EU-Brazil Partnership: Cooperation Strategies for Enhancing Bilateral Business

JOINT DECLARATION

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At the fourth EU-Brazil Business Summit on 14 July 2010, the Brazilian National Confederation of Industry (CNI) and BUSINESSEUROPE, the Confederation of European Business, adopted a pragmatic and ambitious agenda, aimed at promoting trade and investment relations and cooperation in vital areas of our economies, such as energy and climate change. CNI and BUSINESSEUROPE reaffirm the commitment to the programs and goals of the EU-Brazil Strategic Partnership, an essential tool for the improvement and deepening of bilateral economic relations. Brazilian and European business are committed to maintaining growth and dynamic economic relations.

1. ECONOMIC CONTEXT

Brazilian and European business are concerned about recent developments in the global economy. After favorable signs of recovery in late 2009 and early 2010, the international economic context worsened again, fueled by EU member countries' deteriorating fiscal situation, the ending of fiscal stimulus programs, sharply upward raw material prices etc. The business sectors of Brazil and the European Union supported the temporary counter-cyclical measures adopted in 2008 and 2009 by governments and central banks to stabilize financial markets and mitigate the impacts of the crisis on output and employment levels. Likewise, they approve today the efforts of governments worldwide to improve the quality of public spending, encouraging a sustained recovery of growth "pulled" by the private sector and maintaining rigorous management of fiscal deficits.

The crisis highlighted the role of multilateralism as a forum for negotiating and coordinating the actions of the major economies of the world. Brazilian and European business call on their governments to support all efforts in the multilateral arena and the G20, to increase coordination and cooperation to respond to problems and imbalances that still characterize the world economy and to fight protectionism. 2009 was a difficult year for the world economy, as reflected in the trade statistics between the EU and Brazil. EU-Brazil trade dropped by 24% in 2009 compared to 2008, reversing a long upward trend. European direct investment fell significantly in 2008 and, though picking up in 2009, is still trailing 2007 figures. Total FDI stock, growing strongly between 2006-07 decreased in 2008 by 2€ billion. Brazilian FDI Stock in the EU27 has tripled between 2006-08, but FDI flows to EU27 from Brazil have slowed down substantially in 2008-09.

On the upside, trade data for the first quarter of 2010 indicates a strong recovery of bilateral trade flows, especially regarding European exports to Brazil. This growth is likely to continue throughout the year, especially with the weakening of the euro. The adoption of restrictive fiscal policies by the major European economies on the other hand may reduce the recovery of exports from Brazil to the EU over the coming months.

2. EU-MERCOSUR Free-Trade Agreement

MERCOSUR and the European Union should complete an ambitious and balanced regional free trade agreement.

The process of negotiating a Free Trade Agreement between MERCOSUR and the EU resumed in May 2010, after nearly six years of standstill. Brazilian and European business welcome the news of the relaunch of the negotiations. Business reiterates that it wants an ambitious and balanced Free Trade Agreement that contributes to economic growth and the well-being of our societies. Defensive considerations in the agricultural sector should not be exaggerated and should especially not be allowed to derail EU MERCOSUR negotiations.

Since 1999, the MERCOSUR - European Union Business Forum has been formulating and disseminating specific recommendations on all relevant areas of negotiations. In this context, business representatives from both sides were able to overcome their differences to produce joint recommendations in areas as diverse as trade liberalization, nontariff barriers, special and differential treatment, services, investment, among several others.

The parties should take a pragmatic approach to find ways to achieve an ambitious result as soon as feasible, keeping all options on the table. In this sense, the Strategic Partnership shall continue to expand and deepen with a view to enhance its business content.

3. MULTILATERALISM

Brazil and the European Union should support initiatives to maintain the open global trading system governed by multilateral rules.

The crisis of 2008 did not show a significant resurgence of trade protectionism. This was due in large part to international supervision through the G20 and the WTO. However, new upheavals that have shaken the world economy in 2010 force us to remain vigilant to a return of protectionism.

Brazilian and European business support their governments in global efforts to resist protectionist pressures and to renew the commitment of the world's largest economies with maintaining an open global trading system through the WTO. We also strongly support efforts to gradually reduce the incentives adopted in reaction to the 2008 crisis that may distort trade and contribute to deteriorating the political environment in which international trade evolves.

Although the conclusion of the Doha Round in 2010 now seems a difficult goal to achieve, Brazilian and European businesses want their governments to keep this goal among the highest priorities in its external agendas for 2011. An ambitious and balanced agreement, able to create new opportunities for market access in agricultural and non-agricultural goods and services and improved trade rules in the area of dumping and subsidies, is a key component of the overall institutional environment required to overcome the crisis.

4. INVESTMENT

Investments historically played a central role in bilateral relations between Brazil and the European Union, which has been over the years the main foreign investor in Brazil. In the period preceding the crisis, 2007-08, the EU accounted for about 50 percent of direct investment in the country. The EU tends to be an increasingly important destination for investments by Brazilian transnational corporations.

