

SOUTH AMERICA REPORT

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INTRODUCTION

In the week beginning Sunday 19 September 2010 I was a guest of MFAT and NZTE in Argentina and Brazil. I met with various business and political leaders in Argentina on Monday 20 September and spent the rest of the week in Sao Paulo, Brazil. I wish to gratefully acknowledge, the financial support of MFAT who partially funded my visit to South America.

I also want to acknowledge the very kind assistance of our partner organisation, the Latin American New Zealand Business Council in briefing me before I travelled to South America.

The purpose of the visit was to allow me, as a representative of New Zealand business, to better understand emerging opportunities and issues in major markets that have not necessarily been subject to very thorough New Zealand trade strategy at this point. In doing so I also wanted to understand some of the issues and opportunities for business approaching these markets and to make recommendations to businesses and to the Government upon my return. The report below sets out to do this.

Obviously during my trip I met with various individuals who gave me information, sometimes in confidence. The structure of my report is therefore, to not attribute particular statements to particular individuals, but rather to try and summarise some of the key points that were made to me by the various individuals I met. A full list of those I met is available as Appendix A.

ARGENTINA

“You can still do business here, it’s just different”

Argentinean business person

“Don’t worry about looking for steak, steak will find you”

New Zealander living in Argentina

POLITICAL AND ECONOMIC OVERVIEW

Argentina is the second largest country in South America and the eight largest in the world. It has a strategic location in Southern South America bordering the South Atlantic Ocean. It has a population of approximately 41million and diverse physical landscapes ranging from tropical climates in the north to tundra in the far south. It has both the highest mountain and the lowest point in the Western Hemisphere. It is highly urbanized with 92% of the total population living in cities. Most of its population is of Spanish and Italian origin. Argentina weathered the global financial crises relatively well due to buoyant commodity prices and its’ lack of exposure to the international financial system. Argentina is a G20 country but remains very critical of the IMF and the World Bank as well as the fiscal adjustment policies of important G20 partners.

The Government engages in ad hoc and manipulative trade and economic policy and practices that have resulted in destruction of business wealth, 25-30% annual inflation rate and growing poverty and dependency along with very unreliable official statistics.

Both New Zealand and Argentina are major food producers. Argentina had a Military Government for many years but democracy returned in 1983 and survived a severe economic crisis of 2001 and 2002 when Argentina defaulted on close to US\$100 billion worth of debt – the biggest sovereign debt default in history. This has led to ongoing issues with the Argentinean banking system.

Because the Government is still unable to access international credit markets following the sovereign debt default of 2001 and 2002, its’ strategy has been to have concerted fiscal stimulus encouraging a boom in consumer expenditure. First quarter 2010 GDP figures for example show growth of 6-7% year on year in private consumption. The price of course is high inflation. Estimates put the inflation rate at around 25-30%. In 2009 the growth in public spending was three times the growth of tax revenue meaning resources belonging to other organs of state have been used, eg nationalization of private pension funds.

President Kirchner’s term in office is due to expire in late 2011. At that time the economic model of a strong push on domestic consumption along with high inflation, the taxing of agricultural exports and various measures to inhibit imports of both industrial and agricultural goods along with the nationalization of utilities, pension funds and Aerolineas Argentinas will be subject to public approval or otherwise. It is to early yet to predict what the election result might be.

CURRENT TRADE AND INVESTMENT LINKS

New Zealanders investing in Argentina include entrepreneurs Eamonn Cleary and Eric Spenser as well as Sealord and Fonterra. PGGW has a significant seeds business in Argentina.

BUSINESS, POLITICS AND TRADE ISSUES

Clearly the relationship between the business sector and the Kirchner Government is highly problematic. For example, the Government has a difficult relationship with the farming sector despite this being the backbone to the economy. Government interference was led to beef exports reducing significantly. Poor relationships with business occasionally lead to political and regulatory difficulty. For example the day I was in Buenos Aires the Government announced draft legislation that would require businesses to profit share with their employees. Although the draft law has very little chance of eventually becoming legislation, nevertheless it is easy to see how unsettling this can be for businesses attempting to remain successful in this country.

