

# **Made in Brasil:**

Placing the Football Industry in the Brazilian Environment

Thesis submitted in accordance with the requirements of the University of Liverpool  
for the degree of Doctor in Philosophy by Oliver Kawase Seitz

April, 2012

## **Abstract**

Football is the main sport and one of the most important cultural symbols of Brazil, the winner of five FIFA World Cup titles and one of the most populous and richest countries in the world. Even so, however, Brazilian football clubs struggle to develop commercially, attract fans to stadiums and control their expenditure, continuously increasing debt levels and often delaying salary payments. This thesis focuses on understanding the reasons that lead football clubs from such a strong football nation to this situation and exploring the options to improve it.

To do so, the research makes extensive use of literature combined with various interviews with key individuals from the Brazilian football industry to analyse the growth and the globalization of the European football industry, explore the Brazilian business environment and investigate the Brazilian football governance, finances and sources of revenue, as well as the strong involvement that football has with Brazilian society and politics.

The study suggests that there are four main factors that hold back the commercial development of Brazilian football: a) the misuse of European football as a benchmark; b) the social and political role played by football in Brazilian society; c) the Brazilian business environment; and d) the management of clubs and governing bodies. In the current scenario, there is only limited space for growth, even though there are many positive characteristics of the local football industry that can contribute for some development in the near future, especially at matchday level, which may be helped by the 2014 FIFA World Cup.

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## **Acknowledgement**

Firstly, I would like to thank to Sabrina, for the infinite love, support and patience during the many years that I spent working on this thesis. Sacrifices were made, but I truly hope it was for a good cause. Also, I am thankful to my mother, Tami, for the permanent incentive, financial support and example of dedication, also mirrored in the actions of Susi and Keith Baxter.

I would like to pay my deepest gratitude to Dr Rory Miller for all the motivation, supervision, dedication, patience, guidance and personal support. I am truly honoured for have been supervised by such a great individual. Without his advices and wisdom, this thesis would never be completed. Also, I especially thank Ms Liz Crolley for providing bright insights and pointing to the right direction when needed.

Coritiba Foot Ball Club board and staff has opened the doors of a football club to a naïve student and provided me with exceptional conditions to work and research at the same time, allowing this research to reach valuable and rare perspective from within the industry, to what I will always be indebted, especially to President Vilson Ribeiro, Vice President Marcio Schwab, Doth, Gustavo Nadalin, former President Jair Cirino, the Executive Board and all the Marketing team, to name a few.

Juca Kfourri deserves a special thank for reviewing my work in Brazil and making valuable comments. I am glad to have had the opportunity to talk to him and to all the other interviewees, without whom this research would not have been possible.

I also would like to express my special appreciation to all my friends who have followed me throughout these years and I hope to spend more time with now. On the same note, I thank the Alumni and the staff from the University of Liverpool's Football Industry Group for the valuable help when requested.

Finally and more importantly, this thesis is dedicated to the memory of my father, Dr Rudi Arno Seitz, who taught me the importance of critical thinking and inspired me to pursue my dreams.

## 1 Introduction

A popular expression in Brazil says that the country has 190 million football managers, a number that grows in line with the rise of Brazil's total population. Despite the fact that such a statement is obviously overrated, as not all Brazilians are necessarily passionate about football or have their lives directly affected by the game, it does reflect the enormous importance that football plays in the national society.

Football is unquestionably Brazil's main sport, played either regularly or occasionally by millions of people. It is also possibly one of the country's main social phenomena, the centre of countless debates throughout different media vehicles and the main subject of millions of idle conversations on a daily basis. Moreover, football is one of Brazil's main symbols, especially at international level. Having won the FIFA World Cup five times, the Brazilian national football squad is the world's most successful team, one of the few fields where Brazilians can enjoy domination at international level. Furthermore, the most popular and successful clubs around the world often have at least one Brazilian as part of the starting squad, and Brazilian born talents, such as Kaká, Ronaldinho, Rivaldo and Ronaldo, are also frequently elected as the world's best players by different organizations. At the same time, Brazil is one of the world's largest economies, having been identified, along with Russia, India and China, which became known as the BRIC group, as one of the world's top economies for the future.<sup>1</sup> In addition, Brazil was also chosen to host the 2014 World Cup.

The enormous popularity of football in Brazil, added to the fact that the country is the world's most successful football nation, the increasing development of the national economy and the prospect of hosting the 2014 FIFA World Cup might suggest a very prosperous environment for the local football industry. After all, by playing such an important role in an economically developing society, it would only be natural for local clubs to be able to attract much public attention and generate high revenues. Such a scenario, however, could not be farther from reality. Brazilian football clubs are generally trapped in large debts and struggling to survive financially as they fail to improve revenue levels significantly while attendances at the generally old and

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<sup>1</sup> Wilson & Purushothaman (2003).

abandoned stadiums are often below half their capacity – and in some cases much lower – and reports of violent incidents among supporters are common. Unsurprisingly, clubs cannot then compete with the high international demand for Brazilian talent, which eventually leads the top local players to emigrate to foreign leagues. This situation then raises the first question that the present research aims to answer: if football is such an integral part of the Brazilian society, why do clubs fail to develop commercially?

Different academics and journalists often blame club directors for the poor financial state of Brazilian football.<sup>2</sup> A common argument is that not only are they generally corrupt and incompetent, but their insistent refusal to adopt more market driven managerial practices has been holding back the development of club finances, which eventually pushes the top players to foreign leagues, diminishing the attractiveness of matches and, therefore, helping to keep attendance levels low. In order to improve the present scenario, it is often said that Brazilian football should look to the European example, especially the English, where it was possible turn the situation of widespread supporter-related violence that culminated in the Hillsborough tragedy into a league that currently possesses new stadiums with high occupancy rates as well as some of the world's top talented players. Furthermore, since the early 1990s, the top European leagues have also been able to negotiate high broadcasting contracts and draw an increasing level of international interest, which helped clubs to increase revenues significantly.<sup>3</sup>

Although seemingly logical, this line of thought may be considered naïve and highly superficial. First of all, it fails to assess the real state of European football finances in any depth and to understand the processes that led the top clubs to generate much higher revenues in the last couple of decades. For example, even though the top division European clubs has generated a total income of €11.7 billion in 2009, their expenses totalled €12.9 billion, resulting in a combined loss of €1.2 billion.<sup>4</sup> Secondly, it fails to understand the dynamics of the global football industry and the profound influence that the business environment has on shaping each local industry,

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<sup>2</sup> See Chapter Two.

<sup>3</sup> See more details on the development of European leagues in Chapter 3.

<sup>4</sup> UEFA (2011).

which eventually leads to two other questions that this research aims to assess: what factors drove the commercialization of the European football industry throughout the last two decades and to what extent is it a model for other localities.

Nonetheless, corruption and mismanagement are indeed common in Brazilian football. Most clubs do rely for many of their managerial decisions on elected unpaid directors who not only have scarce time to dedicate themselves to the club's daily operations but also often have limited knowledge about the football business. Furthermore, reports of unpaid elected directors personally profiting from club activities as well as agreeing to deals with private companies to use clubs for money laundering or tax evasion are not rare. For example, Vasco da Gama's former president, Eurico Miranda, has been accused of using the club for his own interest several different times, while the partnership between Corinthians and the offshore company MSI was accused of being used to launder money.<sup>5</sup> However, although enhanced control over the leakage of resources and the improvement of clubs' organization and management would certainly contribute to the commercial development of the local football clubs, the Brazilian business environment overall would still represent a major constraint to a significant upgrade in the current national football industry. After all, despite being one of the world's most prosperous developing economies, some of the characteristics of Brazilian society such as the enormous social, regional and economic inequalities; the slow judicial system; the inefficiency of the state; poor infrastructure; the high levels of corruption, impunity and violence and the peculiar media environment are all factors that contribute to holding back the development of the football business in the country. Therefore, in order to assess the commercialization of football in Brazil properly, a fundamental question about how the football industry is placed in the Brazilian environment must also be answered.

### **The Background: A Short History of Brazilian Football**

A proper analysis of Brazilian football also cannot ignore the particular role that the game plays in the national society. As argued above, football and the national squad

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<sup>5</sup> See a detailed profile of Eurico Miranda in Bellos (2003), pp. 251-256. More on the partnership between Corinthians and MSI is available in Chapter 6.

are some of the country's most important national symbols, and this characteristic of the Brazilian society was not created by chance. It is widely accepted that football arrived in Brazil when a young man named Charles Miller came back to the country from England in 1894 after studying in Southampton for ten years, bringing with him a couple of footballs, a pair of boots and a football rule book.<sup>6</sup> The popularization of football in Brazil is certainly a consequence of the initial hard work put in by Charles Miller and other young men of European descent, such as Oscar Cox and Hans Nobiling, in spreading the game among their social circles.<sup>7</sup> In its earliest stage, due to its British origins, football was seen in Brazil as a much restricted sport and played almost exclusively by clubs formed by upper-class members, first by those individuals with foreign origins but shortly afterwards by the young Brazilian-born male elite.<sup>8</sup>

The arrival of football in Brazil was similar to its neighbouring countries. Britain helped to popularize football in South America in three different ways: (a) by education, which was the case of Brazil; (b) by business investments and trade connections, which gave many countries British communities and clubs; and (c) through tours by clubs such as Corinthians and Southampton.<sup>9</sup> A further reason for football's popularity in Brazil was that, by the end of the nineteenth century and the beginning of the twentieth century, the country was remodelling its hygiene standards and inclined to adopt physical activities as a part of the curriculum at schools.<sup>10</sup>

Meanwhile, many football teams were being formed in Brazil within different types of organizations, such as elite social clubs, schools and colleges, workplaces, political and ethnic groups and particular neighbourhoods.<sup>11</sup> Initially, the elite tried to maintain the original values of English football, keeping the sport restricted to the upper classes and restricting the access of new-founded clubs to the game.<sup>12</sup> This attitude not only reflected the concern of the elite in keeping control of football but also made visible the increasing popularity of the game among the lower levels of the Brazilian society.

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<sup>6</sup> Júnior (2007), p. 60, Máximo (1999) and Pereira (2000), p. 22

<sup>7</sup> Rosenfeld (1974), Pereira (2000), Chp. 1 and Máximo (1999).

<sup>8</sup> Rosenfeld (1974).

<sup>9</sup> Giulianotti (2007).

<sup>10</sup> Pereira (2000), pp.42-55.

<sup>11</sup> Miller (2007).

<sup>12</sup> Pereira (2000), p. 66.

By then, football started to attract so much attention that those individuals who were not allowed to enter the elite social clubs would climb the walls and rooftops of other buildings near the pitches to watch the matches.<sup>13</sup>

As the level of popularity of football in Brazil increased, numerous clubs were inevitably created in the suburban areas of the main cities, where young men were both unemployed and did not attend school, which allowed them to play football without problems throughout the day and, soon, develop a virtuoso style of their own.<sup>14</sup> Clubs also started to be created within factories, which eventually helped to popularize football even more among the lower levels of the Brazilian society.<sup>15</sup>

As the game started to be played among the native Brazilians, nationalism started to emerge, one of the first public manifestation of the sentiment since the country became a Republic only in 1885. First, patriotism became evident in the manifestations of national pride by supporters in the elite social clubs, when matches would be played between those members born in Europe and those born in Brazil.<sup>16</sup> However, when the Argentine national team arrived in Rio de Janeiro in 1908 to play a friendly match with a team formed by the best players from the city, the nationalistic sentiment was taken to a completely new level with spectators chanting the name of the country in order to support the team. The South American Cup, played in the city of Rio de Janeiro in 1919, would only strengthen this newfound patriotism, a sentiment already intensified by the First World War. When Brazil won the Cup, the press was fast in spreading the glory all over the nation.<sup>17</sup> Football was starting on the path to becoming one of Brazil's main national symbols, a path that would be intensively followed after Getúlio Vargas took over the presidency of the country in 1930.

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<sup>13</sup> Pereira (2000), p. 57.

<sup>14</sup> Rosenfeld (1974).

<sup>15</sup> Júnior. (2007), p. 63-64, Caldas (1994), Pereira (2000), pp. 255-280, and Antunes (1994). Although the issue will not be explored in this work, race was a major constrain in the admission of football players in early 20<sup>th</sup> century in Brazil. For a deeper analysis on the matter, see Filho (2003).

<sup>16</sup> Rosenfeld (1974).

<sup>17</sup> Pereira (2000), pp. 103-108.



Meanwhile, a strong conflict over the amateur and the professional status of the game started to emerge at club level.<sup>18</sup> While the number of clubs and, therefore, the level of competition increased, clubs slowly started to scout and compete for talent, especially for players from the lower classes, and to pay them informally by providing them with non-existent jobs funded by the club, a practice which became known as *amadorismo marrom* (brown professionalism).<sup>19</sup> Although the original elite football clubs would do their utmost to maintain the amateur status of the game, this practice of informally paying players became widespread.<sup>20</sup>

Another conflict concerning the amateur status of football players in Brazil arose when clubs from other countries in Europe and South America, where players were already recognized as full-time professionals, started to recruit Brazilian talent.<sup>21</sup> Because players were registered as amateurs, the foreign clubs did not have to pay any compensation to Brazilian clubs.<sup>22</sup> By the early 1930s, some Brazilian players started to leave for different countries such as Spain, Italy, Uruguay and Argentina.<sup>23</sup> After this initial exodus, the demand for the professionalization of players in Brazil mounted with increasing pressure from the press.<sup>24</sup> When President Vargas took over the Brazilian government following a military coup in 1930, the pressure would ease. Among Vargas's seventeen listed most urgent and immediate measures to improve the country, one was to create the Ministry of Labour in order to regulate several new professions, such as the professional football player.<sup>25</sup> Vargas, however, was not only important in officially recognizing the professionalization of football in the country, but his government would start a process that gave a complete new meaning to the role played by football in Brazilian society.

Since the 19<sup>th</sup> century, sports have played a vital role on the affirmation of national identities throughout the world.<sup>26</sup> In the 20<sup>th</sup> century, the end of colonialism saw an

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<sup>18</sup> For a deeper analysis of the debate over amateur or professional status, see Proni (2000), pp. 107-114.

<sup>19</sup> Pereira (2000), pp. 309-310.

<sup>20</sup> Proni (2000), pp. 108-110.

<sup>21</sup> Proni (2000), p. 112 and Bocketti (2008).

<sup>22</sup> Agostino (2002), p. 59.

<sup>23</sup> Júnior. (2007), pp. 75-76 and Lanfranchi & Taylor (2001), p. 83.

<sup>24</sup> Lopes (1994).

<sup>25</sup> Caldas (1994).

<sup>26</sup> Poli (2006).

urgent need for nation-states to establish themselves in the international community, an urgency which was much greater than in the past, and sport became a very useful tool for that.<sup>27</sup>

Sport is extremely rich for the expression of symbols and rituals and is also one of the most important forms of patriotism for citizens. It has the power to create and strengthen the idea of national unity and also to reduce xenophobia.<sup>28</sup> Moreover, sports facilitate the reinforcement of national consciousness and culture and also serve as a tool for national propaganda, both to national citizens and for the international community.<sup>29</sup>

As the most pre-eminent sport in the world, football is arguably one of the main cultural institutions that help to form and forge national identities. Football can represent identities at local, regional and national level, depending on the level of the competitions. National leagues provide space for representation of local and regional identities, while international competitions, such as the World Cup, provide a very appropriate arena to express various national identities through the use of anthems, flags and other symbols.<sup>30</sup> Moreover, the national football squad can be seen as a generic metaphor of the whole nation itself.<sup>31</sup>

In Brazil, as in many other countries around the world, football has been used strongly as a governmental tool. Since independence from Portugal in 1822, Brazil had been searching for its own identity, after centuries of colonization.<sup>32</sup> When Vargas took over the Brazilian government, he promptly promoted popular culture, especially football and 'Carnaval', in order to build an identity for the country, both nationally and internationally.<sup>33</sup>

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<sup>27</sup> Houlihan (1997).

<sup>28</sup> Hill (1999) and Kersting (2007)

<sup>29</sup> Kissoudi (2008).

<sup>30</sup> Giulianotti (2002), p. 43.

<sup>31</sup> Houlihan (1997).

<sup>32</sup> Bellos (2003), p. 42.

<sup>33</sup> Skidmore (1999), pp. 117-118, and Narloch (2009), pp. 123-146. For more on the relationship between music and national identity in Brazil, see Reily (2000).

Apart from providing footballers with professional status, Vargas elected himself a patron of the national football squad, while his daughter, Alzira Vargas, was made the patroness. After the national squad returned from a successful visit to Uruguay, the president received the team in the National Palace, a practice that has become common in Brazil since then. Moreover, the national team was also beginning to be used as a government tool in international affairs. After losing in the first round of the 1934 World Cup in Italy, the Brazilian players embarked on an excursion throughout Europe in order to promote the Brazilian coffee, one of Brazil's main products.<sup>34</sup>

Vargas's main influence over Brazilian football, however, came in 1941, when he created the *Conselho Nacional do Desporto* (CND), the National Sports Council. The creation of the CND followed Vargas' philosophy of increasing state control over the Brazilian society. The implementation of the CND was authoritarian, with little, if any, debate on the matter.<sup>35</sup> The aim of the CND, and therefore of Vargas's government, was to discipline and regulate the entire sporting sphere in the country, having absolute power to intervene directly in any sports organization in Brazil, including clubs, and to arbitrate any conflicts that might emerge.<sup>36</sup>

The CND also unified the affiliation of most sports to the *Confederação Brasileira de Desportos* (CBD), the Brazilian Sports Confederation.<sup>37</sup> The Confederation would be the national organization, the Federations would be the state organizers, and the Leagues would be the representatives of sport at the municipal level (see Fig. 1.1). Sport clubs, therefore, would firstly form a municipal league. Leagues would then form a state federation, and the federations would form the confederation. With this, the vertical hierarchical structure which would rule football in Brazil for many years to come was well established and cemented.

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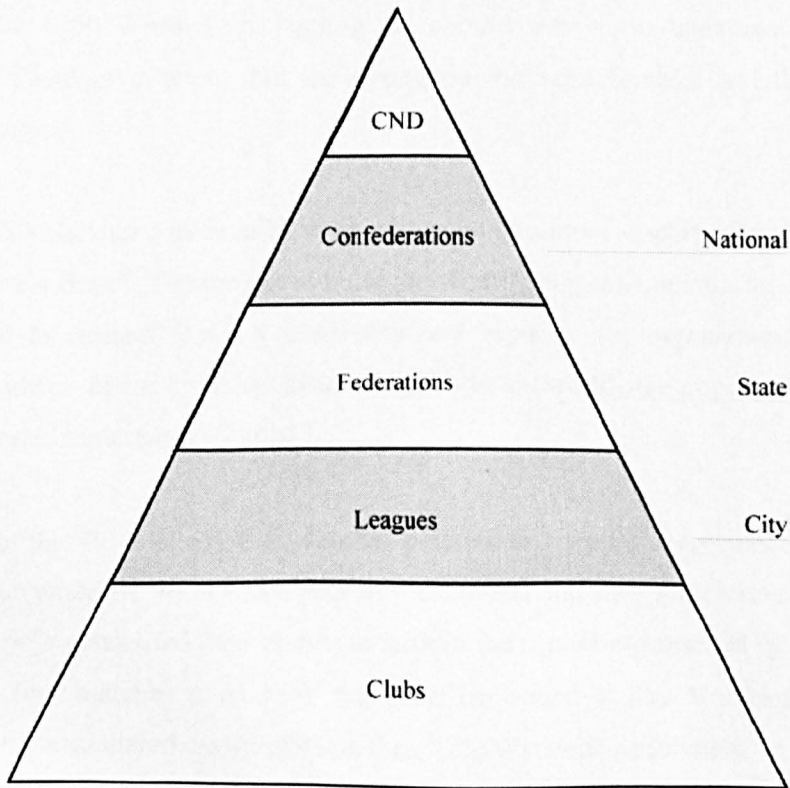
<sup>34</sup> Agostino (2002), pp. 141-143.

<sup>35</sup> Manhães (2002), p. 38.

<sup>36</sup> Manhães (2002), p. 42.

<sup>37</sup> The only sports that had their own Confederation were basketball, boxing, motor sports, fencing and chess.

**Figure 1.1: CND's hierarchy level of sports organization.**



Meanwhile, Brazil was starting to gain a place in the elite of world football by finishing third at the 1938 World Cup in France. Before the competition, expectations were high and President Vargas provided the national squad with a subvention worth 200,000 milreis, equivalent to US\$ 18,000 at the time, to be used in the preparations for the tournament. After the unprecedented achievement, both the players and Vargas were enthusiastically congratulated by the population.<sup>38</sup> The blend of players from different races and origins representing the national squad worked as a metaphor for the exaltation of the Brazilian people itself.<sup>39</sup> Furthermore, Brazil began claiming not only to have mastered the European game, but also to have improved it to a whole new level.<sup>40</sup> In football, at least, the colony had finally outmatched the colonizers.

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<sup>38</sup> Pereira (2000), p. 336. The conversion of the milreis, an old Brazilian currency that was replaced in 1942, into dollars is based on a conversion table available in Holloway (1980), p. 181.

<sup>39</sup> For more on the relationship between the Brazilian racial mix and football, please see Lopes (1994) and Soares & Lovisolo (2003).

<sup>40</sup> Pereira (2000), p. 344.

After the 1938 tournament, Brazil also put forward its bid to host the next World Cup. Due to World War II, the decision was postponed to 1946, when Brazil was named host for the 1950 World Cup, beating the competition from Argentina.<sup>41</sup> By then Vargas had left government, but the strong ties between football and the state in Brazil remained.

The 1950 World Cup was seen by everyone as an enormous opportunity to show the world the new Brazil. The project to build the world's biggest stadium, the Maracanã, was aimed to express Brazil's modernity and capacity for organization.<sup>42</sup> It was explicit evidence of the Brazilian state using football's worldwide popularity as a tool to build Brazil's international image.

Throughout the 1950 World Cup, another practice that would characterise Brazilian football also emerged. 1950 was a year of presidential and state government elections and many politicians tried their utmost to bask in the euphoria generated by the World Cup. The five matches played by the Brazilian squad at the Maracanã stadium attracted an accumulated crowd of more than 725,000 people, equivalent to more than 30% the population of Rio at the time, an opportunity that politicians could not miss. While the national squad was playing, there were several reports of politicians taking the opportunity to pamphleteer inside the Maracanã stadium.<sup>43</sup>

The final match, between Brazil and Uruguay, was played at Maracanã in front of a crowd of estimated 200,000 supporters.<sup>44</sup> Brazil, the favourites, lost the game 2-1, an event that became known as the *Maracanazo* and depressed patriotic morale. Brazil was no longer the modern nation waiting to be discovered by the world, but in fact a nation of underachievers doomed to live forever in search of better days.<sup>45</sup> It was reported, although with some controversy, that among the several reasons that contributed to the defeat, one was moving the players' training ground before the match against Spain from *Praia do Joá*, which was quite a distance from the city, to the São Januário stadium, with much easier access, in order to help politicians

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<sup>41</sup> Moura (1998), pp. 22-23, and Agostino (2002), p. 147.

<sup>42</sup> Moura (1998), pp. 23-28, and Bellos (2003), p. 48.

<sup>43</sup> Agostino (2002), p. 148.

<sup>44</sup> Moura (1998), p. 116.

<sup>45</sup> Further analysis of the contribution of the 1950 World Cup defeat in shaping the Brazilian national identity is available in Lopes (2007).

promote their electoral campaign by posing in pictures with the national squad. Moreover, it was also reported that even the manager of the Brazilian national team, Flávio Costa, was running for the city of Rio de Janeiro council at the time.<sup>46</sup>

Nonetheless, the defeat showed that rather than representing Brazil to other nations, football had the unequivocal power to shape the image that Brazilians had about themselves. Moreover, the Vargas era and the 1950 World Cup provided evidence of at least five characteristics of the relationship between football and the state in Brazil that would remain from then on:

- a) The intervention of the state in regulating the football sphere;
- b) The construction of stadiums financed by public funding;
- c) The use of football as a tool to enhance the national image for the international community;
- d) The use of football as a tool to increase the popularity of individual politicians;
- e) The use of governmental subventions to finance football.

The *Maracanazo*, however, did not diminish the increasing evolution of performance of the national squad in international competitions, rather the opposite. The Brazilian national squad would win two consecutive World Cup titles, in 1958 in Sweden and in 1962 in Chile. After both titles, Brazil was very well established as one of the main football nations in the world. Moreover, the achievements would strength the idea in Brazil that the country, with its peculiar racial mixture, had taken the British game to another level and become ‘the country of football’.<sup>47</sup>

Two years after the military took power, Brazil was expecting to perform well again in the 1966 World Cup in England, after the previous back to back World Cup titles. The national squad, however, did not live up to expectations and performed poorly, losing in the round of sixteen to Portugal. After the defeat, Brazilian politicians even tried to establish a Parliamentary Inquiry to investigate the reasons for such a poor

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<sup>46</sup> Agostino (2002), p. 148.

<sup>47</sup> Proni (2000), pp. 128-138.

display.<sup>48</sup> Although the defeat-driven Inquiry was not put in place, at least not this time, the new military government kept, and perhaps even enhanced, the strong ties between football and the state from the Vargas era.

The peak of the relationship between football and the state would be reached when General Emílio Garrastazu Médici was nominated as the new Brazilian president, a year before the 1970 World Cup in Mexico. Médici was a fervent admirer of football and the military put in place an organized propaganda plan to make him the Number One football supporter in the country in order to increase the public acceptance of the regime.<sup>49</sup>

Part of the public relations strategy of Médici's government, one of the most repressive in Brazilian history, was to increase national pride through the success of the national football squad and through the nation's economic development.<sup>50</sup> Unsurprisingly, the federal government constantly intervened in the national team during the preparation period for the 1970 World Cup.<sup>51</sup>

After Brazil defeated Italy in the final and conquered its third World Cup title in four competitions, the Brazilian state soon tried to bask in the immense national excitement generated by perhaps the best collective display of a national squad ever seen in the World Cup's history. The day of the players' arrival back in the country was declared a national holiday and the government tried its utmost to connect the victory to the moment of economic euphoria in Brazil. When the players arrived in Brasília, many politicians from different levels, such as state governors, city mayors and city council members, also did what they could to pose for a picture next to the players.<sup>52</sup> The strategy to connect the victory to the government was so pronounced that the first picture of the sticker album of the 1970 World Cup winners was a picture of General Médici.<sup>53</sup>

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<sup>48</sup> Agostino (2002), p. 155.

<sup>49</sup> Agostino (2002), p. 158.

<sup>50</sup> Matos (2008).

<sup>51</sup> Agostino (2002), pp. 156-170, and Júnior. (2007), p. 142.

<sup>52</sup> Agostino (2002), p. 162.

<sup>53</sup> Júnior. (2002), p. 144.

At club level, the relationship between football and the state during the military regime was also significant. By the 1960s and throughout the 1970s and early 1980s, many football stadiums in Brazil, most of them with a capacity of over 45,000 people, were built by state and municipal authorities.<sup>54</sup> In 1969, the Brazilian financial authorities created the National Sports Lottery, based on the European sports lottery model and aimed at financing social assistance programmes and sports facilities. It was also seen as a tool for educating and creating a sense of unity within the national population, because those betting on the results would learn the name of the cities and states of origin of the football clubs. In order to have a fixture schedule for the lottery that lasted throughout the year, the government pressured the CBD to promote a national club championship. In exchange, the federal government would use part of the lottery money to finance the travel expenses of the clubs participating in the championship, as well as helping CBD in paying some of the expenses related to the preparations of the national squad for the 1970 World Cup.<sup>55</sup> Until then, Brazil did not have an established nationwide football competition, which is understandable due to the continental size of the country and the difficulties of internal transport.<sup>56</sup> In 1971, the national championship would finally be created, by then called the *Campeonato Nacional*.<sup>57</sup>

Such a competition would only be possible due to new developments in air transportation. The competition's first edition had twenty clubs and each year the number increased. There was no second division and, therefore, no relegation. By 1978, there were 74 clubs, with at least one representative of each of the 22 states Brazil had at the time.<sup>58</sup> With no defined qualification rules for the championship, the inclusion of clubs would often be politically biased. The peak was reached in 1979, when the national championship had 94 clubs. This championship has been symbolized by a proverb that said: 'Where the government party is poorly rated, another club joins the national championship, and where it is highly rated, another club joins the national championship as well'.<sup>59</sup>

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<sup>54</sup> Further details and analysis of this period is available in Chapter 9.

<sup>55</sup> Lever (1983), pp. 93-95.

<sup>56</sup> Agostino (2002), p. 142, and Unzelte (2002), p. 420.

<sup>57</sup> The *Campeonato Nacional* would change its name to *Copa Brasil* in 1975 and to *Campeonato Brasileiro* in 1981, a name that it has remained (Unzelte, 2002), pp. 421-422.

<sup>58</sup> Lever (1983), p. 95.

<sup>59</sup> Bellos (2003), p. 266.



Nonetheless, the military government continued to intervene in football. In 1975, it approved a law that asserted the CND's power over Brazilian sport and, among other provisions, established a unitary voting system for sports governing bodies, such as federations and confederations.<sup>60</sup> That meant that in all sports organizations, regardless of size or importance, members of a sports governing body would have equal power to elect its representatives. This law has come under intense criticism due to the fact that, although it was undoubtedly democratic, it gave too much power to minorities and helped to hold back the development of football, as it allowed space for political negotiations and bargaining in leagues, federations and confederations, gave the power to the smallest, and more numerous, clubs and, therefore, obliged bigger clubs to play in unprofitable competitions.<sup>61</sup> It is an interesting point of view, considering that some of the criticism about the European football industry, especially in England, is based on the fact that its current format privileges only the bigger clubs, leaving the smaller community clubs often facing the risk of insolvency and closure.<sup>62</sup>

Although the profession of football player was recognized by the Vargas government in 1933, the profession was specifically regulated only in 1976, with the Federal law 6.354/76.<sup>63</sup> The new law formalized the retain-and-transfer system, giving the right of free transfer only to players above 32 years of age who had had a contract with the same club for at least ten years.<sup>64</sup> The law also established that the compensation paid by one club to another in order to acquire a player would be named *passe*, which means permission. The law would henceforth be known as *Lei do Passe*.

In 1974, the president of the CBD, João Havelange, was elected to the presidency of FIFA. While he was running for the post, one of his lobbying strategies was to create an out-of-season World Cup in Brazil, called *Taça Independência*, to celebrate Brazil's 150 years of independence. He invited twenty national squads to Brazil at the

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<sup>60</sup> Federal law number 6.251/75.

<sup>61</sup> Such criticism can be found in Gordon & Helal (2001) and Manhães (2002), p. 108. More on this issue is available in Chapter 6.

<sup>62</sup> For further elaboration, see Conn (1997), Chp. 8.

<sup>63</sup> I would like to thank Luiz Felipe Santoro, Corinthians' lawyer, for the clarification on the matter.

<sup>64</sup> Further analysis on the issue will be made in Chapter 8.

expense of the CBD, which helped to secure these countries' votes for the election.<sup>65</sup> The competition created a significant deficit in CBD's accounts, leading to some unrest with the military government, which eventually intervened in the CBD by appointing Admiral Heleno Nunes as the new president in 1975.<sup>66</sup>

Shortly afterwards, in 1979, the CBD would be dismantled, and each sport would have its own governing body from then on. The *Confederação Brasileira de Futebol* (CBF), Brazilian Football Confederation, was created and a civil president, Giulite Coutinho, took charge of the confederation as the demilitarization of the Brazilian government process was already in progress.

When the military left the government in 1985, the direct public incentives to football clubs faded and clubs were left on their own. In an article published in 2001, Gordon and Helal even suggested that at that moment Brazilian football entered into a crisis, with empty stadiums, violence among supporters and increasing numbers of players leaving the country.<sup>67</sup> The formal relationship between football clubs and the government would be officially terminated in 1988 with Brazil's new constitution.

With the so called crisis in Brazilian football, the new constitution and the recent developments in European football in the early 1990s, such as the creation of the English Premier League, the government created new legislation to try to help Brazilian football clubs to adopt business oriented practices in order to increase their revenues and control the increasing debt levels. The first law created was the Zico Law in 1993 followed by the Pelé Law in 1998, which among other things ended the retain-and-transfer system that was still in place in Brazil. Both laws failed to boost clubs' revenues and after the 1998 FIFA World Cup and the 2000 Olympic Games defeat of the national squad, the government launched a profound investigation into Brazilian football and discovered a vast range of irregularities and corruption scandals. At the same time, different foreign companies were investing in local

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<sup>65</sup> João Havelange had been the CBD's president since 1958. More details of Havelange's election to FIFA's presidency are available in Sugden & Tomlinson (1998), Jennings (2006), Chp. 2 and Yallop (2002), Chp. 2. Note that the last two authors are investigative journalists.

<sup>66</sup> Agostino (2002), pp. 162-163, Máximo (1999) and Proni (2000), p. 145.

<sup>67</sup> Gordon & Helal (2001). See more on this article in Chapter 2.

football clubs, but had also failed to make the investment last longer than a few years and various irregularities were also found in these investments later on.<sup>68</sup>

Corruption scandals, failed, irregular and short-term investment by foreign companies, added to the growing financial problems of the clubs showed evidence of a very poor environment in Brazilian football at the turn of the century. Therefore, Gordon and Helal's work that recognized a crisis within the industry and Bellos' book portraying a bleak picture of Brazilian football did not come by surprise and were a sign of how the outside world regarded Brazilian football.

Since then, however, clubs' revenue has increased, football became more organized and the country was chosen by FIFA to host the 2014 World Cup. Even so, income levels have remained lower than those of the top European leagues and debts have continued increasing. Furthermore, the government investigation into football provided few effective results, with many of the individuals involved in fraudulent schemes still working within the industry. Therefore, despite the improvements in the football sphere since the turn of the century, the challenges ahead of Brazilian football persist.

Moreover, the fundamental role played by football in moulding Brazilian society and the intense relationship between football and the state after the 1930s inevitably produce deep effects on the commercialization process of football in the country, which should be taken into account in order to analyze the football industry in Brazil properly. Therefore, the six main questions that this research attempts to answer are:

- 1) If football is so important in the Brazilian society, why do clubs fail to develop commercially?
- 2) What were the true developments of the European football industry in the past two decades?
- 3) To what extent can the European football industry be a model for other countries?
- 4) How is the football industry located in the Brazilian business environment?

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<sup>68</sup> See more on Chapter 6.

- 5) How does the particular role played by football in the Brazilian society influence the shape of the local football industry?
- 6) What could Brazilian football clubs do in order to improve their financial health?

## Method

In order to answer these questions properly, a mixed methodology consisting of both qualitative and quantitative data was used. Although there are many different sources of quantitative data in Brazilian football, they should be approached with caution, as the game generally lacks transparency and the overall data available might be corrupted and lead to wrong conclusions. As the thesis will show, even though clubs have been forced to publish their accounts according to the new legislation introduced in 2003, they may sometimes omit information such as true debt levels from their financial reports.<sup>69</sup> Furthermore commercial contracts normally have confidentiality clauses and the figures available in the press or in other public sources are often only estimated, although they may present at least some indication of the true numbers. Therefore, a combination of both quantitative and qualitative data provides safer and more comprehensive analysis.

Quantitative data is often provided by print media, which covers football extensively on a daily basis. However, this coverage is focused more on game related issues than on the football business and reporters are pressured by short deadlines, with the result that analysis of the data available is usually superficial. This means that the print media is a good source of empirical data, as well as interviews with key individuals such as club presidents, but not such a valuable source for in depth analysis. There are very few Brazilian sports journalists who have the capacity to analyse the business side of Brazilian football in depth: it is easy to name the exceptions, Juca Kfourri and Erich Betting.<sup>70</sup>

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<sup>69</sup> See Chapter 6.

<sup>70</sup> Juca Kfourri writes for *Folha de São Paulo*, the leading Brazilian newspaper, and Erich Betting owns *Máquina do Esporte*, the best known sports business website in Brazil

Other sources of quantitative data on the Brazilian football industry, such as government and private reports, are rare and the few pieces available often show signs of poor knowledge overall, as there is no well established centre for research on the sports industry in the country. For example, the only data that the CBF publishes that are relevant for this work are attendance figures for the *Campeonato Brasileiro*, which are provided by clubs themselves, the number of international transfers of players and an annual report on stadium capacity. Personal experience shows that both attendance and income figures for individual matches are unaudited and thus of dubious reliability. Therefore, the lack of reliable data and the superficial understanding of the local industry forces researchers in Brazil to obtain extensive data from in depth interviews with industry experts to support their research.

Because of the unreliability of the quantitative data, some sections of this thesis are heavily based on semi-structured interviews which were undertaken in 2009. The choice of semi-structured interviews was made to allow interviewees to express themselves better and raise issues that may be important but not listed on the questionnaire. Interviewees were selected on the basis of their experience and involvement with each issue discussed in the thesis, and access to many of them was only possible due to the contacts gained through the author's earlier work in football.

During the research, the author spent one year working for one of Brazil's most popular clubs, not the one he supports, in a marketing role. The experience has helped immensely to understand the processes and dynamics of a football club's daily operations, the relationships among different stakeholders, such as the board of directors, the members of the council, the media, the sponsors and the supporters, and also to expand the contact network for interviews with individuals who would otherwise be inaccessible. Because the thesis was completed on a part-time basis while working in a Brazilian football club as Head of Marketing, however, confidential information acquired in this role has not been utilised in this thesis.

Interviews were a distinctive feature of this research and helped to get a clearer insight from within the Brazilian football industry. The 23 interviewees were selected as representative of different stakeholders in the industry, for example the president of the *Clube dos Treze*, a leading sports journalist, former Brazilian national squad

players, president of a leading sports media group, and president of a leading São Paulo club. A full list is provided at the end of the bibliography on p. 414. The approach to the interviewees followed all the necessary formal procedures in order to ensure the validity of the data collected. In-depth semi-structured interviews, based on each individual's area of expertise, were conducted in order to allow interviewees to express themselves better. Ethical approval from the University of Liverpool was acquired for these interviews and they were conducted in accordance with the university's ethical code. Interviewees were provided with questions beforehand and asked to complete a form agreeing with the interview. It was made clear in writing that interviewees would be able to request anonymity if they were not willing to speak on the record. All interviewees except for one were happy to speak on the record and to be quoted by name. All of them were given transcripts of the interview and approved them. In some cases, interviewees responded to supplementary questions by phone or by e-mail. The conditions of anonymity that were offered, added to the author's experience of working inside the industry, helped to provide a substantial amount of reliable information from these interviews. Of the long list of questions provided, only few were left unanswered. The interview with the individual who refused to speak on the record, even with all the anonymity guarantees offered, was abandoned.

The mixed methodology used, therefore, helps to build a comprehensive picture of the Brazilian football industry. Other approaches, such as analyzing quantitative or qualitative data from secondary sources exclusively would perhaps result in distorted conclusions, as the many sources and data available in the subjected are complementary but often disconnected.

Due to the large number of clubs in Brazil, the work will focus primarily on the Brazilian First Division Championship clubs, which are mostly located in the Southwest and South regions of the country, although data from clubs playing in lower divisions will at times be used. A similar process will also be applied to the analysis of the European football industry, which will focus mainly on the top five leagues – England's Premier League, France's Ligue 1, Germany's Bundesliga, Italy's Serie A and Spain's Primera Liga – although other leagues will also be mentioned.

Chapter 2 reviews the literature and sets the theoretical framework that formed the basis for this research. Chapter 3 will provide an overview of the commercialization and globalization of the football industry, focusing on the model developed in Europe, especially by the top five leagues mentioned above. Chapter 4 will analyze the overall Brazilian business environment through a political, economic, social, technological and legal perspective. Chapter 5 will discuss the strong and entrenched relationship between football, politics and the state in Brazil. Chapter 6 will focus on the management of Brazilian football clubs and governing bodies. Chapter 7 will consider the clubs' financial structure and Chapter 8 will examine the revenues derived from sponsorship and merchandising. Chapter 9 will discuss the international transfer of Brazilian players and the revenue derived from this source. Chapter 10 will analyze matchday revenues and the state of Brazil's main football stadiums and discuss the possible impact of the 2014 FIFA World Cup on the industry. Chapter 11 will examine the media revenue received by clubs and investigate the influence that the peculiar media environment in the country has on the commercialization of football. Finally, Chapter 12 will then summarize the conclusions of the analysis and set the path for future research and list a number of recommendations for the best development of the Brazilian football industry.

## 2 Literature Review

### The Development of the Literature on Europe

Academic and other serious studies on the football industry are fairly recent, having possibly been motivated by the boom after the English Premier League was created in the early 1990s. Perhaps the starting point for analysis should be the book written by David Conn, a lawyer and a well known British sports journalist, who critically described the formation of the Premier League and the development of English football clubs as business enterprises.<sup>1</sup> Conn's work gathers much financial data together with in depth interviews with the main English football stakeholders, especially club owners, in order to argue that although football has improved its safety standards since the creation of the Premier League, new club owners were treating football clubs as ordinary business enterprises, taking the game away from the true community supporters and prioritizing the corporate and the more wealthy supporters for personal financial gains. Despite the serious research involved in the study, Conn's piece was never meant to be an academic work, but rather a passionate defence of those long lasting and loyal supporters who were seeing their clubs being transformed into soulless companies. The author called for more governmental involvement in order to preserve the supporters' interests. Furthermore, Conn also argued that only a few top English clubs would dominate the local competitions, leaving no chance of competitiveness to the smaller clubs.

This last remark would shortly afterwards be assessed in detail by the academic work of Szymanski and Kuypers.<sup>2</sup> The authors use a wide range of historical financial data from English football clubs to show the strong correlation between a club's financial capacity and on-pitch performance, that is, the more revenue a club has, the better it performs. Such a correlation inevitably leads to the conclusion that the boom in clubs' income, particularly for the top clubs, leads to a reduction in the competitive balance of competitions, as the more a club earns, the more it spends on players' salaries and wages. The idea that clubs are utility rather than profit maximizing organizations and that such a characteristic has many implications for the shape of the industry and the

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<sup>1</sup> Conn (1997).

<sup>2</sup> Szymanski & Kuypers (1999).



level of competitive balance was first suggested by Sloane, long before the English Premier League was created.<sup>3</sup> Such an issue would be reassessed ten years later by Garcia-del-Barrio and Szymanski in a piece that extended such a conclusion to the Spanish football market.<sup>4</sup> Because clubs are utility maximization organizations and performance is normally derived from the value invested on wages and transfers, clubs are therefore incentivized to increasingly spend on players, which inevitably leads many clubs to jeopardy their financial future to seek for on-pitch glory, a complex issue that UEFA has been trying to deal with in Europe.<sup>5</sup>

Sloane also provided the basis for the work of Dobson and Goddard, who made use of a variety of econometric models, focusing on the prevailing issue of increasing revenue inequality and its impact on diminishing competitive balance.<sup>6</sup> Although these conclusions do not differ from the studies already mentioned, Dobson and Goddard contribute to the football industry literature by also discussing other related issues such as the contribution of managers to their team's performance as well as the historical development of attendances in English football, an issue which is highly relevant to this research.

After the massive revenue growth of English football clubs in the 1990s, the continuing losses and increasing debt attached to it started to draw more attention from authors. In 2002, Simon Banks, a well-known journalist with a strong financial background, published a rather pessimistic study based on a strong set of historical data on the evolution of the football business and its involvement with the media.<sup>7</sup> Banks argued that the recent uncontrolled commercialization of football clubs had led the game into a much complicated financial scenario in which they focused on the interests of business organizations rather than the fans, which would inevitably lead to a decline in interest and eventually cause the extinction of the game. Despite the somewhat apocalyptic view of the future of football, which slightly undermines his work, Banks was notably one of the first authors to suggest the shift on the power

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<sup>3</sup> Sloane (1971).

<sup>4</sup> Garcia-del-Barrio & Szymanski (2009).

<sup>5</sup> See Chapter 3.

<sup>6</sup> Dobson & Goddard (2001).

<sup>7</sup> Banks (2002).

structure of football, with the main European clubs becoming stronger than their national associations and starting to deal directly with UEFA.

Such a shift would be readdressed by Morrow one year later in an academic work that extends the analysis of the football industry from the United Kingdom to other countries in continental Europe.<sup>8</sup> Morrow's work debates not only the power relationship between clubs and football governing bodies, but also extends the discussion to the relationship between clubs and their stakeholders, namely fans and communities, and suggests the need of clubs to focus on their accessibility to supporters. Morrow also urges football governing bodies to lead clubs in adopting a series of best practices focusing on the sustainability of football in order to avoid a scenario such as that pictured by Banks.

After these pieces, the financial crisis in football, expressed mainly by the increasing level of debt and the more frequent cases of insolvency of clubs all over Europe, would be a recurrent theme among academics. In 2004, academics from different European countries created a group called the 'Rimini Group' in order to discuss the financial crisis of European football. The studies, which generally recommended a tighter financial control of football clubs by governing bodies and the restructuring of competitions to enhance the sustainability of smaller clubs' finances, were later published in the *Journal of Sports Economics* along with a handbook organized by Andreff and Szymanski.<sup>9</sup> The latter also published different short pieces that provide valuable information on some specific issues. Thomas, for example, discusses the origins and evolution of the football's retain and transfer system which would be abolished by the Bosman case, which is explored in detail by Késenne.<sup>10</sup> The player transfer system in football is examined by Carmichael and the book also includes an informative analysis of Gerrard on the different financing methods that football clubs in England use to fund their activities.<sup>11</sup> The diversity of subjects analyzed in this handbook, however, is not an exception, but rather a reflection of the growing variety

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<sup>8</sup> Morrow (2003).

<sup>9</sup> Lago *et al* (2006), Buraimo *et al* (2006), Frick & Prinz (2006), Gouguet & Primault (2006), Ascari & Gagnepain (2006), Baroncelli & Lago (2006), Barros (2006), Dejonghe & Vandeweghe (2006), Morrow (2006) and Andreff & Szymanski (2006).

<sup>10</sup> Thomas (2006) and Késenne (2006).

<sup>11</sup> Carmichael (2006) and Gerrard (2006).

of academic research that has been conducted on several different issues in the European football business since the early 2000s.

The shift of power from football governing bodies to clubs in Europe and the changing landscape that has resulted has been addressed by a variety of pieces such as those by Dietl *et al*, Holt and Grant.<sup>12</sup> Other than the papers from the Rimini Group, the financial challenges facing European football clubs have been the subject for several different authors.<sup>13</sup> The media's influence on revenue growth and the analysis of the effects of new broadcasting contracts were addressed, for example, by Gratton and Solberg, Kuypers, Parlasca and Turner.<sup>14</sup> Other important sources of revenue to football clubs, namely sponsorship and the sale of merchandise, were studied by Chadwick and Thwaites, who analyzed football sponsorship management in English football and concluded that despite the increasing values, companies still fail to manage football sponsorship programme effectively; Desbordes, who discussed the history of the strong financial links between football clubs, such as Juventus, PSV and Sochaux, and private companies, and suggested that this relationship has always been mainly driven by personal goals of company directors since the beginning; Leeds *et al*, who analyzed the impact of acquiring the naming rights of a facility on firms' profits and concluded that this type of sponsorship offers no economic value generally; Kwak and Kang, who discussed the idea of symbolic purchase of sport products and found that fan identification has a strong positive effect on the intention to buy club licensed merchandise; and Ohl and Taks, who argued that the consumption of sport goods is not only related to sport practice, but also often used to shape positive identities.<sup>15</sup>

There has been a great amount of new literature on sports marketing and sponsorship, but the limited space available here restricts further analysis on the issue. Specific academic journals such as *Sports Marketing*, *Sport Marketing Quarterly* and *International Journal of Sports Marketing and Sponsorship* as well as textbooks

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<sup>12</sup> Dietl *et al* (2009), Holt (2007) and Grant (2007).

<sup>13</sup> Gratton (2000), Wilkesmann & Blutner (2002), Dietl & Frank (2007), Andreff (2007), Garcia & Rodriguez (2003), Wharton (2007), Kesenne (2007), Oppenhuisen & Zoonen (2006) and Gammelsæter & Jakobsen (2008).

<sup>14</sup> Gratton & Solberg (2007), Kuypers (1997), Parlasca (2006) and Turner (2007).

<sup>15</sup> Chadwick & Thwaites (2005), Desbordes (2006), Besson (2008), Leeds *et al* (2007), Kwak & Kang (2009) and Ohl & Taks (2007).

organized by Chadwick are valuable sources of information on the subject.<sup>16</sup> Generally, academics identify that the sponsor logo exposure time still remain the most common evaluation method for sponsorship effectiveness, which shows the superficial interest of clubs and companies in developing more comprehensive sponsorship packages. Higher-level tools such as attitude and behavioural change effects analysis toward brands are beginning to be introduced, but still far from being widely implemented.<sup>17</sup>

Two other issues of particular importance for this work have drawn much attention from academics in Europe and more specifically in England. The first relates to football supporters. Football hooliganism has been analyzed by writers such as Dunning and Giulianotti who provide a great range of information on the field even though the discussion of hooliganism is not of particular interest for this research, which is more concerned with the way in which violence and tragedies in football have opened the path for new regulation, in particular the Taylor Report, and hence contributed to the current shape of the industry. This was the subject of Williams, who argued that the new English football landscape has improved safety conditions and increased the game's popularity at the same time that it has brought new challenges such as the pricing out of supporters from stadiums and the increasing competitive inequality.<sup>18</sup> The history of stadium disasters in the United Kingdom has been studied by Hill, Walker and Chisari.<sup>19</sup> The impact of these tragedies into the political framework of English football was debated by Elliot and Smith, who concluded that the tragedies were caused essentially by poor management within football, and Johnes, who argued that it was only after a tragedy as large as Hillsborough that football authorities would adopt efficient safety regulations.<sup>20</sup> Although these studies have provided much important analysis on sociological and historical aspects relating to football and supporters, more market directed pieces on the subject, specially relating to the segmentation of different types of fans, have only rarely appeared. The most valuable exceptions are the segmentation studies by Hunt *et al*, which divide supporters into five different groups of fans based on loyalty level,

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<sup>16</sup>Beech & Chadwick (2004), Beech & Chadwick (2007), Chadwick & Arthur (2008) and Chadwick & Hamil (2010).

<sup>17</sup> Henseler *et al* (2010) and Olson (2010).

<sup>18</sup> Dunning (2000), Giulianotti (2002a) and Williams (2006).

<sup>19</sup> Hill (2004), Walker (2004) and Chisari (2004).

<sup>20</sup> Elliot & Smith (1993) and Johnes (2004).

Tapp and Clowes, which uses nine different segments based on attendance level, behaviour and lifestyle, and Giulianotti, who sets up four different types of supporter identities in the light of their association with the club after the commodification of football.<sup>21</sup> In this way research on football fandom becomes of relevance to the business of football and the management staff of clubs.

Another subject of particular importance for this work is the transfer of players. The international migration of football players has been extensively discussed in work by Lanfranchi and Taylor and also addressed by Magee and Sugden. Both studies suggest that the international transfer of players follows the same pattern as the migration flows of other skilled workers rather than being caused by a specific football related factor.<sup>22</sup> Much of the work in this area, however, has been focused on discussing the Bosman regulation and its effects on the European players' transfer market. This is the case of work by Arnedt, Antonioni and Cubbin, Feess and Muhlheusser, Simmons and Frick.<sup>23</sup> Third party ownership of players, unsurprisingly, is yet to draw attention from scholars, as the only academic work on the issue is provided by Williams, who argues that the practice should not be forbidden but, rather, better controlled and regulated.<sup>24</sup>

The migration of foreign players to Europe is also analyzed in a comprehensive report by the Professional Football Players Observatory called the *Annual Review of the European Football Players Labor Market*, which provides a variety of data on the nationalities of players in European football. Europe, in fact, provides a wide range of different reports by public authorities, football governing bodies and private companies that help to draw a picture of the state of the industry in the continent. Of the many reports regularly published, UEFA's *The European Football Club Landscape* and Deloitte's *Annual Review of Football Finance* are possibly the most informative in providing financial figures of the main European clubs.<sup>25</sup>

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<sup>21</sup> Hunt et al (1999), Tapp & Clowes (2000) and Giulianotti (2002b).

<sup>22</sup> Lanfranchi & Taylor (2001) and Magee & Sugden (2002).

<sup>23</sup> Arnedt (1998), Antonioni & Cubbin (2000), Feess & Muhlheusser (2002), Simmons (1997) and Frick (2009).

<sup>24</sup> Williams (2000).

<sup>25</sup> UEFA (2009) and Deloitte (2009a).

Despite the fairly wide range of data and analysis available in academic work and different reports in Western Europe, much of football industry related information is provided by intense daily coverage from the press. However, as this strong coverage inevitably provides much in the way of gossip, rumors and unchecked information, caution should be taken. This research has mainly focused on the information provided by two publications with a strong background in covering the football industry: the English newspaper, *The Guardian*, and the online *Daily Bulletin* by Soccer Investor.

### **The Development of Literature in Brazil**

Even though there is a significant number of academic publications on football through Europe, published work specifically on the Brazilian football industry is almost inexistent. In 2001, Gordon and Helal published an article which recognizes football's sociological importance to Brazil in the twentieth century and questions the role that the game would play in the country in the light of the new century.<sup>26</sup> The piece argues, through the use of questionable variables such as attendance levels, clubs' debt and number of international transfers of Brazilian players, that football in Brazil was going through a crisis as the game struggled to overcome the paradox between the traditional and the modern role that it plays in the social context of the country, which is seen as a conflict derived from the transformations undergone by the Brazilian society as a whole.

In 2007, an edited book by Desbordes included a paper from Somoggi in which the author reviews the evolution of the Brazilian football industry after the 1990s through the changes in legislation and also argues, using a somewhat unconvincing analysis, that the fact that Brazilian football clubs cannot retain their top players is evidence of the poor management level of clubs, which is caused by the short term view of clubs' directors.<sup>27</sup> The fact that the top Brazilian players play for foreign clubs is also seen as evidence of the decrepit state of clubs in Brazil by Alvito, in a work which also makes use of a superficial range of data and lacks any deeper analysis.<sup>28</sup> In this paper, the

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<sup>26</sup> Gordon & Helal (2001).

<sup>27</sup> Somoggi (2007).

<sup>28</sup> Alvito (2007).

author discusses the allegedly negative impact of globalization on Brazilian football, which leads clubs to setting themselves only as talent providers for the European market and eventually turning local supporters into international fans of European clubs.

Also in 2007, Miller and Crolley published an edited book with the papers from the conference 'Fútbol, Futebol, Soccer: Football in the Americas' organized by the Institute of Latin American Studies at the University of London in 2003, which covered different aspects of football's social and business role in South and North America.<sup>29</sup> Of the fifteen different papers, four focused on Brazil. In the first of them, Leite Lopes compares the influence that the 1950 and the 1998 FIFA World Cup defeats had on Brazilian society through the use of academic and journalistic work, concluding that while the 1950 defeat had profound effects on the image that Brazilians had about themselves and was blamed on the general incapacity of the Brazilian people, the 1998 defeat was blamed on the globalization process of Brazilian football and the incapacity of the national football administrators.<sup>30</sup> The second paper, written by Melo, argues for managerial change in Brazilian football and falls into the same pattern as most critics of clubs by superficially setting the international transfer of players as a sign of administrative failure.<sup>31</sup> The third piece, by Landau, briefly discusses the inflow of foreign investment into Brazilian football in the late 1990s and early 2000s and asks the Brazilian Football Confederation (CBF) and the government for changes in the national football landscape to facilitate these investments, arguing, in a somewhat naïve fashion, that football is so deeply embedded in the lives of Brazilians that it is obvious that investors can make money from that.<sup>32</sup> This argument is also partially shared by Aidar and Taylor in the last of the four pieces on Brazilian football, where the authors present the results of comprehensive market research conducted among Internacional's supporters in 2001, where the recommendations were not followed by the club's board.<sup>33</sup>

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<sup>29</sup> Miller & Crolley (2007).

<sup>30</sup> Lopes (2007)

<sup>31</sup> Melo (2007).

<sup>32</sup> Landau (2007).

<sup>33</sup> Aidar & Taylor (2007).

Perhaps the most comprehensive work on Brazilian football recently written by a foreign author is Alex Bellos's book, published in 2002.<sup>34</sup> A journalist based in Brazil, Bellos draws a picture of Brazilian society by discussing the role that football plays in the country. Although not particularly focused on the Brazilian football industry as a business, the work provides a wide range of information derived from several interviews with football related individuals. Furthermore, Bellos provides a much needed analysis of the Brazilian football environment through a foreign perspective, which prevents the book from falling into the recurrent assumption of general managerial delay and incapacity preventing the game from flourishing. Moreover, the author analyzes how football influences the Brazilian lifestyle and how football is influenced by Brazilian society, claiming that no other country is so influenced by a sport as Brazil is by football. Despite the highly informative content, for the purpose of this research, Bellos's work lacks more specific industry related data and appears to treat the subject through a rather exotic perspective, which is perfectly understandable since the aim was never to position itself as an academic work. Nonetheless, his extensive work on the background that led to the creation of the Parliamentary Inquiry into football exposed the high influence that the poor performance of the national squad has on the goodwill of the public authorities towards the country's football sphere.

A foreign academic perspective on football's role in Brazil is available in Janet Lever's work published in 1983 and republished in a new edition in 1995 using research that began in the late 1960s and used a vast range of interviews with key individuals in the football sphere, mainly players and club directors, as the main method of data collection.<sup>35</sup> Despite the fairly outdated analysis of the role played by football in Brazil, since the work was written even before the military left power in 1985, many of the conclusions remain applicable, especially the fact that clubs remain political associations where directors may become inebriated by their recently gained popularity and eventually pursue political careers or personal financial benefits.

Curiously, the works from Bellos and Lever, which are arguably the two most important pieces produced on Brazilian football by foreigners, do not make any

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<sup>34</sup> Bellos (2003).

<sup>35</sup> Lever (1983). For a critical review of Lever's work, see Humphrey & Tomlinson (1986).



significant comparison between the local and the international football scenarios, which, on the other hand, appears to be common in Brazilian authors on the football industry.

In a book published in 1997, for example, Helal analyzes the Brazilian football industry through a sociological perspective and suggests that the local football clubs have been dragged into a deep financial crisis since the 1970s that is evident in the increasing international transfer of Brazilian players and the lower attendance levels in the national championship.<sup>36</sup> The author makes use of some rather superficial logic to reach such a conclusion, as he argues that the increasing professionalization of European football has increased the exodus of the top Brazilian players, which has then led to diminishing stadium attendances as the supporters have lost interest in watching the game played by second level players. Although the work does consider the Brazilian business environment as a constraint on the financial development of local clubs, it concludes that clubs were struggling to develop, essentially due to the refusal of club directors to adopt modern and more business oriented managerial practices seen in other developed football markets, namely Europe, choosing to remain running the clubs in the same traditional and amateurish way. Such an argument was based on the general reluctance of clubs to comply with part of the new legal framework set by the Zico Law in 1993, which was partly aimed at organizing the national football environment following the European example.<sup>37</sup>

One year after Helal's work was published, the Pelé Law was sanctioned, changing the Brazilian football legal framework and promising to modernize the managerial practices of the local clubs. With this change of perspective, new papers were published on the changing process undergone by Brazilian football and shed light on the expected new and modern football market. The first work, possibly the most comprehensive study ever conducted on the Brazilian football industry, was published by Proni in 2000, in the aftermath of the initial foreign investment in Brazilian clubs.<sup>38</sup> This analyzes the transformations of Brazilian football, arguing that the migration of football clubs to a more business oriented model was driven firstly by a

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<sup>36</sup> Helal (1997).

<sup>37</sup> Zico Law will be discussed in greater depth in Chapter 5.

<sup>38</sup> Proni (2000).

power dispute among key individuals in the football sphere, secondly by changes in the Brazilian environment and thirdly by changes brought by Europe. Despite providing a new perspective and a range of valuable data, Proni falls into the same superficial analysis as Helal's and many others in stating that the crisis of Brazilian football is caused by the migration of top football players to Europe that eventually leads to falling attendance levels. Furthermore, Proni has little regard for the clubs' internal environment and generalizes in seeing the European football as an almost flawless model. Proni also disregards the utility maximization behavior of football clubs, assuming that in Europe clubs are driven by profit maximization goals. Nonetheless, due to the general lack of data and studies available on the football industry at the time, Proni makes one of the most important contributions to the literature on Brazilian football business. Such was the importance of the work that it was used as one of the main references in the Parliamentary Inquiry, which investigated the overall state of the Brazilian football business and pointed to several irregularities, such as tax evasion and money laundering, committed by different individuals within the industry.<sup>39</sup>

The Congressional Inquiry into football is possibly the largest investigation ever conducted on the Brazilian football industry. It provides an enormity of data and interviews with key individuals in the industry to which it would otherwise be almost impossible to have access, although much of the work reads as a criminal investigation. Nonetheless, although not offering any new perspective of the business, which was not the purpose of the inquiry, the work makes a key contribution by making publicly available much information for further research.<sup>40</sup>

The new legislation, the ongoing Parliamentary Inquiry and the growing number of private companies closing promising partnerships with Brazilian football clubs prompted the release of an edited book by Aidar *et al* in 2000, with a second edition released in 2002, after the conclusion of the inquiry.<sup>41</sup> In the book, different authors draw rather optimistic prospects for the Brazilian football industry, arguing that the ongoing transformation of Brazilian football could be similar to that undergone by

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<sup>39</sup> Althoff (2001).

<sup>40</sup> See Chapter 5.

<sup>41</sup> Aidar *et al* (2002).

English football after Hillsborough and the Taylor report. By so arguing, however, the authors do not critically analyze the events that resulted in the creation of the English Premier League. Moreover, the authors also disregard the turbulent financial scenario of English football at the time (2000-02), which was addressed by the English work discussed at the beginning of this chapter. As a result, notwithstanding with the fact that it should certainly be praised for some of the analysis and at least for the willingness to research the subject, the book contributes little to the deeper understanding of the Brazilian football industry.

As this research will show, the optimistic predictions made by Helal, Proni and Aidar *et al* that the new legislation would forever change the football scenario in Brazil did not materialize entirely, as despite the fact that it has improved in terms of organization, revenues have increased, and clubs now follow much stricter regulations, attendance levels are still low and players are still being transferred to other markets. More importantly, and also contrary to the expectations in the early 2000s, the membership association status of clubs remains the dominant ownership type among the top Brazilian football teams, with unpaid directors still responsible for running the vast majority of clubs. Perhaps this seemingly unchanged nature of the Brazilian football industry has prevented new studies from being published, as the only significant work after Aidar *et al* in 2002 that addresses the subject was published by Júnior in 2007.<sup>42</sup> Even then, Júnior's work is more a general anthropological essay on the evolution of football in Europe and in Brazil. While it contains some valuable historical data on the evolution of the Brazilian football industry this is provided only to illustrate the author's anthropological view rather than being interpreted for any focused business purpose.

Literature on the sociology of Brazilian football, in fact, is significantly more abundant, especially with studies focusing on the role played by football in building the country and minimizing racial conflicts. The seminal essays on the subject were first published by Gilberto Freyre in the 1930s. Although Freyre did not focus specifically on football, he argued that the peculiar Brazilian racial and ethnic miscegenation provided a new, artistic and rather successful style to the game, while

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<sup>42</sup> Júnior (2007).

football itself helped the construction and bonding of the Brazilian society after decolonization from Portugal.<sup>43</sup> Freyre's argument were later replicated by Mário Filho, the most important Brazilian sports journalist of the mid twentieth century, who conducted a detailed study on the racial dimension of football in Rio de Janeiro.<sup>44</sup> More recently, Freyre's arguments have been replicated by DaMatta, one of Brazil's most praised anthropologists, who – in contrast to Freyre – published works exclusively focused on discussing football's role in Brazilian society.<sup>45</sup> Although these articles do not provide much useful data for the study of the Brazilian football industry as a business, they are fundamental for a better understanding of football's social dimension in Brazil.

The provision of a limited range of data is common among most studies on the Brazilian football industry, which seems only natural due to football's lack of transparency, especially prior to the Congressional Inquiry. This lack of data, however, should not be considered an excuse for the general superficiality of the published analysis on the industry, as authors tend not to admit or realise that further research is needed, and often reach conclusions without considering the nature of a football club's operation, as they rarely have had any involvement with a club's internal operations. This eventually turns the studies on the Brazilian football industry into rather personal essays instead of proper and well-founded scientific research. Even the extensive sociological research on football often ignores historical facts and issues, such as, for example, the use of football by the state in order to enhance Brazilian identity. In an extensive study of the geopolitics of football throughout the world published in 2002, Gilberto Agostino dedicates only 25 pages to the relationship between football and the state in Brazil between the Vargas government in the 1930s and the re-democratization of the country in the early 1980s. Although very informative, Agostino fails to provide any specific analysis of this intense relationship that was key to the development of the national football industry, but rather focuses on stating simply that football has been used for political purposes around the world.<sup>46</sup>

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<sup>43</sup> A detailed review of Freyre's work on football is available in Soares (2003).

<sup>44</sup> Filho (2003).

<sup>45</sup> The compilation of DaMatta's main essays is available in DaMatta (2006).

<sup>46</sup> Agostino (2002).

In an edited book organized by Silva and Santos and published in 2006, Costa also address the relationship between football and the state in the Vargas era, and although this paper provides valuable historical data on the involvement of the federal government in football's early history, it does not conclude with a deeper analysis of the effects of this involvement in the contemporary issues facing the Brazilian football industry.<sup>47</sup> The political use of football by the Brazilian state was also the subject for Moura, who published an analysis of the 1950 FIFA World Cup period focusing on the Maracanã stadium construction process and on how the federal government used the stadium as a tool to advertise the country's power to the world.<sup>48</sup>

The most significant study on the links between the early history of Brazilian football and the current shape of the industry was perhaps the book published by Pereira in 2000, who analyzes the evolution of football in Rio de Janeiro from 1902 to 1938.<sup>49</sup> After well documented research explaining how football penetrated Brazilian society, Pereira suggests that the rapid and immense popularity of the game in the country's early history has driven the federal government to use football as a tool to enhance national identity, which has then affected the later growth of the Brazilian football industry.

Specific studies on the sources of revenue of Brazilian football clubs are even rarer. Due to the recent growth in numbers and the debate on the subject, it is natural that the few available studies concentrate on the international transfer of Brazilian players. In 2006, Jacobs and Duarte published a short book on this.<sup>50</sup> Through extensive interviews with Brazilian players and coaches in different localities, the authors identified some of the reasons why Brazilian players leave the country, their destinations and the issues affecting their lives. Despite providing interesting data from the interviews, the study argues that players leave the country not only for the world demand for Brazilian talent, but also due to the managerial decay of Brazilian clubs. This argument is opposed by Coelho, who also used a similar methodology added to a significant amount of historical research and argues that the main reason for the increasing transfer of Brazilian players to foreign markets is the lowering of

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<sup>47</sup> Costa (2006).

<sup>48</sup> Moura (1998).

<sup>49</sup> Pereira (2000).

<sup>50</sup> Jacobs & Duarte (2006).

restrictions on foreign players by domestic leagues, especially in Europe.<sup>51</sup> This argument is endorsed by Taylor and Lanfranchi in an extensive study published in 2001 that goes on to say that international transfer of players throughout the world generally follows common labor migration flow patterns.<sup>52</sup>

The second most important source of revenue to football clubs in Brazil, the media, has been only scarcely researched, and thus much data and analysis is lacking. Globo Network's gigantic influence on Brazilian football has not been addressed by any specific study, although Coelho comments on it in a rare work about sports journalism, as the author concentrates in writing a guidebook for the profession.<sup>53</sup> Other publications that have a marginal discussion of Globo's role were written by Ribeiro, who traces the historical development of the main media characters in the history of Brazilian sports news, and by Toledo, who discusses the role played by different media platforms in the sociological view of football by supporters.<sup>54</sup> In this book, Toledo also briefly discusses the formation of supporters' organizations in Brazil, another important issue that has only rarely been analyzed in detail by Brazilian academics or journalists. The most comprehensive study on the subject was published in 1997 by Pimenta, who studies the formation and the operation of such groups, focusing on the relationship between the organized supporters and violence, which has also been the subject of more recent work by Reis and Murad.<sup>55</sup>

Despite the limited availability of literature on Brazilian supporters, two important reports on the subject were published in the mid 2000s. In 2004, the media group Lance! and the opinion pool company Ibope published the results of research conducted with over 7,000 individuals where the main finding was that almost 80% of the interviewees believed that poor safety conditions were the main reason that prevented more supporters attending football matches at the stadiums in Brazil.<sup>56</sup> In 2007, Golden Goal, a sports marketing agency, published an extensive and detailed study on football attendance data in the Brazilian National Championship since 1971. Through the use of regression graphs, one of the report's conclusions is that

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<sup>51</sup> Coelho (2009).

<sup>52</sup> Lanfranchi & Taylor (2001).

<sup>53</sup> Coelho (2004).

<sup>54</sup> Ribeiro (2007) and Toledo (2002).

<sup>55</sup> Pimenta (1997), Reis (2006) and Murad (2007).

<sup>56</sup> Lance! (2004).

attendances in Brazil are highly influenced by successful results on the pitch.<sup>57</sup> In 2009, two articles were published on attendance at football matches in Brazil. Madalozzo and Villar used panel data methodology to analyze attendance records of the Brazilian First Division Championship from 2003 to 2006 and concluded that match attendances in Brazil are influenced by ticket price, competitiveness between clubs, match importance, clubs' latest form and the tradition of the visiting club, especially those from the cities of São Paulo and Rio de Janeiro.<sup>58</sup> These results are in line with the findings of Santana and Silva, who analyzed attendance data from the 2007 Brazilian First Division Championship.<sup>59</sup>

If books and articles on the Brazilian football industry are hard to find, reports are even harder. Golden Goal's report was one edition only and although Lance! had released two other reports previously to the 2004 edition, it has not released another since. Casual Auditores, an accounting firm, published a yearly report on clubs' finances until 2009. After that, another accounting firm, BDO, substituted Casual Auditores by publishing the same report in 2010 and 2011. The report compile financial data on the top Brazilian clubs and analyze the results and trends for the market in a very similar fashion to Deloitte, which publishes the annual financial review of the top European leagues with the main focus on English football.<sup>60</sup> Casual Auditores' and BDO's report provides a good deal of data, although it lacks more proper critical analysis of the financial figures and is based entirely on the data provided by the clubs' financial reports, which, as will be shown later, may not provide a reliable picture of the clubs' true financial situation.

This general lack of data from books, articles and reports on the Brazilian football industry is compensated somewhat by the intense football coverage by different media vehicles. Articles and reports from well known newspapers are fundamental in obtaining football related data in the country, even though the nature of the vehicle inevitably leads to a shallow interpretation of such data. *Folha de São Paulo* is Brazil's best known newspaper and possibly the most important media vehicle for obtaining football industry related data in the country. *Folha's* editorial line is very

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<sup>57</sup> Golden Goal (2007).

<sup>58</sup> Madalozzo & Villar (2009).

<sup>59</sup> Santana & Silva (2009).

<sup>60</sup> Casual Auditores (2009), Deloitte (2009a) and BDO (2011).

focused on the political and economical perspective on football, a direction long established by the critical views of Matinas Suzuki, a columnist who was central to the debate on the football industry in the 1990s but moved away from football in 1999, and Juca Kfoury, who left *Folha* also in 1999 and moved to *Lance!*, returning in 2005. Although none of the columnists has ever published a work specifically in the Brazilian football industry, the collection of their writings in *Folha de São Paulo* is a very valuable source of data and more profound analysis. *Lance!*, Brazil's most popular daily newspaper dedicated to football, is another important source of data, but it provides a much less analytical view, as it is focused on the game of football itself rather than on its background.

*Folha de São Paulo*'s editorial perspective on the football industry was shared by the extinct monthly magazine *Trivela*, which was created in 2006 and although focusing on the coverage of international football, especially the European leagues, established itself as an important source of data on the Brazilian football industry. The magazine's last edition was released in late 2009. It was then absorbed by the new ESPN magazine, which has not yet provided any indications that it will follow *Trivela*'s editorial bias, instead focusing on more trivial football issues. The oldest and most popular football magazine in Brazil is *Placar*, which has played an important role in the past by conducting a series of investigative reports in the Brazilian football industry, and while it still provides much precious information on the subject, it has focused recently on more trivial information.

Not surprisingly, the most dedicated media vehicles in the Brazilian football industry are websites. Perhaps the most popular and important is *Máquina do Esporte*, which provides a vast amount of daily information on the Brazilian sports business scenario.<sup>61</sup> The *Universidade do Futebol* website is also an important source of football business related information and academic pieces, although the website's focus is on the multidisciplinary of football, involving also psychological, physical and technical information on the game.<sup>62</sup> Another important online source is *Futebol*

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<sup>61</sup> <http://www.maquinadoesporte.com.br>.

<sup>62</sup> <http://www.universidadedofutebol.com.br>



*Finance*, which although being based in Portugal, provides various information about the Brazilian football industry.<sup>63</sup>

## **Conclusion**

As this chapter has shown, the business of football has attracted much attention from researchers, especially after club revenue levels boomed. Overall, academics have focused on exposing the financial fragilities of the industry and the decrease in competitive balance, since the growth in clubs' revenues is often followed by a higher growth in expenditure on players' transfers and salaries, leading to increasing debt and damaging the financial sustainability of the game. Perhaps due to these findings, governing bodies have been increasing regulation of clubs' finances. Furthermore, as it has been proven that clubs' expenditure level has strong correlation to performance, the business of football also started to draw attention from supporters and became the centre of increasing debates on the news.

These conclusions are mostly from studies concentrated on European football with important contributions given by other well developed sport markets, especially the US. In Brazil, studies on the football business are still in their early days, with academics focusing generally more on the social dilemmas of Brazilian football than on the industry itself.