Starting in the 1990's, European investments diversified significantly in terms of sectors' destination and country of origin flows. Investment in infrastructure services such as energy, telecommunications, finance and transportation increased rapidly. In the current decade, there is renewed diversification toward natural resource-intensive sectors such as mining, steel, oil and gas.

Investments will increasingly become the main vector of deepening bilateral economic relations. However, to harness this potential, the Brazilian and European companies need to find a favorable investment environment for new business. Therefore, it is imperative that the regulatory and tax environment are improved both in Brazil and the European Union.

The Brazil-EU Investment & Tax Council should be the central focus of efforts to resolve the major difficulties in bilateral tax relationship.

The establishment, in June 2010, of the Brazil-EU Investment & Tax Council reaches a goal set by the Brazilian and European business during the Third EU-Brazil Business Summit in Stockholm in September 2009.

At the Council's first meeting it identified a number of barriers that negatively affect bilateral investment and, in particular, those directed to Brazil. Among them, are difficulties related to the Brazilian legislation on transfer pricing, the high tax burden on services and technology transfer, double taxation between Brazil and several European countries and the complexity of the tax environment in Brazil. This also hampers the internationalization of Brazilian companies.

These factors increase the cost of investment in Brazil, restrict the transfer of technology to the country, and hamper the consolidation of Brazil as a regional hub. Brazilian and European business believe the Brazil-EU Investment and Tax Council should be the main forum to concentrate the efforts of private and public sectors to improve the tax environment.

Governments should take steps to remove barriers to trade and investment

The overall regulatory system on both sides creates problems for bilateral investment and trade. There remain barriers or restrictions on foreign investment in Brazil and in the EU for some sectors, especially services. In the EU, heavy demands of legislation such as the REACH regulation on chemical standards or sanitary and phytosanitary measures, can hinder trade. With a view to mitigate these effects, governments should:

- Increase attention to international competitiveness at the preparatory and implementation stages of European legislation.
- Promote actions with local partners in order to inform and instruct about new legislation and regulation that can impact bilateral trade and investment.

5. ENERGY AND CLIMATE CHANGE

The Copenhagen Summit in December 2009, did not deliver the breakthrough in climate negotiations that Brazilian and European business wanted. However, the main players - among them Brazil and the EU - underlined their commitment to prevent the rise in global temperatures to 2 º C in 2050.

Brazil has played an impressive leadership role in renewables and renewable energies, notably in ethanol fuel for cars. The EU has taken great steps in the fields of renewables specifically with the 2020 strategy and the raw materials initiative. However, many options remain to work closer together. There is scope, for example, for increased use of renewables as feedstock in EU industry (especially the chemical sector). There needs to be access to bio-fuels at competitive prices on a permanent basis, since feedstock costs make up a considerable part of total production costs. Such a policy would be in line with the EU approach in respect of traditional raw materials to provide industry with access to raw materials at zero or low import duties (e.g. for oil and naphtha). It would allow European companies to move forward towards the 2020 targets. Brazil is the leading producer of bio-fuels and could benefit substantially from this kind of arrangement.

Brazil and the EU should work together so that the Cancun Summit advances towards a comprehensive and balanced international agreement.

Negotiations continue in preparation for the next Summit in Cancun in December 2010. Brazilian and European business recognize that the conclusion of a comprehensive agreement is difficult. It is essential however that governments send a clear and unequivocal signal that they are advancing toward an ambitious and balanced agreement in the area of climate change.

Brazil and the EU should build regulatory environments conducive to the development of clean technologies and the transition to a low carbon economy.

The role of the private sector in investment aimed at developing new technologies compatible with climate change mitigation and adaptation goals is crucial. To make these innovative investments the private sector requires favorable regulatory and institutional environments. Appropriate regimes of intellectual property rights, tax systems, and stable and predictable finance are essential in regulatory environments to foster innovation and facilitate the transition to a low carbon economy.

Brazil and the EU should oppose the adoption of border measures to compensate companies for the costs of their domestic efforts to mitigate climate change.

Proposals to introduce border trade measures in the context of unilateral climate change mitigation policies can produce very damaging effects on international trade and on cooperative efforts in the area of mitigating global warming. Trade tariffs motivated by climate policies could lead to an escalation of measures and countervailing trade measures. To reduce political pressure for border measures, our countries should deepen their efforts to develop common approaches to climate change mitigation, especially for energy intensive industrial sectors.

Policies to encourage entrepreneurial mitigation efforts must take into account the multilateral agreements in the area of subsidies and avoid measures that might distort international trade flows.

Many policies that support initiatives to mitigate climate change rely on mechanisms that can be characterized as specific subsidies in light of WTO's Agreement on Subsidies and Countervailing Measures. Brazil and the EU should join efforts to push, in the WTO and the G20, the adoption of certain principles and rules to be followed by national policies to avoid the violation of multilateral disciplines.

The Brazilian and European businesses urge the EU-Brazil Strategic Partnership to further its consultations with the private sector in order to develop deeper and wider business content to enhance bilateral business environment.

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