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no. 73
1979

Technological Innovation Studies Program

Research Report

A STUDY OF CANADIAN JOINT VENTURES IN BRAZIL

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January 1979

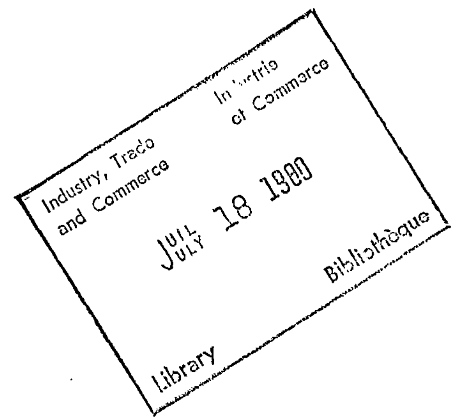
Rapport de recherche

Programme des études sur les innovations techniques

Industry, Trade and Commerce
Industrie et Commerce

Technology Branch
Ottawa, Canada

Direction de la technologie
Ottawa, Canada



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The views and opinions expressed in this report are those of the authour and are not necessarily endorsed by the Department of Industry Trade and Commerce.

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Acknowledgements

This study was one of a series sponsored by the Office of Science and Technology, Department of Industry, Trade and Commerce of the Canadian Government. The contributions to the study made by the many Canadian and Brazilian executives, officials and other experts who took the time and trouble to provide interviews and information are deeply appreciated. Particular thanks go to Eduardo Schwartz, who carried out the field work in Brazil, to Elena Valenzuela, Jo Anna Townsend and Tom Clarke, for their research efforts and comments upon earlier drafts.

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I. INTRODUCTION

Brazil is one of the most interesting economies in the world in terms of its future potential for development and growth. It is a large country with vast natural resources, most of which are still untapped. Its political system, while criticized as not strictly democratic, operates as a benevolent autocracy, with a primary motivation towards economic growth as a necessary preliminary to socio-economic development. This motivation has placed a high priority on the creation of a favorable environment for investment which has emerged over the past fifteen years as a most attractive site for foreign investment. Private initiative is encouraged, trade is growing and the government's approach to foreign investment has been open and direct.

Foreign firms seeking involvement in Brazil have a choice of at least four major strategic routes to enter the Brazilian market. The first is to service the Brazilian interests through licensing or export arrangements. The second is to invest in a joint venture operation with a Brazilian partner. A third is to do so with a non-Brazilian firm, while a fourth option is to create a wholly owned subsidiary in Brazil.

Many Canadian investors have chosen the second alternative as a vehicle for their investment. Their reasons for preferring this option and their overall successes and failings with joint ventures in Brazil form the basis of this study.

The information gathered for this research was obtained from primary

sources, national data banks and regular publications such as Business International, Industry Trade and Commerce documents, OAS and other special reports. However, the major source was a series of interviews carried out in Canada and Brazil. Executives of Canadian firms involved in Brazilian joint ventures and their local partners were questioned about their operations in Brazil. Also interviewed were Brazilian and other experts on conditions in Brazil plus representatives of the Government of Brazil and of the Canadian Government in Ottawa, Brasilia, Sao Paulo and Rio de Janeiro. The sample included the majority of Canadian joint ventures existing in Brazil in 1978. Brazilian branch offices of Canadian companies, wholly-owned subsidiaries, and representative offices of Canadian financial institutions were excluded from the sample set, although some of their executives were interviewed for supplementary information.

The pattern of Canadian joint venture activity in Brazil revealed that the majority of these firms had been in existence for less than five years. Also seven of the Canadian parent companies had already been participating in the Brazilian market through a wholly-owned subsidiary prior to forming a local joint venture. The largest number of Canadian-Brazilian joint ventures were involved in manufacturing, followed by mineral resources, finance, engineering, services, utilities and publishing (Table 1). Two of the Canadian joint ventures had no Brazilian participation, one of these was in the services sector and the other in the forestry sector.

The joint venture is officially a compulsory form of operation for foreign participation in some sectors of the Brazilian economy. However, most Canadians interviewed said that they preferred the joint venture format

TABLE 1

PRINCIPAL CANADIAN-BRAZILIAN JOINT VENTURES IN BRAZIL[a]

JOINT VENTURE COMPANY	YEAR OF FORMATION	ACTIVITY	CANADIAN PARTNER	% CANADIAN OWNERSHIP	BRAZILIAN PARTNER(S) (EQUITY %)
Acres Brascep	1974	Engineering Consulting	Acres International Ltd.	40%	Private group (60%)
Bamineo Mineracao e Siderurgia S.A.	1973	Nickel Mining and Smelting	INCO Ltd.	50%	(b)
Brasvacin S.A.	1974	Insulin and Vaccines	Connaught Laboratories Ltd.	30%	State of Sao Paulo (70%)
Companhia Industrial de Pecas Para Automovels (CINPAL)	1973	Tractor parts	Massey Ferguson Ltd.	30%	-
Corena Ltda.	1974	Publishing	Maclean Hunter Ltd.	50%	Private group (50%)
Delmar-Produtos do Mar S.A.	-	Lobster fishing	Brascan Ltd.	50%	Private citizen (50%)
Emco Wheaton Industria E. Commercio S.A.	1973	Engineered products	Emco Ltd.	80%	Private group (20%)
Fábrica Nacional de Vagões S.A. (FNV)	-	Railway equipment and automotive parts	Brascan Ltd.	29%	(c)
Jacundá	-	Tin Mining	Brascan Ltd.	60%	-
Mineração Rio do Norte	1973	Bauxite Mining	Alcan Aluminum Ltd.	19%	(d)
Monasa Consultoria e Projetos Ltda.	1970	Engineering Consulting	Monenco Ltd.	30%	Natron (51%); private citizens (19%)
Paratí	-	Resort development	Brascan Ltd.	50%	Adela Investment Co. (50%)
Piratininga Implementos Agricolas Ltda.	1975	Tractor parts	Massey Ferguson Ltd.	40%	-
Performance Sailcraft do Brazil	1974*	Sailcraft	Performance Sailcraft International Co., Ltd.	51%	Private citizen (49%)
Petrocoque S.A.	1973	Petroleum Coke Smelting	Alcan Aluminum Ltd.	25.1%	Petrobras (35%); Cia. Brazilero de Aluminio (15%); Private citizen (24.9%)
Sao Conrado	1975	Real Estate	Brascan Ltd.	67%	Gomez de Almeida Fernandez (33%)
Swift-Armour S.A.	1973	Meat packing, cattle raising and grain trading	Brascan Ltd.	41%	CAEMI (59%)
Termo-Noranda Mineraçao Ltda.	1971	Mineral exploration	Noranda Ltd.	49%	Termo Mecanica (51%)

NOTE: (a) This list does not include joint ventures where the Canadian firm is only involved with non-Brazilian partners.
(b) The non-Canadian ownership of this joint venture is as follows: Two West German firms, AG and GMbH have less than 25 percent each; private citizens have the remainder.
(c) The non-Canadian ownership of this joint venture is as follows: A private group has 30 percent, the remainder is widely distributed among the Brazilian population.
(d) The non-Canadian ownership of this joint venture is as follows: Companhia Vale do Rio Doce (46%); cia. Brazilena de Aluminio (5%); and 6 foreign companies (30%).

in any case because of some of the advantages which it offered, including:

- Access to financing in cruzeiro funds under the numerous industrial incentive schemes offered by different Brazilian government agencies.
- Access to production facilities already in existence under Brazilian ownership and management.
- Smoother initiation into local business customs and practices.
- A means of attracting competent locally-based employees who potentially offered several advantages over transplanted expatriate staff.
- Readier access to established markets and suppliers through the local firm's experience in dealing with its environment.

This report has been organized into four main parts. The first is an overview of the investment climate in Brazil. The second summarizes Canadian and Brazilian responses with reference to the joint ventures themselves. A third section includes details of operation and restrictions upon such activities. The final focus is upon conclusions regarding the potential for continued growth of these operations.

II. BUSINESS CLIMATE IN BRAZIL

The Brazilian population is close to 114,000,000, of which over half are located in urban centers. Brazilians account for half of the total population of South America and live in the fifth largest country in the world. Population growth is approximately 3% a year, while urban growth is closer to 5%.

Brazil's economic expansion in the early post-war years focussed on

consumer goods and light industry. During the sixties and seventies Brazil has concentrated on developing heavy industrial sectors and has been increasing its exports of manufactured goods to impressive levels. Most of Brazil's industry is located in the south around the Sao Paulo, Rio de Janeiro and Belo Horizonte areas. Various government programs have been designed, however, to encourage industrial development in the Amazon and Northeastern sections of the country.

The natural resource base is rich, including one-quarter of the world's known reserves of iron ore and large quantities of other important minerals such as manganese and bauxite. Other minerals such as lead, copper, tin, potash, salt and precious stones are also to be found. Perhaps the most important resource discovery in recent years has been that of offshore oil deposits located approximately 200 miles northeast of Rio de Janeiro. This is expected to substantially reduce Brazil's dependence on oil imports and to improve the overall balance of payments in the medium to long run.

The attitude towards foreign investment in Brazil has undergone three distinct phases over the past half-century. The first period could be labelled one of expulsion; in 1926 mines and mineral deposits designated necessary for national security could no longer be transferred to non-Brazilian owners. A second period emerged in the early 1950s in which foreign exchange controls were introduced to check foreign activity in the country. The availability of foreign exchange for the purpose of remitting revenues to foreign owners was restricted. Royalty payments to majority foreign owners of Brazilian enterprises were disallowed. Dividends were limited to 10% of registered capital with financial penalties for

repatriation of sums exceeding this amount. Government loans to companies with majority foreign ownership were prohibited. However, the third period which began in 1964 with Castello Branco's bloodless coup, moved to democratize legislation governing business. Foreign investment was reassured of its welcome in the country and laws governing foreign capital were liberalized.

A general review of Brazil's current policy towards investment would describe it as a system of relatively relaxed control over both the internal market and the entry of foreign direct investment. The influence of indicative national planning, a close alliance between government and business and a practiced commitment to the protection of private property combine to give Brazil a relatively safe investment climate.

However, all is not entirely rosy. Many critics of President Geisel's government have pointed out that the country is not yet in a position of full democracy. "With over one-half the population at the subsistence level, any politician appealing to these masses could upset the political stability we have grown used to," commented one Brazilian partner of a law firm. The widening disparity in income distribution, the high level of unemployment, the inadequate attention to development of social infrastructure, cases of political repression and denial of racial minority rights, are all pressing problems with which the governing regime has yet to cope.

In March 1979 the six-year term of President Joao Baptista Figueiredo will begin - the fifth military president in succession. The probable political and social thrust of the new government are still not clear. On

the one hand the fifteen year old military regime is under pressure (even from certain military groups) to fulfil its underlying promise to re-introduce political democracy. On the other, the new president has expressed doubts concerning the viability of liberalism as a state policy. The core of military influence is still wary of transferring effective power to political factions which it considers untrustworthy in their attitudes towards national economic growth (B.I. 1978).

While Brazil has been criticized for its policies in the above-mentioned areas, in the area of foreign investment its objectives have been clearly stipulated. In general, controls have been established, first to encourage investment which will aid in the creation of an industrialized nation and second to bring increased employment to the less developed sections of the country. Domestic ownership and control are emphasized in key sectors of the economy and potential dominance by any foreign country in other sectors is restricted. The systems set up favor local entrepreneurs through special tax credits and incentives. The government also maintains a policy of using incentives and sanctions to obtain desired results, rather than resorting entirely to restrictive legislation. Generally though, respondents felt that they, as operators in Canadian-Brazilian joint ventures, received equitable and predictable treatment by the government.

Annual growth rates in the 1969-1974 period were impressive, ranging around 9-10% in real terms. This growth, coupled with the enormous increase in oil prices, caused large increases in inflation over the last two years, but government efforts at control have been reasonably successful. However, inflation appears likely to run at rates of over 20% for at least the next

two years. Growth potential still exists but the annual rate dropped to 4.7% in 1977 and will probably remain around 6% until the mid 1980s. While industrial activity has been curtailed in order to curb inflation, there is already evidence of recovery in the automobile, appliances, cement, chemicals, clothing and metals sectors. The most rapid short-term growth appears likely to be in steel, petroleum related activities and electrical energy.

Brazil's capital market has proved to be a weak source of funds for investors. The bulk of trading is in instruments of government companies. Again, inflation has also acted as a destabilizing economic influence, with 1976-1978 rates running around 45%. The general drift of recent government policy has been to favor local enterprise, both in access to funds and in imposing stiffer entry controls on foreign investment, in particular in the capital goods, mining and raw material industries. The Industrial Development Council (CDI) has also imposed debt:equity ratio maxima of 2:1, specific export obligations and local content rules upon foreign investment projects. This government action has been a response to public outcries against international competition in industries where Brazilians have established or are developing their domestic capabilities. Such action appears to have been reasonable, in the face of projected declines in economic growth rates, in order to ensure a domestic share in the benefits of development.

