

WESTCHESTER NEWS

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THE POTENTIAL OF THE CREATIVE INDUSTRIES IN THE FOREIGN MARKET

by Monica Costa

Consultant specialist for Westchester International

From the semantic point of view, “indústria criativa” is the translation of creative industry. However, the term in English can be applied to any economic activity. In Portuguese, the definition of this sector is related to cultural services. To better understand the sector, it would be advisable to name it “economy of culture”. Monica Costa, a consultant at Westchester International, explains. The creative industries, as an object of public politics, first appeared in England at the end of the 1990’s, with the new government actions implemented due to the rise of Tony Blair’s new labor. “Besides, there is also the concept, from an eminently analytical angle, where the creative and/or cultural issue is dealt with, under a heterodox viewpoint, whose summit is in the studies of the Frankfurt school in the 1940’s”, the consultant explains. However, the emergence of the “economy of culture or creative industry” phenomenon is, in fact, associated to the intensive use of ideas and to the effect of economies of scale in a firm and in a sector. In relation to the firm, its intensive use in the productive process provokes the rise of an intellectual good, whose characteristic is the easy reproduction due to the massive presence of growing assets in this activity. “For example, I can produce a song, a game, or a graphic design, which may have a high price due to the development costs. However, their reproductions – whether legal or illegal – tend to have quite low costs. Then, the importance of intellectual property rights arise”, she analyses.

Despite the need to impose law and order, it is necessary to understand that the intensive use of ideas and economies of scale will only benefit the creative activities if, and only if, they flourish in places where there

is tolerance to new habits and incentives to the innovation of the aesthetics standards, Monica Costa emphasizes. “The combination of this “chemistry” - the businessperson, the firm, the sector, the city – allows the creative industries’ sectors to maximize the generation of economies of agglomeration, and that shall be, due to both the new role of the new economic geography and the duty of history”, she sums.

In general, the sectors that must be considered as belonging to the economy of culture and/or creative industries are: architecture, theater, fine arts (antique and contemporary), movies, music, advertising, editorial and graphic, television and radio, industrial design, fashion design, and interactive software for pleasure and culture.

Internationalization

According to the consultant, the viability of the exportation via the international insertion of each segment will depend on both the governmental support and the strategies that the Brazilian businesspeople will ponder and adopt. “We see the internalization and sale of property rights from singers such as Ivan Lins, Milton Nascimento, Alexandre Pires and Caetano Veloso. Actually, Caetano Veloso is an example of a creative business opportunity. He did not please the Brazilian audience when he started singing in English, however, the international consumers have been demanding his music a lot more”, she exemplifies. Monica also affirms that the cities of Sao Paulo, Rio de Janeiro and Salvador are the places with the highest potential of developing the creative industries. “In the city of Rio de Janeiro, there are politics from both the City Hall and the State government. The first is in charge of only stimulating and managing “the cultures”, originated in this unique cultural “melting pot” which is Rio; while the latter has been putting efforts so as to define the productive chain of each creative sub-sector, and provide proper fiscal incentives. There is still the need to stimulate the international sales, both in Rio and in the other cities listed above”, the exporting consultant observes.

If music is a creative industry with great exporting potential, the same does not apply to the fine arts, for example, Monica Costa notices. According to her, in the developed countries, the pieces of art are sold to the audience in

general through the trading channels, such as auctions, galleries, specialized fairs, department stores, antiquity stores, and Internet. England, the United States, Germany and France are the largest consuming markets. Data from 2002 identifies that the flow in the North-American art and antique market reached around 10 billion dollars. In England there was a of 5.5 billion dollar flow, while in France, the amount reached 3 billion dollars. Germany, in its turn, traded approximately 500 million dollars. In this same year, the art market in the European Union reached around 9, 5 billion dollars. Besides the European Union and the United States, only the Swiss market, in the same year, traded 200 million dollars. “Due to the size of this market, the art business sector, together with the government, should implement a foreign trade strategy in order to generate income and job opportunities. It can be developed in the developed countries, especially in places with easy access to the great audience, such as the large department chains. Despite selling the fine arts in the great Parisian *magazines* and 2005 being Brazil’s cultural year in France, we do not see trade promotion politics from the government in behalf of the art segment to the large French audience”.

