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World Investment News

# Brazil



**Brazil in transition:  
a new era for a new president**

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# Production

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# Country Report

## *Cardoso`s Natural Heir*

Brazilians have presented themselves with a different future by voting the Worker's Party (PT) candidate, Luiz Ignacio "Lula" Da Silva, into the presidency against the odds of international analysts, whose gloomy forecasts of a Brazil under Lula may add reason to their classification as an endangered species.

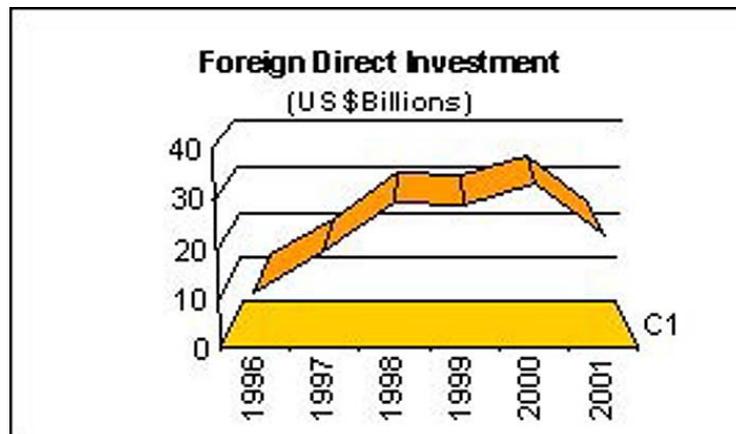
It is known that money watchers fear change, but in a country like Brazil, risk often grows bigger by lack of action rather than by change. Brazilians have just probed theirs' is a mature democracy by breaking the elite's secular grip on power, choosing instead a man of humble origin, a self-educated, former Union leader as their president.



Brazil's Lula has been around for the last 30 years of Brazil's political history. His Union activism contributed to end the military dictatorship during the 80s, he has been a forerunner in three previous presidential elections, and his party already holds local and regional governments credited with good management skills and corruption free manners.

To gain the presidency, Lula has changed his party's ideology from the far left to a more moderate stance, making the middle classes and especially the university and public service worlds his primary backers. In his way to the political center, Lula resembles Felipe Gonzalez, the Spanish prime minister who

first brought socialism to power in Spain in 1982, only seven years after Franco's 40 years long, far right dictatorship ended.



As Lula is doing now, Gonzalez lured banks and unions alike, and steered the Socialist Party out of Marxism and Spain into NATO and the European Union, while embracing liberalization and privatization, all capped with a touch for social policies.

Brazil has already changed during Fernando Henrique Cardoso's eight years in office. The United Nations Children's Fund reported on December 2002 that Latin American countries, especially Mexico and Brazil, "had made some of the most significant advances in the developing world toward improving children's health and education levels."

"There are 387 investment projects, worth US \$228 bn coming on line in the next eight years"

Rudolf Hohn, President of Investe Brasil

"We do not intend to have anymore inflation, we intend to be an open country in terms of our trade and we would like to be integrated into the world community"

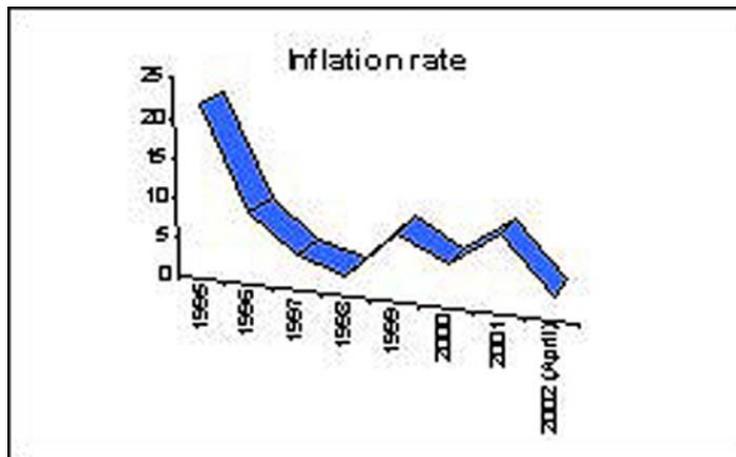
Mario Garnero, President of Brasilinvest

In Cardoso's Brazil, infant mortality fell sharply, the economy stabilized and more than 90% of children attend to school, but nonetheless Lula inherits a troubled country as Brazil -that ranks among the ten biggest economies in the world- encounters problems to grow at a pace that generates employment and a betterment of living conditions.