When asked about market segmentation, most Canadian respondents said that they were pleased to have become established in Brazil a few years ago. More competition is developing in most segments, encouraged by government policy and the obviously

attractive opportunities. Many felt that the "fat years" in most sectors had gone and the most optimistic expectations were for a continued 10% market growth. The areas of potential success for Canadian joint venture undertakings would appear to lie in the following areas: industrial import substitution, export generation in manufactured products, petroleum and energy related technology, a range of infrastructure projects, such as urban transportation planning, and finally, in cooperative technical planning and consulting generally.

The respondents had mixed impressions about the quality of labor. In general, they agreed labor was unskilled, poorly tooled and required training. However labor's willingness to learn, its reliability and availability were important characteristics of the Brazilian labor market. Labor union and strikes were not a major source of problems.

In spite of the current economic and political problems, most foreign investors in Brazil, including such firms as Michelin, Union Carbide, Hoechst, Krupp, Mannesmann and Alcan are continuing with plans for expansion. Many smaller "second and third wave firms" (B.W. 1979) are also continuing with feasibility studies and it seems likely that Brazil will be able to attract the $1 billion of annual foreign investment needed over the next few years (B.I. 1978). The I.B.R.D. also expects that the country will be able to obtain a further $8 billion per annum in loans and credits from multilateral lenders, banks and suppliers.

III. SUMMARY OF MAIN ISSUES RAISED IN INTERVIEWS

A. Why Canadians Entered Joint Venture Projects in Brazil

Canadian-Brazilian trade is of relatively minor importance to both countries but Canadians clearly recognize the attractiveness of some of the potential markets developing in Brazil. Not only are these some of the largest markets in Latin America, but there was the further attraction that an operation based in Brazil was likely to receive custom duty, tariff and other types of preferential treatment in selling its products within other member countries of the Latin American Free Trade Area (LAFTA). One of the most important advantages in undertaking direct investment in Brazil mentioned by Canadian respondents in this study therefore, was the ease of entry into these attractive local markets which was offered by this strategy. In view of the Brazilian Government's stated preference for direct investment as opposed to imports into the country, this logic has been sound and Canadian firms have in fact indicated increasing interest in the last three years in establishing operations in Brazil. A catalyst for such interest has been the level of capital inflow from the Americans, Japanese and Germans. It has become apparent to many Canadian firms that if they do not secure a share in Brazil's markets now, the latter will be lost to these other competitors.

Once the logic of investing in Brazil was established, the nature of this investment became an issue, which in most cases of Canadian investment was resolved by setting up a joint venture. Initiation of the proposal for such a venture came in some cases from a petition by a prospective Brazilian partner who saw potential for a given product in the country and sought out

a foreign partner which could contribute the necessary technology and production capabilities. Import restrictions were severe and there were therefore definite advantages for local as well as foreign marketers in developing local production rather than purchasing abroad.

Another common source of joint venture proposals arose from the initiatives of Canadians living or even travelling in Brazil who were looking for attractive investment opportunities. This stimulus was enhanced by the development of personal contacts with Brazilians, both private and governmental and the access to information about potential opportunities which such contacts provided. In some cases, for example, the government was searching as part of its overall development plan for a particular expertise which a Canadian firm could offer and therefore approached the latter with an investment opportunity. An example of such a government-initiated joint venture with Canadian interests was the proposal for a Butyl rubber plant involving Polysar.

However, the strongest single factor described in this study as influencing the formation of joint ventures, as opposed to other forms of foreign direct investment, was Brazilian governmental restrictions. The latter ranged from simple prohibition of 100% foreign ownership in some industries and areas, to the provision of substantial financial incentives inversely related to the level of foreign ownership in others. Laws and incentives relating to foreign direct investment have been examined in a later section below.

The second most influential reason for joint venturing in Brazil

appeared to stem from the financial advantages offered by this type of structure. Basically, joint ventures, particularly those which were majority-owned by Brazilians, had better and preferential access to local sources of private and governmental financing. This advantage was further enhanced in cases where the Brazilian partner had sound local financial management experience to offer to the joint operation. In fact, whatever the reason for their initial decision to invest in a Brazilian joint venture, once it had been established, most executives interviewed considered that their local operations had benefitted significantly from the joint contribution to control and management in the country.

B. What Canadians Looked for in Brazilian Partners

When Canadian executives were asked to indicate the characteristics they sought in Brazilian partners, a wide variety of attributes were described, ranging from precise tangible capabilities to attitudes of mind and styles of operation. Some of the main attributes emphasized have been summarized in this section. It was not possible to rank these in order of importance, except in subjective terms, so their relative significance has not been stressed.

Financial status of the local partner, an attribute which, according to different respondents, encompassed financial experience, soundness and strength of potential access to local capital sources, was a major consideration for most Canadian investors. They were usually aided in their assessment by Canadian banks operating in Brazil and Latin America generally. One of the major problems foreign investors interested in joint ventures

have encountered was that of finding a Brazilian partner with sufficient capital. Many of the best potential local investors had already been committed to other projects to the limit of their capacities.

Faced with this type of financial constraint, a common strategy has been to combine foreign capital and technology with Brazilian public sector funds. Some of these funds have been made available as loans or other non-equity contributions to the financial needs of joint ventures - usually where it had a foreign minority ownership. In other cases Brazilian Government agencies have taken a direct stake in the venture as one of the local partners. While such a situation may appear dangerous to many Canadian investors in view of the perceived threat to autonomy in decision-making from governmental intervention, those Canadian firms which have established a joint venture involving the Brazilian government have been satisfied with the outcome and growth of the enterprise. Once involved, the Government partner has rarely intervened in on-going operations, except where its agency had specific capabilities to contribute.

Following on in a similar vein, Canadian executives repeatedly stressed the importance of finding a Brazilian partner which had good contacts with the government as well as with financial sources. Particularly important was the ability, potential or proven, to negotiate successfully with various levels of government. In this context also therefore, there were certain clear advantages in having a government agency as one of the partners of a joint venture.

Business capability, experience in marketing, administration and

financial management also ranked high on the specified list of desirable characteristics of future partners. While these abilities were described as a desirable initial condition in the relationship, most executives accepted as a realistic alternative, a partner's potential ability to assume managerial responsibility once the joint venture had been successfully established. To most of these Canadian investors, the potential quality of Brazilian partners was not in question. They stated that hard-working, well-educated people with strong entrepreneurial interests were available. What was often lacking however, was accounting, financial, managerial and policy-making experience. One Canadian described the problem as follows: "They seem to know intuitively where they want to be in terms of realizing organizational objectives and to know when they get there, but the idea of some kind of critical path planning to insure that intentions are efficiently realized is new. The aura of the "mañana" philosophy still exists".

In spite of this lack of managerial sophistication, Brazilian partners were said to be essential for coordinating and directing labor, certainly in the early stages of a new operation in Brazil. This was necessary because of the difference in the managerial cultures and styles in Canada and Brazil. The Brazilian manager was described as having an attitude toward the division and management of labor which was very different to that of Canadians. The higher echelons of management, especially at the ownership levels, were definitely more paternalistic about their employees. They had good interpersonal communications with their workers, many of whom tended to resent "Gringo" supervisors.

In this context, Brazil was described by these respondents as being

very different from many less-developed countries, where the local elite, while paternalistic in style, were not preferred to foreign managers. In fact this relationship may perhaps have been obscured by a Brazilian suspicion of Americans and, by mistaken association, North Americans. Other studies which have examined relationships at Brazilian factories of Volkswagen and Rhône-Poulenc suggested that relatively authoritarian German and French managerial styles were readily accepted. In the light of such conflicting evidence it was not clear therefore, which of two possible interpretations was more accurate. The first would imply that the level of authoritarianism is significant and that a relatively democratic, non-personal, non-paternalistic North American style of management is not appropriate in Brazil. The second would suggest that there there is some special quality, possibly based on historical socio-cultural linkages in the relationships between Brazilians and Europeans, to which U.S. managers at least are not recognized as legitimate heirs. The implication seems to be that Canadian partners should emphasize their distinct national identity as "non-gringos" and try to develop a managerial style appropriate to local conditions in Brazil.

Other characteristics sought in a Brazilian partner included commonality of goals and objectives, based on a clear recognition by both parties of what these actually implied. In this respect, compatibility of ethics was also felt to be important, but no respondents offered a clear statement of what constituted <u>in</u>compatibility of ethics in a Brazilian-Canadian context. At the time of the study, the topic of ethics was at the forefront of discussions in Canada and world-wide on the morality of internationally-operating firms.

Commonality of aspirations was especially important in the sense that some understanding of Canadian partners and the area of operations of the joint venture by Brazilian partners was needed. An example of how failure in this criterion could provide for deterioration in a working relationship was that of Termo-Noranda Mineracao Ltda. The Canadian partner, having had experience in the field of exploration, was aware of the possibility that there would be few interesting results during the initial investment period. On the other hand, the Brazilian counterpart had expected immediate, concrete results from the new operation. Termo Mecanica therefore applied to withdraw from the deal since it had become unsure of the environment and doubtful of what was happening to their investment capital.

C. What Brazilians Looked for in a Foreign Partner

On the basis of published reports and of the comments made by Brazilians and Canadians interviewed for this study, the expectations of the Brazilian government and those of Brazilian businessmen were not significantly different with respect to foreign investors. Those of the government were certainly more explicit and widely recognized in being stipulated by the laws governing foreign investment in the country. The attitudes of specific government agencies generally mirrored those of the regulating government in evaluating a potential Canadian partner. Such attitudes could readily be interpreted from official statements. The degree of flexibility in the interpretation of official statements varied case-by-case and had to be predicted on the same basis. In this section, therefore, the only generalizations described were those adapted from the comments of Brazilian partners.

Most important of all was the genuine transfer of technology. In all areas, the greater the opportunity offered for the Brazilians to learn and to practise the expertise which the Canadian partners could bring to a proposed joint venture, then the more positive the local partners' reaction to the proposal. Points to be noted here were the demand for "genuine" transfer to a pitch where the local operation had thoroughly assimilated the technology involved - also the implication that what was transferred must be "genuinely" current, rather than obsolescent technology. These points were also stressed in the regulations pertaining to the import and treatment of foreign technology in Brazil.

A second major concern was that foreign (Canadian) partners should be genuinely committed to their Brazilian joint investment. Brazilian partners were wary of cases where the foreigner was essentially performing some version of portfolio-type diversification of their own international investment package which called for some counterbalancing or spread into Brazilian equity. Nor were they enthusiastic about foreign partners who sought a local joint venture purely as a conduit for Canadian goods or components to enter the local market. Given these reservations, one of the best indicators of good faith in a Canadian firm which was sought by potential Brazilian partners was the potential for growth of a given joint venture project, coupled with the specified level of commitment to such growth by the Canadian interest.

Specific characteristics sought in a Canadian partner included financial strength. This implied access to capital and a suitable credit rating to obtain capital readily and at a reasonable cost. It also implied the

capability to manage flows of capital, funds and earnings in and out of Brazil in such a way as to minimize the impact of strict Brazilian regulation of foreign exchange movements upon necessary inputs of material, components and equipment for the joint operation.

Another requirement which was strongly related to the general importance attributed to technology was experience in the given industrial sector in which they intended to operate. The essential difference highlighted here related to the production know-how, marketing experience and access, plus the knowledge of competition and successful competitive strategies, which came from international experiences in the industry. Naturally this type of experience was enhanced by adaptability to or specific knowledge of the Brazilian environment, elements which contributed significantly to the smoothness with which a new joint venture went "on stream". Basically, these elements facilitated the easing of tensions and the creation of harmony between partners. In cases where a prospective Canadian partner had already successfully undertaken other projects or investments in Brazil, their reputation had naturally followed them and provided a premium for their further involvement with other Brazilian partners.

A relatively recent phenomenon has been the increased demand by Brazilian firms for a training and development element in any proposed association with foreign partners. In the effort to stimulate economic and business growth, Brazilians clearly understood that training opportunities provided by foreign investors were important. They also realized that a shortage of technical expertise existed in the country and that indigenous managerial skills were just developing. Both the government and, more

recently, Brazilian businessmen, considered that in the past, foreign investors had not achieved a satisfactory level of transformation of local technical and managerial skills. Both now sought such transformation as an indirect benefit from any new foreign involvement. Particularly attractive were proposals where a foreign joint venture partner offered to set up local training programs and also opportunities for higher level technical and managerial personnel to be sent abroad for further development.