One of the most extraordinary business impacts of the sovereign debt default in 2001 and 2002 is that, according to the businesses I spoke to, there is fundamentally no long term credit available in the Argentinean economy. The only credit offered by banks is short term. This has led to a wide range of creative measures to overcome the problem of the lack of long term bank credit. One obvious response has been a flourishing cash economy but other innovative funding methods which have the effect of using offshore credit lines have also been used by businesses.

One of the impacts of the problematic relationship between Government and business in this market has been the development by senior business people of very sophisticated political skills. This is important for New Zealand businesses to understand when entering this market and finding partners.

Multi nationals have a very large presence in Argentina. Local firms with a world view are relatively limited (perhaps 20-30 firms). Therefore we see a more internally focused economy and external interest is largely focussed on Latin America. Business relationships in Asia are less well developed and New Zealand partnerships with Asia and Australia are recognised by Argentinean businesses as being good platforms for potential success in these markets. The New Zealand experience in Asia is seen as a success from an Argentinean business point of view.

The nature of Government policy has meant that Argentina has had a rollercoaster economic experience over the last 30 years or so. Strong appreciation or devaluation of the currency means strong economic growth followed by economic collapse. Clearly the downside risks and the upside opportunities are very much larger in this economy than they are in more typically developed economies such as New Zealand, Australia or the UK. Clearly the biggest single problem faced by business in Argentina is a lack of good governance structures in Government with all that this leads to.

Clearly Argentina is not one of the easiest countries in the world in which to do business. But it is still possible to do business in this market. Companies such as

Fonterra, Sealord, PGG Wrightson, Bomac Laboratories and other New Zealand companies work in this market. The reasons that some of these companies enter the Argentinean market seems obvious. Argentina, though a risky and difficult place in which to do business, is still very much a land of opportunity. The scale of the agriculture opportunity (including fisheries) in this market is staggering and if the Government situation improves then the potential upside is enormous.

Argentina therefore may not be the first place that most New Zealand companies will do business in South America, but companies who are serious about going to South America should certainly keep Argentina on their dashboard of options for investment and partnership.

NEW ZEALAND OPPORTUNITIES AND CHALLENGES

- The point was made to me over and over again that local knowledge and local partners matter. This is for various reasons, including the nature of business and political relationships, complexities in taxation and other regulation, knowledge of markets, funding capabilities and access to local markets, as well as an understanding of local culture. Given the size and scale of most New Zealand entrants to this market, this is sage advice. NZTE can assist in finding relevant local partners with whom to consider alliances as New Zealand companies think of entering this market.
- Clearly given the import and export restrictions that exist in Argentina, goods exports from New Zealand to Argentina are problematic although still possible. Opportunities are probably more immediately available in the services area (eg tourism, consulting, education and so on) and in investment.
- Many New Zealand businesses will think of Argentina as a competitor because of its significant track record and capacity in food production. There are clearly elements of competition and New Zealand needs to be careful in considering and appropriately responding to them. But there are also massive areas for cooperation and co investment. If we think about the food needs of the world 50 years out it seems clear that there will be room for all types of players in a world that is increasingly protein hungry, and to simply reject Argentina (or indeed Brazil for that matter) on the basis that they are a competitor in some areas of New Zealand's food production and export is far too simplistic.
- New Zealanders are clearly trusted and liked in Argentinean business circles. We are known for the usual things; rugby, lamb, dairy and tourism and New Zealand businesses will have an opportunity to build from that knowledge and awareness base.
- It was made very clear to me that the rule of law as Anglo Saxon countries might think of it does not really exist in Argentina. Companies need to take this into account when entering the market.
- It is possible in this market that some technologies might work best even if they are not necessarily world's best applications. The capacity for products and

technology to be reliable, dependable and so on might work better in some parts of this market.

