3rd EU-Brazil Business Summit

Building cooperation for the post-crisis world:

JOINT DECLARATION

Stockholm, October 6, 2009

The Confederation of Swedish Enterprise (SN), BUSINESSEUROPE and the National Confederation of Industry (CNI) urge leaders meeting at the EU-Brazil Summit in Stockholm on October 6 to focus on enhancing our economic relations at this crucial time for both economies.

The Strategic Partnership between the EU and Brazil has seen the relationship continue to grow. Remarkably, even in some of the most difficult trading conditions on record EU-Brazil trade grew by almost 15% in 2008. In 2007, the last year for which statistics are available, total investment flows reached €17 billion. Brazil remains by far the most significant trade and investment partner for the European Union in Latin America. The EU is the destination of 23.5% of Brazilian exports.

Nonetheless, we both face serious challenges, Brazil, accustomed to 5% growth in recent times, looks set to grow by less than 1% this year. The European Union's economy may shrink by 4%. Companies and governments will need to work hard to put our growth and development back on track.

This year's business summit and this declaration seeks to answer three core questions:

1. How to boost investment in the crisis and its aftermath?
2. How to foster trade and combat protectionism in the crisis and its aftermath?
3. How to deal with the challenges and opportunities on climate change, energy and trade?

1. How to boost investment in the crisis and its aftermath?

Investment is the core of the bilateral economic relationship. European companies are among the first investors in Brazil and today retain their position as the largest single group. With the continued dynamism of Brazil's engagement in the international economy, its companies have in recent years increasingly begun to establish, merge with, and takeover European firms. Nonetheless, the potential for the investment relationship remains underexploited. Companies seeking to invest in Brazil and the European Union encounter a range of obstacles and challenges, which governments could do more to tackle.

- *A joint EU-Brazil Investment and Tax Council needs to be established to resolve the important tax difficulties in the bilateral relationship.*

The area of **taxation** is particularly difficult. The overall complexity of the Brazilian tax code and the incomplete nature of the tax treaties between Brazil and European Union Member States seriously complicate investment in Brazil for EU companies. To move forward with this agenda, a structured dialogue between revenue bodies and large corporate tax payers is necessary to achieve these goals in practice. For this reason, we call for the launching of a joint EU-Brazil investment and tax council consisting of experienced representatives from the international and Brazilian business community, governmental authorities and academia. The Council would also be an opportunity to share best practice between established multinationals and newly internationalizing companies.

- *Governments on both sides must make more use of PPPs in short-term crisis response and longer term development strategies.*

As we move forward and eventually out of the crisis all governments will need to plot a return to fiscal stability. **Public private partnerships** should form a key part of these efforts as they can, if managed correctly, deliver many benefits to the economy and society in a highly efficient manner. PPPs should also be a key element in long term growth and development plans such as the Programme for Accelerated Growth and the updated Lisbon Strategy post-2010.

- *Governments must take action to remove existing barriers to investment and avoid the creation of new ones in response to the economic difficulties.*

The **regulatory system in general** on both sides creates problems for both investors and traders. There remain barriers or restrictions on foreign investment in Brazil for a number of sectors. Limitations can take the form of foreign equity caps, requirements for ministerial authorizations or complex registration schemes. In the EU, the heavy requirements of legislation such as the REACH regulation on chemicals or sanitary and phytosanitary standards can make it difficult for companies to comply. A greater attention to international competitiveness in the preparatory and implementing phases of EU legislation is important to mitigate these effects.

Furthermore, companies on both sides of the Atlantic accept and encourage the need for a **regulatory response to the financial crisis**. It is nonetheless vital that the new framework ensure that the financial system continues to be a driver of growth in both our economies. Regulatory measures need to bring stability to the financial system but also to ensure that companies' access to finance, the key factor in fuelling recovery, is guaranteed. New regulation should also ensure that the financial system remains globally integrated, so as to avoid the destabilizing effects of capital flight.

2. How to foster trade and combat protectionism in the crisis and its aftermath?

- *Brazil and the EU must be vigilant in the G20, WTO, bilaterally and at home to avoid the adoption of new protectionist measures.*

The EU and Brazil firmly agree on the importance of an open trading system to guaranteeing a return to high growth in the coming years. Companies applauded the commitments by the G20 leaders to refrain from enacting any new protectionist measures, at their Washington and London summits. We also welcome the efforts of the World Trade Organisation to monitor measures taken. Nonetheless, efforts to implement these commitments have been insufficient. We are particularly concerned about the proliferation of Buy Local and Buy National schemes around the world, including in the largest countries in the trading system. We call on the European Union and Brazil to play an active role in following up the Pittsburgh Summit to ensure a firm recommitment to an open global trading system as a step towards recovery. Both sides must also be vigilant on a constant basis to combat protectionism measures directly using all necessary challenges when they arise.

