio de Janeiro



The information in this guide is to our best knowledge up to date as of the time of publishing, but may change during the course of 2019.





CONTENTS

Welcome to Brazil!	2
About this Guide	4

1: MARKET OVERVIEW AND OPPORTUNITIES

Introduction: Getting Back on Track	10
E&P Overview	11
<i>Main Offshore Activity Areas</i>	13
<i>Main Public Entities</i>	14
<i>Main Operators and License Holders</i>	14
<i>Equinor</i>	17
Outlook	19
<i>Changing Market Dynamics</i>	19
<i>Market Outlook</i>	20
Petrobras Recovery	25
<i>Corporate Governance</i>	26
<i>Financials</i>	26
New License Rounds	27
<i>Schedule</i>	27
<i>Results from the 2017/2018 Rounds</i>	27
<i>Highlight 2019: "Transfer of Rights Surplus"</i>	27
<i>Round</i>	29
<i>Contract Regimes</i>	29
Local Content	30
<i>Introduction</i>	30
<i>Framework</i>	30
<i>Local Content Rates</i>	30
R&d Investments in Oil & Gas	32
<i>The ANP R&D Levy</i>	33
<i>Expenditure</i>	33
<i>Accessing R&D Funding</i>	34

2: ESTABLISHMENT AND MARKET ENTRY

Introduction	38
<i>The Crucial First 12-24 Months</i>	38
Market Entry Considerations	39
<i>Dedicated Resources Need to Be Made Available</i>	39
<i>Business Set-Up According to Your Product/Service</i>	40
Company Establishment	41
<i>Deciding on Company Type</i>	41
<i>Establishment Process</i>	42
<i>Corporate Capital Needs</i>	42
Petrobras Supplier Registration	43
<i>Overview</i>	43
<i>The CRC System</i>	43
Market Entry - Building Sales	44
<i>Free Up Key Resources for Commercial/Core Business</i>	44
<i>Continuous Presence and Customer Contact</i>	44
<i>Brazilian Sales Force</i>	45
<i>Build an Industry Network in Brazil</i>	45
<i>Have a Long-Term Perspective</i>	45
<i>Get the Basics Right</i>	45
Visa Requirements	46
<i>Overview</i>	46
<i>Is it Necessary to Apply for a Visa for Regular Business Trips to Brazil?</i>	46
<i>Obtaining a Visa</i>	46
Expat Issues	48
<i>How Much Does an Expat Cost?</i>	48
<i>Living costs</i>	48
<i>Practical Tips for New Expats in Brazil</i>	49
Sources Of Support and Financing	50
<i>NORWEP – Norwegian Energy Partners</i>	50
<i>Innovation Norway</i>	51
<i>GIEK – Garanti-Instituttet for Eksportkreditt</i>	51
<i>Export Credit Norway/Eksportkreditt</i>	51
<i>NBCC – Norwegian-Brazilian Chamber of Commerce in Rio de Janeiro</i>	51
<i>BNDES – The Brazilian Development Bank</i>	51

3: RUNNING A COMPANY IN BRAZIL	52
Introduction	54
Risks	55
<i>Operational Risks</i>	55
<i>Bribery and Corruption</i>	55
<i>Legal Considerations</i>	56
Cultural Differences - A Critical Factor	53
<i>Differences</i>	53
<i>Brazilian Business Culture, From a Norwegian Point of View</i>	53
<i>Global Cultural Types</i>	56
Administration of Brazilian Employees	62
<i>Higher Staffing Needs</i>	62
<i>Salaries and Employee Costs</i>	62
Paying Taxes	65
<i>Corporate Tax Types</i>	66
<i>Overview of Main Taxes</i>	66
<i>Selecting a Tax Regime</i>	67
<i>Tax on Dividends</i>	67
<i>Tax on Capital Gains</i>	67
<i>Tax Implications if Invoicing from Abroad</i>	67
<i>Individual Income Tax for Expats</i>	68
Accounting	69
<i>Brazilian Accounting and Financial Terminology</i>	69
<i>Audits</i>	69
Import	70
<i>First Step – RADAR</i>	70
<i>Standard Clearance Requirements</i>	70
<i>Shipping & Customs Clearance</i>	71
<i>Trading Companies</i>	71
<i>Import Taxes</i>	71
<i>REPETRO</i>	72
<i>REPETRO-SPED</i>	72
Corporate Social Responsibility	73
<i>Tax Benefits</i>	73
<i>Examples of Norwegian-Brazilian Projects</i>	73



CONTENTS

- 10 Introduction: Getting Back On Track
- 12 E&P Overview
- 19 Outlook
- 25 Petrobras Recovery
- 27 New License Round
- 30 Local Content
- 32 R&D Investments In Oil & Gas



A photograph of an offshore oil rig structure against a clear blue sky. The rig is a complex of white and yellow metal frameworks, including a tall derrick on the left and various platforms and cranes. The structure is supported by a steel jacket over the ocean. The text '1: MARKET OVERVIEW AND OPPORTUNITIES' is overlaid on a white rounded rectangle in the lower right portion of the image.

1: MARKET OVERVIEW AND OPPORTUNITIES



INTRODUCTION: GETTING BACK ON TRACK

Brazil in general, and the Brazilian oil industry in particular, have gone through some difficult years. The massive boom from 2008 and onwards, with the world's largest O&G investment program, turned into a partially self-inflicted bust in 2014, worsened by the global economic and oil industry downturn.

After four years of suffering, there is finally a positive outlook. Tough, but necessary reforms have been enacted since 2016. Improved national policies, the recovery of Petrobras and the return of new license rounds are now driving new growth.



In 2014, the economic and oil industry markets went into a global crisis and the oil price collapsed. At the same time, Petrobras was on the brink of financial collapse, cash-strapped and heavily indebted. The O&G investment program had ground to a halt, and a massive corruption scandal involving authorities, international oil companies and Petrobras had surfaced, paralyzing the whole sector during the subsequent years of investigations. Policy issues were crippling Petrobras E&P development, and foreign investments were drying up.

In 2016, a new government embarked on a reform course to turn the situation around. Much-needed structural and regulatory changes have been carried out, and Petrobras has seen a substantial operational and financial recovery. This has enabled the return of new license rounds for exploration blocks, which were resumed in 2017 after five years on hold. There is a surge in activity as foreign investments are returning, and both international and national oil companies are gearing up. There has also been a continued crackdown on the corruption that brought Petrobras and the Brazilian oil industry to its knees (see chapter "Risks" for more details).

The current general perception is one of returning optimism. The Brazilian offshore market is estimated to be the biggest in the world over the next 5 years (with Norway as number 2), and this time the market seems better prepared for long-term sustainable

growth. The annual spending is estimated to grow by as much as 40% over the next 4 years, from around USD 22.5bn in 2018 to about 32bn in 2022.

See chapter "Outlook" for more details.

Improved National Policies

Since 2016, several energy sector bottlenecks have been removed or diminished, and new policies are boosting E&P activity levels.

Key achievements:

Petrobras Pre-Salt Operatorship

Until 2016, Petrobras was defined by law as the sole operator of all fields in the enormous Pre-Salt area. Developing and operating such an enormous pool of resources would stretch the capacity of any oil company. Petrobras was cash-strapped and in operational limbo, and development stalled. Petrobras did not have the capacity to take on massive new operatorships, and bid rounds were halted.

New policies have lifted this requirement, and Pre-Salt fields can now be operated by other oil companies. (Petrobras has the right of first refusal to be the operator of auctioned Pre-Salt fields, with a minimum stake of 30%.) This has led to a welcome return of bid rounds and renewed activity in Brazil by foreign oil companies.



New Local Content Rules

Local content requirements have been adjusted to more pragmatic and feasible levels. Local content has been removed as a bid criterion, and there is a waiver mechanism for unmet local content requirement in earlier projects.

See chapter “Local Content” for more details.

REPETRO Tax Regime Renewal

REPETRO is a special customs regime that permits the suspension of payment of federal taxes due on importation of equipment and materials temporarily admitted to Brazil, in order to be used in Oil & Gas activities. REPETRO was set to expire in 2020, but the tax benefits will be extended until 2040 through the similar, recently created program REPETRO-SPED.

See chapter “Import” for more details.

Unitization Agreements

When a reservoir stretches continuously from one concession area into a neighboring concession area, the whole reservoir must be unitized: The development of the entire reservoir should follow the same regulations, even if the two concession areas have E&P Agreements of different regimes and with different conditions. This is an important issue in the so-called “Pre-Salt” area, which contains huge reservoirs that may stretch over several exploration blocks. The solution is setting up separate Unitization Agreements (UA), negotiated and tailor-made for the actual reservoir. This is a complex subject matter. The legal framework has recently been put in place, something that is greatly facilitating the Pre-Salt development.

Petrobras Recovery

After being cash-strapped and operationally paralyzed in 2014, Petrobras has managed to make necessary structural changes that were long overdue. Debt reduction, restructuring, operational cost reductions and a large-scale asset divestment program have put Petrobras back on a more solid financial and operational footing, and on a more stable and sustainable growth track.

See chapter “Petrobras Recovery” for more details.

New License Rounds

An improved policy framework and a healthier Petrobras made it possible to resume bidding rounds for exploration blocks in 2017, after a 5-year pause. Six very successful bidding rounds were carried out in 2017 and 2018, generating USD7.3bn in signature bonuses (70% of worldwide signature bonuses for the period.)

New license rounds are confirmed for 2019, 2020 and 2021. This gives predictability around the increasing activity level in Brazil over the next years. Of particular interest in 2019 is the highly anticipated “Transfer of Rights Surplus” license round, which could generate the same amount of signature bonuses as the six 2017+2018 rounds combined.

See chapter “New License Rounds” for more details.

New Government from 2019

President Jair Bolsonaro, a polarizing right-wing politician, took office in January 2019 after campaigning on a controversial law & order platform criticized for being too heavy-handed and insensitive towards civil rights. At the same time, the new government is considered largely positive for market stability and economic recovery.

As far as the Oil&Gas industry is concerned, the government has committed to continuing the past two years’ positive reforms, and to providing a stable, predictable and market-friendly framework.

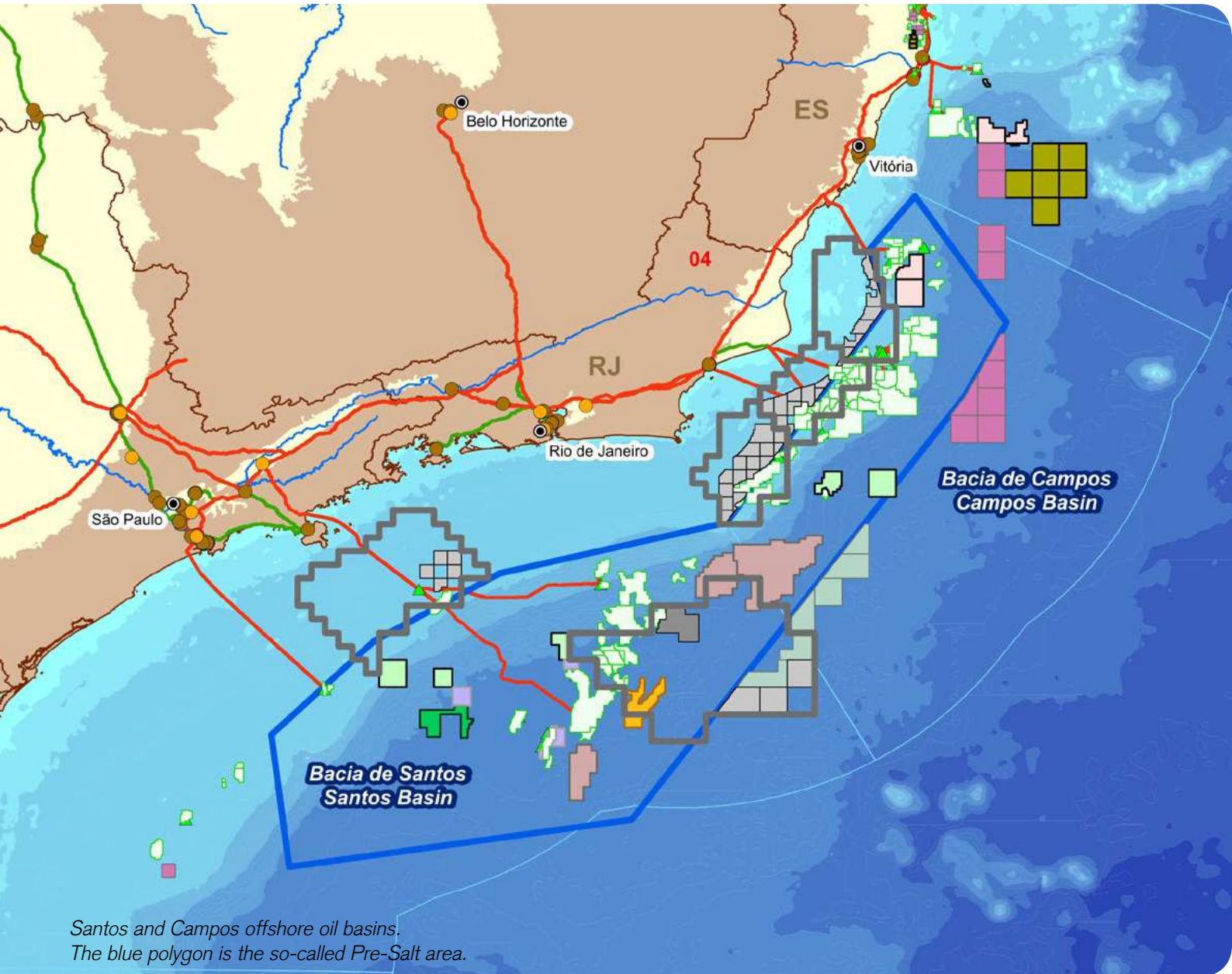
Key principles and objectives for the Oil&Gas industry, stated by Minister of Mining and Energy Bento Albuquerque:

- Good governance, with regards to both policy formulation (MME) and regulator (ANP)
- Legal and regulatory stability
- Predictability for market actors
- Carry out the “Transfer of Rights Surplus” bidding round in 2019.
- A multi-year schedule to guarantee the continuity of bidding rounds.
- Increase the autonomy of CNPE (the National Energy Policy Council) in defining the contract regimes for Pre-Salt area exploration.



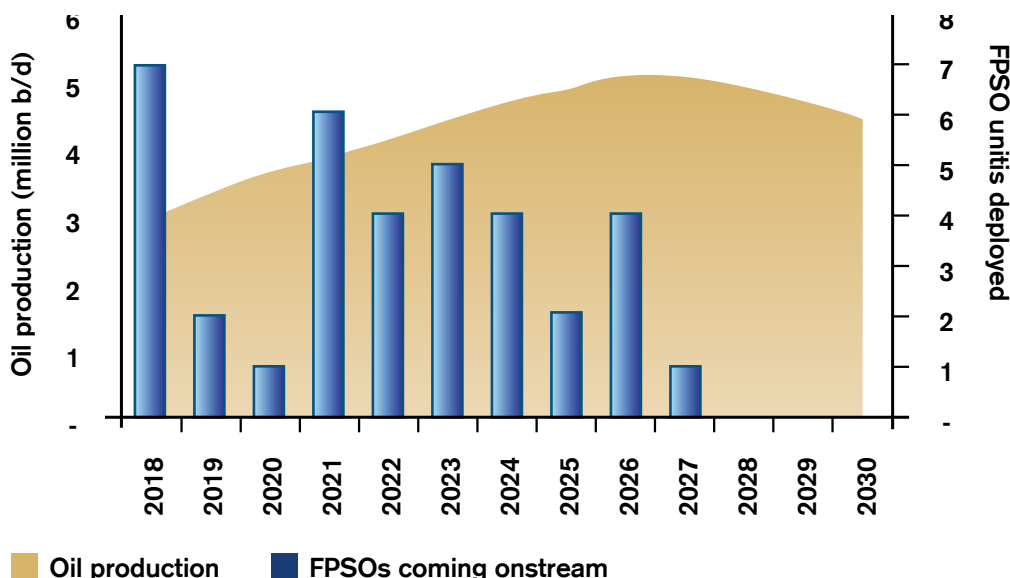


E&P OVERVIEW



Brazil's discovered reserves are 21 billion barrels of oil equivalents, of which proved petroleum reserves account for 13 billion barrels. The Government's stated plan is to develop these resources until 2027.