- New Zealand is seen as a good destination for Argentines wanting to travel abroad. For example the working holiday scheme run by the New Zealand Government in Argentina is always massively over subscribed so clearly there are big opportunities for Argentinean tourism and potentially export education, despite the fact that Argentina has a reputation for having a good education system.
- The film sector is also a significant sector in Argentina, and Argentinean companies are always interested in working with New Zealand film companies.
- Argentina is a country of enormous income disparity and in common with Brazil the rich of Argentina are extremely wealthy. This may offer opportunities for niche goods and services into this market aimed at that cohort of the population. Given Argentina's coast line and a particular location of the capital Buenos Aires it's possible that niche opportunities in areas such as the marine sector might be an option for consideration by New Zealand companies.
- New Zealand is seen as a friend of Argentina (and Argentina is in need of a few friends.) But I was told that New Zealand businesses are sometimes seen as being a little naïve. This shouldn't surprise anybody given the difference between the Argentinean business environment and that which most New Zealand businesses will normally operate in. This goes to the point about having a clear plan of attack for this market if you wish to enter it. The opportunities are huge but the risks are high and New Zealand companies will prosper best here if they have a clear plan of action, outstanding local partnerships and a detailed, focussed business plan which is clear about the costs as well as the opportunities of doing business in this market.
- It is often a good idea to remain low key in this economy as companies start business. This can be achieved by working through JV or other partners in order to smooth the way for expansion. For example, although I found that all the people I met with could speak good English, clearly that won't be the case for the whole of society, including Government officials who all speak Spanish and can occasionally be closed minded.
- New Zealanders who come to this market should bring with them good skilled New Zealand business people who can help assess opportunities and work with locals but be prepared for volatility and an understanding that labour laws can be tough.

RUGBY WORLD CUP

The New Zealand Embassy in Buenos Aires is using the Rugby World Cup as a key engagement tool for Argentinean business in the next year or so. This is a smart strategy. Rugby in Argentina has a long history. Clubs are often sustained by groups of individuals, including business people. It is more a sport of the elite than in NZ. Knowledge of the All Blacks and our famous players such as John Kirwan and Jonah Lomu is high amongst Argentines. A focus on trying to “cut through” to Argentinean business and political leaders through the use of the Rugby World Cup is a sensible strategy and one that should be supported by New Zealand businesses.

I was told by Argentinean Government officials that they intend to try to create some significant visibility in New Zealand during Rugby World Cup around the Pumas and Argentina more generally. Argentinean Government officials working with the New Zealand Embassy in Buenos Aires and NZTE will be looking to partner New Zealand companies and to make contact with New Zealand firms before and during the Rugby World Cup in order to showcase Argentina and to look for co investment and other opportunities.

New Zealand businesses should be encouraged to take part in these opportunities and to make contact with Argentinean counterparts if at all possible.

CONCLUSIONS AND RECOMMENDATIONS

Clearly Argentina is not the easiest country in the world to do business. But the opportunities associated with the country are enormous not just in agriculture but in other areas of economic activity as well. The forthcoming general election in 2011 may lead to a change in political direction but even if it does not the Argentinean economy is still likely to become more stable over time. The number one lesson for this economy as for others in Latin America (particularly Brazil) is to have a plan before you enter into the market. Getting on a plane and having some meetings in Buenos Aires on five days notice will simply not cut it in this country. Work with Trade and Enterprise or other contacts to find a JV or other partner in market to help you negotiate the inevitable pitfalls and opportunities of a market that looks and feels very different from a typical Anglo Saxon market.

In seeking a partner think very much of people. The complex inter relationship between a difficult democracy and relatively poor governance structures along with the cultural differences of Spanish speaking people are significant and are likely to be best ameliorated or overcome by the use of a good partner, well chosen - and a good strategy, well thought through.

Argentina is a sister southern hemisphere country with a southern hemisphere outlook and clearly Argentinean business people want to be friendly with New Zealand. They are interested in looking at joint opportunities. The direct flight from Auckland to Buenos Aires takes virtually the same time as a direct flight from Auckland to Singapore. Argentina may not be the first country in South America businesses should consider when entering this geography, but given its size and potential it should be on the dashboard of every business who is thinking of doing business in South America.

BRAZIL

“The question people will ask is are you IN Brazil or NOT”
Brazilian business person

POLITICAL AND ECONOMIC OVERVIEW

Brazil is the most globally strategic country in South America. It is the 8th largest economy in the world after coming through the economic crisis almost unscathed. Brazil's large domestic market, sound banking system and substantial Government stimulus measures all point to forecast growth of at least 7% this year. The market expects GDP to return to a more sustainable 5% in 2011. With the continuity of the previous Government's broad economic policy under President Lula Cardoso, Brazil has attained macro economic stability and sound growth prospects.

