# Only 5% of Israeli exporters sell to the world's 7th largest economy

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**Brazil Time**

**DLA Piper, the largest law firm in the world, and Campos Mello Advogados (CMA), its cooperating firm in Brazil, together sent three senior attorneys to Israel to encourage commercial ties between Israel and Brazil.**

***English translation***

**Sivan Aizescu**

**The Brazilian economy is the seventh largest in the world and the strongest in South America. Yet in 2012, exports from Israel to Brazil totaled only c. $1.15 billion – which was an increase of 26% from 2011.**

**Makhteshim Agan and Israel Chemicals are together responsible for about half of Israel's exports to Brazil. Data from 2010 show that only 5% of Israeli companies that export actually sell goods and services in Brazil. Imports from Brazil, which are also negligible, amounted to just c. $392 million in 2012. The imported goods are comprised mainly of sugar, meat, and fish.**

**DLA Piper, the largest law firm in the world, has a presence in Israel and Brazil. The firm and partners Jeremy Lustman, head of the Israel practice, and Paul Jayson, a London-based Real Estate partner, hosted an event in Tel Aviv that featured its Latin American Practice Leader, along with two senior partners from its Brazilian cooperating firm, Campos Mello Advogados (CMA). Its purpose was to encourage Israeli firms to do business in Brazil. In attendance were senior personnel from the Azrieli Group, Israel Aerospace Industries, ECI, and a list of representatives from other major Israeli corporations.**

**Latin America Practice Chair Stuart Berkson and two CMA Sao Paulo senior partners (Advs. René Gelman and Adriano Chaves) detailed the challenges and opportunities of operating in Latin America.**

**Adv. Berkson, an American citizen who has been working and living in Brazil for years, said in a conversation with TheMarker that "the Brazilian economy contains exceptional opportunities. This is why, despite the challenges, firms must be there for the long term."**

**Advs. Berkson, Gelman, and Chaves listed a series of challenges faced by foreign investors in Brazil, including its complex tax laws, relatively worker-friendly labor laws, and lack of infrastructure. Nevertheless, they noted, a firm that strives for global expansion cannot ignore a population of nearly 200 million consumers whose buying power is on the rise.**

**Advs. Berkson, Chaves, and Gelman noted that Brazilian tax law is very complicated and advised meticulously tax planning before diving into the Brazilian market. According to them, the Brazilian tax system has three categories of taxation: on revenues and profits; on the manufacture and distribution of international merchandise, goods, and services; and on financial transactions. The taxation is subject to three levels of**

**supervision: federal (Brazil is a federal republic), state (Brazil has 26 states), and municipal/regional. Each layer of oversight takes its share, based on the corporation's activities. The total effective corporate tax is 34%, but varies according to the scope and type of the corporation's operations because of a variety of other direct and taxes and social charges. Each category of taxation stands alone and is governed by different principles. According to Adv. Berkson, Chaves, and Gelman, Brazilian taxation principles are very dynamic and occasionally contradictory, and litigation proceedings against the tax authorities are quite complex and involve a high degree of specialization.**

**Regarding Brazilian labor law, the representatives noted that the supervision of the labor market in Brazil is among the most strict in the world and includes several exceptional regulations. The industrial workers are represented by labor unions which re-open wage agreements and demand salary increases every year.**

**It also emerges that many Brazilian employers are disturbed by the fact that the country's labor laws have not been updated to reflect current employment practices. Thus, Brazilian labor courts, which adopted a labor-friendly approach, are overburdened and overwhelmed with creating new rules to close the gaps between the law and reality. According to Berkson, Chaves, and Gelman, workers can obtain contingent fee based representation when they sue their employers, and therefore it is very common to see fired employees suing their former employers. According to them, virtually every former employee is a potential plaintiff against his former employer. Nevertheless, they noted, some of Brazil's larger industries prefer to address the law suits in court over dealing with labor agreements.**

**Regarding infrastructure, the attorneys stated that Brazil is still a developing country, and not all states and regions are sufficiently developed yet. Nevertheless, in recent months, and leading up to the 2014 World Cup, the Brazilian authorities have been stepping up efforts to close gaps before millions of visitors arrive, as expected, in June 2014 and for the 2016 Summer Olympics. In this context, it has been reported that public expenditures to build stadia, airports, and other infrastructure projects will total $1.8 billion, out of a total expenditure of over $13 billion for the soccer tournament. These figures are a major part of the social protests currently wracking Brazil; just a few weeks ago, c. 200,000 citizens took to the streets of São Paulo to protest the diversion of funds from the health and education budgets to infrastructure projects that will serve the Olympic games.**

**Despite the challenges, the attorneys warmly recommended that Israelis enter into Brazilian investments. Data from Brazilian economic indices show that from 2004 to 2010 foreign investments in Brazil grew at an average annual rate of 35%. In 2011 and 2012, foreign money flowed into the country at a rate of $60 billion per year.**

**DLA Piper's and CMA's attorneys noted that according to Brazilian law, when a Brazilian company distributes a dividend to a foreign national, generally no taxes need to be withheld from the dividend's recipient as long as the income was previously taxed in Brazil. Thus, a resident of Israel who receives a dividend from Brazil will not be taxed in Brazil for his withdrawal in such circumstances. They also noted that the Brazilian government has signed over 30 treaties, with many [none with the US] countries from the developed and developing world, to prevent double taxation. This facilitates the operations of international bodies in Brazil. In 2002, Israel signed such a treaty with Brazil.**

**Within the realm of tourism developments, the government has extended a credit line of $600 million for tourism-related investments, especially hotel construction. In the fields of real estate and infrastructure, Brazil has a development plan called GEP, which includes the planning and construction of dozens of infrastructure projects, including: roads, rail lines, power generators, power stations, residential neighborhoods, and more. From 2010 to 2014, Brazil will spend a total of half a trillion dollars on developing infrastructure and residential real estate.**

**The attorneys also stated that due to a rise in the cost of living and the increasing demand for advanced medical services, there is a lacuna in the Brazilian medical market, from which medical service and medical device companies can profit.**

**DLA Piper employs 4,200 attorneys at 77 branches in 31 countries on seven continents. The firm was founded in 2005 from the merger of three law firms. The Israeli branch of DLA Piper is headed by Adv. Jeremy Lustman. CMA is an independent firm with offices in Sao Paulo and Rio de Janeiro that has entered into a cooperation with DLA Piper.**