As one can see, there is a gap in the analysis of the Brazilian football industry, as the few studies conducted on the subject provide analysis based only on limited data, while the occasional information provided by specific reports and different media vehicles lack a more comprehensive analysis. Furthermore, both academic and journalistic studies in Brazil often criticize Brazilian football using European football as a benchmark, but both the academy and journalists also often lack a proper understanding of the European football industry, the particularities of the Brazilian business environment and the internal dynamics of football clubs in the country. It must be said, however, that comprehensive studies are also rare in Europe, as researchers from different academic disciplines often choose not to take into account

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<sup>63</sup> <http://www.futebolfinance.com>.

football's social and political role as well as the influence of the local business environment. Much of the academic study of football has gone into disciplinary silos (history, economics, marketing, sociology, anthropology, law, etc.) and the business of football as a whole can only be properly understood using a multidisciplinary perspective.

Another gap also exists in the links between research of the football industry in Europe and in Brazil. Despite Brazil's role in the world of football and the national squad international dominance, the country has rarely been the subject of academic research in Europe, whereas European football has also been studied only marginally by the few works on football business by the Brazilian academy.

This research, therefore, aims to fill this considerable void in the study of the Brazilian football industry by undertaking more comprehensive research on the globalization of the football industry and its behavior under the influence of both the Brazilian business environment and the peculiar characteristics of local football clubs, drawing a well-founded and critical picture of the Brazilian football business and providing effective recommendations for its best development.

Having reviewed the literature available on football business in Europe and Brazil, the following chapter will cover the development and the globalization of the football industry in Europe in order to set the basis for the analysis of the commercialization of Brazilian football.

### 3 The Commercialization and Globalization of Football

This chapter aims to explain the evolution of the football industry in Europe and to analyze its current state in order to provide background for the understanding of the Brazilian football industry. Modern football was created in England, and much but not all of the recent commercial development of the game has been derived from the format established by the Premier League and the simultaneous development of the UEFA Champions League. Thus, despite building an analysis based on the top five European football markets (England, France, Germany, Italy and Spain), this section will focus especially on the development of the Premier League, as it has arguably set the benchmark for the development of the world's football industry.<sup>1</sup>

The European football industry, England in particular, has been seen in Brazil as a model to be followed by clubs, leagues and governing bodies.<sup>2</sup> However, despite the frequent acclamation, this model has raised many concerns about its sustainability, especially due to the high level of debt acquired by the clubs and the lack of financial control over transfers and salaries of players. The model has also been criticized due to the increasing commercialization of clubs and the consequent commoditization of its supporters, which creates a distance between the clubs and their local communities.<sup>3</sup>

Many scholars have analyzed the development of the European football industry, especially since the Premier League was born. Several questions have been raised regarding the effects of the commercialization of the game, the true intentions of the new owners of the clubs, and the future of the game. They suggest that football has dramatically changed since the Premier League was born, that it will struggle to survive in the financial environment created by the economic crisis in Europe and that the new wealthy supporters will probably not remain loyal to their clubs in the event of poor performance or financial crisis. They also consider the current state of European football to be highly risky and not sustainable in the long run.<sup>4</sup> New

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<sup>1</sup> Deloitte(2009a).

<sup>2</sup> Proni (2000), p. 193, Aidar & Leoncini (2002), p. 102.

<sup>3</sup> See Chapter 2.

<sup>4</sup> For a critical analysis of European football, see Lago *et al* (2006). For an analysis focused on English football finances please check Conn (1998), Morrow (2003), Banks (2002), Szymanski & Kuypers

research has shown that financial controls and regulation have helped some leagues to control clubs' growing debt, especially in Germany and France, but UEFA's Financial Fair Play regulations, which will certainly influence this landscape, still need more analysis.<sup>5</sup>

Deloitte's *Annual Review of Football Finance* provides an up-to-date perspective on the big five European leagues, with more focus on England, through the information provided by clubs and leagues' financial reports. This publication has been accepted as one of the main data providers to comprehend the financial state of European football, but it has also drawn some criticism over the fact that it is an interpretation of financial data and that it focuses only on the business and financial dimension of football, leaving the social aspects behind, and that it is published only at the end of the season following the one they are analysing.<sup>6</sup> Deloitte also publishes an annual report called *Football Money League*, which ranks the twenty richest clubs in Europe and explains the income for each. Despite the criticism, both reports are a valuable source of information and will be used throughout this chapter. UEFA has begun to publish a series of reports based on data provided by its licensing system, which will be used as well. Unlike Deloitte, UEFA's reports cover all of the European national associations, not only the richest leagues, and shed light on other aspects such as stadiums and competitiveness for the whole continent.<sup>7</sup>

## **The Early Commercialization of Football in England**

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(2000), Gratton (2000) and Buraimo *et al* (2006). For an overview of the German football industry, please see Wilkesmann & Blutner (2002), Dietl & Frank (2007) and Frick & Prinz (2006). For an overview of football in France, see Gouguet & Primault (2006) and Andreff (2007). For Spain, see Ascari & Gagnepain (2006), Garcia & Rodriguez (2003) and Wharton (2007). For an analysis of the Italian football industry, check Baroncelli & Lago (2006). For Portuguese football, please see Barros (2006). For football in Belgium, see Dejonghe & Vandeweghe (2006) and Kesenne (2007). For an overview on Dutch football, see Oppenhuisen & Zoonen (2006). For an analysis of football in Norway, check Gammelsæter & Jakobsen (2008). For Scottish football, see Morrow (2006).

<sup>5</sup> Drut & Raballand (2010) and Dietl *et al* (2011).

<sup>6</sup> Morrow (2003), p. 170.

<sup>7</sup> Perry (2010) and Deloitte(2009a).

Modern football was born when the Football Association was created in 1863. It did not take long for the sport to be popularized both in Europe and South America and for clubs to organize leagues and start attracting large audiences to the stadiums.<sup>8</sup>

As crowds in stadiums began to grow, so did the odds for tragedies to occur. Through the late nineteenth and almost the whole twentieth century, British football faced several disasters inside its stadiums. After the 1960s, hooliganism arose, affecting attendances negatively and prompting concerns and regulations regarding crowd control, which eventually failed. In the 1980s, with generally old and partly derelict stadiums, football related tragedies reached a peak, namely with the Heysel, Bradford City and the Hillsborough disasters. The latter, which killed 96 people, prompted the creation of a public inquiry conducted by Lord Justice Taylor that concluded that the causes were mainly a consequence of the poor safety conditions of the stadium and the lack of effective policing.

The conclusions of the inquiry became widely known as the Taylor Report, which can be considered one of the main catalysts for change in English football. The recommendations, such as all-seater stadia, were focused mainly on improving safety and comfort at football grounds and also enhancing crowd control.<sup>9</sup> A trust was put in place to help financing the improvement of facilities.<sup>10</sup>

Meanwhile, the 'Big Five' English clubs were discussing a breakaway from the Football League in order to improve their revenue.<sup>11</sup> The aim was to retain as much money from television deals as possible. Other large clubs eventually joined them, which prompted the creation of the Premier League in 1992.

The first Premier League season saw a massive inflow of money due to the new broadcasting deal with BSkyB. The previous contract, before the Premier League was created, was with ITV. The considerable increase in value was due to strong

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<sup>8</sup> For a detailed history of the development of the football business in England, see Conn (1998), Szymanski & Kuypers (2000), Murray (2000), Banks (2002) and Arnold (2004).

<sup>9</sup> Taylor (1989).

<sup>10</sup> Johnes (2004).

<sup>11</sup> The clubs were Arsenal, Everton, Liverpool, Manchester United and Tottenham Hotspur.

competition for television content. BSkyB saw football matches as a major product to attract new customers, which eventually proved to be the case.<sup>12</sup>

From this moment, the English football industry was changed forever. The new broadcasting deal provided a considerable financial boost for the main football clubs, which were already concerned about developing and retaining revenue, especially since the European competitions ban after the Heysel tragedy.<sup>13</sup> The Hillsborough disaster and the subsequent Taylor Report forced clubs to improve their stadiums, which allowed new commercial opportunities and a significant increase in matchday attendance and ticket prices. This conjunction of factors created a whole new environment for English football, which was followed shortly after by other leagues around the world.

### **Governance Aspects of European Football**

Despite being the benchmark, the format established by the English Premier League was not followed exactly by other top European Leagues. In France, Germany, Italy and Spain, the national league comprises the first and second divisions, although there have been rumors of a breakaway threat from the first division clubs in Italy.<sup>14</sup> Nonetheless, despite the difference in the number of clubs, these leagues behave similarly in commercial terms, having significantly increased their revenues in the past years.

The first divisions of the top five European Leagues generate altogether an estimated 52% of all the revenue generated by the European football market, the latter worth €16.3 billion in 2010, including UEFA and FIFA.<sup>15</sup> This means that the commercialization of football not only gave clubs and leagues more money, but also more power to negotiate with FIFA, UEFA and the national associations. In 1998, the

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<sup>12</sup> For a critical analysis of the creation of the Premier League and BSkyB, see Conn (1998), Ch 1. More information regarding the formation of the League and the new broadcasting deal can be found in Szymanski and Kuypers (2000), Ch. 1-2 and Banks (2002), Ch. 1, 3, 6.

<sup>13</sup> In 1985, Liverpool and Juventus played the final match of the European Cup at the Heysel Stadium, Belgium. After a clash in the stands between Liverpool and Juventus supporters, 39 Juventus fans died. As a result, all English clubs were banned from UEFA competitions for five years, while Liverpool was banned for six years. See Chisari (2004) for more details.

<sup>14</sup> Soccer Investor (2009).

<sup>15</sup> More detailed information can be found in Deloitte(2011a).

top European clubs were dissatisfied with the structure and the financial aspects of the UEFA Champions League and, backed by the Italian company, Media Partners, threatened to breakaway from UEFA by creating their own league, the European Super League. As a result, UEFA changed the format of the Champions League, expanding the number of matches and increasing revenue to clubs.<sup>16</sup>

The threat also opened the path for the creation of the G-14, an association of the top European clubs, which was formed in 1999. The G-14 aimed to give clubs more power to demand, among other issues, compensation from FIFA, UEFA and national associations over the call-up of players for national teams.<sup>17</sup> The G-14 was eventually dissolved in 2008 and replaced by the European Club Association, which, unlike the G-14, comprises clubs from all European national associations.<sup>18</sup> The aim of the European Club Association (ECA), like the G-14, is basically to represent the interests of European clubs and to ensure cooperation between UEFA and them.<sup>19</sup>

The existence of ECA and other associations representing several different stakeholders has contributed to weakening the traditional strong vertical governance system established by FIFA in football.<sup>20</sup> This phenomenon is helped by the fact that FIFA and UEFA have to operate within the rules of the European Union, which often denies privileges claimed by the football governing bodies, such as in the Bosman case in 1995 and in the proposed 6+5 rule more recently.<sup>21</sup> At national level, however, some governments still concede special privileges to football clubs which they would not concede to ordinary organizations.<sup>22</sup>

These privileges are often related to helping clubs in financial difficulties, a common situation in Europe. Despite the increasing commercialization of football, the

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<sup>16</sup> For more on the Super League, see Banks (2002), Ch. 3, Holt (2007) and Solberg & Gratton (2004).

<sup>17</sup> The original G-14 members were Liverpool and Manchester United from England; Juventus, AC Milan and Internazionale from Italy; Marseille and Paris Saint-Germain from France; Bayern Munich and Borussia Dortmund from Germany; Ajax and PSV Eindhoven from Netherlands; Porto from Portugal; and Barcelona and Real Madrid from Spain. In 2002 they were joined by Arsenal from England; Lyon from France; Bayer Leverkusen from Germany; and Valencia from Spain. More on the G-14 can be found in Banks (2002), Ch. 7, Holt (2007) and Grant (2007).

<sup>18</sup> For the dissolution of the G-14, please see Dietl *et al* (2009) and Soccer Investor (2008b).

<sup>19</sup> ECA (2009).

<sup>20</sup> For the change in governance structure, please see Henry & Lee (2004).

<sup>21</sup> Please see Chapter 9 for more information on the Bosman ruling and on the '6+5' rule. For the relationship between the European Union and football, see Brown (2000) and García (2007).

<sup>22</sup> Examples can be found in Lago *et al* (2006).

financial future of many clubs is in doubt due to the high level of debts they carry. Because most clubs seek to obtain performance results instead of profit, increases in revenue tend to result in increased spending on wages and salaries of players and gambling on future success by paying large transfer fees. And because of the increasing revenue gap between bigger and smaller clubs, the latter are encouraged to spend money they do not have to obtain success and, consequently, an increase in revenue.<sup>23</sup> When success is not obtained, smaller clubs often seek relief from their creditors.<sup>24</sup> In order to avoid this kind of situation, UEFA established a club licensing system at the start of the 2004/05 season with minimum requirements to be followed by clubs competing in European competitions and national associations. The licensing system involves sporting, infrastructure, personnel and administrative, legal and financial criteria.<sup>25</sup> By 2010-2011, 611 clubs had applied for the licence and 20% of all applications had been refused.<sup>26</sup>

The fragile financial situation of clubs, however, has not affected the attractiveness of clubs to potential buyers, especially those in the English Premier League. Since clubs in England are privately held companies, they can be acquired and sold like any other business. A similar system prevails in Italy but not in the other three top European leagues. In Spain, clubs are constituted as *Sociedades Anónimas Deportivas*, Sports Limited Companies (which can be bought and sold), with the exception of Barcelona, Real Madrid, Osasuna and Athletic Bilbao, all of which remain clubs owned by members. In France, clubs are formed as *Sociétés Anonymes Sportives Professionnelles*, Professional Sporting Limited Companies (which also can be bought and sold). In Germany, there are mixed ownership forms, but all clubs are controlled by their members, either by majority of shares or by full ownership.<sup>27</sup> Overall in Europe, 42% of top division clubs are organized as social clubs, not-for-profit or equivalent organizations, and 54% of the top division clubs are controlled by a majority owner.<sup>28</sup>

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<sup>23</sup> Garcia-del-Barrio & Szymanski (2009).

<sup>24</sup> Lago *et al* (2006).

<sup>25</sup> UEFA (2010).

<sup>26</sup> UEFA (2011).

<sup>27</sup> For more detailed information on the ownership of English clubs, see Buraimo *et al* (2006). For Spanish clubs, see Ascari & Gagnepain (2006). For Italian clubs, check Baroncelli & Lago (2006). For French clubs, see Bolotny (2006). For German clubs, see Wilkesmann & Blutner (2002).

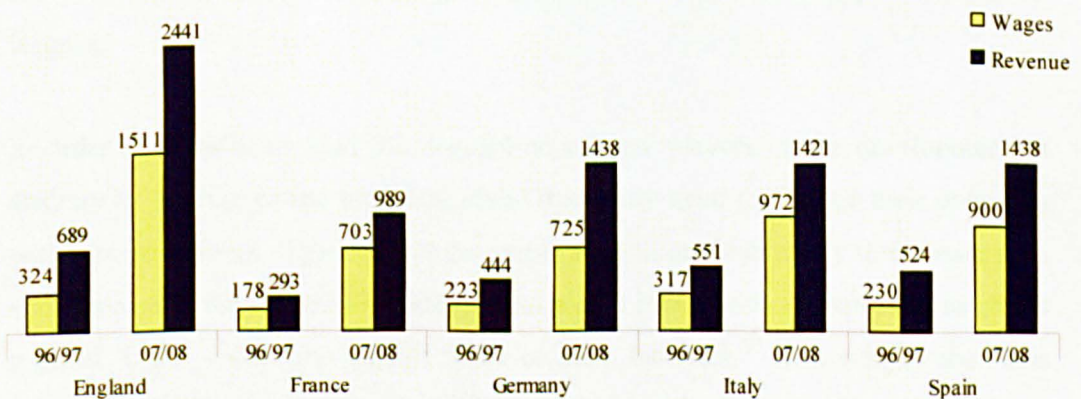
<sup>28</sup> Perry (2010).



## Financing Football in Europe

As already mentioned, in order to increase the chances of winning, clubs need to invest in football talent. Due to competition in the transfer market, prices are often inflated and clubs risk their revenues by investing in players. Although the top divisions clubs in UEFA had a total income of €12.8 billion in 2010, excluding transfers, their total expenditure amounted to €14.4 billion, and 36% of clubs in Europe reported having greater debts than assets.<sup>32</sup> Figure 3.1, which serves as an illustration of the growth of the amount spent on wages, shows that the this value in the top five European leagues in the 2007-2008 season reached €4.8 billion, compared with €1.3 billion spent in the 1996-1997 season, an increase of 369% in a period of eleven years, while total revenues grew an estimated 308%.<sup>33</sup> Figure 3.2 shows the evolution of the percentage of total revenue spent on wages by the clubs of the top five European leagues, from 1996-97 season to the 2007-08 season. The average spending on wages and salaries all across Europe was 64% of the overall share of revenue.<sup>34</sup>

**Figure 3.1: Wages and revenue growth of the 'big five' European leagues - 1996-97 and 2007-2008 (€m)**



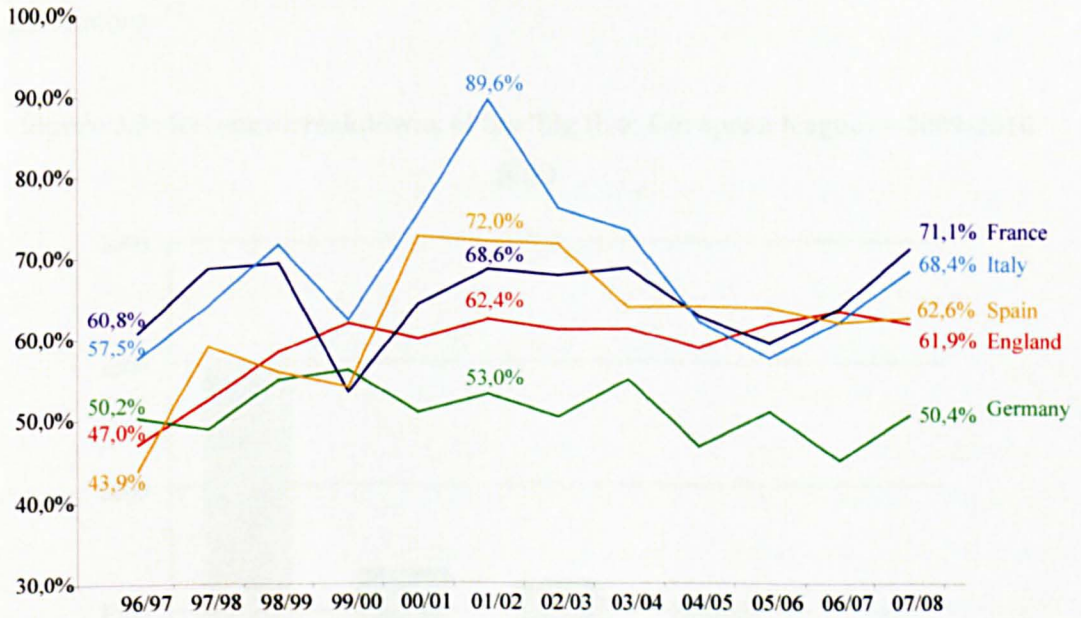
Source: Deloitte (2009)

<sup>32</sup> UEFA (2011).

<sup>33</sup> Deloitte(2009a).

<sup>34</sup> UEFA (2011).

**Figure 3.2: Percentage of total revenue spent on wages by the ‘big five’ European leagues - 1996-97 to 2007-08.**



Source: Deloitte (2009)

Clubs traditionally obtain income from the sale of broadcasting rights, from sponsorship deals, from matchday tickets and other stadium sources of income, from the transfer of players and from the sale of club related merchandise. Figure 3.3 shows the total revenue and the proportion from each source for the top five European leagues.

In order to be able to fund the acquisition of new players or the development of stadium or training centre facilities, clubs frequently need to finance their operation with borrowed funds. Typically, clubs would seek to be financed by their owners, as was the case in the nineteenth century, who would invest without expecting to obtain a profit. Clubs could also request loans or bank facilities.<sup>35</sup> However, as the sums involved in the football business grew, this sort of funding has become more difficult. Some clubs lack sufficient asset security and there is high risk exposure in football, so financing has been increasingly difficult. These constraints have motivated clubs to find financial innovations in order to obtain sufficient funding.<sup>36</sup> In England the most important such innovations have been Stock Exchange listing and securitization, but

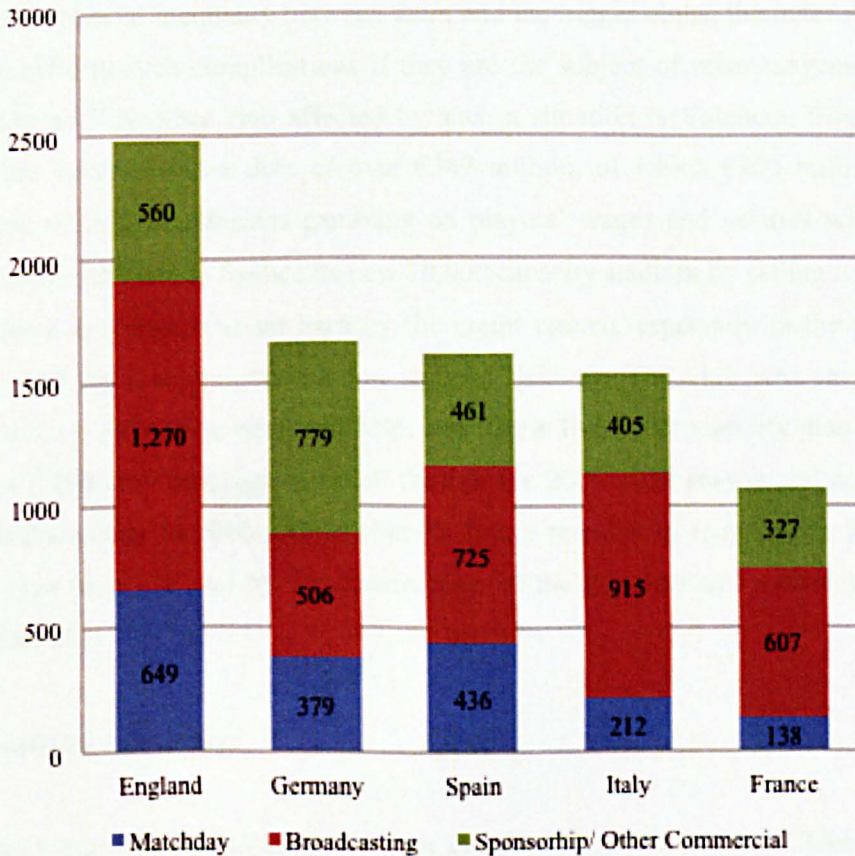
<sup>35</sup> Szymanski & Kuypers (2000), p. 5.

<sup>36</sup> Gerrard (2006).



both proved to be temporary solutions as it became clear that the risky financial situation and poor profit-making ability of clubs did not lend themselves to such innovations.<sup>37</sup>

**Figure 3.3: Revenue breakdowns of the 'big five' European leagues – 2009-2010 (€m)**



Source: Deloitte (2011a).

In 2001, Leeds United also adopted securitization in order to raise funds of £60 million, securing tickets and corporate hospitality income for 25 years. This amount added to other financing from listing on the stock market and player-sale-and-leaseback borrowing, totaled £109 million from 1999 to 2001. Of this, £70 million were spent on net player transfers. Although the club initially obtained success reaching the semi-finals of the Champions League in the 2000-2001 season, it failed to qualify for the competition in 2002, which diminished revenue and led to

<sup>37</sup> Benkraiem *et al* (2009) and Dietl & Franck (2007)..

significant losses in the following years, obliging the club to do a fire sale of its most talented players. As a result, the club went into administration in 2004, the same season it got relegated to the Championship, getting relegated again to the League One in 2007.<sup>38</sup>

Although the chances of financial complications are higher for smaller clubs due to enormous financial inequality between them and the bigger clubs, the latter may also be vulnerable to such complications if they are the subject of mismanagement, like Leeds United.<sup>39</sup> Another club affected by such a situation is Valencia, from Spain, which has accumulated a debt of over €547 million, of which €300 million were generated since 2002. Besides gambling on players' wages and salaries with some success, the club tried to finance its new 70,000 capacity stadium by selling its current land. However, Spain was hit hard by the credit crunch, especially in the property market, and the stadium construction stopped halfway. The club was saved from administration only by government help, and a new five years viability plan was put in place.<sup>40</sup> The club managed to finish third in the 2009-2010 season and sell David Villa to Barcelona for €40 million, but its future remains in jeopardy as debt still higher than its assets and by the construction of the new stadium restarted only in December 2011.<sup>41</sup>

### **Stadiums and Academies**

Valencia's case shows the constraints on developing new stadiums. Clubs need to invest large sums of money in order to afford new facilities. Improvements in football stadiums in Europe, especially in England, became more common in the last twenty years, either because of safety and regulation, such as the Taylor Report, or as a strategy for developing the clubs' finances.

England was the home of the first specialized football stadiums, which were built in the nineteenth century, following much of the architecture and philosophy of the

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<sup>38</sup> Further information on Leeds United's decline is available in Gerrard (2006).

<sup>39</sup> An example of such inequality is that, according to UEFA (2009), the four largest clubs in each National Association in Europe typically generate 3.5 times more income than the other clubs in their domestic championship.

<sup>40</sup> Check Ros & Tronchoni (2009) for more information on Valencia's financial situation.

<sup>41</sup> Rodríguez (2010) and Valencia CF (2011).

factories built by that time, which meant low budget and fast built constructions aimed to accommodate as many spectators as possible. At that time, British stadiums were being used as a reference for the grounds built in Spain, Germany and Italy.<sup>42</sup>

It did not take long for clubs to start searching for revenue streams in the stadiums other than gate tickets. The regulations and safety conditions to build stadiums eventually became stricter, which made construction more expensive. In order to afford the new facilities, clubs needed to explore other resources. At first, clubs created conditions to gather more matchday income by increasing ticket prices, putting in seats, and building corporate hospitality and catering structures. These resources, however, were limited by the relatively low numbers of matches, at most 25-30 games a year. In order to circumvent these limitations, new stadiums have recently been designed to operate on a daily basis, offering commercial activities such as conference rooms, health centres and hotels. These everyday activities could be developed partly because several football stadiums, especially in England, were built many years ago and located inside cities where there was a clientele that would use them.<sup>43</sup> Financing new facilities can be undertaken by clubs through the use of their own resources, but usually it involves public subsidies, bank loans, securitization, advance sale of season seats and boxes, and the sale of naming rights.<sup>44</sup> The influence of public subsidy in stadiums is such that 65% of European football clubs rent or lease their stadium from municipal or state authorities and only 17% actually own their stadium, which severely limits their ability to generate other revenues.<sup>45</sup>

Perhaps the most evident case of stadium revenue maximization is the new Emirates Stadium in London, home of Arsenal, which opened its gates for the 2006-2007 season. The 60,400 capacity stadium cost £430 million, an average cost of £6,500 per seat.<sup>46</sup> Besides the increase of approximately 20,000 seats compared with the old stadium, Highbury, the Emirates has triggered several new sources of revenues, especially from corporate hospitality. The 9,000 new premium seats generate the

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<sup>42</sup> Stadium design now is very much international and the UK is learning from international experience. For more on the development of stadiums in Europe, see Paramio *et al* (2008).

<sup>43</sup> Black & Lloyd (1994).

<sup>44</sup> Further information on financing new stadiums can be found in Zimbalist (1998), Miller (2007) and Paramio *et al* (2008).

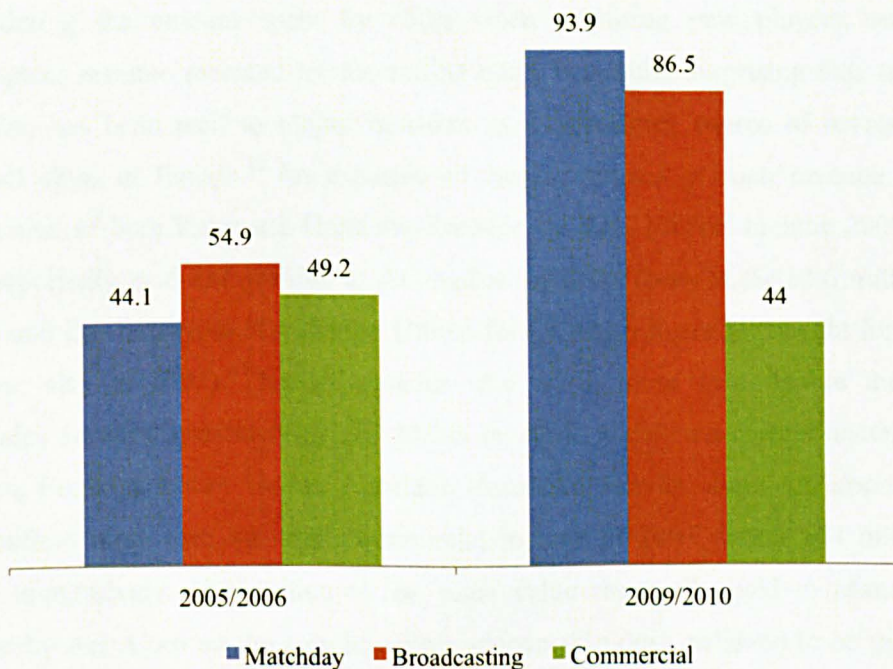
<sup>45</sup> Perry (2010).

<sup>46</sup> Deloitte (2008b).



same matchday revenue that the entire former stadium did.<sup>47</sup> The use of the stadium as a venue for concerts, conferences and other events creates more income. Property development in the Highbury area as well as in the surroundings of the new Emirates Stadium has also provided a financial boost for the club.<sup>48</sup> Figure 3.5 compares the participation of matchday revenue in Arsenal's income in the 2005-2006 and in the 2009-2010 seasons.

**Figure 3.4: Arsenal's Revenue Sources for the 2005-2006 and 2009-2010 seasons (£m)**



Source: Deloitte (2007) and Deloitte (2011b).

Along with new stadiums, clubs also need to invest in new training facilities and youth academies.<sup>49</sup> In 2008, only 33% of clubs in Europe owned their principal training facility, while 47% had a contract with public authorities.<sup>50</sup> Chelsea's new

<sup>47</sup> For more details on the Emirates Stadium hospitality as well as on other venues, see Ellery (2007).

<sup>48</sup> Arsenal Holdings (2008).

<sup>49</sup> UEFA Licencing requires that clubs must have at least three youth teams (UEFA, 2008).

<sup>50</sup> UEFA (2009).

training facility, opened in 2007, cost approximately £20 million.<sup>51</sup> Unlike stadiums, however, training facilities and academies are used by the club on a daily basis and cannot generate direct revenues such as tickets and corporate hospitality. Alternatively, however, clubs can charge others to use their facilities and also develop home-grown talent, which may earn or save on transfer fees and player salaries. For smaller clubs, academies may well become the main source of revenue if they adopt a player-selling business strategy such as Southampton or Crewe Alexandra.

### **Player Transfers**

Considering the amount spent by clubs when acquiring new players, and the consequent revenue received by the selling club, it is quite surprising that so little attention has been paid to player transfers as a significant source of revenue for football clubs in Europe.<sup>52</sup> An example of the importance of such revenue is the acquisition of both Kaka and Cristiano Ronaldo by Real Madrid in June 2009. The club reportedly paid £56 million to AC Milan for Kaka (bought for £4.6 million in 2003) and £80 million to Manchester United for Cristiano Ronaldo (bought for £12.2 million, also in 2003).<sup>53</sup> Kaka's transfer was worth more than double the total matchday revenue generated by AC Milan in 2007, which was approximately £21 million. For Manchester United, Cristiano Ronaldo's transfer alone corresponded to £16 million more than the total commercial income of 2007, worth £64 million.<sup>54</sup> More impressively, £80 million is the same value reportedly paid to Manchester United by Aon Corp on the new four-year sponsorship deal, believed to be the most lucrative shirt sponsorship deal in the history of football.<sup>55</sup>

Player transfers have always been part of professional football. With the Bosman ruling in 1995, the migration of players throughout Europe intensified significantly.<sup>56</sup>

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<sup>51</sup> There is an evident lack of literature on the development of academies in Europe, although some information can be found in Relvas *et al* (2010). Further information on Chelsea's project can be found in Guardian (2003) and BBC (2007).

<sup>52</sup> Deloitte's Annual Review of Football Finance separates the income from players' transfers from the ordinary revenue of the club. Clearly, in any one year, transfer activity may result in net revenue or net expenditure for an individual club.

<sup>53</sup> Further details on these transfers can be found at Guardian (2009) and Taylor & Jackson (2009).

<sup>54</sup> Data provided by Deloitte (2009b).

<sup>55</sup> Hunter (2009).

<sup>56</sup> Frick (2009).

Until then, most countries would operate a 'retain and transfer system', where clubs would own the player's contract and only allow them to transfer clubs if the club wished so, even if the contract had already expired.<sup>57</sup> After the Bosman case, players became able to exchange clubs at the end of the contract without having to pay any compensation. The case also ended discrimination by any European league against players with EU passports, which helped to strengthen the transfer market for players in Europe. This has given clubs an opportunity to develop their own talent and make a profit by selling them to another club.<sup>58</sup>

Bigger clubs, however, are not inclined to rely on player transfers as a steady source of income, because this would mean losing the best talent to others, which implies a reduced possibility of winning competitions. Selling top class talent would only be acceptable where there is a need to compensate for financial losses, as was the case with AC Milan, Leeds United and Valencia, or where the player himself expresses his desire to leave, combined with a high transfer fee paid by the buying club, which was the case of Cristiano Ronaldo. In such cases, the clubs may also need to sell talent to avoid losing the player without compensation when his contract expires.

Smaller clubs, on the other hand, may be willing to invest in developing talent in order to explore an alternative to the low level of income from other sources, such as matchday, sponsorship and sale of club merchandise. The transfer of a football player is a revenue stream that is not directly restricted by the size of the club's fanbase. Crewe Alexandra, a small English club, has a long tradition of nurturing and selling talent, and established the transfer of players as a central revenue source in its business plan. This strategy allowed the club to refurbish its stadium solely with money derived from player transfers, as well as to finance the performance of the team in England's upper leagues, at least for a few seasons, although never in the Premier League.<sup>59</sup>

This practice, however, is not widely spread in Europe, with most clubs willing to acquire players already formed in other football markets, mainly Latin America,

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<sup>57</sup> Szymanski & Kuypers (2000), p 99.

<sup>58</sup> Detailed information on the Bosman ruling and its implications on the transfer market is given on Chapter 9.

<sup>59</sup> Conn (1998), p. 244 and Morris (2002).



Africa and eastern European countries like Serbia, Croatia. Not only are transfer values for players from these markets much cheaper than those for players of the same quality already playing in western Europe, but buying can also generate a profit from a future transfer, where a larger club may be more willing to buy talent already adapted to Europe rather than risking a contract with a player playing in a very different environment such as Latin America and Africa.<sup>60</sup> In order to avoid this process, which inflates the transfer fees they pay, clubs can choose to adopt a strategy of linking with or building their own academies in these markets, especially in Africa.<sup>61</sup> By doing so, they can recruit players directly and train them with the European football philosophy, which diminishes both the amount paid for the acquisition of the player and the risk of a performance failure.

In 2008, the English Premier League had almost 60% of its players coming from other countries. Overall, 35.6% of players playing in European clubs were expatriates. The average number of migrant players in clubs' squads was 8.6, compared to 6.6 players in 2003, and 35% of these clubs have at least 11 expatriate players. Brazil, France, Argentina and Serbia alone supply more than 30% of the total number of imported players in Europe. Brazil is by far the largest talent provider, with 511 Brazilian-born players playing in Europe in 2008, which means that 5% of all players in Europe were Brazilians.<sup>62</sup> This phenomenon has raised criticism over the lack of attention paid by European clubs to developing their home talent, prompting FIFA to suggest the implementation of the '6+5' rule. However, it seems unlikely that such a regulation would comply with European citizens' rights to work anywhere in the Union.<sup>63</sup> In 2006, however, UEFA introduced a home-grown players rule for its own competitions which was negotiated with the European Commission and did not discriminate on grounds of nationality. So far, the impact of the UEFA homegrown players rule has been limited, as clubs are still fielding many foreign players (they are allowed to have 17 non-homegrown players in a Champions League squad). However, with clubs now being obliged to focus on developing their own talent, the impact may be felt in a few years, as it will take some time for these academy-nurtured players to become

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<sup>60</sup> On the challenges for South American players playing in Europe, see Mora y Araujo (2007).

<sup>61</sup> For an analysis of the impact of European academies in African football, see Darby *et al* (2007).

<sup>62</sup> Besson *et al* (2008).

<sup>63</sup> Scott (2009a).

professional players. Until then, European football clubs will remain a showcase of multinational footballers.

## Media

The sale of broadcasting rights is one of the key factors that changed the shape of the football industry in England after the 1990s. As seen in Figure 3.3, broadcasting rights generated a combined amount of €4 billion in the 2009-2010 season in the top five European leagues, which corresponds to 48% of the total revenue generated.

In England the relationship between football and television dates back to 1937, when the first live match, a FA Cup Final between Sunderland and Preston North End, was broadcast to an estimated 10,000 viewers. Despite this, it was only in 1983 that the Football League agreed to sell its broadcasting rights to BBC and ITV for £5.2 million for two seasons.<sup>64</sup> The reason for this gap was that until then club owners were afraid that live television would lower attendances.<sup>65</sup>

The value of the deals increased as the presence of television in households grew. However, in England the prices were controlled by an informal agreement between the BBC and ITV networks, which established a non-competition policy in order to avoid the inflation of the values paid to the Football League. This scenario would only change with the appearance of BSkyB, who acquired the rights for the first Premier League deal for £305 million for five seasons starting in the 1992-1993 season, about six times the value of the last deal between the Football League and ITV.<sup>66</sup> As this example indicates, the advent of new satellite and cable TV platforms changed the market for rights completely. BSkyB desperately needed to secure exclusive content in order to sell its satellite equipment and subscriptions, and hence generate advertising revenue, as the company had a debt worth £1.52 billion in 1991 and was in the verge of bankruptcy.<sup>67</sup> Having successfully secured the Premier League exclusive rights, BSkyB was able to clear its debt and start making a profit. In 1993,

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<sup>64</sup> Banks (2002), Ch. 6.

<sup>65</sup> Buraimo (2006).

<sup>66</sup> For BSkyB offer, see Conn (1998), p. 24. For the ITV deal, see Kuypers (1997).

<sup>67</sup> Conn (1998), p. 23.

the company registered a profit of £62 million and in 1997 the company earned £1.3 billion, with a profit of £374 million.<sup>68</sup>

Packages of media rights now tend to be platform neutral, meaning that any type of broadcasting companies, such as internet groups or mobile companies, could have acquired them. This is a clear example of the growing importance of other types of media in football.<sup>69</sup> Club websites have been developing rapidly, becoming either a tool for strengthening fan identity with the club or another source of income.<sup>70</sup> Liverpool's website, liverpoolfc.tv, is a good example of such development, having grown from 60 million page views a month in 2006 to 92 million page views in August 2010.<sup>71</sup>

### **Sponsorship & Merchandise**

Sponsorship and other commercial revenues are one of the main sources of income for football clubs in Europe. As Figure 3.3 shows, these generated over €2.5 billion for the top five European leagues in the 2009-2010 season, corresponding to 30% of the total revenue. The German Bundesliga and the English Premier League have the highest commercial revenues, at €779 million and €560 million respectively. Bayern Munich generated €172 million alone in the 2009-2010 season from commercial revenues, the largest amount in Europe, largely because of its sponsorship agreement with Deutches Telekom and by the total ownership of the Allianz Arena stadium.<sup>72</sup>

Sponsorship alone has a significant impact on clubs' income. In 2010 Manchester United agreed a new sponsorship deal with Aon Corp, an US financial company, for four years, reportedly worth £20 million a season. This was a £6 million a season increase on the previous sponsorship contract with AIG, another US financial company.<sup>73</sup> The new contract was claimed to be the highest sponsorship contract ever sealed in European football. The previous leader was Bayern Munich's €17 million a

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<sup>68</sup> Conn (1998), p.25.

<sup>69</sup> For an analysis on the development of new broadcasting technologies and football, see Turner (2007).

<sup>70</sup> Crooley (2008).

<sup>71</sup> Liverpool FC (2006) and Love (2010).

<sup>72</sup> Deloitte (2009b) and Deloitte (2011b).

<sup>73</sup> Hunter (2009).

season contract with Deutsches Telekom.<sup>74</sup> The Bundesliga, however, still generates more combined revenue from shirt sponsorship than the English Premier League, partly because of the size of Germany's population and hence audience for football.<sup>75</sup>

Sponsorship income can be divided into different type of sources, such as shirt sponsorship, kit sponsorship, different levels of partnership, advertising, merchandising and licensing. Companies may seek exposure by advertising their logo on the club's shirt, on perimeter boards, on the club's website, match programmes and other exposure channels, as well as acquiring the naming rights of a stadium. They may also seek corporate access to the club's facilities, but as sponsorship programmes develop, companies and clubs can engage in deeper and longer relationships.<sup>76</sup> An example is the deal struck between Arsenal and the airline company, Emirates, sealed in 2005. Emirates paid £100 million to acquire the naming rights for the new stadium for fifteen years and to place the company's logo on the club's shirt for eight years.<sup>77</sup> Sponsorships deals for the twenty richest European clubs last an average of six years.<sup>78</sup> In some cases, companies may even own the club, for example Juventus and FIAT in Italy, Sochaux and Peugeot in France, PSV Eindhoven and Philips in Netherlands, and Bayer Leverkusen and Bayer in Germany.<sup>79</sup>

The gap in sponsorship values between bigger clubs and smaller clubs, however, is immense. As bigger clubs are able to attract global audiences, they are also more prone to attract global sponsors, which pay much more money for the worldwide audience. Smaller clubs, therefore, are restricted to national or local sponsors, which cannot afford the same value paid by bigger companies. Table 3.1 shows that at the beginning of the 2008-2009 season, the English Premier League top four clubs in terms of sponsorship revenue generated a combined amount of £36.1 million, while

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<sup>74</sup> Deloitte (2007).

<sup>75</sup> Sport+Markt (2008). For more on sponsorship in Germany, see Bühler (2006).

<sup>76</sup> Chadwick & Thwaites (2005).

<sup>77</sup> BBC (2005).

<sup>78</sup> Deloitte (2009b).

<sup>79</sup> Further details of the relationship between these companies and their clubs are available in Desbordes (2006).

the bottom four clubs that were able to close a sponsorship deal generated together only £3.6 million, ten times less.<sup>80</sup>

**Table 3.1: Premier League clubs shirt sponsorship deals at the beginning of the 2008-09 season.**

Club	Sponsor	Value (£ million)
ManchesterUtd	AIG	14.1
Chelsea	Samsung	10
Liverpool	Carlsberg	7
Arsenal	Emirates	5
Newcastle United	Northern Rock	5
Tottenham Hotspur	Mansion	5
Fulham	LG	3
Everton	Chang Beer	2.6
Sunderland	Boylesports	2.5
Blackburn Rovers	Crown Paints	1.5
Bolton Wanderers	Reebok	1.2
Manchester City	Thomas Cook	1
Stoke City	Britannia	1
West Ham United	XL Holidays	1
Middlesbrough	Garmin SatNav	1
Wigan Athletic	JJB Sports	1
Hull City	Karoo	0.8
Portsmouth	OKI	0.8
Aston Villa	Acorn	0
West Brom Albion	none	0

Source: Gillis (2009).

Perhaps the most important club licensed merchandise product is the replica shirt. Bigger clubs attract competition from different sport goods companies to become the club's kit suppliers. Global companies such as Nike and Adidas look for global clubs,

<sup>80</sup> Aston Villa shows the Acorns logo, a children's hospice, for free. West Bromwich Albion was not able to close a sponsorship deal in the beginning of the season, the first time this ever happened for any club in the Premier League history.

such as Manchester United and Real Madrid. In 2010, all the ten richest clubs in Europe were sponsored by either one of these two companies.<sup>81</sup> These companies may target not only the traditional club fanbase, but also a new wave of fans, from all over the world, who are attached to the most popular and successful clubs through virtual channels and may be willing to express their fandom by consuming club related merchandise, especially well designed and fashionable replica shirts.<sup>82</sup>

## Fans

The main European clubs often attract supporters from other countries. Some English clubs, in particular, have a very strong fanbase in Scandinavian countries.<sup>83</sup> More recently, clubs like Barcelona, Bayern Munich, Chelsea, Manchester United and Real Madrid have established strong programmes to develop overseas markets, particularly in East Asia and the United States, regions where national football clubs are not strongly embedded in the local society. They undertake summer tours, playing friendly matches with local clubs and establishing stronger connections with their international supporters.<sup>84</sup> Such is the demand from these markets that in 2008 the Premier League even announced controversial plans for establishing a 39<sup>th</sup> game in an overseas location.<sup>85</sup>

Unsurprisingly, local fans protested against the Premier League's international expansion plans.<sup>86</sup> This protest is an example of the politicization level of English supporters, triggered by the formation of the Football Supporters Association in 1985, which has no equal in other European countries.<sup>87</sup> Such politicization was evident in 1999, when Manchester United supporters protested against the takeover of the club by BSkyB, prompting the government to block the deal, and in 2005, when the club was bought by the Glazer family and a group of disillusioned supporters decided to create their own club, FC United of Manchester. Early in 2010 there was a resurgence

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<sup>81</sup> Deloitte (2011b).

<sup>82</sup> Giulianotti (2002b).

<sup>83</sup> Hognestad (2009) and Hognestad (2006).

<sup>84</sup> Castillo (2007).

<sup>85</sup> Soccer Investor (2008a).

<sup>86</sup> Kelso (2008).

<sup>87</sup> Brown & Walsh (2000).

of protest against the Glazers once the terms of their debt refinancing became known.<sup>88</sup>

The politicization is often, but not exclusively, a characteristic of traditional supporters, who are more closely connected to the club and may see it as a part of their own community.<sup>89</sup> Many of these supporters were marginalized after the Taylor Report and the start of the Premier League, due to increased ticket prices and the subsequent 'commodification' of football.<sup>90</sup> Until then, English football was being followed by more fanatical supporters, who would still go to the stadium despite the inconvenience, discomfort and security risks involved, which were often related to hooliganism.<sup>91</sup>

Hooliganism became a subject of public attention in England after the 1960s, when groups of young, largely working class supporters started to confront each other violently inside and outside the stadiums.<sup>92</sup> Such behaviour, which was also seen in other European countries, reached its peak in the 1980s, and, combined with many other factors, resulted in continuously declining attendances in English football.<sup>93</sup> It was only after the stadia refurbishment promoted by the Taylor Report that attendances would increase again.<sup>94</sup>

Attendances have been increasing in much of Europe. Italy, however, has seen a significant decline in attendances, which may be a consequence of poor facilities along with the increase of football related violence.<sup>95</sup> Figure 3.6 compares the average attendance for the top five European leagues in the 1997-1998 season and the 2008-2009 season.

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<sup>88</sup> Further details on the takeover saga can be found in Crick (2000). More information on FC United is available in Brown (2008). For fan protest in early 2010, see Bainbridge & Vulliamy (2010).

<sup>89</sup> Giulianotti (2002b).

<sup>90</sup> For a critique of the commodification process, check Conn (1998), Ch. 12, Giulianotti & Robertson (2004) and Giulianotti (2005).

<sup>91</sup> The changing process of football attendances in England is analyzed by Dobson & Goddard (2001), pp 66-71.

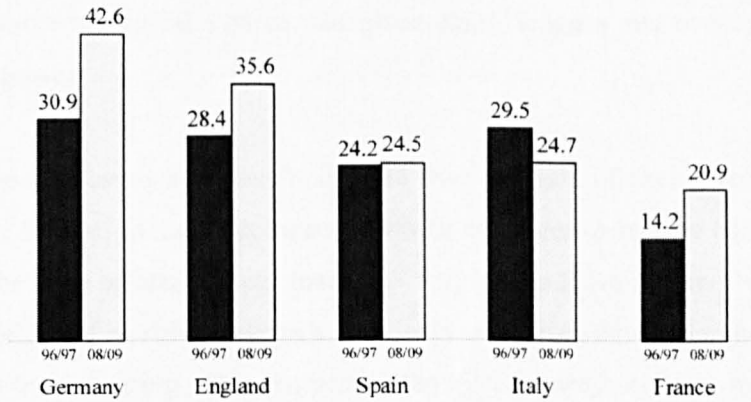
<sup>92</sup> Williams *et al* (1986).

<sup>93</sup> For the analysis of hooliganism in Europe, see Dunning (2000).

<sup>94</sup> Dobson & Goddard (2001), pp. 66-71.

<sup>95</sup> For an overview of the current violence issues in Italian football, see Scalia (2009).

**Figure 3.5: Average league match attendances in the 'big five' European leagues - 1997/98 and 2008/09 (thousands per match)**



Source: Deloitte(2009).

To maximize revenue from matchday as whole and still maintain the price of tickets at a level accessible to those who have supported their clubs through time is one of the great challenges that the top European leagues have to face. Acknowledging these negative effects of the commercialization of football as well as understanding how the top European leagues deal with the many difficulties they experience are certainly fundamental steps that a developing football industry, such as the Brazilian, needs to take in order best to develop its own business.

## Conclusion

As one can see throughout this chapter, the European football industry has changed considerably since the rules of the game were first outlined in the nineteenth century. The transformation process was slow and followed broader changes in society as a whole. For the last twenty years, European football has been going through a process of increasing commercialization, generating more revenue than ever, especially from broadcasting rights deals, new matchday facilities and other commercial income streams.

The enrichment of clubs, especially in England, has attracted players and supporters from all over the world. The popularity and the commercial opportunities have attracted new owners interested either in the revenue generated by the game or in the



worldwide publicity derived from it. It has also shifted the balance in European football, from the traditional strong hierarchy established by FIFA and its associations towards a more horizontal system that gives clubs, leagues and even players more bargaining power.

Much of the increase in revenues is derived from the sale of exclusive broadcasting rights of the leagues to media companies, which are eager to acquire content in order to obtain the edge to attract consumers in a very competitive market. New facilities have also helped to increase football's popularity, attracting new and richer supporters and corporations, helping clubs, especially the bigger ones, to obtain more lucrative sponsorship deals and to develop other commercial revenues.

In the meantime, the freedom of movement of players since the Bosman case has substantially reduced the barriers that existed in the transfer market. Bigger clubs are now able to attract the world's top players, offering immensely lucrative contracts. In order to avoid overspending due to the escalating prices of transfers and salaries, clubs in general may focus on acquiring players at younger ages at cheaper prices from less developed economies or to develop their own home grown talent. The sale of a highly rated player to another club may also prove to be a commercial strategy to strengthen club's finances, especially to those who have limited power to generate more revenue from other sources of income.

It does not appear, however, that clubs have changed their organizational objectives, as studies on Spain, England and Germany suggest that they are still driven by performance rather than profit maximization goals.<sup>97</sup> This means that although clubs have new owners and generate more money than ever, they also spend record amounts on transfers and salaries of players. And as the financial gap between bigger and smaller clubs and competition for player talent widens, clubs often jeopardize their assets in order to be able to compete, leading to an overall escalating debt and occasional insolvencies.

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<sup>97</sup> Dietl & Frank (2007) and Garcia-del-Barrio & Szymanski (2009).

More money, the highest profile players and the worldwide popularity have placed the western European leagues at the top of the football world. Unsurprisingly, the European football industry has established itself as a benchmark for leagues all over the world. However, as several European clubs have faced insolvency, concerns were raised from different governing bodies over the current financial situation of European football. The high level of overall indebtedness, along with the current hostile financial environment, indicates difficulties ahead, especially for smaller clubs.

UEFA has been attempting to deal with this complex financial scenario, enforcing its Financial Fair Play rules to stop clubs from worsening their finances. So far, the top clubs have not showed any major signs of distress, but it is hard to believe that they will peacefully agree if the governing body refuses their licence in case they fail to comply with the needed requirements and are stopped from playing the Champions League.

Nonetheless, it is difficult to imagine a significant decline in bigger clubs' and leagues' revenues, and costs, in the short and medium term, which means that the European football industry will probably still be considered as the model to be followed by the football world, including Brazil, for the good or the bad of it.

## **4 The Brazilian Business Environment**

The objective of this chapter is to explain the overall panorama of the Brazilian business environment and to provide a background for the better understanding of the scenario in which the Brazilian football industry operates. This analysis will take into account the political, economic, social, technological and legal environments in which every industry in Brazil has to operate.

Because Brazil is a country with many distinct characteristics, this analysis will facilitate the comprehension of some elements of the Brazilian football industry that would otherwise seem senseless or controversial. Moreover, it will help to build the argument that whatever the current state of the Brazilian football industry is, it inevitably reflects the characteristics of the society where it is located, just as the English football industry cannot be understood without the open and innovative financial environment of the City of London.

The need for such an analysis is considerable because the Brazilian environment represents a significant constraint on developing any business in the country. According to the World Bank, Brazil is ranked in the 125<sup>th</sup> position of 181 economies in terms of ease of doing business.<sup>1</sup> Changes have been occurring and Brazil seems to be on the right track to provide a better business environment, especially after the recent world financial crisis, which so far has had little effect on the Brazilian macro-economy and society.<sup>2</sup> However, if the Brazilian football industry is analyzed without such a background, the football scenario would possibly be misinterpreted and any recommendations for best practice would be bound to fail.

### **The Political Environment**

The most evident characteristic of Brazil is its continental size. Brazil is the fifth largest nation in the world, behind Russia, Canada, United States and China. It has a total area of 8,547,803.5 km<sup>2</sup>, of which a considerable part is uninhabitable due to

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<sup>1</sup> World Bank (2009a).

<sup>2</sup> Economist (2009a) and O'Neill & Stupnytska (2009).

forest preservation.<sup>3</sup> Brazil's forest area is 5,500,000 million km<sup>2</sup>, which corresponds to almost two thirds of the total area of the country.<sup>4</sup> Brazil is divided into 26 States and one Federal District, where Brasília, the capital, is located. The states are conventionally grouped into five different regions: North, Northeast, Center-West, Southeast and South. Figure 4.1 illustrates the regional and state divisions and shows each of the state's capitals.

**Figure 4.1: Brazilian map by regions and states**



<sup>3</sup> IBGE (2000).

<sup>4</sup> Sabogal *et al* (2006).

Brazil has a population of over 180 million people, the fourth largest population in the world, highly concentrated in the Southeast Region, which hosts approximately 42% of the entire national population. The largest city in Brazil is São Paulo, with more than ten million inhabitants, followed by Rio de Janeiro with little more than six million people. Together, the cities of São Paulo, Rio de Janeiro and Belo Horizonte are responsible for more than 10% of the Brazilian population.<sup>5</sup>

Brazil is politically organized as a democracy, at three different levels: municipal, state and federal. Politicians are elected for four years terms through direct voting, which is compulsory for every citizen over eighteen years old.<sup>6</sup>

Despite its large population, Brazil is a relatively young society. The country was first colonized by Portugal in the sixteenth century and declared its independence in 1822, becoming a federal republic in 1889. From then on, Brazil has passed through various authoritarian regimes, starting in 1889 with Marshal Deodoro da Fonseca, who was the leader of the republican revolution and Brazil's first dictator.<sup>7</sup>

Like many political transitions throughout Brazilian's history, Marshal Fonseca's coup was bloodless.<sup>8</sup> He resigned in 1891, giving place to another Marshal, Floriano Peixoto, who was his vice-president and remained in power until 1894. After him, Brazil was governed by a democratic oligarchy that lasted until another military coup, this time promoted by Getúlio Vargas in 1930, who ruled a civilian government with military support and suspended constitutional rule and instituted a corporatist dictatorship called the 'Estado Novo', New State, in 1937.

Vargas's regime was characterized by the building of a strong central government, the intensification of Brazilian industrialization, the bureaucratization and corporatization of the state and the search for a national identity for the country.<sup>9</sup> His government policies had several deep implications for the building of the Brazilian football

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<sup>5</sup> IBGE (2007b).

<sup>6</sup> Voting is not mandatory for individuals between sixteen and eighteen years of age.

<sup>7</sup> Simmons (1963).

<sup>8</sup> Skidmore (1999) p. 75.

<sup>9</sup> Costa (2008) and Skidmore (1999), Ch. 5.

industry, such as making the game one of the most important national symbols and also creating a deep relationship between the football national squad and the government.

After World War II was over, democracy returned to Brazil, although the new elected president, Gaspar Dutra, was a military officer. Vargas returned to power in 1951, this time democratically elected. An economic crisis, however, weakened his political powers which eventually led him to commit suicide in 1954.<sup>10</sup> The new elected president after Vargas, Juscelino Kubitschek, aimed in bringing rapid economic growth to Brazil and developing exuberant projects, such as the construction of Brasília, a city in the interior of Brazil which replaced Rio de Janeiro as the national capital.<sup>11</sup> The downside of his strategy was that during Juscelino's presidency, inflation revived and led to a political crisis which brought the military back to the government in 1964, remaining in power up until 1985.<sup>12</sup>

This time, however, the military regime was much more repressive. It abolished all political parties and replaced them with a two-party system, Arena – the government – and MDB – the opposition. However, as public opposition grew at the end of the 1960s, the military increased censorship over the press and used torture in order to control opposition, which eventually provoked the insurgency of armed guerrillas that were never as strong in Brazil as in other countries of Latin America.<sup>13</sup> Many of the individuals from these guerrillas are today strong figures in the Brazilian political environment, such as the president, Dilma Rousseff.

When the second world oil shock happened in 1979, the economic situation of Brazil soured once again, leading in 1982 to a default on its foreign obligations and a serious financial crisis. The military was by then slowing the repression and already planning for a democratic transition of power, which was enforced by popular movements such as the 'Diretas Já' campaign, meaning 'Direct Elections Now'.<sup>14</sup> Democracy was again established in 1985, when President Tancredo Neves was elected. However, he

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<sup>10</sup> Skidmore (1999), Ch. 6 and Wolfe (1994).

<sup>11</sup> Maram (1990).

<sup>12</sup> Skidmore (1999), p. 128.

<sup>13</sup> Skidmore (1999), p. 165.

<sup>14</sup> Kinzo (2001).

never had the opportunity to exercise his powers as he was hospitalized on the eve of his inauguration as Brazilian president in April 1985. Neves died a few days later, and José Sarney, the vice-president, became the new president of Brazil.<sup>15</sup>

One of the main accomplishments of Sarney's government was the writing of the new Brazilian Constitution in 1988, the seventh Constitution since the Republic's proclamation in 1889. The new Constitution was focused on reestablishing democratic procedures and implementing market oriented reforms.<sup>16</sup> Although the economic crisis was still severe, Sarney was able to finish his presidential mandate normally, leaving the position for a new democratically elected president, Fernando Collor de Mello.

At the time, Brazil had an inflation rate of almost 100% a month. Collor's government targeted the economic liberalization of the country, and his first solution was to freeze all Brazilian savings accounts. He also started to move the country towards privatization, at a time when Brazil had over 200 state-owned enterprises. Unsurprisingly, opposition from different sectors grew and public unrest emerged. In late 1992, little more than two years after Collor was elected, the Chamber of Deputies voted for his presidential impeachment. Hours before the Senate voted, Collor resigned as president, losing his political rights for eight years. His vice-president, Itamar Franco, assumed his place. The fact that the military seemed to have had little, if any, influence on the overall process was possibly a sign of a new dawn for Brazilian politics.<sup>17</sup>

President Franco's government, like many before him, faced escalating inflation. In 1993, Brazil registered inflation of 2,489%. That same year, Franco appointed Fernando Henrique Cardoso, an internationally known sociologist, as his Foreign Minister. In early 1994, Cardoso became Franco's Finance Minister and was able to design a complex economic strategy to put an end to inflation that became known as 'Plano Real', the 'Real Plan'. The 'Real' was the name of the new currency created as a part of the strategy. The plan proved to be a great success, reducing inflation to

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<sup>15</sup> Skidmore (1999), Ch. 7.

<sup>16</sup> Couto & Arantes (2006).

<sup>17</sup> Skidmore (1999), pp. 217-222.

929% in 1994 and to only 22% in 1995. Enjoying such success, Fernando Henrique Cardoso was elected president in late 1994, serving two four-year mandates until 2002.<sup>18</sup> Cardoso's government was reformist and became known for stabilizing the Brazilian economy, opening the markets and furthering the privatization process initiated by Collor.<sup>19</sup> Cardoso was elected for two consecutive terms due to a change in the electoral rules during his first term, leaving the presidency for the next elected president, Luiz Inácio da Silva, popularly known as Lula.<sup>20</sup> Lula's government was able to maintain financial stability, although increasing the participation of the state in the economy, especially through social programmes.<sup>21</sup> In 2011, Lula was replaced in presidency by Dilma Rouseff, his former Chief of Staff.

The Brazilian government is divided into three different powers: the Executive, the Judiciary and the Legislature. The figure of the president in Brazil, however, is of extreme importance, as the Executive power has an evident dominance and is normally able to get its main proposals approved in Congress, though often after bargaining with other parties.<sup>22</sup>

Although Lula and Dilma's labour party, the PT, used to exert strong opposition to Cardoso's presidency and pledged itself as a corruption-free party, Lula's government was hit by several corruption scandals, either originated by its own affiliates or by allied parties, such as the PMDB, one of Brazilian's most conservative parties. The alliance between the PT and PMDB, which continues in Dilma's government, exposes the critical state of the Brazilian party system, as the PMDB used also to be an ally of the PSDB in Cardoso's government. Lula, Dilma and the PT have shifted their position in order to maximize votes and remain in power.<sup>23</sup>

Corruption scandals in Brazil are common. According to Transparency International, Brazil ranks 72<sup>nd</sup> of 180 countries in terms of corruption perceptions, much the same position as China, India, Mexico, Peru, Morocco and Suriname.<sup>24</sup> The Legislative

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<sup>18</sup> Skidmore (1999), pp. 223-228.

<sup>19</sup> Abrucio (2007).

<sup>20</sup> Kinzo & Silva (1999), Hammond & Filho (2007).

<sup>21</sup> Sola (2008).

<sup>22</sup> Figueiredo & Limongi (2000).

<sup>23</sup> Hunter (2007).

<sup>24</sup> Lambsdorff (2008).



power, in particular, has been severely hit by many corruption scandals. Approximately one third of the 513 Federal Deputies are the subject of legal proceedings either by the Brazilian Court of Audit or by Brazilian Justice.<sup>25</sup> The Brazilian Senate has even been called the 'House of Horror' due to the high number of privileges and illegalities recently published by the press.<sup>26</sup>

The Legislative power in Brazil, the National Congress, is formed by the Chamber of Deputies (the lower house) and the Senate (the upper house). The Senate has 81 members, three from each of the 26 states plus three from the Federal District. The Chamber of Deputies has 513 members, who are elected proportionally according to each state's population. This composition often leads Congressmen to act in favour of their regional political base rather than paying attention to national issues and weakness of party discipline also means that votes can be traded or exercised for personal reasons.<sup>27</sup>

Although the Judicial power may not be as influential as the Executive and the Legislative, it plays a key role in keeping the democratic governance of Brazil in consonance with the Constitution and the existing laws, regardless of the president in charge.<sup>28</sup>

In this scenario, football's popularity in Brazil turns the sport into a very important platform for politicians. Throughout Brazilian history, football has been used by different governments and regimes in many different ways.<sup>29</sup> In the re-established democratic regime, football's popularity attracts all sort of politicians and may be enough to elect players, journalists and club directors to public office, which may have an effect on the decision making process within the industry, where decisions by clubs, leagues and the government may be made based on popular acceptance rather than on business criteria. Other implications of Brazilian politics in governance of football are the continued importance of local issues for national politicians, the

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<sup>25</sup> Transparência Brasil (2008).

<sup>26</sup> Economist (2009b).

<sup>27</sup> Ames (1995).

<sup>28</sup> Taylor (2007).

<sup>29</sup> See Chapters 1 and 5.

tolerant attitude towards corruption, the power of the legislative to initiate investigations and the growing independence of the judiciary.

## **The National Economy**

One of the main characteristics of Brazilian economy, and perhaps of its whole society, is the immense economic inequality between the richest and the poorer in the country. Brazil has one of the worst income distributions in the world.<sup>30</sup> Inequality has been high in Brazil for a long time, increasing in the 1980s and slowly diminishing after 1993.<sup>31</sup> Nonetheless, it still very high and has very profound consequences for the country in the political, social and economic areas.<sup>32</sup>

Despite the immense inequality, Brazil has a very large economy. According to the World Bank, Brazil is the ninth richest economy in the world, with a Gross Domestic Product (GDP) of US\$1,976,632 million in 2008.<sup>33</sup> It is also one of the world's main developing markets, being a part of the called BRICs group, along with Russia, India and China, which are seen as the countries that will become large forces in the world economy by 2050.<sup>34</sup>

The economic inequality in Brazil is not only a question of class. The country is also divided regionally and has much of its wealth concentrated in just few locations. The city of São Paulo alone is responsible for 11.9% of the total national GDP. Adding the cities of Rio de Janeiro, Brasília, Belo Horizonte and Curitiba, the five cities represent together 25% of Brazil's GDP.<sup>35</sup>

São Paulo is by far the richest and most populous city in the country, as well as the most important financial centre of South America. Moreover, the state of São Paulo accounts for 33.9% of the Brazilian GDP and the Southeast region, which comprises the states of São Paulo, Rio de Janeiro, Minas Gerais and Espírito Santo, is responsible for 56.8%. The South region, formed by the states of Paraná, Santa

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<sup>30</sup> UNDP (2010).

<sup>31</sup> Ferreira *et al* (2008).

<sup>32</sup> Matins-Bekat & Kulkarni (2009).

<sup>33</sup> World Bank (2009b).

<sup>34</sup> Wilson & Purushothaman (2003).

<sup>35</sup> IBGE (2008a)

Catarina and Rio Grande do Sul, accounts for 16.3% of the national GDP, which means that more than 73% of the Brazilian Gross Domestic Product is concentrated in seven states only, all located in the Southern part of the country.<sup>36</sup>

As mentioned before, inequality has been diminishing, largely due to the end of the inflation and the stabilization of the economy after the mid 1990s. Previous to that period, Brazil would embark on different short-term economic plans with little success. A sign of this stabilization is that from January 1980 to December 1994, Brazil had fifteen different Finance Ministers, an average of one different Minister every twelve months. From January 1995 until July 2009, however, there were only three different Finance Ministers, an average of one Minister for each 58 months.<sup>37</sup>

The stabilization obtained in the mid 1990s was a consequence of a tight monetary policy added to opening the borders to international competition, which significantly increased direct foreign investment in Brazil.<sup>38</sup> Foreign companies have played an important role on the structuring and industrialization of the country since the late 19<sup>th</sup> century, especially by British companies which operated the railways and dominated the banking system and also made investments in the agricultural sector. After the 1930s, however, the main source of foreign investments in Brazil shifted from the United Kingdom to the United States, which helped to build the country's industrial infrastructure by that time.<sup>39</sup> In the 1990s, trade liberalization and the privatization process in Brazil attracted many foreign companies interested in acquiring the companies formerly owned by the state, which although it helped to increase investment in Brazil, did not result in immediate economic growth. Nonetheless, trade liberalization, privatization and economic stability helped substantially to increase foreign direct investment from a yearly average of US\$ 2 billion at the beginning of the 1990s to more than US\$ 30 billion ten years later.<sup>40</sup> Despite the end of the privatization process, this amount kept increasing. In 2008, a record US\$ 45 billion of foreign direct investment was made in Brazil.<sup>41</sup> Such an increase is an evidence of the ever

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<sup>36</sup> IBGE (2008b).

<sup>37</sup> Veja (2009).

<sup>38</sup> Amann & Baer (2002).

<sup>39</sup> Curado & Cruz (2008).

<sup>40</sup> Amann & Baer (2002).

<sup>41</sup> Folha de São Paulo (2009b).

increasing integration of Brazil to the world economy.<sup>42</sup> Moreover, of the total sales income of the top 500 companies in Brazil in 2008, 42% was generated by 191 foreign owned companies.<sup>43</sup>

After the economic stabilization in the 1990s, access to credit and the end of inflation added to social programs from the government have helped the growth of the middle class in Brazil and a decline in the number of people living in misery, a trend that apparently has not yet been affected by the world financial crisis.<sup>44</sup> This growth, however, has been very slow and has had only limited effects on diminishing the country's huge inequality.<sup>45</sup> The average family income in Brazil is around USD1,600 a month, of which the largest share is spent on housing, food and transportation. Only 2%, USD32, is spent on leisure and culture altogether by each family, which shows some of the challenges that Brazilian football clubs have to face to improve their income.<sup>46</sup>

The crisis has affected other sectors of the Brazilian economy, especially the commodity export sector, which represents most of Brazilian exports. Since Vargas, Brazil has been developing its oil industry through a now partly-state owned company called Petrobrás. Petrobrás is one of the main oil companies in the world and is, by far, the most important company in Brazil. In 2009, Petrobrás was the top revenue company in Brazil, with a sales turnover of US\$ 102.8 billion. Its subsidiary, BR Distribuidora, was the second most lucrative, with a turnover of US\$ 39.5 billion<sup>47</sup> Unsurprisingly, Petrobrás and other state owned company are the main sponsors of sports and arts in the country.<sup>48</sup>

The Stock Exchange is not a particularly popular source of financing for Brazilian companies, as most companies in Brazil are controlled by a single direct shareholder.<sup>49</sup> At the end of 2008 there were only 392 companies listed on

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<sup>42</sup> Amann & Baer (2002).

<sup>43</sup> Antunes & Caetano (2009).

<sup>44</sup> Neri (2008).

<sup>45</sup> Wogart (2010)

<sup>46</sup> IBGE (2010).

<sup>47</sup> Data available in <http://exame.abril.com.br/negocios/melhores-e-maiores/>.

<sup>48</sup> Rodrigues (2010). See Chapter 8 for more information on the issue.

<sup>49</sup> Silva & Leal (2006) and Régo & Ness Jr (2007).

BM&FBovespa, while there were 3,096 companies listed on the London Stock Exchange alone. Other emerging market Stock Exchanges, such as the Shanghai SE from China and the Johannesburg SE from South Africa had 864 and 411 companies listed respectively at the time.<sup>50</sup>

One of the main financiers of Brazilian companies is the 'Banco Nacional de Desenvolvimento Econômico e Social' (BNDES), the state owned National Economic and Social Development Bank. A considerable part of the Brazilian productive sector still depends on state financing.<sup>51</sup> BNDES finances its operations by selling global bonds and using Federal income taxes.<sup>52</sup>

Taxes in Brazil are amongst the highest in the world and possibly the most confusing as well. According to the World Bank, Brazil is ranked 145<sup>th</sup> out of 181 economies in ease of paying taxes.<sup>53</sup> In 2008, taxes represented 36.6% of the Brazilian GDP.<sup>54</sup> Since the 1988 Constitution, Brazil has already had thirteen tax reforms and more than 240,000 tax rules were issued, at national, state and municipal level, averaging more than 30 new tax rules a day.<sup>55</sup>

The high level of taxes, however, does not mean that public services in Brazil are good, quite the opposite. Public services such as transportation, health, education and security are very precarious, hence all these services are also provided by the private sector often with much more quality.<sup>56</sup> Not surprisingly, the tax evasion level in Brazil is considerably high among companies and individuals. Approximately 27% of Brazilian companies fail to pay all their taxes in one way or another, leading to an estimated tax evasion of around US\$115 billions a year. The most common tax evaded by companies is the Social Security tax (INSS).<sup>57</sup> Moreover, 40% of all economically active workers in Brazil are informal. Informality is a characteristic of developing and recently industrialized economies, and may be caused by a series of different reasons.

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<sup>50</sup> WFE (2009).

<sup>51</sup> Amann & Baer (2005).

<sup>52</sup> Lourenço (2007).

<sup>53</sup> World Bank (2009a).

<sup>54</sup> Amaral *et al* (2009a).

<sup>55</sup> Amaral *et al* (2008).

<sup>56</sup> For a comparison between the public and the private service in Brazil with a specific focus on education, please see Sampaio & Guimarães (2009).

<sup>57</sup> Amaral *et al* (2009b).

<sup>58</sup> One in particular, the low level of educational attainment, should be a concern of utmost importance to the Brazilian government.

A developing national economy means that although supporters and companies have more money to spend with football, clubs also need to operate under a greater level of supervision from public authorities while paying old debts acquired on previous decades.<sup>59</sup> Also, with financial stabilization, inflation does not erode the clubs' debts. However, an enhanced business scenario also gives companies more incentives to seek football as a marketing tool while supporters may also be willing to spend more with their respective clubs. However, regional and economic inequality still very high, which restricts the gains of this new economic scenario to only a limited amount of clubs and localities, especially the southern states of the country.

### **The Brazilian Society**

The literacy level in Brazil is very low. In 2007, around 10% of the population above fifteen years old was considered illiterate, corresponding to more than fourteen million people. The number of illiterates in Brazil, however, has been decreasing through the last two decades. In 1992, the proportion of illiterates above fifteen years old in Brazil was 17.2%. Furthermore, in 2007, 97.7% of people between seven and fifteen years of age were enrolled in school, whereas in 1992 the percentage was only 86.6%.<sup>60</sup>

Nonetheless, according to the United Nations, Brazil is placed in the 73<sup>rd</sup> position of 169 countries in the Human Development Index, being considered a nation of relatively high human development.<sup>61</sup>

Brazil has often been seen as a country of little racial discrimination and mixed origins. The fact that it had a strong immigration pattern in the late 19<sup>th</sup> century has helped to create a culturally mixed society derived from many different countries.<sup>62</sup> Brazil has never had any major race-based conflicts, there was never state-enforced

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<sup>58</sup> Henley *et al* (2009)

<sup>59</sup> For more details on clubs' financial challenges in Brazil, see Chapter 7.

<sup>60</sup> IBGE (2007a).

<sup>61</sup> UNDP (2010).