Brazil has a sophisticated and diverse economy. In agriculture it is the number one producer and/or exporter of beef, poultry, sugar, ethanol, coffee, orange juice and complex soy products. It is a globally significant producer of corn and pork. It has large mineral resources, is a large automobile producer and is also the world's third largest jet plane manufacturer. Brazil's export markets are diversified. The current Government has encouraged trade with fellow developing countries. The export mix includes agriculture and minerals, semi manufactured products and shoes, cars, aeroplanes along with a range of other manufactured goods.

To sustain a place at the worlds top table Brazil will need to navigate a range of domestic challenges including creaking infrastructure, leviathan bureaucracy, heavy regulatory structure, complex and high taxes, relatively high tariffs, the costs of emerging social security funding, weak public education and difficult industrial relation laws.

Brazil is a weighty player in almost all of the international processes affecting key New Zealand interests, including environmental negotiations, the WTO, G20, climate change negotiations and many others.

CURRENT TRADE AND INVESTMENT LINKS

With regard to Brazil, investment and services are, for the time being, more important than goods trade. Current New Zealand investments in Brazil are focussed mainly on agriculture. The biggest single investment is Fonterra's joint venture with Nestle in the processing company Dairy Partners of America. Separate groups of New Zealand investors also own two dairy farms. Other New Zealand companies with smaller investments include PGG Wrightson Seeds and Rissington Breedlines. Tait Electronics is also a major supplier of radio and communication equipment to the Sao Paulo authorities. Brazilian petroleum giant Petrobras has just been awarded an exploration permit for New Zealand and is likely to invest many millions in NZ.

Education and tourism are significant export earners for New Zealand in Brazil. Over 11,500 Brazilians visit New Zealand annually with numbers increasing steadily over the last five years. Brazil accounts for more than half of all South American visitors to New Zealand.

The Brazilian education market is estimated to be worth at least NZD57million per year to New Zealand. Around 3500 Brazilians now study in New Zealand each year.

MARKET SCALE

Some New Zealanders will describe the Brazilian market as primarily a market for services and investment. I disagree. The size and scale of the Brazilian market is so immense that it is fundamentally an opportunity for all manner of New Zealand exporters. For the time being our more traditional exports of red meat and dairy products are less likely to be attractive in this market. But over time niche opportunities even in those two areas may even emerge. Other than that though, high value manufactured goods and all manner of services and investment opportunities exist in this market.

Brazil is rapidly emerging in the same way that China is. But because the market is still relatively protected and furthermore because Brazilian business people tend to think of the vast internal market before considering export (with all of the world class practice that this brings,) I believe that there are enormous opportunities for New Zealanders entering the market because we are more internationally focused and alive to niche opportunities in large markets.

THE IMPORTANCE OF COMMITMENT

More than anything else Brazilian business people were clear to me that far too many New Zealand businesses have caused reputation problems for themselves and New Zealand more generally by being part-time players in the Brazilian market. If you are going to commit yourself to Brazil then truly commit. The best statement made to me by a Brazilian business person was "*are you in Brazil or not*". This is a demonstration of the point that Brazilians will ask about your true commitment to their market before they will do any sensible business with you. This means a commitment of manpower, of time and of your best and brightest in this market.

One expat business person I spoke to made the point that many deals are done in Sao Paulo over the weekend and face to face. This means that New Zealanders should, if necessary, resist the temptation to leave for home or for Rio on a Friday night. The market in Sao Paulo where most business is done, appreciates face to face commitment to the task - particularly if deals are to be done.

Do not think you can enter this market simply by a few phone calls or a couple of flights a year. If you are going to run a business successfully you need to be managing that business properly in Brazil with your best and brightest people.