Recently, foreign firms in general have not been as welcome as they used to be if they did not opt for Brazilian participation. However, whether the firm was of Canadian, American, Japanese or other origin did not appear to be of much consequence to most Brazilians. The level of the potential technology offered by each of these countries was perceived as being fairly comparable. Since this was the most important criterion for selection, differentiation on the basis of the nationality of foreign investment was minimal for most prospective partners. From the Brazilian government's unofficial point of view, given its commitment to avoiding foreign sectoral monopolization, it could well prefer Canadian to U.S. investors in a given case. Also, Canadians were perceived in Latin America generally as being somewhat less imperialistic than their U.S. counterparts - a feature which has become an increasingly important consideration in swaying opinions in favor of Canadian investment.

D. Strengths and Weaknesses of Brazilian Partners

Many of the Canadians interviewed said that they had enjoyed the sharing of responsibilities with their Brazilian counterparts. In general, the

latter had demonstrated enthusiasm to work and had relatively quickly developed necessary skills when given the opportunity to learn. Although they recognized that there were many differences in the ways in which day-to-day affairs were actually carried out, many of these Canadians, particularly those who had resided in Brazil for many years, said they liked the way in which the Brazilians did business.

More specifically, they praised the ability of Brazilian partners who could run interference or could intercede with the government and fully appreciated local partners' strength in this respect. The number of qualified, local people appeared to be increasing in a number of areas and some local partners had proved to be very strong and capable in the sales field. As might be expected from the nature of the Canadian criteria in choosing partners for Brazilian operations, Brazilian partners were also described as contributing an understanding of local conditions, people and the environment of the joint venture which was deemed to be important. A particularly important feature in many of these relationships had been the established contacts available through the Brazilian partners for obtaining local supplies and components necessary to the joint venture. Similar facilitating contacts had also been useful in cases in which difficulties had arisen in handling exports.

The main weaknesses attributed to Brazilian partners were their lack of technical skills and their inexperience in developing, controlling and maintaining production methods. They were also described as lacking sophistication in the development and structuring of marketing activities and in organization. In terms of actual managerial capability, there was

evidence of refined management skills but these were not generally prevalent. Also repeated was the problem faced by some Canadian investors who had had difficulties in finding partners with sufficient capital backing to undertake equity participation. When they had finally decided to accept a marginally suitable local partner, the resources of the latter had proved to be stretched too thinly to accommodate the resultant joint venture's needs for further capital to maintain its growth. Finally, the obverse of the Brazilian concern for training was reflected in Canadian partners' concern over the lack of skilled labor available from their local partners or in Brazil generally, and the impact this had upon their costs for training activities.

E. Strengths and Weaknesses of Canadian Partners

Both government representatives and Brazilian partners were asked to describe the strengths and weaknesses of Canadian partners in joint ventures in Brazil. The former commented in general terms based upon their experience with complaints, negotiations and favorable reports received. Their comments appeared to reinforce those of local partners. The latter, in responding to this question, cited in every case the technological strength of their Canadian partner. In particular, various kinds of engineering expertise had been initially sought by the Brazilians and this expertise had been obtained to a very satisfactory degree. Furthermore, Canadians were considered to be very good at preparing, writing and presenting the technical aspects of joint proposals on behalf of associated ventures and even partners. Also, the professional backup which was provided when needed was considered important.

A case cited as an example was that of Acres Braşcep, an engineering consultancy joint venture in which Acres International Ltd. of Toronto held 40%. Acres had provided expert help from Canada for particular Brazilian projects as needed by the joint venture, but as a matter of policy and agreement would only do so following a specific request for help by Acres Brascep. As a result, the Brazilian partners were able to enjoy the autonomy of actually running the local operations whilst still being able to rely upon the security created by the relationship with Acres.

Generally, the Brazilians felt able to say that they were in a position of control or of gradually assuming control over the operations of their associated joint ventures. However, at the same time, they recognized that the financial assets and technical knowledge of their Canadian partners were vital to the success of the ventures. In a similar way, while the training provided to Brazilians and the access to the development of future technology, patents and research were sometimes of limited short term significance in setting up a joint venture, these features were recognized as invaluable long term contributions to its continuing success. For many Brazilian partners, understanding of managerial skills, knowledge and ability to develop and install control systems were also viewed as important strengths of their Canadian counterparts.

The picture was not entirely favorable however. Some Brazilian partners indicated that they resented the lack of autonomy from Canadian control or intervention in their joint ventures and the latter's local management and supervision. At other times, Canadian partners were said to have demonstrated a lack of sensitivity and receptiveness to local customs.

Even more vital was the criticism that several Canadian interests had shown a complete lack of ability to work successfully with the Brazilian bureaucracy. Finally, in some cases, the Brazilian partners felt that in spite of local legislation and their own concern, they were not benefitting from as much technological training and transformation as they would have liked.

F. Additional Major Points Raised in Interviews

In general, there was clearly a more positive and enthusiastic attitude towards the joint venture concept on the part of those Brazilians who felt they had more autonomy in the management of such a joint operation. Allocation of authority between partners varied from case to case. When the presence of the Canadian partner was largely in the role of technical advisor or managerial consultant, rather than assuming dominant line authority in running the venture, the Brazilians were very positive about their joint company and as a corollory, the Canadians were well respected for their expertise.

Although this particular phenomenon has not been typical of the preferred allocation of roles in all joint ventures in developing countries, the desire to run the local show was characteristic of Brazilians. As a generalization, it may be that such a desire for independence in running a joint operation has been directly related to the level of achievement of the host country. The more advanced a nation, the greater the local pressures to induce foreign partners to adopt a less direct and more advisory type of participation. If accurate, this would be a point worth remembering in negotiating any joint venture arrangement.

The position or status of the principal Canadian and Brazilian negotiators had been important to the potential success of negotiations. In most such situations, if either party was made to feel that they had not been dealing with those who had ultimate authority, or at least authority comparable to their own, animosity had built up and caused discussions to be either cut off completely or to be more lengthy than necessary. As might have been expected in a more traditional culture, the Brazilian respondents in particular placed considerable emphasis on the importance of this aspect of the initial contact with potential partners.

It was very interesting to note however, that this issue of status was also described as being significant by Canadian negotiators. Partly they were clearly reporting upon the importance of foreign status to the success of negotiations. Partly too, this attitude was a practical recognition of the realities of local decision-making hierarchies - only top executives or owners could make important decisions. There also appeared however, to be some evidence of either a halo effect - if foreigners should have status, then so should locals - or assimilation of local values regarding social status on the part of expatriate Canadian personnel.

In many of the joint ventures examined, most or all of the management was Brazilian. The composition of the Boards of Directors was basically and numerically dependent on the proportional ownership of the joint operation. Where majority ownership was Canadian, the Board of Directors was largely Canadian, sometimes apparently to the exclusion of Brazilians, apart from token local representatives. Where majority ownership was Brazilian however, while the converse effect was also apparent, there would usually

be some Canadian representation on the Board. In general, the composition of the Board of Directors did not seem to be an issue of much concern to either local or foreign partners - which gave the impression that many of these Boards were not very important in the joint ventures' decision structure. More important was the extent of effective Brazilian representation or control at the level where decisions were actually being made.

Rates of return cited as general targets for Canadian investment in Brazilian joint ventures hovered about the 25% mark. Given the slower rate of economic growth in the country since 1976, more realistically acceptable rates of return were said to be in the range from 10-15%. However, the expected rate of return did not give a complete picture of the incentives to invest in Brazil. For many Canadian investors, other actual or potential factors, like the development of an alternative source of raw materials such as bauxite or other minerals, took precedence over specific levels of returns on locally-based investment. This was similar to the case of Japanese interests, where the provision of certain finished intermediate products such as "bargain pulp" at extremely low prices was more important than the direct return on investment in a Brazilian joint venture.

Those Canadian interests which were benefitting from minerals produced by a joint venture in Brazil were satisfied with their overall returns for the most part. They also expressed confidence in the growth prospects for the local mining sector. Apart from the local activities of Alcan, Inco and Noranda, which were large and significant investments, the major part of overall Canadian investment was in manufacturing collaborations, numerically about 75% of the projects. This clearly did not imply any element of

saturation of opportunities in this sector, however. Given the encouragement offered in the shape of incentive schemes by the Brazilian government, it was firmly suggested by several respondents that attractive chances for future gains were available through the production of finished products for export and for import substitution of equipment. Also stressed were potential opportunities associated with Brazilian efforts to expand production in the agricultural sector - a specific mandate promised by the new regime of President Baptista Figueiredo.

In spite of the negative impacts of earlier and current inflation in Brazil, foreign interest in the potential of the country continued to be strong and changed only in the composition of origin. The inflow of new foreign investment and loan capital has in fact expanded greatly during the seventies. In 1975 alone, close to $1 billion in direct foreign investment and $6 billion in loans entered Brazil. In 1976 the figures matched those of 1975. As mentioned earlier, future projections by the World Bank and other international agencies suggest that these levels are likely to be maintained in the future. This confidence was an underlying thread which shone through all the concerns expressed and negative aspects of operations described by Canadians and other foreign personnel interviewed during this study, some of which are discussed in the next section of this report.

G. Potential Problem Areas Cited by Canadian Respondents

Inflation in the public and private sectors, "the old story", was universally described as the number one enemy. Fortunately, while still precarious, balance of payments problems eased in 1976 and 1977 thanks to stronger prices for coffee and other commodity exports. Although concerned

for economic credibility in its international accounts, the government has been reluctant to bear down too hard upon inflation by imposing strict economic policies. The danger was that such strategies might provoke a recession, resulting in further unemployment which would inflame existing social discontent over tight political controls that had originally been imposed in order to hold the ring for rapid economic development.

The cost of borrowing on Brazilian capital markets has traditionally been high and long term debt scarce. Local interest rates have edged downwards in the last two years, however. Also, more private money appeared to be available in the financial market than there were takers for such funds. This was perhaps the clearest evidence that Brazil's economy had been cooling off. Foreign exchange risk has reached high levels in recent years, up to a range from 30-40%. At the same time it is worth noting that these discounts have lagged behind inflation rates and as inflation is gradually constrained it can be expected that exchange risk will decrease.

Although it was not at all clear how effective such competitors were likely to be in the long run, the entry of government agencies into some sectors, either independently or as associates, appeared to have been discouraging to some Canadians. At the time of this study it was probably too early to judge the validity of such fears, apart from the known effects of such intervention in certain specific cases. Against these cases should be set in the long run the arguments supported by other respondents in Brazil and by experiences in mixed joint ventures* elsewhere. The evidence from

*A mixed joint venture is one in which there is joint public (usually host government) and private participation.

many other countries, including Mexico, India, Pakistan (Tomlinson 1970; Tomlinson and Thompson 1977), suggests that the best way to pre-empt local government competition has been to join in association with it.

More immediately discouraging had been the creation of legal barriers to entry in some industries and restrictions imposed upon remittance of profits. These, plus the control and review systems for transfer of technology and foreign investment were all described as problems which contributed to prolonging, and in some cases impeding, the establishment of joint venture operations in Brazil. This was further compounded by the effects of bureaucratic inflexibility in processing applications and in coping with divergences from simple standard "rulebook" situations, which was also cited as a problem facing potential investors in the country.

Import restrictions had been a problem for industries requiring component parts to fit into a locally-finished product. These restrictions tended to increase with the age of a given venture and this increase was said to have accelerated since 1976. A typical problem could arise in the case of a foreign-associated joint venture which imported components manufactured to tight tolerances. Local manufacture of a "similar" component might then develop, quite possibly for a customer in a different industry where looser tolerances could be accepted without inhibiting the performance of the end product. At which stage either the government or the component manufacturer would suggest that it was no longer necessary to import the component and it would be removed from the list of preferentially-treated imports. The joint venture which needed the more accurate imported compo-

nent then had to commit a prior deposit of 100% of the C.I.F. value of the total number of components to be imported one year in advance of its actual import purchase in Brazil. Further, such prior deposits with the Brazilian government did not bear interest or monetary correction benefits.

While attractive incentives existed for investment in less-developed regions of the country, location of operations in such regions has created problems which made the net benefit from these incentives debatable. There were considerable transportation and infrastructure limitations. Labor was less skilled, the educational level of the regional population was lower and some respondents felt that wages in these areas were high relative to the productivity of labor, resulting in unattractively high real production costs.

There was a general recognition in the country that the single most important contribution provided to Brazilian development by international firms has been the level of technology introduced. There was currently, however, a widespread questioning in Latin America regarding the cost of technology. The method of introduction has not always been in favor of the recipient country. In many cases technology has only been imported into one or two firms, not to an industry as a whole, resulting in the creation of expensive monopolies. While Brazil has been more relaxed over this issue than nations like Mexico and recently Venezuela, there was an underlying fear of the country becoming dependent on foreign-controlled technology. In reaction to these issues the Brazilian government had instituted strict registration requirements for licensing agreements and severe limitations on the remittance of royalty payments abroad, especially between related

companies. These combined to limit the potential benefits to foreigners of transferring technology to Brazil as compared with past opportunities.