<sup>62</sup> Skidmore (1999), p. 141.

segregation, and institutions based on race are still hard to find. Nonetheless, this movement has been shifting from a few years, and there is new evidence to suggest that the racial democracy status of Brazil may not be as quite positive as it once appeared to be.<sup>63</sup> However, Brazil still is a very mixed place. In terms of race, the population is divided in 49.4% of whites, 7.4% of blacks, 42.3% of mixed white and black, and 0.8% of other races.<sup>64</sup> Caution should be taken when interpreting this data due to the fact that many Brazilians do not care when classifying themselves based on race or origin.<sup>65</sup>

Another characteristic of Brazil was the rapid transition from rural to urban society. In 1950, only 36% of the population lived in urban areas, but by 2000, this proportion rose to 81%.<sup>66</sup> The fast rate of urbanization has led to chaotic consequences to urban spaces structures, such as the rise of the shanty towns or slums, known in Brazil as 'favelas'.<sup>67</sup>

Favelas are irregular and illegally occupied urban areas with little or no access to public services such as asphalted streets, electricity, water and sanitation.<sup>68</sup> Estimates suggest that more than twelve million people in Brazil currently live in these areas.<sup>69</sup> Favelas are often controlled by criminals and traffickers, who work as patrons for their communities and are able to develop links with key politicians, practically avoiding the risk of any significant intervention in their criminal activities.<sup>70</sup> However, this does not mean that the violence level in these areas is low, much the opposite.<sup>71</sup> Confrontations between different drug traffickers' groups or between the police and the criminals are not unusual all over Brazil, but are much more evident in Rio de Janeiro.<sup>72</sup> Moreover, some drug traffickers hold weaponry similar to the army, with heavy machineguns, grenades and even land mines inside the favelas.<sup>73</sup>

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<sup>63</sup> Winant (1992).

<sup>64</sup> IBGE (2007a).

<sup>65</sup> Schwartzman (1999).

<sup>66</sup> IBGE (2006).

<sup>67</sup> Skidmore (1999), p. 139.

<sup>68</sup> Valladares (2000).

<sup>69</sup> Spinelli (2007).

<sup>70</sup> Arias (2006).

<sup>71</sup> Zaluar (2001).

<sup>72</sup> Lessing (2008).

<sup>73</sup> Monken (2006) and Brasil (2007).

Although drug traffickers and other criminals do represent a significant threat to national security, Brazil has had few major internal conflicts throughout its history. Government transitions have been almost bloodless. Also, there is almost no threat of any separatist movement in the country, as the military governments after Vargas in the 1930s were very successful in building a strong central national identity for the nation, suppressing regional identities after the last significant regional revolt in São Paulo in 1932. The only place where perhaps the idea of separatism might be currently considered is Rio Grande do Sul, the southernmost state of Brazil, which is known for its strong sense of regional identity, due to its location and its peculiar history.<sup>74</sup> Part of the idea behind the strengthening of the Brazilian identity was to make Brazil look good in the international scenario, which would eventually contribute to increase the government's support from the population. In order to do so, Vargas promoted national popular culture, especially through football and samba.<sup>75</sup>

There seems also to be little chance of any religious conflict in Brazil. The country is a very religious nation, with a strong catholic church. According to Datafolha, one of Brazilian's main public opinion research institutes, 97% of the population above sixteen years of age strongly believes in God, while 86% believes totally that Mary gave birth to Jesus as a virgin and 64% are catholic, a proportion that has been decreasing for some decades.<sup>76</sup>

The second biggest religion in Brazil is the Evangelical Pentecostal, which is followed by 17% of the population above sixteen years of age and has been increasing throughout the years, growing at an annual rate of 8.9%.<sup>77</sup> The Evangelical Pentecostal sects are stronger in poor suburbs, probably because of their promises of immediate better life, employment and financial conditions through prayer.<sup>78</sup> The main evangelical church is the 'Igreja Universal do Reino de Deus', Universal Church of the Kingdom of God, a Brazilian church that was founded in 1977 and has

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<sup>74</sup> Oliven (2006).

<sup>75</sup> Skidmore (1999), pp. 117-118.

<sup>76</sup> Cariello (2007).

<sup>77</sup> Mariano (2004). Note that membership figures for church membership are dubious.

<sup>78</sup> Folha de São Paulo (2007).



currently 4,700 buildings in over 172 countries around the world.<sup>79</sup> The church, the third largest Pentecostal church in the world, is followed by eight million people in Brazil alone and has many of its representatives inserted in the political sphere at municipal, state and national level.<sup>80</sup> The church is very successful financially, earning an estimate US\$1.1 billion a year from tithing, which is tax-free.<sup>81</sup>

The Universal Church has become famous for preaching through the electronic media, one of the main strategies behind its enormous expansion. Although the preference is to preach through the radio, as the sums involved are much cheaper, the church is famous for its television programs. The Universal Church even acquired its own television channel in 1990, the Record Network, paying US\$ 45 million for it.<sup>82</sup>

Record is currently the second biggest free-to-air channel in Brazil, being indirectly financed by the church, which helps the network to acquire entertainment content in order to try to compete with Globo, the largest media network in Brazil.<sup>83</sup> The Universal Church pays Record almost US\$170 million a year in order to broadcast its prayers during the small hours on a daily basis. This value is equivalent to almost one third of all revenue generated by the network and is more than three times what Globo earns from the same time period, even though it has four times the audience of Record. Such disparities have incurred many criticisms, especially due to the fact that the leader of the Universal Church, Bishop Evaristo de Macedo, cannot legally earn money from the church, but can obtain profit from the Record Network without any problem.<sup>84</sup>

The impact of the Brazilian social environment in the industry may be very significant. Not only is football embedded in the shape of the national society, but the immense social inequality in Brazil added to the fact that football is one of the country's main pastimes and that top level players are able to earn an enormous amount of income in salaries possibly turns football into a very attractive profession for young kids living in favelas, who may see, along with their families, the game as

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<sup>79</sup> IURD (2009).

<sup>80</sup> Kramer (2005).

<sup>81</sup> Marthe (2007).

<sup>82</sup> Mariano (2004).

<sup>83</sup> Birman & Lehman (1999).

<sup>84</sup> Marthe (2007).

perhaps one of the few possibilities of any social mobility available. Unsurprisingly, therefore, most of the top Brazilian players come from poor areas and a large number of new players are nurtured in the country year after year. If inequality levels in the country were lower and better conditions to climb the social hierarchy existed, perhaps it could be argued that fewer kids and families would focus on becoming football players, which could, in an extreme case, reduce the amount of talent available for clubs in Brazil and also all over the world, changing the whole shape of the current local football industry.

### **The Technology Scenario**

Television is one of the main devices in households in Brazil. Of the 56.3 million households in the country, 94.5% have at least one set, while only 90.8% have a refrigerator, 88.1% of the Brazilian households have a radio and 77% have a telephone.<sup>85</sup> Unsurprisingly, taking into account the high illiteracy level, television has become the main source of information and entertainment in Brazil.<sup>86</sup>

The main television network in Brazil is 'Rede Globo', Globo Network, which exerts a virtual monopoly on the national media market.<sup>87</sup> Globo is the overall leader in audience in Brazil and the fourth largest television network in the world.<sup>88</sup> It reaches 98.4% of Brazilian territory, corresponding to 99.5% of the Brazilian households.<sup>89</sup> Globo's free-to-air channel dominance increases during primetime and its main news program, 'Jornal Nacional', is watched by an estimated 42% of the households with television sets in the country.<sup>90</sup> Moreover, Rede Globo had a 74% share of audience during primetime in 2007.<sup>91</sup>

Such dominance has been the result of a historically strong connection between Globo and different Brazilian governments, although the network is also very well-known

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<sup>85</sup> IBGE (2007a).

<sup>86</sup> Porto (2003) & Kottak (1991).

<sup>87</sup> Amaral & Guimarães (1994).

<sup>88</sup> Moreira & Helal (2009).

<sup>89</sup> Rede Globo (2009).

<sup>90</sup> Porto (2007).

<sup>91</sup> Moreira & Helal (2009).

for the high quality of its programming.<sup>92</sup> Globo's main broadcast product is the *telenovela*, which is the centrepiece of entertainment and cultural debate in Brazil and Latin America.<sup>93</sup> The audiences for Globo's *telenovelas* are enormous and responsible for a considerable proportion of the network's revenues.<sup>94</sup> Globo currently broadcasts three *telenovelas* a day during primetime, at around 6 p.m., 7 p.m. and 9 p.m., plus a rerun of some popular old *telenovelas* during the early afternoon, six days a week. Each *telenovela* episode usually lasts around 50 minutes.

Globo's dominance in Brazil is also reflected in other media platforms. Among several other businesses, the network controls major newspapers and radio stations as well as the main cable programming company in Brazil, Globosat.<sup>95</sup> Globosat has 24 channels and was responsible for 97 of the 100 largest audiences in the Brazilian cable television in 2008. Its sport channel, Sportv, is the most popular cable channel among Brazilian males above twelve years of age. The company has an audience of 6.1 million viewers on a daily basis.<sup>96</sup>

Besides owning the most popular free-to-air channel and the biggest cable programming company, Globo Network also controls the distribution of pay television in Brazil through the NET Serviços cable company, in association with the Mexican businessman Carlos Slim, and has a participation in the Sky satellite company, controlled by the US group Liberty Media.<sup>97</sup> Together, NET and Sky are responsible for 76% of the pay television subscribers in Brazil. Due to its participation in these companies, Globo has been accused of creating barriers to the distribution of content from competing companies, such as Record Network.<sup>98</sup>

The pay television market in Brazil started in 1988, a late arrival even when compared with other emerging markets such as Argentina and Mexico, and is not as big as the country's population size would suggest. Estimates from the government in the 1990s

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<sup>92</sup> Wilkin (2008).

<sup>93</sup> Rogers & Antola (1985).

<sup>94</sup> Wilkin (2008).

<sup>95</sup> Biondi & Charão (2008).

<sup>96</sup> Globosat (2009).

<sup>97</sup> Cruz (2008).

<sup>98</sup> Castro (2008).

were that Brazil would have 16.5 million subscribers by 2005.<sup>99</sup> The actual number, however, is considerably lower. There are currently only 6.59 million subscribers for pay television in the country, 43.4% of whom are located in São Paulo and 13.9% in Rio de Janeiro.<sup>100</sup> This means that the penetration of pay television in the Brazilian population is lower than 10%, smaller than the average in Latin America and Africa, 17.6% and 14.9% respectively. One could imagine that due to the vast Brazilian territory, the low number of subscribers would be caused by the lack of infrastructure to meet the demand. However, the idle capacity of pay television companies in Brazil is 79%. This comes from the fact that demand for pay television in the country is very sensitive to price and free-to-air television in Brazil offers good content for zero cost.<sup>101</sup> Nonetheless, NET is, alone, responsible for 50% of the Brazilian pay television subscribers and also 22% of the broadband market.<sup>102</sup>

Brazil is the ninth biggest nation in the world in terms of broadband subscribers, with slightly more than ten million subscribers.<sup>103</sup> Around 58% of the Brazilian internet users are connected through broadband, with technology being divided mainly into DSL and cable, and 31% are connected through dial-up modems.<sup>104</sup> Price is one of the main constraints in the use of broadband in Brazil as the price for the service corresponds to around 10% of the average salary, whereas in the United States this proportion falls to 0.7%.<sup>105</sup>

Only 13% of the population which has accessed the internet in 2008 has purchased a product or a service through the web, mostly in the Southeast region, although 44% has searched for price related information.<sup>106</sup> Nonetheless, electronic commerce in Brazil is growing at a considerable rate. Estimates suggest that sales via the internet increased 30% in 2008, reaching a total amount of US\$3.5 billion.<sup>107</sup>

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<sup>99</sup> Almeida (2009).

<sup>100</sup> Anatel (2009).

<sup>101</sup> Almeida (2009).

<sup>102</sup> NET (2009).

<sup>103</sup> Vanier (2009).

<sup>104</sup> Cetic.br (2009).

<sup>105</sup> Fukuma (2009).

<sup>106</sup> Cetic.br (2009).

<sup>107</sup> Folha de São Paulo (2009c).

However, only 25% of Brazilian households have a computer, and only 71% of those have access to the internet. This amount is highly concentrated in urban areas and in the Southeast region, although 38% of all the Brazilians accessed the internet in 2008. The main internet access points in Brazil are public centres for paid access, known as 'lanhouses'. They are responsible for 48% of all internet access in the country, being superior even to households, which are responsible for 42%.<sup>108</sup>

In order to diminish the inequalities also explicit in access to technology in Brazil, state and federal governments have provided access to the internet to the lower economic classes of the population and rural areas through 'digital inclusion' programs, which may prove to be successful if followed by other policies regarding macro aspects of the country.<sup>109</sup> Digital inclusion may also be promoted through the use of digital television in Brazil, as most of Brazilians households have at least one television set.<sup>110</sup>

Brazil has created its own digital television system, the SBTVD, 'Sistema Brasileiro de Televisão Digital' – Brazilian System of Digital Television, which is derived from the Japanese digital television system. The SBTVD is aimed to be a low-cost technology, which will allow its rapid diffusion, as all television broadcasting in Brazil is planned to become digital by 2016.<sup>111</sup> The government will subsidize digital set top boxes for the lower economic classes so they can transform their analogue television set into digital without the need to buy a brand new device.<sup>112</sup> By the end of 2008, digital television signals were available to around 40 million people in Brazil and by the end of 2009 all cities with a population above 500,000 people had access to it.<sup>113</sup> However, the availability of high definition channels in Brazil is still small.<sup>114</sup>

Mobile television has become available to the lower classes of population in Brazil through low price counterfeit mobile telephones from China that are able to reproduce analogue television signals. In the city of São Paulo alone, approximately 100,000 of

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<sup>108</sup> Cetic.br (2009).

<sup>109</sup> Mattos & Chagas (2008) and Santos & Cardoso (2009).

<sup>110</sup> Castro (2007).

<sup>111</sup> Filho (2007).

<sup>112</sup> Castro (2007).

<sup>113</sup> Slavieiro (2008).

<sup>114</sup> Capanema (2009).

these devices were sold in November and December 2008, which corresponds to almost 4.5% of all the mobile phones sold in this period. There are currently 157.5 million mobile phones in operation in Brazil, of which only 200,000 are able to receive digital television signals. Developments in this area have been restricted due to conflicts between telephone companies and broadcasters, and popularization of these devices has also been restricted due to the high cost of legal mobile phones that have such technology. However, when the technology eventually becomes affordable, the digital television signal in Brazil will be available for free, which will certainly help to popularize telephones with mobile digital television.<sup>115</sup> In early 2009 there were around 6.9 million 3G phones operating in Brazil, growing to 21 million in the end of 2010, which accounts for approximately 11% of all mobile phones operating in the country.<sup>116</sup>

The new communication technology scenario in Brazil seems to be developing without the same political bias that television and radio have in Brazil. Both communication platforms need to have government concessions to operate and, not surprisingly, are used as political instruments, often being owned and controlled either by politicians themselves or by their relatives.<sup>117</sup>

Radio is a very popular media platform in Brazil. As mentioned before, 88% of households in the country have at least one radio device.<sup>118</sup> Radio broadcasts started in Brazil in 1922 and reached their peak by the 1950s, when several of their main actors and presenters became national celebrities. The growth rate of radio started to diminish soon after, with the arrival of television.<sup>119</sup> Nonetheless, the number of radio stations in Brazil is significant. In 2006, there were 7,509 legal radio stations in the country, with estimates suggesting another 10,000 to 30,000 illegal stations.<sup>120</sup> Most of the programming of the radios is related to music, corresponding to slightly more than 54% of the programming. Variety shows account for 24%, followed by journalism (17%), religion (14%) and sports (9%).<sup>121</sup> Radio stations frequently

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<sup>115</sup> Lobato & Paiva (2009).

<sup>116</sup> Teleco (2009) and Frias (2011).

<sup>117</sup> Moreira & Helal (2009).

<sup>118</sup> IBGE (2007a).

<sup>119</sup> Pieranti & Martins (2007).

<sup>120</sup> Sant'Anna (2008).

<sup>121</sup> Fgv/Abert (2007).

employ non-specialized personnel and volunteers willing to work with something they enjoy doing. Not surprisingly, the quality of overall radio programming in Brazil is poor.<sup>122</sup>

The telecommunications sector is a part of a wider range of factors that are associated with technological development, which is one of the key issues behind the overall development of a nation. Energy generation and the transport system are among other services that enhance the capacity of a nation in the development process.<sup>123</sup> Both these areas, however, may represent a particular constraint on the Brazilian development.<sup>124</sup>

There is currently an urgent need to increase the capacity of airports in Brazil, as the number of passengers grows each year. Investments in roads and railways are also necessary. Estimates suggest that the country needs to invest US\$124 billion at 2009 prices before 2023 to solve its infrastructure problems.<sup>125</sup> The overall poor infrastructure in Brazil is one of the major concerns for the 2014 World Cup, especially the transport system, and the country is planning to spend almost €15 billion until the event to solve the issue.

Nonetheless, Brazil has been growing in productivity throughout the years, especially after trade liberalization in the early 1990s, ending a long period of import substitution industrialization policies that inevitably held back Brazilian technological development. Trade liberalization has significantly improved the quality of productivity in Brazil by increasing competition with new foreign companies and by allowing national companies to have access to more efficient technology.<sup>126</sup>

Technological innovation in Brazil is still small, especially when compared to Asian emerging markets, such as China, Malaysia and India. Between 2005 and 2008, Brazil had 389 patents recognized by the United States Patent and Trademark Office, while

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<sup>122</sup> Sant'Anna (2008).

<sup>123</sup> Stewart (1977).

<sup>124</sup> Goldemberg & Moreira (2005).

<sup>125</sup> Exame (2008).

<sup>126</sup> Ferreira & Rossi (2003) and Amann & Baer (2008).

Malaysia had 511, India 2,044 and China 4,311.<sup>127</sup> Moreover, the patent system in Brazil is biased and unfair, being frequently influenced by the position of the economic agent involved in the process.<sup>128</sup>

The proper understanding of the Brazilian technology environment is pivotal to comprehend the shape of the local football industry. Not only is free-to-air television the centrepiece of culture and entertainment in the country, but the market is almost monopolistically dominated by Globo Network. Both these characteristics have a direct impact on football's broadcasting contracts in the country, perhaps the main source of revenue of the main leagues around the globe.<sup>129</sup> Furthermore, the media concentration on television may also be helped by the delayed introduction of on-line platforms while the poor general infrastructure of the country may also have an impact on the overall conditions of football stadiums.<sup>130</sup>

## **The Legal System**

Intellectual property protection in Brazil has been improving recently as the government has been more concerned about the importance of the matter. However, the country remains on the 'Watch List' of the International Intellectual Property Alliance and much work has yet to be done regarding protection of hard goods piracy, online piracy and imports of infringing products and contraband.<sup>131</sup> In 2008, a total of little over US\$425 million worth in piracy related goods was confiscated by the Brazilian police, of which almost US\$8.5 million were in toys and another US\$8.5 million in sports shoes. Most of the goods were from China, followed by the United States, Paraguay – the contraband centre of South America – and Italy. Brazil was the source of only 13% of the confiscated goods.<sup>132</sup>

One of the many reasons why Brazil has a strong counterfeit goods market is because of its confused and lengthy judicial system.<sup>133</sup> The efficiency of the judicial system in

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<sup>127</sup> Nicolsky (2009).

<sup>128</sup> Pereira & Plonski (2009).

<sup>129</sup> See Chapter 11.

<sup>130</sup> See Chapter 10.

<sup>131</sup> IIPA (2009).

<sup>132</sup> CNCP (2009), Ch. 5.

<sup>133</sup> IIPA (2009).



any country has inevitably a strong effect on diminishing piracy rates.<sup>134</sup> Moreover, an efficient judicial system is a key factor for the economic development of a nation.<sup>135</sup> The Brazilian judiciary, however, is found to be generally slow and costly, with evidences of corruption, lack of independence and lack of proper education for judges.<sup>136</sup> According to the World Bank, Brazil ranks 70<sup>th</sup> of 181 economies in protecting investors and 100<sup>th</sup> in enforcing contracts. It takes 616 days and 45 procedures for the final contractual decision in Brazil.<sup>137</sup> Furthermore, a court decision in Brazil can be contested in several and almost unlimited judicial venues.<sup>138</sup> In some cases, judges may feel that they have a duty to work for 'social justice' and make decisions based on redistribution of income and property.<sup>139</sup> This seems to be a particularly common phenomenon in the Brazilian Labour Court, which has seen cases of disproportionate penalties imposed on companies in favour of the employees.<sup>140</sup> It must be said, however, that many companies in Brazil have a culture of denying labour rights to employees.<sup>141</sup> The complex labour legislation in the country not only favours judicial conflicts between employers and employees, but it may indeed create an incentive for companies to deny at least part of the labour rights to their workers.<sup>142</sup>

Brazilian labour legislation, which applies to footballers as to other workers, dates back to the 1940s. It was created under the Vargas government and has had few important changes since then. The most important were in 1964 and in 1988, the latter with the writing of the new Brazilian Constitution. The last legislative changes were intended to increase the benefits to employees and to reduce the restrictions on the workers right to organize. Many of these changes, however, significantly increased labour costs. Among other provisions, working hours were reduced from 48 to 44 hours a week and overtime premium payments increased from 20% to 50%.<sup>143</sup> The complications in the labour legislation are such that the World Bank ranks Brazil as

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<sup>134</sup> Andrés (2006).

<sup>135</sup> Messick (1999).

<sup>136</sup> Pinheiro & Cabral (1998).

<sup>137</sup> World Bank (2009a).

<sup>138</sup> Rios-Figueroa & Taylor (2006).

<sup>139</sup> Pinheiro & Cabral (1998).

<sup>140</sup> Paduan (2007).

<sup>141</sup> Seligman (2009).

<sup>142</sup> For more on the conflicts derived from the Brazilian labor legislation, see Yeung (2007).

<sup>143</sup> Gonzaga (2003).

the 121<sup>st</sup> of 181 economies in employing workers.<sup>144</sup> Brazilian labour legislation currently has 922 articles and more than 2,000 complementary regulations.<sup>145</sup> In 2008, 2.7 million new suits were filed in the Labour Court, totalling an amount of little over 7 million suits still accumulated in the court throughout the years.<sup>146</sup> Moreover, labour issues are responsible for 80% of all judicial conflicts in Brazilian companies.<sup>147</sup>

The overall inefficiency of the judicial system in Brazil is also reflected in the police. The Brazilian police system is divided into four different forces: the federal police, the state military police, the state civil police and the municipal guard. The federal police investigate federal offences, drug related crimes and smuggled goods, and is also responsible for maritime and terrestrial frontiers and control of the country's airspace. The state military police is responsible for preventive policing, while the state civil police has a more investigative role and the municipal guard is concerned with the protection of city property. The federal government, however, does not have authority over states and their institutions or the municipalities, so the main responsibility for public safety lies at state level.<sup>148</sup> This means that public safety in Brazil is mainly a concern of the military police, which is also responsible for counterinsurgency operations, traffic control and crowd control.<sup>149</sup>

The responsibility of the military police for public safety was established by the authoritarian regime in 1969. Before that, such matters were a concern of the civil police. After the transition to democracy, however, civilian politicians were not able to produce a complete break from the military regime and the 1988 Constitution legitimized the armed forces to deal with internal matters. The military police is subordinated to the armed forces and protected by the Military Court.<sup>150</sup> Despite the democratic transition, however, there was no re-training or restructuring of the military police, which used to be trained to deal with counter insurgency with techniques such as torture and disappearance, and the use of excessive force.<sup>151</sup> Since

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<sup>144</sup> World Bank (2009a).

<sup>145</sup> Yeung (2007).

<sup>146</sup> Cest (2009).

<sup>147</sup> Pinheiro (2000).

<sup>148</sup> World Bank (2006).

<sup>149</sup> Clark (2008).

<sup>150</sup> More information on the militarization of public safety in Brazil, see Zaverucha (2000).

<sup>151</sup> Macaulay (2007).

re-democratization, police related homicides and torture in Brazil have increased substantially.<sup>152</sup> Furthermore, in the past two decades, around 10% of annual homicides in São Paulo and Rio de Janeiro were related to military police killing civilians in drugs related cases in the favelas, most of whom had no prior criminal records.<sup>153</sup> The Military Courts, however, only rarely convict or harshly punish military policemen, protecting them not only from homicide convictions but from charges of torture and corruption as well.<sup>154</sup>

Regardless of the level, however, the police in Brazil is widely regarded as inefficient and affected by corruption, lack of training, lack of resources and lack of staff, which are common characteristics of policing in most Latin American countries.<sup>155</sup> Furthermore, the Brazilian prison system is also very inefficient, with overcrowded jails whose structure could be compared to those from feudal dungeons. Prison cells often lack proper plumbing and electrical wiring, and inmates frequently sleep on the floor jammed against each other. There is also little concern about health care resulting in widespread cases of contagious and infectious diseases, such as HIV and tuberculosis.<sup>156</sup>

Estimates suggest that there are approximately 440,000 prison inmates in Brazil, 160,000 more than the overall prison capacity. Around 9,000 of the total number have already served their time, but remain imprisoned. In the state of São Paulo, the number of prisoners exceeds capacity by 56%.<sup>157</sup> Moreover, the prison system in Brazil is so inefficient that criminals are able to control drug trafficking, kidnapping and riots from inside the prisons. The best example was perhaps the series of attacks promoted in 2006 by the Brazilian major criminal gang, the 'Primeiro Comando da Capital' (PCC), whose main leaders were already in jail. The riot lasted for approximately one week and took control of 82 prisons across São Paulo and neighbouring states, attacking nearly 300 different properties, such as banks, ATM machines, police officers' homes and subway stations, resulting in 170 deaths.<sup>158</sup>

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<sup>152</sup> Ahnen (2007).

<sup>153</sup> Macaulay (2007).

<sup>154</sup> Clark (2008).

<sup>155</sup> Macaulay (2007) and Cao & Zhao (2005).

<sup>156</sup> Wacquant (2008).

<sup>157</sup> Folha de São Paulo (2009d).

<sup>158</sup> Macaulay (2007).

Unsurprisingly, the poor conditions of police and the prison system added to the enormous social and economic inequality and the mass poverty in Brazil contributes to an extremely violent environment.<sup>159</sup> There are various criminal activities which are widespread in Brazil. The most common, in no particular order, are car theft, hijacking, domestic violence, house robbery, pickpocketing, bank robbery, kidnapping, drug and weapon smuggling, sexual assaults and homicides.<sup>160</sup> From 1980 to 2002, the homicide rate in Brazil jumped from 15 to 32 per 100,000 people, although some regions, especially the state of São Paulo, have seen the homicide rate fall since then. Most murders are concentrated among young men from 15 to 24 years of age, who are five times more likely to die from homicide than the rest of the population. There has been a significant increase in youth violence since the 1980s, although not only limited to homicides. Young people in Brazil are more likely to be the victims of crimes such as extortion by police and public officials and assault. They also tend to be the main age group responsible for crimes such as assault and robbery.<sup>161</sup>

The critical situation of security and safety in Brazil has deep effects on the economic scenario. Violence in a given country can be equivalent to a 30% tariff on trade, although this figure is mainly derived from countries experiencing terrorism and major internal and external conflicts, which may not be exactly the case of Brazil.<sup>162</sup> Nonetheless, crime and violence is a major constraint to business growth in the country.<sup>163</sup> Although there are examples of good practice, estimates suggest that in 2004 the cost of violence in Brazil for both the public and the private sector was R\$ 92.2 billion, corresponding to more than 5% of the country's GDP.<sup>164</sup>

The complex legal environment in Brazil helps to explain why football clubs struggle with constant lawsuits, especially labour, that often drain the clubs' resources and also why they frequently rely on the slowness of the judicial system to adopt illegal

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<sup>159</sup> Wacquant (2008).

<sup>160</sup> Soares (2006).

<sup>161</sup> World Bank (2006).

<sup>162</sup> Blomberg & Hess (2006).

<sup>163</sup> World Bank (2006).

<sup>164</sup> Cerqueira et al (2007).

practices, such as breach of contracts, for immediate gain.<sup>165</sup> Moreover, the lack of enforcement on piracy presents a challenge for the development of the merchandise market and widespread corruption is often reflected in the venal behaviour of football directors, while the extremely violent environment of the country helps to explain the constant reports of violence among supporters groups and conflicts between them and the police.<sup>166</sup>

## Conclusion

In order to comprehend how the football industry operates in Brazil, it is necessary to understand the Brazilian business environment and its own peculiarities. In a complicated business environment like the Brazilian, the football industry finds a vast range of challenges and cannot then be compared to more developed markets, such as the main European countries.

Brazil is a relatively young country and is still trying to establish itself as a world power. It has struggled throughout the twentieth century to stabilize its political and economical environment. The confused and complicated political and legal scenarios are potential threats that probably slow the country's development. Corruption and impunity levels are high, as well as violence and police repression. Much of these are a heritage of previous regimes that ruled the nation. Recent development, however, suggests that the country has finally settled as a stable liberal democracy under the governments of Cardoso and Lula since 1995. This eases the path for foreign investment and economic growth.

The country remains generally very unequal, which causes a variety of constraints for development. Industrialization is concentrated mainly in the Southern regions, which have greater access to better technology and education. Economic stability and income redistribution programs, such as the already mentioned *Bolsa Família*, have been proving successful in diminishing such inequality, but there still a long road ahead.

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<sup>165</sup> See Chapter 7.

<sup>166</sup> For the merchandise market in Brazilian football, see Chapter 8. For corruption within clubs, see Chapter 6. For football and violence in Brazil, see Chapter 10.

The recent world economic crisis has yet to show its effects on the Brazilian economy. The country has resisted the credit crunch well, although employment has diminished and foreign investment has faded. Nonetheless, compared with previous economic crises, Brazil has suffered little so far. Moreover, the currency remains strong when compared to the Dollar and the Euro, which naturally affects the international transfer market.

Brazil is a country in fast transition but still seeking its global place. Throughout the past decade, Brazil has experienced rapid economic growth, controlled inflation and no significant political turmoil, a rare period of calm and steady development in the history of the country. Many changes will certainly happen in the next few years and the Brazil seems to be on the right path for economic, technological and social development. As seen in this chapter, national growth and the business environment are still constrained by several factors and much work is yet to be done. Foreign business observers still refer to the so called 'Brazil Cost' meaning the time and money spent in establishing and operating companies within the Brazilian regulatory and legal system.<sup>167</sup> Nonetheless, evolution is evident and the risk of changes in the political and economic regimes seems to be small, which certainly helps to improve the conditions for investment and growth.

Brazil's economic and political stability will certainly help the football industry to develop in the next years, as clubs, with the necessary organizational improvement, will then be able to take advantage of the improved economic scenario to solve some of their long lasting financial problems. Political stability added to better government efficiency will also possibly provide several other benefits, like improved regulations on football in order to enhance governance in the game, control the escalating debt of clubs and enhance stadia safety standards, all of which can then turn football matches in Brazil more attractive to overall supporters.

The task, however, is far from easy. The challenges ahead for the Brazilian football industry are not exclusive to the Brazilian business environment, as the country's

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<sup>167</sup> Fleury *et al* (2007).

football sphere also accounts for a vast range of issues that holds back its own development. It is unclear that a better business environment could be enough to change this scenario, but it would certainly help to improve it significantly. The following chapters will then address the Brazilian football industry itself and discuss in more details the key issues highlighted in this chapter.

## **5 Football, Politics and the State**

The football industry is inevitably subject to the environmental conditions of the country where it is located. Therefore, the concept of the football industry drawn from Europe needs to be adapted to the conditions of the Brazilian business environment. However, one must also understand the role played by football in Brazilian politics and society in order to comprehend the functioning of the industry.

Before considering how football has developed in Brazil, it should be noted that there is a great gap in literature on Brazilian football between the 1950s and the 1990s, a period of strong state influence on the game. Both the period of military rule and the preceding period dominated by Vargas changed the relationship between football, politics and the state in ways that continue to shape the industry today.

### **The Early Relationship Between Football and the Brazilian State**

Chapter 1 briefly reviewed the early history of Brazilian football. It showed that football arrived in Brazil in the late nineteenth century and soon became the country's main sport and one of its most important symbols. After taking control of the country, President Getúlio Vargas reorganized the institutional structure of football, as he did in other areas of the government, and immediately put the game's popularity to the service of the state.

The creation of the CND, the National Sports Council, was a key move to regulate and control football. This permitted the government to intervene directly in the football sphere and provided no space for clubs to organize themselves. Football was an important tool to create a sense of national unity among different regions of Brazil, and Vargas made extensive use of the national squad to boost his own popularity among citizens, as well as subsidizing the construction of large football stadiums.

The largest stadium ever built in Brazil, the Maracanã stadium, was a consequence of Vargas's plan to host the 1950 World Cup, which was aimed to show the new and modern Brazil to the international community and eventually brought a wave of pessimism to the country after defeat in the final. At the time of the World Cup,



different politicians seized the popularity of the event to use football as a platform for political campaign.<sup>1</sup>

The military government that took control of Brazil in the early 1960s continued to use football for political gains. The 1970 World Cup title in Mexico, for example, was extensively exploited by the government at the time, one of the most repressive in Brazilian history, in order to gain legitimacy among the population.

The military government was also very influential at club level. Not only did it finance the creation of the national championship in order to spread information about different regions of the nation, but the military government at state and municipal levels built various stadiums throughout the country, also seeking local legitimacy.

From Vargas until the re-democratization of the country in the mid 1980s, therefore, it is possible to identify at least five characteristics of the strong relationship between football and the state in Brazil:

- a) The intervention of the state in regulating the football sphere;
- b) The construction of stadiums financed by public funding;
- c) The use of football to enhance Brazil's national image for the international community;
- d) The use of football to increase the popularity of individual politicians;
- e) The use of governmental subventions to finance football.

All these characteristics were clear in the period from Vargas until the end of the last military government in 1985. By creating the CND and writing specific legislation concerned with football, governments intervened directly in the football sphere. Stadiums were widely constructed by state and municipal governments. Football and especially the national squad were constantly used in order to design the Brazilian image for other countries. Different governments used football to increase popularity and legitimacy, and government at all levels often provided financing for clubs and the national squad. The effects of these characteristics have a deep influence on the

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<sup>1</sup> Moura (1998), pp 22-23.

shape of the Brazilian football industry and perhaps distinguish its basis from most countries, especially the top five European leagues, although there seem to be at least some resemblances with Argentina.<sup>2</sup>

By the end of the military government and the election of a new democratic president in 1985, Brazil was falling into a deep economic crisis, characterized by economic recession and inflation, which had a profound impact on the national football environment. This was exacerbated by the fact that the state, at all levels, was the main stakeholder of Brazilian football at the time, and clubs were poorly structured and organized in order to meet market demands. Unsurprisingly, clubs were severely hit by the economic crisis and many clubs started to acquire debt and stopped paying federal taxes in order to cover players' salaries.

Three years after the new civilian government took charge of the country, the 1988 Constitution was approved. This was a landmark in the relationship between football and the Brazilian state. The Constitution diminished the role of the CND considerably and gave clubs the autonomy to organize themselves as they wished, away from state control. For the first time since the Vargas government in the 1930s, Brazilian football was not officially under the governmental hierarchy. Football clubs and governing bodies were now on their own.

This, however, did not mean that the state would detach itself completely from football. Football remained, and still is, one of Brazil's most important cultural symbols, and the history of deep political connections could not be completely erased in the short term. Moreover, Brazil was still a developing nation suffering from a severe economic crisis and, therefore, unable to sustain a football industry that could work without government support. Football's historical role in the country was too important to be left alone all of a sudden. Therefore, the state continued to have strong ties with football, although not in the same paternalistic and dictatorial way that it had in the past.

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<sup>2</sup> For the relationship between football and politics in Argentina, see Duke & Crolley (2001), Alabarces (2007) and Crolley & Duke (2007).

## **The Football Parliamentary Inquiry and the new legal framework of Brazilian football**

In 1990, the government appointed Zico, one of the most famous players in Brazil's history, as the first National Secretary of Sports. Although Zico himself stayed in office only for a year and forty days, leaving the post due to political disillusionment, he created the foundations of a new law published in 1993.<sup>3</sup> The law became popularly known as 'Lei Zico', the 'Zico Law', and was aimed to improve and modernize the standard of Brazilian football. One of the main ideas was to make a compulsory change in the ownership model of professional clubs from not-for-profit members' associations to limited liability companies and to end the retain-and-transfer system of football players. Strong lobbying from football authorities, however, prevented any radical moves and, in the end, the law only recognized the right of members' associations to be transformed into limited liability companies if they wished.<sup>4</sup> Furthermore, the 'Zico Law' also officially extinguished the CND and allowed clubs to seek other financial resources through partnership with Bingo halls.<sup>5</sup>

In 1994, the year the national squad won its fourth World Cup title, Fernando Henrique Cardoso, a former Marxist sociologist, was elected president. Unlike most governments before, especially the military, Cardoso did not have any major connection with football.<sup>6</sup> According to Juca Kfour, one of the leading investigative journalists in Brazil:

Fernando Henrique understood the sociological importance of football. However, he did not have either the patience or time for it. And he also did not know about the game itself. He thought that Biro-Biro [a famous 1980s Brazilian player] was a kind of play, like an overhead kick.<sup>7</sup>

In 1995 Cardoso appointed Pelé, perhaps the most famous player in history, as head of the newly created Sports Ministry. Pelé left the Ministry in 1998, the same year

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<sup>3</sup> Zico Participações (2004) and Gordon & Helal (2001).

<sup>4</sup> Proni (2000) pp. 163-173.

<sup>5</sup> Further analysis of the relationship between Bingo houses and football is discussed in Chapter 7.

<sup>6</sup> Cardoso (2006), pp. 196-198.

<sup>7</sup> Interview with Kfour (2009).

that his most important contribution, law number 9.615 of March 24<sup>th</sup> 1998, was approved. The law, which became known as 'Lei Pelé', Pelé Law, still stands. Like the Zico Law, the Pelé Law aimed to modernize football and tried to change the ownership status of clubs. After another intense bout of lobbying from football authorities, the ownership change remained optional. An important change, however, did occur. Despite this lobbying, the Pelé Law abolished the player's 'passe', and allowed them to change clubs at the end of their contract.<sup>8</sup>

That same year, 1998, the Brazilian national squad would again lose in the final of a World Cup. The match, and the defeat, raised much controversy in the country, especially due to the fact that Ronaldo, Brazil's top scorer and most valuable player, had a health complication and was taken to the hospital on the day of the final. However, shortly before the match started, Ronaldo was put back in the starting line-up and went on the pitch. Brazil ended up losing to France 3-1, and an enormous debate regarding Ronaldo's health condition emerged. One of the strongest rumours was that Nike, the sponsor both of Ronaldo and the CBF, obliged Ronaldo to play. The press soon released information regarding the contractual influence that Nike had over the CBF, prompting the Federal Chamber of Deputies to request an official Parliamentary Inquiry to investigate the matter, on the grounds that the contract between the CBF and Nike was a threat to the national sovereignty.<sup>9</sup>

While the Deputies' Inquiry was still being approved, Brazil embarrassingly lost to a 9-man Cameroon national squad in the quarter finals of the 2000 Olympic football tournament in Sydney. Shortly afterwards, the press reported several corruption schemes involving the manager of the national team at the time, Wanderley Luxemburgo. The corruption reports, added to the two defeats in international competitions, prompted the Senate also to establish a Parliamentary Inquiry to investigate Brazilian football.<sup>10</sup>

Shortly after the Senate started its inquiry, which became known as the 'CPI do Futebol' (the Football Inquiry), the Chamber of Deputies also established its own

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<sup>8</sup> The influence of the Pelé Law's on players' contracts will be further discussed in Chapter 9.

<sup>9</sup> Damato (1999).

<sup>10</sup> Bellos (2003), Chp. 14.

investigation, which became known as the 'CPI CBF/Nike' (CBF/Nike Inquiry).<sup>11</sup> Brazilian football was, therefore, being investigated by both legislative houses at the same time, occupying a total of 13 senators and 25 Federal deputies.<sup>12</sup> Criticism was raised regarding the CBF/Nike Inquiry due to the fact that most of the deputies involved in the investigation had strong ties with football clubs.<sup>13</sup> According to Senator Álvaro Dias, president of the Football Inquiry:

As soon as we installed the inquiry in the Senate, the Chamber of Deputies immediately proposed the CBF/Nike Inquiry, aiming to compromise the work of the Senate Football Inquiry. In the CBF/Nike Inquiry, there was a strong involvement of the 'Bancada da Bola' [the group of deputies involved with football clubs].<sup>14</sup>

The CBF/Nike Inquiry was a scene of considerable turmoil due to constant confrontation between the 'Bancada da Bola', which was the majority group, and those deputies not directly connected with the football sphere. It ended up with two different reports, one by each group, and therefore unable to approve one single final document.<sup>15</sup> Although the Senate Football Inquiry did not have such an explicit internal confrontation, it also had to face many pressures, as Alvaro Dias described in an interview:

When I decided to investigate [football], other senators even mocked such a suggestion, revealing that there was very strong pressure from the CBF that always blocked any such initiative . [...] I had to act in silence, secretly gathering all the needed signatures and, in one particular Senate session, I took over the presidency of the Senate and read the requirement proposing the Parliament Inquiry. [...] There was no time for any lobbying reaction from the CBF. [...] It was a very nervous Inquiry, because the public coverage was immense, due to the fact that the sports press is very active and interested. It was very hard to

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<sup>11</sup> The term 'CPI' stands for Parliamentary Inquiry Committee.

<sup>12</sup> Nascimento (2000).

<sup>13</sup> Bombig (2000).

<sup>14</sup> Interview with Dias (2009).

<sup>15</sup> Bombig (2001a).

investigate. We had many judicial battles, because when we tried to break the banking confidentiality, for example, of any sports director, they would appeal to the Supreme Federal Court alleging unconstitutionality by saying that football was a private matter and, because it was not a public issue, it should not be the concern of a Parliamentary Inquiry. [...] Someone even sent some white powder to my Senate office, because it was the time when we had that Anthrax issue. And it was sent like it was meant to be Anthrax. They had to quarantine my office. There was also a robbery in my office, searching for documents. I had been in other Parliamentary Inquiries and surely there are threats and everything else, but not with such extravagance. We had to send our employees for medical examinations and took the powder for analysis. And it was sent from Rio de Janeiro [, where the CBF's headquarter is located at].<sup>16</sup>

In the end, after almost fourteen months of work, the Senators from the Football Parliament Inquiry unanimously approved the final report.<sup>17</sup> The inquiry suggested indicting seventeen people involved with football, including the president of the CBF, Ricardo Teixeira, for different crimes such as tax evasion, money laundering and unjust enrichment.<sup>18</sup> Although these accusations were made in 2001, it has not yet produced any significant impact. In the words of Juca Kfourir:

What was the great merit of the Parliamentary Inquiries, which have not put anyone in jail or forced anyone out of their post, including the Football Inquiry's main figure, the CBF president? It was so you could see seventeen different accusations against the CBF president, with extensive documentation of tax evasion and association with fake companies, because the National Congress has investigative tools which journalists do not possess. [...] But then you go to the Judiciary sphere, the Public Prosecutor's Office makes a denunciation, the defence lawyers do their work, and then we have a legal system which is

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<sup>16</sup> Interview with Dias (2009).

<sup>17</sup> The final report is available at <http://www.senado.gov.br/web/relatorios/cpi/cpiFutebol/default.asp>.

<sup>18</sup> Bombig (2001b).

designed to consecrate impunity. The evidence appeared but was not enough to convict the defendants. There is no question that there is plenty of documentation.<sup>19</sup>

In 2009 Senator Álvaro Dias summarized what had happened since the inquiry in this way:

The criminal actions are not fast. Some actions are paralyzed. For instance, Ricardo Teixeira was able to paralyze the action in the Federal Court. Eurico Miranda too. This happened because the Tax Office has not concluded its administrative inquiry yet. [...] Therefore, the delay. It must wait for the conclusion of the administrative inquiry. And football has so much power that delaying tactics are adopted and things do not move. We had a sentence passed on Eurico Miranda in one of the Inquiries which was one and a half years in jail, which he converted to a fine. And there was another one where he was sentenced to ten years in jail, in first instance, and he was able to revoke and block it because the Tax Office did not conclude its investigation. The investigation is still running, but it is blocked. [...] I am afraid it may never be concluded, such is the appeal of football.<sup>20</sup>

Nonetheless, the Parliamentary Inquiry opened the path for the creation of two other football regulations, the 'Estatuto do Torcedor', the Supporter's Statute, and the 'Lei da Moralização do Futebol', the Football Moralization Law. Both of them were initially elaborated under President Cardoso, at the very end of his second presidential mandate in 2002, and were converted to laws under President Lula in 2003.<sup>21</sup>

The Supporter's Statute was the first ever regulation in Brazil to be specifically concerned with the well being of supporters, establishing minimum safety requirements in stadiums and forcing the football governing bodies to organize competitions properly, by establishing a regular structure and schedule and following

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<sup>19</sup> Interview with Kfourri (2009).

<sup>20</sup> Interview with Dias (2009). For more information on Eurico Miranda, see Bellos (2003), pp 270-274 and Foer (2005), Chp. 5.

<sup>21</sup> Interview with Kfourri (2009).

technical sporting procedures for the promotion and relegation of clubs.<sup>22</sup> This was needed due to the fact that, since the first tournament in 1971, the National Championship had never repeated its competition format, and fixtures were often unplanned and congested.<sup>23</sup> Sometimes, such changes would be instituted only to help to keep the bigger clubs in the First Division, a practice which became known as ‘virada de mesa’, table flip.<sup>24</sup> Furthermore, triggered by different stadium problems in the 1990s, the statute also placed responsibility on football club presidents for the safety of the supporters inside the stadium.

The Football Moralization Law, which was an amendment to the Pelé Law, also placed more responsibilities on club presidents by making them liable for the club’s new debt. Among other provisions, it also recognized football as part of the national cultural patrimony and as an economic activity, therefore implying the need for financial and administrative transparency.<sup>25</sup>

Unsurprisingly, both laws ignited protests from clubs and football governing bodies. Among several lobbying strategies, the clubs threatened a boycott of one round of the national championship in protest against the Supporter’s Statute, arguing that it was impossible to comply immediately with the new safety regulations and, therefore, clubs could not allow supporters into the stadiums.<sup>26</sup> The threat was unsuccessful, as the government kept the text of the law as it was and the boycott never took place.<sup>27</sup> Curiously, of the 48 clubs playing in the top two divisions in 2003, 22 were holding their matches in 19 different publicly owned stadiums, which meant that even the state and municipal governments did not have their own facilities adapted to the new regulation.<sup>28</sup>

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<sup>22</sup> Law number 10.671/03 from May 15<sup>th</sup> 2003.

<sup>23</sup> Perrone & Bueno (2003) and Bellos (2003), p. 266.

<sup>24</sup> Fluminense, one of Rio de Janeiro’s most important clubs, was relegated to the Second Division of the National Championship in 1996. CBF, however, managed to put the club back into the First Division in the 1997 tournament, only for the club to be relegated again to the Second Division, being relegated to the Third Division in 1998. The club eventually managed to win the competition and be promoted back to the Second Division in 1999. With the João Havelange Cup in 2000, the club was brought back to the First Division. (Marinho & Assis, 2003).

<sup>25</sup> Law number 10.672/03 from May 15<sup>th</sup> 2003.

<sup>26</sup> Ruiz (2003a).

<sup>27</sup> Victor *et al* (2003).

<sup>28</sup> Marinho & Cobos (2003).



## Football under Lula

Both new laws were among the first approved during the government of President Lula, who, unlike Cardoso, was a great fan of football and a strong Corinthians supporter. The fact that both laws were sanctioned, despite the much publicized disapproval of football clubs and governing bodies, suggested that Lula's government could break the historical political ties between the Brazilian state and football institutions, helping to enhance the demand from the state that standards should be raised after the many irregularities discovered by the Parliament Inquiry. The proximity of Lula to football, however, worked in a different way, as Juca Kfourri explains:

One day the telephone in my house rang. It was Gilberto Carvalho [President Lula's adviser] inviting me, on behalf of the former President, to the ceremony for the signature of both laws, and I went. [...] [Lula] opened his speech by saying, literally, that he would never hear again someone telling him that the journalist, Juca Kfourri, was saying that in Brazil the supporters are treated like cattle. There was a round of applause and I did not know where to hide. He ended his speech by saying that my presence there was in order to symbolize all those who had been persecuted in the sports world. I left the place, at 52 years of age and no right to innocence, punching the air in the taxi and saying that finally we would get rid of the old football directors in Brazil. Six months later, no longer, due to the game the national squad was going to play in Haiti, because Lula thought that it would open the way for Brazil to earn a seat in the UN Security Council, he was holding hands with Ricardo Teixeira, in a way President Cardoso never had. When President Cardoso decorated Ricardo Teixeira on the way back from winning the 2002 World Cup, who almost did not stop in Brasília – a strong diplomatic effort was put in place, because Teixeira was angry at the President [due to the Parliamentary Inquiry and the new laws] – Cardoso gave Teixeira a medal in his office, with no photographers around. There is not one single picture of Cardoso with Ricardo Teixeira. Lula has many. That is, such is the seductive power of

football that it can halt conflicts. In Lula's case, what disappoints me is that he had not made any rupture, not even with football. It must be agreed that this would not jeopardize his presidential mandate, very much the opposite. The Brazilian population would love it, because they do not like Ricardo Teixeira. [...] But it is not only Lula. Not one single government is able to split with these people. Because these people can bring Ronaldo to the room, these people can bring glamour that others cannot.<sup>29</sup>

Brazil has been trying to obtain international recognition as an important player in world affairs since the early twentieth century. In order to achieve that and earn a seat on the UN Security Council, the country has consolidated itself as a regional power and has also been cooperating with the United Nations in a series of peacekeeping operations since 1956, but with much more support after the mid 1990s. In 1999, Brazil contributed strongly with an operation in East Timor and since 2004, for the first time, the country has led an operation in Haiti, which is named 'MINUSTAH' and has the contribution of other countries, such as Argentina, Canada, United States and Nepal. The operation involves a diverse range of tasks such as the restructuring of the national police, assisting the transitional government and maintaining law and public safety.<sup>30</sup>

One of the first tasks of the operation was to disarm over 15,000 people, for which the recently installed Haitian president, Gérard Latortue, suggested, in an interview on May 31<sup>st</sup> 2004, arranging a friendly match between the Haitian and the Brazilian national squads as a means of asking the population to turn in their weapons in exchange for tickets for the match. According to President Latortue, the Haitian population was so passionate about Brazilian football that all the different rival gangs in the country would peacefully gather for the game and this strategy would probably be more effective than any other plan of disarmament.<sup>31</sup> The international popularity of Brazilian football observed in Haiti is indeed immense. According to Kfourir:

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<sup>29</sup> Interview with Kfourir (2009).

<sup>30</sup> Lima & Hirst (2006). From 1956 to 1998, Brazil had sent over 12,000 military personnel to 22 different UN's peacekeeping operations (Lannes, 1999).

<sup>31</sup> Maisonnave (2004).

President Cardoso once took Pelé, who was the Sports Minister at the time, with him on a trip to China. [After that,] Cardoso promised never to take Pelé [with him] anywhere again, because no one [in China] cared about the [Brazilian] president. They only cared about Pelé.<sup>32</sup>

At the time of Latortue's interview, only a few years after the Parliamentary Inquiries, the CBF's president Ricardo Teixeira still had a distant relationship with former President Lula, despite the fact that Lula had used a friendly match of the national team against China in February 2003 to do some propaganda for one of his most publicized social programs, 'Fome Zero'.<sup>33</sup> Such was the distance that it was the first time since Teixeira became the president of the CBF in 1989 that he would not officially meet with the Brazilian president during the president's first year in office. Teixeira had been unsuccessfully trying to schedule a visit to Lula for six months in order to deliver an invitation to FIFA's centennial celebrations and officially gave up on the quest on May 11<sup>th</sup> 2004.<sup>34</sup> The invitation to FIFA's centennial was part of a lobbying strategy that involved all three Brazilian areas of government. Twenty days later, Teixeira would see Latortue's request as a good opportunity to get closer to the national government and ask for help over issues regarding football.<sup>35</sup> The CBF, therefore, offered to pay all travelling expenses for the Brazilian national squad's match against Haiti. Lula then promptly agreed to the friendly match and finally a meeting with Teixeira.<sup>36</sup>

The disarmament idea suggested by Latortue was eventually abandoned and tickets were distributed among Haitian students, their families and politicians.<sup>37</sup> Before the match, the Brazilian armed forces in Haiti distributed to the population a vast number of hats, 1,000 footballs, 5,000 yellow shirts resembling the Brazilian national team kit, and 1.5 million autographed pictures of the Brazilian players.<sup>38</sup> The CBF called up the main Brazilian players at the time, such as Ronaldo, Roberto Carlos and

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<sup>32</sup> Interview with Kfour (2009).

<sup>33</sup> The match was played in China and the Brazilian players entered the pitch wearing a t-shirt with 'Fome Zero' logo and a slogan that read 'This flag is also mine' (Cobos, 2003a).

<sup>34</sup> Mello & Ohata (2004).

<sup>35</sup> Mello (2004a).

<sup>36</sup> Folha de São Paulo (2004a).

<sup>37</sup> Scolese (2004a).

<sup>38</sup> Folha de São Paulo (2004b).

Ronaldinho.<sup>39</sup> The squad was enthusiastically received in Haiti and the players paraded from the airport to the stadium on top of armored cars, cheered by thousands of people.<sup>40</sup> When Teixeira was awarded FIFA's Fair Play trophy later that year due to the friendly match, he made sure to share the prize with President Lula in his acceptance speech.<sup>41</sup> This finally sealed the peace between the CBF and the national government.

The idea of using Brazilian football as a tool somehow to promote peace in an arena of international conflict would be used again. When Brazil received support from South Korea on the UN Security Council in 2005, one Senator suggested arranging a friendly match between the Brazilian national squad and a team formed by players from both North and South Korea.<sup>42</sup> In 2009, the Federal Government suggested a friendly match, this time with clubs instead of the national squad, in Palestine.<sup>43</sup>

As compensation for the support in arranging the friendly match in Haiti, the CBF asked for help from the Federal Government on some issues regarding Brazilian football.<sup>44</sup> One was to propose a special labour law for football players, which is still under discussion.<sup>45</sup> Another was to help clubs in restructuring the tax debt owed to the government by creating a new national lottery, which resulted in the creation of the 'Timemania' in August 2007.<sup>46</sup> When Lula publicly announced the plan to create the lottery, in 2006, he also suggested to the CBF that they should play another peace-related friendly match between Brazil and Lebanon, which never happened.<sup>47</sup>

Lula did not restrict the use of football solely to improving Brazil's image to the international community. He also became personally involved with the game at a much higher level than any other Brazilian president since the military left government. Unlike then, however, there is little evidence to suggest that the proximity between Lula and football was a coordinated public relations effort, but

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<sup>39</sup> Perrone (2004).

<sup>40</sup> Scolese & Rangel (2004).

<sup>41</sup> Bueno (2004).

<sup>42</sup> Rodrigues (2005).

<sup>43</sup> Lancepress!(2009).

<sup>44</sup> Mello (2004b).

<sup>45</sup> Further analysis of the legislation regarding football players is available in Chapter 9.

<sup>46</sup> More on the Timemania is available in the Chapter 7.

<sup>47</sup> Scolese & Leite (2006).

rather, at least to a considerable extent, a consequence of the fact that the former President has been a strong football supporter throughout his life.

While the national squad was preparing for the friendly match with Haiti, Lula himself interviewed some of the Brazilian players for his fortnightly radio show called 'Café com o Presidente', Coffee with the President, and asked them to provide advice on self-help for the population.<sup>48</sup> In 2003, after Brazil performed poorly in the opening qualifier against Peru for the 2006 World Cup, Lula told photographers that the performance of the national team was embarrassing. The comment soon gained national repercussions through the media. When the manager of the national squad, then Carlos Alberto Parreira, was asked his opinion about the presidential comments, he answered that although he respected the president as a supporter, he would not comment on the president's choice of ministers, and each of them should be concerned only with their own matters.<sup>49</sup>

Lula would meet again with the national squad during the preparations for the 2006 World Cup, this time through videoconference. At the meeting, Lula caused controversy by demanding that the players should win the World Cup, on the basis that they were the overall favourites, and asking if Ronaldo, the striker in the national squad, was truly fat.<sup>50</sup> When asked about the president's comments, Ronaldo told the press that the speculation over him being fat was similar to the speculation over Lula being addicted to alcohol. Lula later regretted his comments and faxed a letter of apology to Ronaldo, which was accepted.<sup>51</sup> After Brazil lost to France in the quarter-finals, Lula called Parreira on his mobile and expressed his sympathies over the defeat.<sup>52</sup>

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<sup>48</sup> Scolese (2004b).

<sup>49</sup> Ruiz & Bueno (2003). Parreira's reply to Lula's comments was similar to João Saldanha's answer when the military President Medici told the press that Saldanha, the manager of the Brazilian team during the qualification for the 1970 World Cup, should select the forward Dario for the national squad in 1970.

<sup>50</sup> Leite *et al* (2006).

<sup>51</sup> Alencar & Leite (2006). Lula later told a reporter that, although he enjoys drinking alcoholic beverages, the last time he got drunk was in 1974, after Brazil's defeat to Holland in the World Cup (Freitas, 2007).

<sup>52</sup> Bueno (2006).

Lula also frequently used football as a theme in his international meetings. When he met with Japan's Prime Minister, Junichiro Koizumi, in 2004, regarding the opening of the Japanese market to Brazilian mango, a negotiation which had been ongoing for 26 years, they started a conversation about Zico, who was then the manager of the Japanese national squad. At the end of the conversation, Lula told Koizumi that he hoped the Japanese football players could eat mango, because they would play much better then, to which Koizumi replied by announcing the opening of the Japanese market to the Brazilian fruit.<sup>56</sup> When Italy's Prime Minister, Silvio Berlusconi, invited President Lula for lunch in 2008, he also invited AC Milan's Brazilian stars to join. After the lunch, Lula told the press that he was happy to learn that the players were investing their money in Petrobras and recommended the Brazilian population to follow the example.<sup>57</sup> During the 2009 G8 Summit in L'Aquila in Italy, Lula presented the US President, Barack Obama, with a Brazilian shirt autographed by the players. The event happened only a few days after Brazil had beaten the US national team in the final match of the Confederations Cup in South Africa.<sup>58</sup>

Former President Lula's connection with football is also evident in the close relationship he maintains with SC Corinthians Paulista, the club which he fanatically supports. During his childhood in the state of Pernambuco, Lula dreamed about becoming a football player. When he moved to the city of São Paulo, in the 1950s, he became a fan of Corinthians and has been attending matches in the stadium ever since.<sup>59</sup> After Lula was elected to the Brazilian presidency in 2002, he was named a councillor-for-life of the club.<sup>60</sup>

Throughout his term as Brazil's president, football was also an integral part of Lula's rhetoric.<sup>61</sup> Corinthians, more specifically, was frequently cited in his speeches and in informal declarations. From January 2003 to December 2005, Lula used Corinthians

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<sup>56</sup> Soliani (2004).

<sup>57</sup> Berlusconi is also the president of AC Milan. The players invited to lunch were Kaká, Ronaldinho, Dida, Alexandre Pato and Emerson, along with Leonardo, who was a club director at the time (Ninio, 2008).

<sup>58</sup> Rossi (2009).

<sup>59</sup> Assumpção (2002a).

<sup>60</sup> Alencar & Bragon (2003). Thirteen is the number of Lula's political party, PT, the Labor Party. An explanation of the role played by the councillor in the club is available later in this chapter.

<sup>61</sup> For a deeper analysis of the terms most commonly used by President Lula in his speeches, see Kamel (2009).

at least 31 times in his official speeches.<sup>62</sup> Once, when debating the challenges facing the proliferation of cooperatives in Brazil, Lula labelled himself a man of faith who could pass through any adversity because he was a Corinthians supporter.<sup>63</sup> When he was asked about the corruption scandals and the political unrest affecting his government in 2005, he replied by saying that he was more than calm, especially because Corinthians had beaten Flamengo the day before.<sup>64</sup> That same year he was even accused, in jest, by the Corinthians president at the time, Alberto Dualib, of using the club to escape from any uncomfortable situation. The jest happened when Lula received the Corinthians team in the Presidential Palace in order to congratulate them on winning the 2005 National Championship. Along with Dualib, Lula also received a number of players and staff in the Corinthians delegation, including Carlos Tévez and Kia Joorabchian. At the meeting, Lula won another Corinthians shirt with his name printed on the back and posed for pictures with the team and holding the championship trophy. He also used Tévez as an example of the integration between Brazil and Argentina and spoke rapidly with Kia Joorabchian about the need for the government and football authorities to advance further on football-related projects.<sup>65</sup>

Such was Lula's involvement with Corinthians that he received the club in his official office despite the fact that, at the time, Kia Joorabchian and his company, MSI, were the controllers of Corinthians and under investigation by the federal police on suspicion of money laundering and other crimes.<sup>66</sup> Moreover, MSI, which had invested a large sum of money in acquiring players for Corinthians, was owned by a Russian oligarch based in the United Kingdom, Boris Berezovsky, who was reportedly planning to invest part of his immense fortune in the club, by acquiring more players and building a new state-of-the-art stadium, and also in different sectors of the Brazilian economy, such as energy and infrastructure.<sup>67</sup> The Corinthians president, Dualib, along with other club directors and politicians, tried to serve as middlemen and schedule a meeting between Lula and Berezovsky, with no reported success, as Brazil had a criminal extradition agreement with Russia and was supposed

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<sup>62</sup> Scolese *et al* (2005).

<sup>63</sup> Athias (2004).

<sup>64</sup> Dualibi & Scolese (2005).

<sup>65</sup> Scolese *et al* (2005).

<sup>66</sup> More information on MSI and on money laundering is available later in this chapter.

<sup>67</sup> Perrone (2006).

to extradite the oligarch to Russia immediately after his arrival in Brazil.<sup>68</sup> Despite the agreement, Berezovsky was able to travel in and out of Brazil at least twice, although he did not manage to meet Lula. In July 2007, the Brazilian Court issued arrest warrants for him and Joorabchian for crimes of money laundering and conspiracy, which were later dismissed due to a lack of proper legal justification.<sup>69</sup>

The controversy generated by the relationship between Corinthians and Berezovsky prompted the Federal Chamber of Deputies to try to establish another Parliamentary Inquiry, in November 2007, which became known as the 'CPI do Corinthians', the Corinthians Parliamentary Inquiry. The opening of the Inquiry was just approved, but it failed to gather the necessary number of signatures from Deputies due to intense pressure from the CBF and state governors. The latter warned their respective Deputies that if they approved the Inquiry, their states might suffer retaliation from the CBF during the process of choosing the 2014 World Cup host cities.<sup>70</sup>

The lobby for government support for the 2014 World Cup dates back to 2004, when, as mentioned before, Ricardo Teixeira invited Lula and a number of politicians to FIFA's centennial celebrations.<sup>71</sup> In April 2006, Lula stated his support for hosting the World Cup and declared himself the ambassador of the Brazilian bid.<sup>72</sup> Only three days before the first round of the 2006 Brazilian presidential elections, held in October, Lula received FIFA's president, Sepp Blatter, in the Presidential Palace, where Blatter told him that hosting the 2014 World Cup was in Brazil's hands, meaning that the country only needed to develop an investment plan for stadiums and infrastructure, to which Lula responded by assuring him that the government was committed to the cause.<sup>73</sup>

When Lula was elected for his second term in November 2006, Blatter sent him a message of congratulations and asked for urgency in preparing Brazil's World Cup.<sup>74</sup>

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<sup>68</sup> Arruda (2007) and Christolofolletti & Arruda (2007).

<sup>69</sup> Iglesias (2008).

<sup>70</sup> Matais (2007).

<sup>71</sup> Mello (2004b).

<sup>72</sup> Ferrari (2006a).

<sup>73</sup> For the 2010 and the 2014 World Cup, FIFA had adopted a continental rotation system, which ensured that the 2010 World Cup to be hosted in Africa and the 2014 World Cup in South America.

<sup>74</sup> Anjos (2006).



A few days later, Lula announced an Inter-Ministerial Committee to develop a strategic plan.<sup>75</sup> When the CBF handed FIFA the Brazilian bid proposal in July 2007, the document had a letter written by President Lula attached to it.<sup>76</sup> A few days before the submission of the bid, Ricardo Teixeira was also re-elected to the CBF presidency, once again, and, in his re-inauguration ceremony, he posed for pictures with the former Sports Minister, Orlando Silva Junior, which was clear evidence that, from that moment on, his administration was approved by Lula's government, an unthinkable scenario a few years before.<sup>77</sup>

In October 2007, Lula travelled to Zurich for the ceremony in which FIFA officially declared Brazil the host for the 2014 World Cup and made the acceptance speech, in which he jested with Argentina, compared his presidential position with the role played by the manager of the Brazilian football team and also expressed his personal admiration for Platini and Beckenbauer, who were present at the ceremony.<sup>79</sup> Lula would make a similar speech again in the ceremony that unveiled the 2014 World Cup logo during the 2010 World Cup in South Africa.<sup>80</sup>

After the first bidding stage for the 2014 World Cup was over, the second bidding stage started, this time with eighteen Brazilian states and cities trying to be chosen by the CBF and FIFA to host the World Cup matches.<sup>81</sup> The lobbying process for the latter was already evident in Zurich. The delegation of Brazilian politicians that accompanied Lula to FIFA's ceremony comprised three state ministers and twelve state governors.<sup>82</sup> The state governors travelled to FIFA's headquarters in order to lobby for their respective cities to be selected and also to be able to host important

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<sup>75</sup> Part of the objectives of the Committee was to build a programme that could protect the federal government from the need to pay expenses that are supposed to be responsibility of state and municipal governments, something that was happening at the time with the 2007 Pan-American Games in Rio de Janeiro. (Ohata, 2006).

<sup>76</sup> Perrone & Arruda (2007).

<sup>77</sup> Perrone (2007a).

<sup>79</sup> Rossi (2007a).

<sup>80</sup> Arruda (2010).

<sup>81</sup> The eighteen states were: Acre, Alagoas, Amazonas, Bahia, Ceará, the Federal District, Goiás, Mato Grosso, Mato Grosso do Sul, Minas Gerais, Pará, Paraná, Pernambuco, Rio de Janeiro, Rio Grande do Norte, Rio Grande do Sul, Santa Catarina and São Paulo.

<sup>82</sup> Ninio (2007). The twelve states represented at the ceremony were Acre, Amazonas, Bahia, Ceará, the Federal District, Goiás, Mato Grosso, Minas Gerais, Pará, Pernambuco, Rio de Janeiro and São Paulo.

matches, such as the opening and the final matches.<sup>83</sup> Along with the lobbying opportunity, however, state governors saw the trip as an important political strategy to gain popularity with their voters.<sup>84</sup> The federal and state government elections were due to be held in October 2010, and the next elections will take place in 2014, which adds to the political importance of the World Cup. In the 2008 municipal elections, many candidates throughout Brazil already used the 2014 World Cup as a political platform.<sup>85</sup> In order to avoid any conflict, CBF announced that some of the states not chosen to host the 2014 World Cup matches would host the qualification matches for the 2010 World Cup.<sup>86</sup>

The 2014 World Cup opened the path to strengthen the relationship between the CBF and state governments, completely changing the scenario that was in place after the Parliamentary Inquiries in the early 2000s.<sup>87</sup> The CBF does not need to plan complex strategies to lobby governments any more, rather the opposite. The information provided above suggests that the 2014 World Cup gave the governing body of Brazilian football so much power that government at different levels now have to elaborate strategies to lobby the CBF.

The natural proximity of Lula to football and the 2014 World Cup have helped to take the current involvement between football and the Brazilian state to probably its highest level since democracy was re-established in the country. As in the military era, the president was strongly interested in football, which increases the political role played by the game in the Brazilian environment.

Of the five characteristics already outlined about the relationship between football and the state during the Vargas government, which was also evident up to the end of the military government in the early 1980s, perhaps the only one that has weakened since democracy was re-established is the state's direct subvention of the game, although

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<sup>83</sup> Seabra (2007) and Rossi (2007b).

<sup>84</sup> Bombig 2007.

<sup>85</sup> Ohata & Cobos (2008).

<sup>86</sup> Alencar (2007). The states chosen to host the World Cup matches are Amazonas, Bahia, Ceará, the Federal District, Mato Grosso, Minas Gerais, Paraná, Pernambuco, Rio de Janeiro, Rio Grande do Norte, Rio Grande do Sul and São Paulo.

<sup>87</sup> Ferraz & Ceolini (2008) and Arruda & Perrone (2009).

there are still signs of this practice in some places.<sup>88</sup> Moreover, the state, at all levels, still plays an important role in regulating the football sphere, such as was the case with the Pelé Law and the Supporter's Statute, and it also still subsidizes the game's infrastructure, as will be evident in the approach to the 2014 World Cup. The Brazilian state also continues to use football as a tool to enhance the image of the country, as was the case with the friendly match in Haiti, and, furthermore, football is still widely used as a tool for politicians.

As already mentioned, part of the involvement between football and the state is certainly a consequence of the natural attraction of former President Lula to football. This led, however, to a new form of relationship between the game and the government, with football also being used as a means of lobbying with the president in order to achieve a given objective from a third party, which was perhaps the case of Corinthians, Berezovsky and Lula.

The newly elected Brazilian president, Dilma Rousseff shows little connections with football. A sign of this was that, despite the 2014 World Cup in Brazil, football was rarely used during the presidential election campaign held in 2010. At State level, however, football remained a strong political object.<sup>89</sup> For example, the two strikers from the 1994 World Cup winning team, Romário and Bebeto, were elected deputies by the States of Rio de Janeiro and Bahia, respectively.<sup>90</sup>

### **Football as a Political Platform**

The immense popularity of football in Brazil can transform the game into an important political platform.<sup>91</sup> Ordinary people who get involved with football soon find themselves attracting a lot of attention, which may lead them into running for public office. Marco Aurélio Cunha, who has been a São Paulo Futebol Clube director since the early 2000s and is frequently quoted in the press due to his controversial

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<sup>88</sup> Further analysis on the public financing of football is available in Chapter 7.

<sup>89</sup> Braga (2010a) and Braga (2010b).

<sup>90</sup> For a list of other footballers elected in 2010, see [Globoesporte.com](http://Globoesporte.com) (2010).

<sup>91</sup> Part of the reason for this is perhaps the enormous presence of football in the Brazilian media, which will be further discussed on Chapter 11.

statements regarding São Paulo's rival clubs, was elected as a member of the São Paulo city council in 2008 with more than 38,000 votes. According to Cunha:

The truth is that I never wanted to run for the city council. I was invited by [São Paulo's] Mayor [Gilberto] Kassab, whom I did not even know in person. He called me during a match and told me that he enjoyed my profile, that I had political potential, that what I did was politics and that he wanted me to join his party [Democratas]. I accepted, I joined in, and he invited me for lunch and asked me to become a candidate. [...] I went in and did not expect to have the number of votes which I had. I carried out a minimal campaign, with little in the way of resources, and ended up being elected.<sup>92</sup>

Football has served as a platform for politicians in Brazil since before Vargas. Back in 1906, in Rio de Janeiro, a Federal Deputy called João Neiva helped to approve an exemption on import taxes on football-related equipment in order to gain political support from the clubs and their members.<sup>93</sup>

These links between football and politics, however, are not restricted to those running clubs. Football media pundits can gain so much popularity that they may also run for public office. In 1947, Nicolau Tuma, Brazil's first football radio commentator, was elected as a city councillor for São Paulo with the fourth highest number of votes. He would serve three terms as a councillor and another three terms as a Federal Deputy for the state of São Paulo. He was also later nominated as an adviser for the state of São Paulo's Audit Office in 1968.<sup>94</sup> Tuma's political career was similar to Walter Abraão, another popular football announcer until the late 1980s, when he retired from the media and started a political career. He was elected a member of the São Paulo city council in 1988, being re-elected in 1992. Shortly afterwards, he was nominated to the city of São Paulo's Audit Office, where he remained until 2001.<sup>95</sup>

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<sup>92</sup> Interview with Cunha (2009).

<sup>93</sup> Pereira (2000), pp. 77-78.

<sup>94</sup> Ribeiro (2007), p. 124.

<sup>95</sup> Ribeiro (2007), p. 260.

A more recent example is the football commentator, Soninha Francine. She started her media career on Brazilian MTV in the early 1990s, but soon moved to ESPN Brasil and became perhaps the best known female football commentator in Brazil.<sup>96</sup> In 2004, she was elected to the São Paulo city council, with just over 50,000 votes. She ran unsuccessfully for Federal Deputy in 2006, gaining just under 45,000 votes, and also for mayor of São Paulo in 2008, ending up with almost 267,000 votes, 4.2% of the total amount, placing her fifth out of eleven candidates.<sup>97</sup> In early 2009 she was appointed to one of the city of São Paulo's sub-prefectures.<sup>98</sup> Francine was also nominated by her party, the PPS, as a candidate for the governorship of the state of São Paulo in the 2010 elections, but the party later abandoned this in order to support another party's candidate.<sup>99</sup>

Former footballers also often exploit their popularity in order to run for public office. Biro-Biro, Corinthians' iconic midfielder, was elected to São Paulo city council in 1988, with more than 40,000 votes, the fourth highest, the same year that Carlos Alberto Torres, the national captain in the 1970 World Cup, was elected a member of Rio de Janeiro city council, with almost 8,000 votes. In 2006, however, Biro-Biro failed to win elections for Federal Deputy, obtaining only just under 2,500 votes. That same year, Robson, a retired forward known as 'Robgol', was elected as a state Deputy in the state of Pará, with more than 33,000 votes.<sup>100</sup>

In early 2008, Júnior Amorim, CRB's forward and star player, announced his candidature for Maceió city council, despite the fact that he was still playing professional football.<sup>101</sup> A few months later, in May, CRB was scheduled to play the opening match of the National Second Division against Corinthians in São Paulo. Before the match, Amorim declared to the media that he was aiming to score against Corinthians to help CRB and also to help his own candidature.<sup>102</sup> He believed that

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<sup>96</sup> Francine (2009).