THE IMPORTANCE OF PLANNING

One thing that was made clear to me over and over again was the importance of proper planning for this market. One business person made the point that any business planning to successfully enter the Brazilian market will need to invest twelve to eighteen months in planning and preparation. This is for a variety of reasons:

1. Brazil's creaking infrastructure and bureaucracy.
2. Brazil's byzantine tax and business licensing legislation.
3. Brazil's often very difficult labour laws.
4. A true understanding of the market will not necessarily be easy
5. A clear understanding of what the value proposition is for a New Zealand business entering the market in Brazil may not necessarily be obvious.
6. As always in markets such as this, good Brazilian business partners are almost indispensable for the vast majority of New Zealand businesses. Take the time to find a good partner and you will do better.
7. The nature of Brazilian markets is very different to New Zealand markets. Often markets in Brazil are not so competitive or open as New Zealand markets. For this reason costs might be higher to enter the Brazilian market but profits might also be higher. This needs to be understood before entering the market.
8. Brazilian IP legislation needs to be considered carefully when entering this market.

TRANSPORT COSTS

Transport costs in this market are significant and the time taken for physical goods to be transported by sea is lengthy. However this should not stop New Zealand goods exporters from thinking about this market. In essence any export that is "weightless" has the potential to work in this market.

(My definition of "weightless" is that the cost and time of physical shipping is largely irrelevant to the success of the product in market. By this definition a three tonne object could be "weightless" and New Zealand businesses should think about the weightless economy in this fashion.)

INTELLECTUAL PROPERTY

I had two briefings on intellectual property issues in Brazil and my immediate reaction is that intellectual property issues, while problematic, are not too dissimilar to many emerging nations. The Brazilian legal code looks fit for purpose and is reasonably robust. The problem is that the creaking bureaucracy of the court system means that it often takes a long time to enforce legal protections. Therefore countries doing business in Brazil who are IP heavy should carefully consider their IP strategy. For example, it maybe that patents are not the most appropriate first option and simply use of trade secrets may work better. Businesses should take sensible advice from Brazilian experts at an early stage of their planning process for entering these markets.

Overall however, I did not come to the conclusion that problems with Brazilian IP protection and legal structures were such that New Zealand companies who are IP intensive should reject this market. I would take a view that China for example is a much more problematic proposition for IP intensive companies than Brazil. (Incidentally MFAT has published a useful guide to IP in Brazil, available on the MFAT website.)

CULTURE

Of all the BRIC nations it appeared to me that Brazilian business people were culturally closest to New Zealanders. Brazilian business people said that they enjoyed working with Kiwis because we had a good sense of humour (similar to their own) and we liked to “work hard and play hard.” That certainly appeared to be the case with the Brazilian business people I met. They were cheerful, friendly, open to doing business with New Zealand with a bright sense of humour and a clear understanding of the problems and opportunities of their country. Brazilians seem to know New Zealand well.

One good example I had was with a group of Brazilian business people who could not only tell me that New Zealand were the only undefeated nation at the recent FIFA World Cup but they also knew the name of the All Whites goal keeper. Clearly the New Zealand Government should consider its strategy with regard to the All Whites because this team has the potential to be a fantastic set of national ambassadors in soccer mad South America.

BRAZIL IS NOT SOUTH AMERICA

Clearly one of the errors that New Zealand companies make when thinking about the South American market is to take a simplistic one dimensional view. Brazilian business people are very clear that Brazil is a very different opportunity to Argentina, Uruguay, Chile and the like. Many New Zealand Businesses will start their South American operations in Chile or Uruguay often for very sensible reasons. But the enormous opportunities of Brazil should be on every business radar and the particularities of the Brazilian market should be taken into account. Brazil, I was forcefully told, is not like the rest of South America.

OPENNESS TO TRADE

Brazil business appears open to inbound international trade. They do not appear to be negative about New Zealanders coming to Brazil and doing business there. Having said that Brazilian businesses are still very protected by comparison to New Zealand businesses. The size of the Brazilian market tends to mean Government and businesses focus internally on Brazil and only then on Latin American and other countries. We should not expect a free trade agreement with Brazil anytime soon. Tariff and other trade barriers exist in this market and should be carefully considered by New Zealand business in their planning for this market.