Brazil was also unlikely to allow future investment to be built upon long term, fixed price contracts. The case which first forced the Brazilian government to take a stand on this particular issue was a joint venture between the government and Norway's Borregaard. The initial contract committed the Brazilian venture to sell unbleached pulp to Borregaard in Norway at $50 a ton for fifty years. Soon after the agreement was signed, the price of paper and woodpulp shot up, leaving the Brazilian plant locked in at prices well below world market prices. Public opinion, supported by the government, became most critical in this example of Brazil giving away too much to international firms. An investigating committee recommended that Brazilian interests buy out the Norwegian holdings, and this purchase was in fact eventually negotiated.

Social problems, present and future, were of concern to many respondents. The gulf between the "haves" and the "have-nots" in the country appeared to be widening. The severe inflation rates and continued growth in the southern part of Brazil and limited success of expansion in the less developed regions has enhanced these discrepancies. One Canadian operating a joint venture in Sao Paulo considered that once more people became educated and the economic lot of the poor improved somewhat, social unheaval was inevitable. Not all respondents shared this opinion but most were aware of worsening social problems if the government did not increase its concern and investment in social improvements. The government, in fact, stated that it had underway an investment program which would

cost $70-80 billion over the period 1975-1979, an amount roughly equal to GDP for 1973. Many observers expressed concern however, that current economic problems were likely to interfere with effective implementation of this plan.

IV. CONTROL AND REVIEW SYSTEMS FOR TECHNOLOGY AND FOREIGN DIRECT INVESTMENT

The rules governing foreign investment in Brazil were not fully and specifically laid out in formal legislation. Many important features occurred as irregular governmental statements. Nonetheless rules of the game did exist. The guidelines for foreign investment and associated expectations have been defined in the five year economic plan for the period 1975-1979. In essence, the Brazilian Government expected that foreign investors would:

1. Develop new markets both in Brazil and abroad
2. Carry out research and development in Brazil in order to provide immediate benefits and develop longer term technological capabilities in the country
3. Refrain from control or abuse of a dominant position in a given domestic market, either by restraint of trade or by buying out local competitors (B.I.C. 1975).

The most specific controls over foreign investment have been incorporated in Law 4131 and its amendments. This legislation listed the procedures which must be followed for obtaining and implementing remittance rights. It also defined activities which were closed to foreign investment. In

practice however, a case-by-case scrutiny of investment proposals in these and other nationally sensitive areas was carried out and exceptions, although rare, did occur. In principle, the Brazilian government has preferred to use incentives and disincentives as a means of controlling foreign investors rather than forcing them to conform to a tight, legally controlled environment.

Particular emphasis has been placed on developing the private sector. President Geisel has stated that it is important for Brazil to develop the strong base required in order to compete with international firms. In this context, new industrial policies have been structured to provide more credit facilities and to develop new methods by which capital and technological advantages could be given to local firms. Access to these incentives and other advantages often depended upon the percentage of Brazilian ownership in a given operation. Once again, the method of case-by-case evaluation by the CDI or other government agencies provided the basis for determining the availability of assistance.

A number of local institutions have been created in order to give support to industry. Amongst these were Ibrasa, Embramec and Fibar. Investinentos Brasileiros (Ibrase), was an investment company owned principally by BNDE, the national development bank. Its main objective was to provide local firms with investment capital needed to enhance their competitive positions. This could be provided in the form of loans or direct equity participation since Ibrasa could join a firm as a minority partner. The second institution was Mecanica Brasileria (Embramec), a BNDE-owned holding company whose aim was to help local manufacturers of capital goods. It could also enter into joint ventures

involving both local and foreign firms. Third was Financiamentos de Insumos Basicos (Fibar), a window of BNDE which was open only to Brazilian-controlled enterprises. More specifically, Fibar concentrated upon assistance to firms producing basic raw materials, nonferrous metals, pulp and paper, or other products in which the Brazilian Government was seeking to develop national self-sufficiency.

The National Institute of Industrial Property (INPI) carried out the main evaluation of potential technology transfer. Its appraisals have been based mainly upon the following considerations: requirements for government credit, the extent and impact of qualified incentives, and the political implications of the decision. Any foreign investment in Brazil which involved significant transfer of technology (currently translated to mean virtually all such investment) had to be approved by INPI. Without its specific approval the capital invested could not be registered with the Central Bank. Unless the capital was registered, it did not qualify for remittance abroad of earnings in Brazil - a bone of contention for many years for a large part of Brascan's major investment in Brazil, and more recently for Alcan.

Approval consisted of two stages. In stage one INPI gave an applicant an indication of any points which it considered to need changing in the terms of the technology agreement. After all these revisions had been clarified - a stage where there appeared to be some scope for negotiation, the second phase was the actual timing of the approval. Even government agencies were expected to go through this process before signing any agreement involving a transfer of technology with a foreign company. Conditions under consideration and the thrust of negotiation have tended to vary on a case-by-case basis.

Concern for a real transfer of technology has usually been much more important in recent negotiations than issues related to transfers of currency. The creation of joint ventures has been stressed as the most appropriate and preferred method of reconciling these objectives. Apart from these considerations, foreign capital was in principle allowed to enter freely and received identical treatment to that of local capital. However, foreign investment on which future earnings would be remitted abroad had to be registered with the Central Bank within thirty days of entering the country.

Limitations were also imposed on the number of foreign nationals a Brazilian operation could employ. Employers had to obtain work cards for all employees, including local nationals, from Ministry of Labour. In a firm employing more than three people, two-thirds of the employees had to be Brazilian and were expected to receive two-thirds of the total payroll. The only exceptions were made for the case of foreign specialists who could not be recruited locally and were permitted to be excluded from the calculations (I.L.&T. 1976).

No formal rules against takeovers appeared to exist. However, the Brazilian Government had made it quite clear that it did not favor foreign acquisitions of local firms unless they were accompanied by fresh capital contributions and new technology. The government had asked foreign firms to voluntarily restrain from simply buying up local firms. Monopolies too were not forbidden *per se* but had to be prepared to justify their prices should they be accused of arbitrary or excessive increases.

V. DIVIDENDS AND OTHER PAYMENTS

The Profit Remittance Law of 1962 has governed the transfer of profits and dividends from Brazil. As noted above, no foreign firm operating in Brazil could repatriate funds until its capital had been registered with the central bank and it had paid taxes on its income. Firms producing goods classified as luxury items could not remit profits equal to more than 8% of registered capital each year. Most other investments did not have specific profit remittance ceilings. However, a supplementary withholding tax of 40-60% was imposed on the net amount of any earnings taken out of the country which were in excess of 12% of the registered capital in a given year.

In order to establish remittance rights for principal and interest on loans from abroad, all such loans also had to be registered with the central bank. As a general rule the bank would not approve foreign loans if they were offered for a term of less than five years.

Royalty payments on patents or trademarks could only be made following approval of an application to the INPI. It was necessary to provide proof of registration both in the country of origin and in Brazil. Prolonged delays in the registration process had often been a considerable source of frustration for foreign investors. Fees and other payments in this category have generally been limited to between 1% and 5% of gross sales, depending on the essential nature of the product. Trademark royalties have usually been restricted to 1% and then only for the first ten years after registration. Royalty payments by branches or subsidiaries (50% or more owned by a single

foreign investor) to parent companies were forbidden and payment for technical assistance from the parent was not tax deductible for the Brazilian affiliate.

Technical assistance fees could be negotiated up to the maximum of 5%. Service fees for foreign personnel were limited to $200 a day (in 1976) and clear proof of services rendered had to be given to the INPI. These payments were tax deductible for the licensee. All payments of this class were subject to a 25% withholding tax.

In 1976 Brazil introduced new regulations on trademarks. Royalties for trademarks were treated in a similar fashion to those on patents and limited to ten years. Henceforth, after expiry of the original trademark agreement, the licensee may continue to use the mark with no obligation to the licensor. Initial concerns of foreign firms have focussed on the danger that long-term use of a trademark without some control by the original licensor may change the image of the mark due to quality fluctuations. In the short term this legislation appeared to have reduced the enthusiasm of some potential foreign investors to commit funds, technology and management to new product development in Brazil. This was stated to be mainly because of the threat to the integrity of trademarks in operations in other markets.

Compliance with patent licensing provisions has often been expensive and discouraging to foreign investment in some areas. Training of a licensee's employees to permit successful use of the technology has virtually become a mandatory requirement. In most cases it is also stipulated that licensing of a patent would be combined with transfer of engineering know how and the

provision of any technical assistance necessary to get the patent into full operation. These regulations also provide for the appropriate transfer of knowledge concerning any improvements to the licensed technology for the duration of the contract.

VI. LEGAL ENVIRONMENT AND SETTLEMENT OF DISPUTES

The federal supreme court in Brasilia applies the federal code of justice, and has eleven judges who are appointed by the President and approved by the Senate. There are lesser federal courts in each state, in the Federal District and in the territories. In the states, justice is mainly administered by state courts in accordance with state law. Judges are appointed for life and there are over 3,000 magistrates as well as over 5,000 justices of the peace.

A company operating in Brazil naturally is subject to Brazilian law. In most cases however, part of the process of establishing a joint venture agreement includes the definition of a formal set of guidelines for the settlement of disputes. The terms of these agreements usually specify that such disputes will be referred to the courts as a last resort. It was reported however, that internal disagreements between partners had very rarely been allowed to go so far as to require recourse to the judicial system. More frequently they had been referred to panels of external arbitrators, independent of the formal legal system of Brazil, or to the International Chamber of Commerce.

Some of the more difficult disputes had arisen in cases where the partners had each owned 50% of the equity in a joint venture. In a typical case, the

terms of the joint venture agreement prescribed how to resolve conflicts in areas such as levels of production, short-term financing, selection of personnel and similar operational problems. When a disagreement between partners arose, the chief officer of the company first tried to resolve it himself. After this initial effort at internal mediation was unsuccessful the problem was presented to a formally convened arbitration committee consisting of three members external to the joint venture and its partners. When the dispute could not be resolved at this level it was referred to the International Chamber of Commerce which has regular sets of procedures for arbitration in such cases. Resolution at this level reconciled international elements in the conflict of interest and obviated the necessity for submission to the rulings of the Brazilian code of law.

In general, agreements specified that unanimous consent from the coordinating committee of a joint venture was required for decisions in the areas of budgeting, construction projects, engineering, expansion of facilities, borrowing from third parties, provision of guarantees, contracts, curtailment of rates of production, transportation contracts, settlement of claims, selection of executives, accounting procedures, selection of accountants or auditors, plus any changes in the terms of the agreement or the articles of the company. Special conditions were specified for agreement upon operations involving specialized activities such as the sale of mining property or the acquisition of mining rights. In most cases in Brazil, the internal methods for reaching understanding had proved to be adequate and recourse to the International Chamber of Commerce had been relatively infrequent.

VII. TAXATION

The basic income tax rate on corporations at the time of this study was 30%. Public utility firms only bear a 17% burden, with the level as low as 6% for electric companies. In addition there is a 5% tax on dividends distributed to non residents of Brazil, plus a withholding tax of 25% on profits of branches of foreign companies and dividends paid to non-residents. For foreign owners therefore, the total tax as a percentage of taxable income is approximately 50%. Withholding taxes are reduced under reciprocal tax treaties with some countries, but such a treaty does not exist between Canada and Brazil. As noted previously, there is also a supplementary tax at rates of 40% to 60% on any remitted profits which exceed for three consecutive years a level of 12% of registered foreign capital.

Reductions in taxation are applied to government-owned and mixed public and private firms and to open-capital companies (companhia de capital aberto). Interest payments on foreign loans, although basically liable to the 25% withholding tax, upon repatriation, have received a rebate of 85% of this tax since 1975, leaving the actual rate at 3.75%. Since 1977 this tax has been removed completely for interest paid on loans with a maturity period greater than eight years. Withholding taxes are also applied at the 25% level to royalties and other fees paid to foreign firms.

Standard deductible expenses include the cost of goods sold, selling, administrative and operating expenses, and charges, reserves and losses as legally authorized. There are also a number of other expenses which are deductible, depending upon special characteristics of the company related to

such features as the level of foreign ownership, proportion of output which is exported, significance of the activities to national economic development and location in regions of underdevelopment. Depreciation and other accounting calculations can be based upon asset and liability values which have been adjusted by officially approved levels of "monetary correction" to allow for inflation and by indexing of foreign currency denominated obligations in line with official devaluations.

Traditionally, tax evasion had been common in Brazil and since 1964 the government has tightened up the tax system, initially by increasing indirect taxes. The main instruments were the Industrial Products Tax (IPI) and the Merchandise Circulation Tax (ICM). Both were value-added taxes, applied in the first case as an excise tax on each stage of production, and in the second as a sales tax on each physical transfer of ownership in finished goods. Success in increasing government revenues has led to reductions in both these taxes. ICM rates in 1978, for example, ranged from 13% on most exports to 15% in the Amazon and Northeastern regions.

