

Trading Overseas

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The Challenges of Brazilian Exportation

The Brazilian foreign trade undergoes a phase of economic growth, breaking records, although the sector faces various challenges ahead. The end of domestic barriers and the enhancement of the companies' competitiveness are the main steps to guarantee the sectors performance in the following years.

The president of the Foreign Trade Association of Brazil (Associação Brasileira de Comércio Exterior, AEB, in Portuguese) who has run the organ for the last four years, Benedicto Moreira, believes that Brazil has made good progress, comparing to other periods in history. "The Brazilian government and its ministry of foreign affairs, Itamaraty, have been making efforts to improve Brazil's image abroad. The President's business trips bring positive responses, but we need to do more. It is necessary to have long term strategies and policies, instead of punctual decisions, to guarantee the surplus in the balance of trade", he analyses.

Today, commodities comprise 80% of the Brazilian exports. In turn, these raw materials correspond to 4% of the world's exports. The manufactured goods - the durable goods - represent 60% of the world's exports whereas Brazil's participation corresponds to only 0.6% of these exports. "That percentage can be increased. Brazil is able to export as much as, or even more than, China. However, it has to overthrow the domestic barriers that obstruct the development", he states.

MAIN BARRIERS

Moreira remarks that one of the main obstacles to the development of exportation is the lack of an appropriate investment policy. "Brazilian exports depend on financial resources, which lose their value while waiting for the approval of a law or private

resources, mostly foreign. Thus, the businessperson is vulnerable to the financial market conditions, and this is a difficult position to be in”, he evaluates.

Another large problem the sector faces is taxation, which comes along with bureaucracy. The large amount of public organs and different instances represent very high costs to the companies, which damage the goods’ competitiveness in the foreign market. “The environmental policy, for instance, is mistaken for bureaucracy. It takes too long to solve simple issues, such as the grant of an environmental license. It delays the production development and, consequently, affects the commercialization of the goods in the foreign market”, he affirms. The payment of high taxes and the lack of a cohesive tariff policy also damage the exports. “There are no taxes on exported goods but the businessperson has to pay an income tax on what he has sent abroad. It ends up being taxation”, he analyses.

Moreira also believes that a way to simplify bureaucratic issues would be to create clear regulatory rules and to centralize the issues in only one organ, CAMEX (Exporting Chamber). “It is easier and faster when there is only one organ to solve all the issues. Frequently, the justice, the ministries, or another organ, interfere and end up damaging the commerce of goods. Thus, if only one organ took care of foreign trade mainly, certainly the bureaucratic processes would be more efficient”, he analyses.

According to the President of AEB, the hindrance to the Brazilian export is the precarious infrastructure in the country, especially in transportation. “The railways are inefficient and in bad conditions. We are glad to know that President Lula’s government will repair the three main highway intersections in the country, which will make the exports’ flow easier”, he announces.

However, the most serious problem in infrastructure, according to Moreira, is the ports’ administration, which should not be done by government organs. “Ports are essential to the export growth and they should be administrated by businesspeople, instead of politicians, so that this sector could gain dynamism and professionalism. That would be decisive to trade goods abroad”, he recommends.

Another suggestion from the President of the entity is to reduce the movement of different supervising organs in the ports in order to have a more efficient transportation. “It costs a lot to keep a ship waiting for the cargo to be released”, he evaluates. Moreira also

criticizes the lack of modernization in the Brazilian ports. “The equipments are old and surpassed”, he sums up.

BRAZILIAN TRADE IN THE FOREIGN MARKET

The president of the Brazilian Foreign Trade Association of Brazil (AEB) believes that the effort made by President Lula’s government to expand the country’s trade abroad is positive. According to him, all the agreements reached so far are welcome, but it is necessary to think about the future. “If we are not ready for the globalize commerce, we will open our market to the foreign products and we will not be able to compete under the same conditions abroad; consequently, we will end up losing”, he affirms. Moreira emphasizes that foreign barriers, such as the agriculture protectionism in certain countries, also represent an obstacle, although the domestic barriers cause the most extensive damage to the competitiveness of the Brazilian products abroad.

From November 22nd to 24th, AEB promotes the twenty-fourth Foreign Trade National Meeting (ENAEX) in Sao Paulo, where the debated theme will be “Competitiveness: Domestic Barriers to the Foreign Trade”. Benedicto Moreira emphasizes it is important to discuss this subject with both the sector and the government. The Minister of Development, Industry and Trade, Luiz Fernando Furlan, will attend the meeting. “Our goal is to act as the interlocutor among the market, the companies and the government and try to find solutions”, he explains.