CLEAN TECH OPPORTUNITIES

Brazil remains one of the major uses of bio fuels in the world. Originally bio fuels were utilised in Brazil for three reasons:

1. Sugar cane bi product was available for use as a bio fuel.
2. Brazil at that stage had not discovered any significant indigenous oil opportunity.
3. A desire to disconnect Brazil somewhat from international oil markets.

More recently of course internationally significant oil finds have been made in the Atlantic Ocean off the Brazilian Coast. Nevertheless clean tech energy generation is still a major issue in Brazil. There are some clear and obvious opportunities for New Zealand businesses in this space.

What's more, the more developed areas of Brazil including Sao Paulo state are moving much more down a sustainability track and are likely to introduce cap and trade systems in the next few years. There is much more sustainability awareness and customer influence in the food chain through supermarkets and so on in the same way as other markets.

UNDERSTANDING BUSINESS VALUE IN BRAZIL

One of the keys issues for New Zealand businesses in this market (and of course in many other like markets) is to understand what value New Zealand companies and entrepreneurs bring to Brazilian customers. In the case of one of the New Zealand farming investments in Brazil I was told that the key value that New Zealand brought to Brazil was the NZ concept of the owner living on the farm. This meant that the expert was on the farm every day ensuring maximum performance. This concentration on quality and innovation was transferrable to Brazil. Of course owner farmers are not so common amongst Brazil's larger farms with owners tending to live in the cities and hiring people to run their farms with only occasional visits.

INSTITUTIONAL REFORM

A great deal of work is going on to reform Brazilian institutions. The change is likely to occur only slowly until such time as the political will emerges for large scale change. A number of very interesting public and private initiatives are emerging however, including the Brazilian competitiveness movement which is a public/private sector initiative to attempt to improve the cost of compliance and the efficiency of Government using private sector style thinking such as six sigma and lean.

GOVERNMENT ECONOMIC INVOLVEMENT

Businesses need to understand that government is much more engaged in sectors of the economy than we would find typical in New Zealand. Government is engaged overtly in areas such as mining, energy and agriculture and less overtly in other areas. This once again requires a level of political sophistication from business people in this market. This goes to the point about trying to find very good Brazilian partners who can assist New Zealanders enter the market.

ACCESS TO CAPITAL

In my discussions with Brazilian businesses it did not appear that access to capital was an issue. Brazil has its fair share of mega wealthy individuals and corporates and the point was made to me that often relatively small capital raisings (eg NZD 2million) can be more difficult than bigger sums. As in New Zealand, personal contact is the biggest issue in raising capital from this kind of market and Brazilian partners will be essential here.

CORRUPTION

Corruption exists in Brazil of course and the clear advice from both Brazilians and New Zealanders in this market was never start getting corrupt because you won't stop. Sage advice in any market.

LAW FIRMS

The point was made to me that law firms in Brazil are different to law firms in Anglo Saxon countries. Some law firms are traditional in the sense that we would expect them to be but other are more deal makers. Business people should therefore carefully choose their law firm based on their business needs.

LANGUAGE

Any business person with a serious commitment to this market will have to have some Portuguese language skill or a partner with that skill. All of the business people and politicians I spoke to had good English, but I was told this was not common in this market.

CONCLUSIONS

Brazil is a market with mind boggling opportunity for New Zealand. It is not just a services and investment play. Any New Zealand exporter who exports high value goods, services, and as a potential investor or co-investor should look at this market carefully. As is so often the case with large markets, commitment to the market is the

most important single element. Brazilians will not do serious business with part-time actors and those who are only episodically in the Brazilian market. A commitment to making contacts, being face to face and engaging in Brazilian culture, including some Portuguese language will pay dividends.

We have an opportunity to create in Brazil another “China experience” for New Zealand business if we get our engagement with this market right. This means good business partners, a clear understanding of market opportunities, patiently planning and then executing an entry strategy with a clear understanding of Brazil’s complex tax, licensing bureaucratic and labour relations arrangements. Taking the time to do these things well will pay dividends to any New Zealand company in this market.