<sup>97</sup> All Francine's electoral data are available at the Brazilian Supreme Electoral Court website: [www.tse.gov.br](http://www.tse.gov.br).

<sup>98</sup> Seabra & Corsalette (2008).

<sup>99</sup> Capriglione (2009).

<sup>100</sup> Perrone (2002) and Mattos (2006a).

<sup>101</sup> CRB is how the Clube de Regatas Brasil is most known. CRB is one of the most popular football clubs in the state of Alagoas.

<sup>102</sup> Ohata (2008).

scoring against Corinthians would certainly boost his popularity among voters. He did not score and also did not get elected, attracting only 546 votes.<sup>103</sup>

Another forward who ran for the public office in the 2008 elections was Túlio da Costa, who is better known as 'Túlio Maravilha', Wonder Túlio. He is the world's top striker who is still playing, having scored almost 900 goals in his career.<sup>104</sup> Túlio, who is aged 40 at time of writing, is a controversial figure who has played for some of Brazil's most important clubs and also for the national squad. He ran for Goiânia's city council, the capital of the state of Goiás, while he was playing for Vila Nova, one of the most popular clubs in the state. He ended up being elected with more than 10,000 votes and also finishing as the Second Division top scorer in the same year.<sup>105</sup>

Another example of a former footballer involved with politics is the Rio de Janeiro state Deputy and Vasco da Gama president, Carlos Roberto Oliveira, who is better known by his nickname 'Roberto Dynamite', Roberto Dynamite, due to his very powerful finishing when a striker. Dynamite is one of the most famous players in Brazilian football history, having scored 708 goals for Vasco da Gama and 26 goals for the national squad. Even before retiring from a very successful football career in 1993, Dynamite was elected to the Rio de Janeiro city council in the 1992 elections, with almost 35,000 votes. Two years later, he would be elected as a state Deputy, with almost 70,000 votes. He has been re-elected in every election held since then.<sup>106</sup>

In 2008, Dynamite was elected president of Vasco da Gama, despite remaining a state Deputy, in an election that was held only due to a Court decision that annulled the club elections held in 2006 which had re-elected Eurico Miranda, one of the most notorious figures in Brazilian football. Among the many electoral irregularities in Vasco's 2006 elections, some votes for Miranda were cast by club members who were already dead at the time of the election.<sup>107</sup>

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<sup>103</sup> Data available at the Brazilian Supreme Electoral Court website: <http://www.tse.gov.br>.

<sup>104</sup> Globoesporte.com (2008a).

<sup>105</sup> Data available at the Brazilian Supreme Electoral Court website: <http://www.tse.gov.br>.

<sup>106</sup> Data provided by Dynamite's website, <http://robertodinamite.com.br>, and Damato (2004), p. 351.

<sup>107</sup> Rangel (2008b). Miranda's strategy of casting votes of dead members had been already reported in the previous Vasco elections held in 2003, on which he also ran against Dynamite (Rangel, 2003).

Eurico Miranda became involved with Vasco da Gama in the late 1960s, and was nominated as the club's football director in the late 1980s, and eventually elected the club's president in 2000.<sup>108</sup> His public image as Vasco's football director induced him to run as a Federal Deputy for the state of Rio de Janeiro in the 1990 election, in which he failed to be elected. In 1994, however, Miranda was elected as a substitute Federal Deputy, with little more than 36,000 votes, and re-elected in 1998, with more than 105,000 votes.<sup>109</sup> In both campaigns, he used Vasco da Gama as his main political platform and claimed to be elected only to defend Vasco's political interests. In the 1998 campaign, he was partly financed by the CBF and also used Vasco's organized supporters' group as his campaigners.<sup>110</sup> When the club won the Copa Libertadores in 1998, some of Vasco's players and staff members even received the trophy on the pitch wearing shirts and hats stamped with Miranda's name and voting number in the elections to be held later that year.<sup>111</sup>

However, in the 2002 elections, after the parliamentary inquiry accused Miranda of stealing Vasco's money, he failed to be re-elected, having gained only just over 25,000 votes. In the 2006 elections, he would run again for Federal Deputy, but failed to be elected once more with approximately 30,500 votes.<sup>113</sup> Moreover, several politicians connected to the CBF failed to be elected in both the 2002 and 2006 elections as a consequence of the parliamentary inquiry.<sup>114</sup>

Curiously, in the 1998 elections Miranda formed an electoral partnership with Roberto Dinamite, and Miranda was elected as Federal Deputy and Dinamite as state Deputy for the state of Rio de Janeiro. At the time, Vasco also had a representative at the city council, Áureo Ameno. The influence of Vasco in the public sphere motivated Flamengo, Vasco's fierce rivals, to support officially the elections of their own candidate to the Rio de Janeiro city council in the 2000 elections. In order to do so, the club's directors and fan groups campaigned in favor of Patrícia Amorim, who was

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<sup>108</sup> Globoesporte.com (2008b), Mattos (2008), Gomide (2000) and Bellos (2003), Chp. 13.

<sup>109</sup> Data available at the Brazilian Supreme Electoral Court website: <http://www.tse.gov.br>.

<sup>110</sup> Santamarina (1997) and Bellos (2003), Chp. 13. CBF's practice of financing political candidates will be discussed further in this chapter. The use of organized supporters for political purposes will be analyzed in Chapter 10.

<sup>111</sup> Bertolotto & Rangel (1998).

<sup>113</sup> Data available at the Brazilian Supreme Electoral Court website: <http://www.tse.gov.br>. More details on Miranda's larceny of Vasco are provided in the next chapter.

<sup>114</sup> Bueno (2002) and Mattos (2006b).

eventually elected with almost 25,000 votes.<sup>115</sup> Amorim, a former Flamengo swimmer, was elected to work in favour of Flamengo's interests and would be re-elected in 2004, with over 23,000 votes, and again in 2008, with just over 21,000 votes.<sup>116</sup> In December 2009, Amorim was elected president of Flamengo.<sup>117</sup>

Another, and perhaps the most notable, politician in the country with a history linked with a football club is former Brazilian president, Fernando Collor, who belongs to a lineage with a very strong and traditional political background. In 1973, he was elected the president of CSA, Centro Sportivo Alagoano, one of Alagoas's most popular football clubs, where he remained for two years.<sup>118</sup> He was later appointed by the military as the mayor of the city of Maceió in 1979, being elected a federal deputy from the state of Alagoas in 1982 and state governor in 1986, before becoming the elected Brazilian president in 1990.<sup>119</sup>

Although there is little evidence to suggest any strong influence from Collor's spell as CSA's president in his political career, since he already belonged to a traditional political lineage, CSA played a significant part in Collor's family circle. Collor's cousin, Euclides de Mello, also had a spell as the club's president in 1997.<sup>120</sup> He would later become the first replacement for Fernando Collor in his current mandate as Senator. Euclides was replaced as president of CSA in 1999 by Collor's son, Arnon de Mello, who was elected at only 23 years of age and remained in control until 2001.<sup>121</sup> In 2002, Arnon unsuccessfully ran in the elections for Federal Deputy of the state of Alagoas, despite having more than 51,000 votes.<sup>122</sup> After Arnon's spell in CSA, Euclides de Mello returned to the presidency of the club, but left soon after. After that, the Collor family relationship with CSA diminished and another local political group took over the club.<sup>123</sup>

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<sup>115</sup> Rangel (2000a).

<sup>116</sup> Data available at the Brazilian Supreme Electoral Court website: <http://www.tse.gov.br>.

<sup>117</sup> Grellet (2009)

<sup>118</sup> Magalhães (1997a).

<sup>119</sup> Collor (2009).

<sup>120</sup> Magalhães (1997a).

<sup>121</sup> Bellos (2003), p. 258-259.

<sup>122</sup> Data available at the Brazilian Supreme Electoral Court website: <http://www.tse.gov.br>.

<sup>123</sup> Barreiros (2003).



Collor's family example suggests that although clubs are an important political platform, they cannot guarantee an individual's election on their own. A successful club will certainly add much admiration to those individuals involved with it. However, an unsuccessful club on the pitch or the idea that there has been poor management, such as in Miranda's case, can hardly be considered as good tools to convince voters.

Nevertheless, football clubs can play an important role in electing politicians, either for those already involved with the club or for those outside the club sphere who approach the club for political purposes. The latter can help clubs and other football bodies, such as organized supporters, on issues concerning the public sphere in exchange for votes from the club's supporters. They may also be strong and passionate supporters of a given club and try to help it in any way they can, which may be at least part of Lula's case.

The fact that clubs are discussed daily in the media and some of them have millions of supporters certainly adds to the probability of a club director being motivated to pursue a political career, as the president of one of Brazil's most important clubs declares:

I have little doubt that football immediately puts its most outgoing individuals on the social scene. I, for example, have been a member of [an important public institution] for [over twenty years], and in five days I became more known for being the president of [the club]. [...] For those who have political goals, football is a mechanism that not only boosts individual chances, but also buries them. As good management of the club can make a director a consecrated politician, bad management can ruin any political pretension he may have. I do not have any pretensions, but I also definitely gave up on planning my life. I am not presenting myself here as a politician, but due to the fact that I am in an eminent public position, this could eventually... I cannot deny

considering an eventual possibility, although I affirm that I am not looking for it.<sup>124</sup>

Some Brazilian clubs can also have tens of thousands of voting members, and an election held in a football club can involve as many voters as a small city would. Therefore, the number of votes gained in a club election can be a considerable proportion of the votes needed for an election to public office, which may prompt the club's elected directors to pursue a political career. It may also provide a potential politician with experience in running campaigns, as well as linking him with fan groups that can be used in political meetings.<sup>125</sup>

As noted already, a successful club on the pitch can also reflect the idea of successful management by the board, which may build the idea of competence and qualification of the president or of a board member, enhancing the chances of the individual when running for a public office.

The examples of Flamengo and Vasco suggest that supporters might also want to elect one individual strongly connected to the club in order to have influence on public matters that could benefit the club, such as the provision of public land for the club to build its facilities or closing a sponsorship deal with a public institution. Furthermore, club directors can also use their influential positions on the board for personal reasons other than those solely involved with politics.<sup>126</sup> In order to understand what these reasons are and their causes and consequences, however, it is first necessary to analyze further how football clubs in Brazil operate, which will be discussed in the following chapter.

## **Conclusion**

This chapter has provided an overview of the strong relationship between football, politics and the state in Brazil. It has offered evidence to suggest that this relationship has a deep influence on the shape of the overall national football industry and that the

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<sup>124</sup> Interview with Anonymous (2009).

<sup>125</sup> Duke & Crolley (2001).

<sup>126</sup> Lever (1983), pp. 85-86.

use of football by different governments and individuals all over the country for political and social purposes has possibly given football an importance that surpasses the mere idea of sport or business. At the same time the political connection has provided opportunities for reform, but also imposed constraints, especially, as noted here, as a result of Brazil being awarded the 2014 World Cup.

As has been shown, the five characteristics of the relationship between football and the Brazilian state since Vargas highlighted earlier still persist. The intervention of the state in regulating the football sphere was evident in the Parliamentary Inquiry and in both the Pelé Law and the Supporter's Statute. For the 2014 World Cup, many stadiums will be constructed using public funding.<sup>127</sup> The friendly match against Haiti was a clear use of football as a tool to enhance the national image for the international community. Lula and other politicians continue to use football in order to increase their popularity among voters. And with the Timemania lottery the government still provide subvention, although not directly, to finance football clubs.<sup>128</sup>

These five points make football in Brazil a phenomenon that turns the industry into something peculiar. Brazilian football does not follow only sport or business oriented directions, but has political variables that make it more similar to football in Argentina than Western Europe.<sup>129</sup>

The strong importance of football in Brazilian society generates much attention from the media and from the population in general, which turns the sport into a very interesting platform for those seeking political goals. This fact, however, may create populist incentives for those running football clubs and governing bodies, which can affect the organization of football in the long run.

This may also create several complications in the overall governance system of clubs and governing bodies in Brazil. The next chapter will try to address these issues and provide information regarding the running of these organizations and the struggles they currently face.

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<sup>127</sup> See Chapter 10.

<sup>128</sup> See Chapter 7.

<sup>129</sup> For more on the relationship between football and politics in Argentina, see Alabarces (2007) and Crolley & Duke (2007).

## **6 The Governance of Brazilian Football**

It is clear from the earlier chapters that governance issues affecting clubs and governing bodies have arguably been one of the main issues of current debate concerning the Brazilian football industry. Change over the ownership format of clubs, improved football regulation and corporate governance dilemmas have all been common subjects of widely publicized press reports and debates.

The literature available regarding the governance of Brazilian football, however, is scarce. There are only a few reliable pieces and very little data available. As noted already, many authors on Brazilian football choose simply to draw a raw comparison between Brazilian football and European football, establishing the latter as a role model to be followed. However, disregard for the innumerable constraints presented by the overall Brazilian business environment and lack of knowledge about criticisms of the European football industry model inevitably disqualify such a comparison as a benchmark for the development of the Brazilian football industry.

After reviewing the Brazilian business environment, the structure of football in Europe and the intrinsic relationship between football, politics and the state in Brazil, this chapter aims to analyse the governance issues affecting the Brazilian football clubs and governing bodies and provide evidence for better comprehension of the real possibilities of improvement for these organizations. The chapter will discuss the way clubs are governed, the format of their collective organization and the relationship with other football governing bodies and will also discuss the role played by CBF in organizing Brazilian football and the possibilities of changes in the established system.

### **Football Clubs in Brazil**

Most football clubs in Brazil are members' associations, that is, organizations owned by sometimes thousands of members, who can typically enrol in a club by paying a membership entrance fee and then make regular monthly contributions. At the beginning, clubs in Brazil were created by at least four different groups: a) political and cultural associations, where individuals would try to share their common interest;

b) upper class individuals, who would be concerned with perpetuating their elite status; c) European immigrants, who would aim to maintain their homeland traditions; and d) employees' associations, in order to create a collective organization to assist them in their own needs and difficulties.<sup>1</sup>

The number of clubs in Brazil grew in an unstable way up to the 1970s, but then stopped despite the fact that the population in the country has multiplied.<sup>2</sup> Some traditional clubs, football clubs included, have been losing a significant number of members over the last decades, transforming otherwise glamour clubs into abandoned organizations, where the club's social facilities are in a state of collapse. One example is Juventus, a traditional club from São Paulo that recorded around 110,000 members in the 1980s but had only 6,000 members in 2003.<sup>3</sup> This process is a consequence of a variety of factors, such as the changing economic scenario in Brazil, changing residential arrangements, especially the rise of private condominiums, which are now built with leisure and sport facilities that were previously only available at these clubs, the expansion of well equipped gyms and the formation of specialized sport schools.<sup>4</sup>

As associations, clubs are owned by their members, who can enjoy the club's facilities, such as swimming pools, sports gymnasiums and ball rooms, when provided, and vote to elect the club's executive board and the members of the council. The board will then be responsible for running the club for a limited period of time, usually around two or three years, and the council will be responsible for supervising the board's work. Each club has its own statutes, although they often share some common characteristics probably due to the fact that during the military years all the statutes needed approval from the CND. However, the electoral system and the board and council structures may vary slightly from club to club.<sup>5</sup> Table 6.1 shows the different electoral system of the clubs playing in the 2009 National First Division and how in some of these clubs the members elect a group of members of the council,

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<sup>1</sup> Mezzadri (2000).

<sup>2</sup> DaCosta (2005).

<sup>3</sup> Ribeiro & Seixas (2003).

<sup>4</sup> Carvalho (2009).

<sup>5</sup> With the new 1988 Constitution and the extinction of the CND, clubs became able to freely create and change their own statutes.

who will then elect the executive board.<sup>6</sup> In other clubs, however, members can vote directly for the president. Many clubs also typically have lifetime members of the council, who may also participate in the process of electing the board.

**Table 6.1: 2009 First Division clubs presidential election system**

Club	Who is eligible to run	Who is eligible to vote	Time of mandate	Reelections allowed
Atlético Mineiro	Members of 2 years' standing	Council Members	3 years	1
Atlético Paranaense	Members of 1 year's standing	Members	3 years	1
Avai <sup>7</sup>	Members of 1 year's standing	Members of 1 year's standing	4 years	Unlimited
Barueri <sup>8</sup>	Not applicable	Not applicable	Not applicable	Not applicable
Botafogo	Members of 1 year's standing	Members of 1 year's standing	3 years	1
Corinthians	Members of 5 years' standing and Council Members	Members of 5 years' standing	3 years	0
Coritiba	Members of the Council	Elected Members of the Council	2 years	5
Cruzeiro	Members of 2 years' standing of the Council	Elected Council Members	3 years	1
Flamengo	Members of 5 years' standing	Members of 1 year's standing	3 years	1
Fluminense	Members of 1 year's standing	Members of 1 year's standing	3 years	1
Goiás	Members	Members	2 years	1
Grêmio	Members of 10 years' standing	Members of 2 years' standing	2 years	1
Internacional	Council Members of 4 years' standing	Members	2 years	1
Náutico	Members of 1 year's	Elected Council	2 years	Unlimited

<sup>6</sup> Lever (1983, p. 85).

<sup>7</sup> Avai (2009).

<sup>8</sup> Barueri has recently been transformed into a limited liability company (Barueri, 2009).

	standing	Members		
Palmeiras	Council Members with 2 completed mandates	Council Members	2 years	1
Santo André <sup>9</sup>	Lifetime Council Members	Council Members	3 years	1
Santos	Members of 10 years' standing, Council Members with 2 completed mandates	Members of 3 years' standing	2 years	Unlimited
São Paulo	Members of 5 years' standing, Council Members	Council Members	3 years	1
Sport	Members	Members	2 years	Unlimited
Vitória	Council Members and former administration members	Members and Council Members	3 years	1

Source: Bertozzi & Teixeira (2008).

The clubs' electoral system, however, presents a governance paradox: while presidential short-termism allow presidents to spend highly on transfers and salaries with little concern for the future impact that loose financial controls and increasing debt will have on the club's finances, unlimited re-elections may bring dictatorship and allow presidents to manipulate the club for their own personal gain.

Corinthians, one of Brazil's top clubs, has recently adopted a new statute and perhaps provides a good example of how the governance system of a member association works in Brazil, as Corinthians lawyer, Luiz Felipe Santoro, explains:

[Corinthians] now has the most advanced statutes in Brazil. [...] [With the old statutes] there was no limit in Corinthians for the presidential mandate. Now it has been limited for three years. There is no reelection

<sup>9</sup> Santo André (2007)

any more. And if the president wants to come back [to the club's presidency], he must wait for six years. [The statutes] have a clause that prevents a member of the council from doing business with the club, [a business practice that] is quite common. [...] If the member of the council wants to offer any [professional] service to the club, he must step down. [...] The new statutes also corrected two enormous imperfections. Under the old statutes, the council was formed by 400 counsellors, of which 200 were lifetime members of the council and another 200 were elected on a quadrennial basis. When a lifetime member eventually died, it was the president who would nominate his substitute. And of the 200 quadrennial members, 100 were elected by the General Assembly and 100 were nominated by the president. Evidently, this has changed. [Now] all the quadrennial members of the council will be elected by the General Assembly. And the lifetime members will not be replaced until there are fewer than 100 of them. The council will then have 300 members, of whom 200 will be elected by the General Assembly. And when a lifetime member dies, the other council members will elect the substitute. It will not be by presidential appointment anymore. This change has not been made before due to lack of political interest. Those in power did not want the statutes to change. The current executive board changed it all, which was very nice. There was some unrest among a few council members, because a lot of power lay in the hands of the council [before], since it was the council which was responsible for electing the president.<sup>10</sup>

Figures 6.1 and 6.2 below illustrate the changes made to Corinthians' electoral system by the new statutes. According to the old statutes (Figure 6.1) the council would vote on a list comprising a presidential candidate and another three vice-presidents. All four listed members needed to be a lifetime council member. The elected president would then nominate all club directors. With the new statutes (Figure 6.2) all Corinthians' associates can vote on a list comprising a presidential candidate and two vice-presidents. The three listed members can be anyone above eighteen years of age

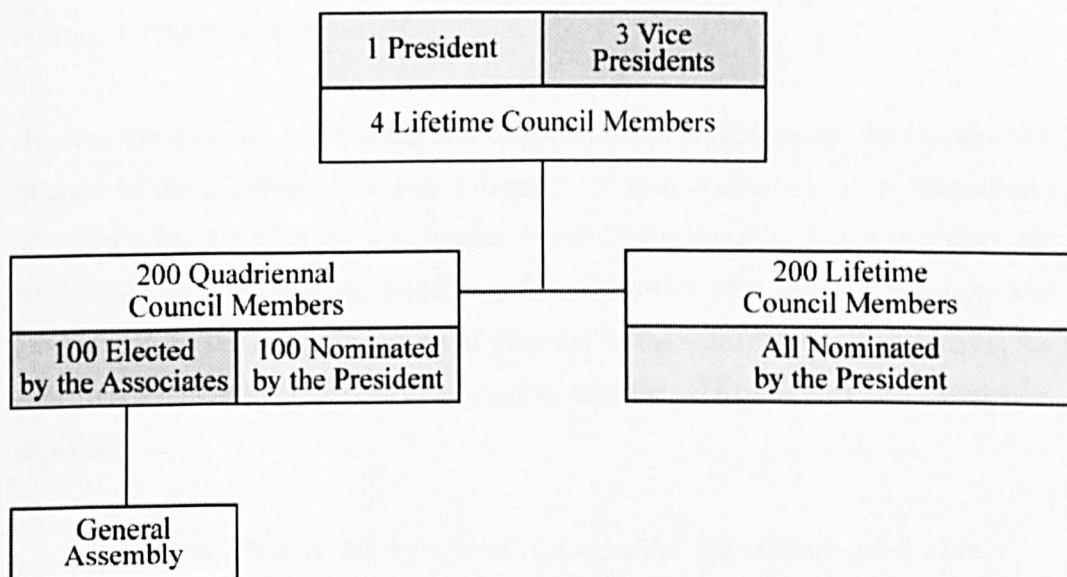
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<sup>10</sup> Interview with Santoro (2009).

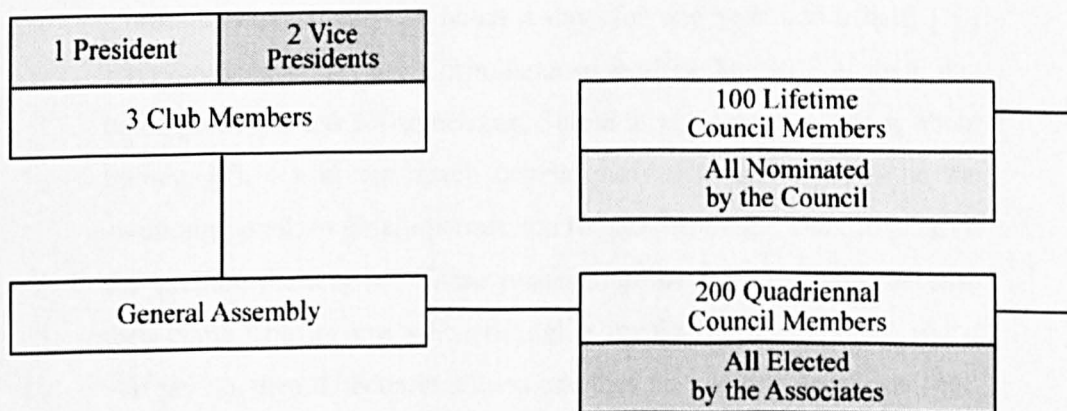


who has five years of club membership. The club directors are still nominated then by the elected president.

**Figure 6.1: Corinthians' electoral system according to the old statutes**



**Figure 6.2: Corinthians' electoral system according to the new statutes**



In part this change was motivated by the fact that the club's previous president, Alberto Dualib, had remained president for fourteen years and was accused of several fraudulent schemes involving the club, such as embezzlement, conspiracy and money laundering.<sup>11</sup> Dualib abandoned Corinthians in 2008, at 88 years of age, just before

<sup>11</sup> Arruda & Christofolletti (2008).

his imminent banishment from the club.<sup>12</sup> As Figure 6.1 shows, the previous Corinthians statutes gave much power to the board and allowed only small influence from the General Assembly, which permitted a president or a high level director to manage the club following their own interests rather than those of the overall membership, since the majority of the members of the council were nominated to the position by the president himself.

Because the majority of Brazilian clubs are non-profit organizations, they cannot pay salaries to the president, to a board member, or to a council member, who all get involved with the club on a volunteer basis. Unsurprisingly, board members are traditionally well-established middle-aged businessmen who have enough time and money to dedicate a significant part of their day to the club.<sup>13</sup> The task of running the club, however, is far from easy, as Andrés Sanchez, the president of Corinthians, explains:

Inhuman. That is the best word [to describe the position of a club president]. For several reasons. Because if you want to do the job in the best possible way, you have to abandon your professional life and especially your personal life. I have been dedicating myself to Corinthians practically 24 hours a day, for one year and a half. [...] Everybody says they are Corinthians supporters, but 90% of them just come [to me] to ask for something. Stupid things, I am not talking about money. [They ask] for match tickets, party tickets, for access to the swimming pool, to obtain permission to park inside the club, to park on the stadium parking lot. These requests are hard to deal with because they come from people who are highly involved with the club, and if you say no, then it becomes a mess and they start telling people that you are a bad person, that you say no, this sort of thing. That is why I call it inhuman. [...] You have a life dream and sometimes when you fulfil this dream you get disappointed. I am a president who is disappointed with many things inside Corinthians. If I had the option, I would quit [my position as president] yesterday. It is such a pain in the ass. You are the

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<sup>12</sup> Arruda & Assis (2008).

<sup>13</sup> Lever (1983, p. 85) and Azevêdo *et al* (2004).

president, you command, but at the same time you cannot command. You have to explain your actions to everyone for things you consider to be right.<sup>14</sup>

Another president of one of Brazilian's most important clubs adds:

I already, for some time now, gave up on planning my daily schedule, such is the complexity of exercising the presidency of [the club]. [...] You leave your home and everybody has your mobile number. The press has your number. Then you receive a call that says "Look, president, I am sorry, but my son is hospitalized and he likes you so much and it would really mean a lot to him if he could take a picture with you". Then I immediately call the club and ask for a club kit, then I go to the hospital, take the picture, write a little get well message. It is stuff that has nothing to do with football, the most bizarre things possible. I have recently changed my strategy about going to the club. If I go to the club and leave my car visible in the parking lot, some people passing by the club already know my car, so they stop by for a chat, which brings other conversations, and I have other things already scheduled, but I must attend to these people. So now, tactically, I am hiding my car in order to be able to work.<sup>15</sup>

Both quotations above show the importance of personal contacts within clubs in order to obtain favours and privileges, which can be analysed as a consequence of the political system of clubs, as denying favours might imply losing one's support. This also means that being the president of a football club and being able to grant such favours allows building up a clientele of people obliged to you, and may bring personal gain in the near future.

As mentioned in the previous chapter, a position on the executive board of an important football club can give an individual much public recognition. It also provides him with access to influential people whom would otherwise be hard to

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<sup>14</sup> Interview with Sanchez (2009).

<sup>15</sup> Interview with Anonymous (2009).

contact. If a president, who is not paid to exercise his position, can control the club politically, he may sometimes use the club for his own personal gain.<sup>16</sup> Alberto Dualib, former Corinthians president, is an example of such a case. As mentioned previously, he was found to be involved in several illegal activities within the club. One estimate suggests that Dualib and other club directors defrauded around R\$ 5.4 million from Corinthians through the use of false invoices.<sup>17</sup> Palmeiras, another major Brazilian club and also one of Corinthians' fiercest rivals, was also investigated by the authorities for establishing a similar fraudulent scheme between 2001 and 2004.<sup>18</sup> Perhaps the most notorious case, however, was Eurico Miranda, the controversial former president of Vasco da Gama, who – apart from using the club as a political platform, as mentioned in the last chapter– was also accused by the Parliamentary Football Inquiry of embezzling more than R\$ 20 millions from the club and using Vasco's resources to finance his own political campaign.<sup>19</sup> The Parliamentary Inquiry also accused board members of Flamengo and Santos of embezzling club money, tax evasion and money laundering, and found indications of similar criminal activities in several other clubs in Brazil.<sup>20</sup>

Changing the club president and the board, however, is not a simple task. As shown in Figure 6.1, Corinthians' president previously controlled many of the votes needed to elect him. It is not uncommon for the president and the board management to change the club's statutes during their own mandate in order to expand their time controlling the club.<sup>21</sup> Table 6.1 shows that some clubs have unlimited reelections, allowing presidents to perpetuate their control. In clubs where reelection is limited, some groups may establish a rotation system in order to remain in control. Another top Brazilian club, Cruzeiro, for example, has been continuously controlled by two brothers, Zezé and Alvimar Perrella, who have alternated in the presidency since 1995.<sup>22</sup>

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<sup>16</sup> Lever (1983, p. 85).

<sup>17</sup> Arruda & Christofolletti (2008).

<sup>18</sup> Arruda et al (2008).

<sup>19</sup> In 1997, Miranda was even investigated by the police after taking home part of Vasco's gate receipts from the Maracanã stadium after a match against Flamengo, around R\$ 75,000. Miranda then claimed to have been robbed when arriving at his apartment and the money was never seen again. (Torres, 1997).

<sup>20</sup> Althoff (2001).

<sup>21</sup> Cobos & Assumpção (1998) and Victor & Cobos (2004).

<sup>22</sup> Bertozzi & Teixeira (2008).

Those in power may also use controversial strategies to get reelected. It was noted in Chapter 5 that Eurico Miranda had cast votes from dead members in Vasco's elections. Another strategy is to pardon members who are not entitled to vote in order to gain their support, as happened with Corinthians, as Luiz Felipe Santoro explains:

With the new statutes the club cannot concede an amnesty to members anymore, which used to happen often. The [club member] would not pay [the Monthly Payment] for three years, and when the election day came, he would wear the president's shirt, [vote for him] and receive an amnesty [of the debts]. The previous statutes allowed this..<sup>23</sup>

A club president who is illegally making his financial living from the club may also be willing to do the utmost to remain in power. Adding to the fact that clubs often have thousands of voting members and the competition for the presidential role is sometimes fierce due to the power, popularity and other benefits gained from it, it can make elections become very heated. Disputes between candidates can involve angry debates, physical confrontation, organized protests by supporters and even legal disputes.<sup>24</sup> The club elections also frequently involve political campaign strategies, such as campaign dinners, distribution of shirts with the candidate's name and slogan, leaflets, advertisements in newspapers and on street billboards and even television advertisements. Furthermore, a club presidential candidate often spends more money per vote than a candidate running for a public office, even compared with campaigns to become mayor of cities with the same number of voters as a football club.<sup>25</sup> This may be due to the fact that the level of competition is high, but also possibly to the fact that voting members in some clubs are more elitist and politicized, and therefore harder to convince, than the ordinary public voter. To become a member of São Paulo, for example, one needs to buy a membership for around € 4,500 and pay a monthly fee of a little more than € 50, which is equivalent to 20% of the Brazilian

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<sup>23</sup> Interview with Santoro (2009).

<sup>24</sup> For examples, please see Santos' elections in 1999 (Siqueira, 1999), Corinthians elections in 2006 (Folha de São Paulo, 2006), Palmeiras elections in 2003 (Arruda, 2003) and Vasco's election in 2003 and 2008 (Rjtv, 2003, and Ponzoni, 2008).

<sup>25</sup> Mattos & Perrone (2007).

minimum wage (€ 240).<sup>26</sup> With such a system in place, it is natural that club presidents may run the club in a political way, taking actions that are focused more on the number of votes that it will generate in future elections or on pleasing an influential group of individuals rather than on real benefits for the club.

The fierce political competition for power can have a severe impact on running the club. Mario Celso Petraglia, president of Clube Atlético Paranaense who was able to implement a long term project at the club, states:<sup>27</sup>

Atlético never had any kind of political problems [while I was running the club]. [Before we took over,] Atlético was in such a poor condition, so abandoned, that we had only support and comprehension [for what we were doing]. All the power and support was delegated to us in order to achieve what we had. [...] We changed the club's statutes, we did what we could, and we did not have to report to anyone. The political side [of a club] hinders the continuity of projects a lot.<sup>28</sup>

The president of one of Brazilian's most important clubs faces a different situation, as he explains:

I wish we could have a more responsible opposition, who played their role only by the [discussion] of ideas. However, rather unfortunately, instead of having an ideological debate, it is an opposition with confrontation [...], who do their utmost to damage a decent club management, seeking only political goals. I think they aim to re-gain the power they lost. [...] And the group that I command has a different type of mentality. [...] We want to keep the power, but through democratic procedures, because the [club] under our command will belong to the supporters and will not be the [private] property of a group of few people.<sup>29</sup>

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<sup>26</sup> Membership prices provided by São Paulo's website: <http://www.saopaulofc.net>.

<sup>27</sup> More details on Atlético Paranaense's projects will be provided in later chapters. A somewhat biased overview of the club's management is available in Somoggi (2007).

<sup>28</sup> Interview with Petraglia (2009).

<sup>29</sup> Interview with Anonymous (2009).

Furthermore, candidates' election strategies may also involve establishing alliances with different groups of voting members, meaning that a president or an influential director might need to please the interests of different political groups after being elected in order to be able to command the club.

The political challenges facing those running a football club in Brazil perhaps provide a classic example of stakeholder theory, where the decision making process must be concerned with the needs of other groups and individuals who have influence or are related to the club, such as supporters and board and council members, even though these interests might somehow negatively affect strategic planning for the club.<sup>30</sup> The associative nature of football clubs in Brazil leads them to adopt a collaborative governance system, often involving joint efforts from many individuals such as those cited above. This model presents yet another challenge for efficient management of the club, since the collaborative governance model often struggles to achieve the desired outcomes mainly due to its structural complexity and diversity.<sup>31</sup> Malaquias, a football licensed agent, states:

There are clubs where it is very good to negotiate, because there is only one person in charge and you go to the club and you talk only with that person. However, there are clubs where it is difficult, one person passes it to another, then to another and so on. So the meetings are not productive. [...] I see a difficulty in dealing with Brazilian clubs, but it depends on the club. You cannot say it is a specifically Brazilian difficulty. It is a club related difficulty.<sup>32</sup>

Football clubs in Brazil, like many other sport institutions around the world, are still struggling to organize themselves and to improve their managerial practices.<sup>33</sup> Juca Kfour, a leading sports journalist in Brazil, mentions that:

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<sup>30</sup> For a deeper analysis on the application of the stakeholder theory in sport organizations, see Friedman *et al* (2004).

<sup>31</sup> More on the challenges facing the collaborative governance model is available in Huxham *et al* (2000).

<sup>32</sup> Interview with Malaquias (2009).

<sup>33</sup> Ferkins *et al* (2005).

I think that what Flavio Costa, the manager of the Brazilian national squad in 1950, used to say, that football in Brazil grew only from the tunnel to inside and never from the tunnel to outside, still is a sentence that makes sense, although there have been improvements over the last few years. [...] There is a rotten elite that took over Brazilian football, making it a no man's land, therefore its own land [...]. They think only for a generation, which is their life cycle. If they were more competent, they would think about their grandchildren and would do better.<sup>34</sup>

Such an opinion is shared by several other key people in the industry, such as Caio Ribeiro, a former player who is now a Globo Network football pundit:

The football industry [in Brazil] generates a lot of money, and I think there is a lot of professionalism missing in it. The marketing [director] should be someone from a big company. The financial [director] should be someone with banking experience [...], because most of these positions in football are not remunerated, and this requires you either to work with something else or already have a lot of money. And many people want to grow with football and end up doing the wrong thing. They want to [defraud the club's money], win percentages where they should not. The [club] presidents have a lot of responsibility in it. They exchange positions for votes in order to get reelected [...], then the department [related to the exchanged position] cannot function properly, and the club cannot function as well.<sup>35</sup>

Luiz Felipe Santoro adds that:

I think the [football] industry in Brazil suffers from lack of professionalism. It has an enormous potential to generate revenue. For many people [in Brazil, football] is indispensable. There are people who do not eat in order to [be able to afford to] buy a match ticket. If the industry was managed with more professionalism and competence,

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<sup>34</sup> Interview with Kfoury (2009).

<sup>35</sup> Interview with Ribeiro (2009).



many of the players that currently leave [the country] could stay playing here.<sup>36</sup>

Alexandre Loures, a well known football licensed agent and former director of international business of Atlético Paranaense, states the following:

The technical part of football is excellent, the problem is that most of [the club's] administrative areas are still amateur, no one cares. In my opinion, the biggest problem is the administrative issue, the responsibility [issue], the club structural issue. You do not have the professional director being remunerated. It remains that late afternoon thing. Your business is a gas station, but you are the [club's] marketing director and no one can make any decision before speaking with you, but you are at the club only after 7 pm. And the club needs to [work] as a continuous business. The individual has to adapt to the club structure, not the club adapt to the person's structure.<sup>37</sup>

Walter Mattos Junior, president of Lance!, the leading sports newspaper in Brazil, adds that:

The improvement of the industry is fundamentally a matter of governance which should be stimulated by the Brazilian state. The amateur model was very important until the 1980s, but from then on it has been very damaging. [...] There is not one single club that could be used as an example. Not one. There is São Paulo [Futebol Clube], which is no great example of modernity but from what is available is the closest to the ideal, which has a structure [more suited] to the good of the club rather than the good of the director.<sup>38</sup>

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<sup>36</sup> Interview with Santoro (2009).

<sup>37</sup> Interview with Loures (2009).

<sup>38</sup> Interview with Junior (2009).

Even some of those currently controlling or who have controlled a Brazilian football club agree with the need to improve the managerial practices and the qualifications of the club's personnel. As Sanchez puts it:

[I see Corinthians] as one of the top clubs in the world, but which had been held back in time for too long. The club lived too much for the inside. From the outside, [the club] was very big, but inside it was very small, and no one did anything to bring this greatness inside. The club remained stopped for 50 years, largely because of the lack of alternation in power. In the last years it is changing a lot but not everything, because you can not change 50 years in one year. I hope the next presidents continue what I have been doing right and fix what I have been doing wrong. That is the only way it will change. You must [be patient]. [...] You must change personnel. There are new people here now. [...] I have changed 70% of the people. I hope the next president changes 90%.<sup>39</sup>

Mario Celso Petraglia adds the following:

[The solution is] professionalization. There is nothing else. Even if [one considers] the club [a] non-profit [institution], which belongs to its members, these people should participate only as a supervisory council. The administration must be professional, so the supervisory council approve the budget and the planning and let the professional executives be accountable for results.<sup>40</sup>

Nonetheless, as some of the interviews above indicate, despite the struggle there have been improvements in the governance of clubs in Brazil, which follows the overall trend of better governance of sport organizations around the world. Such improvements are driven mainly by changes in the legal environment concerning sport organizations and the demands from multiple new stakeholders, such as

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<sup>39</sup> Interview with Sanchez (2009).

<sup>40</sup> Interview with Petraglia (2009).

commercial sponsors, media organizations and sport services agencies.<sup>41</sup> Tullio Formicola Filho, the Sport Marketing Director of Vulcabras/Azaléia, one of the biggest textile companies in Brazil and also the General Manager of Reebok in Brazil, says that:

The relationship with a club is complicated. They ask all the time, 24/7. Ask, ask and ask. So you need to build a relationship in order to say no, no, no, and yes, this is doable. You must have this position to say that there is a contract and say what can be done and how. It is a much more professional attitude than used to exist.<sup>42</sup>

This new complex web of interrelationships between multiple stakeholders faced by football clubs, and football governing bodies, is a systemic model of governance significantly different from the previous traditional hierarchical and closed model seen in such organizations.<sup>43</sup> Such improvement in the governance of Brazilian clubs is confirmed by other key individuals in the football industry. Eduardo Rosemberg, owner of Roxos & Doentes, a sports retail company in Brazil, says that:

[The way to deal with a club] varies a lot from club to club. As a [commercial] partner, I never get politically involved. I am as transparent as possible and I try to understand what the club wants, its needs. There is a lot of passion involved. A lot of times, the people from the club do not understand about retail and end up imagining that [the club's] brand is worth more than the other [clubs], and they want to gain more [money].<sup>44</sup>

Rafael Stival, owner of a football academy, adds the following:

During these years that I have been in the market, I have seen clubs improving. But there still is a lot of amateurism. [...] I think that the solution for the clubs' problems is fundamentally a matter of personnel.

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<sup>41</sup> Ferkins *et al* (2005).

<sup>42</sup> Interview with Filho (2009).

<sup>43</sup> Amara *et al* (2005).

<sup>44</sup> Interview with Rosemberg (2009).

It is a matter of human resources. In clubs which invested in personnel with [academic] degrees, we see that the [level of] improvement is very high. In clubs which are still persisting with former [football] players, with unprepared personnel, you see that [the club] has problems. There still is a lot of that, where the former [football player] is more valued than an individual with an academic degree. We only work with people with academic degrees. Some people that passed through here in the past did not have a degree, and for me the difference is enormous.<sup>45</sup>

However, there is still a long path of improvements needed. The political and ownership aspects and the voluntary engagement of board directors and council members added to the non-profit characteristic of most of the football clubs in Brazil create yet another challenge to develop a club in business terms. According to the president of a top Brazilian club:

On the day I propose a statutes reform, [...] I would like to propose that the position of club president becomes remunerated. This would allow other people with real capacity and qualification to exercise the [club] presidency, not to be excluded. I, due to the circumstances and because I am a retired [professional], I have my own means of subsistence, my own and my family's, in such a way that I can dedicate myself to [the club] without the need to sacrifice my subsistence, although I do have other activities [besides being the club president]. But I know people who love the club as much as I do but cannot become president. [...] [When I leave the club presidency] I will not vote for a president who depends on other activities to survive, because I think that one thing excludes another. I want my club to be well managed, so I would like someone free from other preoccupations to dedicate himself exclusively to [the club]. Someone with other preoccupations makes the work impossible. [...] I go to the club almost every day, I do not have an established hour to go, and there are many situations where you are working for the club without being at the club, externally, travelling,

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<sup>45</sup> Interview with Stival (2009).

taking care of the interests of the club with the governing bodies, so there are many meetings away, contacts with [commercial] partners.<sup>46</sup>

Filho adds that:

The club needs to have a professional management, and above this management a political president. Why is São Paulo [Futebol Clube] a club that can do so well, which has revenue, which works? Because they solved their political problems. The political situation [party] is in charge of the club, it is very strong. I can count on my fingers the number of clubs that are like that. The individual can be an excellent manager, but he faces many adversities that block his work. [...] I already said [to the clubs] that I do not have any meetings after 7 [pm] any more, because my work starts at 8 am. My working period goes until 7 pm. I can even go [to the club] later, but not to have a meeting to define the planning of a product launch. I have already done this, but not any more. And how does the president do? He has to have meeting at lunch time, at breakfast. It is wrong.<sup>47</sup>

Malaquias contributes by stating the following:

It is hard. [...] Because you negotiate with the club, but when we say club, it is people. People change, philosophy changes, many things change. So a difficulty we find [when dealing with clubs] is the managerial change. You create a relationship, a partnership with the club, which is people, and these people leave and an entirely new set of people come in. Then you have to build the whole relationship again. This is a difficulty. And when there is change in Brazil, it changes many things. It changes almost everything inside the club.<sup>48</sup>

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<sup>46</sup> Interview with Anonymous (2009).

<sup>47</sup> Interview with Filho (2009).

<sup>48</sup> Interview with Malaquias (2009).

The interviews above suggest at least four problems surrounding the governance of Brazilian clubs: lack of continuity; pressures on club presidents; lack of professionalism in executive management; and potential for fraud, dishonesty and use of club office for personal ends. These are, again, characteristics related to the balance between continuity and change, or between democratic and authoritarian presidents. While short presidential terms prevent clubs from being manipulated by one individual, this also creates a difficulty for long term planning, and while long term presidents certainly help the former, it may allow individuals to make use of the club for personal goals.

Part of the reasons why football clubs in Brazil have been struggling to modernize their governance mechanisms is due to the high involvement and subsidization by the state between the 1930s and the 1980s. The strong and historical relationships between clubs and governments have perhaps established football clubs almost as something of a public domain, which inevitably creates barriers to any major change in the current governance system. According to Walter Souza, the Administrative and Financial Manager of Coritiba Foot Ball Club:

The state used to finance football more [in the past]. In the 1970s, or at most until the late 1980s, this used to happen. [But] the government has been improving in fiscal and control terms. There was a time were everything was a bit loose and the public institutions injected money through sponsorship, subventions for the development of regional sport, agreements with football clubs in order to grow [the locality's] representation nationwide, this sort of thing. In the old times this was common. Now it is not any more. [...] [Now] the state stopped helping clubs because they are private organizations, but when the club raises ticket prices in order to increase the revenue, the state complains. [Then] members of the municipal council and Deputies come [to the club] complaining that football is popular culture.<sup>49</sup>

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<sup>49</sup> Interview with Souza (2009).

The lack of demand for governance improvements of clubs by the state in the past added to the limited changes in the governance system of Brazilian football throughout the twentieth century. This can be seen by the fact that, despite struggling in terms of organization, Brazilian clubs have been quite successful in constantly improving their football standards in order to enhance their performance on the pitch to be able to compete. Therefore, despite intense criticism about the business organization and the management of Brazilian clubs, the football and the technical side of the organizations is often praised. The number of international titles of the national squad, the number of Copa Libertadores titles and the number of Brazilian players playing overseas are evidence of this, which can also be seen in the shared opinion of Caio Ribeiro and Paulo Jamelli, both retired players who had started their career in Brazil, played for the national squad, played in Europe and came back to play again for Brazilian clubs before retiring. According to Ribeiro:

The fitness room from São Paulo [Futebol Clube] was good at the time, but at [Internazionale Milan we had] the best equipment in the world. The concentration in São Paulo was comfortable, but at Inter it was luxurious. [...] The difference is the luxury. But what makes the difference in favour of Brazil is the capacity of the professionals, especially in terms of physical and medical capacity. The Physiotherapy Department does not exist in Europe. Brazil is light-years ahead on equipment and professionals. [...] At Inter there was no physical trainer. It was the manager who conducted the [physical] training, helped by the assistant coach. [...] That is why all Brazilian players come back to do their [injury] treatment here. Brazilian sports medicine is much more developed than the European. It got better out there, but it still remains like that.<sup>50</sup>

Jamelli says that:

Brazil is the best of the world in terms of players, sports medicine, on the physiology part, on the physiotherapy part, on the trainers' part and

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<sup>50</sup> Interview with Ribeiro (2009).

on the method, Brazil is the first. It is very different than Europe and I believe that Brazil really is different and is in front of Europe in this part. First because of the quality of professionals and second due to the difficulties that one finds here. Here you have to improvise, and from improvisation you create a talent. In Japan, you went to practise and each [player] had three balls, so there were 70 balls for the players to practise. Here in Brazil, apart from the big clubs, you might even find a club which has no official ball, the ball you play with on Sunday, for practise. This is a silly example. There are the posts, the vest, there are clubs which practise those wearing shirts against those not wearing shirts. [...] So this is the first difference. Although Brazil is the best in all these things, in my opinion, it fails on the organization part, on the professionalism, on the [managerial side] of football, on the marketing part, on the [business] part.<sup>51</sup>

Another indication of how football clubs are much more focused on improving their football performance rather than improving their administrative standards was perhaps the actions taken by Alexandre Kalil, the president of Clube Atlético Mineiro, also a traditionally important Brazilian football club after his election in 2008. His predecessor, Ziza Valadares, had resigned from his position after being accused of several irregularities during his term.<sup>52</sup> Shortly after being elected, Kalil shut down the club's marketing department using the argument that he had the need to invest first in the football team before anything else.<sup>53</sup>

### **Attempts at Reform in Brazilian Clubs**

The widespread claims for change and modernization of the governance system of Brazilian football clubs have existed at least since the late 1970s. The empty and inadequate stadiums, the drain of the most important players to Europe, and the clubs' financial difficulties were, and still are, all seen as evidence of the need to modernize

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<sup>51</sup> Interview with Jamelli (2009).

<sup>52</sup> Globoesporte.com (2008c).

<sup>53</sup> Bertozzi (2008a).



the clubs' governance practices.<sup>54</sup> The argument was that the first step of modernization of Brazilian football was taken by Vargas, when his government made players professionals, and that the next step should be to professionalize the club directors as well. Moreover, it was a conflict of the 'traditional' against the 'modern', where the 'traditional' was the structure characterized by amateur directors, political favours and low level of commercialization of the game, and the 'modern' was characterized by a corporate and professionalized governance system, the profit ethos, the adoption of marketing strategies, and the high commercialization of football. Above all, the argument was sustained that it was a matter of changing the profile of the amateur non-profit club into a high-developed and profitable company.<sup>55</sup>

This eventually led to discussion about changing the ownership status of clubs as a form of professionalizing football in the country. The argument, which was based on what was believed to be the European format of success, was that if clubs changed their members' association status to limited liability companies, they would be able to develop their managerial capabilities and Brazilian football would benefit as a whole, solving the everlasting problems such as the drain of talent and the empty and decrepit stadiums.<sup>56</sup> Curiously enough, as previously mentioned, one of the great critiques of the European football model, especially the British ownership of clubs, is the fact that clubs are limited companies and, due to that, are distant from the community and serve only the interest of their owners. Evidence of this criticism is provided by the supporters of two of the most important English clubs, Manchester United and Liverpool. As mentioned before, some of the most hard core Manchester United fans created FC United, a club which is owned by its members.<sup>57</sup> More recently, supporters' organizations of Liverpool FC tried to establish a plan to buy out the club from its current owners, but without success, at the time of writing.<sup>58</sup>

Nonetheless, the Brazilian state initially proposed club ownership changes through the Zico Law and the Pelé Law. In both laws, the initial idea was to make the change compulsory for professional football clubs, but, as a result of Congressional pressure,

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<sup>54</sup> Melo (2007).

<sup>55</sup> Helal (1997, p. 34).

<sup>56</sup> Gordon & Helal (2001) and Proni (2000, pp. 163-251). For an example of praise for the limited liability model of football clubs, see Grellet (2002).

<sup>57</sup> FC United (2009).

<sup>58</sup> ShareLiverpoolFC (2009).

in both of them the change ended up being optional, which provided little, if any, incentives for such change.<sup>59</sup> When the federal government started to plan the Timemania lottery, which was introduced in 2007, there were also attempts to give the benefit only to clubs which changed their ownership to limited companies, which failed once again.<sup>60</sup> Besides restricting the controlling power at clubs, among other disadvantages, the change of the ownership status of clubs would also have financial implications, as Luiz Felipe Santoro states:

The clubs have to remain as associations because it is much more tax-efficient for it to remain an association than a [limited] company. Today, to transform a club into a [limited] company is a shot in the foot. The company is born already indebted and it will not have any [special] treatment [from the tax authorities]. So the creditor can petition for the club's bankruptcy, and you will have a lot of clubs going bust.<sup>61</sup>

A new ownership model, however, was put in place by some clubs after the early 1990s, a model of a mixed ownership between clubs and private companies. Under this model, private companies would agree a partnership with clubs, where the company could invest to solve the club's debt, acquire new players and build new facilities, such as new stadiums and training grounds. In exchange, the company could profit from the club's football income, such as the transfer of players, stadium revenue, media and sponsorship agreements and sale of merchandise. The income from specific sources could either be destined entirely to the investor or shared in part with the club, depending on the agreement. The investor could also assign an executive director to control the club's football department or choose to leave the decision making power in the hands of the club.

The first club to adopt this model was Palmeiras, which established a partnership with the Italian company, Parmalat, in 1992. Under this agreement, Parmalat would sponsor Palmeiras as well as buy and pay the salaries of new players for the club. When the player was transferred to another club, the money would remain with

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<sup>59</sup> Proni (2000, pp. 198-203).

<sup>60</sup> Mattos (2006c).

<sup>61</sup> Interview with Santoro (2009).

Parmalat. The partnership lasted until the end of the contract in 2000. The eight-year deal, which involved around US\$ 150 million in transfers in and out of the club, was also used by Parmalat as part of its strategy to introduce and popularize the company's brand in the Brazilian market for dairy products, in which the company eventually succeeded. The strategy was even named by FIFA as one of the ten most successful marketing cases in football in the 1990s, while Palmeiras managed to win a total of twelve titles, the most significant being one Libertadores Cup, two National Championships and one Brazilian Cup.<sup>62</sup> Despite the apparent immense success, however, Parmalat suffered a financial collapse in 2003, which was named one of the most scandalous frauds in corporate history.<sup>63</sup> Shortly afterwards, Palmeiras was investigated as a channel for Parmalat to launder money through the international transfer of players, in a scheme involving offshore companies and other partner clubs of Parmalat such as the Italian club, Parma.<sup>64</sup>

At the end of the 1990s and early 2000s, several other Brazilian clubs received money from privately owned companies willing, at least apparently, to invest money in Brazilian football. In 1998, Vasco da Gama closed a partnership with the US bank, Nations Bank, which was acquired by the financial giant, Bank of America shortly afterwards. The original contract predicted that the bank would pay Vasco R\$ 34 million in advance and another 50% of the revenue after the bank income reached the initial value paid to the club in exchange for the rights over the Vasco's football revenues for 10 years. The contract was later modified for at least five times and extended for 25 years, with the possibility of consecutive prorogations at the end of each contract. On each modification of the original contract, the bank gained more power over the club's business in exchange for cash advances.<sup>65</sup> In 2001, however, only three years after the signing of the original contract and the promises of a new business era in Brazilian football, the agreement was unilaterally rescinded by Vasco da Gama. Bank of America soon started a court battle with the club, arguing that the bank had already paid the club almost R\$200 million in three years and the club also owed R\$80 million for the early termination of the contract. Vasco, on the other hand,

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<sup>62</sup> Assumpção (2004a).

<sup>63</sup> An overview of Parmalat's financial collapse is available in Ferrarini & Giudici (2005).

<sup>64</sup> Assumpção (2004b)

<sup>65</sup> Bombig & Gomide (2001). More detailed information on the contracts between Vasco da Gama and Bank of America is available in Althoff (2001).

argued that was Bank of America in fact who owed the club R\$24 million.<sup>66</sup> The club and the company eventually reached an agreement where neither of them paid anything to the other. In 2003, the Bank of America closed its operations in Brazil after more than 50 years, with an estimated loss of R\$500 million due to a series of bad business decisions, including the partnership with Vasco.<sup>67</sup> Nonetheless, Vasco was able to win one National Championship and one Libertadores Cup while the partnership lasted, which were the last significant trophies won by the club.

In early 1998, Bahia, a former national champion and one of Brazil's most popular clubs, sold part of its shares to Banco Opportunity. The agreement, which was curtailed shortly after the club got relegated to the National Second Division, was due to last for 25 years. The bank acquired the controlling power in the club, apart only from the club's facilities, such as the training ground, which would remain controlled by the club's board.<sup>68</sup> In late 1998, however, the agreement was changed due to the fact that the club failed to be promoted back to the First Division. The new agreement gave control of the club back to the club members, although the share divisions remained unchanged.<sup>69</sup> The deal was eventually terminated in 2006, after Bahia was relegated to the National Third Division. In 2008, the owner of Banco Opportunity, Daniel Dantas, was arrested by the Federal Police on a range of financial fraud and criminal charges, such as misconduct, money laundering, tax evasion, conspiracy and insider trading.<sup>70</sup> Bahia was later that year investigated by the Federal Police for taking part in a complex web of companies used by Banco Opportunity to launder money.<sup>71</sup>

In 1999, Flamengo and Grêmio signed agreements with the Swiss sports marketing agency, ISL (International Sports & Leisure), which promised substantial investment in the clubs. In ISL's contract with Flamengo, the company would initially pay US\$80 millions to clear the club's debt, cover the club's daily expenses, acquire new players and build new facilities in exchange for the rights over all Flamengo's brands and commercial revenues for fifteen years, renewable for another fifteen years. 25%

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<sup>66</sup> Bombig (2001c).

<sup>67</sup> Fraga (2004).

<sup>68</sup> Francisco (1998a).

<sup>69</sup> Santamarina & Damato (1998).

<sup>70</sup> Credentio *et al* (2008).

<sup>71</sup> Seabra & Mattos (2008).

of the income would then be shared with Flamengo until the company received back the US\$80 million it had invested. After that, Flamengo's share would increase to 50%.<sup>72</sup> The agreement between ISL and Grêmio was similar, but a smaller investment of US\$50 million would be made.<sup>73</sup> Although ISL had plans to invest much more in Brazilian football, having even signed a letter of intent with Palmeiras in 2000, the partnerships with Flamengo and Grêmio lasted for only fifteen months, ending due to the ISL's worldwide bankruptcy.<sup>74</sup> Flamengo's president at the time of the partnership with ISL, Edmundo Santos Silva, was later accused by the Parliamentary Football Inquiry of money laundering, tax evasion, tax fraud, embezzling and perjury.<sup>75</sup> In 2002, due to misconduct as the club's president, Santos Silva also became the first Flamengo president ever to be impeached by the members in the club's 106 year history.<sup>76</sup> In 2003, he was also arrested by the Federal Police after being accused of participation in a conspiracy that defrauded the Brazilian Social Security and Tax Offices of more than R\$250 million.<sup>77</sup> The Grêmio president at the time of the partnership with ISL, José Alberto Guerreiro, and the club's financial director, Martinho Faria, were also accused by the police, along with eight other individuals, charged with conspiracy and embezzling more than R\$500,000 of the club's money. One of these other eight individuals was the president of the ISL Brazilian office, Wesley Cardia.<sup>78</sup> Neither Flamengo nor Grêmio won any major title during the short time of the partnership with ISL, although Grêmio won the Brazilian Cup in 2001, shortly after the partnership ended.

Corinthians also established partnerships with privately owned companies. In fact, it established three different partnerships in the period of ten years. The first was established in 1997 with Banco Excel, a bank that was apparently willing to replicate the strategy of Parmalat with Palmeiras and use Corinthians to increase its market share through sponsorship and also to build a team filled with star players, for which the bank invested at least R\$ 41 million.<sup>79</sup> The partnership between the club and the

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<sup>72</sup> Althoff (2001).

<sup>73</sup> Gerchmann (1999).

<sup>74</sup> Botelho (2001). For more information on ISL's history, its strong relationship with FIFA and the bankruptcy causes and effects, see Jennings (2006).

<sup>75</sup> Althoff (2001).

<sup>76</sup> Figueiredo (2002).

<sup>77</sup> Melo & Cimieri (2003).

<sup>78</sup> Arruda (2005).

<sup>79</sup> Santamarina (1998).

bank, however, lasted only for one year.<sup>80</sup> In 1998, Banco Excel was sold by the Nasser family, who controlled 55% of the bank's shares, to the Spanish Banco Bilbao Vizcaya for the symbolic value of R\$1.00, due to the fact that the bank was found to have an extensive amount of defaulted bonds.<sup>81</sup> The Spanish bank then waited for the expiry of the contract and did a fire-sale of the players that the Excel bank had acquired to play for the club.<sup>82</sup> While the partnership lasted, Corinthians won only the 1997 São Paulo State Championship and was almost relegated in the National Championship that year. In 1998, however, after the end of the partnership, the team was able to win the National Championship. In 1998, Banco Excel registered a loss of more than R\$1 billion.<sup>83</sup> In 1999, Banco Excel's former president, Ezequiel Nasser, and other members of the bank's board were accused by the Public Ministry of conspiracy, illegal lending and misconduct.<sup>84</sup> In 2006, Ezequiel Nasser was sentenced to three years in jail for misconduct during his time as Excel's president.<sup>85</sup> In 2007, he was again sentenced to another five years in jail for irregular lending.<sup>86</sup>

In 1999, Corinthians signed a new ten year partnership agreement, this time with Hicks Muse Tate Furst (HMTF), a giant US venture capital group, which also signed a partnership with Cruzeiro at the same time. Contrary to the other partnerships, HMTF had larger and more complex plans than to invest solely in football clubs. The aim was to launch a new Latin American sports cable channel, the Pan-American Sports Network (PSN), and acquire the exclusivity of the most important sport broadcasting rights in order to dominate the market.<sup>87</sup> The investment in Corinthians and Cruzeiro was part of a strategy to control the most important Brazilian clubs in order to be able to create a new independent league, which would then wait for the expiry of the ongoing broadcasting contract with Globo and have its games broadcast exclusively by the new on-demand cable channel.<sup>88</sup> However, changes in the Brazilian legal sports environment, which, as mentioned before, ended the retain-and-transfer system and also forbade the control or the ownership of more than one club

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<sup>80</sup> Damato (1998).

<sup>81</sup> Adachi (1998).

<sup>82</sup> Santamarina (1999).

<sup>83</sup> Lucchesi (1999).

<sup>84</sup> González (1999).

<sup>85</sup> Francisco (2006).

<sup>86</sup> Carvalho (2007).

<sup>87</sup> Mattos (2002).

<sup>88</sup> Mello & Bombig (2001a).

by the same company, frustrated HMTF's plans. Furthermore, PSN overpaid for a series of broadcasting rights and HMTF also lost about US\$1.5 billion with the stock market bubble at the end of the 1990s and the bankruptcy of Regal Cinemas in 2001.<sup>89</sup> These factors contributed to the closure of the PSN channel in 2001, which eventually led to the termination of HMTF's partnerships with Corinthians and Cruzeiro in 2002, only three years after they had started. During this period, the venture capital group reported a loss of almost US\$ 50 million with Corinthians and US\$ 700 million with PSN.<sup>90</sup> At the end of the partnership, HMTF sued Corinthians in the International Court of Arbitration for US\$ 45 million, while Corinthians counter claimed R\$ 5.8 million (at the time equivalent to US\$ 1.7 million).<sup>91</sup> During the partnership, Corinthians managed to win one National Championship in 1999 and the first FIFA World Club Championship, hosted in Rio de Janeiro in 2000. Felipe Faro, the current Football Business Director of Traffic, who took part in the due-diligence investigation of Corinthians for HMTF, explains:

[Whith regard to HMTF's project with Corinthians] there occurred a series of errors. Their great goal was to control the broadcasting rights and put them on PSN. The basis was not to control only Corinthians, but to have a Pan-Regional channel, in the whole of Latin America, and profit with the subscriptions for this channel. There were many errors. First, the agreement they had with Globosat both in terms of type of payment [for the channel], which was on-demand, and of the type of agreement, was not good. They also underestimated the Pelé Law and the fact that the retain-and-transfer system would end, and they were counting on having the players attached to the club forever. There was the problem with the government, which limited outside ownership to only one club. They had offers for many clubs and, besides Corinthians and Cruzeiro, they wanted to have one more club in São Paulo, two clubs in Rio [de Janeiro], another one in Minas [Gerais], perhaps one in the South [Region], and then they would close the package. They would keep the contract with Globo until it ended, then they would not renew it

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<sup>89</sup> For an overview of HMTF's businesses, and losses, on the late 1990s and early 2000s, please see Atlas (2003).

<sup>90</sup> Mello & Ruiz (2002).

<sup>91</sup> Cobos *et al* (2004).

and these clubs would have their matches on PSN. [...] They had all the sports and the only one missing was the Brazilian Championship. And they would only get the Brazilian Championship by negotiating with the clubs. And they consequently negotiated with the players as well. For these reasons it did not work and they left Brazil. [...] If you looked over their business plan, it was a wonder. Everything would work just fine. But it did not, perhaps due to a management that did not correspond with the company's expectation, to the Brazilian government which limited the [ownership and control] of more than 1 club and to the lack of faith on the ending of the retain-and-transfer system. [...] They lost a lot of money, especially on PSN. They also overestimated [the value of] some tournaments. They paid an amount much above the market. To those selling, it was wonderful, but later became a nightmare because they did not pay.<sup>92</sup>

In late 2004, two years after the termination of the partnership with HMTF, Corinthians established yet another partnership. The new partner was the Media Sports Investments (MSI), owned by Berezovsky and ran by Kia Joorabchian. The agreement, which was set to last for ten years, stated that MSI would invest US\$ 35 million in the club, US\$ 20 million of which would immediately be paid to clear the club's debt and the other US\$ 15 million used to buy new players. MSI would also pay R\$ 200,000 a month (at the time equivalent to US\$ 75,350) to the social areas of the club, cover the expenses of the club's amateur department and pay all the players' salaries. In exchange, MSI would earn 51% of all Corinthians profits, and be fully responsible to cover any eventual loss.<sup>93</sup> The company immediately brought star players to the club, such as Carlos Tevez, Nilmar and Javier Mascherano, and Corinthians managed to win the controversial 2005 National Championship, when all the eleven matches refereed by Edilson Pereira de Carvalho had to be replayed due to a match fixing scandal.<sup>94</sup> However, by mid 2006, only one and a half years after the

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<sup>92</sup> Interview with Faro (2009).

<sup>93</sup> Cobos & Perrone (2004).

<sup>94</sup> The match fixing episode became known as the 'Máfia do Apito', the Whistle Mafia. In 2009, the public lawsuit against the referee Edilson Pereira de Carvalho was abandoned due to the lack of technical evidence, even though the referee has admitted match fixing. (Fernandez, 2009). Carvalho even published an autobiography explaining, and regretting, what he had done. For that, see Carvalho (2006).



agreement was signed, MSI stopped paying Corinthians and rapidly started to transfer its players to other clubs, such as Tevez and Mascherano who left for West Ham at the end of the 2006 European summer transfer window, right after the 2006 FIFA World Cup in Germany.<sup>95</sup> Although MSI managed to raise the club's income by 35%, expenses grew 85%, leaving Corinthians with a debt of around R\$ 100 million.<sup>96</sup> With no money and no players, Corinthians was relegated to the National Second Division in 2007. As mentioned before, MSI and Corinthians were also later accused of conspiracy and money laundering. Although the partnership ended in 2006, its termination is yet to be made official.<sup>97</sup>

One could argue that the inflow of money from private companies in Brazilian football clubs through the 1990s and the early 2000s was an opportunity missed by the clubs to improve their organizational standards and facilities, as the vast majority of the contracts were cancelled before they expired and despite the promises, not one of these partnerships built a new stadium. One could also blame the missed opportunity on the resistance of clubs to give up control and to professionalize the club's management.<sup>98</sup> The evidence suggests, however, that despite the fact that clubs indeed struggled to comply with the contracts and agreements signed with the partner companies, these companies were far from having proper business plans adapted to the Brazilian football environment. Moreover, apart from ISL and perhaps Parmalat, all the companies which invested money in Brazilian football clubs did not have any previous experience in football projects and, in most of the partnerships, football was only part of the immense range of problems affecting these companies, which eventually led some of them to bankruptcy. It may also indicate that the partnership issues and constraints were caused by much wider factors than those limited by the football sphere, as we can see below in Table 6.2.

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<sup>95</sup> Arruda & Galdieri (2007a).

<sup>96</sup> Arruda & Galdieri (2007b).

<sup>97</sup> Galdieri (2008).

<sup>98</sup> For example in Landau (2003) and Areias (2007, p. 55).

**Table 6.2: The fate of the companies that invested money on Brazilian football clubs (1990s-2000s)**

<b>Company</b>	<b>Partner Club</b>	<b>Period of Partnership</b>	<b>Company's fate</b>
Parmalat	Palmeiras	1992 to 2000	The Italian dairy company filed for bankruptcy in 2004. It was accused of using Palmeiras to launder money.
Nations Bank/Bank of America	Vasco	1998 to 2001	The US bank shut down the Brazilian operation in 2003 after accumulating losses of R\$500 million on different operations in the country.
Banco Opportunity	Bahia	1998 to 2006	In 2008 the Brazilian bank was found to be involved in an immense financial scandal. The owner was arrested and accused of using Bahia to launder money.
ISL	Flamengo and Grêmio	1999 to 2002	The Swiss company went bankrupt in 2002. The presidents of the Brazilian ISL's branch, Flamengo and Grêmio were later sentenced to jail for financial fraud.
Banco Excel	Corinthians	1997 to 1998	In 1998 the Banco Excel owners sold all their shares (55%) to the Spanish bank Banco Bilbao Vizcaya for a symbolic value of R\$1.00, due to the poor financial condition of the institution. These owners were later sentenced to jail for financial fraud.
HMTF	Corinthians	1999 to 2001	The US venture capital group HMTF accumulated a loss of US\$ 1.5 billion in the late 1990s and early 2000s on several different investments throughout the world. HMTF's cable channel PSN recorded a loss of US\$ 700 million and filed for bankruptcy.
MSI	Corinthians	2004 to 2006	MSI's members and the Corinthians president were accused of money laundering and conspiracy.

Table 6.2 also shows that money laundering was a common issue among some of the companies that became involved with Brazilian football clubs in the late 1990s and early 2000s. Football, in fact, is regarded as an environment significantly vulnerable to money laundering and other criminal activities all over the world. This vulnerability is due to a number of reasons: a) the lack of barriers to enter the football sector; b) the complex network of stakeholders; c) the amateurish characteristics of the overall administration of football; d) the diverse range of legal structures; e) the considerable large amount of cash flowing; f) the irrationality of the money spent on transfers and the unpredictability level of future results; g) the club's need for money; h) the poor social background of players; i) the social importance of football; and j) the intangible rewards gained by those investing in clubs.<sup>99</sup> All these points are very evident in the Brazilian context, as has already been noted.

Despite the far from successful historical experience, partnerships between clubs and privately owned companies remain common in Brazilian football. Palmeiras, for example, has a partnership with Traffic focused on trading players. Another example is Fluminense. The Rio de Janeiro club has an agreement with Unimed, one of Brazil's largest private health plan companies, since 1999. Like Parmalat's and Banco Excel's case, Unimed sponsors the club and also gets involved with the transfer of players.<sup>100</sup>

In the late 1990s and early 2000s, some clubs started to create their own partner limited liability companies. This was again the case of Palmeiras, which created the 'Palmeiras Futebol S/A' in 2000, shortly after the end of the club's partnership with Parmalat.<sup>101</sup> Much controversy was raised due to the fact that the new company was created in secret, the club transferred its players' contracts to the new company and it also gave the shareholders the power to establish new partnerships and sell these players to other clubs without having to debate the issue with other club members.<sup>102</sup> Despite the controversy, however, the company still exists.<sup>103</sup>

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<sup>99</sup> For a deeper analysis on the relationship between football and money laundering and other criminal activities, see FATF/OECD (2009).

<sup>100</sup> The partnerships between Palmeiras and Traffic and between Fluminense and Unimed will be discussed with more details in the Chapter 9.

<sup>101</sup> Mello & Bombig (2000a).

<sup>102</sup> Mello & Bombig (2000b).

<sup>103</sup> Palmeiras Futebol S/A (2009).

Some clubs have also been changing their non-profit status and becoming limited liability companies. The first was União São João, a small club from the state of São Paulo, which was bought by a couple of businessmen in 1993.<sup>104</sup> Such a phenomenon, however, appears to be mainly concentrated on smaller clubs, such as União São João. Of the twenty Brazilian First Division clubs in 2009, only Barueri was a limited company. The fact that these small clubs have a small number of fans and members certainly eases the members' opposition or the political challenges involved on the process of changing the club's status. Moreover, the fans and the members might see the new company as an organization with investors which will need to obtain at least a minimum amount of positive performance in order to be able to add value to the players which will eventually be transferred to other clubs, a fact that may add to the overall goodwill towards the changing of the ownership status of the organization.<sup>105</sup>

The diverse ownership status of clubs in Brazil is perhaps a sign of the lack of unity and the heterogeneity found in the Brazilian football environment and, moreover, in Brazilian society as a whole. This lack of unity is also evident, perhaps with much more evidence, in the challenges facing clubs in their own collective organization and in the development of the Brazilian league.

### **The Clube dos Treze and other Collective Bodies**

A league is typically formed when sport teams organize themselves to establish a competition with a regular schedule of matches and agree on a common set of rules and policies in order to determine a winner for the competition. Teams then decide about several issues regarding the league's structure, such as the format, membership and governance of the league.<sup>106</sup>

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<sup>104</sup> Cobos (2004).

<sup>105</sup> The role played by the privately owned clubs which are focused on developing and selling players will be further analyzed on the Chapter 9.

<sup>106</sup> For an overview of the several different league formats and structures available, as well as their economic implications, please see Noll (2003).

The first leagues were created in Brazil in the early 1900s.<sup>107</sup> From then until the late 1930s, many local leagues were created and dismantled due to disagreements among the clubs over regulation issues such as the professional status of football players and the power balance between the elite clubs and other social classes.<sup>108</sup>

As mentioned before, it took a long time to establish a national competition in Brazil. In fact, of all the main traditional football nations around the world, Brazil was the last to establish a National Championship.<sup>109</sup> The first national governing body was created in 1914 in Rio de Janeiro, the 'Federação Brasileira de Sports', the Brazilian Sports Federation, which was composed not only of football clubs, but also a wider variety of other sports clubs. In 1915, however, another national governing body was created in São Paulo by the clubs that did not support the first governing body, the 'Federação Brasileira de Foot-ball', the Brazilian Football Federation. In order to pacify the regional conflicts between both bodies, the Federal government unified them into one single body in 1916, the 'Confederação Brasileira do Desporto' (CBD), the Brazilian Sports Confederation.<sup>110</sup>

The constant changes and conflicts in the scenario of the Brazilian leagues would come to an end after Vargas ascended to power.<sup>111</sup> It was only after the Military Regime was over that clubs would have again the freedom to organize themselves in competitions. In 1985 Brazil returned to democracy and the CBF remained organizing the championship. However, due to the large number of clubs and poor attendances at the time, added to the decrease in the amount of money derived from the Sports Lottery, which was severely hit by a corruption scandal in 1982, and internal political conflicts, the CBF was struggling in its task and announced that it would not be able to organise the 1987 National Championship due to a lack of financial resources.<sup>112</sup> The national governing body then allowed the clubs to organize a tournament themselves should they wish.<sup>113</sup>

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<sup>107</sup> Júnior (2007), p. 63.