Strategies

Another sector that shows a great exporting potential is software. This sector is one of the strategic segments of the industrial and foreign trade politics in the present government, the consultant affirms. Recently, the Ministry of Culture has issued an edict to support the development of pleasure and culture interactive software. The demand exceeded all the previsions, showing an unheard-of fact in Brazil: we noticed that there is an expressive amount of interactive software programmers capable of producing games that can certainly be traded in the foreign market, Monica observes. “In order to develop these products, we only lack the venture capital and the incentive to form strategic alliances”. We know it is hard to obtain capital - if not impossible – in Brazil. However, introducing these entrepreneurs to the Korean industries, for example, so that they can initiate an outsourcing process, would not be difficult. We only need the drive and will to act in behalf of the public interest”, she analyses.

The consultant affirms that, in concrete terms, the entrepreneur of the creative industry must have three important factors in order to have his business abroad: a product an/or service with unique characteristics, preferentially with Brazilian features; a business plan where the company's internalization is a directive, initially selecting the target market and gradually expanding its sales; and a strategic alliance with a company such as Westchester International, in order to manage its logistics and profits abroad. "Thus, the entrepreneur may concentrate on the development of the product and/or service and the maintenance of the clients, having in mind that creativity is in the product and/or service, and these factors are only items of management and control", the consultant declares.

Real Case

International Fairs

By Paula Muniz

International Consultant at Westchester International Corp.

An exporting company in the cosmetic sector in Brazil had an estimated loss of US\$30,000.00 when participating in a fair in the United States. This company attended the event unprepared, using catalogs, promotional materials, samples and packaging that were not in accordance with the local language.

The Fair is an excellent opportunity to present a product in the international market, as well as an effective way to promote meetings with potential clients and to understand the reality of the intended market.

Thus, before being an expositor, it is recommended to visit and investigate the audience's profile first, as well as to calculate the costs for a future participation.

It is also fundamental to analyze if the product is adequate to the target audience. Everything must be evaluated: the price of the competing products, quality, technical specifications, the product's norms, labeling, promotional

material, etc. Overlooking these details could cause damage to the company's image, besides occasioning unnecessary expenses.

It becomes necessary to take care of the stand presentation and how to serve the client, taking a prepared staff to communicate with the clients in the local language. It is best to have a representative in the fairs, as it is closer to the local market and the cost of the event would decrease considerably. As important as the presence in the fair is the "post-fair", where the local representative will keep in touch with the contacted people and help the effective closing of deals.

The advantages of the fair are innumerable, such as the face-to-face contact with a large number of potential buyers; the divulgence and advertising of the products, besides the audience immediate reaction to the product, which will help to identify possible chances to adequate it to the target market.

Some small and mid-sized companies lack conviction to invest in the international fairs. However, this is a necessary investment, which will be able to reduce future expenses, as well as supply essential elements to a closer relationship to the consumer. If well-organized, the fair becomes a huge step towards success in the international market.

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WESTCHESTER BRINGS PRODUCTS FROM CEARA TO THE NORTH-AMERICA MARKET

By Luis Henrique Perlingeiro

In order to inform the businesspeople about the competitive American market and how to open doors to the products from Ceara into the United States, the board of directors of Westchester International, with the support of

Sebrae/CE, promoted a lecture in Fortaleza, which was organized by the local company, M2 Marketing. The spokespeople were the President of Westchester International, Aloysio Vasconcellos, and the director of the trade consultancy, Luis Henrique Perlingeiro. The Foreign Trade Commission of Ceara and small companies were invited by Sebrae/CE to attend the lecture.

Possibilities of businesses for the Cearense companies in the United States were presented. North-American logistic and operational perspectives were delineated. It was a class of exporting management for such market.

The President of Westchester International, Aloysio Vasconcellos showed how the company operates in the foreign sales. "First of all, we search for the economic viability. It means practical and objective research in order to learn if a specific product is able to succeed in the foreign market", he explains.

The commercial support suggested in this lecture sought to direct small businesspeople towards capacitating them, adjusting the production from Ceara to the American market demands. "It is necessary to adjust to the cultures you intend to reach, without losing your regional characteristics", Mario Militao Neto, owner of M2 marketing, explains.

The North-American market is usually feared for being competitive and demanding. The profits from the exports come in the long run, therefore, qualification is necessary. "With planning, professionalization, market research, and trade agreements, the companies will be able to export to the United States, Militao assures.