In fact, Lula may be better understood as the natural heir to Cardoso (himself a social democrat), despite Cardoso's party candidate was Serra. Voters could not vote for retiring Cardoso again, so instead chose who they think has the strength to continue in the same path. To support this view, Lula sounds and acts much like Cardoso. Reasonable and conscious not only about Brazil's many internal problems, but also of his country's role in the international arena,

where he also has backers like Mark Weistrot, of the Centre for Economic & Policy Research, in Washington, who thinks the PT presents "a whole set of very reasonable policies that could move the country towards sustainable growth and also do something for the poor."

There are also signs for confidence in Lula's recent record. He backed president Cardoso's US \$30bn deal with the IMF in the middle of the presidential campaign, restraining himself from trashing his opponent's policy to gain yet more popularity.



"Any investor should carefully analyze the regions to maximize their investment in each different regional culture. This offers greater success than simply looking at Brazil as one huge market."

Carlos Trostli, President of AOL Brazil.

He intends not to default on Brazil's huge debt (58% of GDP), if only because this time around most of it is of domestic origin, as Cardoso's government converted foreign held debt into domestic debt.

Lula also believes in reinforcing the ailing Mercosur free trade area (made up of Uruguay, Paraguay, Argentina and Brazil) as a receipt to avoid further financial crisis in the region and also as a way to strengthen South America's negotiation position with the US to join The Free Trade Area of the Americas (FTAA), and has already visited Buenos Aires, Santiago and Washington to coordinate future steps.

He is also committed to respect Brazil's primary budget surplus objective (which the country already reached in October for this year) and of course has promised Brazil's some 54 million poor to better their living conditions.

"The FTAA is a good opportunity for Brazil as it was for Mexico. It will create an economy of US \$17 trillion for a market of 800 million people."  
Mario Garnero, President of Brasilinvest.



Too many a task for a country with growth rates below two percent, 30 percent interest rates and a currency which has lost twice its value this year against the dollar?

One may think so, and yet most of those taunting problems have a double side. One is coincidental, caused by analysts panicking to the news of Lula's serious chance to grab the presidency.

That should ease now that he is being elected and analysts learn to live with him from January 2003, when he will take office. The second side is structural, and it is here where Lula may come in handy. Lula should be able to find a much-needed middle ground between poverty alleviation and fiscal discipline.

## Lula's magic touch

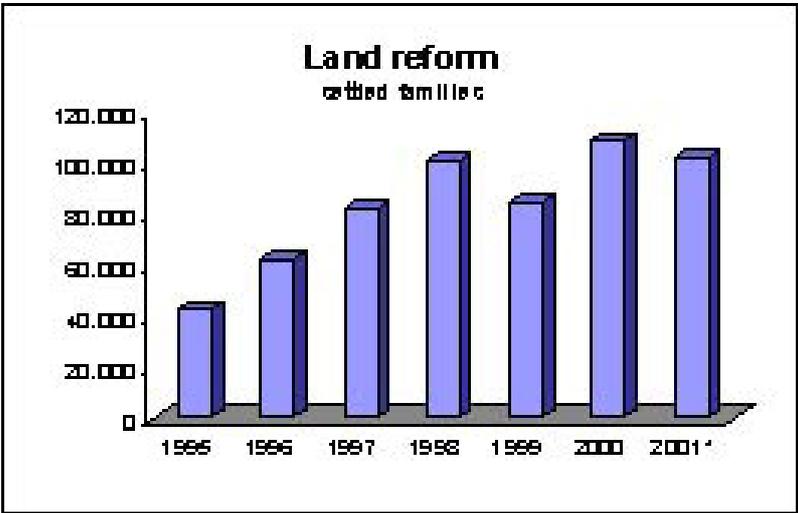
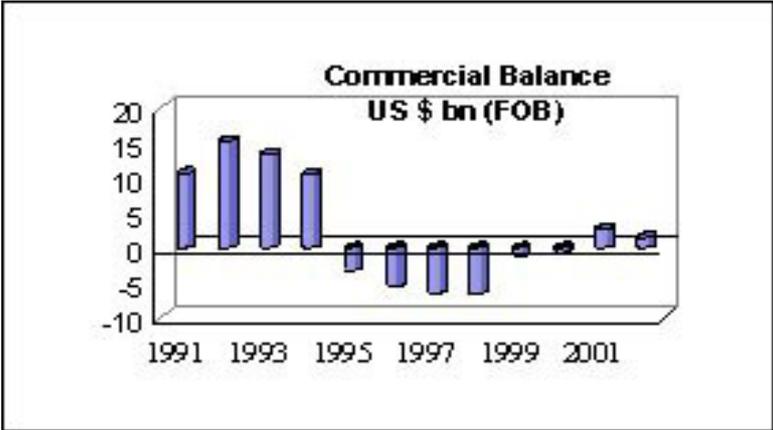
Of course there should be a magic touch to any election in the wonderland that is Brazil. Both first and second election rounds were held on Mr. Da Silva's two birthdays. He was registered by his father as born in October 6th, while his mother always sustained he was actually born on October 27th, 57 years ago. A sign? Many Brazilians believed so.