Current total oil and gas production is around 3.3 million boed (barrels of oil equivalents per day), with oil production accounting for 2.6 million (April 2019). ANP – the National Agency of Petroleum, Brazil's O&G industry regulator – projects that oil production will almost double until 2026, peaking at around 5 million barrels per day.



Projected oil production. ANP – the National Agency of Petroleum, Brazil's O&G industry regulator – estimates that this development will require 36 new FPSOs.

Main Offshore Activity Areas

The vast majority of Brazil's E&P activity takes place in two offshore basins: the Santos Basin and the Campos Basin.

Santos Basin (Pre-Salt)

The Santos Basin is the main E&P area, containing most of the huge Pre-Salt finds. The Pre-Salt area has vast reserves buried under a 1-2 km thick salt layer, which sits up to 5000 meters below the seabed.

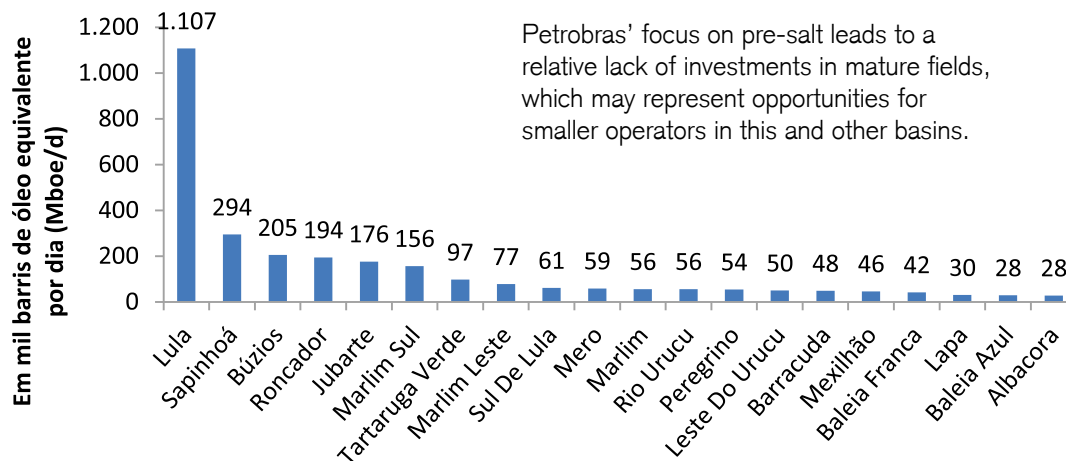
The discoveries and activities related to the Pre-Salt area drove the pre-2014 oil industry boom in Brazil. In 2013, 2% of Brazil's oil production came from the Pre-Salt area. Today, 5 years later, the Pre-Salt production accounts for 55% of Brazil's total production.

The Lula field in the Pre-Salt area of the Santos Basin has the highest production by far, accounting for about a third of Brazil's total production.

Campos Basin

High degree of mature fields, with declining productivity. 39% of Brazil's oil is produced in the Campos basin.

Petrobras' focus on pre-salt leads to a relative lack of investments in mature fields, which may represent opportunities for smaller operators in this and other basins.



The 20 fields with the highest production (Mboe/d, April 2019)



Main Public Entities

ANP – The National Petroleum Agency

ANP is the regulator of activities related to oil, natural gas, its byproducts, and biofuels.

Main responsibilities:

- Regulate and monitor contracting and economic activities
- Implement the national policies on oil, natural gas and biofuels, as contained in the National Energy Policy
- Delimit exploration blocks for concession auctions
- Prepare bid tenders and conduct biddings for concession auctions, sign contracts and oversee their implementation
- Regulate execution of geological/geophysical surveys for petroleum exploration, collecting technical data
- Regulate petrol related refining, processing, transportation, import and export activities
- Resolve conflicts between commercial players including consumers.

MME – Ministry of Mining and Energy

Policies, planning, monitoring and research of:

- The oil industry and electric power, including nuclear plants
- Geology, mineral and energy resources
- Hydrological and hydraulic power sources
- Mining and metallurgy.

CNPE - The National Energy Policy Council

CNPE is chaired by the Minister of Mining and Energy, and is an advisory body that make proposals to the President on national policies and specific measures for the administration of Brazil's energy resources, and for ensuring energy supply to remote areas. CNPE is responsible for drawing up the guidelines and goals of the Government's energy policies.

One of the new government's goals is to give CNPE more autonomy in defining contract regimes for the Pre-Salt area.

Main Operators and License Holders

State-controlled Petrobras is the main player in Brazil's O&G industry, dominating up-, mid-, and downstream activities. The company held a monopoly on all oil-related activities in the country until 1997, when the sector was opened to competition.

Another important milestone was reached in 2016, when the government abolished the rule that Petrobras should be the only operator in the Pre-Salt area.

Production

Average production for February 2019 was 3.2 million boed.

Production by license holder:

	License Holder	Production (boed)	% of Total Production
1	Petrobras	2.485.899	75,0%
2	Shell Brasil	413.121	12,5%
3	Petrogal Brasil	111.791	3,4%
4	Repsol Sinopec	85.968	2,6%
5	Equinor Energy*	48.544	1,5%
6	Equinor Brasil*	32.276	1,0%
7	Total E&P do Brasil	22.135	0,7%
8	Sinochem Petróleo	21.517	0,6%
9	Queiroz Galvão	12.512	0,4%
10	Dommo Energia	11.075	0,3%

Production by license holder, average for April 2019.

*Equinor Brasil is the operator of the Peregrino field with a 60% stake, and Equinor Energy has a 25% non-operating stake in the Roncador field.



Production by operator:

	Operator	Production (boed)	% of Total Production
1	Petrobras	3.135.909	94,6%
2	Equinor Brasil	53.793	1,6%
3	Shell Brasil	39.637	1,2%
4	Total E&P do Brasil	29.683	0,9%
5	Chevron Frade	20.139	0,6%
6	Queiroz Galvão	12.692	0,4%
7	PetroRio O&G	8.833	0,3%
8	Dommo Energia	5.998	0,2%
9	Maha Energy	2.709	0,1%
10	SHB	2.061	0,1%

Production by operator, average for April 2019.

Exploration

All in all there are **1083 active E&P licenses** in Brazil as of April 2019, consisting of onshore and offshore blocks in the stage of Exploration, Appraisal or Production.

Of these, there are **355 licenses for offshore blocks in the Exploration phase**. Petrobras is the big player with 89 licenses and 71 operatorships.

Offshore Exploration	355 Licenses		179 Operatorships	
	Amount	%	Amount	%
Petrobras	89	25,1%	71	39,7%
ExxonMobil	27	7,6%	16	8,9%
BP	24	6,8%	8	4,5%
Shell	23	6,5%	16	8,9%
Equinor	21	5,9%	9	5,0%
Dommo	18	5,1%	15	8,4%
Total	16	4,5%	6	3,4%
Petrogal	12	3,4%	0	-
Repsol	9	2,5%	3	1,7%
Chevron	7	2,0%	2	1,1%

Offshore licenses in the Exploration phase as of April 2019 (top 10 companies). (Source: ANP)



The three main basins for exploration are Santos, Campos and Espirito Santos, with 184 licenses, a bit more than half of the

total. Here Equinor has a strong position, with the second highest number of licenses and third highest number of operatorships.

Santos, Campos & ES Basins	184 Offshore Exploration Licenses		90 Operatorships	
	Amount	%	Amount	%
Petrobras	46	25,0%	38	42,2%
Equinor	19	10,3%	9	10,0%
ExxonMobil	18	9,8%	7	7,8%
Dommo	12	6,5%	10	11,1%
BP	10	5,4%	5	5,6%
Shell	10	5,4%	5	5,6%
Repsol	9	4,9%	3	3,3%
Total	8	4,3%	0	-
Petrogal	7	3,8%	0	-
Chevron	6	3,3%	1	1,1%

Offshore licenses in the Exploration phase in the Santos, Campos and Espirito Santo (ES) basins (top 10 companies).

New License Rounds

Six new license rounds for exploration blocks were held in 2017 and 2018, with ExxonMobil as the most aggressive bidder.

New License Rounds 2017+2018	105 Awarded Offshore Licenses	48 Operatorships
ExxonMobil	21	11
Petrobras	20	18
Shell	9	5
Equinor	7	1
BP	6	3

Offshore exploration assets acquired in the new license rounds of 2017+2018 (top 5 companies).

In the new bidding rounds, Pre-Salt operatorships were awarded to other companies than Petrobras for the first time, following significant reforms in Brazil's legal framework for the energy sector. This is widely seen as a measure that will boost E&P activity in Brazil.

Non-Petrobras operators in the Pre-Salt area after the 2017 + 2018 bid rounds are Shell, Equinor, BP and ExxonMobil. See chapter "New License Rounds" for more details.



National Oil Companies

Other National Oil Companies than Petrobras are also gaining importance. PetroRio and Enauta (named Queiroz Galvão until April 2019) are both among the top 10 producers.

PetroRio has recently entered an agreement to acquire Chevron's 51.74% operating stake in the Frade field for an estimated USD500bn, with the intention to further increase its stake to 70% and operate the field, with Petrobras maintaining a 30% stake. This will almost double PetroRio's production, from 15,000 boed to 28,000 boed. The transaction between PetroRio and Chevron will also give PetroRio 50 percent operated interest in the deepwater CE-M715 block in the Ceara Basin.

Both these NOCs are growing and have ambitions to invest.

Equinor

Equinor entered Brazil in 2001, and the Brazil operation is now its largest outside of the North Sea. The company has invested more than USD 10 billion in Brazil, and intends to invest an additional USD 15 billion until 2030.

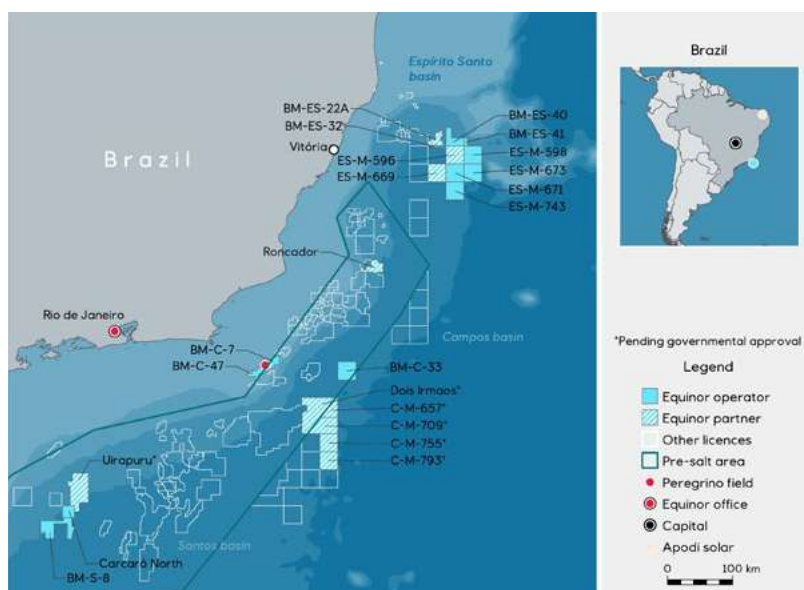
Equinor is Brazil's 4th biggest producer after Petrobras, Shell and Petrogal, with a production of about 96,000 boed split on 2 licenses. The company has for several years been Brazil's second biggest operator in terms of production, surpassed only by Petrobras.

Assets

Equinor holds 23 licenses in Brazil, with 2 Production assets and 21 Exploration assets.

Equinor has participated actively in the latest license rounds, and has acquired significant acreage in the Santos and Campos basins. The company now holds 23 licenses in Brazil, and also intends to participate in the upcoming 2019 bidding rounds.

By Equinor's own estimates, their portfolio in Brazil has the potential to produce between 300,000 and 500,000 boed by 2030.



Equinor's assets in Brazil as of April 2019. (Source: ANP)

Asset	Basin	Interest	Status
Peregrino field	Campos	60% (operator)	Production. Phase I: ~70,000-80,000 boed. Reserves: ~400 million boe
			PHASE II from 2020: ~60,000 boed. Reserves: ~273 million boe
Roncador field	Campos	25%	Production: 280,000 boed. Reserves: ~10 billion boe (remaining: 1-2 bn).
Block BM-C-33 incl. the Pão de Açúcar discovery	Campos	35% (operator)	Exploration. Reserves: ~1 billion boe.
Block BM-S-8 incl. the Carcará discovery and exploration prospects	Santos	36.5% (operator)	Exploration. Reserves (Carcará + Carcará North): ~2 billion boe.
Carcará North Block	Santos	40% (operator)	
18 exploration blocks	Spread over 5 basins	Varying (operator for 8 blocks)	Exploration



Peregrino

The Peregrino field is Equinor's largest operated international offshore operation. The field is estimated to hold 400 million barrels of recoverable oil, and 160 million barrels have been produced since 2011. Stakes: Equinor 60% (operator), Sinochem 40%.

Peregrino has two fixed wellhead platforms connected via flow lines and electrical umbilicals to the FPSO Peregrino. Peregrino Phase II involves adding a third fixed platform, increasing the main productive life and adding 273 million barrels of recoverable reserves. First oil from Phase II is expected in 2020. Equinor has stated that in the operation phase, most of the services and products procured will be local.

Roncador

Equinor acquired 25% of the enormous Roncador field from Petrobras in 2017 for USD 2bn, as a part of Petrobras' divestment plan. The acquisition tripled Equinor's production in Brazil. Petrobras remains the operator with a 75% stake. The field has been producing since 1999, and has a total reserve of 10 billion boe, of which about 1 billion is remaining.

Equinor's ambition is to leverage its IOR experience to increase the field's recovery factor by 10 percentage points up to 39%. This would bring the remaining recoverable reserves up from 1 billion boe towards 2 billion.



Carcará

The large Carcará discovery in the Pre-Salt area stretches over the two blocks BM-S-8 and Carcará North, and is thought to hold more than 2 billion boe. This is Equinor's main focus for current exploration activities in Brazil. The plan is to reach first oil production from the unitized field in 2023-2024.

Equinor acquired the BM-S-8 operator license from Petrobras in 2016. In 2018,

Equinor acquired a stake in the adjacent Carcará North block, also as the operator.

Since then, the consortium partners of the two blocks have agreed a series of transactions to align their equity interests, in order to build a strong partnership across the two licenses and prepare for a unitization process.

Current stakes Carcará

Block	Operator	Partners
BM-S-8	Equinor: 36.5%	ExxonMobil: 36.5%
		Petrogal: 17% Barra
		Energy: 10%
Carcará North	Equinor: 40%	ExxonMobil: 40%
		Petrogal: 20%

Equity stakes in the two blocks comprising the Carcará development, as of April 2019. (Source: ANP)



OUTLOOK

E&P activities are set to see a sharp increase over the next years, boosted by improved national policies, the Petrobras recovery and new license rounds. This is changing the market dynamics, and the market outlook is good for suppliers across all operational sectors.