NEW ZEALAND STRATEGY FOR SOUTH AMERICA

Although New Zealand countries have done some significant business in South America that business has mainly been to west of the Andes leaving the truly big opportunity of Brazil out of the picture at this stage for far too many companies. The size of the Brazilian opportunities and of her South American sisters is simply too large for New Zealand to ignore. Yet I fear that, to many businesses and policy makers, the view of Brazil and South America more generally is like our view was of China ten years ago: one dimensional, unsophisticated and somewhat fearful. We need to change that and we need a strategy to achieve that outcome.

A good example of this problem is in thinking of Brazil and Argentina as New Zealand competitors because of their interest in agriculture and food exports. To dismiss the South American opportunity or to limit it because of this kind of thinking is overly simplistic. Brazil is such a big opportunity that basically it will be a market for almost anything that New Zealand sells outside some of the more traditional food opportunities and even in those (red meat and dairy) co-investment and partnering opportunities are simply enormous. New Zealand's prime focus on Asia at present is the correct one but we cannot simply rest of our laurels in those markets to our north. We also need to be thinking strategically about other emerging and potential markets including those to our east in South America. This requires in my view the following kinds of initiatives:

1. Active consideration and encouragement for more direct air links between New Zealand and Brazil as aircraft and technology become available. The New Zealand Brazilian relationship would be turbo charged over night if Air New Zealand started making direct flights for example to Sao Paulo.
2. The creation of a South America New Zealand Foundation along the lines of a modified Asia New Zealand Foundation model. Such a foundation would be a centre piece for Government and private sector strategising and action in these various markets. The model will need to be modified from the Asia New Zealand model in the sense that it will need to be more overtly business and economy focused. It could be a vehicle for New Zealand Inc thinking in this market.
3. More research and publicity should be given to these emerging markets. New Zealand business has become more successful in Asia and China because of a strategy over many years now of publicity, business to business links, political visits and eventually free trade deals, along with media and community based action. We cannot wait for five or ten years before starting this activity with regard to South America. We need to ramp up our activity now to enable a more sophisticated business presence in South America in, say, five years time. Businesses will not learn about these complex, sophisticated and very different markets to New Zealand unless a similar strategy is carried out for those markets as New Zealand Inc in the Asian and Chinese markets. If we are being strategic about these opportunities we need to start now.

4. It is clear that these are very difficult and problematic markets for many New Zealand companies. The enormous scale of the Brazilian opportunity for example along with its complex legal and taxation systems and sometimes creaking bureaucracy are all very significant challenges. This demonstrates that we need to continue with the current NZTE strategy of improving the sophistication and capability of New Zealand managers in globally competitive firms. In some ways, of all of the BRIC nations, Brazil is the most like New Zealand from a business/culture perspective. But this does not mean it is similar to New Zealand business culture. This needs to be taken into account in planning and strategising, building partnership and capability for this market.
5. As the New Zealand Government rolls out its “New Zealand Inc” strategy we have an opportunity to put in place such a strategy for South America or at least the major economies of the region sooner rather than later. I would encourage that conversation to happen sooner because by having it later we would inevitably have to retrofit or change aspects of the strategy which would have then emerged ad hoc in these markets. Doing it sooner in a series of markets that is of such obvious strategic importance to New Zealand seems to be the best idea.
6. These markets are not traditional players for New Zealand in the sense that they will not be export markets for goods such as dairy or red meat (although in time some niche opportunities might appear here) rather they will be a different play for New Zealand. Co investment and services exports along with niche goods export such as high tech. Therefore we need new thinking about these markets rather than applying the traditional thinking that we might have in place in markets such as Japan, China or the UK and Europe. Hence the importance of setting up a South America New Zealand Foundation or something similar to enable those conversations to take place. In the absence of them I believe we will always under achieve in these markets because of the concentration of political and business thinking on our traditional goods exports.
7. In thinking more specifically about services and co investment opportunities we might think for example of appropriate co investment opportunities we might think through from a NZ point of view, the best place in the value chain in which to invest. (Sometimes this is not obvious.) We might also think through appropriate “go to market” strategies in areas such as IP. We should also consider carefully how relationships with local partners are undertaken, with a healthy dose of intelligence and learning from those kiwis and others who have been there before or who are in market now.
8. We should consider expanding over time our high level political linkages in these markets. Clearly Brazil will be increasingly important in world politics over the next twenty years. We should learn the lessons of our ongoing and long term cooperation with the nations of ASEAN and China in thinking about the emerging powerhouses of Latin America and in particular Brazil. We cannot be fair-weather friends. We need to show a commitment to their country both at a business level and just as importantly at a political level.

