



2016 Top Markets Report **Aircraft Parts** Country Case Study

Brazil

Brazil is the third largest domestic aviation market in the world and has six of the 10 busiest airports in Latin America. As one of only five countries that manufacture commercial jets, Brazil has been a top market for U.S. aerospace exports for over 10 years. Brazil's aviation community is decades-old and diverse, representing opportunities for U.S. parts suppliers across the full range of aircraft, from commercial airliners, to military aircraft, to general aviation and helicopters. Parts manufacturers considering Brazil ought to look beyond Embraer and explore opportunities in the Brazilian airline industry and aftermarket.

Overall Rank

11

Brazil's presence on a top markets list for aircraft parts exports is not particularly surprising. Brazil's Embraer is globally recognized as a leading manufacturer of regional and business jets, and Brazil has significant domestic demand for aviation services. The fact that Brazil is not in the top 10 of the top markets lists is mostly due to government policies—if Brazil were a signatory to the Agreement on Trade in Civil Aircraft, it would rank 10th rather than 11th. If it were both a signatory and a Bureau of Industry and Security (BIS) "Licensing Destination Strategic Trade Authorization" then it would have ranked above Australia.

On purely commercial terms, therefore, Brazil is an attractive market for U.S. aircraft parts exporters. Exporters must take into account the normal challenges of doing business in Brazil, which are well known and can be difficult for some companies to manage without local representation. This is especially true in the area of defense, where government preferences for locally-sourced materials may prevent companies from competing without a Brazilian partner.

Overview of the Aviation and Aerospace Manufacturing Market

Brazil has an established aerospace manufacturing sector and produces a wide range of aerospace products. Perhaps best known for producing regional jets, Brazilian manufacturers also make turboprops, military aircraft, agricultural aircraft, business aircraft, helicopters and other general aviation aircraft. Brazil's aerospace manufacturing industry employed 26,239 people in 2013. Most of these employees are in Sao Jose dos Campos.

The most well-known Brazilian manufacturer is Embraer, which has delivered more regional jets than its only competitor (Canada's Bombardier) each year since 2006. Embraer's importance to Brazil's aerospace manufacturing cluster cannot be overstated—the only other major Brazilian airframe manufacturer is Helibras (owned by Airbus Helicopter). Embraer is the only Brazilian firm that plays a significant role in global aircraft sales: total revenue for Brazilian aerospace companies in 2013 was \$7 billion, and the total revenue for Embraer was \$6.24 billion.

Brazil is a major supplier of aerospace equipment to the United States, but it competes more in sales of final aircraft than in sales of parts and components. Indeed, Brazilian manufacturers import a significant amount of parts and components from non-Brazilian suppliers, including suppliers in the United States. It was only in the 2000s that Brazil consistently became one of the top 10 U.S. export destinations for aerospace equipment, likely due to the increasing success of Embraer's regional jet and business aircraft programs. In 2014, U.S. firms exported \$5.2 billion worth of aerospace products to Brazil while imports totaled \$2.3 billion.

Brazil also has a complex domestic aviation industry, including a growing network of airports and services for commercial and business aviation. Improving access to aviation services in Brazil's underserved regions is a national priority. After Brazil deregulated its aviation industry in the 1990s, the number of airports served by regular airline service declined. In order to resolve this problem and to address the growing demand for air travel, the government announced a program to develop 270 regional airports, with groups of projects being rolled out as they are ready. Due to the economic downturn in 2016 and declining government revenue, Brazil has announced plans to accelerate privatization of airports.

Between 2004 and 2014, passenger traffic to, from and within Brazil grew 170 percent to reach 117 million travelers in 2014. In 2012, 473,000 tons of air freight were carried in the Brazilian system. Brazil has four major airlines: TAM, GOL, Azul and Avianca Brasil. One hundred and six airports were served by scheduled flights as of September 2014, most of these in the south and east. Many of Brazil's airlines have maintenance and purchasing arms at hubs in Rio de Janeiro, Sao Paulo and Belo Horizonte.

Oversight and management of Brazil's aviation industry is divided amongst several government agencies. Aircraft certification and production falls under ANAC, an independent federal agency. Air traffic control however, is managed by Brazil's Ministry of Defense, with both civilian and military traffic managed by a department called DECEA. Federally-owned airports are managed by

INFRAERO, another public entity, though there are also a significant number of airfields operated at the state and local levels. There has been a move to privatize airports under public-private partnerships. In order to improve coordination and planning for aviation policy, the Brazilian government created the Secretariat of Civil Aviation in 2011.

The Federal Aviation Administration has a Bilateral Aviation Safety Agreement to facilitate cooperation with Brazil and accepts Brazilian certification of large civil transport aircraft.

Challenges and Barriers to Aircraft Parts Exports

At the time this report went to publication, Brazil was going through significant economic and political disruptions. Some of these may affect specific aviation industry customers.

Brazil is a geographically large country with a sprawling and growing aviation industry. Aircraft parts manufacturers without local representation may find it difficult to build relationships, get timely information, and gain access to decision-makers.

Brazilian government officials and local manufacturers are concerned that Brazil's success in aircraft manufacturing has not translated into the development of a diverse aerospace cluster. The Brazilian government is trying to increase employment in aerospace and defense manufacturing and may leverage its purchasing power to encourage local production, particularly for defense products.

Companies that supply aircraft parts only to OEMs may find limited opportunities in Brazil. Companies interested in becoming part of Embraer's supplier database can do so by contacting the Foreign Commercial Service office in Sao Paulo for instructions and forms.

Exporters frequently report problems navigating Brazil's customs regime, which can present particular problems for companies trying to repair or replace aircraft parts on tight deadlines.

Exporters should ensure that they have conducted proper due diligence before signing contracts.

Opportunities for U.S. Companies

ITA's Aerospace Team believes that Brazil ought to be a priority market for aircraft parts export promotion. Over the past several years, ITA has successfully recruited two programs focused on Brazil's aviation industry, and domestic outreach activities have been well attended. Going forward, separate programs ought to be considered based on company size, subsector and market experience.

The best immediate opportunities for U.S. companies will be in supplying parts for Brazil's commercial, business and general aviation aircraft fleet, including helicopters. Programs (roadshows, demonstration projects and reverse trade missions) should target sales to Brazilian airlines, Brazilian airports and maintenance facilities in Brazil.