



# Information on Brazilian Navy's Coastal Surveillance System - SisGAAz

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## Overview

On January 17 2014, the Brazilian Navy launched the details of the bidding process for the Coastal Surveillance/Management System, known as SisGAAz (Sistema de Gerenciamento da "Amazonia Azul"), at the Naval War College in Rio de Janeiro. The Brazilian Navy is developing a surveillance management system for its coastline, including the maritime area of pre-salt oil reserves, commonly referred to as the "Blue Amazon". The project, which is expected to be completed in a period of 10 years with an estimated cost of about US\$10 billion, will integrate an array of surveillance platforms to create a comprehensive surveillance system to protect offshore assets, and facilitate economic development. This report intends to provide U.S. companies further information on the project.

## Project Overview

SisGAAz coastal surveillance system will monitor the Brazilian Exclusive Economic Zone and extended continental shelf, as well as river networks and the maritime area of pre-salt oil reserves.

The Blue Amazon (AAZ) consists of the area of Exclusive Economic Zone and the Continental Shelf, extending public ownership of the country up to 350 nautical miles along the coast. SisGAAz is being designed to provide surveillance to an area of the size of the Amazon rain forest, totaling 4.5 million km<sup>2</sup>, through which flow 95% of Brazilian foreign trade and where 80% of the country's oil is found.

With SisGAAz, the Brazilian Navy aims to implement a surveillance and monitoring system establishing an integrated set of measures to react to a threat or an emergency. Therefore, SisGAAz proposes to raise:

- a) The efficiency of the monitoring of maritime and river traffic;
- b) The efficiency of the management and control of the activities and operations undertaken;
- c) The capacity to integrate, share, analyze and present information, and;
- d) The provision of a set of functions to support the decision making process and contribute to the control of the required action.

The SisGAAz System is considered and defined by the Brazilian Navy as a Defense System (strategic for national defense), as described in Law No. 12.598, approved in March 2012.

At the official launch of the project, held at the Naval War College in Rio de Janeiro, Vice Admiral (VADM) Antônio Carlos Frade Carneiro, Director of the Navy's Office of Strategic Projects (DGePEM), conducted a detailed presentation on the main objectives of the project, which will be managed by the Company for Engineering and Naval Projects (Engpron) and by Foundation Ezute (new name of Fundação Atech).

The Request for Proposal (RFP) was formally presented with detailed guidelines for bidders to follow. The project is estimated to be fully completed in a period of 10 years with an estimated cost of US\$10 billion.

### Deadlines and Selection Process

VADM Carneiro addressed a 500 seat auditorium, made up mostly of private sector representatives interested in the project.

During his speech, VADM Carneiro outlined the importance of the sea to Brazil's economic development and national security, and the importance of monitoring Brazil's waters to ensure the state's presence, efficiency in resource development, combat crime, environmental protection, operational inter-operability, and rescue operations.

The Navy (through its Office of Strategic Projects (DGePEM)) plans to contract a Strategic Defense Brazilian company (this company must be EED - Empresa Estratégica de Defesa - certified) to coordinate all work on the project, which will be the Navy's only interlocutor. This main contractor will coordinate with other sub-contractors, which are expected to include small to medium-size businesses that will create jobs in Brazil and can include foreign companies.

The proposed timeline for the project is:

- January 17, 2014: submission of draft RFP;
- February 17, 2014: deadline for companies to submit questions and critiques to the draft RFP;
- March 19, 2014: definitive version of RFP issued;
- July 16, 2014: all proposals due;
- November 25, 2014: shortlist of two to three companies released (chosen by a Navy committee)
- June 1, 2015: winner announced;
- By December 31, 2015: contract signed

VADM Carneiro said the principal criteria in the selection process would include long-term operating costs, cost/benefit considerations, and quality of the system proposed, and that national content, incorporation of local partners, and technology transfer would also be primary factors.

U.S. commercial defense companies contemplating a defense contract in Brazil will be required to deal with the technology transfer issue. Navigating through the Brazilian offset policies will demand U.S. companies to emphasize technological development proposals in which technology transfers, cooperation, co-production are properly addressed.

For that reason it is even more important for U.S. bidders on defense projects to build strong local partnerships and cultivate a reputation on both the civilian and military sides of the government that emphasizes their willingness to share their technologies and contribute to Brazil's industrial and technological capacity.

VADM Carneiro emphasized that the Navy had not specified a particular vision, to include the associated technology, as it wanted proposals to be as innovative and wide- ranging as possible. The Navy expects companies to perform site surveys in order to understand specific problems in the region to be covered.

While initial reports states the project is valued at about US\$10 billion, VADM Carneiro said price would not be the determining factor in the Navy's decision, and that once specific proposals were submitted, the Navy expected further negotiations to refine the final cost. Although VADM Carneiro did not mention a figure directly, he hinted that the Navy was looking for bids of no more than R\$13 billion, or approximately US\$5.5 billion at current rates.