APPENDIX A

MEETING SCHEDULE BUENOS AIRES

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| <p>Breakfast with Daniel Funes de Rioja Executive Vice-President, International Organisation of Employers (IOE)</p> |
| <p>Briefing at NZ Embassy (Ambassador Dunn, Second Secretary Martin, NZTE South America Director Prunello and NZTE Regional Manager Luciano Epelbaum)</p> |
| <p>Meeting with Jorge Osella Director of Investment and Tourism Promotion Ministry of Foreign Affairs and International Trade (accompanied by Ambassador Dunn, Second Secretary Martin)</p> |
| <p>Meeting with Jaime Campos Chair of Argentine Business Association (accompanied by Second Secretary Martin and NZTE Regional Manager Luciano Epelbaum)</p> |
| <p>Meeting with Alan Mackern Sealord (accompanied by Second Secretary Martin and NZTE Regional Manager Luciano Epelbaum)</p> |
| <p>Dinner hosted by Ambassador with Beachhead Advisor Jorge Forteza Beachhead Advisor Gustavo Richardson Alan Clutterbuck (RAP) Luciano Epelbaum (NZTE) Peter Martin (Second Secretary)</p> |

MEETING SCHEDULE SAO PAULO

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| <p>Meeting with Mrs. Elizabeth Kasznar Vice-president ABPI (Brazilian Association of Intellectual Property) (Accompanied by Paula Caldeira, NZCG São Paulo)</p> |
| <p>Meeting with Kazimierz Malachowski Tait Communications agent in Brazil (Accompanied by Ambassador Trainor)</p> |

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| <p>Dinner hosted by Ambassador with Marta Mager (NZTE Americas) Stephen O'Sullivan (NZTE Beachhead Advisor) Fabiano Deffenti (Tait's Lawyer) Mário Marconini (FECOMERCIO) Ambassador. Mark Trainor Jeff McAlister, Consul-General Designate.</p> |
| <p>Meeting with Jessica Acherboim NZTE Brazil Manager (Also present, Marta Mager, Regional Director Americas, NZTE; José Prunello, Director, South America, NZTE; Ambassador Trainor)</p> |
| <p>Meeting with André Nassar Director ICONE (Accompanied by Ambassador Trainor)</p> |
| <p>Lunch with Juan Pestana CEO Dairy Partners America (Hosted by Ambassador Trainor)</p> |
| <p>Meeting with Alexandre Pundek Adviser to the Central Bank (Accompanied by Ambassador Trainor)</p> |
| <p>Meeting with Elcio Anibal de Lucca President Brazilian Competiveness Movement (Accompanied by Ambassador Trainor and Paula Caldeira, NZCG São Paulo)</p> |
| <p>Dinner with Craig Bell Leite Verde Dairy Farm (Hosted by Ambassador Trainor. Also present Marta Mager, Regional Director Americas, NZTE)</p> |
| <p>Meeting with Roberto Gianetti da Fonseca President International Relations Department at FIESP (Accompanied by Ambassador Trainor; Marta Mager, Regional Director Americas, NZTE; José Prunello, Director, South America, NZTE)</p> |
| <p>Meeting with Mark Argar former Australian Consul-General (Accompanied by Ambassador Trainor)</p> |

Meeting with Mr. Fernando Jucá

Partner

Ariboni Law Firm (specialists in Intellectual Property)

(Accompanied by Ambassador Trainor)

Meeting with Brian Schicker

New Zealand businessman (telecom)

Mobile Mentor

(Accompanied by Ambassador Trainor)

Meeting with Stuart Donald

New Zealand Agriculture Consultant

(Accompanied by Ambassador Trainor)

Meeting with Senai (Brazilian national industry training organisation)

Osvaldo Maia, Manager for Innovation and Technology, and colleagues

(Accompanied by Ambassador Trainor)