<sup>108</sup> Napoleão (2006) and Júnior (2007), pp. 67-69.

<sup>109</sup> Unzelte (2002), p. 422.

<sup>110</sup> Pereira (2000), p. 145 and Júnior (2007), p. 73.

<sup>111</sup> See Chapter I.

<sup>112</sup> Areias (2007), p. 32 and Leal (2007). For a short overview on the Sports Lottery scandal in 1982, please see Kfoury (2007).

<sup>113</sup> Leal (2007).

The main Brazilian clubs then took the opportunity and created a new league, which would comprise the best supported clubs in Brazil, that is, the four main clubs from São Paulo (Corinthians, Palmeiras, Santos and São Paulo), the four main clubs from Rio de Janeiro (Botafogo, Flamengo, Fluminense and Vasco), the two main clubs from Rio Grande do Sul (Grêmio and Internacional), the two main clubs from Minas Gerais (Atlético Mineiro and Cruzeiro) and the main club from Bahia (Bahia). The league was then called 'Clube dos Treze', the Club of Thirteen (C13), due to the number of founding club members, and organized a new National Championship, which would be called 'Copa União', the Union Cup, the first national league ever organized by the clubs.<sup>114</sup> An attempt to organize a league comprising 26 clubs had already been made a little before the creation of the C13, but failed due to the immense rivalry between clubs.<sup>115</sup>

At first, there was no opposition from the CBF to the new C13 league. The only request from the national governing body was to add three more clubs from different states, to which the C13 invited Coritiba, from Paraná state, Goiás, from Goiás state, and Santa Cruz, from the state of Pernambuco, totalling sixteen clubs for the Union Cup.<sup>116</sup>

The 1987 Union Cup is widely regarded as a watershed in the commercialization of Brazilian football. Before this, only the final matches of the championships were broadcast live by television and without any payment for the rights.<sup>117</sup> The C13, however, was able to close a deal with Globo to broadcast the Union Cup for US\$3.4 million as well as also closing some sponsorship and merchandise deals with other companies.<sup>118</sup>

Naturally, the clubs omitted from the C13, especially those which had the right to be in the National First Division should the tournament kept being organized by the CBF, were unsettled by the creation of the new league. The criticism from these

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<sup>114</sup> Areias (2007), p. 33.

<sup>115</sup> Areias (2007), p. 37.

<sup>116</sup> Leal (2007).

<sup>117</sup> Areias (2007), p. 36.

<sup>118</sup> Areias (2007), pp. 40-48. See Chapter 10 for more information on broadcasting deals in Brazilian football.

clubs, added to the commercial success of the C13, prompted the CBF to decide that it could and would in fact organize a parallel competition that same year involving the clubs omitted by the C13. The national governing body then ruled that the 1987 National Champion would only be proclaimed after a playoff tournament between the top two Union Cup clubs against the top two clubs from the CBF's competition. The C13 obviously rebelled against the rule and did not allow Flamengo, the Union Cup winner, and Internacional, the runner up, to play the playoff tournament against Sport and Guarani, first and second respectively in the CBF tournament. Regardless of the C13, the CBF then organized a final match between Sport and Guarani which was won by the former. Sport was then declared the 1987 National Champion, although a strong debate still remains whether Sport or Flamengo should be regarded as the true 1987 National Champion.<sup>119</sup>

Despite the conflicts and the ongoing contracts, the C13 stepped back and allowed the CBF to organize the 1988 National Championship, still under the name of the Union Cup that year but had 24 teams rather than sixteen as in the previous year.<sup>120</sup> After that, the CBF took over the organization of the following National Championships and the C13 abandoned its role as a league. The only exception happened in 2000, when the CBF announced that it would not be able to organize the National Championship and the C13 again took charge.<sup>121</sup> The C13 then created the 'Copa João Havelange', the João Havelange Cup, which involved 116 clubs from all over the country and had a regulation and a fixture schedule so complex that it was even called a 'crazy formula' by the C13 president himself, Fábio Koff.<sup>122</sup>

Unlike the Union Cup, the João Havelange Cup was a disaster in attendance and financial terms.<sup>123</sup> Moreover, it ended in a tragedy when 210 supporters of Vasco got injured in the final match against São Caetano due to overcrowding in Vasco's stadium.<sup>124</sup> The match was then replayed in early 2001 and the title was won by Vasco. After that, the C13 once again gave back the organizing control to the CBF, who has, since then, grown in importance over the clubs and remained as the

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<sup>119</sup> Leal (2007).

<sup>120</sup> Areias (2007), p. 32.

<sup>121</sup> Júnior (2007), pp. 156-157 and Gomide (2001a).

<sup>122</sup> Ruiz (2000).

<sup>123</sup> Cobos (2000).

<sup>124</sup> Gomide (2001b).

controller of the Brazilian National Championship.<sup>125</sup> Since then, the C13 has been essentially concerned in negotiating broadcasting rights for the National First Division, which has raised a number of criticisms over the limitations of its role. As Juca Kfourri puts it:

The [C13] could have been the precursor of the [English] Premier League. It was created in 1987 and organized the most successful Brazilian Championship, the Union Cup [...]. A lean championship, sixteen clubs, matches only at weekends and, after it all worked well, despite the support from the main television network in the country – who told [the C13] that it would support a fight against the CBF – there is an elite agreement and, in 1988, it recombines with the CBF. The agreement happens because it is the Brazilian way of life. No one wants to fight, the Federal Government intervened through the CND, the [C13] president was friends with the CBF representative, and it stayed like that. The [C13] turned into a broadcasting contract mediation agency. It gave up on organizing the National Championship. It did that João Havelange Cup and, at the end of the tournament, the [C13] president was on a sea cruise under the justification that he had already bought the tickets and could not have predicted another match due to the problems that occurred.<sup>126</sup>

Luiz Felipe Santoro adds that:

I think [the C13] is very active, but I believe it could have a better understanding of its role in order to have a greater importance, because today it serves basically to negotiate the [broadcast] deal with Globo. Perhaps it is not the [C13]'s fault, but the clubs'. They need to be more united. If the [C13] managed to unify the clubs, everyone would end up winning. They would stop, for example, stealing players from each other. They could also avoid auctions over players' transfers.<sup>127</sup>

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<sup>125</sup> Bueno & Mattos (2007).

<sup>126</sup> Interview with Kfourri (2009).

<sup>127</sup> Interview with Santoro (2009).



The president of C13, Fábio Koff, however, explains why the organization plays only a limited role in the organization of Brazilian football:

In my last year as Grêmio's president, in 1995, they decided to elect me as the president of the [C13], in order for me to start a slow process of professionalization. Until then, the [C13] was managed in an amateurish way. The first challenge was to increase the amount of the broadcasting deal of the championship, which we were able to do with much success. [...] [The C13] is an organization that today has a very small structure, lean, but [we are] able to manage the broadcasting deals of the National Championship, we are invited for meetings with the [National] ministries and other representative bodies. Internal conflicts always exist, because if you ask a football club, it will never recognize that the other club is bigger. Then you end up losing yourself in debates such as the [Union's Cup trophy], which happened twenty years ago and [they] are still discussing it. But you have to maintain the unity, because there are a lot of issues which are of common interest. [...] There are questions why there is not a league in Brazil. Because there is no legal framework in order to create a league, because the same [legal] device that allows a league to exist also demands that it has to be approved by the CBF and that it must follow the CBF's calendar. But the CBF has 27 [state] federations, and each one has its own calendar. How can you create a league with a calendar that changes from federation to federation? The [state] federations are CBF's [own divisions], therefore their relationships [with the CBF] are much better. So the [C13] turned solely into a dealer of broadcasting rights deals, because it can not be different under this legislation.<sup>128</sup>

As one can see, C13 is a peculiar organization. Although it was originally created and still is generally seen as a league, it does not organize or regulate the Championship nor does it have any major task apart from negotiating the broadcasting rights of the

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<sup>128</sup> Interview with Koff (2009).

First Division of the National Championship. And contrary to what one could imagine of an ordinary league, the C13 is not composed of all the First Division clubs nor is it made up of only clubs in the First Division. It sells the broadcasting rights of an open competition, which is subjected to promotion and relegation, and, at the same time, it is a closed organization, with enrolment subjected to approval.<sup>129</sup> Table 6.3 shows the clubs currently enrolled with the C13.

**Table 6.3: C13's members and year of enrolment**

Club	Year of enrolment
Atlético Mineiro	Founding Members in 1987
Bahia	
Botafogo	
Corinthians	
Cruzeiro	
Flamengo	
Fluminense	
Grêmio	
Internacional	
Palmeiras	
Santos	
São Paulo	
Vasco	
Coritiba	
Goiás	
Sport	Clubs invited in 1999
Atlético Paranaense	
Guarani	
Portuguesa	
Vitória	

Source: C13's website.<sup>130</sup>

The enrolment procedure is perhaps a sign that, in contrast to ordinary club organizations, the C13 is much more a political body than an organization which is concerned with the commercialization of the championship in which its clubs play.

<sup>129</sup> The role of C13 in dealing the broadcasting rights of the Brazilian First Division Championship will be discussed with more details on the Media chapter.

<sup>130</sup> C13 (2009).

The organization is also biased by the influence of its founding members, which receive a bigger proportion of the broadcasting rights revenue.<sup>131</sup>

Another difficulty faced by the C13 or any other club organization in Brazil is the fact that, as mentioned above, some clubs are fierce rivals and those individuals elected by the club members to direct the clubs are not willing to give up on the rivalry in order to reach an agreement that could benefit both rival clubs equally. As Petraglia says:

It is hard to deal with other clubs, very complicated. [...] Because the [football] clubs in Brazil are non-profit, the legislation is archaic and does not put responsibility on the [club's] board, and since the [board] mandates are short and the position is not remunerated, the [club] director will give himself very fast goals, very immediate. And this confrontation on changing cultures is a long term thing, with great difficulty. And the [club] directors are supporters, they are not professionals. They donate themselves to the club and take emotional rather than rational issues to the meetings, their interests are particular to their club and not to the whole. If he lost a derby on the previous Sunday and the meeting is on Monday, he votes against it.<sup>132</sup>

Marco Aurélio Cunha, director of São Paulo FC, states:

The football clubs are disunited. Because the confederations are so sovereign and the contract negotiations are so superior that no club changes anything. They are submissive to the contracts agreed with the television [network], they ask for money from the [State] federation, this sort of thing. And this takes independence from the clubs. And the effects of this disunity are broadcasting [deals] smaller than the market possibilities, little power with the CBF, little power with the local federation [and] bad bargaining [power].<sup>133</sup>

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<sup>131</sup> See Chapter 11 for more details on the split of the broadcasting rights revenue.

<sup>132</sup> Interview with Petraglia (2009).

<sup>133</sup> Interview with Cunha (2009).

Sanchez adds that:

Football is competition. I have my opponents. What is changing [now] is that we need to be enemies within the 90 minutes [of the game] and help each other the rest of the time. Until recently, this was impossible. Today the relationship is still a bit complicated, but it is changing a lot. It is not [the fact] that there is no unity, but the clubs are competitors. One needs to have much more than the other. It is a complicated situation. They talk, but they want to take from each other.<sup>134</sup>

As one can see from the declarations above, the rivalry and disunity of clubs in Brazil added to the political bias of the organization and the governance related issues of football clubs in the country certainly contributes to constrain the role played by the C13 in the Brazilian football environment. Such disunity and lack of representation, however, is not only restricted to the football clubs. According to Paulo Jamelli:

Could you imagine what the CBF would do if the twenty clubs get together and decide not to play the [National] Championship? I think that the clubs need to sit down with the CBF and talk, but then vanity arises, the CBF does not accept what the C13 proposes and vice-versa. Between clubs one president wants to have more influence than the other. It is like the football players, there is no union. Everyone is looking at their own belly.<sup>135</sup>

The first football players' organizations in Brazil were created more than 50 years ago, but had remained limited to a state level until 2001, when the 'Federação Nacional dos Atletas Profissionais do Futebol' (FENAPAF), the National Federation of Professional Football Athletes was created, which is essentially a body composed of the State football players' unions in the country. Although the FENAPAF has grown in influence since and has recently been awarded with a place on FIFPro's board, it has also been struggling to increase the importance of the still limited role it plays in the Brazilian football environment. Despite the constant news regarding

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<sup>134</sup> Interview with Sanchez (2009).

<sup>135</sup> Interview with Jamelli (2009).

delays or default on salary payments and other labour related costs by football clubs, one of the main reasons for such difficulties is the lack of unity of Brazilian football players.<sup>136</sup> Caio Ribeiro adds:

I have never used the union because I believe that the union does not have the power it should have, largely because of class disunity. Players here [in Brazil] are not as united as the players in Argentina, for example. No one here will refuse to enter the pitch if the salary payment is delayed, because there is no unity among the football players. Unfortunately everyone has a mouth to feed. I participated in a strike attempt [when I was playing for] Botafogo, but I told [the players] that it would have a negative effect on their careers. We are disunited because there are clubs who pay [the salaries correctly] and the player depends too much on his salary and is afraid of being fired and not have anything else to do with his life.<sup>137</sup>

The lack of overall unity among the different stakeholders in Brazilian football creates little, if any, obstacle or resistance to the consolidation of the traditional vertical hierarchical structure of football governance. Despite the fact that, as mentioned before, football clubs in Brazil themselves have been internally developing a more systemic framework of governance, there is little evidence to suggest that such a change is occurring or is likely to happen anytime soon in the overall structure of Brazilian football, which remains controlled mainly by the National Association, the CBF, and its state representatives.

### **The CBF and the State Federations**

A national football association is the country's football governing body affiliated with FIFA. According to FIFA's statutes, only one football association in each country is allowed to become a member of the organization. The association's responsibilities are essentially to organise and supervise football at national level, following the

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<sup>136</sup> Martorelli (2004) and Dario (2008). The clubs' difficulties regarding the payment of players' salaries will be further discussed on the following chapter.

<sup>137</sup> Interview with Ribeiro (2009).

statutes, aims and ideals of FIFA.<sup>138</sup> Governing bodies such as the national football associations, follow different models and forms of operation around the world and have a wide range of responsibilities, which can be essentially divided into three different roles: a) the legislative role, by defining and reviewing the format and rules of domestic competitions; b) the judicial role, in which the body monitor and enforce the rules, as well as arbitrating disputes; and c) the executive role, by promoting, scheduling, managing, endorsing, commercializing and regulating competitions at different levels.<sup>139</sup>

In Brazil, the football national association is the 'Confederação Brasileira de Futebol' (CBF), the Brazilian Football Confederation, which, as mentioned before, was created in 1979 after the CBD was dismantled. The body is based in the city of Rio de Janeiro and comprised of 27 state football federations, to be discussed later in this chapter, and the twenty clubs playing the First Division of the National Championship.<sup>140</sup>

The CBF is certainly the main football governing body in the country, as it not only controls the male and female national squads but also organizes the four different divisions of the National Championship and the male and female Brazilian Cup, while the state federations are responsible for organizing the state championships.<sup>141</sup> Therefore, the organization and regulation of all football competitions in the country are in the hands of the CBF. Because football plays such a important historical role in the Brazilian society, it could be considered a natural consequence that the governing body responsible for the competitions and also for the national squad is seen as an institution that needs to be subjected to at least some control by the public authorities. As mentioned in the previous chapter, the Chamber of Deputies' Parliamentary Inquiry was even established due to the argument that the sponsorship deal between CBF and Nike was a threat to national sovereignty. According to Senator Álvaro Dias, president of the Senate Football Parliament Inquiry:

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<sup>138</sup> FIFA (2009a).

<sup>139</sup> Hoehn (2006).

<sup>140</sup> Filho (2005). Note that there are only limited and secondary information regarding CBF's statutes, as the governing body hardly publishes any relevant institutional material on its website or in any other publicly available platform.

<sup>141</sup> For more details on CBF's competitions, see CBF's website: <http://www.cbf.com.br>.

Football is, under the Constitution, part of Brazil's cultural patrimony. That is why I believe the CBF has to be supervised by the National Audit Office. The CBF is a sort of parastatal [organization] because it indirectly uses public resources, since the national squad is a cultural patrimony of the Brazilian people.<sup>142</sup>

The CBF, however, insists that it is a private organization and should not be subjected to any type of government intervention, in accordance with FIFA's regulations for its member associations.<sup>143</sup> In the CBF's new statutes, approved in 2005, it was even re-affirmed that the CBF is a private and autonomous organization, safeguarding it from any possibility of state intervention in its activities.<sup>144</sup>

However, in order to justify the opening of its investigation, the Senate Football Parliamentary Inquiry used the argument that although it did recognize the CBF as a private organization, the football governing body exercised a role of public importance in Brazil, and therefore should be subjected to a stricter control from the state. Moreover, the Parliamentary Inquiry also argued that the autonomy of any organization was valid only in licit situations, that is, the liberty of organization enjoyed by CBF did not give the football governing body the right to do whatever it wanted to do, with no regard to the established laws of the country.<sup>145</sup> One example of this was perhaps the customs scandal involving the national squad in 1994, an event that became known as the 'vôo da muamba', the smuggling flight. After the team won that year's World Cup in the United States, the delegation flew back to Brazil, stopping first in Recife, then in Brasília – where the players received a Sports Merit medal from President Itamar Franco – before arriving in Rio de Janeiro. On arrival, the delegation needed to pass through customs, as any other ordinary Brazilian citizen arriving from a foreign country would. However, when the CBF's president Ricardo Teixeira heard that customs officials were preparing to inspect the delegation's luggage, he protested, threatened to give back the medals the players had just received and to cancel the players' victory parade in the city, and also called Brasília and managed to exempt the delegation from the customs' inspection. According to the

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<sup>142</sup> Interview with Dias (2009).

<sup>143</sup> FIFA (2009a).

<sup>144</sup> Filho (2005).

<sup>145</sup> Althoff (2001).

Federal Authorities, the national delegation had left Brazil with 3.4 tons of luggage and came back from the World Cup with 14.4 tons. Branco, the left-sided defender who scored the winning goal against Netherlands in that World Cup's Quarterfinals, had reportedly brought a complete set of kitchen equipment worth approximately US\$18,000 from the US. Teixeira was also accused of bringing around US\$45,000 in equipment for his brewery. The customs limit was US\$ 500.<sup>146</sup>

Ricardo Teixeira, who married the daughter of the former FIFA and CBD president, João Havelange, was elected to the presidency of the CBF in January 1989 and has remained in the position until early 2012, when he resigned his post due to poor health condition after a series of corruptions allegations.<sup>147</sup> A former businessman with a financial background, Teixeira became the president of the CBF after three years of intense lobbying efforts with the presidents of the state federations, which started in the 1986 World Cup, when Teixeira and Havelange invited them to Mexico and provided hotel accommodation and match tickets free of charge. Another part of Teixeira's lobbying was to use the rhetoric of organizational modernization in his electoral speeches and present the state federations with gifts and other incentives worth a total of around US\$2 million.<sup>148</sup>

When elected, Teixeira found in the CBF an organization that was derelict and also unsuccessful on the pitch, having won its last World Cup in 1970. Broadcasting deals for the national squad matches were small and the governing body was struggling financially, dependent on the help of the Federal Government, which indirectly sponsored the national squad through the Brazilian Coffee Institute, a state organisation dating back to the early twentieth century.<sup>149</sup> In twenty years under Teixeira, however, the Brazilian national squad won two World Cup titles, in 1994 and 2002, and became the runner up in the 1998 World Cup. Moreover, the CBF now receives a total of US\$100 million a year from seven official sponsors of the national

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<sup>146</sup> The Brazilian National Squad delegation was later sentenced by the Brazilian Court to pay around R\$ 46,000 in taxes, which was all paid by CBF (Bombig & Mello, 2002a). In 2008, fourteen years after the event, Teixeira was sentenced to pay around over R\$ 2,300 in penalties to the Federal government (Souza, 2008). In 2009, he was sentenced again on another process regarding the 1994 flight and lost his political rights due to mismanagement with public officials (Rangel, 2009).

<sup>147</sup> Folha de São Paulo (2012).

<sup>148</sup> Bombig & Mello (2002b).

<sup>149</sup> Ibid.



squad and charges approximately US\$2 million for a friendly match, which helped the governing body to generate a profit of R\$ 32 million in 2008.<sup>150</sup> Therefore, it is little surprise that the governing body is considered a very well managed organization, despite the several problems facing the football clubs in Brazil. According to Petraglia:

I believe the CBF plays a very important role, but is too concentrated on the National Championship and on the national squad. The [state] federations should already have been extinguished. There should be a Brazilian Federation, and not a Brazilian Confederation. The clubs' participation in the CBF is too small, so [the CBF] should let the clubs organize the leagues, having a peaceful and proactive relationship. But Brazilian football is very successful as far as the CBF is concerned. The National Championship is very competitive, contrary to Europe. And the national squad has five World Cups, and now [the CBF] has brought the World Cup [to Brazil in 2014]. Of course there are problems, of course it could get better, but it is an entity that is extremely well managed.<sup>151</sup>

Such success, however, has not been achieved without much controversy. In the twenty years under Teixeira, the organization has been hit by several scandals such as the previously mentioned 'vão da muamba'. The Football Parliamentary Inquiry also accused Teixeira of tax evasion, embezzling CBF's money and money laundering, among other crimes.<sup>152</sup> According to Juca Kfour:

The CBF is a fruit of engineering created by [the former FIFA president] João Havelange. The same João Havelange, who, in the [presidency of] the CBD, did politics with the Brazilian [Military government]. He has always socialized with dictators, he has always been very skilful. He reproduces in FIFA what he does here [in Brazil]. Here he took his son-in-law, an unsuccessful and broken businessman,

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<sup>150</sup> Further details on CBF's sponsorship deals are available in Bertozzi (2009a). Information on CBF's profits in 2008 is provided by Máquina do Esporte (2009a). The value of US\$ 2 million for a friendly match was charged by CBF for the match against Estonia in August 2009 (Cobos, 2009a).

<sup>151</sup> Interview with Petraglia (2009).

<sup>152</sup> Arruda & Perrone (2009).

and put him in the presidency of the CBF. And what does Ricardo Teixeira do? He takes the CBF, the national squad, and transforms it into the Brazilian football brand. [...] Then the CBF suffocated the clubs, with their own connivance. Here in Brazil what matters is the World Cup, not the National Championship.<sup>153</sup>

Despite the scandals, the CBF enjoys great popularity among politicians, at least in part possibly because it has been very successful in obtaining good results on the pitch with the national squad. Shortly after the different accusations were made by the Football Parliamentary Inquiry, the national squad managed to win the 2002 World Cup. According to Senator Álvaro Dias:

If Brazil had not won the 2002 World Cup, Ricardo Teixeira would not have ever entered Brazil again and, with the victory, he walked in the Presidential [Palace] and was honoured. This is a figure of speech, but the victory gave him a safe conduct. He would have had difficulties to come back to Brazil due to what the Parliamentary Inquiry had concluded about his management of CBF [...]. The fifth World Cup title was a safe conduct. [...] Those who should be condemned were celebrated.<sup>154</sup>

As mentioned before, the relationship between the CBF and the political powers in Brazil is very intense. Up to 2001, the organization even owned a country house in Brasília, known as the 'Embaixada da Bola', the Football Embassy, where it organized football matches between Congressmen and other public officials in order to lobby for its interests. After the Football Parliamentary Inquiry, however, the CBF decided to close the Embassy and shifted its strategy to scheduling matches of the national squad in the electoral regions of the politicians that the body wants to lobby.<sup>155</sup> The CBF also traditionally donates funds for political campaigns at municipal, state and federal levels. In 2002, right after the Football Parliamentary Inquiry, the CBF spent over R\$1 million on donations for the state and federal

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<sup>153</sup> Interview with Kfour (2009).

<sup>154</sup> Interview with Dias (2009).

<sup>155</sup> Bombig (2001d).

campaigns, an increase of 101% compared with the previous donations made in the elections for state governors and the national presidency held in 1998.<sup>156</sup> Table 6.4 shows the amount of donations made by the CBF to political campaigns from 2002 to 2008:

**Table 6.4: CBF’s donations to political campaigns (2002-2008)**

Year	Total Amount	Election Level	Total Candidates	Elected Candidates
2002	R\$ 1,180,000.00	Federal and state	15	8
2004	R\$ 280,000.00	Municipal	6	3
2006	R\$ 600,000.00	Federal and state	6	4
2008	R\$ 345,000.00	Municipal	12	7

Source: Data from the 2002, 2004 and 2006 elections are provided by the *As Claras* website: [www.asclaras.org.br/](http://www.asclaras.org.br/). Data from the 2008 elections is provided by the Brazilian Supreme Electoral Court website: [www.tse.gov.br](http://www.tse.gov.br).

Furthermore, the CBF also uses other lobbying tactics with public authorities, especially through the use of matches of the national squad. The Football Parliamentary Inquiry discovered that the governing body spent over US\$ 300,000 to pay all the travel expenses of three members of the Judiciary and their respective wives for a twenty day trip to the 1994 World Cup in the United States. In the 1998 World Cup in France, the CBF paid at least US\$ 75,000 to cover all the expenses of another five Judges.<sup>157</sup> In June 2008, the CBF chose a member of the National Audit Office, the government branch responsible for supervising public spending on the 2014 World Cup, to head the national squad delegation to the qualifying match for the 2010 World Cup against Paraguay played in Asunción.<sup>158</sup> As Senator Álvaro Dias explains:

The CBF uses very well the resources and the prestige it has due to Brazilian football, especially the national squad. It does public relations with the three powers – with the Executive, with the Judiciary and with

<sup>156</sup> Cobos & Sakate (2003).

<sup>157</sup> Althoff (2001).

<sup>158</sup> Cobos (2008).

the Legislative – offering courtesies. [...] When there is a great football spectacle in Brazil or overseas, there are always privileged invitations for [representatives from] the three public powers. And there are spectacles where there is the impression that they are created only for that, spectacles with objectives of a political nature. So the influence of the CBF on politicians is great.<sup>159</sup>

Apart from controlling the national squad, the CBF is also responsible for organizing the national championship in all its four divisions, among other duties. This suggests that the body not only has the power over the Brazilian national squad but also exerts a significant influence over the Brazilian clubs, which – as also previously mentioned – have a fragmented unity and therefore have little, if any, power to oppose the CBF collectively should they wish to.

Brazilian clubs also fear a possible confrontation with the CBF, even in cases such as the non-compensation for an injury of a player when playing for the national squad. The fear lies in the fact that a confrontation might ignite retaliation from the governing body.<sup>160</sup> Such retaliation could be manifested in several different forms, such as the banning of the club from any FIFA official competition or by diminishing the chances of having a player from the club called up for the national squad. Since players' transfers are a very important source of income to Brazilian clubs, and inclusion in the national squad increases significantly the value of a player, it could be argued that the CBF also has at least some influence over the clubs' revenues, which possibly discourages a club from rebelling against the governing body of Brazilian football.

Therefore, both the state and the football clubs, two of the main stakeholders of Brazilian football, are currently subjected to the CBF's influence. Even the Globo Network, which is the main media conglomerate in the country and another very important stakeholder in Brazilian football, also shares common interests with the governing body. In August 2001, despite having an ongoing contract with the CBF for the rights to broadcast the matches of the national squad, Globo aired an investigative

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<sup>159</sup> Interview with Dias (2009).

<sup>160</sup> Mattos (2005).

report on the CBF's president, Ricardo Teixeira, based on the conclusions from the Parliamentary Inquiries, publicly exposing the irregularities found over the management of the CBF. In retaliation, Teixeira, who knew beforehand about the report and unsuccessfully tried to block the programme, threatened to break the TV contract and change the kick-off time of the midweek national squad matches from 9.40 pm to 8.30 pm, which would conflict with the normal programming of Globo, which traditionally uses this slot to broadcast the national news and its main telenovela, two of the network's main programs.<sup>161</sup>

Teixeira, in fact, managed to convince the AFA, the Argentine Football Association, to reschedule a match between both national squads in September 2001, possibly the main South American derby, to 8.00 pm, and although Globo Network protested, it eventually delayed the airing of both the national news and the telenovela until after the match.<sup>162</sup> Reports at the time suggested that at least part of the reason why Globo Network aired the investigative report on Teixeira was due to an ongoing discussion between Globo and FIFA regarding a payment of US\$60 million made by the network for the broadcasting rights of the 2002 World Cup.<sup>163</sup> The payment was made by Globo to ISL, which went bankrupt, and was never registered by FIFA, thus the organization did not recognize the network's payment.<sup>164</sup> In October 2001, the issue was eventually settled between all the involved parties.<sup>165</sup> Globo broadcast the 2002 World Cup, the national squad matches under CBF control went back to the 9.45 pm kick-off time and Globo never again aired an investigative report on the CBF or Ricardo Teixeira.

Governing bodies above the CBF in the organisational pyramid also rarely intervene or have much influence over Brazilian football. The 'Confederación Sudamericana de Fútbol', the South American Football Confederation (Conmebol), is based in Paraguay and presided over by the Paraguayan Nicolás Leoz, who has been in control of the organization since 1986. In 2003, Leoz, who was born in 1928, was acclaimed president for life of Conmebol by the ten associations that are part of the

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<sup>161</sup> Victor *et al* (2001).

<sup>162</sup> Mello (2002).

<sup>163</sup> Bombig & Mello (2002c).

<sup>164</sup> Please see Jennings (2006) for a more detailed overview on the payment confusion involving Globo, ISL, Kirch and FIFA.

<sup>165</sup> Mello & Bombig (2001b).

Confederation.<sup>166</sup> This is evidence of the high level of popularity that Leoz shares among the national associations. He is also known for being a conciliator, working towards the interests of the two main national associations in South America, the AFA and the CBF, and for alleged fraud.<sup>167</sup>

The lack of intervention and influence possibly makes Conmebol more recognized in Brazil for organizing continental competitions such as the Libertadores Cup and the South American Cup at club level and the 'Copa América' at national squad level. Perhaps the most significant conflict, if not the only conflict at all, between Brazilian football and Conmebol is the occasionally strong debate regarding the altitude limit for football matches, due to the fact that Brazilian clubs and the national squad often struggle to perform when playing in high Andean cities and health authorities consider that such matches put players' heart and lungs at risk.<sup>168</sup> Other than that, however, the relationship between the CBF and the Brazilian clubs and Conmebol seems peaceful and quiet.

Therefore, the CBF's strong relationship with some of the main stakeholders in Brazilian football – governments at different levels, clubs, Globo Network, Conmebol and FIFA – added to its recent good financial condition and the national squad's successful on-pitch performance, provides little incentive for any change over the system controlled by the football governing body, even though the organization has suffered numerous accusations of mismanagement, clubs all over the country are in financial difficulties, local stadiums are generally old and decrepit, overall attendances are low, reports of violence between rival fans are frequent and corruption reports involving football clubs and authorities are common. Furthermore, the award of the 2014 World Cup to Brazil has also increased the bargaining power of the CBF, especially with governments and the media, as any conflict with the football governing body could lead to political or commercial retaliation, such as the choice over the importance of the matches to be played in a given host city.

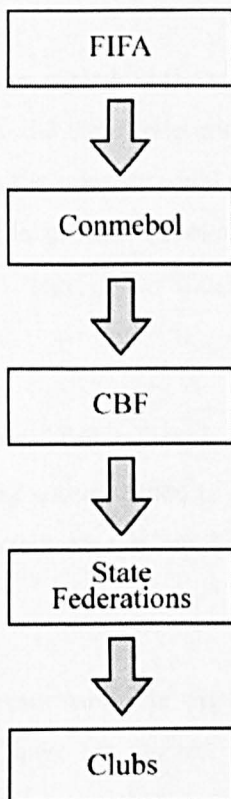
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<sup>166</sup> The national associations which are part of Conmebol are: Argentina, Bolivia, Brazil, Chile, Colombia, Equator, Paraguay, Peru, Uruguay and Venezuela.

<sup>167</sup> Duarte (2003) and BBC (2010).

<sup>168</sup> Bueno (2007) and Cacioli (2008).

**Figure 6.3: The vertical hierarchy of Brazilian football**



The high concentration of duties regarding the organization of Brazilian football in the hands of the CBF perhaps adds to the difficulties faced by football clubs in establishing a league, improving commercial and governance standards and planning a better strategy to solve their deficiencies. However, the disastrous João Havelange Cup, which was organized by the C13, was possibly a sign that clubs in Brazil cannot, at least for the moment, do a better job than the CBF in organizing their own championship. Moreover, the twenty First Division clubs are already part of the CBF's general assembly, together with the 27 state federations, which allows them to have at least some influence over the command of the Brazilian football. The football governing body's statutes also provides clubs with the liberty to organize a league should they wish, although the league would then have only one vote in the CBF's general assembly, which means that clubs would in fact lose nineteen votes in the assembly if they choose to create a league.<sup>169</sup> These facts suggest that football clubs in Brazil have little incentive to choose to make any significant change in the overall

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<sup>169</sup> Filho (2005).

hierarchy of command of Brazilian football, which is shown in Figure 6.3, as they are apparently content to be subordinated to the CBF.

Perhaps the only significant debate regarding the structure shown above concerns the importance of the role played by the state federations. This dates back to the earlier stages of football in Brazil when the constitutional status of the country was that of a federal republic with considerable powers devolved to the individual states. Clubs from the most developed football states do not like being subject to a state federation, as argued by Luiz Felipe Santoro:

The role played by the [state] federations is historical, from a time when Brazil was still developing and it needed to be important. Nowadays the federation is only important to the smaller clubs, not to the bigger [clubs].<sup>170</sup>

State federations are the bodies responsible for organizing football at state level. Like the CBF, the state federations have an elected president who is responsible for controlling football in the state and organizing state competitions, among other duties. The tasks of the São Paulo State Football Federation (FPF), for example, are: a) to encourage the improvement and the diffusion of football; b) to organize football competitions; c) to enhance the physical, intellectual, moral and civic culture of athletes, especially the youth; d) to contribute to the technical and material progress of the affiliated associations; e) to promote youth educational campaigns through the incentive of football; and f) to create and assist social projects in football schools.<sup>171</sup>

The state federations are composed of all the local amateur clubs and leagues and professional clubs, which creates an enormous electoral college that forms the federation's general assembly. Table 6.5 compares the number of professional clubs affiliated with each state federation in 2001 and the number of clubs from each state playing in the top two National Division Championships in 2009, showing that the top clubs in the country are the minority in their respective state federation.

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<sup>170</sup> Interview with Santoro (2009).

<sup>171</sup> FPF (2009).



**Table 6.5: Total of registered professional clubs in 2001 and number of top 2 national division clubs per state in 2009**

State	Number of Registered Clubs in 2001	Number of Clubs in the 2 Top National Divisions in 2009
Acre	8	0
Alagoas	23	0
Amapá	12	0
Amazonas	13	0
Bahia	29	2
Ceará	24	2
Distrito Federal	20	1
Espírito Santo	30	0
Goiás	29	3
Maranhão	18	0
Mato Grosso	18	0
Mato Grosso do Sul	24	0
Minas Gerais	50	3
Pará	22	0
Paraíba	21	1
Paraná	53	3
Pernambuco	21	2
Piauí	13	0
Rio de Janeiro	56	5
Rio Grande do Norte	16	2
Rio Grande do Sul	63	3
Rondônia	16	0
Roraima	6	0
Santa Catarina	35	2
São Paulo	136	11
Sergipe	19	0
Tocantins	14	0

Source: Helal *et al* (2005).

According to the statutes of the Alagoas state Football Federation (FAF) and the Sergipe state Football Federation (FSF), which may represent a common pattern for

all state federations' statutes, every league and club has the right to vote in the general assembly, although the amateur clubs and leagues have the right to one vote, while the professional clubs have the right to two votes.<sup>172</sup> Despite this, the top clubs from each state, such as those participating in the First and Second Division of the National Championship, struggle to have a greater importance in the federations since they are far outnumbered by the smaller and the amateur clubs and leagues. This electoral system also enables groups of individuals to keep long and tight control over the command of the state federation through agreements and favours to the smaller clubs.<sup>173</sup> Subsequently, the state federations also have the majority of votes in the CBF's general assembly, meaning that the top Brazilian clubs could hardly have a significant role or representation over the control of football even if they were united, which – as argued before – is not the case. In 2000, for example, the top Brazilian clubs quit their respective state championships, played mostly against small clubs, and started to organize themselves in regional leagues. After three years of strong lobbying by small clubs and state federations, the CBF cancelled the regional leagues and obliged the top Brazilian clubs to take part again in their respective state tournaments.<sup>174</sup>

Although undoubtedly democratic, this governance system possibly presents yet another constraint for the development of top football clubs in Brazil, as clubs are obliged to play a State level competition in order to cater to the interests of the federation and the smaller clubs, even though the competition often operates at a loss, as Mario Celso Petraglia explains:

The state championships should have been extinct a long time ago, because they are old, antique, operate at a loss, but are maintained for political convenience of the local federation, to keep its power over the bankrupt, broken and scrapped clubs. [...] We want to do [overseas] excursions, friendly matches, [but] you can not because you need to compete against sixteen bankrupt clubs from your State.<sup>175</sup>

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<sup>172</sup> FAF (1991) and FSF (2003).

<sup>173</sup> Althoff (2001).

<sup>174</sup> Monken (2002).

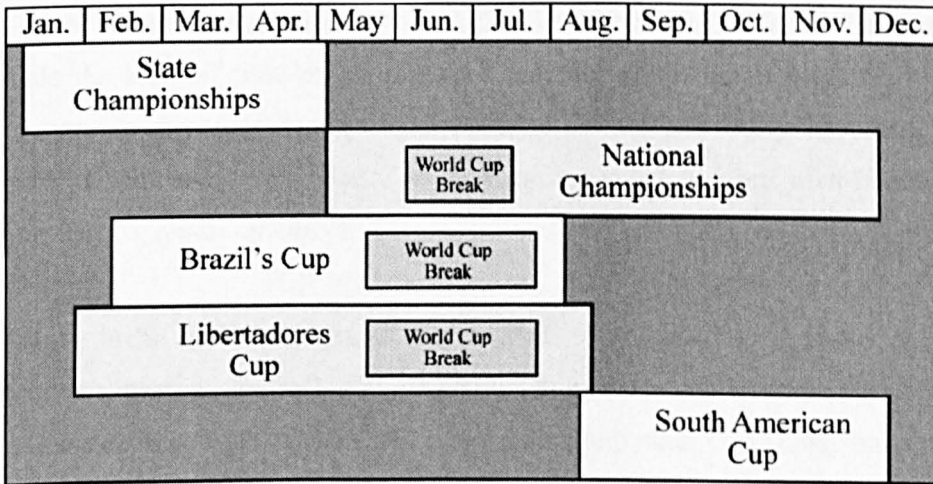
<sup>175</sup> Interview with Petraglia (2009).

Others, however, may see the value of playing the state competition due to the higher possibility of the top clubs around the country winning the competition in each state, which would otherwise only rarely achieve success if playing only the national competitions. Marco Aurélio Cunha argues that:

The state championships are needed because the clubs need to win something, otherwise the fans will move away. I do not like the control of the championship, but it is needed. If the clubs do not win anything, they will face many difficulties, especially those [clubs] from smaller cities.<sup>176</sup>

According to the CBF’s yearly competition calendar, to which all organizations of Brazilian football are subjected, state championships are played at the beginning of each year, with the national championship starting right after the state tournaments are over. Figure 6.4 shows the schedule of competitions for the top Brazilian clubs at state, national and continental level for 2010:

**Figure 6.4: 2010 CBF’s competition calendar**



Source: CBF website.<sup>177</sup>

<sup>176</sup> Interview with Cunha (2009).

<sup>177</sup> www.cbf.com.br.

There has been debate about the dates of CBF's calendar, due to the fact that clubs often lose key first team players in the early part of the national competitions due to the European summer transfer window. In August 2009, one month after winning the Brazilian Cup, Corinthians sold two of its main players to Turkey and another player to Saudi Arabia, which eventually affected the performance of the club in the First Division of the National Championship. The struggle of the club after the transfers led the strong Corinthians supporter, President Lula, to call for changes in the CBF's calendar in order to adopt a European based schedule, so clubs, like Corinthians, would stop losing important players during the National Championship.<sup>178</sup> After actually setting a meeting to discuss the issue, President Lula managed to convince Ricardo Teixeira to study a change in the CBF's calendar and the adoption of a European based schedule.<sup>179</sup> Shortly after, however, Globo Network declared that it had no interest in such a change and argued that the broadcasting of the national championship matches during the Brazilian summer would certainly mean losing a significant part of the matches' audience and, consequently, generating less attraction to sponsors and less income to the network.<sup>180</sup> Moreover, Globo also positioned itself in favour of changing the championship formula back to the play-off system, which – according to the network – draws more interest from supporters to the final matches. Ricardo Teixeira replied to Globo by saying that if the network was willing to discuss the format of the competition, it would also be interesting to discuss the need to schedule the kick-off time of the midweek matches of the competition at 8.30 pm rather than the current 10 pm, a similar threat to the one previously discussed, when Teixeira moved the kick-off time of an international match to 8 pm, after Globo aired an investigative report on him.<sup>181</sup>

Teixeira's threat to Globo, even if only a bluff, shows how much power the CBF enjoys over Brazilian football. Any retaliation from the network would possibly also generate more retaliation by the CBF, jeopardizing any plans Globo may have for the 2014 World Cup. There is, therefore, evidence to suggest that CBF's immense power over the control of Brazilian football at all levels is far from being at stake, especially in the short term. Change will not come unless clubs are able to develop their own

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<sup>178</sup> Bueno (2009).

<sup>179</sup> Cobos (2009).

<sup>180</sup> Castro (2009).

<sup>181</sup> Arruda (2009).

governance structure, leave aside their rivalries and organize themselves in order to be able to put in place a body responsible for attending their common interests more effectively than the C13.

## **Conclusion**

The chapter has provided an overall analysis of the governance system under which the Brazilian football industry operates. It has provided evidence to suggest that although clubs are improving their managerial practice, the development is slow and they still struggle to adopt rational standards of management due, in part, to the need of a football club to seek short-term on-pitch performance goals.

The chapter has also shown the strong role played by the CBF in the national football industry, which has increased with the nomination of Brazil as the host of the 2014 World Cup. The national football governing body now possibly exerts a complete control over football in Brazil, which perhaps suffocates clubs seeking alternatives to the current system.

Since the relationship between the football authorities, the government at all levels and the media is significantly strong at the moment, any changes in the current governance of Brazilian football in the short term seem unlikely, which could mean that either little will change in the following years or that radical improvements would have to come from those already established within the system. For example, the late, although slow, development in the governance standards of clubs is possibly a consequence of changes made by the government in terms of laws relating to football and to a stronger control by the tax authorities over the clubs' finances, which were perhaps only possible due to the conflict-ridden environment of Brazilian football at the end of the 1990s and early 2000s.

This suggests that football clubs in general will keep struggling to improve their managerial standards and also keep suffering several financial problems for years to come, regardless of individual efforts to solve them as there is no established development plan to enhance the organization of the Brazilian football clubs. The clubs' enormous levels of debt, for example, have little prospect of diminishing, as

the strategies outlined by the government so far have failed and clubs remain focused on spending their money on on-pitch performance rather than anything else.

The level of debt of Brazilian clubs is possibly one of the main challenges facing the Brazilian football industry, and it will be discussed in detail in the following chapter.

## **7 The Financial Structure of Brazilian Football**

The previous chapters provided an analysis of the background issues affecting the commercialization of Brazilian football clubs and also the current state of football in Europe, football's most commercially developed region. The nature of the Brazilian business environment, together with the historical relationship between football, politics and the Brazilian state and the challenges affecting the governance of clubs and football governing bodies, contribute to creating a scenario in which local football clubs struggle to develop their revenue streams, especially when compared to the top European leagues. Among other consequences, the lower income then limits the power of clubs to compete for player talent, which causes the top Brazilian football players to leave for foreign clubs, and also impedes any major investments by clubs in their own infrastructure, preventing significant improvements in the quality and safety of football stadiums around the country.

This chapter will focus on the financial situation of Brazilian football clubs. It will first analyze the top local clubs' revenues and draw a comparison with Europe in order to provide a clear picture of the difference between both markets. The chapter will then look into the top Brazilian clubs' expenditure, their current level of debt and the challenges facing their search for financing.

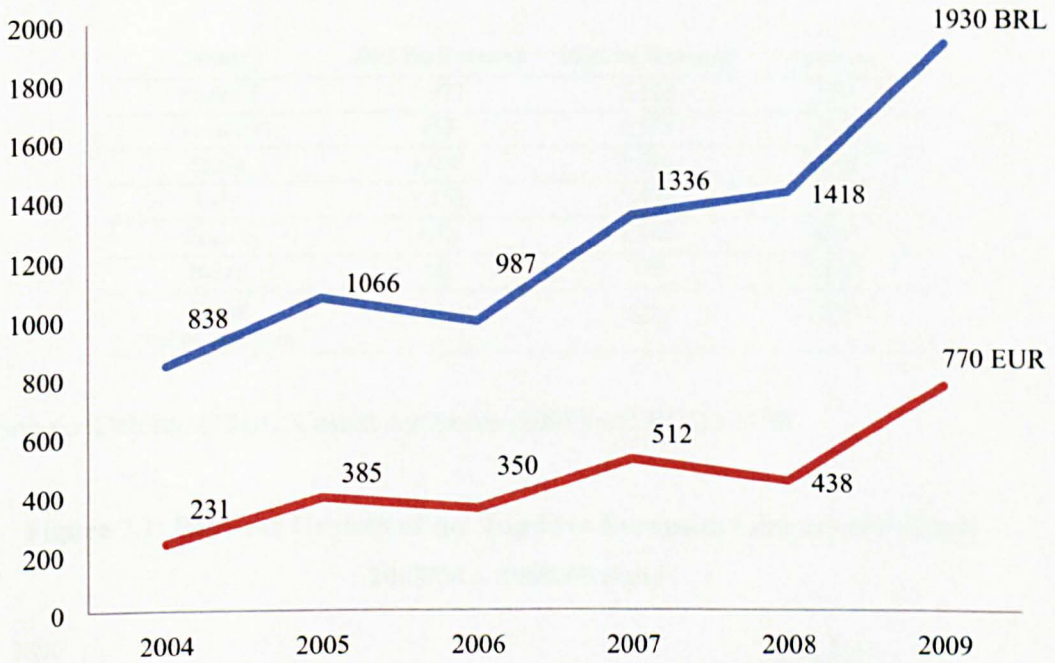
The financial data presented in the chapter is drawn from Deloitte's *Annual Review of Football Finance*, and from Brazil, Casual Auditores' *Panorama Financeiro do Futebol Brasileiro* and BDO's *Finança dos Clubes de Futebol do Brasil*. Other financial data available in the press and in selected clubs' financial reports will be used when appropriate, as well as interviews with key individuals on the Brazilian football industry.

### **Clubs' Revenue**

As argued before, football clubs in Brazil are slowly developing their commercial operations and focusing on increasing their revenue. Although they are still struggling with the task, such an evolution becomes evident when analyzing the recent increase

of combined revenue of the top football clubs in Brazil.<sup>1</sup> Figure 7.1 shows the evolution of combined revenue from these clubs from 2004 to 2009, both in Brazilian Reals and Euros.<sup>2</sup>

**Figure 7.1: Revenue Growth of the Top Brazilian Clubs in Brazilian Real and Euro – 2004–2009 (million)**



Source: Casual Auditores (2009) and BDO (2011)

As Figure 7.1 shows, the combined revenue of the top Brazilian clubs grew from €231 million in 2004 to €770 million in 2009, a 233% growth in the period of six years. Despite the significant revenue increase, however, Figure 7.2 shows that the combined revenue of the top Brazilian football clubs is still significantly small when compared with the top five European leagues.<sup>3</sup> Nonetheless, as Table 7.1 shows, the

<sup>1</sup> Unlike Deloitte’s *Annual Review of Football Finance* (Deloitte, 2009), the Casual Auditores’ *Panorama Financeiro do Futebol Brasileiro* (Casual Auditores, 2008, and Casual Auditores, 2009) does not calculate data based on clubs playing for the top national divisions, but uses a fixed group of 21 clubs instead. BDO’s report, which provided the results for 2009, uses data from the top 24 clubs.

<sup>2</sup> The respective year-end exchange rate between the Brazilian Real and the Euro was applied. As Figure 7.1 indicates, the exchange rate has varied significantly between 2004 and 2008. The table of the exchange rates applied is available in Appendix I.

<sup>3</sup> Note that the financial year for football clubs in Brazil is different from Europe. The former goes from January to December while the latter goes from August to July. For the purposes of this study, comparisons have been drawn 2008 Brazilian financial and the 2007/2008 European financial year, the 2007 Brazilian financial year is compared with the 2006/2007 European financial year, and so on.



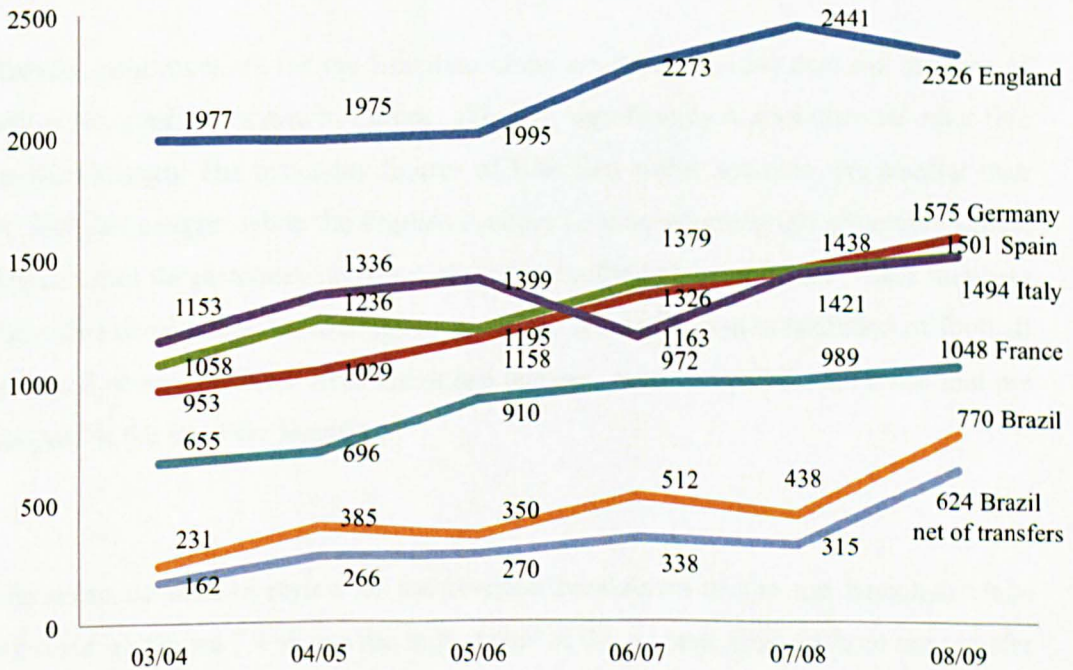
revenue growth rate of Brazilian football in the last six years has surpassed the rate of the top five European leagues, which indicates some evolution in the commercialization of Brazilian football.

**Table 7.1: Revenue Growth Rate of the Top Five European Leagues and Brazil – 2003/04 – 2008/09 (€m)**

Country	2003/04 Revenue	2008/09 Revenue	Increase
England	1,977	2,326	18%
Germany	953	1,575	65%
Spain	1,058	1,501	42%
Italy	1,153	1,494	30%
France	655	1,048	60%
Brazil	231	770	233%
Brazil net of transfers	162	624	285%

Source: Deloitte (2010), Casual Auditores (2009) and BDO (2010).

**Figure 7.2: Revenue Growth of the Top Five European Leagues and Brazil – 2003/04 – 2008/09 (€m)**



Source: Deloitte (2009), Casual Auditores (2009) and BDO (2010).

Table 7.1 and Figure 7.2 also show that the revenue growth of Brazilian clubs is even higher when transfers are excluded. Unlike Brazil, the financial data of leading European leagues do not take into account revenues derived from players' transfers. Therefore, whenever comparisons between both markets are made, it is necessary to use the income net of transfers as a reference.

Despite the significant increase in commercial revenue in Brazil, the overall income remains significantly smaller than those of the top five European leagues and slightly smaller than Netherlands, notwithstanding the fact that Brazil is one of the world's largest economies and football is, by far, the country's most popular sport. When compared with the top Brazilian clubs, the English Premier League generates almost four times more revenue, while the top divisions of Germany, Italy and Spain generate over two times the figure for Brazil.

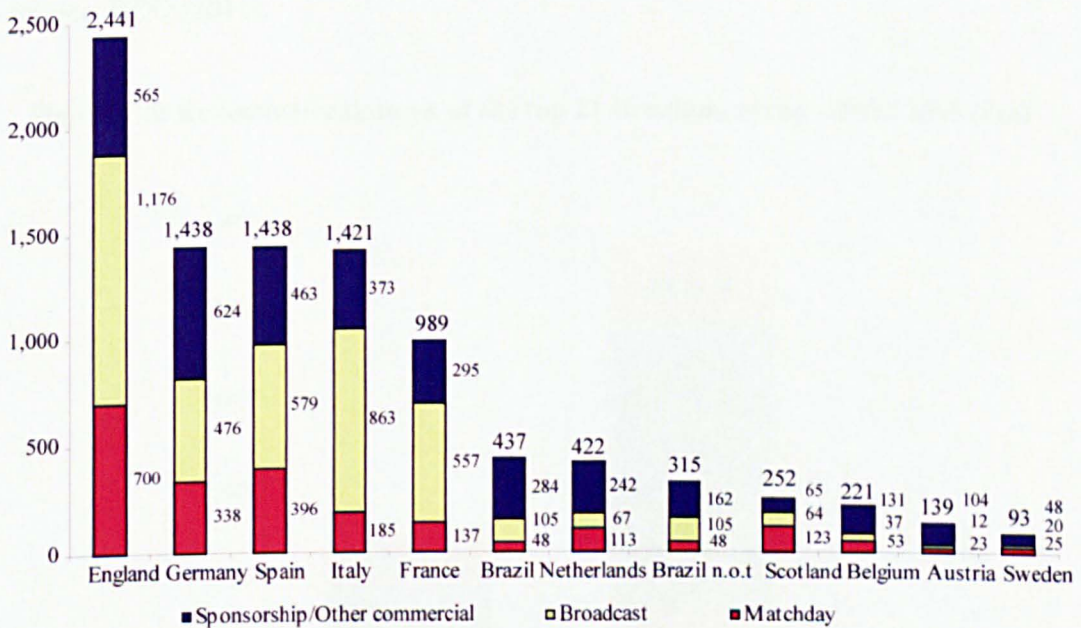
As one can see in Figure 7.3, revenues of the top Brazilian clubs are driven especially by commercial income, which, in comparison with the other European leagues, is equivalent to the Belgian League and less than a third of the commercial income of the English Premier League.

Broadcasting revenues for the Brazilian clubs are much smaller than the revenue of any of the top five leagues in Europe, although significantly higher than the other five smaller leagues. The matchday figures of Brazilian clubs, however, are smaller than the Belgian League, while the English Premier League astonishingly generates almost fifteen times the matchday revenues of the top football clubs in Brazil. These numbers show that despite their increasing revenues, the level of commercialization of football in Brazil is very different from European leagues, even compared with those that are not part of the Big Five leagues.

The more detailed overview of the revenue breakdown of the top Brazilian clubs provided by Figure 7.4 shows the importance of the revenue derived from the transfer of players. Player transfers and broadcasting generate together almost half of the total revenue, while matchday generates almost the same money as the social club, which represents the revenue derived from the non-football related activities of the

members' association, such as membership subscriptions, the swimming pool, the club's bars and restaurants and other amateur sports, such as basketball and volleyball. Figure 7.4, therefore, provides evidence to suggest that one possibility for the further commercial development of football clubs in Brazil is to focus on matchday revenue.<sup>4</sup> This has been occurring at a slow pace, as Figure 7.5 shows, but there still is a long way to go for matchday and commercial income streams to reach the same level as broadcasting and player transfer revenues.

**Figure 7.3: Revenue breakdowns of the top ten European leagues plus the accumulated revenue of the top Brazilian clubs full and net of transfers (n.o.t.) – 2007/08 (€m)**

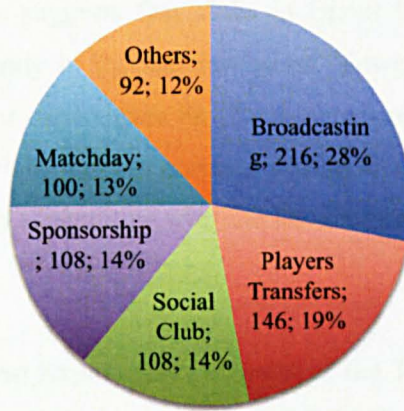


Source: Deloitte (2009) and Casual Auditores (2009).

<sup>4</sup> See Chapter 10 for more information on matchday revenue.

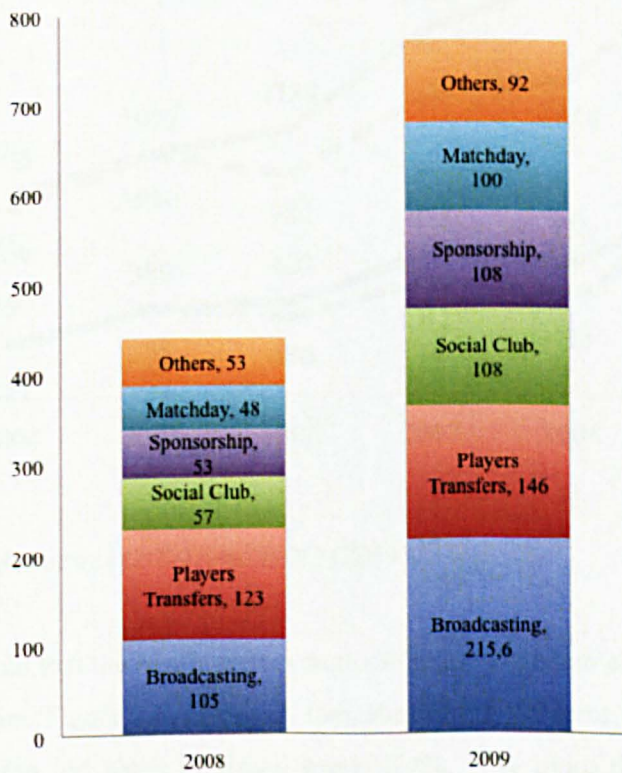


**Figure 7.4 Top Brazilian Clubs' Revenue Sources for the 2009 season (€m)**



Source: BDO (2011).

**Figure 7.5: Revenue breakdown of the top 21 Brazilian clubs – 2008-2009 (€m)**

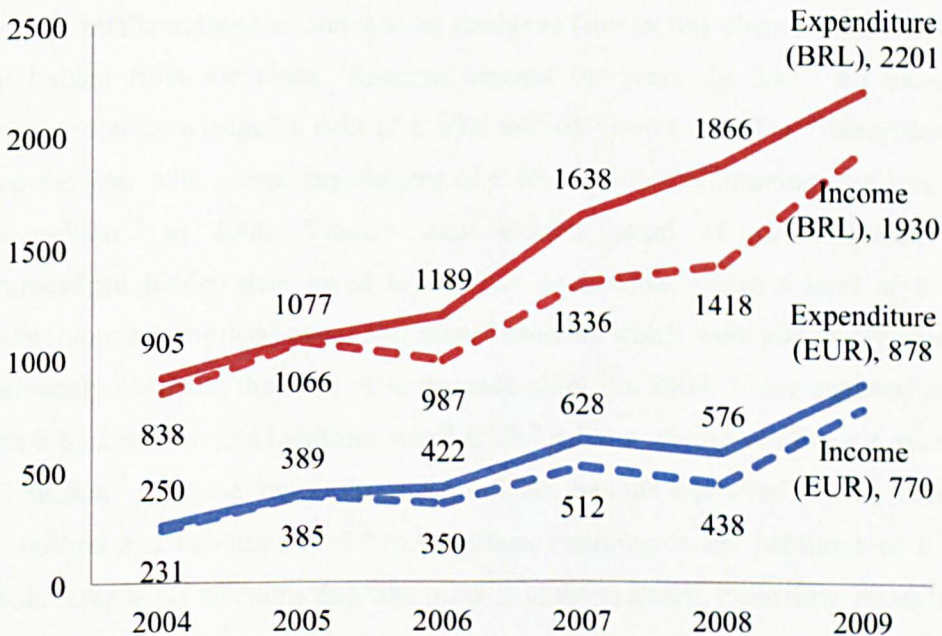


Source: Casual Auditores (2009) and BDO (2011).

## Clubs' Expenditure

The data provided above suggests that clubs in Brazil have been improving their income streams significantly in the last few years. However, although revenue has been growing, the level of expenditure has been increasing even further, which may be a sign that Brazilian clubs need to enhance control over their budgets. Figure 7.6 shows the increase in club expenditure over the last six years in comparison to growth in revenues.

**Figure 7.6 Income and Expenditure Growth of the Top Brazilian Clubs in Brazilian Real and Euro – 2004–2009 (million)**



Source: Casual Auditores (2009) and BDO (2011).

Figure 7.1 showed that the combined revenue of the top Brazilian clubs in Euros grew 233% in six years. Figure 7.6, however, indicates that in the same period, the overall expenditure of the top clubs in Brazil grew 251%, 18% more than the growth in revenue. This follows the same pattern as the top European leagues identified in Figure 3.1, where expenditure grew at a higher rate than revenue over time. Unlike

Figure 3.1, however, Figure 7.6 shows an overall increase in expenditure rather than the specific amount spent on wages and transfers. Nonetheless, because there has been little investment in stadia and overall infrastructure by Brazilian clubs over the selected period, one can conclude that a significant part of the increase of expenditure is derived from clubs spending on transfers and salaries of football players.<sup>5</sup>

Figure 7.7 shows the yearly overall deficit of the top Brazilian football clubs, which contributes to an increase in the already high debt levels. Although much of the reason why the overall debt of Brazilian clubs is growing is perhaps due to losses arising from increasing values of wages and transfers, one other reason is that some clubs have acknowledged debt owed to the Tax Authorities in order to be able to benefit from the Timemania Lottery, which was created to help clubs to clear their debt with public authorities and will be analyzed later in this chapter. This debt has been hidden from the clubs' financial reports for years. In 2007, for example, Fluminense acknowledged a debt of € 39.8 million owed to the Tax Authorities and ended the year with a total expenditure of € 68.5 million, accounting in a loss of € 53.4 million.<sup>6</sup> In 2008, Vasco's new elected board of administration also acknowledged hidden debt owed to the Tax Authorities, worth a total of € 23.1 million, among overpriced assets and other liabilities which were previously ignored, significantly changing the state of its balance sheet.<sup>7</sup> In 2007, Vasco reported assets worth € 83.2 million and liabilities worth € 73.7 million, giving positive net assets of € 9.5 million.<sup>8</sup> After the review, however, in 2008 the club registered assets totalling € 39.9 million and liabilities of € 116.6 million, resulting in net liabilities of € 76.7 million.<sup>9</sup> Due to the elections that take place in clubs in Brazil, these differences in the clubs' financial reports may be caused by the attempt of club directors to convince, for political reasons, club members and other stakeholders that the club was in a much better financial situation than the reality.

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<sup>5</sup> The increase of expenditure in relation to income is also analyzed by Perrone & Mattos (2006).

<sup>6</sup> Fluminense FC (2009) and Casual Auditores (2008).

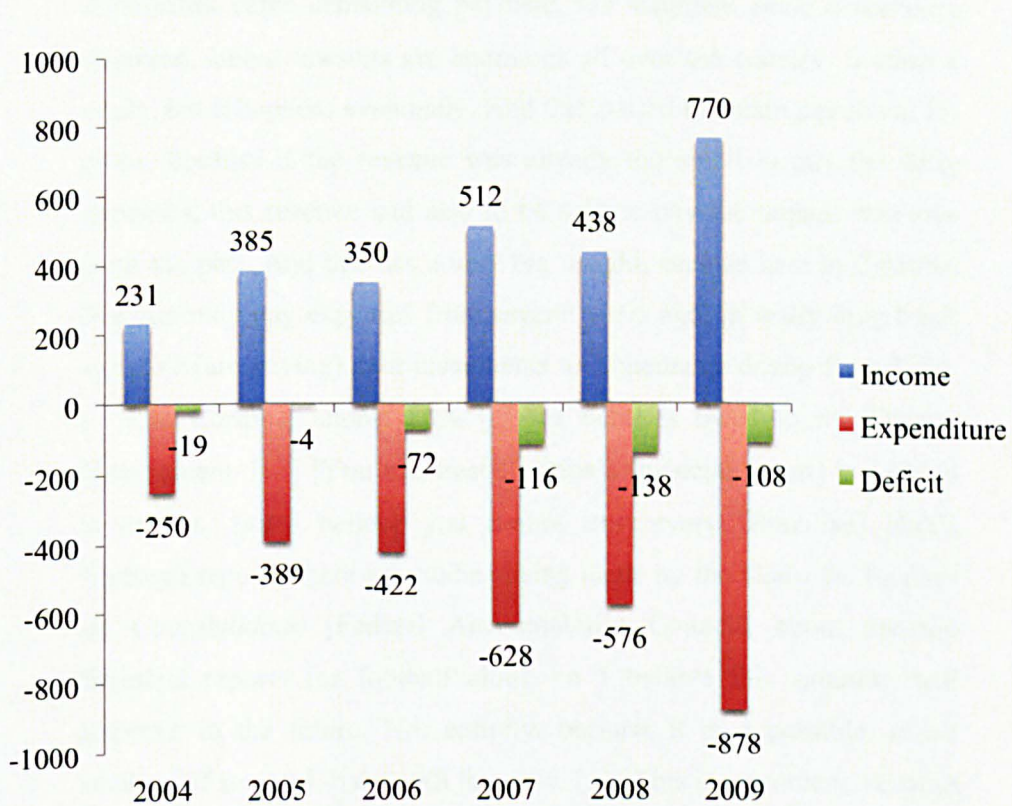
<sup>7</sup> Globoesporte.com (2009a).

<sup>8</sup> Casual Auditores (2008) and CR Vasco da Gama (2009).

<sup>9</sup> Globoesporte.com (2009a) and CR Vasco da Gama (2009).



**Figure 7.7: Combined Revenue, Expenditure and Deficit of the Top Brazilian Clubs – 2004–2009 (€m).**



Source: Casual Auditores (2009) and BDO (2011).

Vasco's and Fluminense's situation shows how vulnerable Brazilian clubs are and the impact that past hidden debt can have on the clubs' accounts. Moreover, Vasco's financial update exposes how some clubs' financial reports may be an unreliable source to comprehend fully the financial condition of football clubs in Brazil. Walter Souza, financial manager of Coritiba, explains the reasons and the consequences of such a situation:

Generally speaking, [the high level of expenses] is because up to ten years ago, clubs in Brazil were run in a slightly irresponsible way. To win titles there are costs and these costs were not charged [before]. But these costs had to be accounted for somewhere, and ended up being accumulated through [the evasion of] taxes, salaries, payments to

suppliers. But it gets to a point when someone comes and demands payment for it, and this [eventually] ended up happening. The Federal Authorities came demanding payment, the suppliers came demanding payment, labour lawsuits are enormous all over the country. It takes a while, but it happens eventually. And this started to create a problem for clubs, because if the revenue was already too small to pay the daily expenses, this revenue had also to be split to pay the unpaid expenses from the past. And this has a very big weight, such as here in Coritiba. We currently pay expenses from several years ago, [a really long time] ago. We [are paying] debt instalments to Timemania dating from 1964. [...] In Coritiba, almost 80% [of the debt] is owed to the Federal Government. [...] [You can trust Coritiba's financial report] because it is serious. But I believe you cannot trust every [Brazilian] club's financial report. There are studies being made by the *Conselho Federal de Contabilidade* [Federal Accountability Council] about specific financial reports for football clubs, so I believe this situation will improve in the future. Not entirely, because it is impossible, in all sectors [of society], but it will improve. [...] This is a problem, because it interferes with the relationship between clubs and banks. There are clubs where it is hard to know what [is the exact amount of] total liabilities. Before the [introduction of] Timemania, some clubs hid liabilities on purpose in order to avoid publishing a poor financial report so they could borrow money from banks. After 2007 and 2008, clubs started to add other liabilities to their financial report.<sup>10</sup>

The recent growth in debt is not exclusive to the two clubs used as examples above. Figure 7.7 suggests that the situation of increasing losses affects a large number of the top Brazilian clubs, which is underlined by Table 7.2 showing the clubs' financial results for the 2007 and 2008 seasons.

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<sup>10</sup> Interview with Souza (2009).



**Table 7.2: Financial Results of the Top 21 Brazilian Clubs – 2007-2008 (€ m)**

Club	2007				2008			
	Revenue	Expenditure	Surplus/ Deficit	Surplus/ Deficit Percentage of Revenue	Revenue	Expenditure	Surplus/ Deficit	Surplus/ Deficit Percentage of Revenue
Atlético MG	22.3	-32.9	-10.6	-47%	17.8	-29.0	-11.3	-63%
Atlético PR	20.7	-20.1	0.6	3%	13.7	-19.2	-5.6	-41%
Barueri	8.0	-7.3	0.7	10%	5.3	-4.4	1.0	18%
Botafoogo	15.7	-17.2	-1.4	-9%	15.9	-19.1	-3.2	-20%
Corinthians	51.6	-60.5	-9.0	-17%	36.3	-32.9	3.4	9%
Coritiba	5.7	-10.1	-4.4	-76%	11.6	-11.3	0.3	3%
Cruzeiro	29.8	-30.8	-1.1	-4%	29.0	-34.4	-5.4	-19%
Figueirense	7.3	-7.5	-0.2	-3%	8.7	-8.3	0.5	5%
Flamengo	34.3	-57.0	-22.7	-66%	36.4	-37.4	-1.0	-3%
Fluminense	15.1	-68.5	-53.4	-355%	20.5	-33.9	-13.3	-65%
Grêmio	41.8	-36.0	5.7	14%	30.6	-33.7	-3.1	-10%
Internacional	59.7	-52.5	7.3	12%	43.9	-45.3	-1.4	-3%
Náutico	7.4	-5.7	1.6	22%	6.1	-7.2	-1.1	-17%
Palmeiras	33.1	-42.3	-9.3	-28%	42.8	-45.8	-2.9	-7%
Paraná Clube	9.5	-9.7	-0.1	-2%	5.4	-7.7	-2.4	-44%
Portuguesa	4.8	-9.7	-5.0	-104%	14.6	-14.5	0.1	0%
Santos	20.3	-34.4	-14.0	-69%	20.2	-27.8	-7.6	-38%
São Caetano	8.9	-9.1	-0.2	-2%	7.4	-7.5	-0.1	-1%
São Paulo	72.8	-71.4	1.6	2%	49.6	-48.9	0.7	1%
Vasco da Gama	19.6	-23.1	-3.5	-18%	16.1	-101.5	-85.4	-532%
Vitória	4.3	-7.9	-3.6	-84%	5.8	-6.3	-0.5	-8%
<b>Total</b>	<b>492.7</b>	<b>-604.6</b>	<b>-111.9</b>	<b>-23%</b>	<b>437.6</b>	<b>-575.9</b>	<b>-138.4</b>	<b>-32%</b>

Source: Casual Auditores (2008) and Casual Auditores (2009).

As Table 7.2 indicates, many clubs have accumulated severe losses over the last two years. Although the acknowledgement of new debt certainly plays a considerable part in this, clubs still struggle to control their budget especially due to high spending on the transfer market.<sup>11</sup> This situation is also aggravated when clubs find themselves struggling to deliver the expected level of performance and may face the risk of losing the title or of relegation to a lower division. The president of one of the top Brazilian clubs states the following:

Our administrative board's method is to work within the budget limits, within the reality. I am not going to compromise the club with

<sup>11</sup> Casual Auditores (2009) and Mattos (2009a).

expenditures for which there is no counterpart return. Luckily we have a youth academy that always develops talented players when we need them. [The club] still has this gift. I keep wondering what will happen to clubs that do not have this possibility of solving their technical deficiencies through their own [youth academy] and need to search for talent in other clubs, which leads to a drain on resources. [But our position] is an option, not a mechanism. If we wanted all of a sudden to bring Ronaldinho [to the club], I will end up indebting [the club], I will not have the resources, he will end up suing [the club], it would mortgage [the club's] property. Nothing blocks that. This has been done in the past. Because when the club is facing a difficult situation, everything becomes justifiable, then rationality loses space to irrationality, [and the executive board] even has the support of the members of the club's council [to do that], which I find to be an error.<sup>12</sup>

Souza adds that:

Up to ten years ago, football [in Brazil] was a general mess, and with time some new laws were created, which started to organize [everything], and the [club's] directors started to be more careful than before. So now clubs try to follow their budget. But when the pressure for results in a competition comes, you are forced to provide more strength to the squad. Then sometimes the club ends up losing itself on the budget, because it starts to spend more money than it should. Then it starts to delay the payments of suppliers, salaries, this sort of things. It will still take time to circumvent this.<sup>13</sup>

The interviews above with leading club officials indicate that football clubs in Brazil often embark on financial gambles in order to achieve success on the pitch. Moreover, added to the financial data presented in Table 7.2, one can notice that football clubs rarely operate under any sort of financial control, which allows them to increase their

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<sup>12</sup> Interview with Anonymous (2009).