His economic team has also raised confidence, as Antonio Palocci is being nominated to be the next Minister of Finance. Palocci has a good governance record as former Mayor of Ribeirao Preto city, and has been credited with reassuring the markets during the electoral campaign, when he advised Lula on economy matters.

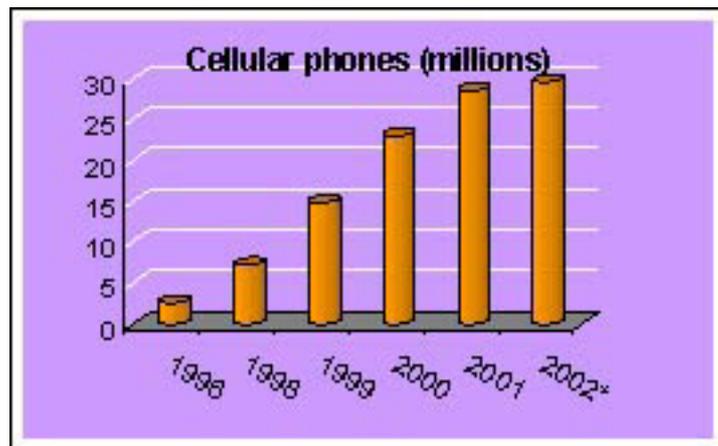
"I think it's good and positive," Carlos Kawall, chief economist at Citibank in Sao Paulo told the BBC. "We have seen his position is associated with cautious commentary about fiscal austerity and commitment to low inflation." "He's a good man and has earned for himself a very good reputation, so this will not be negative," said Suhas Ketkar, senior economist at Royal Bank of Scotland in New York, also to the BBC.

Lula has promised a bigger involvement of the State in social affairs. Many fear this will put the economy under further stress, but bridging the divide between rich and poor is just as right in Brazil as it is in any country. Done in a non traumatic way, it will bring down the crime rate, expand the market as the purchasing power also expands and provide more social stability. This is probably the most urgent reform Brazil needs and Lula's huge popular backing - he grabbed the presidency with a 61% majority of votes- will lend credit to the necessary reforms.



## ***Brazil's IT Sector***

Brazil's IT sector is the world's reference and best hope in the use of technology to boost social development. Cardoso's government made IT investment and development a priority, and the country has laid down the foundations for a leap forward in the coming years. The IT market in Brazil is estimated to have reached a US \$13bn size in 2002. The Government is acting decisively in this field and is expected to invest some US \$100bn in the next decade, both in its e-government initiatives and in infrastructure.



The government has "since 1995 changed its focus and restructured itself to become more citizen oriented, cutting red tape, simplifying and eliminating procedures" says Dr. Solon Lemos Pinto, former Secretary of State of Logistics and Information Technology, "The government is turning itself from a bureaucratic to a managerial administration".



In the last decades, the evolution of Information technologies and data transmissions set a new phase in the process of economical globalization. In this new scenery, electronic commerce shows up as a great innovation in the economic world, making it possible to carry out trade operations without having

a precise definition of the places of origin and destiny. It is well known that trade by Internet is a fast-developing activity.

The e-commerce is constituted by business-to-consumer (B2C) and business-to-business (B2B) operations. B2C: In relation to B2C, Boston Consulting Group estimates in US\$ 215 million the business in Latin America. In 2000, Brazil has taken part in over 80% of continental trade, and must have generated US\$ 170 million in on-line systems to the consumers in 2000 and foresees an amount of US\$ 2,64 billion for 2003. Among the Latin-American countries, Brazil dominates in such areas as online advertising, user numbers and E-commerce is no exception. Brazil seems to be far ahead of the rest of Latin America in E-commerce, while still lagging far behind the U.S. Books, magazines, and CD's are the most purchased products on the Web in Brazil. In Latin America, especially in Brazil, purchasing patterns are in keeping with those of the United States, with the notable exception of online grocery shopping, which is much more popular with Latin American consumers. An example is the "Pao de Acucar " supermarket chain, one of Brazil's largest supermarkets.

Launched in 1995, Pao de Acucar Delivery was the first virtual Brazilian supermarket with investments of US\$ 2 million for its implementation. Nearly 40% of its sales originate from purchases on their Website. Moreover, most of the Brazilian companies working with e-commerce now face logistics problems concerning distribution. The biggest challenge of the Internet in the will be migrating the means of distribution, regarding both products and information, to a more WWW-compatible format. B2B: The greatest potential of e-commerce growth is not B2C, but B2B.