### **Implementation of SisGAAZ**

VADM Carneiro said the project will be rolled-out in four phases:

- Phase 1 - to be developed from 2016 to 2019 - coastal areas from Sao Paulo to Espirito Santo.
- Phase 2 - to be developed from 2020 to 2022 – coastal areas from Amapá to Bahia.
- Phase 3 - to be developed from 2021 to 2023 – coastal area of Bahia and south from Sao Paulo.
- Phase 4 - to be developed from 2023 to 2025 – inland river systems.

The project also aims to integrate existing systems of the Navy with the Defense Ministry, the Brazilian Army, Air Force and other federal agencies. It aims to create the Operations Center (OC) of the Naval Operations Command (ComOpNav) and deploy monitoring systems in the surveillance areas and. Other goals include, meteorological monitoring and monitoring surveillance areas, including oil basins.

As outlined in Brazil's national defense strategy, local content provision and technology transfer will be crucial factors in the bidding process. VADM Carneiro emphasized that Brazilian companies should be the technology transfer repository as a way to guarantee technological and productive capability continuity. Capacity to maintain the systems established would be a determinative factor, as the Navy does not want to have to rely on imports to maintain any part of the system. A revision of the contract's financial terms would take place after the first phase was completed, with both the Navy and the main contractor allowed to propose amendments.

It is expected that Brazilian companies will be positioned to make use of the advantages of the status of being a strategic defense company, a certification awarded by the federal government to 26 companies by the end of 2013, which are entitled to tax reduction for the sale of their products and services to the armed forces. To receive the benefits of Law 12.598/12, companies need to meet certain requirements such as majority national control, Brazilian domain of technology and commitment to keep the production line in the country. According to VADM Carneiro, Law 12.598/12 allowed the creation of a propitious environment for companies in Brazil, especially for Small and Medium sized companies, to develop the capacity to absorb strategic technologies as well as offering greater opportunities to participate in large programs like SisGAAZ.

### **Conclusion**

It is important for U.S. companies to note that the main way to establish a relationship with the Brazilian Navy, regarding the SisGAAZ project, would be through one of the Strategic Defense Companies (EED).

The first round of EED certifications, released last November 28 by Brazil's Ministry of Defense, certified the following 26 Brazilian companies:

AEQ, Akaer, ARMTEC, Atech, Avibras, Axur, BCA, Bradar, Condor, Digitro, Embraer, EMGEPRON, Flight Technologies, Forjas Taurus, Grupo Inbra, IACIT, IAS, Imbel, Mectron, Nitroquimica, Nuclep, Orbital Engenharia, Opto, Rustcon, Spectra Tecnologia e Vertical do Ponto.

From this list, 24 are associated with the ABIMDE (Brazilian Association of manufacturers of Defense and Security Materials) and will benefit from tax exemptions. A new round of EED certified companies will be evaluated by the Joint Committee on Defense Industry (CMID) to later compose the group of EEDs.

U.S. companies looking to participate in the project need to consider partnering with one of these certified Brazilian firms. Major Brazilian defense companies have already started considering potential partnerships. For example, the OAS Group's defense arm, established in 2012, is partnering with Israeli company IAI and Brazilians IACIT and Modulo. Queiroz Galvão Group is considering partnering with U.S. firms Lockheed Martin and Rockwell Collins.

For further information about the SisGAAz Project or any related information, please contact the U.S. Commercial Service at:

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#### Web Resources

- Law 12.598/2012 - [http://www.planalto.gov.br/ccivil\\_03/\\_ato2011-2014/2012/Lei/L12598.htm](http://www.planalto.gov.br/ccivil_03/_ato2011-2014/2012/Lei/L12598.htm)
- Defesanet - <http://www.defesanet.com.br/sisgaaaz/noticia/13835/Grupos-se-preparam-para-disputa-de-megalicitacao-da-Marinha/> and <http://www.defesanet.com.br/sisgaaaz/noticia/13964/SisGAAz-%E2%80%93-Um-projeto-ambicioso/>
- Infodefensa - <http://www.infodefensa.com/latam/2014/01/23/noticia-marinha-brasil-sistema-gerenciamento-amazonia.html> and <http://www.infodefensa.com/latam/2013/11/29/noticia-ministro-defesa-certifica-empresas-estrategicas-brasil.html>
- Naval - <http://www.naval.com.br/blog/2014/01/21/oas-ja-tem-consorcio-para-disputar-projeto-da-marinha/>
- Fundação Ezute - <http://www.ezute.org.br/ezute/noticias/Noticias.html.10>
- Sao Paulo Valor Online, published jointly by Folha and Globo (<http://www.valoronline.com.br>)