<sup>13</sup> Interview with Souza (2009).

level of expenditure beyond the increase in revenue.<sup>14</sup> This might be helped by the governance system of clubs, where those in command of the organization are in post for only a limited period of time, which therefore demands the delivery of short-term on-pitch results. And since the club's executive board is unlikely to remain in control for too long, they can postpone payments to the next board in charge of the club, leaving the current board to take the credit for the club's immediate success and allowing the expenses of such success to be paid by others, which may then generate a snowball effect with regard to the club's debt.<sup>15</sup>

## Debt

The constant deficits and the historical lack of financial control of football clubs in Brazil naturally imply an enormous level of overall debt, which has been increasing despite the growth in clubs' revenue. Figure 7.8 shows the evolution of the combined assets and liabilities of the top Brazilian clubs. As one can see, 2008 represented a significant decline in assets, which was due to the variation in the exchange rate. Nonetheless, in the same year liabilities grew despite the variation, reaching a 102% increase from 2004 to 2008, while assets grew at a smaller ratio of 68%.

If some clubs were ordinary limited companies, such as Vasco da Gama, which, as mentioned before, possesses liabilities worth almost twice the value of its total assets, they could arguably have already been declared bankrupt. However, although the Pelé Law states that professional football clubs should be treated as limited companies, there are no specific regulations regarding the bankruptcy of football clubs in Brazil. Therefore, since clubs are non-profit associations, they cannot file for bankruptcy, which perhaps serves as an incentive for loose budget controls.<sup>16</sup> Furthermore, the financial reports of the top Brazilian clubs suggest that around 36% of all clubs' debt

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<sup>14</sup> Recent examples of such practice among some of Brazilian top clubs can be found in Ohata (2007), Travaglia & Mattos (2007), Arruda & Galdieri (2008), Marques (2009), Martins (2009) and Ribeiro *et al* (2009)

<sup>15</sup> See Chapter 6 for an overview on the governance system of clubs.

<sup>16</sup> Law number 9.615/98 from March 24<sup>th</sup> 1998, amended by Law number 10.672/03 from May 15<sup>th</sup> 2003.

The only club in Brazil which I have not sued was São Paulo [Football Club]. I did not get paid by Santos, by Grêmio, by Flamengo and by Botafogo. All the teams where I have been I had to sue. And suing [the club] is not something that a player does because he is being a scoundrel, but he is claiming his rights. [...] I still receive [salary payments], because it is five clubs. I always won in the Labour Court. [...] There is only a very small number of clubs that pay on time. I have much affection for Rio de Janeiro, but you know that you are going there and you are not going to be paid.<sup>21</sup>

Delay or default on payments and other salary related issues with players often leads to labour lawsuits, which adding significantly to the clubs' debt. In some cases, however, such issues are not a consequence of cash flow problems, but rather derived from the performance-focused governance system of Brazilian football clubs.<sup>22</sup> According to Ribeiro:

I will relate an example that happened to me. I get along very well with him, I am not a resentful person, but I arrived in Santos [Football Club], in 1997, coming from Europe. I stayed there for six months, went to Flamengo for two years, and came back. And [Santos' former president Marcelo Teixeira], who is very passionate about the club, had built a great team. But he [spent too much money] on salaries. We reached the Semi-Final of the Brazilian Cup, I received a head butt and broke my nose. I had to go to surgery and stayed two months injured. Then Edmundo came in to my place. Each one earns what he deserves and the [club's] board needs to follow the contracts, what was agreed, signed and written. I spent half the championship out and we had a very poor performance. And then [Marcelo Teixeira] started to get rid of the best players, those that were most expensive. Edmundo left, Rincón left, and I and Dudu remained. Then every week we were involved in a negotiation, because we knew we had an expensive salary. But we

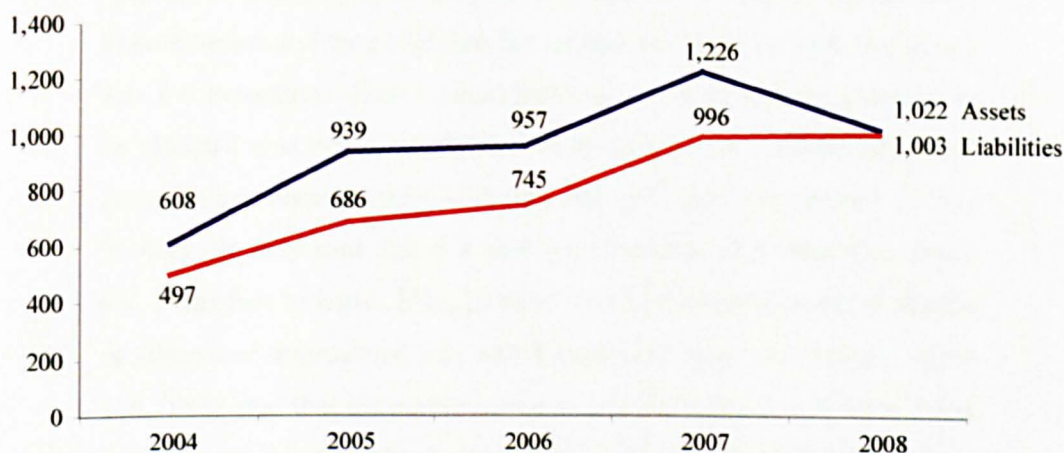
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<sup>21</sup> Interview with Ribeiro (2009).

<sup>22</sup> See Chapter 6 for an overview on the governance of football clubs in Brazil.

is owed to the government, even though non-profit football clubs enjoy a series of tax exemptions due to their status as private member-owned associations.<sup>17</sup>

**Figure 7.8: Combined Growth of Assets and Liabilities of the Top Brazilian Clubs – 2004-2008 (€m)**



Source: Casual Auditores (2008) and Casual Auditores (2009).

A consequence of the high debt level is that football clubs often suffer cash flow problems, leading to delayed payments, including players' salaries, especially payments from broadcasting deals and sponsorship contracts are delayed.<sup>18</sup> According to Paulo Jamelli, the football manager of Santos FC, there is delay in salary payments because 'sometimes the television delays [the payment], so you are expecting it will pay on the 30<sup>th</sup>, but it pays on the 5<sup>th</sup> [of the next month]'.<sup>19</sup>

Delays in salary payments and even salary default are rather common. From April 2008 to April 2009, three of the four main clubs from the state of São Paulo, the four main clubs from the state of Rio de Janeiro and one of the two main clubs from the state of Minas Gerais recorded delays in salary payments.<sup>20</sup> Caio Ribeiro, Globo's football pundit and a former player, provides other examples:

<sup>17</sup> Casual Auditores (2009). For an overview on the taxation of football clubs in Brazil, see Oliveira Junior (2004) and Silva (2009).

<sup>18</sup> Martins (2009).

<sup>19</sup> Interview with Jamelli (2009).

<sup>20</sup> Martins (2009). The eight clubs which delayed salary payments were: Atlético MG, Botafogo, Corinthians, Flamengo, Fluminense, Palmeiras, Santos and Vasco. The two clubs which did not delay salary payments were Cruzeiro and São Paulo.

wanted to continue [in the club]. But then there was a time when Marcelo Teixeira said that there was a rumor that maybe I was going to Rio Branco de Americana, [a small club from the state of São Paulo], because at the time the São Paulo State [Football] Federation was helping to pay for some players in other clubs. Then I spoke with Santos' board and they said that the rumour was true, because my salary was too expensive. Then I asked them to sign a letter stating the value for which I was being transferred. They had a US\$ 500,000 debt with Inter Milan, because they still had not paid one installment of my transfer. So they said that if a club paid the debt plus what they owed me, I was free to leave. Then [Santos' rivals] Palmeiras heard about the situation and approached me, and I explained what my transfer value was. They said that they were going to pay for it and I told them I was going to get my transfer document with Santos. Then someone from Santos heard that it was for Palmeiras, and [Marcelo Teixeira] simply ripped the contract and said that I was not going to leave and if Palmeiras wanted, it should pay four millions, because it was Palmeiras. Plus, either I [agreed to lower] my salary or I was not going to play [any more]. I spent almost one month without playing because I did not want to lower my salary. Then I sued Santos, warned them, and they said that if I left to go to Palmeiras, the supporters would kill them. I sued and I won [my free transfer] in the Court. And they were in such a bad situation in the championship that the manager told me that he wanted to take me on a loan for another two months, until the end of the São Paulo State Championship. I liked the players a lot, so I ended up staying [for this period].<sup>23</sup>

Lawsuits from footballers in the Labour Court are common. In 2005, the ten clubs from the states of São Paulo, Rio de Janeiro and Minas Gerais mentioned above responded together to 2,821 different lawsuits in the Labour Court.<sup>24</sup> Such is the

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<sup>23</sup> Interview with Ribeiro (2009).

<sup>24</sup> Erdelyi (2005). The clubs analyzed were the same as footnote number 31. More on the Brazilian Labour Court's influence on business is available in Chapter 4.

number of lawsuits clubs face that they may even risk new lawsuits to avoid spending money on immediate payments. Ribeiro explains:

I am not going to state which club it is, but I went to the club and told them I was going to sue them. [...] You reach the end of the contract and you tell the club that they owe you the image rights, two months of salary, vacations and the mandatory year-end bonus. Then you ask them to solve the problem and the club tells you to sue and get a number, because I am going to be one more among the other 200 lawsuits that the club already has. Then you get a lawyer, collect the invoices, the contracts and everything, and prove what you did and did not receive. Then you go to Court and the club says that instead of nine, it owes you only six months. Then the judge says that if the club do not presents the payment invoices, it will pay another 10% of the sentence. All clubs do that, imagining that the player does not have the evidence [over the salary payments]. I always had, so the club paid another 10% because it was incompetent. The problem is that it takes five years for you to receive [the money].<sup>25</sup>

Furthermore, lawsuits from players and other creditors often result in clubs mortgaging their future revenues, such as matchday tickets, broadcasting deals and transfer fees, to pay their debt.<sup>26</sup> In 1997, for example, one player from a small club from the state of Bahia was pledged to pay the club's debt on a hostel.<sup>27</sup> In 2000, Vasco da Gama had its US\$ 4.5 million bonus for second place in FIFA's World Club Championship that year pledged to pay a debt with the Brazilian Tax Office.<sup>28</sup> In October 2009, Grêmio agreed to give 10% of all its proceeds from player transfers to clear an R\$ 5.1 million debt with Zinho, the 1994 World Cup Champion.<sup>29</sup> Also in October 2009, Flamengo and Fluminense played one of Brazil's most important derbies, attracting a crowd of almost 80,000 to Maracanã, generating a total income of around R\$ 1 million, of which each club would receive around R\$ 320,000. However,

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<sup>25</sup> Interview with Ribeiro (2009).

<sup>26</sup> Mello & Cobos (2003a) and Mattos (2006d).

<sup>27</sup> Francisco (1998b).

<sup>28</sup> Rangel (2000b).

<sup>29</sup> Zero Hora (2009).

due to several lawsuits, neither Flamengo nor Fluminense received any of this revenue, which was all pledged to pay part of both clubs' debt.<sup>30</sup> In 2003, Botafogo even had 100% of its revenues pledged to pay its debts, a situation which might have led the club to extinction. After an agreement with the state of Rio de Janeiro's Labour Court, however, it was agreed that only 15% of the club's income should be used to pay their debt.<sup>31</sup>

In order to avoid losing their income and to delay the payment of their debts, some clubs manage to pledge their assets instead of their revenue. Clubs often pledge some of their facilities, such as stadiums and academies, on the assumption that such assets would probably not be auctioned and, even if they were, would hardly attract any buyers, which buys the clubs time to renegotiate their debt.<sup>32</sup> However, there are cases where clubs may pledge their trophies, historical paintings, elevators, restaurants, fitness equipment, stadium floodlights and even the swimming pool machinery.<sup>33</sup> In 2003, of the twenty C13 clubs, only Goiás did not have any assets pledged as collateral security for its debt.<sup>34</sup>

As noted already, a significant part of the debt is owed to the federal government. However, as also argued previously, football clubs play a significant historical and political role in the Brazilian society, which perhaps helps to limit government actions to recall the debt, which are already constrained by the sheer immensity of the amount owed. Nonetheless, despite the tolerance it naturally has with football clubs, the federal government has been trying to recover the sum owed by them. According to Souza:

The [football] club does not escape the context of the country. Brazil has become a more efficient tax collector. In the past, although the [club's] directors were responsible, the State did not have such an efficient machine to [collect the money], and this has changed, the legislation changed. Someone did not charge the money at the time, but this gets

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<sup>30</sup> Mota *et al* (2009).

<sup>31</sup> Erdelyi (2005).

<sup>32</sup> Ruiz (2003b).

<sup>33</sup> Mello & Cobos (2003b).

<sup>34</sup> Mello & Cobos (2003a).



accumulated. [...] The club cannot file for bankruptcy because it is an association. But everything indicates that this will not last for long. The tax exemption is provisional, it is precarious. It is not definitive. It does not need new legislation for the club to lose its exemption, only a decision by the Federal Authorities, even though they will hardly do that any time soon.<sup>35</sup>

The need to collect the money owed, added to the tolerance towards football clubs, eventually led the federal government to create the Timemania in 2008, a national lottery aimed to clear the clubs' debt with the State which, as already mentioned, was proposed by Ricardo Teixeira to Lula during the negotiations for the Brazilian national squad friendly match in Haiti in 2004.

### **Financing Brazilian Football**

Timemania is a national lottery that involves the top 80 Brazilian football clubs. A player has two separate draws on the same play slip. In the first draw, the player chooses ten out of 80 numbers and seven numbers are drawn. If the player has picked three of the seven drawn numbers, he wins a prize according to the amount of correct numbers. In the second draw, the player can pick one out of 80 clubs, which is named the 'sweetheart club'. If the player's 'sweetheart club' is drawn, he also wins a small prize. Of the total amount collected by the lottery, 46% is used as prizes and 22% is used to pay the debt that the 80 clubs have with the government. The more a club is chosen as a 'sweetheart club', the greater the share it receives to clear its government related debt. When the club finally pays off all its debt to the Federal Authorities, it will then start to receive the Timemania money as revenue.<sup>36</sup> Furthermore, Timemania has also given clubs a tax clearance certificate, so they can have access to public financing. According to a club president:

[The State] has seen the absolute impossibility of clubs paying their debts, their taxes, and created Timemania, which is a sort of financing, gave clubs a tax clearance certificate, in order to obtain public funding,

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<sup>35</sup> Interview with Souza (2009)

<sup>36</sup> Hofman (2008a).

and, with that, it demanded that in order for you to continue enjoy these fiscal benefits you needed to start paying your taxes. [...] I believe the State has created a mechanism exclusively directed towards football clubs. [The State] would not create [a similar mechanism] for other companies.<sup>37</sup>

Despite being widely publicized as the salvation for the Brazilian football clubs' financial chaos, Timemania has hardly delivered the expected outcomes, as the lottery proved unable to attract a significant amount of players, which then led it to clear only a small percentage of the clubs' government debt. For example, the government estimated that Timemania would generate R\$ 520 million in 2008, but it generated only R\$ 150 million.<sup>38</sup> The expectation was that a large number of supporters would play Timemania in order to help their clubs financially, but this did not happen. In addition, betting on Timemania is considerably more expensive than other national lotteries, even though the odds of winning are significantly smaller.<sup>39</sup>

Although the lottery did create a mechanism to help to solve part of the clubs' financial constraints, it did not require significant improvements in clubs' managerial or financial standards in exchange for the benefit. Some clubs have, in fact, managed to increase their debt with the government since the lottery was created. Flamengo, for example, has increased its government related debt by R\$ 15 million since 2007.<sup>40</sup> These facts added to the small number of bets eventually led to changes, extending the payment period and diminishing the value of each instalment paid by clubs.<sup>41</sup> Senator Álvaro Dias states the following:

I have never been fooled by Timemania. I warned that Timemania was not going to be the solution for all the problems. It was an instrument from the government to fill the holes that the football clubs have opened in the public coffers, when they did not pay their obligations with the [Tax Office]. The government wanted to charge the bill. Timemania was

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<sup>37</sup> Interview with Anonymous (2009).

<sup>38</sup> Zanini (2008).

<sup>39</sup> Hofman (2008).

<sup>40</sup> Mattos (2007b).

<sup>41</sup> Mattos (2009b).

created by the government for its own benefit. [...] I believe the government should create programs and demand the payment. And remove clubs from all possible benefits. It needs to establish punishments. For example, the debtor club cannot take part in official competitions, it cannot benefit from the broadcasting deals. We tried to implement that, it was included in the legislation, but unfortunately changes were made in the Chamber of Deputies, in order to reduce the rigour. But I believe that this is necessary to organize the football management in Brazil.<sup>42</sup>

The Timemania lottery was not the first time that the Brazilian government used a form of gambling to help football clubs financially. In the early 1990s, in order to compensate clubs for the loss of direct public subsidies, the Zico Law established that football clubs could create bingo halls in order to generate more income. However, football clubs did not possess the necessary expertise to run the houses properly and ended up establishing partnerships with specialized companies, which eventually managed to profit more from the Bingo houses than the clubs which owned them.<sup>43</sup> An amendment made to the Pelé Law in 2000, however, revoked the measure following the eruption of a corruption scandal involving public authorities and the Bingo industry.<sup>44</sup>

Although the Federal Government does not subsidize professional football clubs directly, public financing is still quite common, especially at the municipal level.<sup>45</sup> The most obvious recent example is possibly São Caetano, a club that was a dominant force in the early 2000s, finishing as runner-up of the João Havelange Cup in 2000, runner-up of the Copa Libertadores in 2002 and São Paulo's State Champions in 2004. São Caetano is a club from the city of the same name, a small suburb of São Paulo. The short spell of success of the club was derived from the fact that the city's

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<sup>42</sup> Interview with Dias (2009).

<sup>43</sup> Moreira & Magalhães (1994).

<sup>44</sup> Ferrari & Tomaz (2005).

<sup>45</sup> There is a Federal Law number 11,437 from December 29<sup>th</sup> 2006, known as the 'Lei de Incentivo ao Esporte', the Sport Incentive Law, which gives some tax exemptions to companies that sponsor sport at amateur level. Although this law does not directly finance professional football, clubs can use it to build structures for their youth academies, such as gymnasiums and dormitories for players, who are not yet considered professionals. For more information, see Bianconi (2008).

controversial former mayor, Luiz Tortorello, who died in 2004, was also the club's honorary president and helped the club by financing its youth academy, not charging for the use of the city stadium, providing municipal land for the club's facilities and even paying for transportation for travelling supporters.<sup>46</sup>

Such a phenomenon remains common in small cities governed by mayors seeking a national reputation, since there is hardly any other way through which these small localities would be visible to the national audience. The financing can either be direct, with the city employing the club's players, or indirect, through the provision of infrastructure or sponsorship.<sup>47</sup> Another example of a club from a small city being financed by the municipal authorities and reaching the national spotlight is Barueri, which, like São Caetano, is a suburb of São Paulo. Barueri was founded in 1989 and the city started financing it in 2001. Since then, the club has been promoted seven times in eight years, finally reaching the Brazilian First Division in 2009 and finishing the tournament in the middle of the table. In 2006, the municipal authorities paid 80% of the club's costs.<sup>48</sup> Although the relationship between the club and the city has faded in the last few years and it has struggled with financial problems, Barueri still uses the city's stadium and training facilities, paying only one-third of the ordinary value.<sup>49</sup>

Bigger clubs, which have much larger budgets, might find it more difficult to secure municipal financing, since they are already in the national spotlight. As mentioned above, the top Brazilian clubs have accumulated large debts throughout their history and find themselves now with severe cash flow problems, which delay payments such as players' salaries. In order to obtain the money they need, either to pay the bills or to invest in infrastructure, clubs need to seek financing from private institutions.

As also shown above, clubs have concealed critical information on their balance sheets, which inevitably poses a problem for obtaining loans from banks. A club may

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<sup>46</sup> Ferrari (2006c) and Cobos (2006). Tortorello was later accused of being involved on a corruption scheme that has defrauded the city of more than R\$ 13 million (Folha de São Paulo, 2008).

<sup>47</sup> Hofman (2008b).

<sup>48</sup> Ferrari (2006b).

<sup>49</sup> Araújo (2009).

be in such a poor financial position that club directors need to borrow the money from banks personally. Petraglia states that:

[When I was elected the president of Atlético Paranaense], I did not know anything about the football business, a club from the inside. I had never participated more deeply, only as supporter. [...] We called in an accounting firm to draw up an overall picture of the club, assets, financially, all the information we needed in order to have a picture of what I was going to control. And it was very sad, because this work brought us a terrible reality. The club was broke, indebted, with a debt beyond its solvency capacity, in the Brazilian Second Division; for many years it had not won a [Paraná] State Championship, it did not have a physical place to train. [...] Then we united the people and did a very short term project, to pay the most complicated debts which caused us a very large deficit: players' salaries, registrations, telephone bills, energy, water. We reopened the club's banking accounts. [...] We obtained a financial contribution from many members of the council, we sought loans on behalf of the individuals [rather than for the club]. The club did not have credit. We started to create the necessary cash flow through personal participation.<sup>50</sup>

Furthermore, clubs may also borrow money from directors themselves. According to Souza:

It is common [for club directors to loan money to the club], but I cannot tell in which clubs this happens. In Coritiba it does not happen any more. It used to happen in the past. A lot. Directors who in a given moment needed to put money in. But to put in money means lending, that is, the club will have to pay back at some point. I know that there are people who put money in and do not charge any interest on it. There are people who put in and charge little interest, less than the bank.<sup>51</sup>

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<sup>50</sup> Interview with Petraglia (2009).

<sup>51</sup> Interview with Souza (2009).

These types of financing, however, often involve small sums of money in order to pay players' salaries or other debts. Loans for larger projects, such as building or expanding a stadium, are much harder to find, which may explain part of the reason why new stadiums are rarely built in Brazil. Financial alternatives, such as securitization, are also difficult to obtain, as larger contracts with clubs, such as sponsorships and broadcasting deals, are short-term, and ticket sales for stadiums remain low, making revenue sources risky and unstable. Souza adds that:

[Securitization] is interesting, but the problem is that it works only with guaranteed net income. You do a three year contract with television, but you can only do a securitization for this long. Another possible alternative is [the securitization] of matchday revenue, but it is a little complicated. Now you can do it in Brazil because there is no more inflation. The problem is that the bank is afraid, because the team can get relegated to the Second Division. The banks would possibly do it, but would charge absurd interest rates. [Securitization] is a tool that may be more often used in the future, when the football sector is more organized.<sup>52</sup>

Clubs often seek loans from other non-financial institutions, such as State football federations, the CBF and the C13, which lend money to clubs at interest below the average bank rate. In 2003, the São Paulo state Football Federation in fact generated more revenue from loan interest paid by clubs than from any other source.<sup>53</sup> In 2007, Corinthians reportedly owed R\$ 7.6 million to the C13, R\$ 6.5 million to the São Paulo State football federation and R\$ 1.5 million to the CBF.<sup>54</sup> Although this type of lending may help clubs to obtain money at more affordable rates, it has deep political implications, as the president of a governing body may make the loan conditional on political support.

When clubs find themselves in a particular very bad financial situation and need immediate money to resolve it, they may also choose to sell part of the economic

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<sup>52</sup> Interview with Souza (2009).

<sup>53</sup> Assumpção (2003a).

<sup>54</sup> Mattos (2007).

rights of players in order to generate immediate cash.<sup>55</sup> As Luiz Felipe Santoro, Corinthians' lawyer, explains:

Although I had studied football for some time, since I have been involved with clubs I have started to see that things that we learn in the academy are very different from what truly happens. I even changed my lectures after I joined Corinthians. I have been involved, for example, in the case of Guarani, which was punished by FIFA by being deducted three points for not having paid a US\$ 9,000 debt with a Turkish club and Guarani ended up being relegated to the Brazilian Third Division because of three points. I was contracted by the club's new board, but the former board was notified by FIFA three times that it should pay the debt, and did not pay it. The third time, FIFA said that if they did not pay the debt in 30 days, they would be relegated. And I also have been involved when Corinthians had to sell a proportion of the economic rights of some players. I was extremely opposed to the fractioning of the economic rights of players. But the club needed to pay € 2 million to Lyon for Nilmar's transfer. If it did not pay, it would be the same situation as Guarani. But it was a cash flow need from the club, there was no other place to get the money from to pay the debt.<sup>56</sup>

Another alternative to generate immediate cash flow found by Brazilian football clubs is to spend in anticipation of revenues, such as those derived from broadcasting and sponsorship deals, which consequently compromises the clubs' financial future.<sup>57</sup> In April 2009, nine of the twelve founding member clubs of the C13 had already spent the year's total broadcasting revenues, while four of these clubs had also spent the 2010 revenue.<sup>58</sup> Furthermore, such a strategy also blocks possible negotiations with new partners. According to Robson Oliveira, a partner of Outplan, a match ticket company:

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<sup>55</sup> More on the concept of players' economic rights is available in Chapter 9.

<sup>56</sup> Interview with Santoro (2009).

<sup>57</sup> See examples in Ohata (2007) and Cobos & Viel (2009).

<sup>58</sup> The nine clubs that spent the 2009 broadcasting revenues before receiving them were Atlético Mineiro, Botafogo, Corinthians, Flamengo, Fluminense, Palmeiras, Santos and Vasco. The four clubs that anticipated the 2010 broadcasting revenues were Atlético Mineiro, Corinthians, Flamengo and Fluminense. Bahia was the only C13 founding member not included (Martins, 2009).

We have already not done business because [BWA, a rival match ticket company, advances payment to clubs]. [BWA] does its business, it's normal, it lends money. The club has financial issues. The company loaned [money], charged heavy interest and earned a lot of money on it. But this is a decision of the clubs' directors. For them, it is business. They know the interest rates that they are paying. Currently many clubs do not want that, because they know they lose money in the long term. And we do not behave in this way.<sup>59</sup>

Some clubs may also establish deeper partnerships with sponsors, as was the case between Palmeiras and Parmalat in the 1990s.<sup>60</sup> Currently, the best known example of this relationship is between Fluminense and Unimed, one of Brazil's leading health plan companies. Unimed, whose president is a fanatical Fluminense supporter, became the club's sponsor in 1999, a time when the club was struggling in the national Third Division. After that, Fluminense managed to be promoted back to the National First Division, win a Brazilian Cup in 2007 and become the runner up of the Copa Libertadores in 2008. Apart from being the club's sponsor, Unimed also buys and pays the majority of the salaries of the club's star players, such as Fred, the former Lyon player, and Deco, the former Barcelona and Chelsea star.<sup>61</sup> In order to avoid any risk of delay, the payments are made directly from Unimed to the players without the need for them to pass through Fluminense's accounts, which avoids diversion of the sponsor's payment to other creditors and keeps the salaries of these players on time.<sup>62</sup>

## Conclusion

Despite the many challenges facing the commercial development of Brazilian football presented in the previous chapters, clubs have been able to increase their income throughout the years, although the combined amount from the top Brazilian clubs remains far from those of the top European leagues. Most of the income from the

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<sup>59</sup> Interview with Oliveira (2009).

<sup>60</sup> See Chapter 6.

<sup>61</sup> Rangel (2008c) and Reis (2010).

<sup>62</sup> Huber & Marques (2009).



Brazilian clubs is derived from broadcasting deals and player transfers, with other sources such as matchday and sponsorship being responsible for only a small share of the total revenue.

However, clubs in Brazil often spend on transfers and salaries much more money than they generate. Despite the recent increase in income, expenditure has been growing at a faster pace, and the already high level of overall debt of clubs has been increasing even further. A significant part of the debt, however, is owed to the government, which has historically been tolerant with football clubs and even created the Timemania, a mechanism to raise the amount owed without having to jeopardize the financial future of clubs. Another significant part of the debt, however, is derived from labour lawsuits, which originate in a lack of managerial responsibility of club directors and frequently means that clubs have some of their main revenue sources pledged in order to pay their debt. All this results in clubs having cash flow problems and eventually to delay in salaries and default on creditors.

Unsurprisingly, the financial difficulties create problems for clubs to obtain funding through ordinary means, which leads them to seek alternatives such as anticipating revenue from sources such as broadcasting and sponsorship contracts, the sale of the economic rights of players and borrowing from non-financial institutions, such as football governing bodies. The financial difficulties may also lead clubs to establish partnerships with private companies in order to be able to buy players.

The poor financial condition of football clubs in Brazil is derived from a range of factors, but the lack of financial responsibility shown by clubs and the rather tolerant attitude of public authorities towards their level of debt are perhaps two of the main reasons behind the ever-increasing liabilities. Although the government has demonstrated signs that such tolerance is diminishing, there is no evidence to suggest that the state or even the football governing bodies will impose strict financial controls on the Brazilian football clubs in the near future. This may lead to clubs increasing their debt and maintaining the practices of default on players' salaries and payment to other creditors. Consequently, income streams may keep being pledged and the cash flow problems, in this situation, will possibly persist, maintaining the

vicious financial cycle in which Brazilian football is locked. There is little point on increasing revenues if that means an even higher increase on expenditure.

Financial regulation imposed by governing bodies, therefore, seems highly necessary to stop clubs from overspending and increasing their liabilities. If such controls are put in place, then increasing revenues will be able to translate into enhanced financial conditions. The next chapter will provide an overview of the challenges facing Brazilian clubs to develop the commercial income streams, which, as shown by the data available in this chapter, are still rather below the levels of the top European leagues.

## 8 Commercial Income Streams

The previous chapter has shown the low level of commercialization of Brazilian football in comparison with the top European leagues and the struggle that clubs face in the search to finance their activities. This chapter will now discuss two of clubs' main income streams, sponsorship and merchandise, and the different issues affecting their development.

In order to do so, the chapter will initially look into sponsorship figures for Brazilian clubs and then analyse the reasons why companies are willing to sponsor clubs or not. It will also survey the different challenges that clubs face in order to build improved sponsorship contracts and the strong role played by Globo Network in attracting and controlling sponsors. Later, the chapter will also shed some light on the difficulties of developing the market for clubs' official merchandise in the country, which will then contribute to a better understanding of Brazilian clubs' commercial scenario and possibilities.

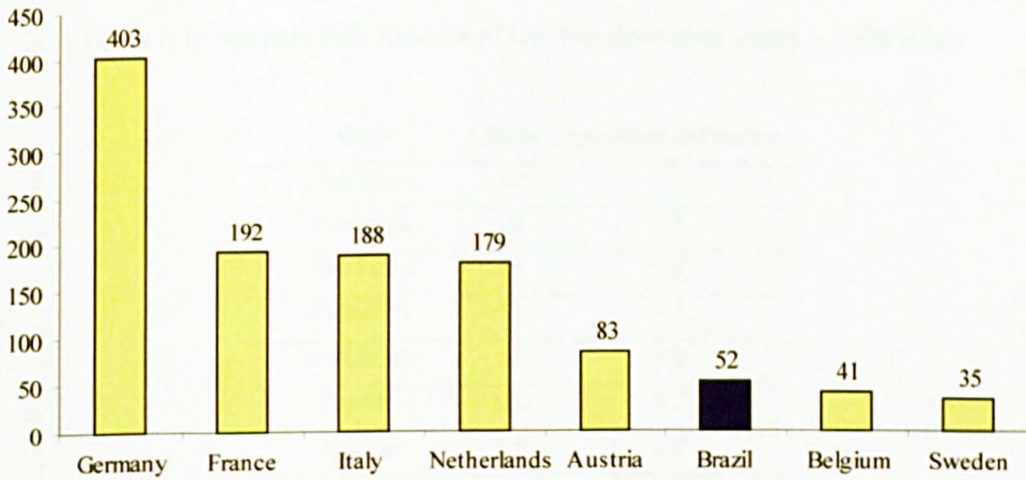
### Sponsorship

The sponsorship revenue of the top Brazilian clubs is small when compared with other revenue sources and especially when compared to the European values. As seen in Figure 7.4, the top Brazilian clubs have generated a combined amount of €52.5 million in sponsorship in 2008, 12% of their total income and less than half the revenue generated by players' transfers. Furthermore, when compared with the top ten European leagues, as shown in Figure 8.1, the top Brazilian clubs generate less sponsorship revenue than Austria, being superior only to the Belgian and Swedish leagues.<sup>1</sup>

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<sup>1</sup> Deloitte (2009a). Note that specific sponsorship values for the English, Spanish and Scottish top leagues are not provided.

**Figure 8.1: Sponsorship revenue of seven of the top ten European leagues and the top Brazilian clubs – 2007-08 (€m)**



Source: Deloitte (2009a) and Casual Auditores (2009).

Clubs and sponsors often have many different perceptions of what the value in sponsorship is and, therefore, how much a contract may be worth.<sup>2</sup> Some companies may sponsor a club just because the owner is a passionate supporter and willing to provide financial help to the club, while others may want only to use the club's shirt as a platform to appear on television or to rejuvenate their brand by making an association with football. Nonetheless, it is safe to say that countries with larger domestic markets, such as Germany, are naturally better placed to attract larger sponsorship deals, as shown by Figure 8.1. Many Bundesliga clubs are connected with large German companies, such as T-Mobile and Bayern Munich, Volkswagen and Wolfsburg, SAP and Hoffenheim, and Bayer and Bayer Leverkusen.

As one could expect from the high regional economic inequality in Brazil, sponsorship values are very unbalanced.<sup>3</sup> Table 8.1 shows that four of the five clubs with the highest sponsorship income in 2008 are from the state of São Paulo. Moreover, the top four clubs in terms of sponsorship revenue generated a combined

<sup>2</sup>Henseler *et al* (2010).

<sup>3</sup> See Chapter Four for an overview on Brazil's regional inequality.

amount of €24.6 million, while the bottom four clubs that published their accounts generated together only €1.9 million.

**Table 8.1: Sponsorship income of the top Brazilian clubs – 2008 (€ m)**

Club	State	Sponsorship Income
Corinthians	SP	7.6
Flamengo	RJ	6.5
São Paulo	SP	5.6
Palmeiras	SP	4.9
São Caetano	SP	4.0
Cruzeiro	MG	3.2
Grêmio	RS	2.7
Atlético Mineiro	MG	2.5
Botafogo	RJ	2.4
Internacional	RS	2.3
Santos	SP	2.3
Fluminense	RJ	1.9
Vasco da Gama	RJ	1.2
Náutico	PE	0.8
Barueri	SP	0.6
Coritiba	PR	0.6
Atlético Paranaense	PR	0.5
Paraná Clube	PR	0.2
Figueirense	SC	undisclosed
Portuguesa	SP	undisclosed
Vitória	BA	undisclosed

Source: Various.<sup>4</sup>

In general terms, the development of sponsorship in Brazil is low and most sponsorship deals are done through the use of tax incentive laws or by State owned

<sup>4</sup> The data presented is based on each club's 2008 financial report. The 2008 financial reports of Figueirense, Portuguesa and Vitória are not available to public. The sponsorship value of Botafogo is not specified in the club's financial report and is based on Neville (2007), which considers only the club's main sponsorship deal. The sponsorship value of Vasco da Gama is also not specified on the club's financial report and is based in Figueiredo & Bertozzi (2008), which considers the club's two main sponsorship deals. Atlético Mineiro, Cruzeiro and Flamengo's financial reports presents only the combined amount of sponsorship and merchandising income.

companies, a scenario that became even more common under the government of President Lula.<sup>5</sup> According to Rafael Plastina, the Marketing Manager of Informídia, a leading sports market research agency in Brazil:

[Brazil] does not have a culture of sponsorship and [it] has an absurd dependence on companies fully and partly owned by the State. If you analyze, the biggest share of sponsorship in Brazil comes from Banco do Brasil, Caixa Econômica, Correios and Petrobrás.<sup>6</sup>

Internacional and Grêmio, for example, are both sponsored by Bannrisul, a bank owned by the state of Rio Grande do Sul.<sup>7</sup> In Rio de Janeiro, Flamengo has only recently terminated a 25-year sponsorship deal with Petrobras, which is partially owned by the Federal Government.<sup>8</sup> Two other clubs from Rio de Janeiro remain sponsored by state owned companies: Botafogo has a deal with Liquigás, Petrobras' subsidiary, and Vasco da Gama is sponsored by Eletrobrás, Brazil's energy company. According to Plastina:

[The strong relationship between football clubs from Rio and State owned companies] is explained by the fact that Rio was Brazil's capital for many years. There still is a very strong presence of State owned companies in Rio de Janeiro. I do not see anything wrong with [this]. What is wrong is to the State owned companies invest a lot [in sponsorship] and the privately owned companies invest little.<sup>9</sup>

Perhaps one of the main factors behind the apparent under-commercialization of sponsorship in Brazil is the fact that most sponsors of Brazilian football clubs may be more interested in the media exposure time provided by football rather than actually

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<sup>5</sup> Rodrigues (2009).

<sup>6</sup> Interview with Plastina (2009).

<sup>7</sup> More details on the sponsorship deal are available in Máquina do Esporte (2009b).

<sup>8</sup> Máquina do Esporte (2009c).

<sup>9</sup> Interview with Plastina (2009).

developing broader sponsorship packages using the game as a platform.<sup>10</sup> Plastina states that:

There are two sides to [the fact that sponsorship values are small in Brazil]. If you compare what the clubs [in Brazil] offer [to their sponsor] in relation to what the European clubs offer, the price paid [for sponsorship] in Brazil is extremely expensive. But the exposure power here is much stronger, due to free-to-air television. I believe there is space for growth, but not focused on visibility any more.<sup>11</sup>

This may mean that sponsors use football as a cheaper platform to expose their brand in the media and especially on Globo Network, the largest network in Brazil, since it holds the broadcasting rights of the First Division of the National Championship and charges a large sum of money for its commercial time.<sup>12</sup> In September 2009, Globo sold each of its six 2010 football sponsorship packages, which involves commercial breaks during the matches broadcast plus other insertions during the network's football related programming and pitch-side boards, for R\$116 million.<sup>13</sup>

Evidence of the fact that companies in Brazil are focused on sponsoring football primarily to expose their brands on free-to-air television is the practice of one-game sponsorship. According to Fábio Wolff, CEO of Wolff Sports & Marketing, a Brazilian sports marketing agency:

The result that the company seeks through this type of sponsorship is brand exposure. It is different from [sponsors] that have the whole year to explore the partnership with [a club] through hospitality and promotion programs. Punctual sponsorships are different. [...] You seek only brand exposure, nothing beyond that.<sup>14</sup>

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<sup>10</sup> Mattar (2007), *Revista Máquina do Esporte* (2007), Franceschini (2008a).

<sup>11</sup> Interview with Plastina (2009).

<sup>12</sup> A detailed analysis of Globo's importance on Brazil is available in Chapter 4. A more comprehensive discussion of its role in football is available in Chapter 11.

<sup>13</sup> Machado (2009). See more information on Globo's sponsorship package in Chapter 11.

<sup>14</sup> Costa (2010).

This practice normally happens when a club is going to play a big match that will be broadcast on the free-to-air television. The club then seizes the opportunity and sells the space on the player's kit to a company which agrees an amount to put its brand on the club's kit only for that specific match. One could suppose that such deals would typically involve only small clubs and companies, who would both take the rare opportunity of massive exposure to do business together. However, even Corinthians did this type of sponsorship deal in early 2009, when the club played a friendly match against Estudiantes from Argentina and did not yet have an official sponsor. For small clubs, the value of the one-game sponsorship typically ranges around R\$20,000, but in Corinthians' case the value grew to a total of R\$400,000, paid by three different companies that advertised on the kit in the same game: Ford, Vivo, a national telecom company, and Locaweb, a national internet company.<sup>15</sup> Although this type of sponsorship practice is not yet widely spread, long term sponsorship in Brazil remains rare, as Plastina explains:

It is very hard to have successful [sponsorship] cases with more than five or seven years of continuity within the private sponsors, and this holds back the success. In order for a sponsorship program to achieve success, continuity is the key word. In Brazil, those who achieve success are those who [had] continuity. [...] Unfortunately, in Brazil, there is no continuity [in sponsorship].<sup>16</sup>

The search for exposure through football could be regarded as an ambush marketing strategy, as companies use football clubs essentially to advertise their brand at a much lower cost than they would pay directly to the television network for advertising space.<sup>17</sup> Unsurprisingly, the practice of companies sponsoring clubs in order to obtain exposure on Globo has generated counter-measures by the media company. Under the argument that the company's business is to sell exposure time, Globo has adopted a series of measures to avoid exposing or mentioning the names of the clubs' sponsors.<sup>18</sup> One of the most controversial practices is to use close-up images during press conferences in order to hide the brands printed on the clubs' backdrop. Clubs

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<sup>15</sup> Passos (2009) and Franceschini (2009).

<sup>16</sup> Interview with Plastina (2009).

<sup>17</sup> For more on sponsorship and ambush marketing, see Crompton (2004).

<sup>18</sup> Beting (2007).



have been complaining about this, which limits the attractiveness of clubs as sponsorship platforms, and Globo has shown signs that it can be more tolerant towards the clubs' sponsors in the future, but significant changes on this conflict are yet to happen.<sup>19</sup>

As mentioned above, Globo also controls the pitch-side board advertising of all National First Division matches, which is part of the sponsorship package the company sells. Globo started to control the pitch-side boards after a famous ambush marketing case in a friendly match played by the Brazilian national squad in France in 1994 during the preparation for that year's World Cup. For that match, Kaiser, a brewery owned by Coca-Cola, bought the commercial breaks from Globo. However, Brahma, another Brazilian brewery which is now owned by Ambev, bought all the pitch-side boards, leading Globo to try to avoid showing the boards, which meant that the part of the pitch where the boards were placed was cut out of the picture during the game, which eventually compromised the whole broadcast.<sup>20</sup> According to Plastina:

There is a recommendation from Globo to avoid any display of the sponsors' brand. First, [Globo] tries to protect its own sponsors, which is legitimate. On the other side, [Globo] does not pay the whole bill [of football clubs]. The sponsor is part of the [football] market. [...] I believe that soon clubs will have more power [to negotiate with Globo]. In the US market, in the 1970s, sponsors were also not shown, nor were naming rights mentioned, but things changed and negotiations happened. This flexibility has already started with Globo. The problem is that the [football] clubs still have difficulties to get together and demand changes in the process.<sup>21</sup>

Another constraint on the increase of sponsorship deals of football in Brazil is that clubs usually offer only a limited sponsorship package, which is often based on television exposure, as mentioned above, rather than on other corporate activities. The

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<sup>19</sup> Franceschini (2008a).

<sup>20</sup> Madueño *et al* (2002) and M&M Online (2004).

<sup>21</sup> Interview with Plastina (2009).

sponsorship agreement between Samsung and Palmeiras provides a rare example of a more comprehensive package. According to the electronics company, around 60%-70% of the expected return will come from exposure and the other 30%-40% will be derived from a series of other actions with the club.<sup>22</sup> Plastina adds:

Football is the main brand exposure product of Brazilian sports, but it can also become the most special product for promotions, product releases, and [business] relationship. This has been happening in some stadiums, like Morumbi and Beira-Rio.

Brazilian stadiums, in fact, may be a key reason for the low level of sponsorship development in Brazil, as structures are often old and precarious, and corporate facilities are rare, although the 2014 FIFA World Cup will certainly improve the future overall scenario with the construction and refurbishment of some stadiums.<sup>23</sup> São Paulo FC, for example, has been improving its stadium, Morumbi, and has inaugurated a VIP sector in order to cater to corporate demands.<sup>24</sup>

The generally poor stadia facilities add to the overall poor image that football has in the country due to low stadium attendances and frequent reports of football-related violence and corruption within clubs. All these together provide enough reasons to keep some sponsors away from attaching their brand to the game. As Plastina explains:

There is no doubt [that the football's poor image contributes to keeping sponsors away from football]. There is a mix of fear and disinformation about the good things that have been done within football. [Furthermore, the fear of] rejection [from the supporters of a rival club] really pushes [sponsors] away. Even because of the violence and radicalism of [some] supporters, who are a minority.<sup>25</sup>

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<sup>22</sup> Beting & Costa (2009).

<sup>23</sup> See Chapter 10 for an overview in Brazilian stadia.

<sup>24</sup> Costa (2009c).

<sup>25</sup> Interview with Plastina (2009).

Furthermore, the vast majority of Brazilian star footballers are playing overseas, which diminishes the potential attractiveness of clubs as a marketing platform, and the big international consumer brands will presumably reach middle class Brazilians through club sponsorship in Europe.<sup>26</sup> For example, Heineken, Sony, Ford and Mastercard are all Champions League sponsors that have operations in Brazil, but none of them sponsor football in the country.

The new World Cup stadiums could also help clubs to increase their sponsorship income through the sale of naming rights.<sup>27</sup> However, Globo's position that avoids showing clubs sponsors' brands on screen will certainly provide a constraint for such a development, as the network also avoids mentioning the naming rights owners. Atlético Paranaense, for example, sold the naming rights of its stadium to Kyocera, a Japanese electronic company, in 2005 and the stadium became known as Kyocera Arena. The deal, however, lasted for only three years, far from sufficient to present any result, and, during this period, Globo called the stadium only by "Arena da Baixada", the stadium's long standing nickname.<sup>28</sup> According to Petraglia, former president of Atlético Paranaense who was responsible for the sponsorship deal with Kyocera:

[Globo] is a great contradiction. It is a big partner on the one hand, but a monopolist on the other. I think it helped the Brazilian players a lot, but it made the clubs its hostages. During all the period we had the naming rights [the agreement with Kyocera], it never mentioned the brand. So it stops clubs from developing income alternatives.<sup>29</sup>

It is no surprise, therefore, that sponsorship values in Brazil are low. There is, however, much room for improvement. If clubs are able to reshape the game's image and provide a better corporate structure, companies may see more reasons for sponsoring a club than solely for its exposure time on free-to-air television, as is already starting to happen in cities like São Paulo. If not, most clubs will probably

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<sup>26</sup> See Chapter 9 for more information on the transfer of Brazilian players.

<sup>27</sup> For the analysis and criticism of the value of naming rights deals to companies, see Leeds *et al* (2007).

<sup>28</sup> Máquina do Esporte (2008).

<sup>29</sup> Interview with Petraglia (2009).

continue to struggle, as Globo will hardly change its position, and there is little evidence to suggest that clubs will have much bargaining power to demand any changes to the media company during the years to come.

Clubs are not solely responsible for the underdevelopment of sponsorship in Brazil. Another reason that may hold back the development of sponsorship is the fact that only a few marketing agencies and companies have the know-how to explore the sponsorship opportunities fully. According to Plastina:

[There] certainly [is a lack of sponsorship know-how by sponsors]. There still is. Undoubtedly. There are a few companies that plan and know the public they want to target, but usually sponsorship remains emotional and political. Sponsorship is also too emotional. The [company owner] is a supporter and [becomes a sponsor]. But this happens also in the United States and in Europe.<sup>30</sup>

Marco Aurélio Cunha, director of São Paulo, adds that:

The [marketing] agencies do not know football. They do not have the club's DNA. I have already been with the best and the guy thinks that you can pick a player and ask him to do a greeting before the match without the warm-up. It is not possible to do marketing without knowing the product, and the football product is known superficially, by watching a match. No one watches the training, no one talks with the players. The guy comes here with a proposal and does not know the content.<sup>31</sup>

Nevertheless, this scenario of the general lack of sports marketing expertise in the country seems likely to improve. With both the World Cup and the Olympic Games being held in Brazil in 2014 and 2016, respectively, big multinational sports marketing agencies, such as IMG and Octagon, are opening offices in the country.<sup>32</sup>

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<sup>30</sup> Interview with Plastina (2009).

<sup>31</sup> Interview with Cunha (2009).

<sup>32</sup> Beting & Bertozzi (2011).

However, although these agencies will certainly bring great amount of knowledge and improve the overall competence of sport marketing professionals, it is unclear if they will be able to succeed in contributing to create a better commercial landscape for Brazilian football. As it stands, they are more likely to be disappointed by the few commercial opportunities available in the market and may well cancel their operation if long-term planning is not put in place.

## **Merchandise**

The lack of know-how in the sponsorship market is also present in the clubs' licensed merchandise market. According to Rosemberg: "There is room for improvement [for licensees]. There are quality products, but there are a lot of things that can be improved. There is no excellent model currently".<sup>33</sup>

A good example of this situation is possibly Champs, a textile company from São Paulo that has entered the football market by becoming the official kit sponsor of nineteen different clubs all over the country. After a series of delays in production, payments and supply to retailers, the company has lost many of the licensee clubs.<sup>34</sup> Vasco, for example, broke contract with Reebok to sign with Champs in January 2009. In May, however, the club rescinded the contract with Champs, claiming that the agreement was not being followed, as the company had delayed the delivery of the kit and had promised to pay the club R\$506,000 a month and already owed the club R\$1.3 million after only four months.<sup>35</sup> According to Tullio Formicola Filho, general manager of Reebok in Brazil:

I am sorry, but Champs is a joke. I feel sorry for them. Champs [...] has believed in a summer dream, which does not exist. [The kit manufacturer's] market is a market where two plus two equals four. Champs believed that two plus two equaled six. They had made a contract with Vasco, taking us out of Vasco, which was an absurd thing, an amount that Vasco was never going to [be able to] pay [them back].

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<sup>33</sup> Interview with Rosemberg (2009).

<sup>34</sup> Costa (2009d).

<sup>35</sup> Toledo (2009).

When Vasco paid us the compensation on the early termination of our contract, I said that I was receiving the R\$400,000 check because I knew that what Vasco believed was not going to happen, because I knew Champs. [...] [The contract with Vasco] lasted for [four] months. [...] This market is very small.<sup>36</sup>

The overall market for licensed merchandise in Brazil generated a total income around R\$3 billion in 2007, with predictions suggesting that the total income in 2009 would be up to R\$3.4 billion. The royalties paid to the 550 different intellectual property owners in 2007 ranged between the rates of 4% to 12%, with an average of 6%.<sup>37</sup> This means that, in 2007, owners of intellectual property rights in Brazil generated a combined income of around R\$ 180 million derived from royalties payments for licensed merchandise, which means that each of the 550 different intellectual property owners received an average of R\$327,000 in royalties in 2007. These figures show that although there is a significant amount of revenue derived from royalties in the Brazilian merchandise market, the average royalty income represents only a small fraction when compared with the total revenue of the Brazilian football clubs.

**Table 8.2: Total and proportional merchandise income of five selected Brazilian football clubs – 2008 (€ m)**

Club	Total Revenue	Merchandise Revenue	Percentage
Corinthians	36.3	1.9	5.2%
Fluminense	20.5	0.2	0.9%
Grêmio	30.6	1.3	4.2%
Internacional	43.9	0.6	1.3%
São Paulo	49.6	1.9	3.7%

Source: SC Corinthians (2009), Fluminense FC (2009), Grêmio FBPA (2009), SC Internacional (2009) and São Paulo FC (2009).<sup>38</sup>

<sup>36</sup> Interview with Filho (2009).

<sup>37</sup> ABRAL (2009).

<sup>38</sup> Information based on each club's balance sheet.

Not many clubs publish detailed information on their merchandise income. However, it is possible to see in Table 8.2, which is based on data provided by the few clubs which detail the merchandise income on their balance sheet, that revenue from merchandise often represents only a minor percentage of the club's total revenue.

Possibly the main reason for the small importance of merchandise to clubs' total revenue in Brazil is the fact that, as explained previously, clubs are non-profit members' associations and, therefore, can not commercialize goods directly, which obliges them to establish partnerships with private companies to produce and to sell their official licensed merchandise both on the wholesale and on the retail markets.<sup>39</sup> This means that clubs receive only royalties on the club licensed goods, which often ranges around 10% of the total value of the product, plus a number of the products for internal use and, in some cases, a signing on fee for the contract and a sum destined for the marketing of the product. It also means that it is difficult to compare the Brazilian and the European football merchandise market, since many European clubs can sell their own products. As Filho explains:

[In the case of clubs' kits] there is the remuneration of the royalties, which is around 10%. There is an amount for marketing, [plus] the signing on fee and the kit. No one talks about the kit, but the kit is an enormous part of the contract. The contract with São Paulo [FC] is 125,000 garments [like shirts, sweatshirts, socks, shorts, etc.]. Flamengo's is 106,000. Pieces that you could sell and cost a lot of money.<sup>40</sup>

Due to their non profit status, clubs also can not own the official club shop, which therefore also means they need to find a private partner company. Roxos & Doentes, for example, is a retail group that has its own football stores and also runs some clubs' official shops. According to Rosemberg, partner of Roxos & Doentes:

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<sup>39</sup> I would like to thank Gustavo Nadalin for this information. See Chapter Six for more information on the clubs' non profit status.

<sup>40</sup> Interview with Filho (2009).

I have nine Roxos & Doentes stores and [24] clubs' stores, also counting the on-line shops. The Roxos store has 150 square meters, and I have a club store of 400 square meters. It is evident that my biggest income comes from the clubs' stores, especially on the match day, when my income is very high. I always sell more on match days.<sup>41</sup>

Reebok also operates the stores of most of the clubs that it sponsors, as Filho explains:

We operate the São Paulo [FC] stores at the Morumbi [stadium] and we have opened with them the SAO store [a more elegant and expensive club store]. We run the Internacional store at their stadium and in the Praia de Belas Mall [in Porto Alegre]. In Flamengo, we have the Gávea store and will have the North, Northeast and Center West regions [of Brazil] to open the FlaShop, except for Brasília. The stores are fantastic, because you can have the Reebok and the [clubs'] brand from head to foot. [...] With the store, we pay the club 10% of the net sale price of the products that we license. For other licensed products, we pay 5%.<sup>42</sup>

Football clubs' licensed merchandise is usually purchased by individuals who want to be identified as a supporter of the club.<sup>43</sup> Some football supporters may even intermediate their relationship with the club mainly through the consumption of club related goods.<sup>44</sup> Unsurprisingly, therefore, the most popular product with Brazilian supporters is the club's shirts.<sup>45</sup> According to Rosemberg:

I divide my product mix into four large groups. The first, and the most representative, is the official replica category, which includes the complete mix of products connected to the club at the moment, such as the replica shirts, the training shirt, sweatshirts and travelling uniform. The second group is the [fashion and leisurewear] licensed merchandise

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<sup>41</sup> Interview with Rosemberg (2009).

<sup>42</sup> Interview with Filho (2009).

<sup>43</sup> Ohl & Taks (2007) and Kwak and Kang (2009).

<sup>44</sup> Giulianotti (2002b).

<sup>45</sup> Beting (2008a).



line and souvenirs. The other category is textile products without the clubs' crest, for the practice of football as lifestyle. The fourth is football equipment: boots, balls and other equipment. 60% are shirts, 15% are other licensed merchandise, 15% are sportswear and 10% are football equipment.<sup>46</sup>

Official replica shirts, however, are widely seen as very expensive products in Brazil, costing around R\$150 (almost €70), around ten times the average price of the match ticket.<sup>47</sup> Filho explains the reasons for such a phenomenon:

[The official replica shirt] is very expensive. But the [official replica] shirt's fabric must have a chemical treatment in order to let the athlete feel comfortable during the match. It has to absorb the sweat and discharge it, and this costs money. The fabric is specially made for receiving the chemical treatment. It also needs to be specially made to receive the club's colours, because the colours are made in the top of a paper by a machine, which passes the colours to the fabric, which needs to be the same exact shade that the club wants. For labour, as cheap as it may be in Brazil, you need to pay another 60% in labour [taxes]. The machinery needs to be amortized, and you need to have a profit to pay the sponsorship contract with the club. So the [shirt's] price really is expensive. In dollars it is expensive, even more than in other countries, but there the shirts normally come from China. We need to charge what we charge because there is no miracle, we need to have profit. And this profit, when it is 8% or 9%, it is a lot, because we are a serious company.<sup>48</sup>

The high price of the official replica shirts eventually leads supporters to seek more affordable alternatives, mainly pirated products. Piracy in Brazilian football merchandise market is, in fact, a problem that public authorities, kit manufacturers and clubs struggle to overcome. According to Filho:

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<sup>46</sup> Interview with Rosemberg (2009).

<sup>47</sup> See Chapter 10 for more details on match ticket prices.

<sup>48</sup> Interview with Filho (2009).

What does one do with the pirates? We, from Vulcabras, caught, in the week of a great derby, 5,000 pirated shirts being offered by street hawkers. On the day following the derby, the same shirts are in the same places with the same people. So we went to the factories. We closed down four factories. One of them had newer machinery than ours [...], producing shirts resembling those from São Paulo [FC], Internacional, Corinthians, Palmeiras and the national squad. And it was using a high quality fabric. We closed the factory, confiscated the machinery, but the following day there was another [factory] in another place. We try to help, but it is a governmental problem. We have investigators, lawyers, relationship with the police, everything. But we catch one and the following day another two open.<sup>49</sup>

Sanchez, president of Corinthians, adds that “the [public authorities] have been combating cocaine for 50 years and it does not end. How are you going to [combat] a citizen that sells a [club’s pirated replica shirt] to feed his family? You combat the piracy, but it does not end.”<sup>50</sup>

The high price of the club’s official merchandise is identified as the main reason behind the high level of piracy in the Brazilian market.<sup>51</sup> Filho estimates its size:

How many supporters are there in Brazil with potential for consumption in a population of 190 million? Around 120 million. The market size is 4.2% of these 120 million. This is our number, with knowledge from four years working with football. This is the market size, the rest is piracy. [...] But the market is developing. Until the World Cup it should grow and improve, because even the [lower classes] are beginning to have a consumption power that they did not have before, and are beginning to enter the market and willing to pay R\$15 a month, in ten instalments, to buy the club’s official replica shirt. And the

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<sup>49</sup> Ibid.

<sup>50</sup> Interview with Sanchez (2009).

<sup>51</sup> Beting (2008a).

manufacturers, the sponsors and the suppliers are beginning to work with casual club products of up to R\$99, which fits in the budget. [It is improving] not so much because of the professionalization of football, but due to the growth in the consumption power of the [lower] classes. The worst pirated shirts cost R\$29.90. The medium cost R\$39.90, and the good go from R\$49 to R\$59.90, which you need to pay in cash at once. And the clubs need to make its supporters aware to buy only official products. These are some drivers in Brazil that are beginning to work, but some patience is needed.<sup>52</sup>

Furthermore, as argued before, Brazilian football clubs often lack a commercial perspective, which holds back the development of the merchandise market in the country. Other factors that will be discussed further, such as the international transfer of players and the poor conditions of stadiums in Brazil, also contribute to the current scenario. According to Rosemberg:

There needs to be an adequate outfit launched at the right time. [...] [Clubs] launch coats in [the spring] and not [in the winter]. Each club launches its collections at a different time, there is no defined calendar. There are clubs that launch the new official kit in the middle of the season, therefore you become vulnerable to the club's performance at that moment and cannot program yourself for that. [...] You need to improve the retail channels, in order to improve the conditions of the consumers to buy the [official replica shirts], and to improve the clubs. [...] Ronaldo is an example. In December [2008], I sold 3,000 [Corinthians' shirts with Ronaldo's name]. Ronaldo signed [with Corinthians] on December 11<sup>th</sup>, and I had to change all the stores. I did not have shirts available. [Ronaldo's signing] was not programmed.<sup>53</sup>

The importance of high profile players in selling club related merchandise is evidenced by the significant number of sales of official replica shirts of European

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<sup>52</sup> Interview with Filho (2009).

<sup>53</sup> Interview with Rosemberg (2009).

clubs in Brazil, although such a phenomenon is not exclusively related to Brazilian players, as Rosemberg explains:

The overseas clubs that are the most representative are Chelsea, Manchester [United] and Milan. [...] There has been a significant growth in the sale of overseas clubs' shirts and then a fall, because the sale of shirts of national clubs improved, and now it has stabilized. Of course when a great idol such as Kaká goes to Milan and now to Real [Madrid], there is an increase in the sales of the club's shirt, but it stabilizes quickly. I sold many more Barcelona shirts when Ronaldinho Gaúcho was playing well. When the Brazilian idol is on top, the sales improve.<sup>54</sup>

The considerable number of sales of foreign clubs' official replica shirts could perhaps suggest that these clubs may be starting to attract Brazilian supporters.<sup>55</sup> Such a possibility, however, is denied by Filho:

I do not even consider that [foreign clubs may be starting to attract Brazilian supporters]. Those who support Brazilian clubs buy their team's shirt. It is simple. [The supporter] may buy the overseas club [shirt] as a second shirt, but the first one is always from a Brazilian club. Even for the new generations.<sup>56</sup>

Instead, as the interviews above suggest, the sale of foreign clubs' shirts seems more related to the fact that the most famous Brazilian players are currently playing for overseas clubs, especially in Europe, a situation that has always followed Brazilian football but has been becoming much more common in recent years and will be analyzed in detail in the following chapter.

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<sup>54</sup> Interview with Rosemberg (2009).

<sup>55</sup> The issue will be further discussed in Chapter 11.

<sup>56</sup> Interview with Filho (2009).

## **Conclusion**

Improving commercial income streams is a difficult challenge for Brazilian clubs created partly by the lack of expertise from clubs and companies and more by the peculiar characteristics of the Brazilian business environment, especially the media environment. The interest of sponsors in Brazilian football clubs is often derived from the fact that matches are shown on the main free-to-air channel in Brazil, Globo, and therefore companies may see the sponsorship of clubs as an opportunity to advertise their brand on the channel at a much cheaper price. Unsurprisingly, Globo adopts a series of measures to avoid showing the sponsors' brand, which reduces the attractiveness of sponsoring Brazilian football clubs. Poor stadia infrastructure also holds back the development of more attractive sponsorship packages, while the bad image derived from frequent reports of corruption and violence linked with football clubs also helps to deter potential sponsors. Furthermore, marketing agencies and companies also frequently lack the appropriate sports marketing expertise, which contributes to the underdevelopment of sponsorship in Brazilian football.

This lack of expertise in sports marketing by agencies and companies is also found in the market for football clubs' official merchandise, which helps to keep the revenue stream at an almost insignificant level in comparison with the clubs' other income streams. Because clubs are non profit organizations and therefore are not allowed to control the selling of their own licensed merchandise, they need to license their official stores to private companies and are paid only a small percentage of the total income from sales. The widespread piracy of licensed products in Brazil also means that clubs do not receive a significant part of the royalties of products with the clubs' badges that are sold to supporters. Furthermore, the fact that the main Brazilian players are playing overseas inevitably helps to weaken the potential sale of official club licensed merchandise.

The World Cup in 2014 and the Olympic Games in Rio de Janeiro in 2016 are bringing big multinational sports marketing agencies to the country, which are being attracted by the enormous commercial opportunities that these two events seem likely to create. However, because many of the market constraints are a consequence of the Brazilian business environment overall, it is unclear whether this new inflow of

agencies and expertise will truly help to improve the sports market or if these agencies will leave the country shortly after these events if short term results are not achieved.

Evidence suggests that Brazilian football clubs will still struggle to improve commercial income streams in the near future to the level of the top European leagues, even with the mega events and the inflow of new expertise. With little chance to raise significant money through sponsorship and merchandise, clubs must then rely on player transfers as a major source of revenue to finance their activities.

## 9 Player Transfers

Chapter 7 showed that one of the most important sources of revenue for Brazilian football clubs is the transfer of players. The results from 2006 to 2008 show that the income of clubs in the Campeonato Brasileiro from transfers averages €125.7 million, or 28.3% of clubs' total income.<sup>1</sup> Almost all of this figure represents income received from overseas clubs, although many Brazilian clubs have been selling the economic rights of players to local investors, which is basically the rights to a share of the cash obtained by the future transfer of these players. This chapter will thus focus on providing a more comprehensive analysis of the process of developing and transferring players and will also try to survey the several peculiarities of the player transfers market in Brazil. It also aims to explain how clubs and other parties are developing business practices to enhance their profit from the international demand for Brazilian football talent. Ultimately, this chapter will try to explain why Brazilian clubs rely so much on transfer income, the effects that this dependency have on the shape of the local football industry, the potential for further growth and the risks involved in basing the industry on such an unstable source of income. All this will then contribute to the better understanding of the peculiarities of the Brazilian football industry. The chapter will use data on the international transfer of players provided by the CBF and the Brazilian Central Bank, as well as books, articles, reports and interviews with key people in the Brazilian football industry.

### The Player Transfer Market

The migration of footballers to foreign countries has existed since professional football was first established and it has generally followed the developments in international labour migration affecting countries all over the world.<sup>2</sup> The migration of players has been always driven by economic reasons, of which is possible to identify at least three different motivations, reflecting so called 'push and pull' factors: a) national economic crises and financial weakness have encouraged players to leave their home leagues in order to seek to play in countries with a better economic scenario; b) the amateur or semi-amateur status of football in a given

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<sup>1</sup> Casual Auditores (2008) and Casual Auditores (2009).

<sup>2</sup> Lanfranchi & Taylor (2001), pp. 1, 3 and 234.

country holds back the financial development of football and drives players to look for clubs with better conditions to pay for full time employment activity; and c) the top European leagues have been able to pay an exceptional level of salaries to the world elite football players.<sup>3</sup> Since Lanfranchi & Taylor wrote in 2001, the capacity of poorer leagues in Europe to offer attractive packages to foreign players has also increased, with the result that on their squad for the 2010-2011 UEFA Champions League, FC København had eleven foreign players of which two were Brazilians and Shakhtar Donetsk from Ukraine had twelve foreigners of which six were from Brazil.<sup>4</sup>

**Table 9.1: Top ten players monthly salaries in Europe and Brazil in the first semester of 2009 (€ thousands)**

Europe			Brazil		
Player	Club	Monthly Salary	Player	Club	Monthly Salary
Ibrahimovic	Internazionale	750	Ronaldo	Corinthians	451
Kaká	AC Milan	750	Adriano	Flamengo	144
Messi	FC Barcelona	700	Nilmar	Internacional	143
Terry	Chelsea FC	630	Fred	Fluminense	139
Lampard	Chelsea FC	630	Leandro Amaral	Fluminense	112
Henry	FC Barcelona	625	Kléber	Cruzeiro	112
Eto'ó	FC Barcelona	625	Thiago Neves	Fluminense	108
Cristiano Ronaldo	Manchester United	560	Edmilson	Palmeiras	96
Ronaldinho Gaucho	AC Milan	540	Rogério Ceni	São Paulo	92
Shevchenko	AC Milan	540	Washington	São Paulo	88

Source: Football Finance (2009) and Perrone & Itri (2009).

These three motivations have all been seen in the migration of Brazilian football players. Economic difficulties in Brazil are certainly a factor that prompts players, especially those from poorer classes, to look for opportunities in the international football leagues, even if it means playing for a small club and being paid only a

<sup>3</sup> Lanfranchi & Taylor (2001), pp. 4-5.

<sup>4</sup> List of squads were found in [www.uefa.com](http://www.uefa.com).



fraction of the salaries of the top Brazilian players.<sup>5</sup> The amateur status of Brazilian football until the 1930s drove some of the top Brazilian players to seek countries with established professional clubs, one of the main reasons why football became professional in Brazil.<sup>6</sup> Finally, the salaries of the top players playing in Europe can hardly be compared with the top salaries in Brazil: Table 9.1 compares the top ten players' salaries in Europe and Brazil in the First Semester of 2009.

Furthermore, Brazil is also a natural source of football talent for any market in the world. The high international status of Brazilian football, which is possibly derived from the five FIFA World Cup titles and the fact that Brazilian players are often elected the world's best player by different organizations, added to the relatively cheap costs of transfers and salaries compared with players from more developed nations certainly helps to maintain a high demand for Brazilian players worldwide.<sup>7</sup> Alexandre Loures, an influential FIFA licensed agent, adds that:

[The demand for Brazilian football players] remains [high]. [And] it is increasing. Markets that previously did not exist, such as Ukraine, [South] Korea and Turkey [are now opening]. [The demand] exists because the Brazilian player is a brand. [...] I think that the market for Brazilian and the Argentine players has room for expansion.<sup>8</sup>

Felipe Faro, director of football at Traffic, a leading sports agency in Brazil, complements this by stating:

There will always be demand [for Brazilian players]. Brazil has a lot of players of small and middle level that are much [better] in relation to the other countries. [If] you pick Vietnam, which is a small level [country], Greece and Turkey, which are middle level, the [Brazilian] player always has a place there. And the top players will always be negotiated. They will always go to the world's top ten buyer clubs. There will

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<sup>5</sup> Jacobs & Duarte (2006), pp. 33-42.

<sup>6</sup> Coelho (2009), pp. 52-64 and Pereira (2000), pp. 317-327.

<sup>7</sup> Jacobs & Duarte (2006), pp. 18-22.

<sup>8</sup> Interview with Loures (2009).

always be a Brazilian player for any type of club in the world. Brazil produces a lot of players, but no one knows why.<sup>9</sup>

Such high demand naturally implies that clubs will seek to exploit this source of revenue. As shown in figure 7.4, in 2008 the top Brazilian football clubs generated a combined amount of €122.5 millions in player transfers, which corresponds to 28% of all revenue generated by the clubs over the year. The transfer of players is the most important source of income for Brazilian clubs, having generated €17.5 millions more than broadcasting and two and a half times the amount derived from matchday. Table 9.2 shows the importance of the revenue to the total income of each of the top Brazilian clubs in 2008.

**Table 9.2: Players transfer revenue of the top Brazilian clubs in 2008 (€m)**

Club	Total Income	Transfer Income	Percentage
Internacional	43.9	18.4	42%
Palmeiras	42.8	13.4	31%
Cruzeiro	29	11.2	38%
São Paulo	49.6	9.4	19%
Flamengo	36.4	8.5	23%
Corinthians	36.3	8.3	23%
Grêmio	30.6	7.8	26%
Fluminense	20.5	5.3	26%
Santos	20.2	4.7	23%
Atlético PR	13.7	4.1	30%
Atlético MG	17.8	3.6	20%
Coritiba	11.6	2.4	21%
Paraná Clube	5.4	1.8	34%
São Caetano	7.4	1.5	21%
Barueri	5.3	1.2	23%
Náutico	6.1	0.8	13%
Botafogo	15.9	undisclosed	undisclosed
Figueirense	8.7	undisclosed	undisclosed
Portuguesa	14.6	undisclosed	undisclosed
Vasco da Gama	16.1	undisclosed	undisclosed
Vitória	5.8	undisclosed	undisclosed

Source: Various.<sup>10</sup>

<sup>9</sup> Interview with Faro (2009).

As one can see, there is no specific pattern for the amount of importance that the transfer of players has in the total club income, since there are clubs that rely much more on player transfer income than others. Cruzeiro and Paraná Clube, for example, generated more than two thirds of their total revenue in 2008 from the transfer of players to other clubs, while Internacional generated almost half of its income through the sale of players. Náutico and São Paulo, however, kept the importance of the transfer of players below 20%, which means that some clubs may adopt measures to diminish the relative importance of the transfer of players to the club's overall budget and consequently diminish the risk of relying on such a source of income.<sup>11</sup>

Nonetheless, the total value of player transfers has been increasing significantly throughout the last few years, which is a consequence of the increase in the number of transfers rather than an increase in their value. According to Table 9.3, based on data provided by the Brazilian Central Bank, the number of international transfers of players from Brazilian clubs increased from 263 in 2004 to 471 in 2008, an increase of 179% in five years, having reached a peak of 546 transfers in 2007. Despite the increase in the total amount of transfers, the average value of each transfer had varied through the years, showing no signs of any established pattern. Table 9.3 also shows that in only five years Brazilian clubs transferred almost 2,000 players to foreign clubs, generating a combined amount of more than €620 million.

Not all transfers, however, are registered by the Brazilian Central Bank, as many Brazilian players may change clubs free of charge at the end of their contract or even be loaned to foreign clubs for no direct financial compensation. Clubs may also try to avoid declaring international transfer receipts to the Central Bank. From 2002 to 2006, for example, fourteen Brazilian football clubs were fined a combined € 10 million by the Brazilian Central Bank for not declaring the international transfer of 58 players in the 1990s.<sup>12</sup>

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<sup>10</sup> The data presented is based on each club's 2008 financial report. The 2008 financial reports of Figueirense, Portuguesa and Vitória are not available to public. Botafogo and Vasco da Gama do not specify the specific income derived from player transfers in their financial report.

<sup>11</sup> The risks arising from the player transfer market will be analyzed further in this chapter.

<sup>12</sup> Cruz (2006).

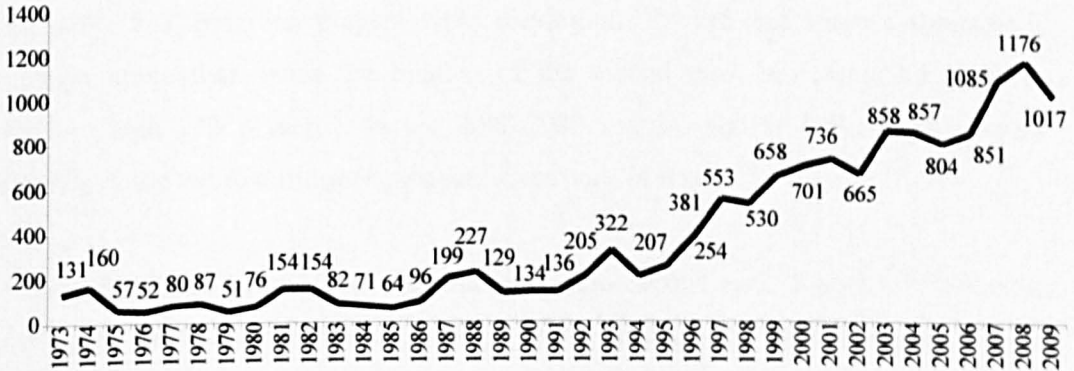
**Table 9.3: Registered international players transfers – 2004-2008 (€ thousands)**

Year	Number of Transfers	Total Transfers Value	Average Transfer Value
2004	263	74,392.8	282.9
2005	360	134,900.3	374.7
2006	348	99,276.1	285.3
2007	546	151,434.0	277.4
2008	471	167,760.4	356.2

Source: Brazilian Central Bank.<sup>13</sup>

Data provided by the CBF on the evolution of the international transfers from Brazilian football clubs, available in Figure 9.1, possibly reflects a more accurate picture of the number of players that leave the country each year. As we can see, although there was a decline in 2009, the number of international transfers from Brazilian football clubs has grown 400% in the last fifteen years, which provides evidence of the increasing development of the market and may explain why such revenue has grown in importance.