The coordinator of MBA in e-commerce of FGV, André Valle, states that B2C will hardly surpass 10% of the total number of sales to consumers in retail. According to specialized consulting firms conducting studies in Brazil, the Brazilian B2B markets will grow in two years what took four years for the U.S. market to grow. Sixty eight per cent of the Brazilian B2B sites deal with replacement parts, office supplies and computer equipment. Another developing market is the international commerce sector- Portals dedicated exclusively to facilitating import and export. The services include identification of logistics operators, financing partners, and information on the sale of commercial paper on the secondary market.

A major factor behind Brazil's rapid Internet diffusion is the technological capabilities accumulated during the market reserve policy when ten of thousands of engineers were involved in R&D activities. Many of them now run Internet providers, design applications and give support to the diffusion of on-line information systems.

Internet use in Brazil:

Brazil is the tenth country in the world with the highest number of people connected to the Internet and the first country among the Latin American countries.

Currently, Brazil has 14.4 million Internet users but this number is projected to increase to 34.5 million users by 2004.

For Aleksander Mandic, President of Mandic.com and one of Brazil's Internet pundits, "Brazil has a very advanced Internet system, but there is a limited user base, a lot of the population still has no access to the Internet".



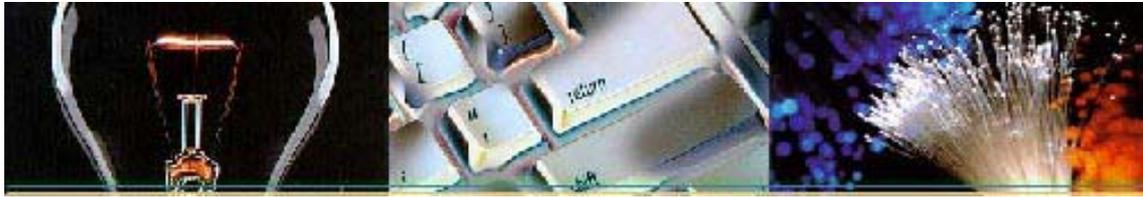
Carlos Trostli, President of AOL Brazil, shares the same concern "penetration currently stands at around 13% of homes, which means that 5.9 million households in Brazil have an Internet connection. But it is also growing fast, up 31% from the previous year".

Reacting to the situation, there are several government initiatives to bring the Internet to all citizens. PCs are to be available at Metro stations, commuting areas, postal offices, government offices and popular neighborhoods. So far, some 7,000 Internet access points are being tested and a massive deployment should follow in 2003 and 2004.



## ***Science in Brazil***

By Jose Galizia Tundisi



The formal development of Brazilian science has its roots in the Oswaldo Cruz Institute in Rio de Janeiro. Oswaldo Cruz worked in many areas of science related with health and gathered together a group of scientists who were devoted to combating yellow fever which was rampant in Rio de Janeiro and in many regions of Brazil. So Brazilian science has strong roots in the area of applied medicine.

In the twenties and thirties, the main universities in Brazil were organized from a set of existing medical, engineering and law schools. The University of Brazil dates from 1927, the University of São Paulo - today the largest in the Country - dates from 1934. At these universities and at others scientific research was defined, commenced and organized on a more formal basis. Also in the forties and fifties, research institutes were set up to solve practical problems mainly in agriculture.

The National Research Council was set up in 1951 for the purpose of supporting scientific development and training of human resources. This institution, transformed into the National Council for Scientific and Technological Development (CNPq) in 1975, is in charge of the task of supporting research at national level and also has a wide ranging program for human resources training, in Brazil and abroad. The Committee for Postgraduate Courses in Higher Education (Capes), linked to the Ministry of Education, was also set up in 1951 and its objective is to support the training of university lecturers. In 1973, the Studies and Projects Funding Body (Finep) was set up, which developed support programs for technological and applied development, and also broadly supported programs of infrastructure at universities and research institutes. An important framework in the scientific development of Brazil was the Foundation for the Support of Research in the State of São Paulo (Fapesp), set up in 1958, which had remarkable repercussions in the State of São Paulo and in Brazil, owing to its continued support for science and the rigor with which it examines projects.

All this institutional organization resulted in an increase in scientific productivity and in a continuity of training of human resources. Today Brazil trains 2,500 doctoral students each year in all areas of science. There is extensive support from the Federal Government for training programs for masters and doctoral students in Brazil and abroad (50,000 scholarships for postgraduates, of which

5,000 receive their doctorates abroad). This effort has resulted in the diversification of the basic science areas, an increase in postgraduate programs and a significant increase in scientific production published in the Country and abroad in indexed journals.

Today Brazil has centres of excellence in specific areas, such as physics, biochemistry and engineering, which have international production of great relevance to the Country. The postgraduate system has 1,700 programs, of which 500 are considered to be at a high level, compatible with universities abroad in advanced Countries.