Brazil's offshore market is projected to grow by around 40% from 2018 to 2022.

Changing Market Dynamics

New Pre-Salt Operators

Since foreign oil companies are now allowed to be operators in the Pre-Salt area, the market dynamics are changing. New operators with large portfolios are driving a surge in investments, and the new concession holders have committed to investments of more than USD80 billion.

After the recent license rounds, the non-Petrobras operators in the Pre-Salt area are ExxonMobil, Shell, BP and Equinor.

Moving from CAPEX to OPEX

The pre-2014 boom was largely CAPEX-driven, where a massive (and unrealistic) number of platforms and vessels were intended to be built in Brazil. This time, there is a more pragmatic and sensible approach. Most of the platform construction will be done abroad, with some integration and installation work done by Brazilian shipyards.

Market opportunities for foreign suppliers are increasingly related to operations. OPEX may even surpass CAPEX in volume, due to the high increase in E&P activity projected for the next years. This will create very good opportunities for a wide range of suppliers and service providers.





Market Outlook

The offshore market in Brazil totaled around USD22.5bn in 2018. This is projected to grow by around 40% until 2022, up to around USD32bn.

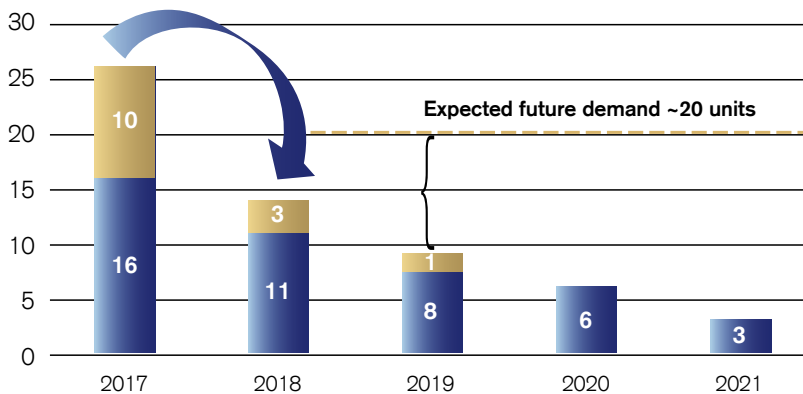
Drilling

It is estimated that Petrobras has a baseline demand of around 20 drilling rigs to maintain current production. There are currently 12 drilling rigs in operation in Brazil (April 2019). As they go off contract, this number will drop to 3 in 2021.

This will create a need to contract an estimated 17 rigs in the period, just to maintain current baseline production. In addition, Petrobras has estimated that the resumed bidding rounds could result in more than 300 wells being developed over the next years, requiring up to 20 additional rigs drilling simultaneously.

Further, there will also be additional demand from IOCs with new pre-salt acreage.

Rigs on contract in Brazil (year end)



International rig owners

Brazilian rig owners

Drilling rigs on contract in Brazil, vs. baseline Petrobras demand. (Source: Bassoe Offshore)

Rig	Rig Manager	Type	Contract Until
ODN I	Ocyan	Drillship	02.09.2022
ODN II	Ocyan	Drillship	02.08.2022
Etesco Takatsugu J	Etesco	Drillship	16.04.2022
Norbe IX	Ocyan	Drillship	02.11.2021
Norbe VIII	Ocyan	Drillship	02.08.2021
Ocean Valor	Diamond Offshore	Semisub	16.11.2020
Ocean Courage	Diamond Offshore	Semisub	22.07.2020
Vitoria 10000	Schahin	Drillship	16.12.2019
ENSCO 6002	Ensco	Semisub	16.12.2019
West Tellus	Seadrill	Drillship	16.10.2019
West Saturn	Seadrill	Drillship	16.09.2019
ODN Delba III	Ocyan	Semisub	16.09.2019

Drilling rigs currently under contract in Brazil (May 2019).

Adding all of this, the rig demand could reach 40 by 2021/2022.

Some of this demand will likely be met by viable rigs already in Brazil, totaling around 20.

(There are 11 rigs going off contract in the period, and a further 11 rigs currently stacked. Out of these 22, up to 6 are thought to be uncompetitive for new

contracts due to age and specifications, leaving 16 viable rigs. In addition, 4 rigs are under construction in Brazil, with probable delivery in 2019. In total, there will be around 20 viable rigs available in Brazil in the period.)

The remaining demand, possibly up to another 20 rigs, will have to be contracted from abroad.



FPSO

Brazil is the single largest market for FPSOs globally. As of May 2019, there are **50 FPSOs in Brazilian waters.**

Owners:

- Petrobras: 18
- Modec: 9
- SBM: 4
- BW: 3
- 16 companies have 1 each

48 of the 50 FPSOs are in operation.

1 is being decommissioned and 1 is off contract and will leave Brazilian waters.

Operators:







- Petrobras: 40 (with 37 currently producing)
- Shell: 2
- Chevron, Dommo, Equinor, PetroRio, Enauta (earlier named Queiroz Galvão) and Total: 1 each

Petrobras estimates that 36 new FPSOs are needed in Brazil until 2027 to develop the discovered reserves. Sources with operators put this number higher, with unofficial projections of up to 50 new FPSOs in Brazilian waters.

Most of the FPSO construction over the next years will happen outside of Brazil, as there is currently very limited capacity in Brazil to undertake such a massive program. China is thought to receive the bulk of the orders. Some topside integration work will be carried out in Brazil.

Main contenders for construction/charter contracts are Modec, already with the largest fleet in Brazil after Petrobras; and SBM, who was recently allowed to compete for new contracts again after having been suspended for suspected corruption.

Petrobras FPSOs:

2018	2019	2020
✓  BÚSIOS 1 P-74	 BERBIGÃO P-68	 ATAPU 1 P-70
✓  TARTARUGA VERDE	 BÚSIOS 3 P-76	
✓  LULA EXTREMO SUL P-69	 BÚSIOS 4 P-77	
✓  BÚSIOS 2 P-75		
2021	2022	2023
 MERO 1	 INTEGRADO PQ. DAS BALEIAS	 SERGIPE ÁGUAS PROFUNDAS
 SÉPIA	 MERO 2	 ITAPU
 BÚSIOS 5	 REVITALIZAÇÃO MARLIM 1	 REVITALIZAÇÃO MARLIM 2
 Contracted	 To be contracted	

Petrobras schedule for construction/chartering of new FPSOs until 2023



Offshore Support Vessels

Since the 2014 market crash, the OSV fleet has shrunk from more than 500 vessels to the 360 registered at the start of 2019. Of these, about 70 are currently idle. More than 80% of foreign vessels have left Brazilian waters, since Brazilian legislation favors hiring of domestic ships.

However, the projected increase in E&P activity will increase OSV demand over the next years. In addition to picking up the slack of the idle OSVs, the growth is expected to increase the the OSV fleet by at least 15% over the next five years. According to industry estimates, the fleet size could reach somewhere between 415-500 vessels by 2023, depending on the speed of recovery of the overall O&G market.

OSVs in Brazil at the start of 2019:

Vessel Type		Brazilian	Foreign	Total
PSV/ ORSV	Platform Supply Vessel/ Oil Spill Response Vessel	168	9	177
LH/ SV	Line Handling/ Mini Supply Vessel	66	1	67
AHTS	Ancor Handling Tug Supply	40	3	43
Crew/ FSV	Crewboat/ Fast Supply Vessel	25	1	26
PLSV	Pipe Laying Support Vessel	4	11	15
RSV	ROV Support Vessel	11	0	11
MPSV	Multi-Purpose Support Vessel	3	5	8
DSV	Diving Support Vessel	4	2	6
WSV	Well Stimulation Vessel	2	1	3
WIV	Well Intervention Vessel	0	2	2
SSV	Standby Supply Vessel	0	1	1
Flotel	Flotel Vessel	0	1	1
Total		323	37	360





OSV owners:

Company		PSV/ ORSV	AHTS	LH/ SV	PLSV	RSV	MPSV	DSV	WSV	WIV	Crew/ FSV
Bram/Alfanave	53	37	10			2	1		3		
CBO/Oceana	33	22	7			4					
Starnav	32	21	2	9							
WSUT	22	22									
DOF/Norskana	21		11		5	1	3	1			
Tranship	20			20							
Camorim	17	1		16							
Baru	12										12
Bravante	12	12									
Astromarítima	11	11									
Oceanpact	11	11									
UP Offshore	11	11									
Locar	10			10							
BSCO	9										9
Siem	8	4								2	2
Farstad	7	1	4			1		1			
Technip	7			5			2				
Maré Alta	6	3									3
Sapura	6				6						
Intl Marítima	5	5									

Top 20 owners of OSVs in Brazilian waters, start of 2019.
(Source: ABEAM, Brazilian Association of Maritime Support Companies.)

Subsea

In 2018, the size of the subsea market in Brazil was slightly more than USD5bn, with SURF (subsea installation, umbilicals, risers and flowlines) accounting for about 55%, subsea equipment around 33% and services 12%.

The subsea market size is expected to increase by 20-25% until 2022, surpassing USD6bn. Brownfield development will be concentrated in the Campos Basin, and greenfield in the Santos Basin.

Operational Services

Driven by new projects, the current market of USD4bn is set to increase by around 50% by 2022, reaching 6bn and surpassing the peak of 2013.

Increasing in importance are technology services such as digitalization.





MMO

MMO investments are seen to rise as the average age of installations in mature fields is on the increase, in particular in the Campos Basin.

Revitalization of the Campos Basin: Petrobras in March 2019 announced that it will invest USD20bn over the next five years to revitalize the Campos basin. This will include upgrading installations and infrastructure, as well as investing in the increased lifetime of producing fields. With this initiative, the Campos Basin will continue to create considerable MMO opportunities for the years to come.

As a recent activity example related to Norwegian industry, Aker Solution was awarded a 4-year, NOK800mn contract to renovate, repair and upgrade the FPSOs at the Barracuda, Caratinga and Albacora Leste fields in the Campos Basin.

MMO vs. decommissioning: At least 67 offshore installations have been operating for more than 25 years. These and others would relatively soon be facing decommissioning. However, ANP's stated focus is more on increased recovery of mature fields, and it seems likely that ANP will not focus on enforcing decommissioning in the short term. This will also contribute to increased MMO-related spending.

Shipyards

Brazilian shipyards have taken a hard hit. The pre-2014 boom was driven by massive construction projects to be carried out at Brazilian yards, with overly ambitious or in many cases unrealistic time frames. This included building 29 drilling rigs within only four years, including upgrading shipyards and even building new shipyards from scratch to handle the enormous workload.

The result was severe delays and operational problems. When the crisis hit and financial problems stopped the construction, only 4 rigs were near. Petrobras has maintained the orders for these 4 rigs and cancelled the rest.

The shipbuilding industry is in a limbo, with shipyards struggling to survive. A tough consolidation process will be necessary for long-term sustainability. Short to medium-term, the situation remains tight.

Still, the discussion here will continue, as many Brazilian yards received heavy investments pre-crisis, and are aiming to get their share of the upcoming growth.

Most of the construction related to the new surge of offshore installations will be carried out outside of Brazil, mainly in China, due to capacity and cost limits in Brazil. But there is still a demand for topside module integration carried out in Brazil, and a few orders have been placed.

In addition, there is still construction work going on for the 4 drilling rigs for Petrobras, drillships Arpoador and Guarapari at the Jurong Aracruz yard, and semi-sub Urca and Frade at the BrasFels yard. The rigs are expected to be delivered from 2020-2021.



PETROBRAS RECOVERY



A timely comeback: Since being operationally paralyzed and on the brink of financial collapse in 2014, Petrobras has managed to make necessary structural changes that were long overdue. This has put Petrobras back on a more solid financial and operational footing, and on a more stable and sustainable growth track.

In February 2019, Petrobras reported its first annual profit in five years.

At the end of 2014 Petrobras was in deep financial trouble, operationally paralyzed by the “Lava-Jato” corruption scandal, and had lost the confidence of foreign investors and companies.

Since the change of government in 2016, the company has gone through a period of tough restructuring. Less government meddling, improved management practices, successful organizational and financial restructuring, as well as a new emphasis on compliance & transparency with new bidding procedures, are achievements that have been rewarded by international markets.

Petrobras now seems markedly more pragmatic and pro-business, as well as less unpredictable. This is a positive move in the eyes of shareholders, employees, suppliers and productive stakeholders.

Petrobras’ corporate culture also seems to be changing. Several executives with close ties to politicians have been arrested, and an internal investigation has implicated more than 300 employees in wrongdoings.



Corporate Governance

Some major achievements since mid-2016:

- **Decision Making:** A new sign-off policy reduces the powers of directors acting alone. All major decisions need sign-off by two directors or one director plus a technical committee.
- **Technical Committees and Responsibilities:** Any major decision must now take the opinion of a technical committee into account. An executive can oppose the committee's opinion, but would then need the approval of other executives. Committees, which are now statutory, are also subject to more scrutiny, including by CVM (Brazilian SEC), and its members are personally liable for their actions.
- **Ombudsman:** Petrobras finally adopted an independent outsourced ombudsman channel, providing anonymity to whistleblowers.

Financials

Significant improvements have been achieved on the financial front in an ongoing effort to reduce the company's net debt and improve profitability.

Debt Reduction

Petrobras's debt had increased almost ten-fold between 2007-14. Net debt reached unsustainable levels, peaking at USD106bn by the end of 2014. By the end of 2018, net debt had been reduced to USD69.4bn. The leverage was reduced from more than 5 times the cash generation (net debt/EBITDA) to 2.34, exceeding the target of 2.5 that was set for 2018. Going forward, Petrobras plans to further reduce leverage to somewhere between 1 and 1.5 within end of 2021.

At the end of February 2019, the rating agency Standard & Poor's (S&P) raised Petrobras' stand-alone credit profile (SACP) from "BB-" to "BB" with a stable outlook, affirming its global rating at "BB-".

Layoffs

More than 20% of the direct workforce is gone, having agreed to join a voluntary dismissal program. In 2013, Petrobras' workforce (direct employees and outsourced staff) counted more than 310.000. Since then, nearly 20.000 direct employees have left the company, and more than 105.000 outsourced staff have had their contracts terminated.

Operational Cost Cuts

In addition to significant cuts in General & Admin expenses (mainly payroll), Petrobras expects to cut 18% of manageable operating costs in 2017-21, totaling an extra USD27bn in savings. That becomes easier as more pre-salt fields come on stream: pre-salt lifting costs are ~USD8/b (and trending downwards), which is already 20% lower than the average for all fields. As new systems are added to the pre-salt area, average cost should fall even more.

Asset Sales – Divestment Plan

Since June 2016, Petrobras has also surprised analysts by implementing an aggressive asset sale program, seeking to raise USD26.9bn within 2023 by divesting more than 100 concessions and 50% of its refining capacity, as well as exiting non-core businesses like fertilizer plants and liquid gas distribution. Assets like refineries, productive fields and pre-salt areas were once thought to be off-limits due to political interest, but have nevertheless been included. One of the "crown jewels", the operating license of the huge Carcará discovery, was divested to Equinor in 2016.

The divestment plan has the continued support of the government, and also of the new CEO of Petrobras from 2019, Roberto Castello Branco.



NEW LICENSE ROUNDS

License rounds for exploration blocks were put on hold in 2012, due to Petrobras' situation and political issues. Finally, the auctions resumed in 2017. Six very successful rounds have been held, and major rounds are scheduled for 2019-2021.