**Figure 9.1: International transfers from Brazilian football clubs – 1973-2009**



Source: Proni (2000), p. 151 and CBF website.<sup>14</sup>

<sup>13</sup> Data provided by e-mail by the Brazilian Central Bank and originally expressed in US Dollars. The respective year-end exchange rate between US Dollars and Euros was applied. The table of the exchange rates used is available in Appendix I.

<sup>14</sup> The list of all international transfers from Brazilian clubs in the period of 2003 to 2009 is available in CBF's website: <http://www.cbf.com.br/php/transferencias.php>.

Unsurprisingly, the main destination of football players leaving Brazil is the European football market. In the past five years, 60.9% of the players transferred from Brazil, an accumulated total of 3,003 players, had a club in a UEFA affiliated association as a destination. Table 9.4 shows the significance of each of the six FIFA Confederations had as a destination of players from Brazilian football clubs in the past five years.

**Table 9.4: Destination of international transfers from Brazilian clubs – 2005-2009**

	2005		2006		2007		2008		2009	
	Total	%	Total	%	Total	%	Total	%	Total	%
<b>AFC</b>	195	24.3%	184	21.6%	256	23.6%	214	18.2%	233	22.9%
<b>CAF</b>	16	2.0%	29	3.4%	20	1.8%	22	1.9%	26	2.6%
<b>Concacaf</b>	58	7.2%	52	6.1%	47	4.3%	68	5.8%	63	6.2%
<b>Conmebol</b>	92	11.4%	71	8.3%	72	6.6%	105	8.9%	102	10.0%
<b>OFC</b>	1	0.1%	1	0.1%	0	0.0%	3	0.3%	0	0.0%
<b>UEFA</b>	442	55.0%	514	60.4%	690	63.6%	764	65.0%	593	58.3%
<b>Total</b>	804	100%	851	100%	1,085	100%	1,176	100%	1,017	100%

Source: CBF website.

In 2008, 551 Brazilian players were playing in 30 different leagues throughout Europe, more than twice the number of the second most representative country, France, with 233 players.<sup>15</sup> In the 2008-2009 season, almost 14% of all players playing in the top five European leagues were born in Brazil.<sup>16</sup>

Although UEFA has 53 affiliated national associations and is possibly the most developed football confederation, perhaps another explanation for the large number of transfers is the fact that the top world league are concentrated in Europe, and therefore players, agents and clubs look to negotiate with those that can pay higher sums or find other clubs that may serve as a bridge to the tops, a process which will be discussed further in this chapter. As Malaquias, a leading FIFA licensed agent, explains:

<sup>15</sup> Besson *et al* (2008).

<sup>16</sup> Poli *et al* (2009)

Europe is always the target, because that is where the player is going to make his pile. [...] In Brazil, an above average player is going to earn [up to] R\$50,000. If he manages to go to Europe, which is the much above average player, then he is going to earn in Euros. He will be able to accumulate money because at 33, 34 and 35 years of age he will need to stop [his football career]. [...] He will need to start in another profession. [...] But if he accumulates a lot [of money] he will be able to live well. If he did not accumulate enough, he will need to kill himself [by working]. So we convince the player that [he needs to target the European football clubs].<sup>17</sup>

Faro complements this by stating that:

[Europe is the main market], undoubtedly. The ideal would be the top five leagues, but I would take two out, France and Italy. To the Brazilian player, the English market is very good, but very hard to enter. Spain is always a potential buyer, especially because of the power of Barcelona and Real Madrid, and Germany, which is always a very good market for Brazil.<sup>18</sup>

The country with the highest level of migration of Brazilian players is, by far, Portugal. The fact that Brazil was colonized by the Portuguese explains why, as its colonies, like Brazil and Africa, has supplied football talent to many countries in Europe for a long time.<sup>19</sup> Furthermore, not only was Brazil colonized by Portugal, and therefore language and other cultural barriers are simpler to surpass, but both countries enjoy a diplomatic agreement called 'Acordo Recíproco de Contratação de Nacionais', the Reciprocal Agreement for the Employment of Nationals, which eases the migration bureaucracy of skilled labor from one country to another.<sup>20</sup> Brazil, in fact, is responsible for the largest proportion of foreigners currently living in Portugal, responding 24% of the total number of migrants, which corresponds to more than

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<sup>17</sup> Interview with Malaquias (2009).

<sup>18</sup> Interview with Faro (2009).

<sup>19</sup> Lanfranchi & Taylor (2000), pp. 170-189.

<sup>20</sup> Divisão de Atos Internacionais (2003).

100,000 Brazilians living in the country.<sup>21</sup> Table 9.5 shows that in the last five years, a total of 897 football players from Brazilian clubs moved to Portugal, which represents 18.2% of the total of international transfers of players from Brazilian clubs in the period.

**Table 9.5: International transfers from Brazilian football clubs to Portugal – 2005-2009**

<b>Year</b>	<b>Portugal</b>	<b>World</b>	<b>%</b>
2005	138	804	17.2%
2006	142	851	16.7%
2007	227	1085	20.9%
2008	209	1176	17.8%
2009	181	1017	17.8%
<b>Total</b>	<b>897</b>	<b>4933</b>	<b>18.2%</b>

Source: CBF website.

Furthermore, Portugal may also work as a bridge to other European top clubs, giving players a chance to play in UEFA's main tournaments and display their talent in front of potential buyers. Anderson, from Manchester United, Pepe, from Real Madrid, and David Luiz and Ramires, from Chelsea, are all examples of players who were transferred from Brazilian clubs to Portugal and then to some of the biggest European clubs, which certainly gives incentives to other Brazilian clubs and players to seek transfers to the Portuguese league.

### **The Evolution of Player Transfers in Brazil**

The first Brazilian football player ever to be transferred to a foreign football club was Arnaldo Porta, who moved from Araraquara, a club from upstate São Paulo, to Verona, Italy, in 1914.<sup>22</sup> In the 1920s and early 1930s, international transfers of Brazilian players started to happen more often due to the amateur status of local clubs and to the strong links between the European immigrants in Brazil and their home

<sup>21</sup> SEF (2009).

<sup>22</sup> Coelho (2009), p. 11.

countries, especially Italy.<sup>23</sup> In 1933, for example, there were nineteen Brazilian players in the Italian professional league.<sup>24</sup>

Since then, the number of transfers of Brazilian players to foreign clubs has been increasing, concomitantly with the fall in the number of restrictions of foreign players in domestic leagues all over the world, especially in Europe, although restrictions still exist.<sup>25</sup> The decline in the restriction on the inflow of foreign players from football governing bodies around the world, however, can not be seen as the only explanation for the growth of international transfers, as many other factors that affect international labour migration overall contribute significantly to the phenomenon. Furthermore, specifically in the football sphere, the Bosman ruling, the proliferation of football agents, the rise in the power of leagues over federations and the development of new football markets have also been key factors behind the growth in international transfers of football players.<sup>26</sup>

The Bosman ruling has been often cited as the main factor behind the increase in players' mobility throughout the last fifteen years, which is, in fact, a consequence of the combination of different factors, Bosman included.<sup>27</sup> There were two main changes resulting from Bosman: it ended restrictions on the migration of European players between European countries and also established that players in Europe could exchange clubs free of any compensation after the end of their contracts.<sup>28</sup> As figure 9.1 shows, the number of Brazilians moving to foreign clubs doubled between 1995 and 1998. Lanfranchi and Taylor, however, make the point that this was not due only to Bosman, but other economic factors were involved, for example, the growth of salaries paid by the top European leagues and economic crisis in the players' home country.<sup>29</sup>

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<sup>23</sup> Lanfranchi & Taylor (2000), pp. 81-84.

<sup>24</sup> Lanfranchi & Taylor (2000), p. 83. On this migration, see also Bocketti (2008).

<sup>25</sup> Coelho (2009), p. 12 and Frick (2009).

<sup>26</sup> Lanfranchi & Taylor (2000), pp. 234-236.

<sup>27</sup> Frick (2009) and Lanfranchi & Taylor (2000), p. 222. A more detailed description of the case can be found in Arnedt (1998).

<sup>28</sup> Lanfranchi & Taylor (2000), pp. 81-84 and Antonioni & Cubbin (2000).

<sup>29</sup> Lanfranchi & Taylor (2000), pp. 4-5.



Three years after Bosman, in 1998, the Brazilian government published the Pelé Law. Among other changes, the law established that, like Bosman, players in Brazil could leave the clubs at the end of their contracts without the need to pay the club any compensation.<sup>30</sup> The law was, and still is, the subject of much controversy. Clubs often complain that it has taken much of their income away and did not bring freedom to players, as they only shifted from having their contracts owned by the clubs to now being owned by agents. Furthermore, the Pelé Law is also often blamed for being responsible for increasing the number of Brazilian players transferred to foreign markets and reducing the clubs' bargaining power in transfer negotiations.<sup>31</sup> The Federal government has even been studying changes in legislation in order to extend the length of the first contract that the player signs with a club and also to lower the minimum age for the professionalization of the athlete, from sixteen to fourteen years of age.<sup>32</sup>

Besides the argument that the increase in player migration all over the world is not related exclusively to specific changes in football legislation, Figure 9.2 shows that the increase in the transfer of Brazilian football players was in fact much more accentuated prior to the creation of the Pelé Law than after it. As one can see, from 1989 to 1998, ten years before the publication of the Pelé Law, the number of international transfers of Brazilian players grew from 129 to 530, while from 1999 to 2008, the ten years following the Pelé Law, the number grew from 658 to 1,176.

As mentioned above, another criticism of the Pelé Law made from clubs is that although the new regulation was meant to provide players with the liberty to negotiate their own contracts, the law did not achieve that. Instead, as argued, the Pelé Law only shifted the power over players from clubs to agents, who are now, allegedly, benefited from the regulation as they control the destination of the players.<sup>33</sup> This shift in power relationships for players of proven or potential high quality, however, reflects a broader international trend.

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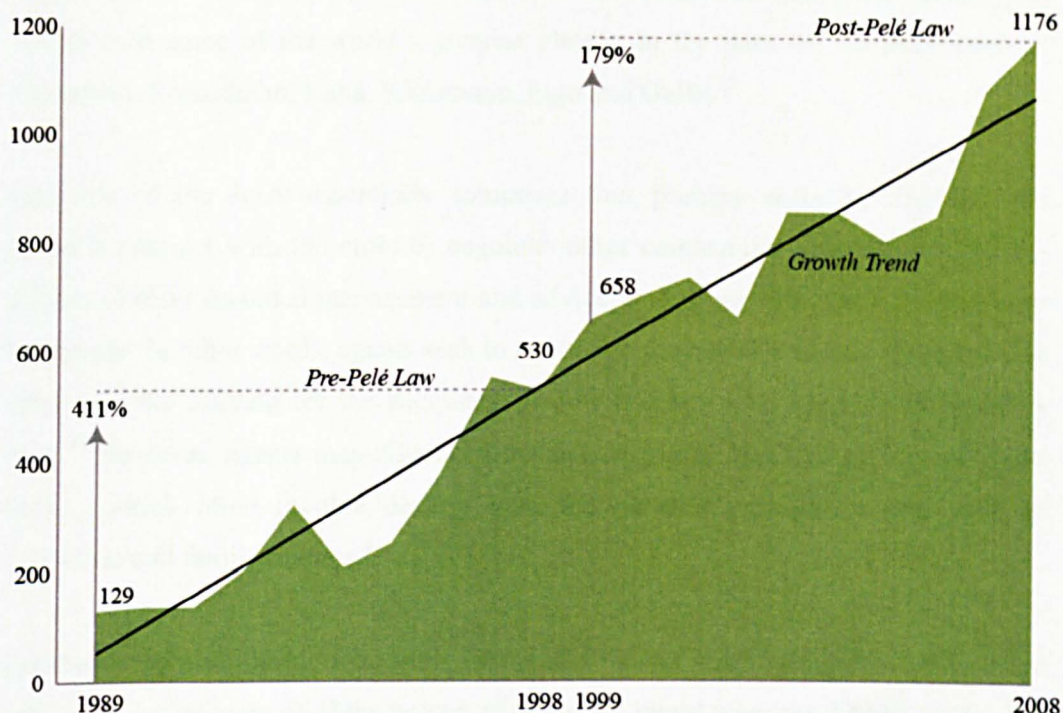
<sup>30</sup> See Chapter 5 for more information on the Pelé Law.

<sup>31</sup> See examples in Cobos & Perrone (2008).

<sup>32</sup> Ferrari & Mattos (2008a).

<sup>33</sup> Ferrari & Mattos (2008b).

**Figure 9.2: International players transfer growth rate before and after the Pelé law (1989-2008)**



Player agents have been undoubtedly responsible for some part of the recent increase in the transfer of players worldwide, although the profession dates back to the early 20<sup>th</sup> century.<sup>34</sup> The role of sport agent has existed since the 1920s and the real development of the profession started in the 1960s, mainly in the United States.<sup>35</sup> FIFA, however, officially recognized the players' agents role only in 1995.<sup>36</sup> A US lawyer, Mark McCormack, has been described as the first 'super-agent' following his contracts to represent golfers like Arnold Palmer and Jack Nicklaus in the 1960s.<sup>37</sup> Representation of leading sportsmen spread into other sports and as commercialization of football grew in the 1980s and 1990s, the role of agents became more pronounced. In England, for example, people like Jon Smith and Sky Andrew were able to construct business solely based around football.<sup>38</sup> The first important South American agent was probably Juan Figer, an Uruguayan whose business grew from selling shirts and dealing with imports and exports to be invited to become the

<sup>34</sup> Lanfranchi & Taylor (2000), p.5.

<sup>35</sup> Mason (2006).

<sup>36</sup> Cobos (2003b).

<sup>37</sup> More on Mark McCormack in BBC SPORT (2003) and Farrell (2003).

<sup>38</sup> For a profile on Jon Smith, see White (2002). For Andrew, see Smith (2001).

commercial director of Peñarol in the 1960s. From then on, Figer started a career that would turn him into possibly the world's most influential football agent, having been linked with some of the world's greatest players in the past few decades, such as Maradona, Ronaldinho, Kaká, Klinsmann, Figo and Gullit.<sup>39</sup>

The role of the agent essentially comprises four primary tasks: a) negotiate the player's contract with the club; b) negotiate other commercial opportunities for the player; c) offer financial management and advice; and d) provide legal counseling to the player. In other words, agents seek to maximize the player's income potential and offer him the funding for the necessary income stability after his playing career is over.<sup>40</sup> However, agents may also need to undertake activities that go beyond these duties, which often involve dealing with the player's personal issues, such as education and family matters.<sup>41</sup>

Financial opportunities derived from the transfer market also lead agents to play other roles. As the revenue of clubs soared all over the world after the 1990s, so did the salaries of players. The ending of restrictions over the migration of football players also gave the players the possibility to seek employment opportunities in a wide range of clubs in different countries, so the agent's role in finding clubs became naturally more important. Faro states that:

We do not need to worry about [the top players] because a proposal will certainly come. With other players, we adopt an active position, either because his age is on the limit and he needs to be transferred or because if we are not active, no one will get to know him outside [Brazil]. We have a structured commercial department, with offices in Portugal and in Netherlands, which are the most advanced [markets] in order to sell a player that needs to be sold. [...] It is a commercial promotion. [...] It is a road show.<sup>42</sup>

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<sup>39</sup> Goos (2006) and Elustondo (2010).

<sup>40</sup> Ehrhardt & Rogers (1988).

<sup>41</sup> Steinberg (1992).

<sup>42</sup> Interview with Faro (2009).

Possibly due to the characteristics of the Brazilian football industry, where, as previously shown, clubs draw much of their revenues from the transfer of players, the role of the agent has attracted many individuals in recent years. In late 2000, Brazil had only nineteen agents officially recognized by FIFA.<sup>43</sup> By late 2009, the number of agents grew to 326, placing Brazil as the fourth country in number of official FIFA agents, behind only Italy, with 600, Spain, with 581, and England, with 387.<sup>44</sup> Estimates suggest that there may even be another 400 unregistered agents working with football players in Brazil.<sup>45</sup> Such growth in the country may be driven by the possibility of obtaining financial rewards from transfer commissions or even part of a high level salary, as Loures explains in describing his transition from working for Deloitte in Brazil to his current role in football:

My dream was to work in consultancy, but the [Brazilian football] clubs did not have that as a priority. [...] They did not have money to pay for them. On the other hand, they had the money to buy ten players and send another ten players away. So I stopped believing in the market for consultancy. [...] Every time I did a lecture at universities and explained football's value chain, all the money would always end up in the [football] player. [...] So I told people that if they wanted to make money out of football, either they should be football players or they should be player agents.<sup>46</sup>

The interview above shows that agents and their clients, the players, have grown aware of the role they play in football's supply network, also known as 'talent supply network', where there is a short supply of top talented players being needed by many different football clubs.<sup>47</sup> Because clubs are driven by performance goals, as argued before, they use their resources to obtain top talented players, therefore the more money a club generates, the more it spends on talented players.

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<sup>43</sup> Cobos (2003b).

<sup>44</sup> FIFA (2009b).

<sup>45</sup> Ferrari & Mattos (2008b).

<sup>46</sup> Interview with Loures (2009).

<sup>47</sup> Lonsdale (2004).

Another role that agents may have in Brazil is to outsource the scouting of young players. Agents may create their own scouting network to search for young talent all over the country and, when a good player is found, offer the player for trials in a club. If the player eventually joins the club, the agent will then start to manage his career. Malaquias explains how the process works:

We have three or four scouts that are always in contact with us recommending players. Then we follow their advice and go out to watch the matches. [...] [After we sign with the player] we need to get in touch with the club and do a trial. That usually lasts around one or two months. If the player is approved by the club, we establish a partnership.<sup>48</sup>

Contrary to what the impressive number of international transfers may suggest, finding a good football player in Brazil who is uncommitted to a club or agent already is not an easy task. According to Paulo Jamelli, Santos' football manager: "Finding a [footballer] in Brazil is easy, but finding a good footballer is hard. Because when they show up, they are already placed somewhere, and it is hard to take them out of there".<sup>49</sup>

However, when a good player is found, either unsigned or playing for a small club, top clubs may compete against each other to sign him. A club may also ask an agent if it can sign one of his clients. Both situations give agents enough bargaining power to ask the club to sign a contract where the club guarantees the agent a percentage of the future transfer value of the player. This practice became known as 'third party ownership'.

### **Third Party Ownership, Academies and Talent Development**

Third party ownership relates to the purchase of the economic rights of the future transfer or loan fee of a football player by another party.<sup>50</sup> Although third party

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<sup>48</sup> Interview with Malaquias (2009).

<sup>49</sup> Interview with Jamelli (2009).

<sup>50</sup> Filho (2008).

ownership is quite common in different developing nations, notably Brazil and Argentina, and in some other European countries, such as Italy and Spain, it has sparked a lot of public interest in England after Sheffield United sued West Ham for having signed (and lied) about such an agreement with the off-shore company, MSI, which is forbidden under the English Premier League rules, in order to take the Argentine players, Tevez and Mascherano, on loan and eventually manage to escape from relegation in the last match of the 2006-2007 season, which then relegated Sheffield United to the Championship.<sup>51</sup> In early 2009, West Ham paid Sheffield United an out of court settlement worth €22.5 million.<sup>52</sup>

As already mentioned, MSI had signed a partnership agreement with Corinthians in 2004.<sup>53</sup> One of the first moves of the company was to buy two promising Argentine youngsters, Carlos Tévez, from Boca Juniors, for €16.9 million in January 2005 and Javier Mascherano, from River Plate, for €12.7 million in May 2005.<sup>54</sup> Although both players were then loaned for free to Corinthians, their economic rights belonged to MSI. In August 2006, MSI again loaned both players to the English club West Ham, where they successfully helped to maintain the club in the Premier League that season.<sup>55</sup> In 2007, Tévez moved to Manchester United and Mascherano to Liverpool. Both clubs, like Corinthians and West Ham, also did not buy the economic rights from MSI. Manchester United agreed to a two-year loan for Tévez worth €13.7 million and Liverpool paid MSI €2.2 million for an eighteen-month loan of Mascherano.<sup>56</sup> In 2008, Liverpool purchased all rights over Mascherano for another €17.9 million.<sup>57</sup> In 2009, Manchester City paid MSI €28.7 million for the transfer of Tévez.<sup>58</sup> Table 9.6 shows that, in five years, MSI has generated a cumulative profit of €32.9 million on an initial outlay of €29.6 million by the loaning and selling of both players.

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<sup>51</sup> Williams (2008).

<sup>52</sup> Gibson (2009).

<sup>53</sup> See Chapter 6.

<sup>54</sup> Ohata (2005) and Perrone (2005).

<sup>55</sup> Arruda (2006).

<sup>56</sup> Ogden (2008).

<sup>57</sup> Hunter (2008).

<sup>58</sup> Conn (2009b).

**Table 9.6: MSI's cumulative profit from Tévez and Mascherano third party ownership – 2005-2009 (€ million)**

Year	Deal
2005	Buys Carlos Tevez from Boca Juniors for €16.9 millions and Javier Mascherano from River Plate for €12.7 millions . Loans both players for free to Corinthians.
2006	Loans Tevez and Mascherano for free to West Ham.
2007	Loans Tevez for two years to Manchester United for €13.7 millions and Mascherano for 18 months to Liverpool for €2.2 millions.
2008	Sells Mascherano to Liverpool for €17.9 millions.
2009	Sells Tevez to Manchester City for €28.7 millions.

Although the English Premier League has forbidden third party ownership, on the grounds that it may harm the integrity of football, and football authorities in South America have allegedly been asking FIFA to outlaw the practice, there are no other signs yet that third party ownership will come to an end in Brazil soon.<sup>59</sup> There are at least two reasons for this. Firstly, trading the full or the partial ownership of the economic rights of football players with third parties has proved to be a good financial alternative to clubs either to generate immediate cash or to improve, and in some cases maintain, the current playing squad in the complicated financial scenario in which Brazilian football clubs operate. According to Luiz Felipe Santoro, Corinthians' lawyer, "the sale of the economic rights is the lucrative part of an unprofitable business. Brazilian football is unprofitable and the sale of economic rights is profitable".<sup>60</sup> Jamelli complements by stating that:

The club does not have money and has the player's contract, the economic rights, but at the end of the month it does not have the money

<sup>59</sup> Scott (2009b).

<sup>60</sup> Interview with Santoro (2009).

to pay the salaries of the squad. Then [the club] approaches wealthy people, with money to invest, and sells a percentage of the player for a given amount and, in the future, when the club sells [the player], the investor receives a percentage of the money that comes to the club. [...] In Brazil, the clubs go hunting [for investors].<sup>61</sup>

Malaquias explains how the process works:

[It is like] what we did with Keirison. We paid Cene [a club from Mato Grosso do Sul where he played] and bought him. He could go to Atlético [Paranaense], could go to Flamengo, could go to Santos or could go to Coritiba. Let us put him in Coritiba? Let us. We spoke with the president, the president agreed, the kid passed the trials, we said that we had paid too much for him, the president did not want to pay us anything because [Keirison] was too young and [so] we did a partnership with Coritiba. [...] Then we establish a division. It can be [...] 80%, 70%, 60%, 50%, 40% of a future transfer fee. [...] It depends on the player. For example, [club A] needs a defender [and I] know that there is a defender at [club B and is not in the starting lineup]. [Club B] wants R\$500,000 [for the player]. [Then] I go there and pay. Then I say to [club A] that it does not need to pay anything to me, but if he is transferred [in the future], I want 90%. If the club needs a defender, it accepts it. If the club does not need him, we do a 50%-50% or 60% to me.<sup>62</sup>

Clubs, therefore, see the potential benefit of generating immediate cash flow through selling the rights of players while keeping the player in the club or buying more talent without the need to lay out cash. Although this practice might mean that in some cases the club could lose a lot of money in the future in the case of a big transfer, the club can avoid the risk of losing the player without any compensation at the end of the contract and also avoid the enormous risks involving the bet on the transfer market, which will be discussed further in this chapter.

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<sup>61</sup> Interview with Jamelli (2009).

<sup>62</sup> Interview with Malaquias (2009).



The second reason why third party ownership will hardly be stopped soon in Brazil is that the practice is widespread and growing fast. In early 2008, for example, at least 28% of the economic rights of the squads of the main clubs from the state of São Paulo belonged to third parties.<sup>63</sup> Furthermore, at least eleven of the twenty clubs playing in the First Division of the 2008 National Championship had a partnership agreement involving the economic rights of players with a third party, and at least seven of these clubs had an agreement with Traffic, arguably the main sports marketing agency in Brazil.<sup>64</sup> Outlawing third party ownership in Brazil, therefore, seems very difficult. Instead of focusing on that, governing bodies should accept the existence of the phenomenon and regulate the practice in order to avoid potential damage that the third party ownership could bring to the integrity of football such as influencing clubs and players to fix match results to obtain a higher profit from a possible player transfer.<sup>65</sup>

Traffic was initially a company that focused on trading advertisements at bus stops, hence its name. In 1981, José Hawilla, a sports journalist and former chief of sports of Globo Network, bought the company, which rapidly expanded its business in the football sphere, first by selling advertising in stadiums and then selling the broadcasting rights of South American football competitions and eventually activating sponsorship deals, most notably with the CBF.<sup>66</sup> The company now is a large media group, owning television stations and newspapers, as well as a media production company.<sup>67</sup> Seeing the expansion of the transfer market, the company entered the business of training and trading players in 2005. Shortly afterwards, it bought a small club called Desportivo Brasil in order to register the players it bought and loan them to other clubs. In 2009, the company opened the 'Academia Traffic', Traffic Academy, where it develops young football talent. Felipe Faro, the Director of Football Business for Traffic, explains how Traffic works in the transfers market:

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<sup>63</sup> Ferrari & Mattos (2008c).

<sup>64</sup> Perrone & Mattos (2008).

<sup>65</sup> Williams (2008).

<sup>66</sup> Beting (2008b). More details on the selling of broadcast rights in Brazil is available in Chapter 11.

<sup>67</sup> Folha de São Paulo (2009e), Madureira (2009) and Traffic's website: [www.traffic.com.br](http://www.traffic.com.br).

Our first idea was to buy or take over a football club in upstate São Paulo. We visited a lot of clubs but realized that there were too many problems at the clubs. We aborted this operation and started a lighter operation, taking over the under-20 [team] of a limited liability club in November 2005, and this club reached an agreement with São Bento de Sorocaba[...]. Basically we rented São Bento's shirt to play the under-20 [championship] and we started developing under-15 and under-17 players. The project focuses on developing players under-15, under-17. We rented an academy in [another city] and we stayed there with around 80 to 100 kids. They did everything there. Ate, slept. We started to enter tournaments and if the thing went well as we thought it would, we would build our own academy, with a much larger infrastructure. In the meantime, there was an opportunity to buy Gustavo, [a defender] who was playing for Palmeiras and is currently in Cruzeiro. He had no club and we bought a part of [his economic rights]. We made a deal with him and his agent and registered him with Desportivo Brasil, which was our club, and loaned him to Palmeiras. This was the start of another business of ours that was to buy a share or the entire economic rights of football players and send them on loan to other clubs, as in the case of Gustavo. Whenever possible, keeping the contracts with Desportivo Brasil and moving him from club to club. [...] One and a half years ago, we started to build our own academy, which is called 'Academia Traffic'. [...] In the Brazilian market, we loan the player [to another club] for free. The club pays the salaries and, at the time of the sale of the player, the club gets paid a [percentage of the transfer] for having been the showcase.<sup>68</sup>

Traffic has created a structure similar to a selling club, with a professional squad and an academy. The difference is that the company does not use the professional club, but loans its players to top national clubs that work as a showcase in order to show the players' capacity when playing at the top level. Such a strategy is fundamental in order to increase the player's value. According to Malaquias:

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<sup>68</sup> Interview with Faro (2009).

The foreign club, a top club, needs to feel that the players plays for a [top] club, that he is used to [playing for a top club]. Can you imagine if they say in the Spanish newspapers that [Barcelona] has signed Henrique from Coritiba? They will ask which team is Coritiba, where it plays, this sort of thing. [...] That is what the foreign clubs think. [Henrique] signed with Barcelona for a higher fee being in Palmeiras than he could if he was playing for Coritiba.<sup>69</sup>

In January 2008, Traffic paid €1.9 million for Henrique, who was at the time playing for Coritiba, where he had emerged from the club's youth academy. Traffic then loaned him to Palmeiras, where he stayed only until June, when he signed with Barcelona for € 10 million. For being used as a showcase, Palmeiras was paid by Traffic €1.5 million while the company profited by €6.6 million. That means that Traffic earned almost 350% profit in only five months for the investment.<sup>70</sup>

One year later, a similar case happened with Keirison, who had been one of the top scorers of the 2008 Brazilian Championship. In January 2009, Traffic bought him from Coritiba, which owned 20% of the economic rights of the player, and from his agents, who owned the remaining 80%, for around €4 million and again loaned him to Palmeiras.<sup>71</sup> Six months later, he was also sold to Barcelona for €14 million, and Palmeiras earned another €2 million for having been the showcase for the player, while Traffic made €8 million profit, which meant a combined amount of €14.6 million profit from two transfers for an outlay of € 5.9 million in the period of little over one year.<sup>72</sup> But of course other similar deals fail, as Traffic's model is based on the fact that the sale of a small number of its players will cover the costs of acquiring many others and still leave a profit.

The enormous profitability that football transfers can bring in a very short period has attracted other investment groups such as DIS, which is a player trading company comparable in size with Traffic. Both these companies, among others, have started to dominate the market for Brazilian footballers' economic rights to such an extent that

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<sup>69</sup> Interview with Malaquias (2009).

<sup>70</sup> Arruda (2008).

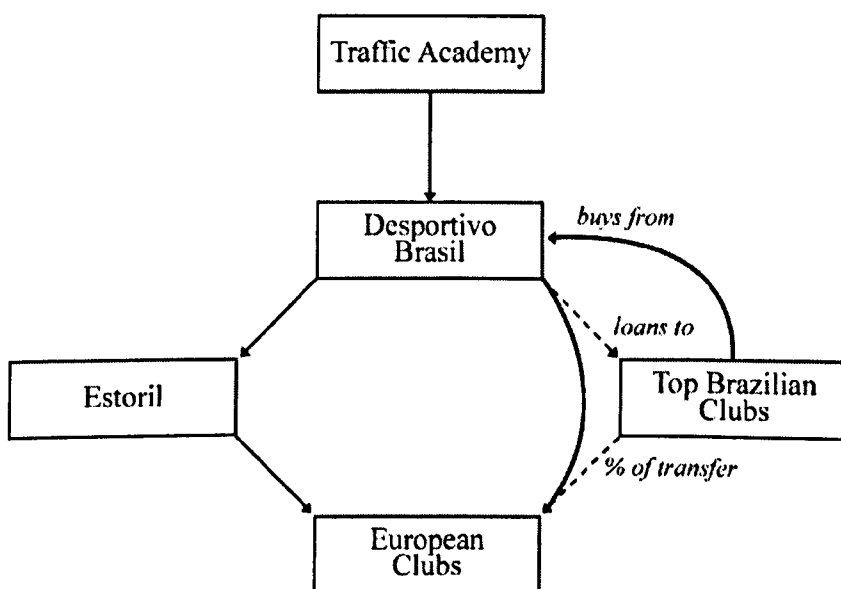
<sup>71</sup> Gonzalez (2009).

<sup>72</sup> Felipe (2009).

now regular agents have had to establish partnerships with them or try to transfer their players to less profitable markets.<sup>73</sup>

As previously argued, the main target of clubs, agents and third party owners is Europe, since the market pays much better. Some European clubs, however, may see the opportunity and sign Brazilian players to showcase the player to the top European clubs themselves. Bayer Leverkusen, for example, has had at least one Brazilian player on its squad from 1987 to 2007. During this period of twenty years, the club has paid €44 million to sign sixteen players and earned €68.6 million from their transfers to other clubs as well as having them in the team for a period of time.<sup>74</sup> Third party owners may also use small European clubs as a showcase to insert their players in the European market. In 2010, for example, Traffic, taking advantage of the labour agreement between Brazil and Portugal discussed previously, became the major shareholder of the Portuguese club Estoril, which adds yet another component to their complex business plan, illustrated by Figure 9.3.<sup>75</sup>

**Figure 9.3: Traffic's business plan**



<sup>73</sup> Thadeu (2008).

<sup>74</sup> Freitas (2007).

<sup>75</sup> Lopes (2010).

One could question why, if the profitability is so high, the top Brazilian clubs do not themselves control the player transfer market, since they are the centrepiece of the whole transfer process. One reason may be related to the issues addressed in the previous chapters: Brazilian football clubs struggle financially and are focused on performing on the pitch rather than developing their income streams. According to Faro:

We play a role that the clubs should play, with a well structured commercial department by having money to buy some players and then sell them. If the clubs were better prepared, we would not have space [in the market]. [They do not play the role] because they are concerned with winning the [next] game. [...] It is because of the amateurism of the people involved. The paid personnel do not have decision power. Those who have the decision power do not have time to think about it.<sup>76</sup>

Nonetheless, some Brazilian clubs have been upgrading their academies in order to develop young talent both to feed the first team squad and to obtain income by selling players. In 2006, for example, Atlético Paranaense invested around €2.5 million in a state-of-the-art academy.<sup>77</sup> The aim was essentially to provide a quality structure to develop new talent in order to be able to compete in the transfer market. According to Petraglia, former president of Atlético Paranaense:

[The construction of the new academy was motivated by] formation [of new talent]. [We decided to build it] when we started to realize that the transfer values had become absurdly expensive [...] and that the talent developing market became very competitive. [...] So we began to understand that we needed to have our own structure in order to feed our own team, formed in our academy, in order to escape from the competition. And the quality that we gave to the academy was to highlight us in the national and international scene, and to value our players. A player formed in an environment of excellence has much

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<sup>76</sup> Interview with Faro (2009).

<sup>77</sup> Rodrigues (2008),

more value than a player formed in a less quality environment. If he has more education, feeding, nutrition and culture in the same environment, he becomes a better player.<sup>78</sup>

Brazilian clubs, however, also face competition from new football academies being built by private investors with the sole purpose of developing young talent and profiting from the transfer of these players, in the same way as Traffic. Another example is Trieste FC, an amateur club from the city of Curitiba who signed a partnership agreement with a food company called Stival Alimentos. The company has invested just over €4.5 million in infrastructure such as dormitories, restaurant, gyms, swimming pools and pitches and, like Traffic and other third party owners, expects to profit from loaning its players to clubs and splitting the transfer revenue with the showcase club.<sup>79</sup> Rafael Stival, one of the company's owners, explains how the investment works:

It is a business opportunity. [...] [We have been working for three years] only with national clubs. We currently have 45 players playing in other clubs, as a partnership.[...] We give the club 50% of the player for an one year contract. At the end of the contract, this 50% has a price, which depends on each player. So the club will buy this 50% for a determined price.<sup>80</sup>

Private academies may also earn money from FIFA training compensation rules and solidarity mechanism. Training compensation is a sum that a club buying a player up to 23 years of age must pay the clubs that trained the player between the ages of 12 and 21. To determine the amount, FIFA establishes a table of estimated yearly costs for training the player in each association, which is then divided into four categories according to the size of the buying club. When a club buys a young player, it must then pay compensation equivalent to the value of training the player in its own academy. For example, in 2010 FIFA determined that the annual training cost of a player of UEFA's category A club was €90,000. Whenever these clubs bought a

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<sup>78</sup> Interview with Petraglia (2009).

<sup>79</sup> Vicelli (2008).

<sup>80</sup> Interview with Stival (2009).

player under 23, regardless of the place of origin, they were obliged to pay the player's former clubs €90,000 for each year the player trained with them between the ages of 12 and 21. The solidarity mechanism, however, is not limited by the player's age, as the rule is valid for any transfer the player throughout his career. Under this rule, 5% of the transfer value shall be split between the clubs that trained the player from 12 to 23 years of age. Each year from 12 to 15 is entitled to 0.25% of the total transfer, while each year from 16 to 23 is entitled to 0.5%.<sup>81</sup>

Depending on the case, both these rules may help bring clubs more money than they earned from the player's first transfer. For example, when Vitória sold David Luiz to Benfica in 2007, the club received €0.7 million for the transfer. With the player's transfer to Chelsea in January 2011, Vitória was entitled to receive another €0.9 million for the solidarity mechanism plus an estimated €0.3 million for the training compensation, since the player trained with the club for seven years, totalling €1.2 million, €500,000 more than the player's first transfer.<sup>82</sup>

Such investment in training players, however, is far from being risk free. To identify and to nurture talent in young football players is a very difficult and uncertain task.<sup>83</sup> This means that it is very hard to predict whether a player will become an elite player, which may turn any investment into a lottery. As Stival states:

There is never a certainty in [the business of developing football talent] because tomorrow [one of our young players who are in a top club] may be called [for the professional squad] and burst [into the first lineup] in a couple of games and may [be transferred and] pay for [our whole investment]. And it might also take a while. In truth, it is a game of patience. [...] There was a club in Rio de Janeiro that nurtured a player who has been now transferred by Grêmio. It is a project that has one football pitch, one bus and not much more than that, which nurtured a

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<sup>81</sup> FIFA's transfer regulations are available in [www.fifa.com](http://www.fifa.com).

<sup>82</sup> Neto (2011).

<sup>83</sup> Williams & Reilly (2000).

player who was transferred for €4 million, and this project got €1.5 million. [...] It is not easy, but this project has already become viable.<sup>84</sup>

There are even cases where unknown Brazilian talent, not enrolled in any structured academy, leaves the country at a very early age at the very first opportunity and eventually manages to reach a top European club. This was the case of Eduardo da Silva, who in 1999 left his community team at the age of fifteen to play in Croatia for Dinamo Zagreb and nine years later was signed by Arsenal for almost €8 million.<sup>85</sup> Amauri, who plays for Juventus, did not play for any football club until joining a small club in Santa Catarina in 1999 at the age of nineteen. In early 2000, he followed the club to a tournament in Italy and was spotted by Napoli, who signed and loaned him to a club in Switzerland. He was later transferred to Piacenza, Messina and Chievo before signing with Palermo for €8 million in 2006. In 2008, he was signed by Juventus for over €15 million.<sup>86</sup> Such unpredictability in developing talent eventually leads to structured academy projects going bust. According to Loures:

I have seen many [academy projects going bust]. Before I joined Atlético Paranaense, I met a guy in Recife that owned Unibol [, a football academy]. He invested a lot of money and closed down. One of the players he had was Hernanes, from São Paulo [,one of the most promising young players in Brazil and now playing for Lazio]. He lost him. It is a very risky business.

Apart from the uncertainty regarding the development of the player's talent, the business of developing and trading football players faces a series of other risks, such as young talented players under sixteen years of age, who cannot legally sign a professional contract with any club, going to another club's academy for free, professional players leaving the club at the end of their contract and even injuries that may put a player's career in jeopardy. Faro explains how Traffic deals with the risk of the business:

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<sup>84</sup> Interview with Stival (2009).

<sup>85</sup> Jacobs & Duarte (2006, pp. 54-55) and Fifield (2008).

<sup>86</sup> Coutinho (2008).



We try our utmost to diminish the risk, such as taking out insurance on the player or trying to put the player in the best team and, if he is not doing well, taking him out to put in another team [...]. But there is the natural risk of the business, which is the end of the contract, which has a limited term. When it reaches the end, you lose the asset. There is the risk of injuries and the biggest [risk] that is the performance of the player. You can insure against death, you can sort of mitigate an injury and the placement at a club, but performance depends on each player.<sup>87</sup>

Furthermore, Brazilian clubs and academies may eventually face competition in the market for developing young talent as football develops in other regions, especially Africa. The continent has already been a traditional feeder of players to European clubs and may improve its situation as football in the region continuously develops.<sup>88</sup> This may also be helped by the growing price of Brazilian players, which has already lead some local clubs to recruit talent from cheaper South American markets. In 2007, only four clubs playing in the Brazilian First Division did not have a foreigner in their squad, accounting for a total of 28 foreigners, the vast majority from South American countries.<sup>89</sup> In 2009, the number grew to 48 foreigners and only one club did not have an international player in the squad.<sup>90</sup> As Loures explains:

[Years ago, Atlético Paranaense started to search for other South American players] due to the quality and the cost. Colombia always had good players, Ecuador went to the last two World Cups. And who absorbed these players? The Argentines. We saw that there was a niche and brought several players. [...] The players of the same quality [of a Brazilian] are much cheaper in other countries.<sup>91</sup>

There is little evidence to suggest that the increasing number of foreigners will have any major impact in changing the current scenario of player transfers in Brazil. Well known Brazilian clubs have become conduits for South American players to Europe,

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<sup>87</sup> Interview with Faro (2009).

<sup>88</sup> For more information on the transfer market of African football players, please see Lanfranchi & Taylor (2000, Chp. 6), Poli (2006) and Darby (2007).

<sup>89</sup> Leal (2008).

<sup>90</sup> Sheila (2010).

<sup>91</sup> Loures (2009).

so there is also a commercial opportunity there, like the cases of Tevez and Mascherano and also Lugano, the Uruguay defender who was transferred from São Paulo to Fenerbahçe. Clubs and private investors will probably continue to focus on developing players since there are no signs that the number or the value of international transfers will fall dramatically in the short term, as the number has remained high even with the recent world economic crisis, although new UEFA regulations could provide some impact by affecting the demand for international players. It may be possible to argue that due to the high number of transfers more unknown Brazilian players will reach the European spotlight, making cases such as Eduardo da Silva and Amauri more common. Although this may only increase the international demand for young Brazilian talent, there is little signs that clubs will dramatically change the role they currently play in the market, leaving third parties to account for the profits and the risks involved with the operation.

## **Conclusion**

On average, the highest share of the income of Brazilian football clubs comes from the transfer of players, a phenomenon that is due to the immense demand for Brazilian talent worldwide. The total income from transfers, however, is often split between clubs and agents and other third parties, since clubs often negotiate part of the rights of a future transfer with agents and private investors in order to generate immediate cash flow. Clubs could earn a higher share of the total income from transfers, but they would need to build a commercial structure focusing on trading players worldwide, which seems highly unlikely, at least in the short-term. This would demand a long-term strategy and, as Chapter 5 has discussed, long term planning in Brazilian clubs is very difficult due to club governance model.

By not selling part of the economic rights of players, clubs would also not be able to generate immediate cash flow, which could force them later into a fire sale of players to other clubs in order to obtain revenue. Because Brazilian football clubs often suffer with financial problems and need to generate immediate cash, it seem an interesting idea to sell only part of the economic rights of a player at an underpriced value and guarantee at least a percentage of the rights when the transfer is made at a full price.

By doing so, clubs can also avoid part of the many risks involving the trading of players, such as the player leaving the club for free at the end of the contract.

One could perhaps question the ethics of clubs in trading human beings or argue that such a practice does not differ much from slave trade. Although the frequent use of terms such as 'buying' and 'selling' players denotes an inappropriate behaviour for the modern world, however, the trade of players by football clubs can hardly be considered the same as the trade of human beings. After all, not only do the individuals traded by clubs choose their own career and train hard to become professional football players, but also the football supply chain discussed above shows that the main beneficiaries of the industry, and therefore the trade, are the players themselves.

One could also rightfully question third party ownership due the risk of it damaging the integrity of the game, as one third party owner could have interests over several clubs and players and compromise the match results in order to obtain higher profits. However, the popularity of the practice in Brazil added to the financial benefits to clubs makes third party ownership almost impossible to combat, and therefore governing bodies should focus on regulating the widespread phenomenon.

Nonetheless, the high unpredictability of the revenue generated by the transfer of football players suggest that Brazilian football clubs should not rely too much on such a source of income and focus on developing more steady revenue streams in order to turn the money from trading players into extra income rather than the clubs' main source of revenue. The next chapter will analyze how clubs in Brazil exploit matchday income, which arguably is one of the main weaknesses of the commercialization of Brazilian football.

## **10 Matchday**

The previous chapter has discussed the transfer of players, which is the most important source of income for Brazilian football clubs. This chapter will now analyze one of the least important sources of revenue, that derived from matchday activities.

Despite the historical role that football plays in Brazilian society and the fact that the country is known worldwide as one of the main football nations, average attendances in the local championships are often low, only rarely surpassing 20,000 supporters per game. With low attendance levels, it is no surprise that matchday revenue accounts for only a small part of the clubs' overall income.

This chapter will thus focus on analyzing the reasons why clubs struggle to develop this income stream and discuss possible recommendations for improvement. In order to achieve this, the chapter will use the somewhat limited range of research available on the subject plus data from the CBF, FIFA and other sources as well as newspapers, magazines and interviews with some key individuals in the industry. The chapter will first discuss the development of football stadiums in Europe and Brazil and then it will analyze the way clubs exploit their facilities, the organized supporters and the future improvements that may be stimulated by the 2014 FIFA World Cup.

### **The Development of Stadium Facilities**

After the 1990s, sports stadium construction boomed across the United States and Europe. In the United States, American football, basketball, baseball, hockey, 'soccer' and other sports teams were believed to have spent an estimated €17 billion in facilities between 1990 and 2010.<sup>1</sup> In England, the top 92 football clubs have spent over a combined €2.8 billion in constructing or refurbishing stadiums since the English Premier League was created in 1992.<sup>2</sup>

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<sup>1</sup> Siegfried & Zimbalist (2006).

<sup>2</sup> Deloitte (2009)

Such an investment is a consequence of necessary improvements to the old facilities (a normal operating life cycle lasts an average of 30 years), new safety regulations and the desire of teams to maximize their revenue through the provision of new services to different types of supporters.<sup>3</sup> New stadiums are now being built focusing on diversifying sources of income and providing services to supporters and other clients on non-match days. Among the different services and products offered, new stadiums maximize their revenue through the commercialization of advertising spaces, naming rights, special seats, luxury suites, corporate boxes, concessions, catering, corporate hospitality, parking facilities, club shops, guided tours and museums, among others.<sup>4</sup>

Despite this new investment and the diversification of income streams inside the facilities, stadiums rarely generate sufficient income to cover all the costs involved in the construction project, so significant public subsidies are often needed in order to make a new stadium project viable.<sup>5</sup> Evidence of this is that from 2000 to 2006, public authorities contributed over €600 million in investment and grants for football stadiums in England.<sup>6</sup>

Furthermore, the operating costs of a new stadium are often underestimated and can account for an increase of over 25% in relation to the previous stadium expenses, due to higher spending on matchday related costs, utilities, rates, maintenance, insurance, salaries and wages of staff, sales and marketing investment, security, cleaning, pitch maintenance and information technology.<sup>7</sup> The overestimation of revenues and the underestimation of costs can even threaten the survival of new stadiums. The two main stadiums built for the Sydney Olympic Games in 2000, for example, have suffered enormous losses since the event and struggled to remain operational.<sup>8</sup> The same is true of many football stadiums in Korea and Japan after 2002.<sup>9</sup>

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<sup>3</sup> Siegfried & Zimbalist (2000).

<sup>4</sup> Mayer (2005) and Paramio *et al* (2008).

<sup>5</sup> Siegfried & Zimbalist (2000).

<sup>6</sup> Butterworth *et al* (2006).

<sup>7</sup> Deloitte (2008).

<sup>8</sup> Searle (2002).

<sup>9</sup> Barclay (2009).

Nonetheless, the post-1990s stadium boom in the United States and Europe was not reflected in the Brazilian football industry, where only a few new football stadiums were built. In fact, much of Brazil's football infrastructure was constructed by the military regime between 1964 and 1985. From 1972 to 1975, 30 new stadiums were built around the country.<sup>10</sup> These facilities were often gigantic in order to express local and national pride. By 1978, Brazil had 27 stadiums with a capacity of over 45,000 people and five other stadiums with a capacity of over 100,000 people.<sup>11</sup>

It is common for public authorities to get involved with the building of a stadium anywhere in the world. In the United States, this is mainly because team owners usually threaten the city authorities that they will move the sport franchise to another location willing to build the new facility.<sup>12</sup> Although football does not commonly enjoy the bargaining power of US sports, as the main clubs do not operate as franchises and rarely move away from their cities, the authorities may get involved in the financing of new facilities since stadiums may be located in a degraded area requiring urban and social regeneration, even though there is not yet a consensus on whether a new football stadium can in fact ignite such redevelopment.<sup>13</sup>

However, although the full financing of stadiums by public authorities was the rule when stadiums were first built in the nineteenth century in continental Europe, current projects are usually financed by a combination of public and private funds, which provides some rationality to the new facilities by helping to avoid the construction of structures that are much bigger than the real public demand for the sport.<sup>14</sup> This was clearly not the case with stadiums built in Brazil during the military regime.

### **Matchday Revenue in Brazil**

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<sup>10</sup> Júnior (2007, p. 145).

<sup>11</sup> Bellos (2003, p. 133). The focus on capacity was a predominant characteristic of the second generation of stadiums in Europe that was in place between the 1920s and the 1940s. For more details on the issue, see Paramio *et al* (2008).

<sup>12</sup> See Baade & Dye (1988), Siegfried & Zimbalist (2000), Mayer (2005) and Siegfried & Zimbalist (2006).

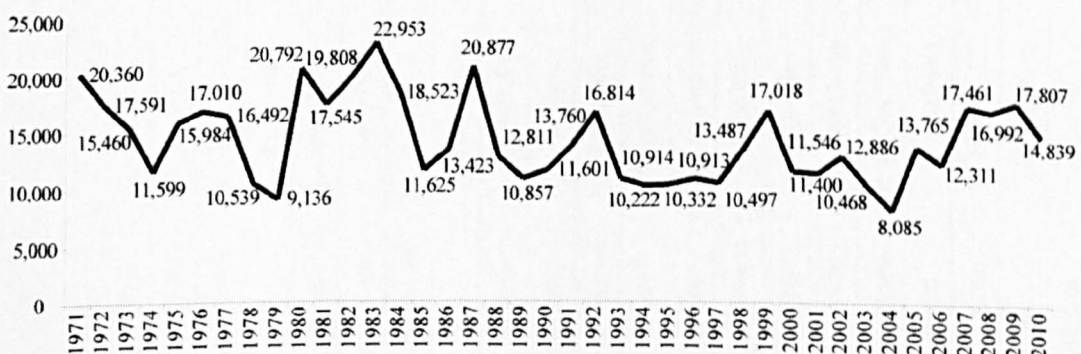
<sup>13</sup> Coates & Humphreys (1999), Siebold & Klingmüller (2005) and Davies (2006).

<sup>14</sup> Mayer (2005).

The vast majority of the First Division stadiums in Brazil in 2009 were built prior to the re-democratization of the country in 1985. Even though the aim was to build large capacity stadiums, as already noted, attendance figures in the First Division have never surpassed an annual average of 23,200 supporters per match. In fact, from 1971 until 2009, the average attendance of the Brazilian First Division was only 14,402 spectators, far from enough to justify the widespread building of large capacity stadiums. Table 10.1 shows the stadiums used by each team in the 2009 First Division Championship, their location, the year they were built, the ownership, the format, their capacity according to the CBF and their average attendance and occupation in 2009. Even though there were eleven privately owned stadiums, only three were built after 1985, while overall the average capacity was over 40,000 spectators. Figure 10.1 shows the average attendance of the First Division of the Brazilian Championship from 1971 to 2010.

Low attendances added to high capacity stadiums consequently leads to low occupancy of seats. Table 10.1 also shows the average occupancy in the Brazilian First Division Championship in 2009. As one can see, the occupancy rate has varied from 22.5% to 70.0%, with an average of 43.9%. Only two clubs, Náutico and Avaí, managed to average more than two-thirds of capacity, while seven clubs had an occupancy rate of less than one-third of the stadium.

**Figure 10.1: Average Attendance of the First Division of the Brazilian Championship (1971-20-10):**



Source: CBF's website and Golden Goal (2007).

**Table10.1: Stadiums used in the First Division of the 2009 Brazilian Championship:**

Club	Stadium	Location	Ownership	Year of Construction	Format	Capacity	Av Attendance 2009	Occupation
Atlético-MG	Mineirão	Belo Horizonte	Public	1965	Multifunctional	75783	38761	51%
Atlético-PR	Arena da Baixada	Curitiba	Private	1999	Monofunctional	25180	16280	65%
Avai	Ressacada	Florianópolis	Private	1983	Multifunctional	15000	9983	67%
Barueri	Arena Barueri	Barueri	Public	2007	Monofunctional	16419	3691	22%
Botafogo	Engenhão	Rio de Janeiro	Public	2007	Multifunctional	44000	14373	33%
Corinthians	Pacaembu	São Paulo	Public	1940	Multifunctional	37952	20213	53%
Coritiba	Couto Pereira	Curitiba	Private	1932	Multifunctional	38000	16817	44%
Cruzeiro	Mineirão	Belo Horizonte	Public	1965	Multifunctional	75783	21973	29%
Flamengo	Maracanã	Rio de Janeiro	Public	1950	Multifunctional	82238	40036	49%
Fluminense	Maracanã	Rio de Janeiro	Public	1950	Multifunctional	82238	22042	27%
Goiás	Serra Dourada	Goiânia	Public	1975	Multifunctional	50049	11944	24%
Grêmio	Olímpico Monumental	Porto Alegre	Private	1954	Multifunctional	45000	17776	40%
Internacional	Beira-Rio	Porto Alegre	Private	1969	Multifunctional	56000	18323	33%
Náutico	Dos Aflitos	Recife	Private	1939	Multifunctional	19800	13863	70%
Palmeiras	Palestra Itália	São Paulo	Private	1933	Multifunctional	29876	18425	62%
Santo André	Bruno José Daniel	Santo André	Public	1969	Multifunctional	15157	4796	32%
Santos	Vila Belmiro	Santos	Private	1916	Monofunctional	21256	9242	43%
São Paulo	Morumbi	São Paulo	Private	1960	Multifunctional	67428	26305	39%
Sport	Ilha do Retiro	Recife	Private	1937	Multifunctional	30520	17896	59%
Vitória	Barradão	Salvador	Private	1986	Monofunctional	35632	13391	38%

Source: CBF



Unsurprisingly, therefore, the matchday revenue of football clubs in Brazil is low. As shown in Figure 7.4, this income is responsible for only 11% of the total for the top 21 Brazilian clubs. Some clubs may struggle even to make a profit on a single match, as the operating costs can be equal to or even exceed the income generated by the attendance. According to Souza, the financial manager of Coritiba, a well-known Brazilian club:

A game here at the Couto Pereira stadium cannot take place for less than [€20,000], with security, staff, equipment, power, this sort of thing. And the larger the size of the [crowd], the higher are the costs. [...] I could say that what [the club] earns in a matchday is what it spends in maintenance. You need to take care of the staff, take care of the equipment, the water, the grass, the energy, a series of things. These are costs that apparently one does not realise [from the outside], but inside a system it gets very heavy. With 40 games a year, it does not provide you with [enough] money to maintain the stadium.<sup>15</sup>

Mario Celso Petraglia, who was president of Atlético Paranaense when the club built its stadium in 1999, the only stadium built by a 2009 Brazilian First Division club since 1986 and still only partially completed, adds:

We [built the stadium because we] needed to create a different identity for Atlético Paranaense. [...] Due to this lack of knowledge, lack of market and lack of tradition, we understood that in order to build a position and a strong brand, we needed to do something that no one had ever done, or that had not been done [since a long time ago]. [...] Since we were not the biggest, we had to be the best. [That is why] we built the stadium, which we aimed to complete soon after. We opened in 1999 [...] [The stadium has] increased the value of our players in the market. Due to what the brand of [the club] represents today, we have the conditions to sell players for high values. [...] This was a reflection

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<sup>15</sup> Interview with Souza (2009).

of the brand's added value that the stadium has brought us. [...] [But the stadium itself] does not provide a return [on investment]. If I told you that you are going to invest solely in a stadium in order for the events [held there] to pay for the investment, that would be a lie. There is no market in Brazil, the tickets are too cheap. [...] The Brazilian football culture is that this spectacle needs to be very cheap.<sup>16</sup>

In publicly owned stadiums, it is common for football clubs to be granted some level of subsidy, which allows clubs to make some profits from matchday. In the 35<sup>th</sup> round of the 2009 Brazilian First Division Championship, for example, Cruzeiro hosted Grêmio at the Mineirão stadium, which is owned by the state of Minas Gerais. Despite the fact that the match generated a total income of over €300,000 for Cruzeiro, the club paid the state only around €2,000 to rent the stadium, which allowed it to generate a profit of around €200,000 on the match.<sup>17</sup> In the Maracanã stadium, which is owned by the state of Rio de Janeiro, Flamengo and Fluminense pay a variable rent that can reach up to €30,000 a match. Although this means the clubs suffer a loss if they do not sell a minimum number of tickets, it can also allow them to profit from well attended matches.<sup>18</sup> In the last round of the 2009 Brazilian First Division Championship, Flamengo, which was about to win the title, hosted Grêmio in front of a sold out crowd of almost 80,000 people. Although the total income from the match surpassed €800,000, Flamengo paid only €22,000 to rent the Maracanã, which allowed the club to generate a profit of almost €600,000 from the match.<sup>19</sup> Botafogo, which plays at the Engenhão stadium, rents it from the city of Rio de Janeiro for only €14,400 a month, even though the stadium, which was built for the 2007 Pan American Games, cost around €145 million.<sup>20</sup>

São Paulo FC is perhaps a valuable exception to the Brazilian matchday scenario. The club owns its own stadium and was able to generate a gross income of around €8 million from it in 2008, excluding ordinary tickets, which meant a profit of almost €5 million from the stadium itself. The stadium comprises a series of non-match day

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<sup>16</sup> Interview with Petraglia (2009).

<sup>17</sup> Data provided by the match's accounts, available on the CBF's website.

<sup>18</sup> Westin (2003).

<sup>19</sup> Data provided by the match's accounts, available on the CBF's website.

<sup>20</sup> Filho (2009).

operations, such as restaurants, gyms, club shops and book stores, helped by the fact that it is located in a middle-class area of the city. However, most of the income, around €3.5 million, derives from the sale of corporate boxes and luxury seats, which is probably facilitated by the fact that the city of São Paulo is home to the vast majority of large corporations in the country. Another significant part of the stadium income, around €1.8 million, is derived from renting it for international music concerts, which might be a meaningful source of income to other clubs from Brazil's second most economically developed city, Rio de Janeiro, should they own their stadiums.<sup>21</sup> Clubs from less developed and populated cities in the country, however, can hardly enjoy such international mega-events in order to generate significant income.

Another interesting initiative is the partnership established between the credit card company, Visa, and some Brazilian football clubs. In the partnership, Visa rebuilds the structure and upgrades the level of comfort, safety and services of part of a stadium's stands in exchange for naming rights to the stands, for controlling ticketing, which is done exclusively through the use of the credit card, and other stadium revenues.<sup>22</sup> The company's most significant partnership is probably with Palmeiras, as Oliveira, executive director of Outplan, the company that operates the scheme, explains:

When we closed the deal with Palmeiras, it was only for the process of [fans] buying the tickets and accessing the stadium. But then we saw the stadium stand on which Palmeiras wanted us to work and we visualized another business opportunity. First we saw that the area was abandoned, below standard, without comfort, poor-quality toilets and with no seats. [...] [Then] we put 5,000 seats in the stand, separated it with bulletproof glass, numbered all the seats, redecorated the internal area, placed pictures, put porcelain in the bathrooms similar to shopping centers, added a club official store, food concession with quality food, special entrance and, especially, services, like guaranteed seating and constant

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<sup>21</sup> Data available in São Paulo FC's financial report. The only privately owned top stadium in Rio de Janeiro is São Januário, home of Vasco da Gama. The stadium, however, can hardly compete as an entertainment venue with either the Maracanã or Engenhão due to its capacity and locality.

<sup>22</sup> For more details, see Horta (2009).

cleaning. We started to treat the supporter as a customer, something that no one in Brazil did. The moment we launched this project in Palmeiras, it quickly got supported by the fans. First because in Palmeiras it has always been very complicated to buy match tickets and we helped with that. [...] In one year, we had a sector with 5,000 seats and a 76% occupancy rate. The 5,000 seats represent 17.5% of the stadium and 26% of the revenue. The ticket price jumped from €8 to €18. [...] 19% of the people that went [to Visa's stand] in 2008 had never gone to a football match before.<sup>23</sup>

Even so, Table 10.1 shows that São Paulo FC's and Palmeiras' average occupancy rates in the 2009 First Division Championship were only 39% and 62% respectively, which indicates that both clubs, like most others, could perhaps generate much more revenue from matchday should they be able to resolve the numerous challenges facing matchdays in Brazil and attract more supporters to matches.

According to a public opinion poll conducted in 2004, the main reason why supporters did not attend stadiums in Brazil was the lack of safety.<sup>24</sup> A report in 2007 indicated that 80% of Brazil's main stadiums suffer severe structural problems due to lack of maintenance and some even present the risk of collapse.<sup>25</sup> An inspection report by FIFA, also from 2007, indicated that not a single stadium in Brazil complied with the minimum requirements to host any of the 2014 World Cup matches.<sup>26</sup>

An example of the poor conditions of Brazilian stadiums is the Fonte Nova stadium, in Bahia. In November 2007, the stadium, which is owned by the state of Bahia, hosted a Brazilian Third Division match between Bahia and Vila Nova. The match was attended by over 60,000 spectators who saw Bahia promoted to the Brazilian Second Division after a goalless draw. During the celebrations after the match ended, part of the twenty meters high upper stands of the stadium collapsed, killing seven and injuring 87 Bahia supporters.<sup>27</sup>

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<sup>23</sup> Interview with Oliveira (2009).

<sup>24</sup> *Lance!* (2004).

<sup>25</sup> Filho *et al* (2007).

<sup>26</sup> FIFA (2007).

<sup>27</sup> Francisco (2007).

Deaths, however, are quite uncommon in Brazilian football stadiums. In the final match of the 1992 Brazilian First Division Championship between Botafogo and Flamengo in the Maracanã, a small part of the upper stand's parapet collapsed leaving three supporters dead and almost 100 injured, in a game in which the attendance had surpassed 100,000 supporters. In 1995, during a Corinthians match in rural São Paulo, a whole stand collapsed after a player celebrated a goal with the supporters, throwing twenty people into the stadium's moat but injuring only five. In 2000, 210 supporters were injured in the final match of the João Havelange Cup between Vasco and São Caetano in the São Januário stadium.<sup>28</sup> Other than these accidents, only a few minor occurrences have been reported, which shows that despite the poor structural conditions of stadiums, the country has been somehow fortunate in avoiding major incidents such as those reported in England until the early 1990s.<sup>29</sup>

However, violent conflicts between different supporters' groups, both inside and outside stadiums, are much more common, as a number of serious incidents during the 2009 Campeonato Brasileiro suggests. In the last round of matches, for example, Coritiba was relegated to the Second Division in a match against Fluminense at home. After the final whistle, several Coritiba supporters invaded the pitch and fought with the police, leaving seventeen people injured.<sup>30</sup> In October 2009, three different supporter-related conflicts were registered in the same weekend. In the first, two fans were shot in a confrontation between São Paulo FC and Corinthians supporters. In the second, prior to a derby match between Internacional and Grêmio, a bus with Internacional supporters was attacked by bullets and rocks. And in the third, in another derby match between Flamengo and Botafogo, 500 supporters from two different Flamengo supporters' groups fought against each other inside and outside the stadium.<sup>31</sup> In June, one supporter died and another nine were injured in a confrontation involving up to 450 Corinthians and Vasco supporters.<sup>32</sup> In a derby match between Corinthians and São Paulo in February 2009, a conflict between

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<sup>28</sup> Cobos (2007).

<sup>29</sup> See Chapter 3.

<sup>30</sup> Vicente (2009) and Binder & Yano (2009).

<sup>31</sup> Mattos (2009c).

<sup>32</sup> Kawaguti & Bastos (2009).

Corinthians supporters and police officers at the Morumbi left more than 40 injured.<sup>33</sup> The latter even prompted the government to propose plans for a football identity card scheme, similar to the one proposed and rejected in England in the mid 1980s, which is yet to be put in place.<sup>34</sup>

Nonetheless, the historical low attendance levels of the Brazilian First Division Championship (see Figure 10.1), shows that demand for football was low even during the 1970s, when most stadiums had been recently constructed and reports of violence and conflicts were less common.<sup>35</sup> Therefore, although the current poor conditions of the facilities and the constant reports of violence certainly play a role in keeping supporters away, there is little evidence to suggest that demand would be significantly higher if stadiums were safer and better maintained. Furthermore, as shown in Table 10.1, Botafogo and Atlético Paranaense, two traditional Brazilian clubs that play in recently built stadiums, also shared low levels of occupancy in 2009, with 32.7% and 64.7% respectively.

A typical strategy to try to increase attendance is to lower match ticket prices.<sup>36</sup> A recent study that analyzed the evolution of ticket prices of the Brazilian First Division from 1971 to 2007 showed that, despite some limitations and not without some controversy, there is evidence to suggest that demand for match tickets in Brazil is somewhat price elastic, that is, the lower the price, the higher is the demand for tickets.<sup>37</sup> However, according to Souza: “This is a myth. I have never seen cheaper tickets increase the number of supporters [in the stadium]. When this happened, there were other factors simultaneously”.<sup>38</sup> A rare econometric study by Madalozzo & Villar, using data from over 1,800 matches played in the Brazilian Championship between 2003 and 2006, has suggested that the key positive influences on attendance levels on a match by match basis in Brazil are, apart from low ticket price, high level of rivalry between clubs, the presence of clubs from Rio de Janeiro or São Paulo,

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<sup>33</sup> Arruda & Mattos (2009).

<sup>34</sup> Mattos (2009d) For the reasons why the Football Identity Card was rejected in England, see Taylor (1989).

<sup>35</sup> Although there was an increasing scenario of violence in Brazilian football since the 1960s, the issue became problematic only after 1985 (Murad, 2007), p.22.

<sup>36</sup> Ashton-Jones *et al* (2009).

<sup>37</sup> Golden Goal (2007).

<sup>38</sup> Souza (2009).

points won by the home team in the last three matches and a position or risk of relegation for the home team.<sup>39</sup> However, because the study used only quantitative data provided by *Placar* magazine with no support from any qualitative evidence, caution should be taken when interpreting the results, as the data publicly available in Brazilian football may not always be entirely reliable.

Nonetheless, assuming that there is price elasticity in Brazilian football, it presents yet another challenge to develop matchday revenue, or to build new facilities, as lower ticket prices might increase the level of attendances but rarely represent an increase in the overall matchday income.<sup>40</sup> Despite this, many of the top Brazilian clubs in Brazil develop ticketing strategies through membership schemes.

Clubs in Brazil have a combined 400,000 registered members and the club with the largest scheme is Internacional, with over 100,000 registered members.<sup>41</sup> Besides being able to vote for the club's board and enjoying a series of exclusive privileges, products and promotions, Internacional members can also buy match tickets with priority at a 50% discount.<sup>42</sup> The club's membership scheme alone generated an income of around €8.3 million in 2008, out of a total of €43.9 million. However, despite the high number of members and the high level of income, Table 10.1 indicates that Internacional's occupancy level in 2009 was below one-third of the stadium, which suggests that the membership scheme may be inefficient in terms of increasing matchday attendance, although it certainly provides an interesting additional income.

Other clubs, such as Atlético Paranaense, adopt a different membership strategy. Instead of offering a discount on match tickets, the club provides members with guaranteed free entrance to all matches at the stadium along with other complementary benefits.<sup>43</sup> For that, Atlético Paranaense charges members a monthly fee of €28 while selling individual match tickets to ordinary fans for €20.<sup>44</sup> Even so,

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<sup>39</sup> Madalozzo & Villar (2009). A similar study with similar results using data from only the 2007 Brazilian Championship can be found in Santana & Silva (2009).

<sup>40</sup> Deloitte (2009).

<sup>41</sup> Clube dos Treze (2009).

<sup>42</sup> Information provided by Internacional's website: [www.internacional.com.br](http://www.internacional.com.br).

<sup>43</sup> Information provided by Internacional's website: [www.atleticoparanaense.com](http://www.atleticoparanaense.com).

<sup>44</sup> Mikos & Pugliesi (2010).

despite having over 20,000 registered members, the club's average attendance in the 2009 Brazilian First Division Championship was 16,280, less than two-thirds of its stadium capacity. In most cases, according to Walter Souza, "membership schemes do not mean more income. It means regular income".<sup>45</sup>

Curiously, some clubs may have fewer members than its supporters' organization. This is the case of Corinthians and "Gaviões da Fiel", the Hawks of Faith. While Corinthians has 46,000 registered members, Gaviões da Fiel, which is the oldest and possibly the largest supporters' organization in Brazil, has over 80,000 associates.<sup>46</sup>

### **Organized Supporters**

After the creation of Gaviões da Fiel in 1969, other supporters' organizations started to be established in Brazil with the aim of congregating a group of supporters large and strong enough to be able to pressurise the club's board and players inside the stadiums.<sup>47</sup> A similar pattern of behaviour had already started in Argentina.<sup>48</sup> Such supporters' groups, which grew exponentially in various Latin American countries in the 1990s including Brazil, typically involved and still involve young male supporters usually ranging from 15 to 28 years old who commonly use anti-social and violent behaviour to express their group identity, especially through conflict with supporters' organizations from rival clubs.<sup>49</sup>

Although the organized supporters were initially established as independent groups with no political affiliation at club level, today club directors or other club-related political figures may use them in order to promote their own political interests, with the result that the group's position, often expressed with loud chants and flags during matches, can have a significant impact in moulding other club members' opinions and eventually affect the club's political scenario.<sup>50</sup> Club politicians often subsidize the

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<sup>45</sup> Souza (2009).

<sup>46</sup> Clube dos Treze (2009), Pimenta (1997), p. 67 and Gaviões da Fiel (2009a).

<sup>47</sup> Pimenta (1997, p. 66).

<sup>48</sup> Duke & Crolley (2001).

<sup>49</sup> Pimenta (1997), p. 67, Toledo (2002), pp. 225-231 and Reis (2006), pp. 83-84. For examples, see Duke & Crolley (2001), Magazine (2007) and Panfichi & Thieroldt (2007).

<sup>50</sup> Toledo (2002), p. 230. For a detailed overview of the operation of a supporters' organization in Argentina, which appears to have many resemblances with the Brazilian organizations, see Grabia (2009).



organized supporters with free match tickets, which, in some cases, may be resold to ordinary supporters in order to generate some revenue for the organization.<sup>51</sup> As Dietrich, a former president of Império Aliverde, a well-known supporters' group of Coritiba, explains: "In the majority of football clubs in Brazil, the relationship between the club and the organized supporters depends on the subsidy that the club provides to the organized supporters."<sup>52</sup>

Supporters' organizations generate revenue from three main sources: a) a monthly or yearly fee paid by their members; b) the sale of organized supporters' official merchandise; and c) financial contributions from clubs, directors, politicians, etc.<sup>53</sup> In the Gaviões da Fiel case, for example, the annual membership fee costs a little over €30.<sup>54</sup> If all the organization's registered members pay such an amount, the supporters' organization could generate over €2.4 million a year simply in membership fees. Furthermore, the organization also sells a vast range of official licensed merchandise. In its on-line store, Gaviões da Fiel offers over 100 products such as hats, key chains, coats and shirts, for prices that can reach almost € 100 for an official Gaviões da Fiel tracksuit.<sup>55</sup> Although football clubs struggle with the challenges presented by the black market in selling official licensed merchandise, the supporters' organization can overcome this by instructing its members to intervene physically should they find someone selling or wearing the organization's unofficial merchandise.<sup>56</sup> According to Dietrich:

When there was the boom of the organized supporters in Brazil, of course the companies that produced pirated club merchandise also started to produce the supporters' organization's products, but then the organized supporters used violence to end the piracy. We could not reach the factory that produced the pirated products, but we reached the stores that sold the pirated products. So we would go to the stores and tell them that we would be there again next week and if there was still any pirated product there we would trash the whole store. We did that

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<sup>51</sup> For examples, see Arruda *et al* (2009).

<sup>52</sup> Interview with Dietrich (2009).

<sup>53</sup> Pimenta (1997, p.85).

<sup>54</sup> Gaviões da Fiel (2009b).

<sup>55</sup> See Gaviões da Fiel on line store: [www.gavioesmania.com.br](http://www.gavioesmania.com.br).

<sup>56</sup> Pimenta (1997), pp. 82-83.

for one year in all stores. [...] The pressure on the stores was very big, so they decided not to sell pirated products any more.<sup>57</sup>

Due to their deviant, anti-social and violent behaviour, organized supporters' groups and individuals might be classified as dysfunctional supporters, which often involve hard core supporters highly identified with being a fan of the club, although in some cases they might be more identified with the supporters' organization than with the club itself.<sup>58</sup> Although organized supporters undeniably contribute to enhancing the matchday atmosphere, through the use of chants, drums, choreographies, flags and, in some cases, fireworks, their behaviour may also threaten other supporters in the stadium and deter attendance at matches, which could in turn lose income derived from supporters less identified with the club, who are often more willing to consume club-related products.<sup>59</sup> As Dietrich puts it:

There is an unwritten code of conduct [among organized supporters]. For example, if one organized supporter from [a club] assaults an ordinary supporter from a rival club, it is foul conduct. He will be reprimanded, because that is wrong, because the person is an ordinary supporter and not an organized supporter. So the code of conduct is to enter into a fight only with organized supporters. [But this conflict between organized supporters] certainly affects [other supporters] indirectly, especially if there is a confrontation inside or around the stadium.<sup>60</sup>

Counter-measures against violence from football supporters in Brazil are rare. Only in 2010 did the Federal Government approve a law that turned violent behaviour inside stadiums into a criminal offence.<sup>61</sup> However, only time will tell if this measure will have any significant impact on increasing match attendances, since other measures

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<sup>57</sup> Interview with Dietrich (2009).

<sup>58</sup> Pimenta (1997), pp. 75-76.