Main issues

The businesspeople from Ceara who attended the event also had the chance to ask questions to the directors of Westchester. One of the main concerns regarded the stock maintenance in the United States. Luiz Henrique Perlingeiro explains that keeping the stock in the own entrance country makes the sales operation more agile. "The client is not exposed to transporting problems and logistic ends up being more efficient", he emphasizes. Another issue debated was the threat of Bioterrorism. Perlingeiro clarified the rules of the thirty-fifth session of the "Bioterrorism Act 2002". According to this law, all the owners, managers, or agents in charge of a domestic or international

company, which manufactures, processes, pack, or stock food or food supplements destined to human or animal consumption in the United States, must be registered in the Food and Drug Administration (FDA). If it is a foreign company, the registration must also contain the name of the company's North-American agent. "For the clients that belong to this category, Westchester works as the representative agent in the United States, to agent the entrance of the products in the country", the director explains.

Competition Policy in European Union

By Robert Walton

Westchester International Corp. Consultant for the European Union

Value Added Tax in Europe

In the inaugural issue of *Trading Overseas* in April 2004 I wrote on the "New Rules for VAT invoicing" in Europe". Let's take a step back now and discuss the Value Added Tax (VAT) system in Europe. VAT is the European version of a sales tax and is a consumption tax chargeable on all goods and services supplied to the final consumer. Even though it's meant to be paid by the end user of the product or service it's not feasible to collect VAT from the final consumer, so the manufacturer or supplier initially pays the tax and then charges tax to the next person in the economic chain until it is ultimately paid by the end user. Businesses do this by first paying the VAT then including the tax in the price charged for the goods or services at the next step, ultimately passing on the tax liability to the end user.

VAT is charged as a percentage of price and rates vary among Member States and among certain types of products. Each European Union (EU) Member State has their own VAT laws but the EU has mandated that the standard minimum VAT must be at least 15% however the rate varies from 15% to 25%. Non-EU companies that export to the

EU are taxed at import; exported goods from the EU are zero-rated and not subject to the VAT.

An example supplied by the German tax authority is that VAT works like this: Company A supplies goods to Company B for € 100 plus € 16 VAT (16 percent of € 100). Trader A pays the € 16 to the local tax office, while B deducts the same amount as input tax from his tax liability. B then sells the goods for € 140 plus € 22.40 tax (16 percent of € 140) to Trader C and pays € 22.40 minus € 16 = € 6.40 in tax to the local tax office. At the same time, Trader C deducts € 22.40 as input tax. At the third stage of the process, Trader C sells the goods to the final consumer for € 200 plus € 32 tax (16 percent of € 200) and remits € 32 minus € 22.40 = € 9.60 to the tax office as VAT tax. The final amount paid to the tax authorities is as follows: € 16 (paid by Trader A) + € 6.40 (paid by Trader B) + € 9.60 (paid by Trader C) = € 32, or 16 percent of € 200, the final cost of the goods. This example shows that it is ultimately the final consumer who bears the 16 percent tax burden because, while the traders pay a portion of the tax at each stage, they are also able to write it off their tax liability. The value added tax is thus classified as an indirect tax because it is collected from the consumer by the tax authorities via the entrepreneur.

Now that we have seen how it works in theory the question is how is the best way for a company to ensure that it meets its VAT requirements? Outsource! The VAT rules are different in each of the EU countries and you really need an expert in tax law of a particular country to ensure that you stay in compliance. There are two roads companies can take to import goods into the EU. The first and simplest is to hire a "limited fiscal representative" who will prepare your tax returns for all EU purchases and deliveries and will work to remit and recover VAT. As noted above non-EU companies that export to the EU are taxed at import and then can charge VAT to the next person in the chain, effectively making your tax liability zero. The advantage of using a limited fiscal representative is that they do all of the paperwork to both charge and collect VAT at the same time so that no (or little) physical exchange of

money takes place, i.e. you don't have to pay the import tax then wait till the customer pays.

The second way to import goods into the EU, and a must if you are going to produce or add value to your products in Europe is to obtain your own tax number. To keep things simple lets take Germany for example. To register for a VAT number (Umsatzsteuer) in Germany you must make application to the German Finance authority. This application process normally only takes a few weeks to complete. Once a number is issued then a tax report must be periodically submitted to the German tax authority listing all transactions. An additional requirement is that copies of all invoices must be kept in Europe. The big advantage to obtaining your own VAT number is that you can claim reimbursement from business cost. Taxes paid on goods and services purchased by your business for business purposes can be reimbursed. This effectively means that you don't have to pay taxes on things like warehousing and transportation within the EU; tax preparation services; advertising; travel and much more.

The European tax laws can be a complicated and frustrating process, but is important that you know and understand the process or risk complications to importing your goods. The good thing is that there are companies that specialize in helping you comply with the tax laws.

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