Schedule

New rounds are confirmed for 2019, 2020 and 2021. This gives predictability around the increasing activity level in Brazil over the next years. Of particular interest in 2019 is the "Transfer of Rights Surplus" round.

Results from the 2017/2018 Rounds

Overview

The six new bid rounds undertaken in 2017 and 2018 (Pre-Salt rounds 2 to 5, and Concession rounds 14 and 15) were very successful. More than BRL28bn (~USD7.3bn) in signature bonuses was generated.

This is 70% of worldwide signature bonuses in the period, for just 7% of the total offered exploration area.

The winners have committed to investments of more than USD80 billion to develop the new areas.

2017		2018		2019		2020		2021	
Pre-Salt Rounds									
2nd	3rd	4nd	5nd	ToR	6nd	7nd	8nd		
Oct 27		Jun 7	Sep 28	Oct 28	Nov 1	Q3	Q3		
Concession Rounds									
14th	15th	16th	17th	18th					
Sep 27		Mar 29		Oct 10		Q3	Q3		
Open Acreage Concession									
					H1	→ → →	→ → →		
					Onshore, shallow and deep water				

Schedule for the new license rounds.

Bid Round	Acquired Blocks	Signature Bonuses (BRL bn)	Registered Companies	Winning Companies
14th	37	3.84	32	17
15th	22	8.01	17	12
2nd	3	3.30	10	7
3rd	3	2.85	14	6
4th	3	3.15	16	7
5th	4	6.82	12	8
TOTAL	72	~28		

2017+2018 license rounds (Pre-Salt rounds 2-5 and Concession rounds 14 and 15).



Offshore Licenses

Of the 105 offshore licenses awarded in the six rounds, 21 were acquired by ExxonMobil, even more than Petrobras (20). In one year, ExxonMobil has increased its portfolio from 2 to 27 blocks, signaling its confidence in the Brazilian offshore market.

2017+2018 License Rounds	All Offshore Blocks		Pre-Salt	
	105 Licenses	48 Operatorships	34 Licenses	13 Operatorships
ExxonMobil	21	1	3	1
Petrobras	20	7	7	7
Shell	9	3	6	3
Equinor	7	1	3	1
BP	6	1	3	1

Awarded offshore licenses in the 2017+2018 license rounds (top 5 companies).



Non-Petrobras Pre-Salt Operators

For the first time, Pre-Salt operatorships were awarded to other companies than Petrobras, following the energy policy reforms of the last two years. Non-Petrobras operatorships were awarded in rounds 2, 3 and 5.

Pre-Salt License Rounds	Operator	Field
2 nd	Equinor	Carcará North
	Shell	Sul de Gato do Mato
3 rd	Shell	Alto de Cabo Frio Oeste
	BP	Pau Brasil
5 th	ExxonMobil	Titã
	Shell	Saturno

Non-Petrobras Pre-Salt operators after the 2017+2018 license rounds.



Highlight 2019: “Transfer of Rights Surplus” Round

This highly anticipated license round is scheduled for October 28, 2019. According to government estimates, this round alone could generate USD27bn (BRL100bn) in signature bonuses, about equal to the last six bid rounds combined.

Petrobras was granted the right to explore and produce 5 billion boe (5bboe) in an area called the Transfer of Rights (ToR) Area, located within the Pre-Salt area.

The ToR Area is now considered to hold much more than 5bboe, possibly as much as 12-14bboe (estimates vary). The right to explore and produce the “surplus”, meaning everything beyond Petrobras’ 5bboe, will be auctioned in the ToR Surplus round.

The ToR Surplus bid is expected to attract fierce competition. The high-quality finds are already known to exist, and so a portion of them can be booked almost immediately as reserves on the balance sheets of new license holders.

Contract Regimes

Pre-Salt: Production Sharing Agreements

For the exploration blocks offered in the Pre-Salt Area, Petrobras is automatically given the right of first refusal to be the operator of the block with a minimum 30% stake.

- Risks and costs of exploration will be covered by the winning company/consortium.
- Cost Oil: The revenue from the first oil produced, used to recover the exploration costs.
- Profit Oil: Revenue from subsequent production, shared with the government at a predetermined percentage, called the Profit Oil Share.
- In license rounds, the winning company/consortium is the one that offers the highest Profit Oil Share.
- The winners will also pay a signature bonus, but this is not one of the bid evaluation criteria. The signature bonus is determined before the auction, and can be seen as an advance of the profit oil.

Transfer of Rights Surplus: Production Sharing Agreements

The winners will explore the fields in co-participation with Petrobras, and will sign two contracts:

- A Production Sharing Agreement with the government, as described above
- A Co-participation Agreement with Petrobras, with proportional stakes. Since Petrobras has carried out significant activities in all fields, with some fields already producing, the winners will need to compensate Petrobras for the investments already made. In addition, they will need to negotiate the unification of operations with Petrobras.

Conventional On- and Offshore: Concession Agreements

- Risks and costs of exploration will be covered by the winning company/consortium.
- In license rounds, the winning company/consortium is determined by the weighted score of the highest signature bonus and the most satisfactory minimum exploratory program as per the definitions in the tender documents.
- When production starts, the government will receive a pre-determined take, including taxes, royalties and specific payments such as a special take for fields that produce large volumes.

Open Acreage: Concessions

Starting in H1 2019, ANP will provide a standing offer of relinquished marginal oil fields (or in the process of being relinquished) and exploration blocks offered in past bid rounds that were not awarded, or have been returned to ANP.

The blocks will not be offered in license rounds, but will be made available in 90-day cycles for registered companies.

As of April 2019, 630 assets are included in the Open Acreage pool, mostly onshore. 30+ companies have registered interest, including BP (the only major so far).



LOCAL CONTENT

Local content requirements have been adjusted to more pragmatic and feasible levels as part of investor-friendly reforms undertaken since 2016.

Worth noting: Suppliers only need to provide local content if specifically required by their immediate customer (via tender documents and contracts). Although each O&G project has a specific local content level, the final customer is free to decide how to spread that average down the supply chain. The ultimate obligation towards the regulators lies with the oil companies.

Introduction

Brazil, inspired by countries like Norway and the United Kingdom, enacted local content policies with the main goals of stimulating its domestic industry, raising local skill levels and create new jobs.

Brazil's local content guidelines date back to 2003, and started being more strictly enforced earlier this decade through independent certification and audits. However, over-aggressive targets of up to 70% local content, plus the constant need to review the rules, eroded legal security and investor confidence, and the policy backfired. Projects were delayed and over budget, international suppliers that invested in local supply chains failed to reap the benefits, and the local supplier industry crashed (as

illustrated by so many local shipyards built from scratch in the last 10 years).

But Brazil seems to have learned from its mistakes, and the new local content policy provides more legal security to stakeholders and puts increasing pressure on local suppliers to compete with international players.

Framework

Local content requirements are set by ANP and passed on to operators via E&P Agreements. This means that the operators are the ones ultimately held responsible for local content compliance. Based on the specific local content levels they have signed up to, operators pass on the obligations to their suppliers (rig owners, FPSO operators etc), and so on down the value chain. The more easily available the product/service/technology is in Brazil, the higher the required local content. This offsets the more advanced equipment which is normally imported with no or little local content.

Local Content Rates

The examples are from the latest 2018 bid round.

Categories		Local Content	
Onshore		50%	
Offshore	Exploration	18%	
	Development	Well construction	25%
		Subsea systems	40%
	Production units	25%	

Overall Local Content rates.



Example:

Local Content	Items
0%	FPSO: Hull, basic & detailed engineering, management, construction and assembly of marine systems; tanks, flares, fiscal measurement systems, telecommunication and electric systems.
4%	Valves up to 24"
9%	Automation systems
10%	Heat exchangers
11%	Processing plants: Materials
15%	Processing plants: Basic & detailed engineering
16%	Processing plants: Construction and assembly
18%	Installation & integration of modules
21%	Pressure vessels
21%	Field instrumentation
22%	Pumps
27%	Processing plants: Service management
34%	Filters
36%	Compressors
65%	Pre-installation and hook-up of mooring lines and multi-point mooring systems

Recent example on Local Content required by Petrobras in a 2018 FPSO tendering document.

In 2018 ANP gave operators the option to apply the new local content rules to pre-existing contracts ranging from the 7th to the 13th bid rounds, Pre-Salt areas and the so-called 'Transfer of Rights' area. Nearly 300 requests were received, relating to 349 blocks including giant field Libra, demonstrating that the new local content rules are perceived to be more feasible by oil companies. On the flip side, projects under the new rules cannot make use of a waiver mechanism in case of non-compliance with the thresholds, something that had been common practice under the old rules.

ANP have also allowed operators to exclude systems that cannot be provided by Brazil-based suppliers on competitive terms when it comes to price, delivery time or quality.

Until 2015

- Excessive Local Content rates, generating cost overruns and delays

2016

- Waivers

2018

- Pragmatic requirements in new tenders

A change of approach

A recent study published by ANP and undertaken with Wood Mackenzie indicates that under the new and more flexible local content rules, it would be feasible to finish all of the 36 FPSOs needed by Petrobras within the projected 2027 timeframe. Using the old rules, only 26 units would be finished before 2027, meaning huge losses in terms of oil production, jobs, royalties and taxes for the country.



R&D INVESTMENTS IN OIL & GAS

The R&D market potential is sizeable, as oil producers are required to spend 1% of revenues on R&D. More than USD300m was spent in O&G projects in 2018. This is expected to increase over the next years due to increased production.





The ANP R&D Levy

Since 1997, Brazil's O&G industry has invested USD 4 billion in 10,000 different R&D projects. The O&G regulator ANP mandates oil producers to invest at least 1% of gross revenues from so-called highly productive fields (including Peregrino and Pre-Salt coming on stream) in R&D.

This mechanism has undoubtedly been important for the development of O&G-related R&D activities in Brazil, and important advances have been made by entities financed with these resources.

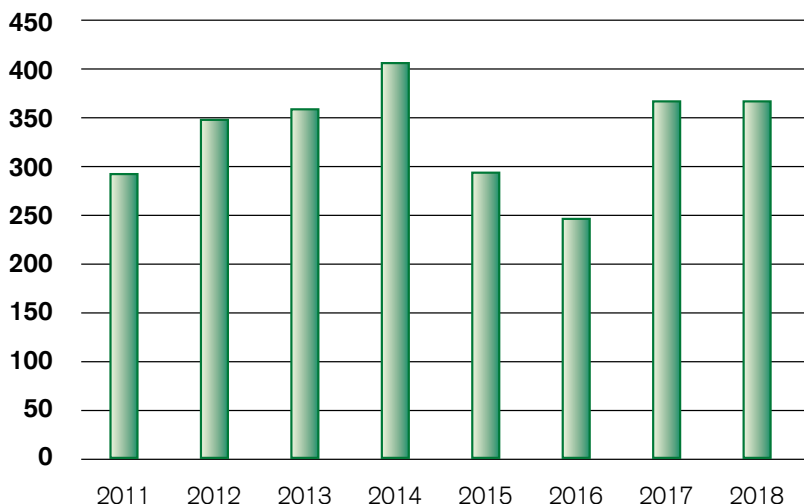
After successful oil auctions in 2017 and 2018—attracting oil majors such as ExxonMobil, Shell, Total – as well as a brighter outlook for 2019, the R&D obligations are set to increase and, to some extent, diversify away from Petrobras R&D center CENPES, which still dominates the R&D scene.

Expenditure

At least 50% of the R&D investments must be channeled through accredited institutions (dedicated research entities) and universities; the rest can be used by operators either internally or through suppliers and startups.

Operators are in general free to choose how to spend the levy, choosing the projects and suppliers according to their own procurement procedures. ANP is constantly updated via detailed project reports and strict compliance checks.

R&D Levy: Project Amounts
(Million USD)*



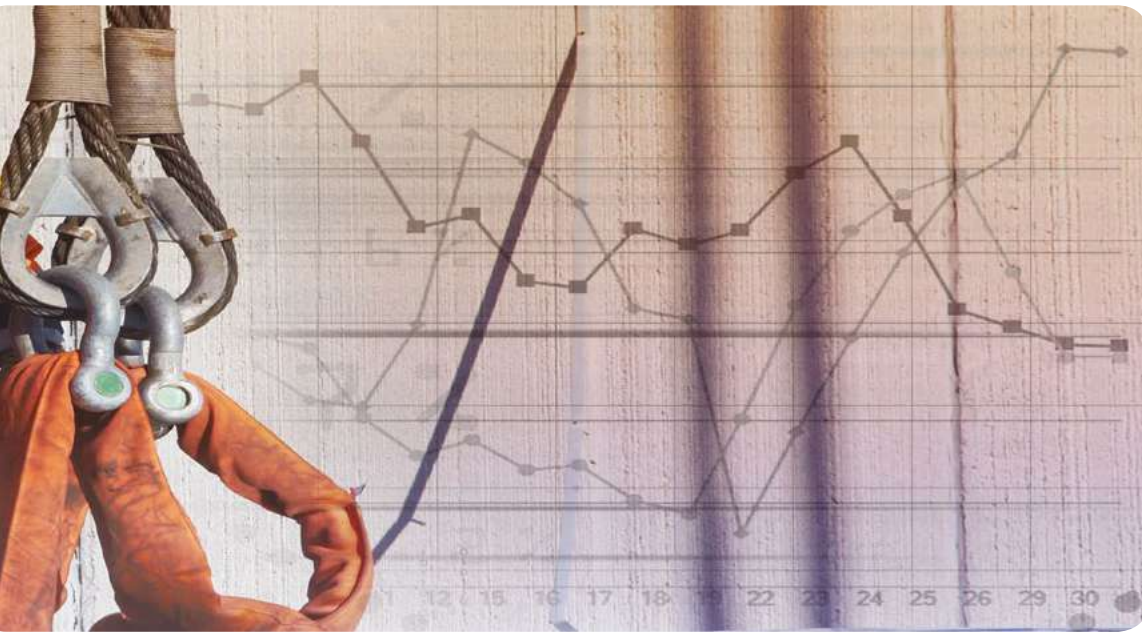
*Using constant dollar values (USD/BRL=3.5).
Source: ANP data and ISDB FlowTech projections.

Oil companies must channel 1% of their revenues from highly productive fields into R&D

At least 50% must be channeled through universities or research institutions (accredited by ANP)

Up to 50% may be channeled into R&D within the company itself or suppliers/startups

The "1% R&D Clause".



So far, significantly more funding has been channeled through institutions than through private companies. Current rules are still challenging towards private companies. Institutions are able to claim salary costs and a fixed 20% overhead, whereas companies can only recover salary payments for work hours spent strictly on technical project activities, with no coverage of admin costs or management time.

It is important to have a diversity of entities (private research institutes, technology-based companies and others) in the innovation system, and these entities are fundamentally different from universities, with different roles, cost structures, and funding requirements.

The current gap between the less dynamic culture of universities and the pragmatic and time-sensitive needs of the operators is putting pressure on the authorities to make the rules more flexible towards private companies and startups. The new government has indicated that it is positive to this.

Accessing R&D Funding

As a general rule, only entities established in Brazil (including subsidiaries of international companies) can tap into the ANP R&D Levy pot.

The initial wave of investment under the R&D Levy was disproportionately used to upgrade and expand lab infrastructure, with

some having turned into white elephants. This type of expenditure has now fallen out of favor.

The table below shows different approaches for securing R&D funding for activities in Brazil.