- *Sectoral dialogues under the Strategic Partnership need now to move forward and begin to deliver trade and investment opportunities for companies.*

The **EU Brazil Strategic Partnership** is an important milestone in our economic relations, recognizing the pre-eminent role of the bilateral relationship in Latin America and acknowledging the shared economic objectives for both parties. EU and Brazilian companies note with approval that steps have been taken toward the establishment of regulatory dialogues on important industrial sectors (steel, non-ferrous metals and minerals; forest products; and textiles and clothing). Industry is ready to work with the Brazilian government and the European Commission to tackle the problems of their sectors. Companies now call for a recommitment to taking action on both sides. In time other dialogues can be envisaged, particularly on intellectual property rights, customs policy and regulations on climate change affecting trade in goods and services.

- *The EU and Brazil should use the opportunity of the Spanish Presidency of the EU and the new European Commission to move the EU Mercosur negotiations forward in 2010.*

Among Brazilian and European business there is a serious will to conclude the **EU-Mercosur free trade agreement** as soon as possible. The crisis creates new reasons to liberalise trade and investment between the economies of Europe and the Southern Cone countries. Brazilian and European companies are deeply concerned at the continued stalemate and call on our authorities to get back to the negotiating table.

- *Move forward to reach an ambitious and balanced deal in the Doha Round by 2010*

Reaching an ambitious and balanced conclusion of the **Doha Round** would be the biggest contribution of trade policy to the economic recovery. Any deal must provide new market opportunities in the key export sectors for Brazil and the European Union, whether in agriculture, industrial goods or services. European and Brazilian business were disappointed by the failure to find a breakthrough in 2008 but welcome the progress made by Ministers in New Delhi in September and at the Pittsburgh G20 meeting. All major actors now need to come with a constructive approach to the negotiations to deliver an ambitious conclusion in 2010, which means agreement on an outline for agreement in the coming months..

3. **How to deal with the challenges and opportunities on climate change, energy and trade?**

- *The EU and Brazil need to work together to achieve an ambitious and balanced agreement in Copenhagen that promotes economic development and competitive business communities and avoids carbon leakage.*

European and Brazilian companies actively support the goal of reaching an agreement at **Copenhagen** to tackle climate change. A pragmatic approach is needed which leads to real emission reductions at a global level. A successful international agreement on combating climate change will need to promote economic development and competitive business communities and avoids carbon leakage. It should mobilise all major economies to reduce emissions as soon as possible, following the principle of common but differentiated responsibilities. It should also strengthen global market mechanisms to reduce emissions, linking developed and developing regions. Furthermore it must ensure all cost-efficient climate technologies are deployed and developed.

- *The EU and Brazil must cooperate to ensure the vital development, deployment and dissemination of environmentally sound technologies.*

Companies strongly support the **global development, deployment and dissemination of environmentally sound technologies** and products, which have the potential to reduce greenhouse gas emissions. The most cost-efficient abatement opportunities must be explored with highest priority and deployed at an unprecedented scale and speed. This and massive ongoing investment towards the development of new technologies will be key to achieving global climate change goals. To facilitate this technology development and deployment, we call on governments to:

- create framework conditions that promote research and development, including through funding by multilateral institutions and governments of projects in developing countries.
- enhance the protection of intellectual property globally, which will encourage investment and technology transfer
- encourage international offset mechanisms such as the Clean Development Mechanism and the Joint Implementation programme under Kyoto, which lead to technology transfer.

- *The EU and Brazil need to remain strong in the face of pressures for protectionist measures, such as border adjustment measures to tackle climate change.*

Proposals to put in place **border adjustment measures** in the context of the climate change debate are seriously misguided. Trade sanctions will not help to mitigate climate change but rather risk causing considerable damage to the international trading system. Proposals for trade sanctions would likely lead to trade retaliation. In turn, this could lead to an escalation of retaliatory measures, which would be detrimental to the competitiveness of the European or Brazilian economies.