



Brazil : Telecommunications Market

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Summary

With roughly 35% of the region's revenues, Brazil remains Latin America's largest telecom market. Net revenue from telecom equipment and services was near US\$58 billion in 2006 and the market estimates this to reach US\$74 billion in 2012. Sector revenues are split among fixed carriers (39%), mobile carriers (30%), manufactured products (14%) and services (19%). Motorola, Nokia, Nortel and Cisco have manufacturing facilities in Brazil, giving the country one of the region's best telecom infrastructures.

Strong competition is expected to continue in the coming years, highlighting the need to enhance the existing network and to prepare for third generation technology (3G). Under these circumstances, telecommunication companies need to strengthen their organization and expand their networks to prepare for future competition. Opportunities for U.S. suppliers exist in the areas of, 2G-network maintenance, 3G-network launching, broadband internet infrastructure, application software, and wireless communication networks. The wireless market is also a best prospect due to the significant increase of wireless data applications with the deployment of the 3G licenses. Trends continue to be toward convergence, i.e., adding telecommunications services, to maximize the benefits derived from investments and efficient operations.

Market Overview

Fast-changing technology, competitive prices and the emergence of capital-rich players have all contributed to an increase in competition within Brazil's telecommunications market. The number of fixed line subscriptions decreased 1%. However, the number of mobile phone users experienced significant growth, from 86.2 million in 2005 to 100 million in 2006. At the end of 2007 Brazil will have 120 million cellular phones which means that three out of four Brazilians will have a cellular phone, a market penetration of 75%. This number ranks Brazil in fifth place in terms of cellular phone users, just behind of China, United States, India and Russia.

Between 1996 and 2006 the Brazilian telecommunications sector invested more than US\$70 million to expand, modernize and increase the quality of services provided. In 2006 the investments made by the fixed telecommunications carriers and the Pay TV service providers accounted for approximately US\$7 billion and another US\$10 million is expected to be invested by the private sector in 2007, mainly due to the deployment of the 3G licenses.

Broadband had also an expressive increase and will close 2007 with approximately 8 million subscribers, a 100% increase compared to the past two years. Such increase is due to the offer of triple play services - telephony, broadband and Pay TV in the same package. All the largest telecom carriers operating in country already offer this alternative.

Due to significant decrease in price, sales of laptops are also booming and in 2008 are expected to increase 27% compared to 2006.

Brazilian/Japanese Digital TV was launched in December 2007. The TV broadcasters have already invested in equipment and technology but the system is still incomplete in this initial stage. Market analysts predict that good opportunities will be in the products/services to provide interactivity and mobility.

Telecommunications Market Equipment

US\$ millions	2005	2006	2007 (est.)
Market Size	7,834	7,972	8,332
Local Production	6,740	6,737	6,411
Exports	2,832	3,115	2,461
Imports (Global)	1,094	1,235	1,921
Imports from US	410	596	715

Source: Abinee – Brazilian Association of Electro-electronic products
Exchange Rate US\$1 = R\$ 2.1

Imports from the United States increased 20% thanks to the favorable exchange rate. Some of the items most imported include semiconductors, telecommunications and informatics components.

Cellular Phone Services

The mobile phone market is dominated by GSM-based technologies. Telecom operators recognize the need to broaden their offerings in order to win the loyalty of new customers, retain existing users and benefit from the market potential of non-voice services. Price cutting and value-added services including: faster data transmission, enhanced multimedia capabilities and improved Short Message Services (SMS) are the most critical strategies for luring customers.

Non-voice technology, e.g. (Short Message Services - SMS), is also in high demand and is regularly being improved. Non-Voice technology has been driven by four key conditions: a) handsets capable of handling such services must be affordable; b) there must be a variety of content and services to satisfy diverse customer needs; c) mobile phone networks must be capable of handling the traffic created by such services and d) service fees must be reasonable.