Brazilian science has several challenges at present: to expand the system with quality, supporting the installed competence; transfer knowledge from the research sector to industry; embark on government action in strategic areas; enhance the assessment of existing programs and commence innovative projects in areas of relevance for the Country. Furthermore, scientific dissemination plays a fundamental role in transforming the perception of the public at large of the importance of science in modern life. All these new activities and new challenges are being actively undertaken in the Country from the institutional base and the operation of existing qualified scientists.

One of the major objectives is to base the development of Brazil decisively on science and technology and extend the participation of private enterprise in this process.

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### Interview with Mr. Carlos D. Trostli, President.

**Q:** AOL Brazil was the first localized AOL service launched in Latin America. It has been only two years since 1999 so what have been the key steps taken in this short time by AOL Brazil?

**A:** When AOL arrived in Brazil the key step was to identify the country's Internet needs and areas of potential Internet business growth, and we decided to focus on the newcomers to the Internet. The Internet in Brazil does not have a high level of penetration compared to other developing countries. Penetration currently stands at around 13% of homes, which means that 5.9 million households in Brazil have an Internet connection. Although the penetration is on a small scale, it is also growing fast, up 31% from the previous year.

Our positioning and products are ready to maximize that fast growth rate by offering the newcomers what they require. We have a proprietary browser and an integrated console with all the functions and tools that a newcomer needs to take full advantage of the relevance of the Internet within their own lives. More specifically, we have a browser, instant messenger, emails, multimedia player, etc. We have all the necessary tools to provide the new user with a satisfying Internet experience, and this is a competitive advantage compared with AOL's competitors. Although we came to the Brazilian Internet market at a late date, we have been growing very fast and today we are able to capture a great many of those new to the Internet. We launched in Brazil using version 4.0 and we have already evolved to AOL version 7.0, which offers the latest technology available in the US. An important consideration is that our new technologies are adapted to best meet the needs of local consumers based on continuous consumer research.

**Q:** This first operation of AOL Latin America began as a joint venture of AOL Time Warner Inc., Cisneros group and Banco Itau. What is the current structure regarding shareholders and is the company open to new depositors?

**A:** It is open to new shareholders, in other words, 8% of the company stock is currently traded on the NASDAQ, so it is open for any potential shareholders.

**Q:** What is the purpose of the investment of US \$160 million announced recently by AOL Time Warner Inc. to finance the Latin American Operations?

**A:** Before we talk about the purpose of the funding it is important for us to talk about the reason for it. Through 2001, AOL Latin America had built probably the most exciting and fastest growing Internet service in Latin America, demonstrating our relevance on the continent. We have been able to show that we can improve earnings per share quarter after quarter, so this is clearly the right place for an investment. Brazil and the rest of Latin America are absolutely strategic locations for our stockholders. This US \$160 million investment, which we expect to be sufficient to fund operations through at least the end of 2002, is the right approach to take advantage of this strategic opportunity for our stockholders.

**Q:** The revenue is growing quarter after quarter. Last year AOL Latin America made US \$66.4 million, what percentage was made in Brazil?

**A:** We do not disclose these figures by market; we only have numbers for the whole of Latin America. I can tell you that Brazil has contributed considerably to AOL Latin America.

**Q:** What are your expectations for the growth of AOL this year, 2002?

**A:** We hope to continue our drive to increase our paying member base and maximize user satisfaction, so that we can really boost the revenue from subscriptions as we go forward. We have been installing new technologies in the billing and collection areas, which we hope will provide us with incremental revenues in Brazil and Latin America and an increasingly large and well-qualified base of members

**Q:** Out of the 1.3 million subscribers of AOL in Latin America, how many come from Brazil? How many cities in Brazil do you offer services to and what is your workforce in Brazil?

**A:** We do not disclose numbers by country, not even the subscriber levels. In Brazil, users can access our service through a local phone call in 235 cities. We have almost 1,000 employees including our member service staff and our operational staff, the vast majority of them Brazilian. Although from time to time we get a few people in from elsewhere to do a specific job, we are basically a totally Brazilian company. This is important for us because we can really blend in to the society and understand its needs and desires instead of

imitating other countries where we followed a different path to success. This allows us to be very flexible within the Brazilian market and that's part of our success.

**Q:** What do you expect from AOL 7.0 and other new projects in Brazil?

**A:** We will continue to drive new technologies that will simplify and be relevant to our users' lives. AOL has conducted a CyberStudy in several different countries and some insightful facts demonstrate the importance and show the growth potential of the Internet in Brazil. Some specific results are: · 71% of Brazilian Internet users said that on-line activities were almost a necessity for them, compared to 40% in the USA and 62% in Germany.