Mechanism	Description	Approach
ANP's 1% R&D Clause	<ul style="list-style-type: none"> • Largest R&D funding pool, with over USD300m to be spent in 2018 alone. • Currently 15 different oil companies must invest funds in R&D projects through this mechanism, with the number increasing with new operators starting Pre-Salt production. • 2017's top-3 investing companies were Petrobras, Shell and Statoil. • The awarded funds should cover costs incurred in Brazil. 	<ul style="list-style-type: none"> • Target relevant oil companies, showcasing the technology and assessing the interest for a joint project. • For technical projects, no prior approval is needed from ANP, so each oil company has the discretion to structure projects with external partners as they see fit.
Joint Call: Research Council of Norway and FINEP - Funding Authority for Studies and Projects	<ul style="list-style-type: none"> • Recent initiative, with the first joint call announced in 2016. • The second call was approved in January 2018 and ongoing, with NOK 20m available for Norwegian companies and institutes. • Norwegian and Brazilian R&D partners must apply together, although RCN will fund the Norwegian side of the project and FINEP the Brazilian one. • A new call is expected for 2019. • No need to allocate costs in Brazil/invest locally (ie, for the Norwegian entities). 	<ul style="list-style-type: none"> • Pre-engage with relevant Brazilian potential partners to secure the best possible match and increase the odds of being awarded a specific project. • Analyze the call documents as soon as they are launched to prepare the setup towards qualification.
Embrapii	<ul style="list-style-type: none"> • Hub-based approach with specific pre-accredited institutions being responsible for different technical disciplines as well as disbursement of funds. • More flexible set-up for international partners, which can be contracted without necessarily establishing presence in Brazil. • Example: 4Subsea Norway secured a large project via Embrapii, as part of a NOK20m+ project 	<ul style="list-style-type: none"> • Assess whether your specific technology can be matched with a specific technological hub within Embrapii. • Foster interest (both in Embrapii and with oil companies) to develop a specific project, mixing it (or not) with ANP's 1% framework.

CONTENTS

38	Introduction
39	Market Entry Considerations
41	Company Establishment
43	Petrobras Supplier Registration
44	Market Entry - Building Sales
46	Visa Requirements
48	Expat Issues
50	Sources Of Support And Financin





2: ESTABLISHMENT AND MARKET ENTRY

The Critical First 12-24 Months

INTRODUCTION

Brazil offers vast opportunities in the Oil&Gas and related industries. However, entering this market presents some specific challenges, which need to be met with equally specific solutions.



The Crucial First 12-24 Months

A new company should be up and running in about two months, and fully operational within a few weeks or months after that, depending on the complexity of the setup and product/service.

However, the first 12-24 months is a critical startup phase. It is by experience the most challenging period, with the highest probability of encountering administrative and bureaucratic challenges that may delay or even derail the entire operation. Therefore, special attention is needed during this period, with a focus on the issues mentioned in the chapters.

During this crucial period, the company will establish and adjust all administrative and operational systems, navigate the complex systems for financial transactions, taxes and authority reporting, hire and manage employees, get necessary licenses and keep on top of a complex legal framework that often changes, while at the same getting supplier certifications and building sales. All of this in a cultural context that is more challenging than it seems, and actually is one of the main reasons for non-successful establishment projects.

Experience shows that a common mistake is underestimating the administrative workload and legal complexity. Often, foreign expats can be drawn into time-consuming administrative issues instead of building the business. If the company starts out with a resource base that is too small, it can be very challenging to build the critical mass needed to get into a sales position. The support of experienced Brazilian resources is invaluable for understanding legal issues and cultural challenges. An important key to survival is having well defined and controlled processes for all business functions.

MARKET ENTRY CONSIDERATIONS

Dedicated Resources Need to Be Made Available

A successful market entry in Brazil requires dedicated support from the mother company in terms of personnel, resources and a long-term perspective.

It is not uncommon to approach Brazil with a “toe in the water” strategy, investing a minimum to see if interesting opportunities materialize. This would lower the short-term risk, but also pose a dilemma: In many cases a larger set-up is necessary to capitalize on market opportunities.

A chain of market dynamics: It is costly to operate in Brazil. To offset the extra cost, you need higher revenue. To handle higher-revenue opportunities, you need a higher operational critical mass. To be able to build higher critical mass, you need to enter the market with a larger footprint. Making resources available at the mother company is crucial. Dedicating key personnel's time to the Brazil project over a longer time is a major success factor.

ENTRY STRATEGY	YOUR OFFERING		
	PRODUCTS	PRODUCTS REQUIRING INSTALLATION/SERVICING	SERVICES
AGENT			
SUBSIDIARY			
JOINT VENTURE			

Entry strategy depends on your offering. In general, a higher service content means a higher need for a physical presence. The table is just a rough rule of thumb – any combination could be possible.

■ Good match
■ Workable

It is also important to get operational in Brazil as quickly as possible. There are numerous examples of foreign start-ups entering Brazil with a limited resource base, in some cases leading to situations where the company lacks the operational clout to break into the market while at the same time carrying the high cost of an expatriate manager for a prolonged period.





Business Set-Up According to Your Product/Service

The three common entry options are:

1. Agent/Representative
2. Establishing a Subsidiary
3. Joint Venture

In addition, acquiring an existing Brazilian company is a possibility. We will not describe the process here, as it is a different type of approach with its own, separate considerations. Foreign companies may be offered to buy a sleeping/newly established company in order to get started more quickly. However, the bureaucracy around necessary alterations of bylaws and registrations generally makes this just as time consuming and costly as starting a new company from scratch. In practice, this normally doesn't save time or money, and can add potential risks.

Brazilian Agent/Representative

Many Norwegian companies commercialize their products and services through a Brazilian agent or representative. This can work out well for suppliers that manage to become an important part of the portfolio of a focused and efficient agent.

Regarding contracts/agreements with representatives, make sure to be well



informed about the legal implications, in particular for clauses about contract termination. Brazilian legal support is advisable.

Advantages:

- Low investment costs
- The agent already has an established industry network, can follow up on opportunities and is familiar with Brazilian regulations, requirements and business practices.
- Less compliance risks

Disadvantages:

- Lower degree of control with the business development.
- Coordination and reporting issues.

Establishing a Subsidiary

Establishing a physical presence in Brazil is increasingly becoming a business advantage, for various reasons:

- A continuous presence is necessary to maintain and develop client relationships.
An agent might not be able to give enough attention to your company.
- In general: The higher the service content of your offering, the higher the need for a physical presence in Brazil.
- Invoicing from Brazil will avoid 25% of additional taxes levied on invoices from abroad (see the "Paying Taxes" chapter). (However, if the company intends to send the profit out of Brazil, the same taxes will apply).
- In some cases, products manufactured in Brazil could be more competitive on the Brazilian market than foreign products, facilitated by a lower salary base, import barriers and a relatively weak currency.

Joint Venture

Establishing a joint venture can be a good option where your company and a Brazilian company complement each other well. However, it will also add another layer of operational challenges on top of the normal Brazil issues. There should be a very specific reason to set up a JV instead of opening a subsidiary, given the additional coordination and administrative issues.



COMPANY ESTABLISHMENT

Brazil offers vast opportunities in the Oil&Gas and related industries. However, entering this market presents some specific challenges, which need to be met with equally specific solutions.

Setting up a company in Brazil is a time-consuming exercise, but over the last few years the processes have become more streamlined and the setup time has been more than halved. Around 45 days is a good rule of thumb for getting a new company operational. Still, the different steps need to be carried out with care and attention to detail, in order to avoid later delays.

Deciding on Company Type

Brazilian law allows for several types of corporate entities. In most cases a Limitada (Limited Liability Company) is the preferred option. In some cases the S.A. (Joint stock Company - "Sociedade Anônima") can be an option.

Limitada (Ltda.)

Simplified company of limited liability (Ltd), operating in many ways like an AS in Norway, except that a Limitada does not have publicly tradeable shares and is not required to have a board of directors. Further, there are no mandatory auditing requirements, and the operating costs are relatively low.

S.A.

Comparable to a Norwegian AS. This could be an option for larger companies with a more diversified shareholding, and with a need for easier access to external financing. An S.A. must be audited once a year.





Establishment Process

This is a brief overview of the process of establishing a company in Brazil. Each step has its own procedures and sub-steps, which depend on the specifics of the company. Also make sure to verify all regulations concerning the company's activity. For example, specific licenses are needed to import certain products, such as some chemicals, radioactives etc.

Initial Preparations

1. Select a company name and check availability.
2. Select a qualified attorney-in-fact to legally represent the foreign owner and prepare the power of attorney.
3. Register the foreign owner with the Brazilian Central Bank.
4. Collect necessary documents, such as the owner's Certificate of Incorporation.
5. The Power of Attorney and Certificates of Incorporation must be authenticated in Norway by a public notary and then legalized with an apostille stamp issued by the Country Governor's Office (Fylkesmannen). In Brazil, the documents must be translated into Portuguese by a certified translator.
6. Apply for a Brazilian company registration number ("CNPJ") for the foreign owner.

Legally Incorporating the Company

7. Draft the company's articles of association ("Contrato social") and establish the company by public deed (Limitada) or in a general meeting of incorporation (Corporation).
8. The newly formed company can then register its corporate acts with the local Board of Trade ("Junta Comercial") in order to obtain a company registration number ("NIRE").
9. Register for federal taxes, state taxes ("Inscrição Estadual"), receive a company tax number ("CNPJ").
10. Register the company with municipal tax authorities.
11. By completing this process, the company will also be automatically registered with the National Institute of Social Security ("INSS").

12. The company will now be automatically registered with the Government Savings Bank for social security purposes, "Caixa Economica Federal (CEF)", with an account in the Federal Unemployment Fund ("FGTS").
13. Depending on the area of activity, the company might need to apply for a specific environmental or sanitary license before obtaining the CNPJ. Receiving the CNPJ marks the start of the company as an independent legal entity and allows it to sign contracts. However, it can still not employ people or invoice customers. A few further steps are required to make the company fully operational.

Getting the Company Operational

14. Open a Brazilian bank account.
15. Register the paid foreign share capital with the Central Bank
16. Apply for permission to issue invoices.
17. Register with the Employers' Association and one of the Labor Unions, even if the company doesn't have any employees yet.
18. Register employees with the National Institute of Social Security ("INSS")
19. Register employees in the company's account with the Federal Unemployment Fund ("FGTS")
20. Notify the Ministry of Labor of employees
21. Apply to the municipality for an operations permit ("Alvará").

Corporate Capital Needs

There are generally no minimum corporate capital requirements in Brazil, except for a few specific sectors. The optimal amount will therefore depend on variables such as the type of activity, planned investments, working capital requirements, expected operational cash flow and risk profile. The amount of planned imports may also be a factor as import licenses are linked to an evaluation of companies' perceived financial solidity.

Although there is no specific requirement regarding the optimal amount of corporate capital, at least BRL 150.000 is recommended for service providers and significantly more for industrial players depending on the nature of their activity.

45 days is a realistic time frame to get a company operational.



PETROBRAS SUPPLIER REGISTRATION

Since mid-2018, Petrobras no longer requires that suppliers need to be pre-qualified in order to participate in bidding. Both the earlier CRCC certification and the Master Vendor List system have been abolished. Instead, bids are facilitated by a new online system open to all.

Overview

In the previous system, only pre-qualified (“CRCC certified”) suppliers would receive invitations to participate in bidding, and in many cases only if the supplier was also on the Master Vendor List Offshore (MVLO). It could take up to six months to get the CRCC certification, and then up to nine additional months for the MVLO (if the supplier was even approved).

With the new procurement law for Petrobras, all tenders/bids are public, and any company can ask to participate. This is part of a drive to increase openness and transparency in Petrobras procurement.

Since there is no pre-qualification, thorough background documentation is asked for in the bids. In order to reduce the time spent on preparing this documentation, suppliers can register online in the new CRC (“Cadastral Registration Certification”) system, where these documents can be pre-uploaded.

The CRC System

Supplier registration is done through the open online platform Petronect at www.petronect.com.br.

The registration is not a requirement in order to participate in bids, but saves time because the documents are ready for submission when a bid launches. If a supplier starts preparing this documentation from scratch only when the bid launches, the deadline might be very tight to assemble the documents.

Experience so far indicates that a reasonable timeframe for preparing the CRC documents would be 1-3 months, depending on the complexity.

- All new Petrobras bids are published on this platform (Portuguese only).
- Cost: BRL700 (~USD200) per year.
- Registered suppliers receive notifications about all opportunities in their category.
- Foreign companies without a subsidiary in Brazil need to have a legal representative in Brazil to register.



MARKET ENTRY - BUILDING SALES

It is of key importance to get operational as soon as possible, and set up a functional Brazilian organization that is able to support the commercial activities over time.

Free Up Key Resources for Commercial/Core Business

The commercial resources, which in many small subsidiaries could initially amount to just an expat manager, should be able to spend the bulk of his/her time focusing on core business and commercial activities. If the organizational footprint is too small, as discussed in the Market Entry Considerations chapter, a considerable amount of the manager's time may end up being spent on non-core administrative issues.

Continuous Presence and Customer Contact

In Brazil, more than in most places, to keep a momentum going and moving things forward it is necessary to meet people frequently face to face. A continuous presence in Brazil is key to the sales work.

It is not easy build sales from abroad, for example by visiting Brazil every few months. Maintaining the momentum and building the necessary relations is difficult if the personal contact is too infrequent. In this case, there is often a feeling of having to start over almost from scratch for each new visit.



Have a Long-Term Perspective

It generally takes time to build the necessary relations to get into a sales position. Persistency and patience are necessary, not least from the mother company that wants to see a return on the investment in Brazil.

Manage the expectations of headquarters management and the Board. It can be easy to get carried away after seemingly very positive meetings, but setting the expectations too high easily backfires.

Have the funding to do a concerted effort over time. Getting to the first sale often takes longer than expected.

Get the Basics Right

- Highly advised: Sales material, brochures and website in Portuguese.
- In meetings, make time for some friendly chit-chat about whatever topic before getting down to business.
- Make an effort to learn Portuguese, or at least some. The payoff for this in Brazil is very good. A small vocabulary goes a long way. (And in addition to connecting more easily to customers, your stay in Brazil will be richer at a personal level.)

Brazilian Sales Force

At least one Brazilian sales resource, ideally several, is indispensable. Both for bringing in their useful networks, connecting with potential customers, and to maintain a good frequency of sales visits.

Build an Industry Network in Brazil

Actively seek out meeting places and events to build a network of international and Brazilian industry people. This is rather obvious, but nevertheless important to keep in mind.



VISA REQUIREMENTS



Overview

Non-Brazilians need a visa to work in Brazil. The applicable work visas are listed in the table below. All of them are multi-entry visas. In addition, a foreigner may obtain permanent residency in Brazil by marrying or having a child with a Brazilian citizen.

Is it Necessary to Apply for a Visa for Regular Business Trips to Brazil?

Norwegians automatically receive a 3-month visitor's visa on arrival in Brazil. The maximum allowed stay is an accumulated 180 days per 12-month period. Business meetings can be carried out during this time, but the visa is not intended for work activities such as providing services to clients. It is not allowed to embark on offshore installations with only a visitor's visa.

Obtaining a Visa

The visa process involves a substantial amount of forms and attestations, as well as extensive interaction with relevant authorities. It is highly recommended to let a specialized company handle the visa process.

An application for a work visa is normally processed in about 45 days after all documentation has been submitted. An exception is the 180-day Technical Visa, which can be processed in 7 days.

Because of the work involved in preparing the documentation and collecting the visa, a realistic time frame for the whole process is around 2 months.

