

## Page Two Jennifer Hewett

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# Brazil a frontier for the taking

Rob Smakman is the stereotypical small Aussie miner. Informal, adventurous and hard-working – with a ready sense of humour. He is managing director of Crusader Resources, a West Australian resources company listed on the ASX. Crusader has just started production at its iron ore mine and is trying to raise \$250 million in funding for a new gold project.

Tim Hosking from Karoon Gas, another ASX-listed company, is also upbeat about his company's efforts exploring for oil and gas overseas. The exploration blocks have names like Emu, Kangaroo and Bilby.

But the country where they operate is Brazil, not Australia – or Africa or Mongolia. And that's rare for Australian resource companies.

Despite Australia's obsession with Asia – and an increasing number of mining companies operating in places like West Africa – there's little focus on the world's sixth-largest economy. At least not beyond next year's soccer World Cup in Brazil, the Olympics in 2016 and the permanent image of micro bikinis on tanned bodies on Copacabana Beach.

That means Brazil – even with its massive natural resources, agricultural wealth and economic power – remains truly foreign territory for most Australian business.

True, there have been occasional trade links from the start. Captain Arthur Phillip pulled into Rio de Janeiro for supplies on his way to Sydney Cove. He loaded up with cachaca – the sugar cane-based spirit for making caipirinhas, the delicious Brazilian national drink. (OK, OK, I have selflessly kept up the tradition.)

But trade between both countries remains pretty modest – worth about \$1.8 billion last year. That's despite the nearly 200 million people in a country around the same geographical size as Australia. Sao Paulo city alone has around 22 million people – equivalent to Australia's total population – with a well-developed services sector and a sophisticated if highly protectionist and expensive economic base.

But while Brazil is not an easy place in which to do business – and has the

high taxes, complicated regulations and economic rigidities to prove it – the country welcomes most foreign direct investment and joint ventures. That will become even more of a priority as the Government tries to push growth well above last year's disappointing result of less than 1 per cent.

Karoon Gas, which also has exploration wells off the Australian coast and off Peru, started looking at Brazil in 2007.

Hosking says that at the time Brazil offered plenty of opportunities and relatively little competition. Since then the discovery of potentially huge reserves of deep sea pre-sal (under the

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salt) oil has transformed offshore exploration.

Not that it's all smooth drilling. The Government now wants state-owned Petrobras to take a stake in companies searching for oil and gas and has imposed rules for a high percentage of domestic content in construction. Australian unions would love such an approach. Australian companies would scream about sovereign risk.

Hosking says there is no indication the new requirements for joint production with Petrobras will affect companies with existing exploration permits or concession contracts. The company also believes the combination of royalties and taxes are roughly comparable in both countries.

But local laws and regulations are often open to interpretation and require a good understanding of the Brazilian way of doing things.

"As long as you listen to the locals and implement local practices and procedures, it's not as difficult as you might think," Hosking says. "You have to use your common sense and be willing to take your time."

Smakman and his young family have been living in a small town in the north-east for the past six-and-a-half years. Success in Brazil is clearly not suited to a fly-in, fly-out culture.

"The projects we have are far better than we could ever have sourced in Australia," Smakman says. "There's a perfect storm of opportunity and no one out there scouring for resources in the way Australian juniors do. I'm astonished there's not more."

And although Westfield is now joint-venturing mall development in the south, Lend Lease is looking at a social infrastructure project and the globally ubiquitous Worley Parsons is typically active. Australian business numbers are modest given the size of the market.

The two countries signed a "strategic dialogue" during Julia Gillard's visit to Brazil last year. What this will lead to is less clear.

Education services offer obvious and fast-growing potential. A conference between the University of Melbourne and University of Sao Paulo last week was aimed at building links in education and research, including in areas like agriculture.

But the level of competition as well as co-operation is also significant.

Brazil's size – including its huge domestic, Portuguese-speaking market – has traditionally meant it is more inwardly oriented. That approach is slowly changing as the economy becomes more integrated into global trade flows.

Direct competition with Australia is most pronounced in iron ore.

Australia may be the world's largest iron ore producer but Brazil's Vale is the largest single iron ore company – with plans for further massive expansion. Vale started after Japanese customers in the 1970s became disenchanted with the poor reliability of supplies from the Pilbara. Whether Vale can increase its production as efficiently as planned from its large new mine in the Amazon region will help determine the extent of Brazilian supplies for China and the future price for Pilbara producers.

That at least should demand Australia's full attention.