Market share of the cellular telecom carriers

	Technology	2005 %	2006 %	Nov.2007 %
Vivo (Portugal Telecom / Telefonica)	CDMA / GSM	34.5	29.1	27.6
Tim (Telecom Italia)	GSM	23.6	25.4	25.9
Claro (Telmex)	GSM	21.6	23.9	24.9
Oi (Telemar)	GSM	11.9	13.1	13.2
Telemig / Amazonia Celular	GSM	5.3	4.7	4.5
Brasil Telecom	GSM	2.5	3.4	3.5
Other	GSM	0.6	0.4	0.4
# of cellulars in operation (millions)		86,210	99,919	116,314

Source: Teleco

Satellites

After years of stagnation, the satellite market grew between 5 to 8% in 2007. The demand for this service is still growing especially in the video segment. Telefonica Group uses satellite technology to provide Direct to Home (DTH) services. According to market analysts, new compression technologies will force the reduction of prices for this type of services and as result of that, regional broadcasters are planning change the current microwave distribution infrastructure for satellite solution. There are also good perspectives for trunking services for regions where there is no optical fiber, distant learning, corporate TV (with media and sales points) and municipalities that are interested in building its own Internet network. List of satellite operators in Brazil include Eutelsat, Hispamar/Hispasat / Inmarasat Brasil, Loral Skynet, Nova Intelsat, SES/NewSkies, Satmex, Star One and Telesat Brasil.

Broadband

Broadband increased 57% between 2005 and 2006 and will grow at least 50% in 2007. In this regard, it is expected that operators' campaigns to foster penetration among lower social classes will drive its growth, while VoIP services are likely to grow especially among heavy voice services users.

Consequently, the competitive structure has been changing due to telecommunications convergence. Carriers are looking for opportunities to expand their business by bundling voice, data, and video, in order to address the triple-play demand and protect the voice market from VoIP and pay-TV operators' approach. Several carriers are keen on establishing partnerships or even acquire other companies to offer triple-play services.

With the main competitors participating in various services markets, there is an opportunity for them to explore possible synergies among services. In addition to that, companies are expected to target the fastest growing segments (SME and low end users), in order to expand market penetration.

This is a viable opportunity since telecom services have already reached saturated rates in higher social classes (people and residences) and among large and multinational companies. Main players in the broadband segment in country are Ajato, BrTurbo, NetSuper, Speedy, Turbonet, Velox and Virtua.

Total Broad Band connections in Brazil

Thousands	2006	Sept. 2007
ADSL	4,307	5,240
Pay TV	1,200	1,585
Other (Radio)	115	125
Total	5,622	6,950

Source: *Teleco*

Pay TV Market

The Brazilian market for Pay TV generated US\$3.4 billion by year-end 2007 with approximately 5.3 million subscribers. This market is expected to grow at least 15% in the next year mainly because of the increase of the broadband penetration in country.

Internet access, VoIP (Voice over the Internet Protocol), Triple-Play Services (combination of voice, video and data), and Wi-Max (wireless networking specification used for long-haul and backhaul connections), should bring a new flow of investments and contribute for the expansion of this market over the next few years.

Regarding the future launch of IPTV services by fixed telephony operators, the service is expected to be launched soon, after local regulations allow the provision of such services. Current regulation does not allow fixed telephony operators to offer TV broadcasting. Best prospects for US suppliers include all type of solutions to improve the broadband market via cable modem, home networking platforms, IP telephones, IPTV software and video-on-demand services, among others. Key players in this sector are Net/Vivax, Sky/DirectTV and TVA.

Pay TV Growth Projection

Thousands of subscribers	2007	2008 (est.)	2012 (est.)
Cable	3,289	3,842	6,271
MMDS	313	360	468
Satellite	1,671	1,871	2,621
Total	5,273	6,064	9,360

Source: Atlas Brasileiro das Telecomunicações

Best Prospects

Good opportunities for U.S. companies will be found mostly in the wireless market since a significant increase of wireless data applications is expected with the deployment of the 3G licenses in early 2008. Trends continue to be toward convergence, i.e., adding telecommunications services, to maximize the benefits derived from investments and efficient operations.