Brief Overview of the Visa Process

1. Necessary forms and attestations must be filled in according to the requirements, which vary between the different visa types. Non-Brazilian documents must be authenticated in Norway by a public notary and then legalized with an apostille stamp issued by the Country Governor's Office (Fylkesmannen).
2. All documents are sent to Brazil, where they have to be translated into Portuguese by a certified translator.
3. Translated visa documents are submitted for approval, with a processing time of around 45 days.
4. If the application is successful, the approved visa will be sent to a Brazilian embassy/consulate in the applicant's home country (or country of residence for the last 12 months), where it will be issued and collected by the applicant. The visa cannot be collected in Brazil. Time frame for issuing the visa is 5-10 days.
5. Within 30 days after arrival in Brazil, the visa holder must report to the Federal Police ("Policia Federal") for registration.

For permanent visa holders, the Policia Federal will issue the resident ID card. This can take another 6 months.



Visa Type	Validity	Description
Administrator Visa	Permanent (residency)	<ul style="list-style-type: none"> The expat is hired to become the administrator of a Brazilian company (typically, the Brazilian subsidiary of a foreign company). A foreign investment must be made to the Brazilian company. The details around amount and requirements are expected to change in 2019. (Previously, there were two investment options: BRL 150,000 with an obligation to hire 10 Brazilians within two years, or BRL 600,000 with no hiring obligations.) If the expat is transferred to Brazil from a company in the same corporate group, the salary cannot be lowered. The expat must receive the highest salary paid by the Brazilian company for the specific position.
Visa with work contract	2 years, but becomes permanent if renewed after this period	<ul style="list-style-type: none"> The expat must have a valid work contract with a Brazilian company. The number of foreigners in the Brazilian company must not exceed 1/3 of the total number of employees. The salary must not be lower than for Brazilians performing similar duties in the company. If the expat is transferred to Brazil from a company in the same corporate group, the sum of the salary and any supplement paid abroad must be equal to or larger than the last salary received before the transfer. Supplements paid abroad are taxable in Brazil.
Investor Visa	Permanent (residency)	<ul style="list-style-type: none"> A permanent visa can be issued to a foreigner investing in a Brazilian company with an aim to create employment for Brazilians. The details around amount and requirements are expected to change in 2019. (Previously, this amount has been BRL 500,000). Typically, the investor establishes a small company in Brazil and uses the investment as working capital. An investment plan must be submitted to and approved by the authorities. After the first 3 years, the visa is subject to renewal. If the company is still active, the investment plan has been carried out, and there are no tax-related or other irregularities, the visa becomes permanent.
Offshore Visa (“Visto de Trabalho para Marítimo”)	Two years, renewable	<ul style="list-style-type: none"> For foreigners working offshore, on foreign-owned platforms or vessels in Brazilian waters.
Technical Visa (one year)	One year, renewable for another year	<ul style="list-style-type: none"> For foreigners who will provide technical assistance to a Brazilian company.
Technical Visa (180 days)	180 days. An extension of 180 days may be applied for. Can only be issued once per 12-month period to the same person.	<ul style="list-style-type: none"> For foreigners who will provide short-term technical assistance to a Brazilian company.
Visa for Technology Transfer	One year, renewable for another year	<ul style="list-style-type: none"> For training of Brazilians and/or provision of technical assistance related to the purchase of equipment.

Work and residence visas.



EXPAT ISSUES

How Much Does an Expat Cost?

Based on benefit policy and the expat's family situation, the total annual cost of a Norwegian expat normally is in the range of NOK 2 - 4 million. This package normally includes apartment and other living costs, such as a car, school fees for children, home travel, and others.

Living costs

Housing costs in Rio de Janeiro and São Paulo are roughly comparable to Oslo.

The vast majority of Norwegian expats live and work in Rio de Janeiro, the petroleum capital of Brazil. Rio expats often opt for apartments in the Ipanema/Leblon neighborhoods, which are the most upscale (and expensive) areas. However, nearby neighborhoods are both pleasant, safe and with lower costs.

Rent for a 2-3 bedroom apartment in a good neighborhood in Rio de Janeiro would be roughly BRL 6,000 - 12,000 per month, with Ipanema/Leblon at the higher end.

Some other typical living costs:

Expense	Approx. Monthly Cost (BRL)	Comment
Car/Benefits	2,000	
School fees pr. child	5,000 - 8,000	Public school is not very feasible, and private schools are expensive. Many expat children attend the American School or the British School.
Electricity, internet, gas	1,000	
Health insurance	500 - 1,500	Company plans are cheaper than individual plans.

Some typical living costs



Practical Tips for New Expats in Brazil

Visa for Spouse and Children

An expat's spouse and children are included in the expat's visa. But a spouse can also obtain a work visa with the same duration as the expat's visa. Earlier, spouses could not work in Brazil, which was a major concern for many expats.

Finding an Apartment

Apartment prices are high in Brazil. Finding a good apartment is time consuming and could easily take a month or two. Standard rental contract length in Brazil is 30 months, with the possibility of moving out after 12 months without extra costs. Moving out before 12 months generally incurs a fine of up to 3 months' rent.

In Rio de Janeiro, virtually all expats are living in the Zona Sul area, with the great majority in the Ipanema or Leblon neighborhoods.

There are many real estate agents in Zona Sul which can assist in finding an apartment. The website www.zap.com.br and the Sunday edition of the Globo newspaper have comprehensive listings of apartments for rent.

In São Paulo, good areas include Jardins and adjacent neighborhoods, as well as Morumbi and a few other areas. The São Paulo traffic is congested, so it is generally a good idea to live close to the office.

Security

It is easy to get a negative impression of the security situation in Brazil through news reports. But in general, working and living in Rio de Janeiro or São Paulo is unproblematic, as long as some basic common-sense precautions are taken, such as avoiding poorer areas at night.

Opening a Bank Account

Opening a Brazilian bank account in general requires residency status, your CPF (tax registry) number and a proof of physical residence (such as a gas bill in your name) in the same state as the bank filial. Recommended banks include Banco Itaú and Bradesco, or international banks such as HSBC and Citibank.

Signing Contracts

All contract signing usually requires that your signature is verified and countersigned by a public notary office. Your signature needs to be registered at the same public notary office beforehand.

Vaccines, Health Services, Insurance

There is no requirement for specific vaccines for travelers to Brazil, but the Hepatitis A vaccine is recommended by the Norwegian Institute of Public Health (Folkehelseinstituttet, www.fhi.no). Most expats buy private medical insurance in the form of a health plan ("plano de saúde", usually included in the salary package). The monthly cost is normally in the BRL 500 - 1500 range, depending on benefits.

Certificate and Driving

Traffic in Brazilian cities can be dense, but otherwise not too difficult to navigate. The Norwegian driving license is valid in Brazil for 6 months after residency is granted. After 6 months, the license holder must get a Brazilian license. Converting a Norwegian driver's license to a Brazilian one is a fairly straight-forward and inexpensive process.

Barring language problems, encounters with the traffic police do not represent a problem for expats in Brazil.

...the total annual cost for an expat is normally in the range of NOK 2 - 4 million



SOURCES OF SUPPORT AND FINANCING

Norwegian companies preparing to expand internationally can benefit from several institutional sources of funding and support.



NORWEP – Norwegian Energy Partners

NORWEP (formerly INTSOK) was established in 1997 by the Norwegian Oil and gas industry and the Norwegian Government.

NORWEP is established to strengthen the long-term basis for value creation and employment in the Norwegian energy industry through expanding the industry's international business activities, by promoting Norwegian energy industry in overseas markets and provide market information to its partners.

NORWEP is mapping competence, technology and comparative advantages of Norwegian companies and matching it with customer demands internationally. They are improving competitiveness and reduce the risks related to international activities. NORWEP is a network organization bringing customer and suppliers together.

Services:

- Market information
- Priority project information
- Local Energy Advisor in Brazil, 5 days per year per partner
- NORWEPcube: An oilfield service database covering E&P purchases over the capex- and opex budget across all NORWEP Markets (plus Norway) with field level resolution
- Client seminars and workshops
- Network meetings
- Set up B2B meetings with partners and clients
- Norwegiansupplier.no: A partner capability database for marketing use towards clients
- One day per year of anti-corruption focus for each partner

www.norwep.com



Innovation Norway

Innovation Norway is the Norwegian government's official trade representative abroad, and supports companies in developing their competitive advantage and to enhance innovation. Regional offices can also assist companies with local establishment. Innovation Norway provides competence, advisory services, promotional and network services, as well as financing.

Financing options available for companies' internationalization:

- Grants
- Innovation loans
- Low-risk loans

www.innovasjon Norge.no

GIEK – Garanti-Instituttet for Eksportkreditt

GIEK is a public enterprise that reports to the Ministry of Trade, Industry and Fisheries. GIEK's mandate is to promote Norwegian exports and investments by providing long-term guarantees on behalf of the Norwegian state.

The guarantees are adapted to the needs of Norwegian export companies and foreign buyers, and cover political and commercial risks relating to loans issued by private or public financial institutions.

The guarantees may only be provided when Norwegian goods or services are delivered abroad, or when an export transaction promotes Norwegian value creation in some other way. GIEK guarantees financing for exports to countries worldwide.

GIEK is a supplement to the private banking and finance market and is required to break even over time. GIEK guarantees most of Export Credit Norway's loans to buyers of Norwegian exports.

www.giek.no

Export Credit Norway/ Eksportkreditt

Export Credit Norway is fully owned by the Norwegian government and is administered

by the Ministry of Trade and Industry. The institution provides competitive financing to Norwegian and foreign companies buying goods and services from Norwegian exporters.

Export Credit Norway manages the entire loan application process, including commitment, disbursement and monitoring of loans.

www.eksportkreditt.no

NBCC – Norwegian-Brazilian Chamber of Commerce in Rio de Janeiro

NBCC was established in 1995 as a non-profit and non-political association. Its purpose is to promote trade and good will, and to foster business, financial and professional interests between Norway and Brazil. The members are companies and individuals interested in developing these objectives. NBCC organizes luncheons, network dinners, seminars and meetings, and promotes its members among Brazilian industry leaders. NBCC publishes articles in media reaching the Brazilian business community, and members and industry friends receive a weekly newsletter.

www.nbcc.com.br

BNDES – The Brazilian Development Bank

BNDES is the main financial support instrument in Brazil for investments in all economic sectors. The Bank allocates special resources, preferably in the form of long-term funding and shareholdings, in addition to supporting undertakings that contribute to economic and social development.

Brazilian companies, including those with foreign capital (Brazilian subsidiaries of foreign companies), are eligible for support and investments in various areas including equipment for manufacturing, services, building facilities/plants, export of Brazilian machinery, and others.

www.bndes.gov.br

CONTENTS

- 54 Introduction**
- 55 Risks**
- 58 Cultural Differences - A Critical Factor**
- 62 Administration Of Brazilian Employees**
- 62 Paying Taxes**
- 69 Accounting**
- 70 Import**
- 73 Corporate Social Responsibility**



3: RUNNING A COMPANY IN BRAZIL

Successful Operation in the Long Term



INTRODUCTION



Running a company in Brazil is a work intensive exercise. Administration, finance, accounting and HR workflows have substantially more procedures, systems and reporting requirements than Northern/Western Europeans are used to.

The legal framework is complex, and regulations change frequently. This makes it necessary to closely monitor and adjust to changes.

The World Bank's "Ease of Doing Business" index for 2019 ranks Brazil as number 109 out of 190 tracked economies. As a general rule of thumb, business functions related to administration and financial management may require three times as many man-hours as in Norway.



RISKS

Doing business in Brazil exposes a company to other types of risks than in Norway. But the Brazil related risks are manageable and do not limit the operations of companies to a large extent.

Operational Risks

Running a company in Brazil poses a number of risks related to the different operational activities.

The main risks and mitigation strategies have been included in the relevant chapters of this guide. General issues that by experience have cost Norwegian companies considerable time and money include:

- Not managing cultural issues. This may seem like a “soft” issue, but has led directly to large losses for major Norwegian companies.
- Failing to manage the complex administrative/regulatory framework (particularly in a start-up phase).
- Not doing a thorough enough job with local recruitment (especially at management level).
- Not having a long enough time horizon for the market entry (it takes more time to get into a sales position than in some other markets).
- Trying to remote-control the operations from Norway without a setup in Brazil (very challenging).
- Not making dedicated resources available at HQ to follow up closely with the Brazil operation.
- Underestimating the need for a constant presence and frequent personal contact with buyers.
- Not doing proper background checks of partners and business counterparts (commonly skipped).

- Project delays are expected in construction projects, making long term planning key to successful operations.

Bribery and Corruption

You can easily run a business in Brazil without paying any bribes whatsoever. Corruption is a serious issue in Brazil, but is more often connected to large public projects such as infrastructure.

In 2018, Brazil was ranked 105 out of 180 countries in Transparency International's Corruption Perception Index (CPI). This is more than 30 places down in 5 years, largely due to the massive corruption scheme discovered in 2014, involving Petrobras, International Oil Companies, Government ministers and hundreds of Congress members. But one should not draw the conclusion that corruption permeates Brazilian society and business life, which is not quite the case.

Important public anti-corruption measures:

Anti-Corruption Law (Clean Companies Act)

This law was enacted in 2013 and for the first time made companies responsible for the corrupt acts of their employees. Earlier, only the involved individuals were prosecuted. With the new law, prosecutors do not need to prove that a specific employee carried out the payment.

This has facilitated the investigation of large corruption cases, and has led to large fines for companies, as well as non-monetary sanctions like being banned from doing business with public entities for a period.



In turn, this has resulted in an increased focus on compliance from the companies' side and better control mechanisms. The entry of new international operators and oil service companies is also seen to increase the chances of making the improved fair business climate prevail.



The “Lava-Jato” Investigation

Over the past five years many high-ranking politicians and executives have been prosecuted and given long jail sentences, something that has not been common. The so-called Lava-Jato investigation, which unraveled the massive oil-related corruption scheme in 2014, is still ongoing and has branched into other sectors and public entities.

Hundreds of people have been prosecuted during the course of Lava-Jato, and the investigation is considered to have significantly reduced the risk of corruption in oil and gas projects.

A legal instrument which is seen to have greatly helped the investigations, is the “plea bargain” which was enabled in 2013. Substantial penalty rebates may be given to offenders who collaborate with the investigation and identify others involved. This is quite a novel (Norway, for example, lacks this mechanism.)

Be Aware of

- Officials “creating a problem to sell a solution”. Public processes are complex, and it is not uncommon for a foreign company to discover that it has made a wrong turn or skipped a step in a procedure, only to realize that this is not easily reversible. When stuck, it can be tempting to buy a “quick solution” to resolve the problem. This should always be avoided. In addition to being illegal and unethical, it could result in even bigger problems further down the road.
- Middlemen or agents offering shortcuts for an extra fee. It is common to use middlemen (“despachantes”) to deal with the practical issues of the bureaucracy, but any shortcut for an extra fee is inadvisable. This also goes for licenses and permits etc. It is not necessary and can be very costly.

Handling the Problem

- The best way to avoid solicitations is to pay close attention to all the detailed steps and requirements of official processes. If all procedures have been followed, there is no “problem” where you can buy a “solution”. This also goes for customs clearance of imported goods – any minor discrepancy, for example in the shipping documents, can stall a shipment, and retrieval can be costly and time consuming.
- Fostering an anti-corruption mindset in the company and compliance of anti-corruption standards are important measures, and a clear management responsibility.

Legal Considerations

Brazil's legal framework is complex. Frequent changes in legislation and regulations can make long-term planning more challenging. The legal system is overburdened, and court cases can drag on for many years. Arbitration, although more expensive, is therefore often the recommended option for a company.