Moreira believes that the country is able to have a sustained growth in the next years if it worries about improving the production and commercial conditions. “The country has to grow nearly 7% a year to be in a comfortable position. It is always necessary to invest in education, so that the country can really develop itself”, he states.

Real Case

The Value of Internationalization

By Paula Muniz

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A food company begins to export its goods to the United States and it evaluates the advantages of internationalization. When the exportation begins, it notices the reduction of the sustained growth. In order to export, the company had to improve the quality of its products to be able to compete in the international market.

One of the advantages of internationalization, which the food company could verify, was the improvement of the packaging and design techniques. The exporting activity also provided the company with continuous technological update and production increases, such as economy of scale, reduction in the costs/ idleness, and better use of the installed capacity.

However, in order to export, the company had to select the target markets, and also identify the goods to be exported, according to the company's interests and strategies. After the foreign expansion, it also became possible to open new credit and financing channels. The company that wishes to go international has to conduct a research, taking into consideration the market aspects of the product and the valid conditions in the foreign market, as well as carefully investigate the competition and the legislation in the countries where it operates.

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Micro and small companies gain support

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The Brazilian micro and small companies have been gradually increasing the number of exports. The government believes this category will expand the balance of trade and promote domestic growth. According to a research published by the Foreign Trade Study Center Foundation (Funcex, in Portuguese), in partnership with the Brazilian Support

Service to Micro and Small Companies (Sebrae, in Portuguese), two thirds of the companies that started the foreign trade of its goods in 2003 are part of this category.

In accordance with these results, the Brazilian government decided to help the micro and small businesspeople to trade their goods abroad. During some lectures in Rio de Janeiro, Sebrae, together with the Brazilian Exporting Promoting Agency (APEX, in Portuguese), released an agreement that prospected the investment of US\$ 40 million in integrated projects of trade promotion for Brazilian micro and small companies abroad.

The President of Sebrae, Luiz Carlos Barboza, remarked that micro and small companies have great potential for foreign sales. “The average value exported by micro companies corresponds to US\$50,444; meanwhile it corresponds to US\$316,100 in relation to small companies. It is still a small figure, but these numbers can be increased if there is incentive and work to make the companies’ access to the foreign market easier”, he analyses.

The secretary of Foreign Trade in The Ministry of Development, Ivan Ramalho, also considers the increase of exports through the micro and small companies. According to him, the number of micro and small companies’ participation in the Brazilian exports will overcome the registered 75% until the end of 2003.

A key factor to increase the number of exports, according to Ramalho, is the market diversification. Thus, he highlights the importance of trade agreements that bring less dependency on the American market, which represents only 20.9% of the Brazilian sales. One factor that the secretary considers very important to stimulate the micro and small companies is the increase in manufactured exportation, whose price is more stable in the international market. According to him, micro and small companies will generate more jobs and income and bring more flexibility to the country’s balance of payments.

PREPARING FOR THE FUTURE

In order to be competitive, micro and small companies must be ready. According to the executive manager of the Foreign Trade Board of Directors in Banco do Brasil, Rogério Lot, those who are not on the web are not in the market. Thus, the institution intends to bring into the digital era all the operations presently made in cash, in the micro and small

companies' international trade. Lot emphasized that small companies have to use the Internet so as to make their businesses easier.

The executive also defends the foreign trade as a way to reduce the small companies' capitalization rate. According to him, when they make use of programs such as Proex, to finance the exportation in two-year-terms, the exporter pays interests at an international level, whose interest may rise up to 2% a year. "That helps decreasing the capitalization rates between domestic and foreign markets, one of the reasons for the company to export", he said. However, Robert Lot warned that the companies need to find as much information as possible before the "adventure" of entering the foreign trade. "In Brazil, there are nearly 3,600 rules for foreign trade. Large companies have full specialized departments to understand the legislation. For small companies, it is harder", he remarks.

CHALLENGES

If on one hand the numbers lead to a path where micro and small companies can conquer more shares of the foreign market, on the other hand, they alert. According to a research carried by Funcex, half of these companies stop exporting after one year and only 20% continue to export after five years. The companies which are able to deal with the domestic bureaucracy and the financing difficulties still have to face strict importer's demands and they have limitations to fulfill terms and adjust the product to the buyer's interest, for instance.