Personal income tax rates are lower than in Canada, with a top rate of 50% on incomes over $55,000. Non-residents (who have lived in the country for less than twelve months) are not taxed on foreign-source income, but pay a 25% withholding tax on their income from Brazil. New residents are exempt from taxes on foreign source income for five years. Other residents pay Brazilian taxes on their global income, with credit for foreign taxes paid on income generated in countries which have a reciprocal tax treaty with Brazil.

Few respondents to this study had found problems in the Brazilian tax

system. While indirect taxes were high, there were many opportunities for tax reductions, notably through incentive write-offs offered to exporters. The general impression appeared to be that the total tax liability package for Brazilian operations was less onerous than its Canadian counterpart.

VIII. MARKET PARTICIPATION AND SHARES

Foreign investment is not formally proscribed in any sectors of the Brazilian economy nor are any exclusively reserved for government agencies. In practice however, the government has adopted a policy of only approving projects with a Brazilian majority in the following areas:

- Banking
- Coastal shipping
- Domestic airlines
- Fishing companies
- Insurance
- Iron and steel
- Lotteries
- Mining
- Newspapers
- Petroleum and petrochemicals
- Power and other utilities
- Radio and television stations
- Telecommunications

This insistence, coupled with periodic shortages of private domestic capital have led to an increasing participation by the government itself, with effective state monopolies in oil refining and developing monopolies in power and utilities. Furthermore, state agencies have assumed dominant positions in petrochemicals, steel, iron-ore mining, and other minerals.

Examples cited to illustrate the emerging pattern of foreign minority ownership included Alcan, Hanna, Du Pont and I.T.T. Alcan had received

preliminary approval in 1970 for plans to create a wholly-owned subsidiary to mine bauxite in the Amazon region. Development of the project was held up however, and when the proposal was re-opened in 1973 the situation had changed. Eventually Alcan became one of several partners in a venture which by 1974 had been restructured in line with the preferences of the Brazilian government. Alcan emerged with only 19% ownership, other investors had 30% and Cia Vale do Rio Doce (CVRD), a Brazilian state agency, held 51%.

Hanna Mining had attempted to set up a local subsidiary to mine and export iron ore but met with discreet obstruction and had to settle for a joint venture in which it was only permitted to hold 49% of the ownership in Mineraloes Brasileiras Reunidas. Du Pont joined with a local private partner, each holding 45% of Salgema Industrias Quimicas, a $90 million chlorine and caustic soda producer in the Northeastern region. When the local partner ran short of funds, the National Economic Development Bank (BNDE), which originally held only 10% of the equity, took over the whole Brazilian share and it was transferred to Petroquisa, a subsidiary of the state oil company Petrobras. I.T.T. was "persuaded" to restructure its telecommunications equipment producing subsidiary Standard Electrica into a local majority-owned venture, Seber (I.L.&T. 1976).

Most of such cases have involved strategic or basic industries and similar pressures have not been exerted in most sectors of manufacturing - which account for three-quarters of the foreign investment in Brazil. Notably too, the pressures have been aimed at creating Brazilian majority ownership and the government has not indicated that it wished to follow a policy of complete nationalization of industries that are considered to be basic in the Brazilian

economy. In fact, a constitutional provision assures general rights to property ownership and property may legally change ownership only after an equitable sales price has been negotiated. Naturally, a sovereign government has considerable power to exert influence through less formal channels and the Brazilian Government's hints and suggestions usually require acquiesence. Nonetheless, its velvet glove philosophy is intended to encourage negotiation leading to cooperative compliance in which all parties can obtain some benefits.

Total foreign investment in Brazil was over $10 billion as of 1978, of which roughly 29% was represented by reinvestment. This total was broken down as follows:

a) By main countries of origin:

U.S.	34%	Canada	5%
West Germany	14%	France	4%
Japan	14%	U.K.	2%
Switzerland	10%		

b) By major sector:

Manufacturing	74%
Services	16%
Utilities	2.5%
Mining	2.5%

c) By influence of foreign activity in selected industries:

Automotive	100%	Chemicals	46%
Pharmaceuticals	84%	Pulp and Paper	40%
Auto parts	60%	Food and Tobacco	30%
Machinery & equipment	50%	Aluminium	30%

Over 25% of the 200 largest companies in Brazil were still foreign majority-owned at the end of 1977. Many of the others had a significant foreign minority share of equity. However, most of this remaining 75% were state-owned or state-dominated companies (I.L.&T. 1977). Three firms accounted for over 80% of all Canadian investment in Brazil in 1978 - Brascan, Alcan and Massey Ferguson. This position will presumably change in 1979 following Brascan's sale of its 83% interest in Light-Servicos de Eletricidade (Light) to Electrobras for U.S. $390 million, roughly 50% of Brascan's total unregistered investment in Brazil (B-C.N. 1979). Part of the deal involved an Electrobras agreement to pay supplementary withholding tax charges incurred by Brascan in repatriating funds from the sale in excess of its $210 million of formally registered capital in Brazil (F.P. 1979). Apart from Brascan, Canadian investment has been most dominant in banking and insurance, representing, until recently, roughly half of total foreign investment in these sectors (B.I.C. 1975).

IX. SOURCES OF CAPITAL

Credit has traditionally been tight in Brazil and high levels of inflation have made it very expensive. There are effectively no sources of long-term credit apart from government funds. One to three year medium term credits are available from investment banks at annual rates which ranged around 49% (including monetary correction) in 1977 and 56% in 1976. Because of the country's needs for industrialization and development, there is no indication that the capital shortage is likely to ease over the next decade.

While banks are an important potential source of local funds, the capital

they can make available to the market is restricted by a central bank directive of 1976 requiring them to reserve 50% of their funds for majority Brazilian-owned enterprises. This provides a serious inducement for foreign companies to become minority partners in joint ventures in Brazil. Furthermore, enterprises structured in this fashion may also qualify for medium and long term credits from BNDE, the National Bank of Economic Development. This provides considerable advantages since the combination of BNDE's low interest rates (3%-9%), the limited ceiling of 20% it applies in terms of monetary correction, coupled with the high rates of domestic inflation, amount in effect to loans at negative rates of interest.

However, while this is a strong incentive for foreigners to assume a minority equity position in Brazilian joint ventures, preferential access to funds is not in itself enough. It is still important in considering a joint venture in Brazil to look at the status of a potential partner in actually qualifying for local credit. A common complaint by many Canadians who had been willing to undertake projects in Brazil concerned the difficulty they had encountered in finding a local partner with sufficient capital. In fact, for many Brazilian firms, the opportunity of taking advantage of a credible foreign partner's access to capital markets abroad had been an important feature in their own decision to enter into a joint venture. While most foreign companies had themselves preferred to borrow abroad for their capital needs in Brazil, the host government has varied from time to time the tightness of its controls on such borrowing in order to preserve the nation's credit standing abroad in the face of a mounting national debt (over $32 billion as of 1978).

All foreign loans entering the country must be registered with the central

bank in order to guarantee the right to eventually purchase the foreign exchange necessary to remit the principal and interest. The second restriction facing foreign loans is that they should have a maturity of at least five years. There is no current requirement for mandatory deposits, although the minimum grace period was lengthened to thirty months in 1977. Loans which are for eight years or longer are in any case exempt from the official 25% withholding tax on interest payments. In order to further encourage the flow of needed funds into Brazil, even for working capital, this tax has currently been reduced by offering an 85% rebate. The controls are now considerably more liberal than they were even ten years ago, when the compulsory deposit requirement on loans entering the country was 40%.

Foreign loans may be processed through Resolution 63 of the central bank, or under Law 4131 which covers the remittance of profits. Under the first of these routes, foreign funds are loaned to a Brazilian bank which relends them to the local borrower. The currency swap arrangement involved adds an additional charge to recompense the local bank, but the process has the flexibility of permitting relending for as short a period as six months. Under Law 4131, a loan is made directly from abroad to the borrower in Brazil. This reduces basic charges on the loan, but the borrower carries full currency risk and proceeds can only be relent for a period of eighteen months or more.

The stock market in Brazil has come through a rather weak period, reviving temporarily in 1975 from a slump which began in 1971. However schemes to strengthen the market have been introduced. New financial institutions or investment societies have been licensed to offer mutual funds through which foreign capital can be brought into the local capital market. In 1978, the

regulation of the stock market was to be taken from under the wing of the central bank by a separate institution, Comissao de Bolsas de Valores, comparable to the S.E.C. Hopefully a growing, reliable stock market will encourage more capital to enter the country and alleviate many of the pressures associated with the capital-short dilemma Brazil faces. In the short term however, the new moves since 1975 have only attracted about 50% of the anticipated $100 million to the Brazilian market (I.L.&T. 1977).

X. GOVERNMENT INCENTIVES AND DISINCENTIVES

The economic development philosophy of the Brazilian government has two main planks. The first is to encourage development in particular industries and geographical regions. The second is to strengthen local firms. For these purposes, incentives and disincentives rather than rigid directives are used as control mechanisms. Thus, for example, government has preferred to use what might be called disincentive schemes to restrict market entry rather than overt barring of access to certain industries. It is also in this context that access to local financing is withheld for foreign majority-owned companies in Brazil. Acquisition of rural lands and investments in national security zones is also restricted. New foreign banking operations are limited to one-third ownership in local investment banks. Although no formal rules exist regulating foreign acquisitions, social pressures are forcing the government to keep a watchful eye on takeovers and government interventions have occured. The regulations surrounding dividends, royalties, patents and trademarks also act as disincentives in particular cases. Payments to parent companies for technical assistance are not tax deductible. Officially, the profit remittance laws do not allow the registering of know-how as new foreign investment,

except in special cases involving highly desired technology.

Import controls act as strong disincentives to individuals and to businesses contemplating purchases of foreign goods. Brazil's deficits on its balance of payments have periodically induced the government to institute very restrictive import regulations. Although there was some easing of tariffs in 1977 and more may be expected after the current GATT round of negotiations, duties on certain goods are now steep. For unclassified imports, 100% prior deposits are required up to twelve months in advance and these carry no interest or benefit of monetary correction. All imports must be licensed and there are considerable administrative bottlenecks. These measures all combine to slow down and reduce import flows as well as placing some manufacturers in a precarious operating position.

Performance Sailcraft do Brazil manufactured the internationally acclaimed Laser sailboat for the local market. It required very precisely designed and produced sails which had previously been imported from the USA. However, in 1977 a local manufacturer of fishing boat sails stated that they could provide a "similar" sail for incorporation into the Laser package. This immediately disqualified the imported US sails from the regulations appropriate to necessary components and made them liable to exorbitant duty and prior deposit rates. As a result, the Brazilian Laser will eventually be rendered non-competitive in the market, either on the basis of performance or price.

However, despite the host of potential negative incentives which exist, many foreign investors have clearly not found them to be completely discouraging. Capital investment and reinvestment in Brazil was still considered by

most respondents in this study to be capable of earning attractive potential returns. Of equal interest to potential Canadian investors therefore, are the broad range of incentives available for industrial and agricultural projects. There are three major incentive schemes, all managed at the federal level:

1) Priority Industries Scheme, administered by the Industrial Development Council (CDI) under Decree Law 1137. This offers IPI tax and duty concessions on imported equipment, privileges for the purchase of locally-made equipment and preferential treatment by the central bank when registering new investments. These incentives are now being limited to industries that can provide industrial decentralization, generate exports or offer import substitution. They must also offer desired new technology and be adequately financed.

2) Regional Incentive Schemes, administered by Sudene and Sudam for the Northeast and Amazon areas, and Sectoral Incentives Schemes in forestry, fishing, or tourism, managed respectively by the Brazilian Institute for Forestry Development (IBDF), the Superintendency for Fisheries Development (Sudepe) and the Tourism Industry Development Board (Embratur). These offer exemptions from duties on imported equipment, tax holidays for new investments and income tax credit for reinvested earnings from other Brazilian operations.

3) Export Incentive Schemes; proceeds from exports of virtually all manufactured or semi-manufactured goods are deductible from taxable profits. Most industrial exports are also exempt from ICM and IPI taxes; furthermore, the full amount of the IPI taxes which were not charged on the exports can be credited against the federal taxes on the manufacturer's domestic sales. Exporters also qualify for reductions in withholding taxes on royalties, fees and foreign loan interest, plus reduced or exempted

duties and IPI taxes on capital goods imports required for export schemes approved by CDI. Many of these concessions are supervised by Befiex, the Export Fiscal Incentives Commission. Decree Law 1219, which established Befiex, was originally intended in 1972 to provide incentives for large corporate export programs. It permits amortization of start-up costs over a ten year period. Also any payments of tax penalties on excess profit remittances attributable to export earnings can be used as credits against other tax liabilities of a qualified exporting firm.