General Issues

- Local labor law is complex and onerous and requires careful handling to avoid incurring potentially expensive liabilities.
- The legal framework changes frequently, and needs to be monitored closely in order to avoid inadvertently breaking regulations.
- For understanding the legal implications of regulations (or complex contracts), Brazilian legal assistance is crucial.
- For regular day-to-day business proceedings, there is normally little need to involve lawyers. Many law firms offer outsourced business services that go beyond legal advice, including company administration, tax payments, etc. However, running an active business requires specific administrative experience that many law firms would have less of, possibly leading to delays and higher costs.

Contract Issues

Contracts tend to be simple, as Brazilian law provides a set of rules and requirements which need to be complied with and are enforceable by law, whether provided in the contract or not.

However, main contract principles must be paid attention to:

- Payments must be specified in Brazilian currency. There is the possibility, though, to provide payment in Brazilian currency in amounts equivalent to determined amounts defined in foreign currencies.
- Governing law: In domestic contracts, the governing law is always Brazil's. However, in international contracts the parties may in principle choose the applicable law of the country deemed most appropriate. If the contract does not specify applicable law, the Brazilian Law provides that the applicable law for that contract is that of the place of its execution.

- Arbitration: the parties may choose the place and rules of the arbitration freely, provided that it does not breach good customs and public order. Arbitration has turned into the preferred option for more sophisticated businesses in Brazil, as the country does not have courts specialized in corporate law (as the Dutch and Delaware systems for instance), and its courts are heavily backlogged.
- Contract language can be any, as long as the contract is translated into Portuguese by an authorized translator and registered at the Registry of titles and Documents before being enforced in Brazil.
- Generally, the signature of two witnesses is required.

Property Law

Foreign companies establishing a subsidiary may want to buy a property, in particular if setting up production. Buying a property in Brazil is a time-consuming process, and the administration of properties is complex. Each case depends on factors related to the specific property, and it is therefore difficult to give an exhaustive list of risks. But a few pieces of general advice for buyers are:

- Do NOT buy a property unless the seller is able to provide the title deed ("Escritura"). Seek competent advice on whether the deed has been properly registered with the authorities.
- Do proper background checks on any pending tax and other issues regarding the property. You will need assistance for this, as it involves collecting information from a wide range of institutions and registries.
- Some properties have limitations on what the property can be used for, due to environmental or other restrictions. This needs to be verified with the authorities prior to making any construction plans.





CULTURAL DIFFERENCES - A CRITICAL FACTOR



It is easy for Norwegians to underestimate the impact of cultural differences. However, mismanaged cultural issues is one of the main contributing factors to failed establishments and unsuccessful market entries in Brazil.

Major Norwegian companies have reported losses amounting to hundreds of millions of NOK, in a large part related to faulty communication between Norwegian headquarters and the local management team.

It cannot be stressed enough: Not managing the cultural issues can and in most cases will have a direct, negative impact on the bottom line.

Culture may seem like a “soft” topic compared to “real”, tangible operational challenges. But if there is one piece of advice in this report that should be remembered, it is to take the cultural aspect very seriously.

Differences

Norwegians tend to connect very well with Brazilians at a personal level, sharing a similar easy-going, informal and friendly manner of communication. Based on this, it can be difficult to imagine, or even believe, that the two countries’ cultures in terms of doing business are practically opposites, in fact almost as far apart as they could be.



Brazilian Business Culture, From a Norwegian Point of View

Building Trust Takes a Long Time

After positive initial meetings, Norwegians will often assume quick development of the partnership. Brazilians need considerably more time than Norwegians in order to build sufficient trust to do business. Norwegians tend to build trust in others very quickly (which is not always to their advantage), and believe that the partnership is making good progress towards an imminent breakthrough.

At the same time, the Brazilians might not feel fully committed to the project before they have built the necessary trust, and will wait before investing substantial time and resources. Time passes, and the Norwegians will often feel frustrated at the lack of progress. Eventually, the project might even be terminated before it, in the Brazilians' minds, has really started.

Key point:

- Be in it for the long term, have the patience to build trust over time.

Relationships Are Crucial

Brazil has a relational culture, Northern/Western Europe has a transactional culture. In Brazil, the personal relations are crucial to getting anywhere, and the relational network is much more extensive than in Norway.

Northern/Western Europeans can feel that people from Latin cultures can be more difficult to trust - "Will they be objective enough?"

People from Latin cultures can feel that Northern/Western Europeans can be more difficult to trust - "Will they help me when I really need it?"

Key points:

- Invest time and effort in building longterm relations.
- Norwegians are e-mail people, Brazilians are phone and face-to-face people. Meetings and phone calls move things forward. An e-mail may not do that. "If it's important, they will call me."

- Organizational hierarchy can be complicated because of alliances and relationships. Try to find out who really has the decision making power.

You May Not Receive Bad News

Brazilians will try to not offend others, which is important in a relational culture. This may, however, sometimes lead to a reluctance to transmitting bad news, so as to avoid being seen as confrontational or offensive. Often, it may seem better to try to solve the problem before the manager even notices. Brazilian managers will nevertheless often pick up these signals from the context and cross-check the information with other sources in their richer network. Norwegian managers often won't. The information might finally reach them when the problem has grown to a size where it's obvious. By then, it would generally be more costly (or not possible) to resolve.

Good news, on the other hand, will be expressed with a conviction and optimism that Norwegians can also misinterpret, perceiving that the situation is better than it really is.

Key points:

- Actively seek information.
- Invest more time in verifying.
- Learn to pick up subtle signals (this is challenging).

Opinions Are Often Stated as Facts

This is at the top of the list of miscommunication between Norwegians and Brazilians. A statement like "Action X is performed like this" may often better be understood as "I am fairly certain action X should be performed like this", or "my opinion is that...". A Brazilian will pick up the signals and understand when to cross-check the information. A Norwegian would take the statement as a verified fact, which can often lead to confusion.

It's important to realize that Brazilians do this with a positive intention to help. They are actually going out of their way, offering their best opinion or solution even if they don't have the answer to your question.



The easiness of connecting hides the fact that Norwegians and Brazilians bring very different mindsets to the table.

Key point:

- Always cross-check important information.

Higher Power Distance

Norwegians tend to minimize the hierarchical power distance between managers and subordinates ("the boss should be one of the guys"). Brazilians tend to maximize the distance ("the boss should be a clear leader and decision maker.")

As a result of this, Brazilian staff may perceive it as more risky to take independent initiatives or do a task not explicitly assigned by their supervisor. This does not imply lower work ethics or lower willingness to assume responsibility. Brazilians are hardworking and dedicated. It implies a higher inherent risk of possibly contradicting the will of the decision maker or undermining their authority.

Key points:

- Communicate your intentions in a clear way. The approach of involving subordinates in processes and decisions is appreciated, but can sometimes also test their patience by being time consuming.
- If you are Northern/Western European and have a Brazilian manager: Distinguish between a close personal relation and a somewhat more distant professional relation. (This is a generalization.)

Low Tolerance for Uncertainty

Maybe contrary to what a Norwegian would expect, Brazilians have a lower tolerance for uncertainty than Norwegians. This means that Brazilians tend to be more comfortable when authorities, responsibilities and tasks are clearly defined. This is also reflected in Brazilian laws and regulations, which often aim to reduce uncertainty by regulating the possible scenarios at a very detailed level.





Key points:

- Communicate clearly.
- Define responsibilities in a clear way.

Emotions

Brazilians are more driven by emotions than Norwegians. Emotions are displayed, which is not always the case in Norway. This often increases the level of enthusiasm and energy, but can also pull in the other direction.

Key point:

- Express yourself in a more diplomatic way than you might do in Norway, especially when giving negative feedback on something. What is considered a direct, constructive and factual feedback in Norway is more likely to be taken personally in Brazil.

Corruption

Examples of corruption are often published. However, this is mostly related to cases where big public money is involved, and is not indicative of the general business culture. It is not a problem to run a business in Brazil without paying any bribes whatsoever.

See chapter "Risks" for more details.

Global Cultural Types

According to sociologist Richard Lewis' acknowledged theories on cultural differences, the world can be divided into three main cultural types:

- Linear-active: Western Europe, North America
- Multi-active: Southern Europe, South America, Africa, Arab countries.
- Reactive: Asia.



LINEAR-ACTIVE

- Talks half the time
- Gets data from stats, research
- Plans ahead step by step
- Polite but direct
- Partly conceals feelings
- Confronts with logic
- Dislikes losing face
- Compartmentalizes projects
- Rarely interrupts
- Job-oriented
- Sticks to the facts
- Truth before diplomacy
- Sometimes impatient
- Limited body language
- Respects officialdom
- Separates the social & professional
- Does one thing at a time
- Punctuality very important

MULTI-ACTIVE

- Talks most of the time
- Solicits first-hand info from people
- Plans grand outline only
- Emotional
- Displays feelings
- Confronts emotionally
- Has good excuses
- Lets one project influence another
- Often interrupts
- People-oriented
- Juggles the facts
- Flexible truth
- Impatient
- Unlimited body language
- Pulls strings
- Mixes the social & professional
- Multi tasks
- Punctuality not important

REACTIVE

- Listens most of the time
- Uses both data and people sources
- Looks at general principles
- Polite and indirect
- Conceals feelings
- Never confronts
- Must not lose face
- Sees the whole picture
- Doesn't interrupt
- Very people-oriented
- Statements are promises
- Diplomacy over truth
- Patient
- Subtle body language
- Networks
- Connects the social & professional
- Reacts to partner's action
- Punctuality important

Typical differences, according to the Global Cultural Types model. (Source: Richard D. Lewis)



ADMINISTRATION OF BRAZILIAN EMPLOYEES

Brazilian labor law is rigid and complex, and poses various administrative and HR related challenges for employers. In addition, considerably more time is needed for normal business activities than in Norway





Position	Monthly Salary (BRL)	Experience
Receptionist	2,000	
Executive Secretary	2,500 - 4,000	
Sales Assistant	3,500	2 years
Financial Manager	12,000 - 20,000	5-10 years
Technical Sales Manager	12,000 - 20,000	5-10 years
General Manager	20,000 - 30,000	10-15 years
Engineer*	4,000	Recent university graduate
	4,500 - 6,000	1-5 years
	6,000 - 12,000	5-10 years
Engineer with oil/gas management experience	8,000 - 12,000	Project Manager role, 5 years' experience
	15,000 - 30,000	Branch Manager role, 10-15 years' experience

Typical salary costs for some professions in small/mid-sized Brazilian companies. Salary ranges may vary considerably, depending on sector and company.

**) For offshore work, a supplement of up to 90% is added to the fixed salary, depending on the chosen salary model.*

Higher Staffing Needs

Brazilian administrative processes are more labor intensive than in Norway. As a general rule of thumb, around 3 times the manpower as in Norway is necessary for the same business functions, due to the amount and complexity of processes and reporting. This may not be intuitive for Norwegian management, but it must be taken into account that the company will spend considerable time on administration, in particular related to accounting and paying taxes.

Salaries and Employee Costs

Basic administrative staff is substantially less costly in Brazil than in Norway. Specialized personnel like engineers and managers start off at lower salary levels than in Norway, but as they reach senior positions, salaries will match or even surpass Norwegian levels.

The social costs for each employee amount to approximately 80% of the gross salary. Considering other common benefits, including meal tickets, transportation allowances and private pension plans the total cost of an employee is around 2x the gross salary

Below is an overview of typical gross monthly salaries in BRL for Brazilian staff, not including social costs. The social costs are about equal with the salary, so the total cost of employment is 2x the number in the table.



Non-Mandatory, But Common Benefits

Typical monthly cost per employee:

- Health and dental insurance: BRL 500 - 1500
- Life insurance: BRL 120 - 250
- Lunch: BRL 500 - 1200

Key HR Regulations

Work hours: Maximum 8 hours per day and 44 hours per week. In most companies the workload is 40 hours per week.

Entitlements:

- "13th salary": Payment received at the end of the year, equivalent to one month's salary.
- Vacation allowance, equivalent to 1/3 of one month's salary.
- Vacation: 22 work days after each 12-month working period. No vacation entitlement during the first 12 months of employment.
- Maternity leave: 120 days, extendable to 180. Paternity leave: 5 days.
- Minimum monthly salary: BRL 998 (2019), adjusted annually.

Terminating a Contract

Brazilian employees are very well protected by the labor laws. In fact, it is not uncommon for former employees to sue former employers for any real or perceived breach of regulations. These cases are time consuming, and the verdict is almost always in favor of the employee.

The best way to avoid grounds for lawsuits is to ensure that all labor regulations are strictly adhered to. The legal framework is complex and can change quickly.

Individual contract agreements may be terminated at the end of the determined period or by notice from either the company or the employee.

A terminated employee is entitled to receive (a) the remaining salary balance, (b) the corresponding payment for vacations not taken, and (c) a proportional amount of the 13th salary (see above) equivalent to the number of months worked during the calendar year.

If a fixed-term contract is terminated without just cause, the employer must pay damages equivalent to 40% of the accumulated FGTS (severance fund) balance. If the contract has an indeterminate duration, the terminating party must give prior notice of at least 30 days.

An employee who is elected as a union leader or representative cannot be terminated before one year after the expiry of the position, unless the employee commits a serious fault under the terms of the law.

Expectant mothers and employees that have been away from work due to a work accident cannot be terminated for that reason alone.

Outsourcing of Functions

Some functions, like accounting services, are commonly outsourced to individual companies. But it can also be very worthwhile to consider outsourcing administrative and back-office functions like payroll, HR, financial and tax management. In this case it is necessary to be able to follow up and evaluate the quality of the outsourced services, which can vary considerably.

Benefits:

- Do not have to build in-house capacity.
- Frees up time for managing operational issues.
- Leaner organization.

Drawbacks:

- Quality may vary considerably between suppliers, so a thorough background check is necessary.
- Need to be diligent with communication/coordination with the supplier.

...the total cost of an employee is around 2x the gross salary.



PAYING TAXES



Brazil has one of the world's most complex and time-consuming tax systems. The World Bank's "Ease of Doing Business" index for 2019 ranks Brazil as number 184 out of 190 tracked economies in the category "Paying Taxes". A main reason for this is the workload involved, estimated to be the highest in the world by far.

Tax reform is expected to be a priority for the new government from 2019. This is long overdue, but also a complex area with many vested interests. It is expected that getting such a reform approved by Congress and then implemented across all levels of administration will have a timeframe beyond the short term.





Corporate Tax Types

Direct taxes

Around 34% of taxable income for most businesses, but the calculation of taxable income depends on the tax regime (see the “Tax Regime” paragraph below).

VAT

There is no uniform Value Added tax (VAT) in Brazil, but instead a range of indirect taxes, depending on the nature of the product or service. These taxes are levied when purchasing, creating a tax credit which is deductible when reselling the product/service.

Service Tax

Levied on services not covered by the VAT type taxes. Generally 5% of invoice value but it can be as low as 2% depending on the activity and municipality. Does not create tax credit.

Other Taxes

A whole range of taxes, including social costs for employees, property taxes, vehicle taxes, credit operation tax, etc. Not treated in detail in this guide due to their complexity.