Cellular telephones are expected to be the single biggest end-use market for the telecommunications equipment market in Brazil. Major cell phone manufacturers such as Motorola, Nokia, Samsung, Sony-Ericsson, Siemens, LG Electronics and Gradiante are gearing up production to supply growing markets in Brazil and the South American Region and are even exporting to North America. Other best prospects include IP New Generation Networks (IP NGNs); Corporate and Virtual Private Network Services (VPNs); new revenue-generating mobile services (preferably based on the existing network); broadband multiple services; intelligent services networks; new services merging voice, data, image and sounds; telemedicine equipment; security telecom equipment (alarm receivers and transmitters); and system integration services.

Market Entry

Advanced technologies and high quality products are always excellent entries for multinational telecom companies to bring to Brazil's market, but this does not necessarily mean that it will be easy for foreign companies to export to Brazil. Before entering the market, a foreign company has to observe and address issues including policy changes, technology transfer, and certification of products. The average import duty for telecommunications equipment is 15-17%, but this amount may go down to zero in cases where Brazil does not manufacture similar products. There is also a federal tax on industrial products (IPI), with an average of 4%, and an average State Sales Tax (ICM) of 18%. Local manufacturers also pay the IPI and state sales taxes.

Market Issues and Obstacles

Certification of Products: ANATEL has released a list of accredited laboratories that will perform tests required for the assessment of telecommunications products. Renewal of current and prior certificates will also be granted after testing by the OCDs to make sure they comply with ANATEL rules. For detailed information on this subject, please visit Anatel's website – www.anatel.gov.br

Technology Transfer: Less dependence on telecom imports has been a longstanding goal of the Brazilian Government. Brazil's initiatives in international cooperation are all aimed at developing its own national industries and reducing imports where possible.

Non-tariff trade barriers: Non-tariff barriers such as procurement policies and technical standards can still make importing difficult. Government and industry requirements put hurdles in the way of foreign telecom vendors' exports to Brazil. Foreign suppliers should be aware that the government has interest in promoting local production, and should pay attention to licensing and/or joint venture options to counter non-tariff barriers.

Import Costs: All imports in Brazil are subject to a number of taxes and fees, which are usually paid during the customs clearance process. There are four main taxes that account for the bulk of importing costs:

Import duty: is a federal tax levied on foreign products that enter Brazilian territory and is calculated on the CIF value. For the electronic security equipment, import duty ranges from 2 to 20% depending on the product. The average duty rate is 15%.

Industrial Products Tax (IPI): is a federal tax levied on both domestic and imported manufactured products. It is assessed at the point of sale by the manufacturer in the case of domestically produced products, but at the point of customs clearance in the case of imports. The IPI is calculated on top of the CIF value plus import duty. The IPI for electronic security equipment varies from 10 to 20%.

Merchandise Circulation Tax (ICMS): is a state government value-added tax, applicable to both imported and domestic products. The ICMS tax on imports is assessed over the CIF value, plus import duty, plus IPI as its calculation base. The calculation of this tax is done in a way that the ICMS tax is calculated on top of itself. The ICMS rate varies among states. In the state of São Paulo it is around 18%, but in most states it is around 12%.

PIS and Cofins: these fees are applicable to both domestic and imported products and services. They are calculated in an extremely complex way on top of themselves. In general, the total effect of these fees sums up to approximately 12.6% of the CIF.

Brazilian manufacturers must also pay the above taxes, but American companies should keep in mind that, as the taxes are calculated in a compounding manner over the CIF value plus the import duty, the overall IPI, ICMS, PIS and Cofins of an imported product will be significantly higher than that of a locally manufactured product. Also, one should not forget that when distributors and trading companies sell the product some of the taxes collected at the time of the import could be recovered.

Trade Events

Broadcast & Cable - <http://www.broadcastcable.com.br>

August 20-22, 2008

Centro de Convenções Imigrantes

Sao Paulo, SP

Futurecom 2008 - <http://www.futurecom.com.br>

October 27-30, 2008

Transamerica Expo Center

Sao Paulo, SP

Resources & Contacts

For more information about export opportunities in this sector contact US Commercial Service Industry Specialist Ebe Raso at ebe.raso@mail.doc.gov

For more reports on this sector in other countries, please visit Export.gov's site for US Commercial Service Market Research Worldwide: <http://www.export.gov/marketresearch.html>

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