In Brazil, 49 % of home Internet users regularly use online banking services, compared to 29% of the users in the USA and 33% in France. · 86% of Brazilian users said that the Internet has improved their lives, compared to 75% in the USA. · 86% of Brazilian Internet users consider their online experiences as an enrichment of their daily lives.

With all this in mind, the new technology embedded in the latest version of our software is helping AOL to grow, implementing noticeable changes that help users carry out important tasks. For example, in version 7.0 when you open an email you will see that the users who received the email are highlighted if they are on-line. This means that you can answer them using the instant messenger instead of writing an email. This is an example of how the new technology will make life easier and the Internet more relevant to AOL users.

**Q:** From your point of view, besides telecommunication companies and contact providers, what other kind of partnerships do you consider significant to an ISP like AOL?

**A:** First of all I will give you a brief overall insight into how we see our business strategies and phases of the businesses. We had our initial phase in Brazil, which I would say was through last year. We had the strategic objective of establishing AOL in Brazil and operational objective establishing trials and awareness for our business. The next stage is to build relevance for our users in their everyday lives and our operational objective is to reach our cash break even point. With this strategy in mind, we have considered various different industries but our main need is to bring not only new technologies but also new content. We have just announced a major deal with the SBT television network, where we will carry all of their reality programs as exclusive content on our site for the rest of the year. That means we will be broadcasting "Casa dos Artistas", "Temptation Island" and "Pop-stars", bringing a new level of interactivity for SBT. This will really offer something exciting to our users. We are looking for specific content based on research into consumer needs and desires. We have also recently announced our sponsorship of Gilberto Gil's world tour "Kaya N'Gan Daya" which is basically a tribute to Bob Marley. This is important because Gilberto Gil is probably one of the leading world class artists signed to Time Warner Music, so we hope the synergies between Time Warner Inc. and AOL will produce massive opportunities. We typically import

opportunities like Lord of the Rings, Harry Potter or Britney Spears and now we are exporting world class artists like Gilberto Gil. We just brought AOL users the first of many live chats with Gilberto Gil which are broadcast simultaneously in English and Portuguese. This is just one example of many things to come in the future in that direction.

**Q:** Time Warner, a giant in the media sector, and Cisneros group the biggest media corporation in Latin America. Now the Government is passing a law that will allow the media sector in Brazil to receive investments from foreign corporations (up to 30% of their shares), what is the strategy of AOL Brazil in the Brazilian media market?

**A:** I would say that Brazil is such a strategic market for both companies that they will always be interested in this issue. I think it is too early to tell how this will develop, although you will have to ask them for their position because I cannot answer on their behalf..

**Q:** What are the positive points of the legal and commercial frameworks in Brazil for AOL and the aspects that you would like to change or remodel? How would you describe the compromise of AOL with Brazil and how would you describe the contribution of AOL to the Brazilian Internet?

**A:** First, an objective that we have and the Brazilian population in general has, is a flat rate for Internet access via telecommunications companies. Flat rate will push Internet use forward to the next level. Users will be able to research and let their children use the Internet without having to worry about per minute charges, etc. The current system in Brazil is unusual, with single pulse charges after midnight and on weekends regardless of the time spent online. This means that everyone ends up going online at more or less at the same time. This is not fair to society as a whole and does nothing to improve Internet access. Countries that have migrated from charging per minute of use to flat rates have seen average growth in the number of Internet users rise 35%, with connections times going up by around 50%. We are bringing the easiest and most exciting internet to Brazil. We are opening doors for people who really like to embrace technology and the internet. This is the best short-term solution for the Brazilian Internet. It is also something with a great deal of relevance to their daily lives. We see this in the average time people spend online in our service compared with competing services. Our mission is to improve people's quality of life using a medium that we believe will become more important than TV, the Radio or the Telephone.

**Q:** Mr. Trostli, having what we could call a multi-national career after working for several multi-national companies and taking into consideration that this report may attract more foreign investors, What would be your best advice to those international investors that may become part of the present Brazilian business community?

**A:** First of all, anyone who wants to invest in Brazil should examine the opportunities offered by the sheer scale of the country, but secondly, and more importantly, they should analyse the different regions of the country. They represent a multitude of different cultures, and careful analysis can help to maximize their investments in each different culture, and this will offer greater success than simply looking at Brazil as one huge market.

Winne cannot be held responsible for unedited transcription.

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### **Project and consulting**

#### **Communications Networks**

- LAN, MAN e WAN Information Systems.
- Corporate Systems, WEB, Datawarehouse, WAP, Internet, etc.o Software fabric.
- Systems and prototypes technical auditing Security.
- Planning, design and implementation.
- Contingency and Business Recovery Plans.
- Digital Certification (PKI) Planning.
- Strategic, Tactical and Operational RFPs elaboration.