Overview of Main Taxes

Tax Type	Tax	Description	Tax Level	Value
Direct taxes	IRPJ	Corporate Income Tax	Federal	<ul style="list-style-type: none"> 15% on all annual taxable income up to BRL 240,000 25% on any annual taxable income above BRL 240,000
	CSLL	Social Contribution on Net Profits	Federal	<ul style="list-style-type: none"> 9% on all taxable income
Taxes similar to VAT	IPI	Excise tax on the sales value of imported or manufactured goods	Federal	<ul style="list-style-type: none"> 0-30%, depending on product. A few products can be taxed at up to 300%.
	PIS/COFINS	Social Integration Programme (PIS) and Contribution for Social Security Funding (COFINS), levied on total invoiced value	Federal	<ul style="list-style-type: none"> For companies in the “Actual Profit” tax regime: PIS=1.65%, COFINS=7.6% For companies in the “Presumed Profit” or “Simples” tax regimes: PIS=0.65%, COFINS=3% (no tax credits)
	ICMS	State Value Added Tax, levied on import and circulation of goods, and on certain services like telecom, electricity and inter-municipal transport.	State	<ul style="list-style-type: none"> Statutory rate: 20% Ranging from 7-20% depending on case and state
Service Tax	ISS	Service tax on the invoiced value of services. Levied on most services, except those already included in the ICMS tax.	Municipal	<ul style="list-style-type: none"> 5% in most municipalities, including São Paulo and Rio de Janeiro. Can be as low as 2% in certain municipalities and for certain services (municipality tax incentives). Services sold to foreign entities are in principle exempt of ISS. Cumulative tax, credits are not deductible.

Main corporate taxes.

*) Tax losses can in principle be carried forward indefinitely. However, previous tax losses can only offset up to 30% of the profit of any given tax period (3 months or one year depending in setup). Furthermore, non-operating tax losses can only be offset against non-operating profits. Any tax losses carried forward will be lost if the company changes control and business activity at the same time. In mergers and acquisitions, tax losses carried forward from one company cannot be offset against the profits of the other.



Selecting a Tax Regime

Once a year, corporate taxpayers can choose the most suitable tax regime for their operations. The Tax Regime defines the tax base (i.e., definition of taxable income) and hence the overall effective tax rate. The tax regimes available for a local subsidiary with a foreign owner are:

- Actual Profit**
 The most common regime, used by most medium and large companies in Brazil. Taxable income = Earnings Before Tax + Non-Deductible Expenses - Non-Taxable Income.
- Presumed Profit**
 More relevant for high-margin businesses. Taxable Income is set to a fixed percentage of Gross Revenue, independently of the actual result. The percentage is 32% for service companies (except for transportation (16%) and health services (8%)), and 8% for commerce and industry.
- Simples**
 Not common for subsidiaries of foreign companies. Only available for small companies with a Gross Revenue of less than BRL4.8m/year. Replaces most Brazilian taxes including Income Tax, PIS/COFINS, IPI and ICMS. The tax is calculated as a percentage of Gross Revenue, depending on sector and size of Gross Revenue.

Selection Criteria

If the EBIT margin is expected to be >32% for services or >8% for products, Presumed Profit would be better, as the taxable income is capped at these rates. In general, for all other cases Actual Profit would be the best solution.

Tax on Dividends

Tax on dividend is 0%. Brazil does not levy taxes, including income tax, on dividends taken out of a company by its owners in Brazil.

Norwegian tax implications if the dividend is transferred to Norway:

- A Norwegian company receiving dividend from a foreign subsidiary will have to pay income tax in Norway on 3% of the dividend amount.
- For individuals: treated as income if the individual is a tax resident in Norway.

Tax on Capital Gains

Companies: Capital gains are added to the regular income and taxed as such.

Individuals: 15% on capital gains, except for dividend income from local companies, which is tax exempt.

Tax Implications if Invoicing from Abroad

In general, 25% tax is levied on payments made by Brazilian companies/entities to foreign ones (15% withholding tax + 10% "CIDE" tax).

Tax	Description	Value
Withholding tax	Levied on all income earned by a non-resident from a Brazilian source, including technical and administrative services, interest payments, capital gains and royalties	15%
CIDE	Economic Intervention Contribution, levied on technical and administrative services, interest payments, royalties, technology transfer and technology license agreements	10%

Tax on payments from a Brazilian source to a non-Brazilian entity



Individual Income Tax for Expats

In Which Country Will You Pay Taxes?

Norway and Brazil have agreed on a tax treaty which determines where residents shall pay taxes on each type of income. The aim is to avoid double taxation.

Expatriates are considered Brazilian tax residents and are therefore taxable in Brazil when:

- Entering Brazil with a permanent visa, or a temporary visa based on a local work contract.
- Spending at least 183 days in Brazil, consecutive or not, in any 12-month period with a temporary visa not based on a local work contract.

A Norwegian resident receiving a salary for work done in Brazil for an aggregate period of more than 183 days in any fiscal year shall only pay income tax on those revenues in Brazil.

Any income earned in Norway for work carried out in Norway during the same year shall on the other hand be taxed in Norway. The individual situation of an expat moving to Brazil will, however, have an individual impact on tax and social security contributions. Detailed planning is necessary to avoid additional tax and social security costs.

Income Tax

Yearly income exceeding BRL 55,977 is taxed at 27.5%; lower incomes are taxed progressively as shown in the table below.

Special Tax Deduction Programs

Some states and municipalities offer tax deductions for companies established within their borders, based on the nature of the business. A case by case analysis is necessary to evaluate the impact for any given company.

Norwegian residents generally pay income tax in Brazil and not in Norway on salary for work performed in Brazil.

Yearly Income (BRL)	Applicable Tax
0 – 22,847	0%
22,848 – 33,919	7.5%
33,920 – 45,012	15%
45,013 – 55,976	22.5%
55,977 and above	27.5%

Personal income tax levels.



ACCOUNTING

Brazilian Law is very specific when it comes to taxes and accounting. All companies must use a licensed accountant to prepare and sign the various monthly and yearly account reports required by the authorities.



Normally, the accounting function is outsourced to an accounting firm, which also calculates taxes and prepares tax statements. It is important to verify the accountant's numbers against the balance sheet, as minor discrepancies tend to occur.

Brazilian Accounting and Financial Terminology

Brazilian GAAP vs. Tax Accounting

Although Brazilian GAAP (Generally Accepted Accounting Principles) and IFRS (International Financial Reporting Standards) are virtually identical, this does not make life any easier for foreign investors in the Brazilian offshore and maritime sectors. The reason is that most small and medium sized companies in Brazil do not prepare their accounts according to Brazilian GAAP. Instead, they follow the fiscal accounting standards which can differ significantly from the actual financial figures.

Accounting of Revenue

In Brazil, revenues are accounted for in a different way than in Norway or other countries with similar GAAP. In Brazilian tax accounts, sales are booked at gross values with direct taxes registered as contrarevenue accounts. For that reason, company revenues will generally be presented in gross terms.

Audits

Audit requirements depend on company type:

- For a Limitada (Ltda.), typically small and medium sized businesses, auditing is voluntary and optional.
- For an S.A., typically larger companies, annual audits are mandatory. See also Deciding on Company type, page 29.

The four big worldwide auditing companies, Ernst and Young, KPMG, Deloitte and PWC are all present in the Brazilian market and offer these services. There are also a number of Brazilian options.

In Brazil, the auditing standards are set by the Federal Accounting Council (CFC) and the Institute of Independent Auditors of Brazil (IBRACON). Brazilian accounting practices tend more and more to follow the International Standards on Auditing (ISAS) issued by the International Auditing and Assurance Standards Board, but some small differences prevail.





IMPORT



Importing into Brazil is not a straightforward process and every transaction should be critically and thoroughly analyzed prior to confirming an overseas shipment.

First Step – RADAR

To be able to import goods, a locally established company needs to obtain a RADAR (importer registration) to access the online system called SISCOMEX. There are two RADAR levels:

1. Limited: This version is normally granted to first-time applicants until they fulfill the requirements for higher import levels. The value thresholds are based on financial capability criteria, with limits ranging from USD50,000-150,000 per 6-month period (ie CIF aggregated value for all import transactions taking place in such a period). This license is fairly straightforward to obtain. The time frame is around 30-60 days after all documentation has been submitted.
2. Unlimited: More complicated than getting the limited version. One of the additional requirements normally imposed by the customs authorities is that the company has a working capital equivalent to at least 12 months of estimated imports. Time frame is 60-90 days after all documentation has been submitted.

Standard Clearance Requirements

Brazil has some of the most strict and detailed procedures for importing goods into the country. Importers can even face fines for noncompliant documents.

The following are standard requirements for any formal clearance transaction:

- The Waybill has to include the consignee's CNPJ/TAX ID Number, and the consignee must be in possession of a valid RADAR (see above).
- Packing List and Commercial Invoice: original copy signed in blue ink, and following the detailed instructions sent by the local customs clearance agents, including:
 - Full Description of each item and tax code
 - Unit costs, quantity and currency
 - Applicable INCOTERM
- Import license (granted prior to shipment of the goods): applies to specific goods depending on the tax classification (NCM).



Shipping & Customs Clearance

Clearance Parameters

When a shipment arrives, it will be sorted into one of these clearance categories. Small errors in supporting documents may change the category and result in delays.

- Green light: Cargo is automatically cleared by SISCOMEX
- Yellow light: Clearance is paused and all shipping documents are thoroughly analyzed.
- Red light: Imported cargo will undergo physical inspection along with a detailed analysis of the shipping documentation.

Shipping Advice

- Always alert the consignee in advance prior to any shipment
- Request consignee's approval for any shipment over USD 3,000 dollars
- Be very precise when declaring goods through the specific shipping documents

Trading Companies

These specialized companies play an active role in the import of goods due to their practical experience and knowledge of operational and documentation aspects. Trading companies may work as advisers or even by importing products on behalf of Brazilian companies that may not have the desired limits within their own RADAR registration.

Import Taxes

Brazil has rather protective policies towards international trade, with customs barriers in the form of high import taxes. In general, every cargo or package shipped to a Brazilian company is taxed, except for documents and books.

The classification of goods follows the standard Mercosur harmonized nomenclature, commonly known as NCM codes.

The table below shows an overview of the taxes levied on imported goods in Brazil. Except for the Import tax (II), the amount paid for these taxes will be taken as credit by the importer and offset against the taxes due in subsequent transactions.

Tax	Description	Value
II	Import Tax, levied on CIF value (customs value + insurance + freight)	<ul style="list-style-type: none"> • Depending on product type, generally up to 35%
AFRMM	Merchant Marine Renewal Tax. Only applies to imports by sea; levied on the value of ocean freight as per the Bill of Lading	<ul style="list-style-type: none"> • 25%
PIS/ COFINS	Social contribution taxes, see the "Paying Taxes" chapter for details	<ul style="list-style-type: none"> • 9.25% combined rate
IPI	Excise tax, see the "Paying Taxes" chapter for details	<ul style="list-style-type: none"> • 0-30%
ICMS	State Value Added Tax, see the "Paying Taxes" chapter for details	<ul style="list-style-type: none"> • Generally 20%, but may vary between states

Import taxes



REPETRO

REPETRO is a special customs regime that permits the suspension of payment of federal taxes due on importation of equipment and materials temporarily admitted to Brazil, in order to be used in Oil & Gas activities. REPETRO expires in 2020, but the tax benefits have been extended through the similar program REPETRO-SPED until 2040 (see below).

Main Benefits

1. Suspension of federal taxation (II, IPI, PIS/COFINS), and possible state tax exemption (ICMS), on import transactions involving equipment, spare parts and other inputs for the manufacturing in Brazil, normally within a bonded area.
2. After the manufacturing, suspension of federal taxation on the "symbol export", in which foreign company may purchase the final goods that are delivered in Brazil through an import transaction.
3. Suspension of federal taxation on the import of equipment and materials under "temporary Admission" to be used in the Oil & Gas activities.

Eligible Goods

Goods that may qualify for REPETRO:

- Machinery, instruments, tools and equipment to be used in the exploration and production of oil and gas.
- Drilling and production platforms, support and storage vessels.
- Special equipment and structures in relation to platforms.

Eligible Companies

Companies which may qualify for REPETRO:

- Companies holding a concession or authorization to carry out activities of exploration and production of oil and natural gas in Brazil
- A legal entity contracted by the concessionaire for the provision of services aimed at the completion of the activities envisaged in the authorization/concession.

Requirements for goods imported through REPETRO:

- The goods shall be imported without exchange cover.
- The supply contract must foresee the period that the goods will remain within Brazilian territory. The admission of the goods under REPETRO will be granted for the same period as stated in the supply contract.
- The duration of time the goods remain in Brazil may not exceed the term stipulated in rental or loan agreements. It is important to note that if the goods that are subject to tax suspension treatment do not leave Brazilian territory after expiration of the contractual term, the federal tax suspension will expire and the taxes will be due just like on a regular import operation, and fines may be applied.
- Beneficiaries must have a specific system to identify and control the assets temporarily admitted from abroad, as well as domestic assets covered by the exportation, as long as they remain in the regime in Brazil.

REPETRO-SPED

REPETRO-SPED is the extension of REPETRO, which expires in 2020. REPETRO-SPED will run until 2040.

Implemented in 2018, REPETRO-SPED applies to imports of goods on a temporary or on a definitive basis and to domestic purchases of goods to be used in E&P activities.

The benefits also cover imports (on a permanent basis) and purchases of goods from local suppliers.

The tax suspension regime for the Definitive Import system is not extended to offshore support vessels (OSVs) or those used in domestic navigation.

Eligible Companies

The following entities are eligible to benefit from REPETRO/ REPETRO-SPED: (i) E&P companies; (ii) their direct suppliers while taking part in relevant activities down the E&P chain, as well as (iii) other sub-contracted companies, following the same logic as above.





CORPORATE SOCIAL RESPONSIBILITY

A good way of profiling the company in Brazil, while at the same time making a real difference in the lives of many Brazilians.

Despite socio-economic advances over the last decade, Brazil is still a country marked by extreme social inequality. Many of the millions of Brazilians at the less fortunate end of the scale face almost insurmountable challenges to improving their own situation. A little help from the private sector has an immediate impact on people's living conditions.

Tax Benefits

The Brazilian government has created the "Rouanet Law", which permits companies to donate money to approved social, cultural or sports related projects, and be able to write the donation off against tax discounts (up to a ceiling). According to the Ministry of Culture, around USD4bn has been donated through the Rouanet Law since the start in 1991.

Examples of Norwegian-Brazilian Projects

Karanba

The Karanba project was created in 2005 in Rio de Janeiro by Tommy Nilsen, a former professional football player for Lyn Oslo. The project has gained national attention in Norway through TV documentaries.

After discovering Rio de Janeiro's huge social differences, Tommy decided to initiate a project where football could provide life opportunities for children and adolescents from the favelas (slum cities), often governed by violent drug gangs.

Karanba's vision is to use football as means of guidance, and to pass on values and attitudes which will enable the youngsters to overcome obstacles in their life in a constructive and future-oriented manner. The objective is to give them hope and belief by doing something positive, as an expression of the role sports can play in social progress.

The project has the support of a number of major Norwegian companies in Brazil and Norway, as well as individual supporters.

www.karanba.com

Dream, Learn, Work

Dream, Learn, Work (DLW) is a CSR project initiated by a group of large Norwegian companies.

The idea was to create a project that would have a practical impact on the Brazilian society. Their solution was DLW, an institution that provides young Brazilians with a better future through education. DLW provides courses ranging from elementary education to tailor-made oil/offshore technician programs at a professional level.

Brazil lacks skilled labor within the maritime & offshore industry, and DLW is a project designed to contribute to solving this challenge. By offering tailor-made programs that educate oil and gas technicians and other professionals the sponsoring companies are in need of, DLW helps providing the skilled labor needed for oil and gas operations as well as contributing positively to the Brazilian society.

www.dreamlearnwork.com





Consulado Geral da Noruega
Rio de Janeiro



Developed by
MARITIME & OFFSHORE
PARTNERS

Layout and design:
dricadesign, Rio de Janeiro.
www.dricadesign.com.br