Export credits are available through various departments and programs of the central bank - Cacex, the External Trade Department for periods exceeding six months and Crege, or General Credit for shorter terms. Longer terms for exports to Lafta, especially of capital goods, can be funded by BID (Inter-American Development Bank) credits, via the Special Export Financing Fund (Finex) of Banco do Brasil. The Brazilian Reinsurance Institute (IRB) offers export insurance to cover extraordinary commercial and political risks, while lesser commercial risks can be covered through private foreign and Brazilian insurance companies.

The extent to which Canadian firms interviewed had been either hindered or encouraged in their operations by these disincentives or incentives respectively was unclear. Many of the problems which they described had in fact arisen as a deliberate and anticipated result of particular government policies such as these. Generally however, all respondents indicated that the situation in Brazil was tolerable. Many Canadian companies which were operating with less than a 50% share in control of equity were in fact doing so out of their own choice. As mentioned above, most of the benefits from participating in a

Brazilian firm with a locally-owned majority were primarily financial. The implications would seem to be that some, at least, of these incentive schemes have had the effect which the Brazilian Government desired, and at the same time, that most Canadian firms operating in Brazil have not suffered undue hardships from the negative incentives.

XI. LABOR

During earlier periods of foreign direct investment in Brazil there was an abundance of unskilled labor. Even through the sixties and early seventies supply exceeded demand for labor. However, this situation appears to be changing, although opinions on its availability varied. There is already a shortage of skilled industrial workers except in the Southeast, where alternative opportunities open to them keep wages relatively high. While shortages of labor generally are not forecast to rise until the 1980s, the untapped pool of workers who are willing and keen to be trained appears to be dwindling.

Some interesting reasons were offered for this lack of enthusiasm. For example, the most immediate problem new employers were said to face with labor was the fact that they did not have the necessary tools and equipment. It was not uncommon for a mason or carpenter to report to work with a very rudimentary set of home made tools. For their part, companies were usually willing to supply the more sophisticated hand tools which they felt the workers required. The latter however, were reluctant to have the equipment signed out in their own names, since it then became incumbent upon them to either return a given tool or pay for it. Due to the very high rate of petty

thievery which apparently existed, it was almost impossible to retain a new tool in one's possession for very long. Once "lost" or stolen, the expense to the workers of replacing a tool was high enough to discourage them from taking the risk involved in the responsibility.

Managerial talent was very scarce, particularly away from large centers. The government has been trying to remedy this situation through general education and specific training schemes, but it will take many years to satisfy this particular demand. As a result many firms have incurred considerable additional start-up costs in order to train supervisors and managers as well as developing basic operating skills in workers. Recent restrictions on tourism by Brazilians have also indirectly hindered this training by increasing the cost of moving Brazilian managers to North America under exchange training programs.

Only one-eighth (about 5 million) of the labor force is unionized and unions in general are not very powerful in Brazil. They are, in any case, strictly controlled by government and some even come under direct government supervision. Illegal strikes have effectively been banned since 1964 and the penalty for organizing such a strike is four to ten years imprisonment. All strikes in the "fundamental" sectors (specified as strategically important to the economy) must be arbitrated within ten days or brought to court, after which stage, a decision must be made by the bench within twenty working days. In order to be legal, a strike must be approved by all the employees involved and employers must be given ten days notice. As a result of these regulations, strikes have been rare and short-lived. The Brazilian Government is likely to maintain this strict control over labor even under loosening conditions of

"democratization" (I.L.&T. 1977).

Minimum wages are set annually and are regularly revised in line with the inflation rate. The government's own figures show that real purchasing power has actually decreased by 40% since the takeover by the military regime in 1964. There has been a trend in the 1970s to grant higher wage increases since officials believe that labor has borne the brunt of industrialization, but has reaped few of its benefits. Compulsory fringe benefits add about 75% to the basic cost of wages. They include such features as paid vacations, an annual bonus, contribution to severance pay funds and twelve weeks maternity leave with full pay for women. Sundays are also paid but not worked and full pay is given for the first fifteen days off work for sickness. Companies with one hundred and more employees must provide schools for employees' children or pay 1.4% of the payroll to support state primary education.

Generally, Canadian respondents were enthusiastic about Brazilians as workers. The latter shows an interest in learning, is anxious to please and tends to be loyal. Workers put in a six day week of usually forty-eight hours. Workers are used to meeting deadlines and will not hesitate to put in extra scheduled hours. One person interviewed said that the Brazilian manager and worker had a different style for getting the work done. It is up to the Canadian to adapt. He personally enjoyed the Brazilian way.

Employers must obtain work cards for all employees, whether they are nationals or otherwise. In a firm employing more than three persons two-thirds of all employees must be Brazilian and must receive two-thirds of

the payroll. In order to meet the second part of this requirement, joint ventures have been paying most of the managerial salaries to Brazilians. For the companies under study, a large percentage of all managers were Brazilian in every case.

XII. RELATIONS WITH GOVERNMENT

The nature of the relationships of these respondents with the Brazilian government had varied, ranging from the direct and formal link between partners in a joint venture, down to simply filing an annual tax return. Generally the government was perceived as being bureaucratic and relatively strict in terms of maintaining its political and economic control. Several respondents suggested that in order to protect the long-term security of their Brazilian operations it had been necessary to avoid any disagreements or arguments which could have been interpreted as critical of the regime.

One person stated that "the direction of government policies is working to complicate investment by foreigners in the future". Others however, praised the Brazilian Government's efforts to bring stability to the country. In general, there appeared to be a considerable amount of confidence in the competence of the government to control both present and future economic pressures in Brazil. Canadian executives recognized the reality and accepted the necessity for active state involvement, at both regional and national levels, in several fields, including the provision of public services, utilities, development of natural resources, and increasingly in basic areas of production such as mining, steel and petrochemicals.

The private sector in Brazil has become more critical recently of foreign capital investment in the economy. It has also become concerned at the level of government involvement, currently about 60% of total capital investment. However, given the private sector's own weak financial base it does not have the capacity to match foreign investment at levels sufficient for the rate of economic growth desired. The government's policy has been to resolve this dilemma by filling the gaps in investment needs, while at the same time preserving Brazilian control of basic industries.

No Canadian firms reported any seriously unfavorable relationships with the Brazilian Government. Even in cases of mixed ventures, like Brasvacin S.A., in which Connlab of Toronto holds 30% ownership in a joint venture with state participation there had been few problems. Canadian partners appeared to have been generally pleased with their relations with government partners. For those joint ventures which had private Brazilian investment, one of the primary advantages of having Brazilian partners was stated to be that the latter provided an effective interface with the host government. While this strategy may in fact have been unnecessary in Brazil, better operations were thought to ensue when local partners were left to develop good relations with government officials. As might have been expected, this attitude varied inversely with the Canadian firm's experience in Brazil. For companies like Brascan, Alcan or Massey Ferguson there was little need for intermediaries.

XIII. RELATIONS WITH BRAZILIANS

There was unanimous agreement by the Canadians interviewed that their relationships with Brazilian partners and the Brazilian people generally had been good. Brazilians were always looking for technical know how which could be adapted to local needs and this demand exceeded the available supply. While problems had arisen over issues such as financing growth, they had practically always been resolved without acrimony, even where arbitration had been necessary, or when partners had had to withdraw from a joint operation. Brazilian workers were seen to be willing, they learned and adapted quickly and were generally said to work harder than their Canadian counterparts.

One Canadian firm mentioned social problems which it had experienced when it first established its operations in Brazil. Company officials attributed these to the climate into which they had moved. Prior to their arrival in the town, a large foreign-owned mining operation had recently closed down, leaving behind hard feelings among the local inhabitants which were initially projected onto the new foreigners. These negative attitudes had however, been overcome fairly readily with the success of the new operation.

Several companies had staffs which were 100% Brazilian. This had created a good image, working climate, staff relations and contacts with government and markets. On the other hand, there was also some suggestion, mainly by Brazilian respondents, that in some of the companies where only a few Canadian staff actually worked in the Brazilian operations, the locals had a sense of being overlooked by their foreign partners or employers in terms of the latter's commitment in both a managerial and a social sense.

XIV. CONCLUSIONS

A. The General Environment for Canadian Investment in Brazil

The main current problem in Brazil is the recession which the country has been fighting since 1975. This would certainly affect its stability as an environment for foreign investment if a prolonged period of negative or zero economic growth continued, coupled with a high rate of inflation. However, the country's growth problems appear to have been handled with sound economic management. Even the rate of inflation has been first lowered and then placed under a tolerable system of control.

The key to Brazil's attitude towards inflation is in the use of monetary correction. This does little directly to reduce inflation but does at least spread the misery across a wider spectrum of the economy. Indirectly it may reduce potential dissatisfaction and therefore friction between different groups of the population. This reduction may in turn reduce demands for wage or price increases and indirectly slow down the general rate of inflation. It may also avoid costly socio-political strains by:

a) Postponing the day of "distensao" until economic growth is more robustly self-sustaining and the country can afford the luxury of full democracy;

b) Lowering the level of panaceas that must be paid out by the governing regime in order to buy off potential sources of disruption.

In the long term, reduction of inflation while maintaining economic growth can only come about as the result of structural changes in the economy. The government is attempting to bring about changes in capital

structure by encouraging foreign investment while investing heavily itself. It is trying to change market, concentration and location of supply structures by differentiating controls and incentives. Finally it is trying to increase the aggregate base of technological capability. All these need time to achieve and time is being bought in the shorter term through monetary correction and minidevaluations of the currency.

For Canadian investors in Brazil, coping with inflation is not in itself a threat, in fact inflation is in itself a potential source of profit - provided:

a) that it is predictable,

b) that governmental corrections are accurate, and

c) that the private sector is permitted to correct for any residual inaccuracies in monetary correction.

It appears unlikely that the government's determination to command the economy will weaken for the next presidential cycle of six years, nor that its methods of control will change significantly. If so, one of the main underlying requirements for successful foreign private investment - predictable consistency in the socio-political environment - will be met.

The government's own intervention in building the nation's capital structure has created an indirect problem for foreign investors. The resulting scale of state involvement has led to dissatisfaction in the Brazilian private sector. Although most of these complaints have so far been directed against dominance by the state, many of the projects which the latter has undertaken have necessitated participation by foreign firms since they have been too large for the resources of the local private

sector. By association therefore, some of this dissatisfaction has reflected upon the foreign partners of the state. As a result, the government will have to be wary of appearing too generous in its efforts to attract foreign investment. While the lack of local capital probably precludes any effective major pressures for "fading out" foreign equity, foreign investors can expect to face more searching examination of their operations and new proposals for features such as:

* beneficial effects on Brazil's balance of payments and national revenues, both directly on the capital account and in generating exports or substituting for imports;
* positive and effective transfers of technology into Brazil, including practical stimulation of the country's domestic R and D capacity;
* industrialization benefits for less-developed areas of the country in line with the governments' plans for economic decentralization;
* training and upgrading of local labor and managerial resources, together with the stimulus of indigenous entrepreneurial capabilities through linked supply and distribution opportunities.

The need for conforming to these requirements should not discourage potential Canadian investors in Brazil. In the first place, the broader feasibility studies necessitated are likely to lead to better planned and more soundly-based investment projects with a correspondingly higher probability of success. Second, compliance earns potentially attractive rewards in the form of incentives to the investor. Finally, for smaller Canadian companies who will be perceived as potentially less dominant or threatening to the local economy, the conditions for entry are in any case likely to be applied less rigorously.

B. Potential Areas of Opportunity for Canadian Investors in Brazil

In spite of the government's emphasis upon future Brazilian dominance of ownership in basic industries and minerals, the market potential for the former and the richness of resources in the latter leave considerable opportunities for Canadian investors. In manufacturing, the emphasis is upon plants which reduce the need for imports or create exports. Tariff conditions for exporting to other LAFTA markets are favorable and labor costs make exporting to North America relatively competitive. Industries which are currently re-emerging from recession include appliances, automobiles and parts, cement and some construction materials, chemicals, clothing, metals, pulp and paper, together with activities related to petroleum, electrical energy and steel.

While the usual problems of creating industries in less-developed areas (associated mainly with infrastructure limitations and supply of trained labor) do exist, there are interesting potential opportunities in the North-eastern and Amazon regions. Much of the indigenous resources are unmapped as well as untapped. Furthermore, the federal government offers a considerable range of financing, tax-sparing and remittance of earnings incentives, while regional governments add more site and plant specific inducements to compensate for problems in establishing operations.