## **IT Management Methodologies Transference**

- IT Management.
- SW Fabric and Systems Development.
- Network Design, Auditing and Technical Opinions.

## **Outsourcing**

- IT Management, IT Operation, Systems Development, Network Operation.
- E-learning.
- ERP Analysis and Management.

## **Telecommunications strategic consulting**

### **Market Analysis**

- Market Analysis Monthly Report, covering trends, news, wireline and wireless telephony, satellites, data communications, etc.
- Direct Calls and Private Meetings
- Direct telephone access to the Chief Telecom Consultant.
- Monthly meetings with the Chief Telecom Consultant Business Planning.

### **Mergers and Acquisitions Support, Market Studies, R&D Programs Management**

- Law 10.196/01 (and associated regulations) application management.
- R&D projects qualification analysis.
- Government Reports preparation.
- R&D projects execution management.
- R&D investment opportunities investigation and analysis.

### **Systems Development**

- Software Development.
- Product development.
- Methodologies transference.

## **Laboratories**

### **Product Certification**

- Telecommunications products certification, as required by ANATEL
- Technical Training
- Development and application of technical training programs
- R&D Partners
- 30+ universities and research centers

### **Support to Government Regulations**

- IT
- Telecommunications
- Network and Systems Security
- Publishing, Information, Guidance
  
- Guideline BRISA
- Weekly update
- BRISA News
- Member Committees
  
- Government
- Telecommunications
- IT Users Seminars

### **Government Forums Participation**

- Board Member of PKI - Brazil (representing the private sector);
- Member at COTEC (Technical Commission of PKI - Brazil)
- Board Member of the Electronic Commerce Executive Committee (Ministry of Development, Industry and Foreign Trade)

### **National and International Standardization Support**

- Only sponsor of the IT and Data Communications Committee of the Brazilian Standards Institute
- 3rd. Sector Organizations Support
- Hosting of CAAETÉ website ([www.caaete.org.br](http://www.caaete.org.br)) - NGO dedicated to the protection of the Atlantic Forest in South-East Brazil

## **Eradication of the "Digital Divide"**

- Sponsoring of 2 (out of 10) SAMPA.ORG ([www.sampa.org](http://www.sampa.org)) Telecenters
- (digital inclusion project in the area of Capão Redondo, southern São Paulo)

Private non-governmental organization

Headquarter: Brasília

Largest Office: São Paulo

Accredited by the Ministry of Science and Technology to Develop R&D projects under the Brazilian IT Law

Solid organization, established in 1988

Recognized by the Brazilian Government as a "Public Interest" Organization

Vendor independent

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# V.I.P. INTERVIEWS

## Interview with H.E. FERNANDO HENRIQUE CARDOSO, President of the Republic of Brazil.

July, 2002



**Q:** The project of “e-government” is providing through the Internet open access to government activities, public information and services to the Brazilian society. How are you ensuring full access to the services provided by the “digital inclusion” projects? How would you say “e-government” adds transparency to the activities of a government?

**A:** There are many important initiatives aimed at providing electronic access to Government information and services. Our greatest success story is perhaps the filing of tax returns through the Internet. Nowadays, an overwhelming majority of Brazilian taxpayers present their tax returns to the Government by means of a computer program that anyone can download at home and that makes it very easy to organize the data and to send it directly to the Revenue Service – no need for long lines in front of a counter, no bureaucracy, no paperwork. The data show that every day around 400.000 people use the Revenue Service’s site on the Internet to ask questions, to solve problems and get guidance on administrative procedures. Also, the voting and the processing of the results of our national elections are almost completely done with electronic media, which has made it possible to have the results on the next day and to eliminate any uncertainty involved in the process.

There is a general Government site, called "Rede Governo" (Government-Net), through which Brazilians can get all kind of information on public services and on their rights as citizens. Moreover, most of the data related to the planning and implementation of all federal expenditures is available on line, which makes it easier for members of Congress and the press to monitor the use of public funds.

All in all, e-government is a huge step toward greater transparency and accountability by public authorities. If democracy is to work well, than it is essential that the citizens be fully informed of what the Government does, and why, and also of what the Government is planning. In Brazil, the use of electronic media is proving to be a major asset in this effort.

**Q:** The Brazilian energy sector has been through rough time this past year. In a country with the largest Hydroelectric Plant in the world and large oil reserves, how do you explain what happened and what has been done to guarantee security in the electricity supply? Are foreigners investing in this sector?

**A:** Most of Brazil's electric power is generated from hydraulic sources. This brings us huge advantages. Firstly, it is a renewable source. Secondly, it is environmentally cleaner than other alternatives, such as coal-generated electricity. The down side is that hydroelectric power makes us dependent on the weather. If precipitation falls under a certain level, there is the risk of a shortage. This is precisely what happened, as a result of a protracted drought in several regions in Brazil.