The good news is that the quantity of quitters has been decreasing. A survey conducted by Funcex, in partnership with Sebrae, shows that the number of micro and small companies that continue to export in the following year has increased 22.4% in 2003. Although the value of their foreign sales has increased nearly 40% in five years, the growth was obfuscated by the even greater performance of the large companies (55.1%) and their participation in the balance of trade decreased: it ranged from a 2.5% to a 2.4% reduction between 1998 and 2003, according to the same research and the survey from the Ministry of Development.

It is a very small percentage, especially if compared to countries such as Italy, where the small companies comprise over 40% of the exports. The explanation for such

results lies in the profile of the Brazilian sales. In Italy, small businesses sell high added value goods such as software and design pieces, whereas, in Brazil, they sell low-priced manufactured goods. Furniture, fruit, shoes, wood, among others, do not compete in value with our great shipments of soy, the iron and steel goods, and aircrafts from Embraer.

The regional President of FIRJAN, Cláudio Tangari, has questioned, for instance, programs such as Exporta Fácil (Easy Export) from the Brazilian Postal Service and Proger from Banco do Brasil. According to him, certain specifications such as size and weight cause difficulties for the exportation of any good. Besides, it impedes the commercialization of work done at home, for instance. Tangari said that micro and small companies are the most damaged with the imposition of traditional access barriers to other countries. Moreover, he added that many companies in the sector have websites on the Internet, but in Portuguese. A buyer in Poland cannot communicate with them. "There is work to make things easier, but there is still a larger picture to solve", he states.

CE Marking Requirements in Europe

By Robert Walton

Westchester International Corp. Consultant for the European Union

CE Conformity Marking, also called "CE Mark", is a mandatory mark on many of the products circulated in the European Union (EU). CE Marking may be obtained through registering your product in any one of the EU member countries. CE Marking obtained from one EU country is valid for the entire EU plus the European Free Trade Association (EFTA): Iceland, Liechtenstein and Norway (totaling 28 countries).

Any product placed on the market in the EU must carry a CE Marking if it is regulated by any European Union Directive (mainly health, safety, consumer protection and/or environmental). CE marking is the manufacturer's certification that the product meets the essential requirements of all relevant [EU Directives](#). The manufacturer is legally responsible for ensuring that the product conforms to the requirements of the Directives.

CE marking requirements vary from Directive to Directive, and even within Directives. Third party testing, systems assessment and technical file assessments can be mandatory, but often the manufacturer's unverified claim is all that's required. Where a Directive requires products and/or systems to be independently tested, certified, or inspected, this must be done by a "Notified Body" also called a "Competent Body". This is an organization that has been approved by a Member State and registered with the

European Commission to conduct independent testing. Whether mandatory or not, having independent testing and assessments carried out is the safest way for manufacturers to proceed with market entry plus in case of litigation this helps a company claim a defense of due diligence.

Below are the CE Marking general steps required for the introduction of a product into the European market. It should be stressed that not all products are required to have a CE mark, only those that are covered under a Directive.

The first step is to gathering information on the product and research new legislation concerning the product. Then determine who's responsible for the conformity of the products and the CE-Marking. For European products this is usually the manufacturer, however when the product originates from outside the European Union, a representative from the manufacturer or the importer may be responsible. Next research if the product falls within the scope of any of the Directives and determine if the product complies with the requirements. Then decide which standards to use, there are European standards and national standards. It is best to use European standards when available. Next determine if a directive requires the approval by a Notified Body, if not then the manufacturer or importer is allowed to carry out the required tests themselves. The next step is to publish a user's manual in the language of the user. After all of the above is completed then the company can draft and sign the EC Declaration of Conformity. A Declaration should be produced for each product in the language of the country in which it is sold. After the declaration is completed a technical file must be compiled which includes all the information concerning the product and measures that were taken to meet the requirements of the directives. This documentation must include designs, technical drawings, test reports, certificates, user's manual, etc. Finally affix the CE marking to each product and continue to track any changes to the original product that could influence the risk factors. Changes could require a company to repeat the process.

Having followed the correct procedures, the manufacturer can produce a Declaration of Conformity and stamp the CE-marking on their product. The mark must be visibly, legibly and indelibly affixed to the product and the size and shape of the marking is regulated by a Directive. All documentation related to the certification must be combined in a technical file and kept available for the authorities 10 years after production of the last product or importation.

Key points of CE Markings

- CE marking on a product is the manufacturer's declaration that the product complies with the essential requirements of the pertinent Directives.
- CE marking indicates to government officials that the product may be legally sold in their country.
- CE marking requirements are not uniform across all the Directives. They may also vary for different products within a Directive.

- The requirements range from a manufacturer's declaration, up to a full Notified Body assessment of the product and manufacturing controls.