Most of the attention of foreign governments and analysts to investment opportunities in Brazil has focussed upon general conditions for large-scale investment projects. The host government for its part needs to import a large volume of foreign capital and technology and realistically therefore spends more time upon the larger potential importers. Technology however,

is not vested exclusively in large companies. Many small Canadian firms have earlier, de-bugged generations of products and processes which fit very closely the general definition of "appropriate" technology for environments like that of Brazil. If they can themselves obtain sufficient capital and managerial resources to operate an investment abroad, the Brazilian market offers them potential opportunities that are at least as attractive and often more feasible in terms of market competition than possible expansion in a competitive North American market.

C. Protection of Capital Values and Exposed Assets

Thin local capital markets, unavailability of local long-term debt financing, coupled with tightening debt:equity ratio requirements, are increasing the need for commitment of foreign-source funds to new investments in Brazil. Unless the current wave of off-shore petroleum exploration produces a "Mexican-type" bonanza, (and this is certainly possible), the country's future demands for development capital are not likely to permit any easing in this situation. Preservation of asset and earnings values in local currencies is reasonably well maintained through regular official monetary corrections. The intrinsic value of assets is also preserved through denomination of remittance guarantees in the currency of origin.

On the other hand, the penal levels of taxation upon remittances of earnings which exceed 12% of the registered capital base means that only 25¢ of each dollar earned above this level can actually be returned to Canada. This is a discouraging factor rather than one which precludes repatriation of earnings from Brazil for most foreign firms. For companies exporting from Brazil, these penalties can in any case be applied against

other local tax liabilities. However, they do create an inducement for foreign companies to reinvest earnings in Brazil's future. Such a strategy also attracts further domestic incentives when, for example, the reinvestment fits into national regional decentralization plans. Thus for Canadian investors looking for a reasonable short-term return on earnings while maintaining the integrity of an investment in a long-term commitment to the growth potential of the Brazilian environment, the situation would appear to be quite acceptable.

D. Local Ownership Requirements and Joint Ventures

Requirements for equity participation in new investments by local nationals are increasing in most Latin American countries. Brazil is no exception. This trend has been deplored by many U.S.-based multinational companies unused to interference with their freedom to act in their own best interests. Without in any way suggesting a higher level of philanthropic motivation on their part, practically all Canadian executives interviewed in this study had readily accepted the trend, had complied and had sought out suitable partners. In most cases they had also found positive benefits in these relationships.

There may be an element of fear of the unfamiliar on the part of Canadian executives who have not "tested the water" abroad. Certainly the more striking reports in the media and the foreign investment literature have dealt with failures in joint operations abroad. Murders and disasters after all make better press than successful marriages. Whatever the fears however, future foreign investment in Brazil will have to be in the form of joint ventures, increasingly often with a Brazilian majority in ownership,

or not at all. It would be a pity if such unnecessary fears were to preclude the opportunities in countries like Brazil.

XV. SOME RECOMMENDATIONS FOR CANADIAN FIRMS

In dealing with various aspects of the Brazilian environment, a number of potential problem areas have been discussed in terms of their general implications for potential Canadian investors. This section deals with some of the more specific issues involved in negotiating, structuring, managing and maintaining an operation in Brazil. These suggestions are made with the assumptions that the attractiveness of establishing an interest in that country has already been determined and that any individual situation will receive legal and other technical inputs from suitable advisors. The final section which follows offers some further recommendations for possible areas of support by the Canadian Government.

1. Need for Flexibility in Negotiation

One of the strongest underlying themes which arose in discussions with Brazilian, Canadian and other foreign executives in Brazil was the need for flexibility in a firm's approach to and continuing relationships with the local environment. This was especially true in dealings with the host government and its officials at all levels. The Brazilian government is unusually well-endowed with competent technocrats in its higher echelons. However, the lower levels of the bureaucracy in Brazil are as capable of generating red tape and of "freezing" in the face of non-standard decision situations as anywhere else. Furthermore, the skilful technocrats themselves have a proven capability to generate Machiavellian delays in order to obtain better clarification of the costs and benefits of a given project, or even to strengthen a bargaining position.

Basically therefore, these conditions mean first that any feasibility proposal must be thoroughly prepared, taking into consideration as many conditional alternative strategies which would be feasible for the Canadian investor as possible. Second, there must be a readiness to recognize, plus a reasonable amount of sympathy towards, the legitimate underlying objectives for Brazilian development which may motivate temporary obstructions in negotiations. Third is the simple necessity for patience in allowing the system to work through its own procedures and regulations in its own way. Included here is a further need for recognition of problems frequently faced by potential or existing local private partners in obtaining long-term capital for a Brazilian operation's expansion requirements. Often, this has ultimately also tested a foreign partner's flexibility, since funding failures of this type in major local companies have led to State intervention in substituting public for private Brazilian capital. Given such flexibility and patience, the experience of Canadian investors in Brazil has been that satisfactorily acceptable solutions have almost always been achieved in negotiations.

It was also encouraging in this context, that no respondents were able to describe any serious evidence of corrupt practices which had interfered with such negotiations in Brazil. This was in spite of the fact that at the time of the study, corruption in international business dealings were a major theme of public discussions worldwide. Flexibility in negotiating a project in Brazil does not therefore seem to imply any need for concern over the difficulties and dangers of paying hidden costs and kick-backs in order to obtain agreement and approval.

2. Involvement of Canadian Top Executives

The importance of involving the very top executives of a Canadian firm in negotiations was stressed in Brazil as much as in other major Latin American countries. Such commitment must be visible, significant and continuing. The necessary costs in terms of top management time must be recognized and incorporated as one variable in the feasibility studies. Brazilian members of a negotiating team will usually be the senior members of the local family or ownership elite - if they are taking discussions seriously. Unless they recognize that they are dealing directly with their counterparts in a Canadian firm, they are unlikely to make any significant commitment themselves. Under such negative conditions, discussions can continue indefinitely without arriving at any effective agreement.

Commitment should not cease once negotiations result in agreement, although its costs may ease somewhat. Successful start-up requires more than technical personnel. Senior executives have to be able to resolve interpretations and unexpected problems on the spot. Finally, there are benefits as well as costs to continuing allocation of top executive time to maintaining relationships with Brazilian partners and the local operation. More than one of the local representatives of Canadian joint ventures in Brazil was concerned over the lack of continuing attention from their Canadian partners and a resulting feeling of being neglected at the cost of efficiency. In order to provide continuity, an acceptable strategy may be to rotate senior managers' responsibility for a Brazilian venture. This reduces the duration of the load upon specific people and has the added benefit of broadening the international experience of Canadian corporate headquarters personnel.

3. Direct Contacts with the Brazilian Government

It is a mistake to leave relationships with the government to an intermediary or even to a Brazilian partner. The latter may in fact, often be chosen partly because of their status and the quality of their official relationships. However, these virtues are most valuable as providing a strong introduction for a prospective Canadian associate and as a means of reducing the amount of Canadian senior executive time that must be allocated to maintenance of successful operating relationships in Brazil.

The Brazilian Government is favorably inclined towards foreign investors and appears satisfied with the track record of Canadian investment in the country. While this favor and satisfaction are not likely to reduce the care with which new projects are scrutinized, they ensure an interested hearing. As a general rule, senior officials of the state prefer to meet with a joint representation by senior members of the prospective Brazilian AND Canadian companies. By a similar rule, while the presence of advisors may be useful to help in smoothing out problems, it was also suggested that they are not recognized as the prime interested parties. If, therefore, they are left to carry the ball, rather than merely to run interference, the government's interest in both the project and its foreign associates is likely to be correspondingly reduced.

It is also worth remembering that capital market limitations may mean that the state may, even though inadvertently, become a future partner in a Brazilian venture. Hence the earlier that good relationships are established by a Canadian investor directly with the government, the better such future

transitions may be navigated. Naturally, the prescription for direct early contact is even stronger, in fact pre-emptive, where the state will be involved in a project from its inception.

4. Structuring Brazilian Operations

In spite of the expressed preferences of national policy, it is still possible for foreign investors to set up subsidiaries in Brazil in manufacturing activities which are not classified as being in basic or strategic sectors. However, the most sensible course for a Canadian investor is to consider establishing a joint venture with a Brazilian-owned majority from the outset. Increasing pressures upon foreign investors to adopt this route are likely to be exerted by the Brazilian Government in future. In the short-term, such ventures qualify for a range of attractive incentives in terms of access to local financing, reduced taxation, etc.

Many operations in Brazil are three-way joint ventures between foreign and local private partners and the Government of Brazil. This permits a foreign firm to be the largest single owner, since the common ranges of ownership involve 30-40% local private, 10-20% government and 40-49% foreign equity holdings. Brazilian government and private interests in such ventures are far from unanimous. While the government can exert indirect pressures to ensure compliance by local private partners, there was no evidence in this study that this has actually happened.

There are also advantages in having the government as a partner. Once the relationship is established, they have generally followed a policy of non-interference in the running of the business. The joint venture is

likely to receive favorable consideration and a minimum of bureaucratic obstruction in applying for local funds, expansion licenses, price alterations, etc. There is also currently an element of leverage in that no income taxes are payable on a proportion of earnings equivalent to the state's share in ownership. This advantage may disappear in the future as recent drafts of new legislation are intended to create equal treatment for public and private sector firms.

Brazil has a reasonably well-developed manufacturing sector. As a result, suitable local partners are usually available for most new operations. Very often however, they may be short of adequate capital funds. Under current capital market conditions in Brazil, this means that a Canadian investor will probably have to provide long-term loans to a venture to ensure adequate capitalization, even working capital.

In some cases it may be possible to find other foreign companies like Brascan, with blocked funds in Brazil, which would be prepared to enter into a multiple partnership. In the past, these established "Brazilianized" foreigners have been treated as qualified local companies in a partnership, so that their share in equity could contribute to creating a locally-owned majority. However, the necessary conditions for qualification have been tightened up recently so that any foreign ownership in intermediary firms is pro rated in defining the ownership of a joint venture.

For Canadian firms setting up an operation which will export from Brazil these qualifications are less important, since the treatment and incentives granted to exporters compensate for loss of the benefits available

to a local majority-owned venture. The same argument applies (although the potential superiority of benefits over opportunity costs may be lower) for joint investments in the less-developed regions of Brazil. In either of these two types of project, selection of another foreign company as one or even the only partner is likely to be acceptable to the government - subject to the sectoral constraints described earlier in this report.

This particular strategy for organizing a Brazilian venture may well prove most attractive for smaller Canadian firms. Association with a Canadian "Big Brother", or even one of another foreign nationality, may help to resolve a number of the problems faced by such smaller investors. They can reduce the amount of capital which a small firm needs to invest and may itself have difficulty in obtaining in order to exploit its own technology abroad. They can often provide experienced Brazilian or expatriate managerial personnel which a small Canadian firm is almost certain to lack. Finally they offer an element of familiarity and common nationality which may be a reassurance in facing an unknown foreign environment for the first time.

The "big brother" concept and its potential support for smaller Canadian investors could also be expanded into a broader structure, what might be called a "mother hen" type of macro-organization. Again these would be large, locally well-established Canadian firms in Brazil (possible candidates would include Alcan, Brascan, and Massey Ferguson). In return for a share in the earnings from exploiting a conglomerate range of technology in Brazil, they could provide local management and know-how, plus the use of blocked capital. This would create a loosely associated group

of unrelated small Canadian companies that would permit the latter to take advantage of opportunities which they would be unable or reluctant to undertake on their own.

5. Use of Management Contracts

A useful method of ensuring control over the actual conduct of operations is for a Canadian parent firm to incorporate a management contract in the terms of a joint venture agreement. This has the effect of overriding most of the potential limitations of a minority equity position in running the business. It reinforces the inherent leverage which a foreign parent firm can exert in influencing operations through its control over the technology and over the access to external market channels often needed by a joint venture. Such a contract is most useful in the early stages of a new venture, when a prime concern is to adapt technical processes and to go "on stream" successfully as soon as possible. During these stages, the local partners' contributions, at least to production activities, are usually less important and a management contract offers a relatively tactful method of reducing potential dysfunctional interference.

It is worth stressing that this strategy is likely to be effective in creating technical control in order to increase the speed and probability of achieving a profitable operation. It should not however, be looked upon as a means to increase a Canadian firm's associated earnings over an extended period in the form of fees for these services. Any additional expatriate salaries incurred will probably be acceptable to the Brazilian authorities - at least for a reasonable setting-up period - but the payment of fees to a foreign parent for such contracts is becoming increasingly

difficult. This is part of the government's general policy of reducing the costs of importing technology by restricting royalties and fees for technical know-how or services. Currently, a simple rule appears to be applied, namely, the greater the foreign share in ownership, the greater the difficulty in obtaining approval for the remittance of royalties and fees.

6. Registration of Foreign Capital

A brief but very urgent recommendation for Canadian investors is to ensure that as much as possible of the foreign capital brought into or re-invested in Brazil is registered with the national authorities. For Canadians in particular, bearing in mind the difficulties which have been encountered by Brascan, the lesson should be clear. In order to remit earnings from Brazil, they must be related to a registered capital base. Since taxes on remittances increase sharply when they exceed 12% of that base, the larger it is, the easier and the cheaper it is for a foreign company to obtain permission to repatriate its earnings from Brazil.