<sup>59</sup> For this study, two complementary typologies of football supporters were used. One is presented by Giulianotti (2002), who separates supporters in four different identity groups: supporters, followers, fans and flaneurs, and the other is presented by Hunt *et al* (1999), who divides supporters in five categories based on their level of attachment with the club: temporary, local, devoted, fanatical and dysfunctional.

<sup>60</sup> Interview with Dietrich (2009).

<sup>61</sup> Iglesias (2010).

taken by public officials in the past have proved so far ineffective. For example, in 1995, after a derby youth match between São Paulo FC and Palmeiras in the Morumbi, the two rival clubs' supporters' organizations engaged in a conflict that left one dead and 102 injured.<sup>62</sup> In reaction, the São Paulo public authorities closed down each club's main supporters' organizations, the 'Torcida Independente' from São Paulo FC and the 'Mancha Verde' from Palmeiras. Soon after, however, the organizations were reconstituted under different names and statutes, and have remained operational ever since.<sup>63</sup>

Enhanced control of the organized supporters' behaviour plus the reduction of football related violence in Brazil seems to be another pivotal issue in order to increase matchday attendance, and therefore revenue, even though it must be said that such supporters contribute enormously to the matchday atmosphere. Without them, the matchday atmosphere would hardly represent an incentive for more supporters to attend matches as not only are stadiums in Brazil decrepit and sparsely occupied, but most of them contribute to the absence of atmosphere by placing the supporters far away from the pitch. In Morumbi stadium, for example, the distance from the first row of stands to the pitch can vary from 36.4 meters to 48.9 meters.<sup>64</sup>

One study conducted in Germany's Bundesliga based on attendance data from more than 40 football seasons argued that a football stadium design can be divided into two different concepts: a monofunctional arena, which is especially built for football, and multifunctional stadium, which usually holds an athletics track around the football pitch.<sup>65</sup> The research showed that monofunctional arenas attract an average of 10.7% more supporters than multifunctional stadiums, which suggests that the monofunctional architectural concept may have a significant impact on matchday atmosphere and contribute to increasing attendance, and therefore occupancy, levels. Table 10.1 also divides the 2009 Brazilian First Division stadiums into these two categories and shows that although the vast majority of stadiums are multifunctional, of the four stadiums built after the country's re-democratization in 1985, only the João Havelange stadium in Rio de Janeiro, which was built for the 2007 Pan

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<sup>62</sup> Victor (1999).

<sup>63</sup> Mello (1999).

<sup>64</sup> Bastos (2007).

<sup>65</sup> Feddersen & Maennig (2009).

American Games, has a multifunctional design. Much of the recent stadium construction that has been undertaken in the US and under European influence elsewhere has opted very clearly for a monofunctional design. For example, the new Major League Soccer stadiums and all but one stadium built for the 2010 World Cup in South Africa are monofunctional arenas. The controversy over the future use of the 2012 Olympic stadium in London underlines some of the problems involved in converting stadiums built for other purposes as in Rio into club football stadiums.<sup>66</sup>

Although this might indicate a trend that new stadiums in Brazil should follow the monofunctional concept, which could help to increase the attendance levels, the stadium projects for the 2014 FIFA World Cup show that this might not be the case.

### **The 2014 FIFA World Cup and Future Stadiums Developments**

As mentioned above, FIFA declared in 2007 that not one single Brazilian stadium complied with the governing body's minimum requirements to host a World Cup match. Therefore, every stadium that will hold a World Cup match in 2014 will either need to be newly built or significantly refurbished. However, of the twelve new stadium projects currently listed to host the World Cup matches, five will still reflect the multifunctional concept, even though none of them will actually have an athletics track around the stadium.<sup>67</sup> Table 10.2 shows the list of the twelve new stadiums, their ownership, capacity and design concept.

As Table 10.2 shows, the overall capacity of the new stadiums will remain high, which threatens the possibility of enhancing the matchday atmosphere in domestic matches. Moreover, although new stadiums certainly help to attract new supporters, many studies suggest that the novelty effect of new sports facilities generates a significant increase on match attendance only in the first few years of operation.<sup>68</sup>

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<sup>66</sup> Gibson 2011.

<sup>67</sup> The 2014 FIFA World Cup stadium projects designs and details are available in [Globoesporte.com](http://Globoesporte.com)(2009b) and Canteras (2010).

<sup>68</sup> Howard & Crompton (2003), Clapp & Hakes (2005), Coates & Humphreys (2005), Maennig & Plessis (2007) and Feddersen & Maennig (2009).

**Table 10.2: 2014 World Cup Stadiums Ownership, Capacity and Design Concept:**

<b>Stadium</b>	<b>Stadium ownership</b>	<b>Capacity</b>	<b>Format</b>
Curitiba	Private	41,000	Monofunctional
Natal	Public	45,000	Monofunctional
Recife	Public	46,000	Monofunctional
Porto Alegre	Private	62,000	Multifunctional
Fortaleza	Public	53,000	Monofunctional
Brasília	Public	70,000	Monofunctional
São Paulo	Private	48,000	Multifunctional
Salvador	Public	55,000	Multifunctional
Rio de Janeiro	Public	90,000	Multifunctional
Belo Horizonte	Public	70,000	Multifunctional
Cuiabá	Public	45,000	Monofunctional
Manaus	Public	42,000	Monofunctional

Source: Globoesporte.com (2009) and Globoesporte (2010).

Brasília, for example, will build a 70,000 capacity stadium, which will host matches from Brasiliense and Gama, the top two local football clubs that played in the Second and Third Divisions of the National Championship respectively in 2009. Brasiliense's average attendance was 4,306 supporters and Gama's was 2,711. In this case, even if the new stadium stimulated a tenfold increase in match attendance, which is highly unlikely, occupancy rates would still be below two thirds of the total capacity. A 45,000 capacity stadium will be built in Cuiabá, a city in which the top nationally qualified football club in 2009 was Mixto, which played in the 2009 National Third Division and had the lowest average attendance, registering only 540 supporters per match, approximately 80 times less than the capacity of the new projected stadium.<sup>70</sup>

In contrast, the new World Cup stadiums in economically developed areas with a greater football heritage will certainly provide a significant opportunity to enhance corporate opportunities for some football clubs, which could lead to an increase of

<sup>70</sup> Average attendance data of the 2009 National Championship is available on CBF's website: [www.cbf.com.br](http://www.cbf.com.br).

matchday revenue. As Table 10.2 shows, however, only three of the twelve stadiums will be privately owned, which means that the benefits to the clubs playing in publicly owned facilities may vary as their ability to appropriate the benefits may be limited by the public authorities. Furthermore, of the clubs that will not host a World Cup match at their stadium, only São Paulo, Palmeiras and Grêmio have started to improve their facilities significantly. Therefore, only a few Brazilian football clubs will have access to these new facilities and there is little evidence that any major change will occur in the problems regarding violence and the organized supporters in the short term, even after 2014. This means that unless this new breed of stadiums significantly improves matchday income at a low cost, thus creating enough incentives for other clubs to seek to refurbish their current facilities, and the football and public authorities are able somehow to control the constant violent conflicts involving Brazilian supporters, few changes are likely to happen in the current matchday scenario.

Moreover, many construction delays have been registered and are inflating the costs of the new facilities. By the end of February 2011, for example, little more than three years before the start of the World Cup, the three private stadiums chosen to host the event did not have a financing plan in place, while the projects of some of the publicly owned stadiums still awaited approval.<sup>71</sup> The overall delay registered until late 2011 is expected to add another €300 million to construction costs, which will inevitably increase the risk of sustaining the venues in the long term.<sup>72</sup> This may turn a good opportunity to enhance part of the matchday scenario in Brazil into a financial nightmare for the clubs and public institutions involved.

## **Conclusion**

Football stadiums in Brazil are generally old, large, empty, unsafe, uncomfortable and decrepit. Added to that, violent conflicts inside and outside stadiums among organized supporters are common all over Brazil. Unsurprisingly, match attendances are low and the average stadium occupancy in the 2009 First Division was below 50%. These facts consequently lead clubs to struggle to develop their matchday revenue, which represents on average only 11% of the total income of the top Brazilian football clubs.

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<sup>71</sup> Oliveira (2011).

<sup>72</sup> Amora & Credendio (2011).

Although the new breed of stadiums that will be built for the 2014 FIFA World Cup may offer clubs different opportunities to increase attendances and occupancy levels as well as to develop new corporate services, most of these stadiums will be controlled by the public authorities, which means that clubs may not control the facilities totally and will struggle to extract all the benefits offered by them. Even then, without considering the high costs and the uncertainty of the profits resulting from building a new stadium anywhere in the world, the novelty impact of new sports facilities is generally limited and will only have a positive influence on attendance levels for a relatively short period. Furthermore, only a few clubs will benefit from the World Cup, and there is little evidence to suggest that those not affected by it will follow the trend and upgrade their stadiums on their own, except for São Paulo, Palmeiras and Grêmio, which means that the majority of clubs in Brazil will continue to suffer from the current stadiums-related problems in the near future. Moreover, construction delays and increasing costs of the venues will certainly add to the great challenges in making these new structures financially viable in the long term.

All these factors together suggest that little change will occur in the short term in the present matchday figures, at least for the majority of clubs, which means that Brazilian football clubs will continue to depend heavily on the transfer of players and on the sale of broadcasting rights, which will be further discussed in the next chapter.

## **11 Media**

Increasing broadcasting revenues have arguably been the main drivers of the escalating income of European clubs. This trend, which was established by the first English Premier League deal in the early 1990s, has also been reflected in the Brazilian football industry, although it started later and from a lower base, so levels are still rather below Europe. Even though media revenue is not the main source of income in Brazilian football, the growth of this income stream through the past two decades has been substantial.

This chapter will analyse the growth in broadcasting revenues in Brazil and try to explain why the local media figures are on such a different level from those in the main European leagues. It will also discuss the influence that the almost monopolistic role that Globo Network, Brazil's main media group, exerts in the industry and the trends that are developing. Furthermore, this chapter will try to analyze the different media platforms in Brazil and future developments resulting from the growth of new media.

### **Comparing Broadcasting Rights in Europe and Brazil**

Sport, football included, has arguably been one of the main forces behind the establishment of television as the main media platform around the world since the 1960s. In turn, television has offered sport an unprecedented boost in revenue either directly by the sale of broadcasting rights of major competitions or indirectly through the growth of other revenues dependent on TV exposure, particularly sponsorship.<sup>1</sup> After the advent of paid television in Europe in the late 1980s and early 1990s, this income for football clubs has boomed, especially due to the migration of live broadcast matches to exclusive and subscription-only cable and satellite channels.<sup>2</sup> For these channels, besides the content itself, football also serves as a tool to help disseminate the platform and the technology among a large number of viewers due to

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<sup>1</sup> Whannel (2009).

<sup>2</sup> Dietl & Hasan (2007).



its constant audience interest and it also provides them with badly needed advertising revenues.<sup>3</sup>

As seen in Figure 3.3, the top five European leagues generated a combined amount of €4 billion in media revenues in the 2009-2010 season, which is equivalent to 48% of their total income. In Brazil, however, current broadcasting figures and the proportion of total income are significantly smaller, even though this does represent the clubs' second most important source of income. As shown in Figure 7.4, the top Brazilian clubs generated a combined €216 million from broadcasting rights in 2009, which accounts for 28% of their total income.<sup>4</sup>

Table 11.1 illustrates the difference in values for the broadcasting rights of the top divisions in Europe's top five leagues and the Brazilian First Division Championship in the 2010/2011 season. Moreover, unlike the leading European leagues, the Brazilian Championship receives almost nothing for international broadcasting rights.<sup>5</sup> Due to currency fluctuations making historical comparisons with the value of rights elsewhere is difficult

**Table 11.1: Broadcasting Rights of the Top Divisions in Europe's Top Five Leagues and the Brazilian First Division Championship – 2010/2011 (€m)**

League	Rights Fee per Season
Brazilian First Division	186
English Premier League	1179
French Ligue I	668
German Bundesliga	412
Italian Serie A	911
Spanish La Liga	500

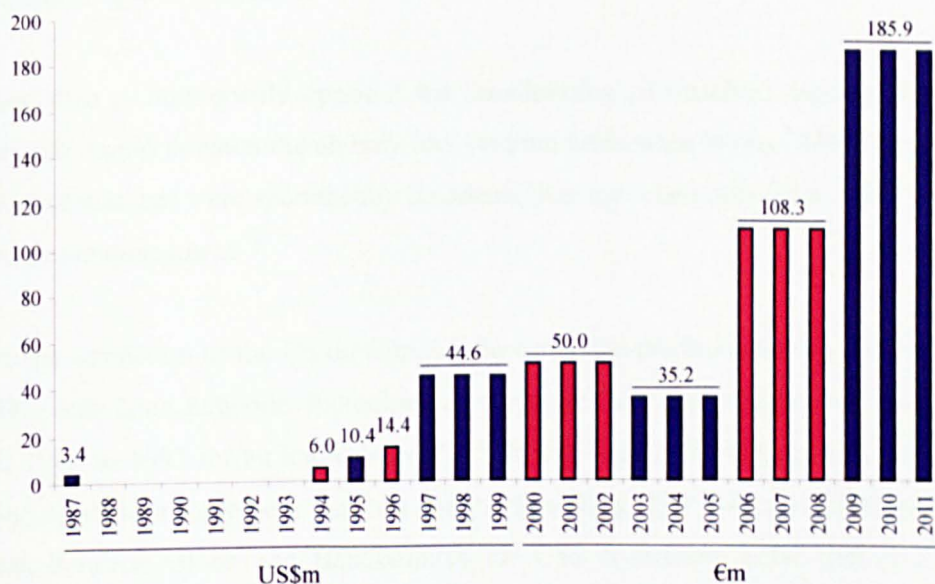
Source: C13 (2009) and Futebol Finance (2010)

<sup>3</sup> Parlasca (2006) and Gratton & Solberg (2007), pp. 71-75.

<sup>4</sup> The new broadcasting rights contract for the 2012-2015 seasons, signed again with Globo, will see a significant boost as it is expected to generate around €460 millions a year, which will certainly increase the significance of broadcasting revenues to the clubs' total income (Beting, 2011). At the time of writing, however, only few details have been made available about the new broadcasting deal and no official numbers have been published.

<sup>5</sup> Information about the split between international and domestic rights is not in the public domain. This statement is based on confidential information.

**Figure 11.1: Evolution of C13's Broadcasting Deals for the Brazilian First Division – 1987-2011 (US\$m and €m)<sup>6</sup>**



Note: Broadcasting fees for 1988-1993 were not publicly disclosed. At the point of its introduction in 1999, the Euro was exchanged for US\$1.18 so €50 million was equivalent to US\$59 million..

Source: C13 (2009).

The main factor responsible for this income is the Brazilian First Division broadcasting deal signed between C13 and Globo, which paid, in 2008, €108 million per season for exclusive rights for five different broadcasting packages: a) free to air television; b) cable and satellite; c) pay per view; d) internet and mobile; and e) international markets.<sup>7</sup> Figures were much higher in 2009, since the contract signed for the 2009-2011 seasons is worth a total of €186 million a year, a 72% increase over the 2007-2009 contract.

### The Evolution of Broadcasting in Brazilian Football

As seen in Figure 11.1, the first broadcasting deal ever signed in Brazilian football was in 1987, when the C13 was created and organized the Union Cup, selling the

<sup>6</sup> Note that figures from 1987 to 1999 are expressed in US Dollars. From 2000 on, values are expressed in Euros, taking into account the exchange rate of the real on the last day of the first year of each deal.

<sup>7</sup> Madruga (2008).

exclusive broadcast rights of the competition to Globo Network for US\$3.4 millions a year. The deal, which was intended to last five years, lasted only for one year, before the Union Cup was cancelled.<sup>8</sup>

Before then, clubs openly opposed the broadcasting of matches, arguing that live television would threaten the already low stadium attendance levels.<sup>9</sup> Until then, only important matches were sporadically broadcast live and when they were, there was no advance announcement.<sup>10</sup>

After the extinction of the Union Cup, Globo cancelled the broadcasting contract and another television network, Bandeirantes, negotiated exclusive rights with the CBF from 1988 to 1993 for an undisclosed fee.<sup>11</sup> It was only in 1994 that the C13 would again negotiate a three-year contract for the Brazilian First Division Championship shared between Globo and Bandeirantes for US\$ 6 million, a fee that was then renegotiated in the following two years, as shown in Figure 11.1.<sup>12</sup>

Only in 1997 did the broadcasting rights contract between Globo, Bandeirantes and the C13 involve cable, satellite and pay-per-view television.<sup>13</sup> However, judicial turmoil overtook the broadcasting of the Brazilian National First Division. In 1993, TVA, another Brazilian cable company, had signed an exclusive contract with the CBF for the broadcasting of the Brazilian First Division Championship from 1997 to 2001. Globo, however, signed the deal with the C13, who argued that the CBF had no right to commercialize the National First Division broadcasting rights.<sup>14</sup> In the meantime, while the C13 had negotiated its matches with Globo and Bandeirantes, the 'Clube dos 11', the Club of Eleven (C11), which was formed by the First Division clubs not part of the C13, negotiated their matches with TVA.<sup>15</sup> This led some

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<sup>8</sup> Helal (1997), p. 98 and Areias (2007), p. 52. For more details on the creation and extinction of the Union Cup, see Chapter 6.

<sup>9</sup> Helal (1997), p. 94 and Ribeiro (2007), p. 266.

<sup>10</sup> Areias (2007), p. 36.

<sup>11</sup> Coelho (2004), p. 64.

<sup>12</sup> Moreira (1995).

<sup>13</sup> Madruga (2008).

<sup>14</sup> Pimentel (1997) and Kfoury (1997).

<sup>15</sup> Maron (1998).

matches of the 1997 National First Division to be broadcast both by Globosat and TVA, even though they had different exclusive broadcasting agreements.<sup>16</sup>

The judicial conflicts continued until the new 2000-2002 contract, which was signed in 1999 as an extension of the previous contract and in the year prior to the João Havelange Cup.<sup>17</sup> Since the Cup was fully organized by the C13 and not by the CBF, the broadcasting rights renewal was exclusively with Globo and its cable subsidiaries. After this contract, Globo consolidated itself as the exclusive broadcaster of the Brazilian First Division Championship.

### **The Globo Network Media Monopoly**

The judicial turmoil after 1997 eventually led the National Secretary of Economic Rights to investigate the possible formation of a cartel between Globo, Bandeirantes and the C13.<sup>18</sup> In 2006, on the eve of the hearing where the company was accused of restricting the broadcasting market, Globo reached an agreement with the Brazilian Administrative Council of Economic Defence (CADE), a government agency that prevents the abuse of market power, which followed three stages.<sup>19</sup> In the first stage, Globo's subsidiary, Globosat, allowed other cable platforms to commercialize its own channels, such as Sportv, until the end of 2008. In the second stage, from 2009 to 2011, Globosat would regain exclusive rights over its own channels, but it would only be able to hold exclusive rights over three of Brazil's five main competitions – the Brazilian First Division, the Brazilian Cup, the Copa Libertadores, the São Paulo state championship and the Rio de Janeiro state Championship – and it would not be able to hold the exclusive rights for the First Division and the Brazilian Cup at the same time. Globo therefore agreed to share the broadcasting rights for the Brazilian Cup with Brazilian ESPN, while the latter now shares with Sportv, Globo's sports paid channel, the rights to broadcast the matches of the Italian Serie A.<sup>20</sup> The third stage, which will take place after 2011, will then allow Globosat to negotiate again the exclusive rights for broadcasting football competitions.

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<sup>16</sup> Gimenez *et al* (1998).

<sup>17</sup> Madruga (2008).

<sup>18</sup> Lobato & Castro (2001).

<sup>19</sup> Lobato (2006).

<sup>20</sup> Bertozzi (2008b).

One could perhaps suggest that the recent increase in the value of broadcasting rights of Brazilian football has been due to intense competition among media companies in Brazil, as seen in the late 1990s. After all, Figure 11.1 shows that prices have been escalating, at least in local currency terms, as the graph shows that values in Euros and the value of the Real varied dramatically in the early 2000s. However, since the intense competition for broadcasting rights in the late 1990s, Globo has been the sole bidder for the exclusive rights of broadcasting the Brazilian First Division Championship. In 2008, the C13 even opened a public auction for such rights and it was reported that Record Network, Globo's main rival on free to air television, was ready to offer up to €309 million a year for the exclusive broadcasting rights of the Brazilian First Division Championship, a value that would approximate the negotiations involving Europe's top leagues, as shown in Table 11.1.<sup>21</sup> Such a bid, however, was never forthcoming, at least not at the level mentioned, as Eduardo Zebini, the former National Sports Director of Record Network, who was directly involved in the bidding process at the time, explains:

Record had a great interest in acquiring the broadcasting rights of the First Division Championship, but after a previous bid for the São Paulo State Championship it realized that it would be too difficult, because Globo showed a capacity to turn some situations around plus there was a contract clause that favored the renewal of the rights [...]. [But] Record did not place a bid for the First Division. [...] One cannot know how much the network was aiming to pay for it. Record had an estimated value for what the First Division was worth and how much the other company was paying at the time, but how much could be paid would need to take into account the desire for the product by other parties.<sup>22</sup>

Fabio Koff, president of C13, complements this by explaining that:

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<sup>21</sup> Betting & Calipo (2008). See more information regarding the Globo and Record competition for audience in Chapter 4.

<sup>22</sup> Interview with Zebini (2009).

The press reported that [Record] was going to place a bid of €200 million for the first season and the value would increase gradually. For me, it was the ideal. But in the meeting [that Record had with C13], they said that what was being published by the press was a lie and that they would offer €40 million for free-to-air television plus the rights to negotiate Pay-TV. I immediately refused it.<sup>23</sup>

Moreover, in the rare recent cases when there has been competition for other broadcasting rights of minor competitions, namely state championships, clubs often choose to sign with Globo even if the offer is slightly smaller than those from its competitors, either because the network maintains a good and long lasting relationship with clubs or because Globo broadcasts can bring clubs additional income through sponsorship and advertising that they would not be able to generate if the competition was shown by another network.<sup>24</sup> Walter de Mattos Júnior, president and founder of Lance! Group, cites an example of this:

We made a bid to C13 for the next three year contract for the international and mobile rights [of the Brazilian First Division Championship]. Terra [another very popular website in Brazil,] also made a bid. We learned later that our bid was higher, and Terra also affirms that their bid was higher, but the C13 chose to give the international and mobile rights to Globo, which already owns the rights over free-to-air television, paid television, internet and pay per view. This seemed irrational, since Globo's bid was worst and the C13 could have broadened its range of clients.<sup>25</sup>

Even though Globo dominates the vast majority of the Brazilian media market, as already discussed, the lack of significant competition from other rival media groups may suggest that football is perhaps not such an important and strategic television

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<sup>23</sup> Interview with Koff (2009).

<sup>24</sup> Betting (2007). See more information on the additional income brought by football broadcasted by Globo Network in Chapter 7.

<sup>25</sup> Interview with Júnior (2009).

program in Brazil as in England, for example, which witnessed Sky's accentuated growth after acquiring exclusive broadcasting rights to the Premier League.<sup>26</sup>

Evidence of that is, perhaps, Globo's record of audience ratings on free to air television. In the last ten weeks of the 2009 Brazilian First Division Championship, football appeared in Globo's top five weekly audiences in the city of São Paulo only five times and not once among the top three audiences, which usually comprises two telenovelas and the national news.<sup>27</sup> According to Zebini:

The telenovela has a regularity that television needs in terms of audience and commercial return, and football is only one among other shows. Television lives without football, but a competent [broadcasting] project can not live without a telenovela. Record's investment in telenovelas is much higher than in any other area.<sup>28</sup>

Unsurprisingly, Globo prioritizes the prime time broadcasting of telenovelas, which means that the most important midweek football matches, which are played on Wednesdays and broadcast live by the network, are scheduled for the post-telenovela period, starting around 10PM.<sup>29</sup> This may present an additional constraint to clubs wishing to develop matchday revenues, as such late night matches add yet another inconvenience to supporters, since the final whistle is blown close to midnight before a working day.<sup>30</sup>

The relatively low TV audiences for football matches eventually drove Globo to adopt some controversial strategies in order to increase the number of viewers. In 2009, for example, after the clubs from the cities of São Paulo and Rio de Janeiro, the two most important television markets in Brazil, were knocked out of the Copa Libertadores, South America's main continental competition, Globo stopped broadcasting the tournament to these locations. Instead, it used the Wednesday 10 PM

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<sup>26</sup> For more details on Sky's contract with the English Premier League, see Chapter 3. For Globo's media dominance in Brazil, see Chapter 4.

<sup>27</sup> Data provided by Ibope and available in <http://www.almanaqueibope.com.br/asp/index.asp>.

<sup>28</sup> Interview with Zebini (2009).

<sup>29</sup> See Chapter 6 for a conflict involving Globo Network and CBF over the midweek football match time schedule.

<sup>30</sup> For other matchday inconveniences in Brazilian football, see Chapter 10.

slot to show movies or matches from the Brazilian First Division involving local clubs. Even the final two games of the Copa Libertadores, which involved the Brazilian club Cruzeiro, from the state of Minas Gerais, against Estudiantes, an Argentine club, were ignored by the network in Rio and São Paulo. Instead of the first leg, Globo showed a match between Corinthians and Fluminense, and, the following week, instead of showing the second, it showed a match between Flamengo and Palmeiras.<sup>31</sup>

This need for alternative strategies to raise audience levels could perhaps provide more evidence that football in Brazil is not such an attractive media product as in other markets, even though some may argue that football is the main media product for the male audience in the country.<sup>32</sup> However, men are hardly a significant driver of general audiences, at least on free to air television. When Globo shows football matches in the Wednesday 10 PM slot, it is common for rival networks to show female related programming in order to increase their average audience. Record, for example, uses Globo's midweek football slot to show the most important episodes of its telenovelas, which sometimes helps even to double the show's average audience level.<sup>33</sup>

Some reports have even suggested that there are Globo executives who question the values paid by the company to broadcast football as the high sums paid lead Globo to operate football at a loss.<sup>34</sup> However, as already argued in the previous chapters, football in Brazil cannot be solely understood through an economic perspective as there are other non-financial variables that affect a company's decision to get involved with the game. Such an argument is also applicable to the broadcasting of football, as Zebini explains:

Football as a media product in Brazil is tasteful, but not nutritious, because it alone will not provide you with a return on the amount invested, unless you have other political ambitions or use it in a way that you will not account for all charges that will fall on it in the future.

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<sup>31</sup> Bertozzi (2009).

<sup>32</sup> Madruga (2008).

<sup>33</sup> Rodrigues (2007).

<sup>34</sup> Castro (2008) and Betting (2007).



When I say that it is not so nutritious, this is because in the relationships with clubs what counts in the end is the political influence that you can determine. If you do not have political interest in that region or in the relationship group, you will enjoy only part of the benefits, which are the commercial [benefits], losing the possibility of establishing a relationship between your brand and the cultural values that [football] offers.<sup>35</sup>

Globo's relationship with football, however, should also not be seen solely through the perspective of free-to-air television, even though this is still by far the most popular media platform in the country.<sup>36</sup> As argued in Chapter 4, Globo has significant interests in the two main paid television platforms in Brazil, the cable company Net and the satellite company Sky, where although Globo does not enjoy total controlling power, it can veto new competitors that could pose a threat to the network's current position. The Lance! Group, for example, which owns the leading daily newspaper focused on sports, and one of the most popular sport websites in Brazil, Lancenet.com, had plans to create a sports cable channel but withdrew due to Globo's immense power, as Walter de Mattos Júnior explains:<sup>37</sup>

There is a very large concentration of money and everything else in the Globo group. [...] Free-to-air television, paid television, internet, mobile rights, everything. Brazilian football is all in Globo's hands. [...] Although [Globo] does not directly control Net and Sky, they have the power of veto on the programming, so we cannot create a subscription channel on these platforms, which are the largest, which would give us enough scale to justify the production costs of a channel like that.<sup>38</sup>

Perhaps another non-economic factor that may stimulate clubs to prefer signing broadcasting contracts with Globo, even for smaller sums, is that by positioning themselves as part of Globo's programming, clubs can use the network's dominant position in Brazilian television journalism either to promote the competition or avoid

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<sup>35</sup> Interview with Zebini (2009).

<sup>36</sup> For the struggle to develop closed television platforms in Brazil, see Chapter 4.

<sup>37</sup> The Lance! Diary is also the tenth most sold newspaper in Brazil (Anj, 2009).

<sup>38</sup> Interview with Júnior (2009).

any possible bad publicity attached to it, as the media companies that own the broadcasting rights for a sport competition generally tend to use journalism to promote it.<sup>39</sup> If the Brazilian First Division migrated to a rival network, Globo would probably do its utmost to avoid publicising the tournament, which might reduce the already small commercial attractiveness of the championship and hence have an impact on sponsorship. In early 2000, for example, Brazil hosted the first edition of FIFA World Club Championship, which included Real Madrid and Manchester United. Globo, however, did not buy the rights for the competition, which was broadcast by Bandeirantes, and decided to avoid showing the highlights and even mentioning the tournament in its news programs.<sup>40</sup> This strategy is also adopted by Globo's rivals, as Zebini explains:

Record does that. It tries to talk the minimum about football and it did not even have a sports program until July 2008. It mentions something [about football] in the news, but it goes for weeks without talking about football. [What the network] really likes are the football scandals.<sup>41</sup>

Despite Globo's immense control over football broadcasting, the Pelé Law gives the right to any news program, from any media company, to use its own generated highlight images of up to 3% of the total time of any football match, which means almost three minutes, for journalistic purposes.<sup>42</sup> Globo, however, often tries to limit the access of journalists to football matches, as Paulo Vinícius Coelho, a leading sport journalist at Brazilian ESPN, explains:

I do not have issues about who has the money to buy the rights of a championship. I have issues when those that have money block other people from doing journalism, or when they do bad journalism. When Globo buys the rights to broadcast a championship, it cannot stop people from doing journalism in the dressing room. It cannot, but it tries to. As

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<sup>39</sup> Helland & Solberg (2007).

<sup>40</sup> Perrone (2000).

<sup>41</sup> Interview with Zebini (2009).

<sup>42</sup> Law number 9.615 from March 24<sup>th</sup> 1998.

an example, we are stopped [by Globo] from doing a live [television] link in the dressing rooms at the Maracanã and Morumbi.<sup>43</sup>

Although this regulation allows the dissemination of football match images through other channels around the country and therefore perhaps contributes to increasing the popularity of the game, it may also hold back the media income of clubs, as the C13 cannot negotiate alternative broadcasting packages for the Brazilian First Division, mainly highlights packages, with any other media company, as they all have access to non-live images for free.

Nonetheless, besides dominating free-to-air television, Globo also enjoys a dominant position over football on paid television. In 2009, Sportv, Globo's pay-tv sports channel which was created in 1992, was not only the most watched sports channel in Brazil, but also the second most popular paid channel overall, behind only Discovery Kids.<sup>44</sup> This popularity, however, is relatively new. In 2006 and 2007, Sportv was the fourth most watched pay-tv channel among Brazilian adults, but the 2008 Olympic Games helped Sportv to jump to the top of the list, remaining there the following year.<sup>45</sup>

Premiere FC, Globo's pay per view (PPV) football channel, broadcasts all matches of the First and Second Division of the Brazilian Championship live. In August 2009, the channel reached a record of 750,000 total subscriptions, around 11% of the total of pay-tv subscribers in Brazil, of which 623,000 subscribed to the Brazilian First Division.<sup>46</sup> This made Premiere FC the leading PPV channel in Brazil in 2009, with more than three times the subscriptions to the ninth edition of the Brazilian Big Brother, which had 230,000 subscribers.<sup>47</sup>

Sportv and Premiere FC's success may provide evidence that although football is not such significant content for free to air television in Brazil, it is one of the main attractions on pay-tv. This could lead to greater competition for football broadcasting

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<sup>43</sup> Interview with Coelho (2009).

<sup>44</sup> Jimenez (2010).

<sup>45</sup> Martin (2009).

<sup>46</sup> Máquina do Esporte (2009)

<sup>47</sup> Frederico (2010).

rights in the future, but at the moment this is limited, due to the low penetration of pay-tv among Brazilian households, which makes football essentially a free to air television product in the current market for broadcasting rights.<sup>48</sup> Furthermore, even if pay-tv was more popular in Brazil, competition would only increase if platforms other than Net and Sky became widespread, which would diminish the control of Globo over programming and allow channels not related to the company to try to outbid the network for the rights to broadcast football.<sup>49</sup>

Perhaps the only true current competitor of Globo Network in the Brazilian pay-tv sports scenario is ESPN. The US Disney-owned company, created in 1979, is the world leader in sports entertainment and reaches over 200 countries and territories with its different multimedia platforms, broadcasting its paid sports channel in 16 different languages on 46 distinct networks, which together account for more than 200 million subscribers.<sup>50</sup>

In Brazil, the channel was created in 1995, when ESPN renamed TVA Esportes, a paid sports channel created in 1993, after a partnership established between the US sports entertainment company and the Abril Group, which owns the cable company, TVA, one of Globo's main competitors at the cable distribution level.<sup>51</sup> The partnership lasted until 1999, when ESPN finally acquired all the shares of Brazilian ESPN from TVA.<sup>52</sup> The channel currently has 3.6 million subscribers and, from July to September 2009, reached around 63% of all individuals who had access to pay-tv during the period.<sup>53</sup> Due to the fact that it holds only the rights for the Brazil Cup at national level, ESPN Brazil focuses on broadcasting international competitions and on reporting local competitions extensively in its news programs.<sup>54</sup>

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<sup>48</sup> See a detailed discussion on the low penetration of paid television in Brazil in Chapter 4.

<sup>49</sup> An example of how Globo's power over pay-tv platforms can create troubles for competitors is PSN's failed incursion on football in the early 2000's, which is described on Chapter 6.

<sup>50</sup> ESPN (2010). For a detailed overview of ESPN's history, see Smith & Hollihan (2009).

<sup>51</sup> Coelho (2004), p. 69.

<sup>52</sup> Castellón (1999).

<sup>53</sup> I would like to thank Robert Mills for making the data on ESPN's audience available. Note that the number of individuals that had access to the channel relates to those individuals who watched the channel for at least one minute continuously in the period.

<sup>54</sup> Coelho (2004), p. 70.

Although ESPN Brazil still has a relatively small audience in the Brazilian market, especially if compared with Globo's Sportv, and has not yet provided any signs to suggest that it will bid for the pay-tv broadcasting rights of the Brazilian First Division Championship, reports about the company's strategy for significant global expansion added to the fact that it has recently entered the football market in the United Kingdom by acquiring partial rights to broadcast the English Premier League and the FA Cup may indicate that the company could perhaps turn its eye to the Brazilian market.<sup>55</sup> This may increase local competition for the rights of the top national championship on pay-tv.

Even then, however, the penetration of pay-tv in the country would need to increase dramatically in order for competition for broadcasting rights on pay-tv to generate a significant increase in the current sums paid to the C13. Furthermore, it seems highly unlikely that football would not be shown on free to air television, as total migration of the Brazilian First Division to paid television would certainly ignite a huge public debate, and the possibility of government intervention to preserve the current partly unrestricted scenario. All these points together provide enough evidence to suggest that the current broadcasting environment in Brazilian football is unlikely to change and, therefore, income derived from these contracts may remain at the current level, but will not see any significant rise, even with the development of new media technologies.

Besides its domination of football broadcasting on free to air and paid television, Globo also leads the football audience on radio, which is still quite a popular football broadcasting platform despite losing much of its importance since the popularization of television.<sup>56</sup> Most football radio stations, however, have been struggling to survive as the lower ratings have driven advertisers away and the costs of either acquiring or maintaining a radio station remained high.<sup>57</sup> According to Walter de Mattos Júnior:

The Lance! Group has not acquired a radio station because you would need to buy a license, and the radio market is highly inflated due to the

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<sup>55</sup> Robinson (2009b) and Gibson (2009).

<sup>56</sup> Coelho (2004), p. 30.

<sup>57</sup> Coelho (2004), pp. 28-34 and Toledo (2002), p. 184.

churches. You do not have an economic model. A [local] radio license in Brazil costs €5.6 million at least. To have a national output, you would need to buy many licenses and it becomes economically impossible for you to pay the market price with all these churches buying radio stations.<sup>58</sup>

The economic challenge of football radio stations in Brazil, however, is eased by the fact that they do not need to pay for broadcasting football matches, as they are granted such rights free of charge. In 2008, Atlético Paranaense tried to charge radio stations around €140,000 for broadcasting rights for its matches in the Brazilian First Division, but the stations challenged the club in court and won the right to continue freely broadcasting any football matches with the argument that there was no specific legislation for radio stations negotiating broadcasting rights and that even if there were, the negotiations should be conducted collectively by the C13, and not by one club alone.<sup>59</sup> So far, the C13 has not made any public statement about plans to charge radio stations for the Brazilian First Division Championship.

Although the C13 has negotiated the online and mobile broadcasting rights of the Brazilian First Division Championship with Globo, both technologies are still in a very early stage of development in Brazil, especially in the football sphere. Despite owning the rights, Globo is yet to broadcast matches from the Brazilian First Division Championship on either platform, even though Globo's sports website, *Globoesporte.com*, has already broadcast live, free of charge, many other football competitions, such as the 2009 FIFA Confederations Cup in South Africa and the 2009-2010 UEFA Champions League season.<sup>60</sup> Unsurprisingly, due to the Globo Network's media dominance in the country, *Globoesporte.com* is also the leading sports website in Brazil, having registered an average of 4.2 million unique visitors per month, 1.7 million more than the second most popular sports website in the country.<sup>61</sup>

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<sup>58</sup> Interview with Júnior (2009).

<sup>59</sup> Fadel (2008).

<sup>60</sup> *Globoesporte.com* (2009a) and *Globoesporte.com* (2009b).

<sup>61</sup> *Globo.com* (2009).

Brazilian football clubs struggle to develop their websites and the commercial services attached to them. In 2008, 15 of the 40 clubs playing in the First and Second Divisions of the Brazilian Championship had their own online channel and most of them offered the service for free. Those who had tried to charge had failed to raise any significant income. Flamengo, for example, launched its online subscription channel in February 2008 and planned to reach around 500,000 subscribers in a short time. By October 2008, however, the club had only 6,000 subscribers.<sup>62</sup> A study published in September 2009 suggested that Brazilian football clubs recognized their online limitations and also reported that Manchester United's website had the same daily number of visitors as the combined websites of the top 29 clubs in Brazil.<sup>63</sup> In some cases, unofficial club websites operated by supporters are much more popular than the club's official site, leading some clubs even to recognise the supporters' website as the official one, as was the case of Santa Cruz, a well-known club from Pernambuco.<sup>64</sup>

This evidence shows that new media do not impact on the Brazilian football industry to the same extent as on the top European leagues, and it may still take a long time to do so. One of the key issues is Brazil's relatively poor technological development, discussed in Chapter 4, which prevents the popularization of new media platforms. Adding to this, Globo's dominance also certainly prevents clubs or other media groups from developing new platforms, especially in terms of broadcasting, since the rights for matches will hardly be available, providing few business opportunities and limiting the incentives that one may have in investing in such platforms.

### **Unbalanced Rights Distribution**

One could perhaps question why, if Globo exercises such a dominant position in the Brazilian media and competition from other networks is not a real threat, the company has agreed to pay higher sums for the new broadcasting contracts rather than keeping costs as low as possible.

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<sup>62</sup> Horta (2008).

<sup>63</sup> Duarte (2009).

<sup>64</sup> Cobos (2006).

Although competition from rival networks cannot indeed drive up broadcasting contract values on its own, C13's fragility as a collective body can. In 2008, Globo initially reached an agreement with C13 for the free-to-air television rights for the 2009-2011 Brazilian First Division Championship for a total of €262.9 million, which was a 56.6% increase over the previous deal. However, Corinthians, Flamengo and São Paulo FC, three of Brazil's most important football clubs, rebelled against the C13, arguing that they did not agree with the negotiation procedures and so refused to sign the deal, which meant that Globo would not be able to broadcast their matches.<sup>65</sup> In order to be able to broadcast all the First Division matches, the company raised the offer by 40%, closing the new deal for a combined amount of €368.1 million, a 119% increase on the 2006-2008 deal.<sup>66</sup>

This conflict between three of Brazil's main football clubs and the C13 illustrates the current imbalance among clubs in the organization. Such an imbalance, however, becomes more evident when the distribution of the revenue from broadcasting contracts is analyzed, which also shows the small amount of rationality involved in the process and the privileges conceded to the clubs that are part of the C13 in relation to those which are not.

The C13 divides its broadcasting income from the First Division Championship among its affiliated clubs, whether they are members of the First Division or not. The C13 clubs plus the non-C13 clubs that are playing in the First Division are placed in six different groups, divided following an uncertain set of criteria based on a mix of popularity and political influence of each club.<sup>67</sup> The more popular a club is, the larger the share of the total income it receives. However, when a top club is not satisfied with its share, it usually threatens to break away from the C13 in order to be paid more, which has resulted in the current complicated division into groups.<sup>68</sup> Table 11.2 shows the different groups for the 2009 Brazilian First Division Championship. The negotiations for the new broadcasting deal were also filled with controversy, with Corinthians and Flamengo claiming higher shares, which led them to form the first

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<sup>65</sup> Calipo (2008).

<sup>66</sup> Franceschini (2008).

<sup>67</sup> Gomide (2001) and Arruda & Ohata (2004).

<sup>68</sup> See examples in Assumpção (2001), Assumpção (2003), Siqueira (2003), Arruda & Ohata (2004), Folha de São Paulo (2005) and Calipo (2008).



group, moving Palmeiras, São Paulo and Vasco to join the second group with Santos. This controversy has weakened the C13 and Globo has negotiated the new contract with all clubs individually. No official data regarding the value of the negotiations has been published yet, although estimates suggest an increase of over 100% in the total amount paid by Globo.<sup>69</sup>

**Table 11.2: C13 Group Division of the Broadcasting Rights of the 2009 and 2012 Brazilian First Division Championship**

Group	2009	2012
I	Corinthians, Flamengo, Palmeiras, São Paulo FC and Vasco da Gama	Corinthians and Flamengo
II	Santos FC	Palmeiras, Santos, São Paulo and Vasco
III	Atlético Mineiro, Botafogo, Cruzeiro, Fluminense, Grêmio and Internacional	Atlético Mineiro, Botafogo, Cruzeiro, Fluminense, Grêmio and Internacional
IV	Atlético Paranaense, Coritiba, Goiás EC, Sport and Vitória	Atlético Paranaense, Bahia, Coritiba, Goiás, Guarani, Portuguesa, Sport and Vitória
V	Portuguesa	
VI	EC Bahia and Guarani	
Non-Affiliated	Avaí, GE Barueri, Náutico and EC Santo André	

Source: Gonçalves (2009) and Beting (2011).

In 2009, Bahia, Guarani, Portuguesa and Vasco da Gama played in the Brazilian Second Division Championship. Portuguesa and Vasco da Gama were relegated in 2008 and enjoyed a parachute payment agreement that pays 50% of the income that the club would have earned if it was playing in the First Division. Bahia and Guarani, however, were paid a share of the broadcasting rights of the 2009 First Division, even though they have not played in the competition since 2003 and 2004 respectively. Koff explains why such a privilege for the C13 clubs is possible:

<sup>69</sup> (Beting, 2011).

[The payment of a share of the broadcasting rights of the First Division to C13 clubs that do not take part in the championship] is a [General] Assembly decision, agreed even by those clubs that earn less [money from the broadcasting contract]. There are, however, many ways to analyze this. If I consider that the club's brand was important at the time of the contract negotiations and that our contract lasts for [three] years, then it is only fair that the club gets paid for it.<sup>70</sup>

Another sign that there are no rational criteria for distributing the broadcasting income is that clubs that play in the First Division and are not affiliated to the C13, which, as shown in Table 11.2, was the case of Avaí, Barueri, Náutico and Santo André in 2009, need to negotiate individually with the C13 the share that each club will be paid. This leads clubs to request lobbying support from local politicians and other authorities to help convince the C13 to agree a higher payment.<sup>71</sup>

Despite the group's imbalance, popular clubs also benefit from the PPV income distribution rules, which were created in 2008 and established that the C13 would hire two research institutes to conduct a yearly poll among the PPV subscribers in order to ascertain their club preferences and build a ranking of club popularity.<sup>72</sup> The higher a club's popularity, the larger its share of the PPV broadcasting contract, which leads to increasing inequality in the values paid for the broadcasting deals to the C13 clubs, as Table 11.3 shows.

Unlike Brazil, several other foreign leagues distribute at least part of the deal among all clubs on an egalitarian basis, which helps to diminish the financial disparity between clubs.<sup>73</sup> As an example, Table 11.4 shows the broadcasting income ratio of top to bottom clubs of the top five European leagues.

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<sup>70</sup> Interview with Koff (2009).

<sup>71</sup> Máquina do Esporte (2009).

<sup>72</sup> Carneiro (2008)

<sup>73</sup> Gratton & Solberg (2007), p. 162.

**Table 11.3: Values of the First Division Championship Broadcasting Contract Paid to C13 Clubs in 2009 (€m)**

<b>Club</b>	<b>Television Fee</b>	<b>PPV Fee</b>	<b>Total Income</b>
Flamengo	8.4	6.1	14.4
Corinthians	8.4	4.3	12.6
São Paulo	8.4	4.0	12.4
Palmeiras	8.4	3.6	12.0
Santos	7.2	1.1	8.2
Vasco da Gama	4.2	2.8	7.0
Grêmio	6.0	3.6	9.6
Internacional	6.0	3.0	9.0
Cruzeiro	6.0	2.9	8.9
Atlético Mineiro	6.0	2.6	8.6
Fluminense	6.0	2.4	8.4
Botafogo	6.0	2.0	8.0
Atlético Paranaense	4.4	0.8	5.2
Coritiba	4.4	0.7	5.0
Goiás	4.4	0.7	5.0
Sport	4.4	0.7	5.0
Vitória	4.4	0.7	5.0
Portuguesa	2.2	0.7	2.8
Bahia	1.4	0.7	2.0
Guarani	1.3	0.7	2.0

Source: Gonçalves (2009).

**Table 11.4: Broadcasting Ratio in the Top Five European Leagues (2010-2011)**

<b>League</b>	<b>Ratio</b>
England	1.54
Germany	2
France	3.51
Italy	10
Spain	12.5

Source: Guardian (2011).

## **Conclusion**

The unbalanced and somewhat confusing distribution of broadcasting rights revenue among First Division clubs provides more evidence of the fragility of the C13 as a collective body, which was initially discussed in Chapter 6, and also shows that threats of a break-up by the more popular clubs can be resisted as long as they can be paid a higher share of the total income.

However, such a threat might provide a way for competitors of the current rights holder to enter the market, as they could perhaps co-opt the top Brazilian clubs to sign an exclusive deal in a similar way to BSkyB when the English Premier League was created.

Globo, however, is the long-standing owner of the broadcasting rights of the Brazilian First Division on all platforms and there is little evidence to suggest that clubs would be willing to confront the media giant. Furthermore, although football seems to be an important audience driver for paid channels, it does not appear to be a good product for free to air television, which is the main media platform in Brazil and also widely dominated by Globo. There is evidence to suggest, therefore, that football does not have enough appeal in the Brazilian media environment to attract higher bids from Globo's rivals. There is thus no significant competition for the broadcasting rights of the Brazilian First Division, helping to maintain the current values paid to clubs below those paid in the main European football markets.

Even with the development of new media technologies, such as online and mobile broadcasting, which may change the way individuals watch television, any significant modification to the present scenario in Brazil seems very unlikely. Unless Globo loses its current power over the market, either on free to air or paid television, or the good relationship between the network and the clubs breaks down, competition for the broadcasting rights will be kept at a safe distance and values will remain low, especially when compared to the top European leagues. This will inevitably hold back the development of clubs' income, as broadcasting rights are one of the main drivers of football clubs' total revenue in the major leagues in the world.

## 12 Conclusion

Brazil is certainly one of the world's most important football nations. The Brazilian national squad is the most successful in the history of the game, having won the FIFA World Cup five times, and Brazilian players, such as Kaká, Daniel Alves and Robinho, are frequently seen in the starting line-up of the top clubs on the planet (for example, of the four teams in the Champions League semifinals in 2011 there were ten Brazilian-born players in the squads) and also often selected as the world's best players by different organizations. Furthermore, football is deeply entrenched in Brazilian society, being by far the most popular sport in the nation and playing an important role since the late nineteenth century. It has become one of the most important symbols of the country to both the national and international communities.

Notwithstanding the enormous popularity of football in the country, Brazilian football clubs struggle to develop commercially. Although the country is one of the world's largest and most promising economies, the revenue levels of Brazilian clubs are significantly lower than those of the top European clubs. Moreover, stadiums all over the country are often abandoned and decrepit, attendance levels are often below half the stadium's capacity, violent conflicts between supporters from different clubs are commonly reported, and delays in salary payments by clubs to both players and staff are frequent. In contrast, the top European leagues are not only able to generate much higher levels of revenue, but many stadiums are new and attract high attendances, especially in Germany and England, featuring matches which often involve the top Brazilian players. Unsurprisingly, this sight has turned the top European leagues into a benchmark for the improvement of Brazilian football. Such a benchmark, it is often said by journalists and academics in Brazil, is not attainable, due mainly to general corruption and the incompetence of football directors in the country, since in other circumstances the development of the economy and the huge popularity of the sport should be enough to turn Brazil into a much more prosperous environment for the development of the football industry.

Although this seems logical, such an assessment fails to appreciate the complex nature of the football business in Brazil (and any other country in the world), as it ignores the different variables that affect the shape of a local football industry, such as

the region's business environment and the relationship between football and the public authorities. It also erroneously turns Europe into a model for the industry, even though many European scholars and sport journalists constantly criticize the state of the European game and express their fears for its financial future (see Chapter 3). The aim of this research, therefore, was to conduct an in-depth analysis of the Brazilian football industry by researching the European football industry and the Brazilian business environment in detail and then understanding the role played by football in the national society, the strong ties between football and the Brazilian state, the governance of clubs and their financial and commercial activities. It hoped to answer six main questions: (1) If football is so important in the Brazilian society, why do clubs fail to develop commercially?- (2) What were the true developments of the European football industry in the past two decades? (3) To what extent can the European football industry be a model for other countries? (4) How is the football industry located in the Brazilian business environment? (5) How does the particular role played by football in the Brazilian society influence the shape of the local football industry? and (6) What could Brazilian football clubs do in order to improve their financial health? With such an analysis, the intention was to be able to provide effective recommendations for the improvement of the Brazilian football industry.

Before the re-democratization of the country in the mid-1980s, football in Brazil hardly operated as a business, as the military-backed government that took over the country in the 1930s used the recently gained enormous popularity of football among Brazilian citizens from all different classes for its own political purposes (see Chapter 1). After this, football would often be used by the state, whatever the government in power, as a tool for different objectives, such as to build the unity of the nation, to tailor the image of Brazil for both national and international audiences or to help to promote the dominant political group at municipal, state or federal level. Although football would still be used by the state after the re-democratization of the nation, the new Federal Constitution detached football from government control, which meant that both the direct and indirect financing of football clubs by different public authorities diminished drastically, while the general lenience of the tax office and other public authorities towards clubs would also start to diminish slowly.

Unsurprisingly, football clubs all over the country struggled to adapt to this new reality. Initially, shortly after re-democratization and even before the new constitution, the top Brazilian clubs created their own league, the C13. In 1987 they organized the *Copa União* independently from the CBF, adopting different new commercial strategies, such as, and most importantly, the sale of the broadcasting rights for the competition. The tournament, however, lasted for only one season, as a conflict between the C13 and the CBF gave the power to organize the national championship back to the latter and resulted in the consolidation of the CBF as the main governing body in Brazilian football.

Confronted with the financial problems involving football clubs throughout the 1990s, which were not only increasing their level of debt but also showing no signs of any significant improvement in revenues, the federal government tried to put in place new legal frameworks that used European football as a benchmark. By this time Brazilian clubs faced serious financial difficulties, and the finances of football in Europe were starting to boom, especially after the creation of the English Premier League and the structural transformation, marketing and promotion of the UEFA Champions League. Such changes in the legal framework – in 1993 with the Zico Law, in 1998 with the Pelé Law and in 2003 with the *Estatuto do Torcedor* – were intended to force clubs to adopt more market-driven managerial practices, which, it was believed, would help to improve the clubs' finances significantly. However, despite these new pieces of legislation, it is possible to identify at least four factors that have prevented Brazilian football clubs from increasing revenues significantly and also from controlling the increasing level of debt overall.

First, there is no clear indication why using European football as a model should help to improve the overall condition of the Brazilian industry. Such an assessment, which was used by the legislators of Brazilian football and is often replicated by the media and academics such as Helal and Proni, fails to appreciate the true state of European football. After all, despite the enormous increase in revenues throughout the past two decades, debt has also generally increased there, leaving a significant proportion of European football clubs in a similar problematic financial condition to the Brazilian clubs and leading UEFA to more and more radical measures of regulation, most

recently Financial Fair Play, which is clear in successive editions of the UEFA *European Football Landscape*.

One illustration of the use of European football as a model for Brazil is the fact that both the Zico Law and the Pelé Law have tried, albeit unsuccessfully, to change the ownership status of clubs from non-profit members' associations to privately owned companies, even though there is no sign that such a movement would necessarily mean that the financial conditions of clubs would improve: many privately owned clubs throughout Europe are immersed in deep financial problems that may lead to insolvency, not to mention the frequent conflicts involving club owners and supporters' groups. Moreover, European clubs also enjoy a quite different power relationship among football stakeholders compared with Brazilian clubs. While the hierarchical and traditional governance system of the game still persists in Brazil, with clubs rarely confronting the CBF and its state affiliates (see Chapter 6), European clubs and leagues have much more bargaining power with the national federations and even with UEFA, which is a central factor contributing to the recent development of club revenues.

Perhaps the crowded new stadiums seen in Europe, especially in the English Premier League and in Germany's Bundesliga, are responsible for Brazil setting (western) European football as a benchmark. After all, internationally broadcast matches featuring the top world talent playing in new and fully occupied stadiums certainly cause envy to any developing league in the world. However, despite the improvements in safety conditions and the contribution of crowds to increasing the matchday atmosphere, new stadiums generally have some disadvantages that are also commonly ignored in Brazil. As these new facilities are normally focused on increasing matchday revenue, they centre on the interests of corporate and wealthy supporters, which may lead to higher ticket prices and eventually push working class supporters – who may have a record of following the club for decades – away from the stadium. Moreover, the costs of new facilities are high and often involve at least partial funding from the local public authorities. The government, in fact, has arguably been the main agent responsible for the change in the overall state of stadiums in England, which provided the example to other European leagues, as most of the refurbishment, financed via Football Foundation, occurred only after the



publication of the Taylor Report, which called for many improvements in club facilities such as the construction of all-seater stadiums. Furthermore, despite the increasing revenues from new stadiums, the high costs attached to the construction and maintenance of the new facilities may also sink clubs into further financial problems if a detailed assessment of the project is not conducted correctly, such as were the cases of Wembley and Valencia's new stadium.

The international broadcasting of matches in the domestic western European leagues and in the UEFA Champions' League also mean that the sponsorship figures involving the top European clubs cannot normally be replicated, as Brazilian clubs rarely attract international audiences, restricting the exposure of sponsors to the local market only. The significantly lower revenues also mean that few top players would come to Brazilian clubs, while the decreasing restrictions on foreigners playing in the European leagues means that the *leading* Brazilian players will inevitably leave the country for wealthier and more competitive leagues, despite the introduction of homegrown players rules and problems in securing work permits, which does not apply to Portugal.

The second factor that has prevented Brazilian football clubs from significantly improving revenue levels is certainly the peculiar role played by football in Brazilian society. As mentioned above, football had historically been used by the State for its own purposes and was artificially turned into a national symbol, both to mould the image of Brazil for the international community and to serve as a common basis to integrate national society. The creation of the Brazilian Championship in the 1970s, for example, had nothing to do with the willingness of the country's top clubs to create a nationwide competition that would provide a regular schedule of matches, but rather with the desire of the state to create a national tournament featuring a large number of clubs from different regions of the country in order to stimulate integration, regardless of their true competitive capacity, the enormous costs and the small commercial return involved in establishing such a broad championship at the time. Furthermore, football has, and still does, attract so much interest from politicians that any commercial strategy adopted by clubs that would increase revenues at the expense of severely limiting the access of citizens to matches would struggle for acceptance by the public authorities. This would be the case both for a

significant increase in the price of match tickets as well as a restriction of broadcast matches to subscription channels, two of the most important sources of revenues of the most economically developed clubs in the world.

The strong incentive for the public authorities to interfere in football throughout Brazilian history has also created a structure that does not necessarily reflect the game's true demand from supporters, which results in high capacity stadiums often being less than half full. This situation of empty stadiums not only significantly affects the matchday atmosphere, helping to deter supporters from attending games, but also means that maintenance costs of stadiums are commonly higher than the revenue derived from them. Furthermore, such low occupancy rates may also provide disincentives for investment in new facilities as well as the refurbishment of the old enormous stadiums.

One of the Brazilian State's main methods of taking advantage of football to build and shape Brazilian identity was and continues to be through the use of the national squad. Initially, the matches it played were responsible for the first manifestations of common patriotism among citizens throughout Brazilian society in the early twentieth century. After achieving three FIFA World Cup titles in 1958, 1962 and 1970, Brazil's football supremacy and global domination facilitated diplomatic relationships and agreements between Brazil and other countries, in some cases even involving friendly matches between national squads as part of the negotiations. Such global dominance of the world's most popular sport also permitted the State to use the success of the national squad as a propaganda tool to ignite national pride and increase the popularity of the government among the population, especially, but not exclusively, during the military years.

The intensive use of the national squad by the Brazilian State throughout the country's history provides the main governing body of Brazilian football, the CBF, with near- autonomous status, since it is a privately owned organization constituted by the state football federations that has full controlling power over one of Brazil's most preeminent national symbols. This immense power enjoyed by the CBF has so far prevented top clubs from entering into disputes with the governing body in order to obtain higher revenues, and may well continue to do so. For example, the top

Brazilian clubs will continue to participate in the unprofitable state competitions organized by the state football federations. Through these competitions, the state federations are able to placate the interests of the small clubs in the states, which then vote for the election, or frequently the re-election, of the federations' presidents, who then contribute to the election of the CBF board. The power of Brazilian football's governing body lies in the fact that any threat against the CBF, whether from clubs, the public authorities or any other kind of organization, may eventually mean punishment from FIFA, which could, among other actions, suspend the Brazilian national football squad from playing in the World Cup, a punishment that would possibly cause enormous political and public turmoil in the country. Brazil has had continuous significant representation on the Executive Committee of FIFA since Havelange joined in 1974, with the result that the president of the CBF has allies to protect his position if he comes under attack from within Brazil.

The important social role played by football in Brazil also has a deep impact on the daily operation of clubs. Such is the popularity of the game that club presidents and influential board members – and in more extreme cases even players and journalists – are frequently tempted to use their position as a platform for running in elections for different public offices. This situation inevitably turns some managerial decisions into populist actions and frequently motivates the use of resources to seek short-term on-pitch success at the expense of long-term sustainable management of the club.

The third factor that contributes enormously to holding back the commercial development of local football clubs is, naturally, the overall Brazilian business environment. Perhaps the main characteristic of this environment is Brazil's enormous economic inequality, which leads to a historically small middle class, as most of Brazil's resources are concentrated within a limited share of the population (see Chapter 4). Although Brazil has experienced continuous economic growth since the 1999 crisis and the middle class has expanded markedly, levels of inequality both at regional and household level are still high. The small middle class then contributes to restrict the demand for football among wealthier supporters, as football needs to compete fiercely with other middle class entertainment options, such as movie theatres, parks and shopping malls, for a very limited amount of family expenditure available for leisure and cultural activities, while the large number of low paid

citizens normally cannot afford to attend matches at the stadiums regularly, buy official club licensed merchandise or watch matches on pay TV.

The extent of violence in Brazil also influences the Brazilian football industry, as the precarious conditions of the police throughout the country added to the high impunity levels seen throughout Brazilian society certainly contribute to the high level of violence within football, especially among rival organized supporters' groups. Moreover, the heritage of a repressive police system from the past military regime helps to generate conflicts between police officers and supporters both inside and outside the stadiums, which leads to a further reduction in the already low demand for match tickets. The high impunity levels and the slow and inefficient judicial system may also encourage different corrupt practices within the football sphere, increasing the draining of resources from an already fragile financial system.

Another peculiar characteristic of Brazil that has some minor effects on the football industry is the country's vast land area added to the poor state of the transport infrastructure, which may prevent supporters from travelling to away matches, diminishing the nationwide rivalry of clubs. Throughout Brazilian history, the logistical challenges of uniting the large nation were solved due to the help of different media platforms, especially radio and television. The peculiar Brazilian media environment, in fact, is certainly one of the national characteristics that has important effects on the current shape of the country's football industry.

Television is central in the life of the vast majority of Brazilian families. Almost every household in the country has at least one television set and TV has become the main source of information and entertainment for the population. The peculiarities of the Brazilian media market that have a deep impact on the shape of the national football industry are, first, that the most popular media platform in the country is free-to-air television, with only a minority of households having access to Pay TV and, second, that the market is almost entirely controlled by one single company, Globo Network.

Because the Pay TV market is still limited to only a smaller share of the Brazilian population, the broadcasting rights for the top football competitions are fought over

by different free-to-air channels, but this is a platform where football cannot compete in the size of its audience with other popular programs, such as telenovelas and the daily news, thus restricting the benefits that the networks obtain from holding exclusive rights for football competitions. This results in low bids to secure these rights.

Moreover, Globo's almost monopolistic role in both the free to air and paid television platforms in the Brazilian media market also holds back the growth of media rights values, since not only do competitors rarely have sufficient resources to outbid the network but also clubs, governing bodies and especially sponsors prefer to have matches broadcast by Globo, which automatically increases audiences, rather than rival networks that are only rarely able to generate viewing figures close to the average audience of Brazil's main channel. Furthermore, by being part of Globo's regular programming, the football sphere also prevents any significant investigative reporting from the network's strong and influential journalism.

Taken together, therefore, all these peculiarities of the Brazilian market prevent Brazilian clubs from boosting the value of broadcasting rights to European levels, even though they have grown significantly. However, since the boom in media rights was perhaps the main force that pushed up revenue levels in the top European leagues throughout the last couple of decades, it could be argued that Brazilian football will not be able to close the income gap with the top European leagues unless a significant revolution occurs in the current Brazilian media environment, which at the moment seems highly unlikely.

The fourth and final factor that prevents Brazilian football from raising revenues and controlling the escalating debt, albeit perhaps at a minor level of influence, lies in the operational characteristics of clubs in the country. The top Brazilian football clubs are generally non-profit associations where thousands of members vote to elect the club's board, which will then be responsible for running the club for a determined number of years. These board members, however, not only need to divide their time between the club's daily operations and their own professional occupation, but they often also lack experience and knowledge of the football business, which unsurprisingly leads to constant reports of mismanagement and may also contribute to preventing clubs from

fulfilling their commercial potential. Furthermore, club directors often determine their actions by political rather than business goals, as in some cases it may be more important for the board, in order to be able to control the club, or to perpetuate their group in power, to please members rather than operating in accordance with the market. When a group of individuals is able to maintain control of a football club for a long time, it may facilitate the drain of club resources through corrupt and fraudulent schemes, since those in command probably have influential power over those club members who are responsible for supervising the board's actions, such as the cases of Eurico Miranda in Vasco and Alberto Dualib in Corinthians (see Chapter 6).

The amateur status of club directors may also be an important factor behind the lack of unity among clubs, although this can also be seen among other football stakeholder groups, especially players. This means that the intense hostility between clubs at supporters' level is sometimes reflected at managerial level, with club directors disagreeing on collective issues due largely to personal rivalries. This contributes to the fragile unity of the C13, the main collective body for the clubs, and helps to weaken its role and power even further in relation to the almost supreme power that the CBF and its state affiliates possess over Brazilian football.

The long history of little financial responsibility on the part of Brazilian football clubs since the military years may still be seen among some club directors, who focus on obtaining short term results even if that means jeopardizing the already problematic financial future of the club. The long-lasting debts accumulated throughout the last decades still represent a major constraint on developing clubs' finances, as clubs need to clear such debts at the same time as they need to pay players. This situation leads to cash flow shortages that may result either in delays in salary payments, which creates yet another problem as players may sue the clubs in the labour court, an action that they frequently and successfully take, or the need for advances of future revenues, such as from broadcasting or sponsorship contracts, which also contributes to complicating future club finances. Because of the role that football plays in Brazilian society, some clubs may also choose to avoid paying public taxes in order to improve their cash flow, as the government tends to be a more forgiving creditor. An example of such forgiveness is the Timemania lottery that was created in 2007 by the federal

government to help to pay the clubs' immense debt with the federal tax authorities, which has so far shown little signs of effectiveness.

The financial problems, added to the great worldwide demand for Brazilian-born football talent, inevitably turn national clubs into selling clubs, to the extent that the income derived from the sale of players is responsible for one of the highest revenue shares in most top clubs. The demand for Brazilian players is so high that clubs may even sell part of the rights to a future transfer fee for selected players to private investors in order to raise immediate cash. The short-term profits of private investors that are sometimes obtained in this type of operation can also be so great that large private funds have been attracted into the market, establishing a complex structure of third party ownership that is already deeply entrenched in the vast majority of the top Brazilian clubs. Some of these private investors, like Traffic SA, have even been building large academies in order to develop their own talent. Despite the examples of short-term profits, the high risks and uncertainty of developing and trading football players are hardly ever assessed, leading many investments to be abandoned after failing to achieve short-term profit goals.

The complicated financial situation also blocks the majority of clubs from making significant investments in stadium facilities, contributing to the overall unsafe and decrepit state of most football stadia around the country, which helps to reduce the already small demand for match tickets. However, the lack of resources is not solely responsible for such conditions since even publicly owned stadiums, which are usually enormous and were mostly built during Brazil's last military regime, are often abandoned and dilapidated, a fact that may suggest an overall lack of commitment to upgrading football stadium standards even from the Brazilian public authorities, who are ultimately responsible for setting and enforcing minimum safety requirements. This results in a very low average occupancy rate, which significantly diminishes the matchday atmosphere, already damaged by the multi-functional design of most facilities that places supporters a long distance from the pitch. Unsurprisingly, the unsafe and precarious structures normally discourage casual supporters from attending matches, thus resulting in matches attended mainly by hard-core fans, especially those belonging to supporters' organizations which are frequently involved in violent conflicts. All these factors together naturally result in a small revenue

derived from matchday operations; in some cases this is smaller even than the costs involved in holding the match. Adding to that, the old stadiums also normally lack a proper structure of corporate services, blocking clubs from diversifying income away from selling match tickets alone.

As argued above, the peculiar monopolistic Brazilian media environment prevents broadcasting rights figures from booming, which might help clubs to improve the standards of their facilities. There are few signs that even with the popularization of new media platforms, such as internet and mobile devices, this situation will change soon. In addition to restricting competition for the rights to broadcast football tournaments, such a concentration of power in the hands of only one network also holds back sponsorship income, as clubs need to comply with the restrictions of brand advertising imposed by Globo. This fact, added to the enormous regional inequality of Brazil, results in a concentration of sponsorship income in the clubs from São Paulo and Rio, restricting the development of club revenues overall and increasing the income gap between clubs from these regions and the rest of the country, which is already enormous due to the highly unequal distribution of broadcasting rights within the clubs which form the C13. Other commercial revenues, such as the sale of clubs' official merchandise, account for only a small share of the clubs' income, and therefore provide few alternatives.

The four factors, therefore, that have so far contributed to holding back the development of the Brazilian football industry are: a) the use of European football as a benchmark for development through superficial and incorrect analysis that has even affected the legal framework of football; b) the enormous social and political role played by football in Brazilian society that blocks the adoption of more commercial practices; c) the Brazilian business environment, particularly the media market that helps to prevent revenue from broadcasting rights from growing significantly; and d) the management of clubs and governing bodies, which do not focus attention on football's commercial development.

However, despite these immense challenges that hold back the commercial development of football clubs in Brazil, there are several positive characteristics of Brazilian football that help to sustain the industry and may provide the basis for future



development. Despite the old stadiums, for example, accidents resulting in deaths within stadiums are very rare, although some tragedies have been close to happening. Furthermore, at matchday level, attendances have not been diminishing, but rather holding the same steady historical levels since the creation of the National Championship. Ticket prices are also affordable for lower income citizens and so is club membership, meaning that football in Brazil still is a very democratic phenomenon, with clubs being owned by supporters from different social groups. Adding to that, the increasing importance of the players' transfer market to clubs means that clubs will retain their interest in developing grassroots talent, which may lead to a large number of Brazilian born players available to help to maintain the historical success of the national squad. Additionally, the intense international demand for Brazilian players prevents the top clubs from holding on to the best players exclusively, as they tend to leave for more developed markets.

### **Recommendations**

Despite these positive remarks and the fact that the elements that hold back the development of the country's football industry are mainly a manifestation of wider macro conditions of Brazilian society, there are a few actions that clubs, governing bodies and public authorities could take in order to improve the current state of the football business.

Since the Brazilian economy has been developing and overall inequality levels have been slowly diminishing throughout the last couple of decades, leading to a growing middle class, it would make sense for clubs to invest in long-term matchday strategies, which might increase demand for match tickets from both supporters and corporations, thus generating more sponsorship and increasing, albeit still significantly low, revenue from the sale of official merchandise.

Other than that, it seems highly unlikely that the media environment in Brazil will go through any significant change in the near future. It therefore also seems highly unlikely that the revenue from broadcasting rights will improve significantly, which then means that the current sponsorship scenario will hardly change for the majority of clubs if a higher demand for matchday tickets is not met. This would mean that

clubs would continue to rely on the uncertain revenue derived from player transfers, which might be jeopardized by any financial complication that clubs from the most developed leagues might face.

It would be naïve to believe that the 2014 FIFA World Cup by itself will produce a long-lasting boost in clubs' revenues, since many of the top Brazilian clubs will not directly benefit from the new stadiums and the competition will not result in any significant change in the overall business environment. Nonetheless, the experience of organizing football's main competition could prove a valuable asset for Brazilian football authorities. However, unless clubs are more committed to their own commercial organization, such knowledge may be lost over time.

Although a more commercial management from clubs will hardly mean that revenues will improve significantly, such an approach is fundamental to enhance the clubs' daily operations. Clubs run for political reasons inevitably fail to develop long-term business plans, which restricts the industry's development. If the Brazilian business environment suddenly becomes more favourable for an income boom, most clubs will not be able to benefit properly if they remain operating as they are. And while a commercial approach may not be able to improve revenues significantly, they may prove effective in reducing costs by different actions such as identifying and solving income leakage problems, especially those derived from embezzlement and other corrupt activities.

Since the main revenue sources of Brazilian clubs will hardly improve significantly, cost control strategies should be put in place, as the increasing expenditure of clubs, added to the already high level of debt accumulated through time, may threaten the sustainability of the whole national football industry in the future. If, for example, the Brazilian State became less tolerant towards football clubs' debts, there is a high risk that the entire industry may collapse. Therefore, both the State and football governing bodies should urgently address this issue and put in place a method to control the increasing debt levels. Clubs and football governing bodies, however, seem confident that the State's tolerance level is unlikely to change.

Despite the limited possibilities of revenue growth, controls on expenditure would allow clubs to enjoy a positive cash flow, which could then lead to investment in facilities that could improve the safety conditions and restructure the stands to meet the true demand for tickets, consequently enhancing the matchday atmosphere of Brazilian stadiums. Moreover, a positive cash flow could also mean that clubs would be able to operate without the drainage of tax resources. Nevertheless, it would also mean that clubs would not be able to compete for the top Brazilian talent, as the controlled expenditure would diminish the capacity of Brazilian clubs to pay good salaries. However, if all clubs comply with such financial responsibility, the diminished salary capacity would not result in any loss of competitiveness since the restrictions would be equally applied. Besides, there seems to be little sense in having top players playing in front of old and empty stadiums. Therefore, rather than focusing on strengthening the squad with top talented players, the aim of football clubs, governing bodies and the government should be to enhance matchday safety and atmosphere without the need to sustain football at the expense of the entire Brazilian society.

By undertaking a broad analysis of how the football industry is placed in the Brazilian environment, this research hopes to have made a valuable contribution to the small body of academic literature that exists on the Brazilian football business. Moreover, it also hopes to make two additional theoretical suggestions that may be useful for the international football business community. The first is that in order to understand how the football industry operates in a determined locality, it is fundamentally necessary to understand the role played by football within that society and how it relates to the state. The second contribution is that the commercial development of football in a determined locality is directly affected by the local media environment and hence also the opportunities for sponsorship.

My hope is that I have overcome the relative lack of studies and data available on the Brazilian football business and compiled new data on the subject, as well as putting forward a different perspective and providing a snapshot of the business structure of the Brazilian industry in 2010-12, in the same way as Lever provided a snapshot of football's role in Brazil under the military government. If this has been achieved, this work should be useful as a source for academics, journalists and the whole Brazilian

football sphere. And if one considers that Brazil has 190 million football managers, this may be a very, very large sphere.

## Appendix I

### Exchange Rate of the Brazilian Real (2000-2010):

<b>Year</b>	<b>US Dollar</b>	<b>Euro</b>	<b>British Pound</b>
2000	0,51	0,54	0,34
2001	0,43	0,48	0,30
2002	0,28	0,27	0,18
2003	0,35	0,27	0,19
2004	0,38	0,28	0,20
2005	0,43	0,36	0,25
2006	0,47	0,35	0,24
2007	0,56	0,38	0,28
2008	0,43	0,31	0,29
2009	0,57	0,40	0,35
2010	0,60	0,45	0,39

Source: Brazilian Central Bank website.

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