Faced with the electricity shortage, Brazilians responded decisively and effectively, by cutting energy consumption by some 20%. This made it possible for us to overcome the problem, and now, after a good rainy season, the situation is back to normal. The question now is: how can we prevent this kind of problem from happening again? The answer is quite clear: investment, and some diversification, in order to reduce contingency risks linked to weather fluctuations. In 2001, we have increased our electricity generation capacity by 3,000 MW. We are putting in operation 30 more thermoelectric energy plants, using as fuel mainly the natural gas imported from Bolivia. All in all, from 2002 to 2004 some 20,000 MW will be added to our electrical system. Apart from that, in order to guarantee security an early-warning system was introduced, so that the threat of any shortage will be detected at least two years in advance, giving us time to adopt the necessary measures.

**Q:** Privatization has been central to your mandate. What has been your strategy to ensure that companies sold to foreign investors will contribute effectively to the improvement of the national economy in the long run?

**A:** The whole process of privatization must be envisaged within the context of a reconfiguration of the regulatory activities of the state in Brazil. Over the last several years, we have created new, semi-autonomous regulatory agencies,

that are responsible, each in its own sector, for ensuring the quality of service provided to the population. Thus our concern has not been restricted to privatizing, but we have designed a regulatory structure aimed at overseeing market forces and with powers to enforce quality standards based on objective and transparent criteria. As a result, the public has a double benefit. First, because the private companies can mobilize the funds required to ensure investment at the appropriate levels, something the Government could hardly afford. Secondly, because the public interest is safeguarded by a new and modernized structure of regulation and oversight.

**Q:** Increasing exports has been a priority since you took over as president. "Export or die" was your motto. How is the administration supporting the private sector in order to diversify exports? What has been your government's recipe to improve commerce?

**A:** In the long run, the only recipe for increasing exports is to promote competitiveness of Brazilian products. This has been achieved in many significant ways. From 1993 to 1998, the growth of Brazil's foreign trade has been driven mainly by the opening of the market to imports. The amount of trade (exports plus imports) increased from US\$ 60 billion annually in the early 90's to US\$ 106 billion in 2001. Since the adoption of a floating exchange rate, in January 1999, Brazil has moved from deficit to surplus in foreign trade. Last year, we had a surplus of US\$ 2.6 billion. And the studies show that the growth of exports has not been led by traditional labor-intensive products, but by technology-intensive industries. Brazil today is one of the world's leading exporters of regional jets.

The fact is that Brazilian manufacturing industries and agriculture is today fully competitive in several key areas. The government has supported this effort by ensuring economic stability, by improving finance mechanisms and by working to develop Brazil's infrastructure in crucial sectors such as ports, waterways, roads and telecommunications. As a result, Brazil's firms are able to compete in the most demanding markets.

**Q:** Exports still represent 10% of the Gross National Product. What do you expect from FTAA (Free Trade Area of the Americas) and other international agreements to improve exports? What is the role that Brazil must have in the FTAA?

**A:** As I just said, Brazil's exports are increasingly competitive, both in price and in quality. This is why the effort to promote free trade is so important to us. Protectionist measures such as tariffs and subsidies in the US and Europe are among the greatest obstacles to the growth of our exports. Thus, our main expectation in the FTAA negotiations is that we obtain greater access to North American markets. To accomplish that, we need to make significant progress in reducing agricultural subsidies, limiting the use of anti-dumping measures and removing obstacles that prevent us from reaping the benefits of our comparative advantages. In the early 90's, Brazil has significantly opened its

markets to imports. Nonetheless, we still face huge protectionist barriers in other countries. The FTAA will make sense if it contributes to reducing such barriers and to promote a balance distribution of costs and benefits among all countries in the Americas, great or small, rich or poor.

**Q:** Mr. Cardoso, you are a sociologist and have studied, analyzed and written about the Brazilian society. As President and sociologist what is your advice to foreign investors when they come to invest in Brazil?

**A:** My advice is probable superfluous, because the strength of the Brazilian economy speaks for itself. But I will say this: those who bet on Brazil's future stand to gain a lot, because the country has all it takes to continue in the path of social and economic development. For too long has Brazil suffered in stagnation and backwardness. This chapter is now closed. With democracy, economic stability and greater social justice, there is nothing that can stop Brazil in its progress. Our economic environment is business-friendly. Our people is hard-working, creative and eager to learn more. The country is not affected by any sort of ethnic rivalries or civil strife. We have world-class universities and world-class scientists. Investors who come to Brazil will be partners in our development and they will get the very significant returns of operating in a market of over 160 million people, or even more if you consider the integration with our neighbors in Mercosul.

**Note: WINNE cannot be held responsible for the content of unedited transcriptions.**