7. Need for Genuine Transfer of Technology

Like most Latin American nations, Brazil has become concerned in the last few years over the cost and effectiveness of technology transfer from abroad. While not yet as strict and legalistic in its approach as Mexico, for example, pressures have increased and will further be increased for justification of the expense and of any restraints upon the use of foreign technology in Brazil. At the same time, the government clearly accepts the country's need for such technology to aid in its development.

This situation means that Canadian firms will have to develop a positive approach towards creating a genuine transfer of their technology on a long-term basis. Basically this implies establishing operations which will be capable of earning returns from the actual use of the technology in Brazilian production rather than merely through royalties. It also implies a need to adapt technology so that it becomes appropriate to Brazilian markets and to use in the local industrial and technical infrastructure. Finally, it probably leads to a strategy of contributing to a more general improvement in the technological capabilities of the country by generating research and development in Brazil. These, in summary form, were the main implications suggested by the Brazilian respondents in this study.

Such implications are likely to cause additional costs for Canadian firms investing in Brazil. Since technology has become a more freely traded commodity in international markets, these costs appear to be unavoidable for companies seeking to exploit opportunities in the major developing countries. The situation is not entirely negative, however. In the first place, adaptations for the Brazilian market, or the creation of "appropriate" technology, are likely to be transferrable to markets in other developing nations. Coupled with the trading advantages of Brazilian memberships in LAFTA and the Brazilian Government's incentives for exporters, the necessity for adapting technology can be turned into a competitive advantage.

Secondly, while the supply of competent indigenous managerial and entrepreneurial skills may be over-stretched by the demands of industrialization, there is probably some underemployment of scientific and technical

personnel in Brazil. The level of competence and the reputations of Brazilian scientists in particular are high in international terms and the educational system is still better geared to training scientists and engineers rather than managers. This means that the establishment of local development and even research facilities in Brazil should be relatively painless. It is also likely to be fairly cheap in comparison with European and North American costs while still maintaining a reasonably high probability of successful and profitable output. In this case, the coupling with government support and decreasing local costs of production even suggest potential for competitive exports to North America, Japan and Europe from a Brazilian joint venture.

8. Training of Brazilian Personnel

The shortage of skilled labor and managerial personnel outside the industrialized southeast is also likely to create additional costs for a Canadian firm investing in Brazil. Even in the southeast, there is little surplus available for employment in new ventures except at the cost of transfer or pirating from existing companies. In the northeast and Amazon regions these shortages are perhaps the most important problem in establishing successful new projects, since training of personnel at practically all levels of an organization is necessary.

Incentives are available to ease the impact of training costs for a new venture but these are limited and only apply directly at a regional level. However, a foreign firm's commitment to overcoming local training deficiencies in a joint venture also creates a favorable position vis-a-vis the federal government and its agencies. This provides direct benefits in

such features as the ability to write-off training costs immediately and the reduction of value-added taxes. It also offers indirect benefits in terms of access to local sources of long-term financing and qualification for reinvestment of excess earnings over remittable levels.

Basically therefore, training expenses should probably be treated simply as a necessary evil. Their implications in terms of the opportunity costs of allocating the necessary Canadian or other expatriate staff should be included as one of the variables on the negative side of the ledger in feasibility studies. However, like the costs of technology transfer, they also create positive benefits beyond their sheer necessity and these should be appropriately discounted in the overall calculation of a Brazilian project's potential.

9. Advice on Setting-Up Brazilian Ventures

A final brief suggestion for Canadian investors covers the use of qualified advice in setting up a joint venture in Brazil. Use of a codified national legal system, rather than one based upon precedent, tends to place great importance on accurate wording of contracts and agreements. On the other hand, government regulations tend to be loosely worded, leaving considerable room for negotiation and maneuver as appropriate to a specific case. The permutations of incentives and restrictions which are available as part of the government's efforts to direct development are complicated and it requires an expert navigator to take best advantage of them.

Sources of this kind of technical information, their availability and their accuracy, were said to be better in Brazil than in any other Latin

American country. Major international consulting and legal firms are well established with years of experience of Brazilian problems in incorporating and setting up new projects. Canadian banking, insurance and financial advisory services are well represented. Local consultants and lawyers were described by respondents as competent, well-connected and actively supportive.

The simplest initial sources of information on such experts and advisors for Canadian firms are the various Canadian Government offices in Brazil. While they have in the past seen their mandate as primarily to encourage Canadian exports rather than investment in Brazil, this over-simplistic approach is being altered. Other potentially useful initial local sources in Brazil are groups like Brasilinvest, set up in the private sector to promote and coordinate foreign participation in new projects in the country.

XVI. RECOMMENDATIONS TO THE CANADIAN GOVERNMENT

1. Consideration of a Bilateral Canada-Brazil Tax Treaty

One of the most irksome features of Brazilian Government legislation for foreign investors in that country is the set of limitations placed upon the repatriation of earnings. The main effect of this legislation is to apply steeply escalated rates of withholding taxes, up to an additional 60%, to remittances which exceed on average 12% of the registered foreign capital over a period of three years. This comes on top of a basic withholding tax of 25% on foreign earnings and means that a successful Canadian investor is faced with a situation where they can only get 20¢ on the dollar back to Canada.

Most of the major European nations and Japan have established bilateral tax treaties with Brazil, the net result of which have been to reduce the level of withholding taxes on remittances to as little as 10% (usually 12.5-15%). While the full implications of such a treaty were beyond the scope of this particular study, no evidence was available that such a treaty had been seriously considered by the Canadian Government. While the effect such a treaty would have upon the Canadian national interest is not clear however, it may just as well be potentially positive as negative. The potential impact upon the return to Canada of earnings from foreign operations of Canadian capital seems likely to be positive. It would almost certainly be highly beneficial for Canadian companies and should tend to increase their enthusiasm for "invisible revenue" earning investment in Brazil.

While advocates of domestic employment and exports may object to such a stimulus, the fact remains that mercantilism in trade terms is probably dead. Participation in the potential returns from the rapidly developing markets and economies of countries like Brazil is increasingly the prerogative of direct investment in those countries. If Canada is to obtain a share in these returns it will have to stimulate its own investment abroad by such means as bilateral tax treaties. In this context, it is worth noting in any case that there is already a large volume of Canadian capital in portfolio-type investments in the capital markets of developed countries. This already fails to generate employment in Canada.

The crux of this particular argument could then be that, at the very least, the Canadian Government should seek to divert some of this capital to areas where the potential return revenues to Canada may be greater. To this can be added the longer term benefits from securing foreign markets for Canadian technology, additional sources of raw materials, cheaper consumer and other imports, plus a general strengthening of Canada's relationships and status in the major developing nations. These potential benefits seem to be worthy of a thorough and comprehensive study and it is suggested therefore that the first direction of such a study should be through examination of the benefits and costs of establishing a bilateral tax treaty with Brazil.

2. Attitude of Canadian Government Representatives Abroad Towards Canadian Investment

During the course of the field interviews for this study in Brazil, reservations were expressed by Canadian Government representatives in that

country over the desirability of encouraging Canadian direct investment abroad. The argument was that export trade from Canada should be promoted, but that foreign investment exported employment and should not be encouraged. The counter to this outdated approach has already been outlined in the preceding section above. It was not clear in discussions whether this policy was the result of specific directives from Ottawa or a local interpretation peculiar to individual representatives in Brazil. No such interpretation appeared to exist in Mexico and it was only a very low-key theme in Colombia and Venezuela. In subsequent discussions with senior government officers in Ottawa, it was stated that this was NOT official policy. If successful Canadian access to Brazilian market opportunities is to be encouraged and increased, it is important that such outdated policies should be removed. It is also important therefore that this should be impressed upon representatives of Canada in all Latin American countries, in order that they should develop a positive approach to supporting potential Canadian private sector investors.

3. Development of Supporting Information for Canadian Investors

An increasing mass of Canadian direct investment in Brazil will tend to create its own word-of-mouth information network. Its scope will be broadened by the support of service industries and institutions like C.A.L.A., C.E.A. and the Brazil-Canada Chamber of Commerce. The quality of information from these sources was considered by many of the Canadian respondents in Brazil to be more directly relevant and more reliable than that obtainable from Canadian Government sources, either locally or in Ottawa. This may be a result of the reluctance in support activities discussed in the previous section above. It may reflect ignorance of information facilities available

in Ottawa on the part of the private sector or alternatively, unsuccessful publicity by Ottawa in making known the scope of public sector resources.

Whatever the reasons, this study indicated that if the Canadian Government wishes to encourage Canadian firms to trade and invest abroad, it must provide more relevant information which is matched to the specific needs of these companies. An area of particular importance would be the development of more comprehensive inventories of potential contacts and local private sector partners in Brazil. The point was made a number of times that if such information was to be really useful, local Canadian officials would have to spend a great deal more time out of their offices creating good contacts with the Brazilian private sector. Furthermore, it was also suggested that brief files should be created on each of these contacts by Canadians with some experience, or at least training, in business.

If sufficient personnel of an appropriate caliber and background are not available, in the Trade Commissioner Service for example, they should be recruited as soon as possible. If such recruitment is not considered feasible on the scale necessary, then the development of the information required should be sub-contracted to a competent advisory group with strong contacts and considerable experience in Brazil. In view of the time constraints involved, a sound solution would be to combine both the sub-contracting of information generation and increased selective recruitment of people who would be capable of using, maintaining and building upon such a data base.

4. Support for Canadian Supra-Corporate Organizations

A number of possible alternatives for structuring joint ventures in Brazil were described earlier. Concepts such as the "big brother" and "mother hen" proposals would seem to have potential in creating organizations that could encourage the expansion of small Canadian businesses abroad. Joint associations of this type are still rare in the Canadian business environment, where the idea or spirit of private sector collaboration is not firmly accepted. However, they have been a successful mechanism for Japanese and European firms and trading groups. They are even used in the U.S.A., in spite of the pervasive dangers of anti-trust legislation for cooperative business practices.

Government support in Canada for joint Canadian activities of this type could be of two main types. Indirectly, the creation of better information on Brazilian opportunities and contacts, coupled with a form of brokerage service in Canada itself, would permit much of the development of a feasible-project and organization to be formulated here, before the need arose for formal discussion with private or government interests in Brazil. More directly, the government could provide tax or other incentives which would encourage larger Canadian firms to undertake the desired commitment to aiding and collaborating with smaller companies. Ultimately, although there may be political risks involved, it would even be appropriate to consider direct support from public agencies. These could involve capital inputs from the E.D.C. and possibly even managerial participation by the C.D.C., or its subsidiaries like Connlab, with experience in running a Brazilian operation.

5. <u>Support for Canadian Training Activities</u>

The need for Canadian investors to undertake a significant amount of training of Brazilian personnel in order to obtain skilled labor and management and to indicate a genuine commitment to technology transfer has also been discussed. These costs may in some cases prove to be an important disincentive for potential Canadian investors, especially again the smaller companies. Given the typically "tight" organizational resources of the latter, a serious problem usually arises in freeing personnel to carry out training activities. One solution is for them to recruit additional people to run their Canadian operations, creating some slack for existing managers or technicians to go to Brazil for limited durations of time. A second is to bring Brazilians to Canada for on-the-job training in the Canadian parent firm. The latter will probably be the preferred solution.

In order to provide support for these necessary corporate activities, the government could provide qualified grants or internships for training purposes. It could also create write-off provisions against corporate taxes for training expenses. To support local training efforts in Brazil, some of the more diffuse aid-based activities and training programs of CIDA could be tailored and linked more specifically to the needs of individual Canadian corporate opportunities. Other kinds of exchange programs for technical and managerial personnel could also be developed, again formally structured through the identity of Canadian companies with direct commitments to training in Brazil.

Benefits to Canadian firms from such governmental support for training

would be immediately apparent. There may well be some loose criticism of its apparent desirability in the general national interests of Canada. The most effective answer to such criticism would be that the benefits to firms should outweigh the costs to Canada. The calculations to support such an answer conclusively will have to be based upon practical trials of the strategy itself. However, the underlying justification for provision of Canadian foreign aid is based upon the dual planks of philanthropy, with its positive effects upon Canada's international status, and stimulation of Canadian trade with other nations. Any scheme which safeguards the first of these objectives while improving performance towards the second would appear to have merit, especially if the overall financial costs to Canada are not increased. This suggestion proposes a re-focussing of what are in effect existing commitments to levels of external aid into activities which should show a more direct return in terms of benefits to Canadian interests. At the same time, their direct personalized association with individual Brazilian and Canadian identities should, if anything, improve the Canadian image in Brazil.

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